



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

RECEIVED

14 MAY 13 P1:44

ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

& DEV. AGENCY

Application Number: 14-04A To be assigned by Agency

Date of Receipt:

APPLICANT PROFILE

Project Title: Establishment of CT, MRI, and Diagnostic Radiology Services

Project Address: 46-001 Kamehameha Highway, Suite 110, Kaneohe, Hawaii 96744

Applicant Facility/Organization: Castle Medical Center

Name of CEO or equivalent: Kathryn Raethel

Title: President/Chief Executive Officer

Address: 640 Ulukahiki Street, Kailua, Hawaii 96734

Phone Number: (808) 263-5142 Fax Number: (808) 263-5143

Contact Person for this Application: Wendi Barber

Title: Chief Financial Officer

Address: 640 Ulukahiki Street, Kailua, Hawaii 96734

Phone Number: (808) 263-5142 Fax Number: (808) 263-5143

CERTIFICATION BY APPLICANT

I hereby attest that I reviewed the application and have knowledge of the content and the information contained herein. I declare that the project described and each statement amount and supporting documentation included is true and correct to the best of my knowledge and belief.

Signature

Date

Wendi Barber

Chief Financial Officer

Name (please type or print)

Title (please type or print)

1. TYPE OF ORGANIZATION: (Please check all applicable)

14 MAY 21 P1 33

- Public _____
- Private X
- Non-profit X
- For-profit _____
- Individual _____
- Corporation X
- Partnership _____
- Limited Liability Corporation (LLC) _____
- Limited Liability Partnership (LLP) _____
- Other: _____

ST. HILIN PLNG & DEV. AGENCY

2. PROJECT LOCATION INFORMATION

A. Primary Service Area(s) of Project: (please check all applicable)

- Statewide: _____
- O`ahu-wide: _____
- Honolulu: _____
- Windward O`ahu: X
- West O`ahu: _____
- Maui County: _____
- Kaua`i County: _____
- Hawai`i County: _____

3. DOCUMENTATION (Please attach the following to your application form):

A. Site Control documentation (e.g. lease/purchase agreement, DROA agreement, letter of intent)

The proposed imaging center will be situated in the Castle Professional Center Building, which is already owned by Castle Medical Center. See Attachment 6.

B. A listing of all other permits or approvals from other government bodies (federal, state, county) that will be required before this proposal can be implemented (such as building permit, land use permit, etc.)

Building Permit from City and County of Honolulu
Medicare Survey and Certification
Radiation Facility License

C. Your governing body: list by names, titles and address/phone numbers

See Attachment 1.

D. If you have filed a Certificate of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following:

- Articles of Incorporation: See Attachment 2.
- By-Laws: See Attachment 3.
- Partnership Agreements: Not applicable.

• Tax Key Number (project's location): [1] 4-6-002-044

14 MAY 21 P1 33

4. **TYPE OF PROJECT.** This section helps our reviewers understand what type of project you are proposing. Please place an "x" in the appropriate box.

ST HLTH PLNG
& DEV. AGENCY

	Used Medical Equipment (over \$400,000)	New/Upgraded Medical Equip. (over \$1 million)	Other Capital Project (over \$4 million)	Change in Service	Change in Beds
Inpatient Facility					
Outpatient Facility			X	X	
Private Practice					

5. **BED CHANGES.** Please complete this chart only if your project deals with a change in your bed count and/or licensed types. Again, this chart is intended to help our reviewers understand at a glance what your project would like to accomplish. Under the heading "Type of Bed," please use only the categories listed in the certificate of need rules.

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
TOTAL			

RECEIVED

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

14 MAY 13 P1 44

AMOUNT:

1.	Land Acquisition (*imputed as we already own the bldg.)	\$ <u>680,000.00</u>
2.	Construction Contract	ST HLTH PLNG & DEV. AGENCY \$ <u>1,124,750.00</u>
3.	Fixed Equipment	\$ <u>3,475,000.00</u>
4.	Movable Equipment	_____
5.	Financing Costs	_____
6.	Fair Market Value of assets acquired by lease, rent, donation, etc.	_____
7.	Other: _____	_____

TOTAL PROJECT COST: \$ 5,279,750.00

B. Source of Funds

1.	Cash	\$ <u>5,279,750.00</u>
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	_____
6.	Other: _____	_____

TOTAL SOURCE OF FUNDS: \$ 5,279,750.00

RECEIVED

14 MAY 13 2:14

STATE HEALTH PLANNING & DEV. AGENCY

7. **CHANGE OF SERVICE:** If you are proposing a change in service, then please briefly list what services will be added/modified. Be sure to include the establishment of a new service or the addition of a new location of an existing service. Please reference the Certificate of Need Rules Section 11-186-5 for the categories of services. If you are unable to determine which category best describes your project, please consult with agency staff.

Addition of outpatient CT, MRI, and Diagnostic Radiology Services at Castle Professional Center in Kaneohe, Hawaii. HAR § 11-186-5(3)(D), (E) and (Y).

