



STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

NEIL ABERCROMBIE
GOVERNOR OF HAWAII

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July 10, 2012

CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Scott Halliday
President
National Medical Development, Inc.
5001 N.E. 25th Avenue, Suite 202
Seattle, WA 98105

Dear Mr. Halliday:

The State Health Planning and Development Agency (the "Agency") has evaluated Certificate of Need application #12-12A from Hawaii PET Imaging, L.L.C. (the "applicant") for the expansion of its Magnetic Resonance Imaging (MRI) services to 94-229 Waipahu Depot Road, Suite 101, Waipahu, Hawaii, at a capital cost of \$2,600,000 (the "Proposal").

1. Pursuant to Title 11, Chapter 186 of the Hawaii Administrative Rules (HAR), the Agency has determined that this proposal is eligible for administrative review as it meets the criterion in Subsection 11-186-99.1(b) (5), i.e.: "An additional location of an existing service or facility."
2. The applicant states that "Hawaii PET Imaging, L.L.C. ("HPI") seeks approval to add an additional MRI (specifically the new advanced, 3T "OPEN" type) to our existing service. This additional MRI is in response to numerous patient and physician requests for the same high level, outpatient, 3T MRI services that we currently provide in Honolulu. It is also in response to the recent closing of the only MRI in the west end of Oahu, at Hawaii Medical Center-West ("HMC-West") and the many calls for MRI services from HMC-West area physicians located in or near HMC-West."
3. The applicant states that "The HPI Honolulu facility is one of few already accredited by the American College of Radiology and licensed by the State of Hawaii. This new outpatient facility will seek the same accreditation, continuing our commitment to quality."
4. The applicant states that "The facility will operate, as all HPI facilities, in accordance with all applicable state and federal guidelines and the standards of the accrediting body, and has policies and procedures to insure the quality and safety of patient care."

5. The applicant projects that the revenues for the first three years of operations will be \$900,000, \$1,300,000 and \$1,600,000, respectively.
6. The applicant projects that the expenses for the first three years of operations will be \$1,200,000, \$1,225,000 and \$1,250,000, respectively.
7. The applicant states that "HPI currently employs extra technical staffing (including those in training) to enable us to provide full time MRI services including staffing this added MRI."
8. The applicant states that "There is not any need for additional resources as HPI can internally finance the operations and the equipment and facility costs thru loans from the manufacturer which in HPI's current financial capacity, are more than covered by existing operations."
9. The applicant states that "The addition of this Most Advanced High Field OPEN type MRI is in response to current capacity and demand issues we are receiving from West Oahu residents and physicians, and the closure of the HMC-West Oahu MRI, so this addition will not have any significant impact on the existing healthcare system."
10. On May 3, 2012, St. Francis Healthcare System of Hawaii, St. Francis Medical Center and St. Francis Medical Center-West were granted Certificate of Need approval 11-18E to acquire the assets of the hospital formerly known as HMC West and to re-establish hospital and ancillary services at 91-2141 Fort Weaver Road in Ewa Beach (the "Ewa Beach Hospital"). On page 11 of its certificate of need application, St. Francis Healthcare System of Hawaii, St. Francis Medical Center and St. Francis Medical Center-West listed (and was approved for) Magnetic Resonance Imaging (MRI) as one of the non-bed services to be re-established at the Ewa Beach Hospital.
11. On June 20, 2012, the Agency sent a letter to the applicant requesting additional information pursuant to HAR 11-186-54. In its letter the Agency stated, in pertinent part:

"As you are also aware, hospitals often rely on profits from diagnostic services to offset losses from other services which hospitals provide (such as their emergency rooms). As your proposed project will be located in the immediate vicinity of the (Ewa Beach) hospital campus, the approval of your project (which proposes to provide MRI services, similar to the hospital) may significantly impact the hospital's future financial viability. This is of particular concern as this hospital has twice filed for bankruptcy protection and was recently closed, creating a significant strain on the existing healthcare system. Therefore, pursuant to Hawaii Administrative Rules (HAR) 11-186-54, the Agency is requesting Hawaii PET Imaging, LLC to provide, as additional information, a letter from St. Francis Medical Center and St. Francis Healthcare System of Hawaii stating that your proposed project, if approved by the Agency, would not likely have a negative impact on the existing healthcare system of the area."

12. The additional information requested in the Agency's June 20, 2012 letter to the applicant was not furnished to the Agency in accordance with HAR 11-186-54.
13. In written testimony dated June 28, 2012, Hugh Hazenfield, M.D., Chief Medical Officer at Pali Momi Medical Center states "Whoever redevelops the former HMC-West campus in the future will inevitably require on-site MRI capability. A quality acute hospital with 24 hour access and availability in that community is a great need. In order to allow any subsequent owner to operate a fiscally viable facility providing services to all, it is imperative that the new owner have the capability to operate an MRI. An MRI unit just a few miles away would dilute the profitability and possibly the very existence of that hospital."

Conclusions and Order

The Agency finds that the Proposal meets the certificate of need criteria in HAR 11-186-15(a)(1), (4) - (8) inclusive, and HAR 11-186-15(a)(12). The criterion in HAR 11-186-15(a)(2) is not applicable to this Proposal.

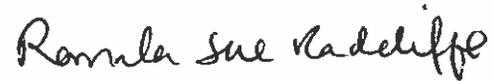
However, the Agency finds that the applicant has not proven by a preponderance of the evidence that its Proposal meets the criterion in HAR 11-186-15(a)(10), namely, "The relationship of the proposal to the existing health care system of the area." The Agency finds that the applicant has not proven by a preponderance of the evidence that its Proposal will not have a negative impact on the viability of the Ewa Beach Hospital (approved pursuant to Certificate of Need approval 11-18E), the viability of which is essential in order to avoid a future reoccurrence of its closure and the corresponding significant strain on the health care system of the area.

Accordingly, the State Health Planning and Development Agency hereby **DISAPPROVES** and **DENIES** a Certificate of Need to Hawaii PET Imaging, L.L.C. for the Proposal described in Certificate of Need application #12-12A.

As the Proposal fails to meet the criteria in HAR 11-186-15(a) (10), it is not necessary for the Agency to make any findings as to the application's relationship to the remaining criteria [HAR 11-186-15(a) (3), (9), and (11)].

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Please be advised that pursuant to Section 323D-47, HRS and Section 11-186-99.1(g) HAR, any person may, for good cause shown, request in writing a public hearing for reconsideration of the Agency's decision within ten working days from the date of this decision. Accordingly, if no person makes such a timely request for reconsideration, this decision shall become final immediately after the deadline for making such a request has expired.



Romala Sue Radcliffe
Administrator