8. **IMPLEMENTATION SCHEDULE:** Please present a projected time schedule for the completion of this project from start to finish. Include all of the following items that are applicable to your project:

- a) Date of site control for the proposed project:

Purchased December 30, 1994

- b) Dates by which other government approvals/permits will be applied for and received:

Applied for: May 31, 2014

Received: August 1, 2014

- c) Dates by which financing is assured for the project: Not applicable. Funding for the project has already been set aside by Castle Medical Center.

- d) Date construction will commence: June 1, 2015. Will wait for non-CON related parking structure to be completed before starting this phase.

- e) Length of construction period: 18 Months

- f) Date of completion of the project: December 1, 2016

- g) Date of commencement of operation: December 15, 2016

Please remember that the Agency does monitor the implementation of Certificates approved. Non-implementation of a project as described in your application may result in a fine and/or withdrawal of the certificate of need.

RECEIVED

9. **EXECUTIVE SUMMARY:** Please present a brief summary of your project. In addition, provide a description of how your project meets each of the certificate of need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.

- a) Relationship to the State of Hawai'i Health Services and Facilities Plan
- b) Need and Accessibility
- c) Quality of Service/Care
- d) Cost and Finances (include revenue/cost projections for the first and third year of operation)
- e) Relationship to the existing health care system
- f) Availability of Resources.

EXECUTIVE SUMMARY

Castle Medical Center ("CMC") seeks approval to establish outpatient CT, MRI, and Diagnostic Radiology Services at Castle Professional Center in Kaneohe, Hawaii. See map of the proposed service location set forth in Attachment 4.

CMC is the principal hospital service provider for Windward Oahu, with a service area extending from Waimanalo to Kewalo Bay on the North Shore. A map showing CMC's primary service areas is included in Attachment 5. CMC proposes to initiate outpatient CT, MRI, and Diagnostic Radiology Services in Kaneohe, Hawaii, in order to make these services more easily accessible to residents of the northern part of its service area and to relieve overcrowding in the outpatient imaging center on the hospital's main campus.

- a) Relationship to the State of Hawai'i Health Services and Facilities Plan

The Hawaii Health Services and Facilities Plan ("HSFP") states that, prior to the expansion of CT services, a provider's utilization of its existing CT units should be at least 8,500 procedures per unit per year. Prior to the expansion of MRI services, a provider's utilization of its existing MRI units should be at least 3,200 procedures per unit per year. For both CT services and MRI services, utilization of the new service should meet the minimum utilization rate by the third year of operation. The HSFP does not include any threshold level for the addition of Diagnostic Radiology Services.

However, SHPDA has stated that the utilization thresholds merely guide the initial determination of need, and that applications are neither approved nor disapproved solely based on whether the thresholds are met. The thresholds may be modified to allow for suboptimum utilization if a proposal's benefits clearly outweigh the costs to the community of duplicating or under-using services, facilities or technologies. Such benefits may include improved access for the service area combined with significant improvements in quality of care. Thresholds may also be modified to incorporate current and best clinical practices. This project is appropriate for approval of suboptimal utilization because additional service offerings in Kaneohe will improve access for patients, increase CMC's quality of care through shorter wait times for an appointment, and decrease delays in service resulting from emergency needs that compete with scheduled services at CMC's main facility.

RECEIVED

Utilization of CMC's existing imaging service, for the years 2011 through 2013, is provided in Table 1, below. Although current utilization has not yet reached the HSFP threshold levels, growth in utilization of CT and MRI services has been high over the past three years. CT usage increased 62% in 2012 over 2011 levels, and grew an additional 9% in 2013. Assuming that growth will continue at the 9% rate, utilization of CMC's existing MRI service will exceed the 8,500 procedures per unit per year threshold level in 2015, about the time that construction on this project will commence. Utilization of MRI services is increasing at an average of about 10% per year. At this rate of growth utilization, CMC's existing MRI services will reach the HSFP threshold of 3,200 procedures per unit per year in 2016, the year the new imaging center will be placed into operation.

Additionally, CMC's primary service area extends along the entire Windward side of Oahu. See Attachment 5. This project will improve access for residents of the northernmost part of the service area and benefit the community by reducing congestion at CMC's main campus in Kailua.

This project will advance the following general principles and priorities of the Statewide Health Coordinating Council:

- Promote and support the long-term viability of the health care delivery system;
- Ensure that any proposed services will at least maintain overall access to quality health care at a reasonable cost;
- Strive for equitable access to health care services;
- Encourage and support health education, promotion and prevention initiatives;
- Ensure capacity and access to primary care services; and

by adding health care infrastructure needed to maintain access to services for Windward residents and improving access for residents of the northern part of CMC's service area.

Imaging procedures such as MRI, CT and Diagnostic Radiology Services allow for the early and/or timely detection of various diseases and conditions. Data obtained from HMSA indicates that in the first quarter of 2014, there are currently over 500 women located in windward Oahu that are overdue for a screening mammogram, one of the diagnostic radiology services to be offered at the new location. The highest concentration of these women is in Kaneohe zip code 76744. The new service site will assist in satisfying this unmet need.

This proposal will provide uninterrupted access to these important diagnostic imaging services to the residents of CMC's service area. The early detection and treatment of these diseases and conditions may prevent the onset of acute and/or

RECEIVED

chronic conditions or allow early detection, which typically results in lower overall treatment costs. By providing uninterrupted access, this proposal will encourage patients to obtain these diagnostic imaging procedures and, thereby, lower health care costs associated with delayed diagnosis and treatment.

Finally, this project will promote the Windward Oahu Subarea Council's priority of ensuring adequate access to facilities of care by providing additional CT, MRI, and Diagnostic Radiology Services needed to meet the Windward community's increasing needs for these diagnostic tools.

b) Need and Accessibility

Table 1, below, shows the growth in the number of outpatient CT, MRI, and mammography procedures performed by providers in the service area annually since 2011.

Year	2011	2012	2013
CT Procedures	4,094	6,644	7,239
MRI Procedures	2,112	2,383	2,573
Radiology Procedures	27,000	27,126	28,109

Table 1. Number of Procedures Performed at CMC per Year

As discussed in Section (a), above, this consistent growth in demand and documented unmet need for certain diagnostic imaging services demonstrates the need for this project.

Although the majority of CMC's patients reside in the primary service area, CMC makes its services available to all Oahu residents, including low-income individuals, racial and ethnic minorities, individuals with disabilities, and the elderly and other underserved groups. By housing CT, Mammography and MRI services in one convenient outpatient setting in Kaneohe, access will be improved to a significant portion of this windward patient population.

The proposed site is easily accessible, and has ample free, handicapped-accessible parking on the same level as the facility.

c) Quality of Service/Care

CMC has been nationally recognized for the excellent care it provides. This excellent care has translated to high patient satisfaction that has exceeded Hawaii's average reported patient satisfaction.

CMC conducts regular performance reviews of employees which, among other purposes, are used to identify strengths, discover areas for improvement, and document professional performance. The hospital conducts regular in-service training to assist its personnel in maintaining and improving their clinical skills. CMC continually seeks to assess and improve the quality of care it gives to its patients through the methods outlined in its written performance improvement and risk management plan.

CMC complies with state and federal regulations for the delivery of care and the maintenance of its clinical environment. The facility will be accredited by the American College of Radiology, licensed by the State of Hawaii Department of Health, and Medicare certified. Radiology services will be provided by board certified radiologists. Staff technologists will be certified by the American Registry of Radiologic Technologists. Staff competency will be maintained through ongoing medical education.

Policies and procedures will be in place and maintained on site for the administration of contrast, for the recognition and treatment of adverse effects of contrast materials, and for tracking and follow-up on contrast reactions. A quality control (QC) program shall be established and implemented under the supervision of a qualified medical physicist. Initial performance testing (acceptance testing) will be performed upon installation.

- d) Cost and Finances (include revenue/cost projections for the first and third year of operation)

The total cost for the project is estimated at \$5,279,750, which includes \$680,000 for the site, \$1,124,750 for construction costs and \$3,475,000 for new equipment. The imaging center will be located within the Castle Professional Center which is owned by CMC. CMC has already approved funding for the renovation project from cash reserves.

First and third year revenue and cost projections for the first and third year of operations for the services are shown in Table 2, below.

	Projected 1st Full Year Operations	Projected 3rd Full Year Operations
Total Operating Revenue	\$2,655,596	\$3,149,335
Operating Expenses		
Salaries, Wages, Benefits	\$1,000,858	\$1,243,566
Other Expenses	\$290,171	\$369,372
Depreciation	\$775,190	\$776,450
Total Expenses	2,066,219	2,389,388
Net Income (Loss) from Operations	589,377	759,947
Add Back: Depreciation	775,190	776,450
Excess (Deficit) Fund from Operations	1,364,567	1,536,397

Table 2. First and Third Year Revenue and Cost Projections for New Services
 *All amounts are rounded to the nearest dollar

RECEIVED

e) Relationship to the existing health care system

Because the project is intended to serve patients within CMC's existing service area, the project is expected to have little, if any, impact on other providers.

f) Availability of Resources.

The facility will employ 5 technologists and 3 patient services staff. CMC believes that there is a sufficiently large pool of qualified applicants in the community to allow staff positions to be filled without causing any negative impact of the staffing levels of other health care providers.

There are no financial obstacles to the project. CMC has already approved funding for the initiation of these services from cash reserves.

10. **Eligibility to file for Administrative Review.** This project is eligible to file for Administrative review because: (Check all applicable)

It involves bed changes, which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.

It involves service changes which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.

It is an acquisition of a health care facility or service, which will result in lower annual operating expenses for that facility, or service.

It is a change of ownership, where the change is from one entity to another substantially related entity.

It is an additional location of an existing service or facility.

The applicant believes it will not have a significant impact on the health care system.