



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

STANDARD APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 04-01

Applicant: Maui Diagnostic Imaging, LLC
53 Puunene Ave., Suite 115
Kahului, HI 96732
Phone: 808-877-6402

Project Title: Acquisition of imaging services located at: 425 Koloa Street, #102, Kahului, HI (Magnetic Resonance Imaging, Ultrasound, Mammography, Dexascanner); 221 Piikea Ave., #B, Kihei, HI (X-Ray, Ultrasound); 53 Puunene Ave., #115, Kahului, HI (Computerized Tomography, X-Ray) and; 99 South Market Street, Wailuku, HI (X-Ray)

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

CHRISTOPHER A. NEAL MD

Name (please type or print)

Date

1/27/04

MEMBER

Title (please type or print)

STATE OF HAWAII
& DEL. AGENCY

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

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

2. PROJECT LOCATION INFORMATION:

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

- Statewide: _____
- O`ahu-wide: _____
- Honolulu: _____
- Windward O`ahu: _____
- 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)
(See Attachment A)
- 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.)
(See Attachment B)
- C. Your governing body: list by names, titles and address/phone numbers
(See Attachment C)

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

- Articles of Incorporation
- By-Laws
- Partnership Agreements
(See Attachment D)
- Tax Key Number
(See Attachment E)

E. Other relevant attachments

- State Certificate of Authority
(See Attachment F)
- Operating Agreement and Articles of Organization
(See Attachment D)
- Agreement to Admit Member
(See Attachment G)
- Federal Bankruptcy Court, Case # 03-00921 ruling
(See Attachment H)
- Letters of support from Maui Memorial Medical Center
(See Attachment I)

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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.

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

5. **TOTAL CAPITAL COST:** **3,118,637**

6. **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			

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Not Applicable

7. **CHANGE IN 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 consult 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

This is not a proposal for a new service, nor is there a change of Service with this proposal; the location of existing services will remain as is.

8. **PROJECT COSTS AND SOURCES OF FUNDS (For Capital Items Only)**

1. Land Acquisition	<u>-0-</u>
2. Construction Contract	<u>-0-</u>
3. Fixed Equipment (MRI, CT & misc. X-ray equip.)	<u>2,370,000</u>
4. Movable Equipment (ultrasound)	<u>75,000</u>
5. Financing Costs	<u>150,000</u>
6. Fair Market Value of assets acquired by lease, rent, donation, etc. (space leases)	<u>523,637</u>
7. Other: _____	<u>-0-</u>

TOTAL PROJECT COST: 3,118,637

A. Source and Method of Estimation

Describe how the cost estimates in Item "A" were made, including information and methods used:

~~Fixed and Movable equipment estimates come from used equipment vendor estimations and bankruptcy court proceedings. The fair market value of the space acquired through leases is based on comparable property values.~~

B. Source of Funds

AMOUNT:

1. Cash	<u>300,000</u>
2. State Appropriations	_____
3. Other Grants	_____
4. Fund Drive	_____
5. Debt	<u>2,295,000</u>
6. Other: (value of space leases)	<u>523,637</u>
TOTAL SOURCE OF FUNDS:	<u>3,118,637</u>

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7. 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,
- b) Dates by which other government approvals/permits will be applied for and received,
- c) Dates by which financing is assured for the project,
- d) Date construction will commence,
- e) Length of construction period,
- f) Date of completion of the project, and
- g) Date of commencement of operation.

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.

Implementation Schedule	Target Date	Notes
Site Control	12/30/03	See Intent to Lease Attachment
Government Approvals/Permits	2/28/04	CON
DOH /CMS	3/30/04	Requires CON
Financing	2/28/04	Requires CON
Commencement of Operations with court approval	3/30/04	No Service Interruption

8. **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 Hawai'i Health Performance Plan (H2P2), also known as 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

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Maui Radiology Consultants, Inc. (MRC) has filed for chapter 11 bankruptcy in the United States Bankruptcy Court in the State of Hawaii. Without prompt remedy through a Bankruptcy Court approved sale of assets to a new entity called Maui Diagnostic Imaging L.L.C. (MDI) significant imaging services will be disrupted to the population of Maui County. These include: MRI, CT, Ultrasound and X-Ray services provided at the following locations in Maui County; 425 Koloa St. # 102, Kahalui, HI 96732; 221 Piikea Ave. # B, Kihei, HI 96753; 53 Puunene Ave #115, Kahalui, HI 96732; and 99 South Market St., Wailuku, HI 96793. The completed execution of the Bankruptcy approved sale of assets and the financing to accomplish the sale are dependent on SHPDA approval for the change of ownership through this application for standard review by SHPDA. The SHPDA approved change of ownership would be for all imaging services listed previously in this paragraph.

The Office of the United States Trustee for the District of Hawaii has approved the sale of assets by MRC to MDI through a court ruling. The Court ruling is attached later in this application. Certain past owners of MRC are partners in a new company, Maui Radiology Associates, L.L.C., a partner in MDI. National Medical Development Inc. (NMDI) is another partner in this project. No other individual or entity has been recognized by the Bankruptcy Court as an alternative to MDI for this remedy.

As no other recognized alternative exists, should this application not be approved the likely outcome would be the removal for sale of all assets and the cessation of imaging services in the above listed locations. This would place an extreme burden on the remaining imaging services in Maui County and certainly delay care and diagnosis for a significant population that currently utilizes these imaging services.

This proposed change of ownership will not alter accessibility to the general population served by these outpatient imaging facilities. The staff currently operating the imaging equipment will be retained to work with the new entity. This assures the same quality and availability of resources for the operation. New management with long standing imaging experience combined with fiscal expertise will enable continued operation and service to the population of Maui County. The inclusion of physicians within the partnership assures the facility will have the physician leadership so important to successful, cost efficient, quality services.

- a) Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan.

Chapter II. Vision and Guiding Principles

Among the many goals and objectives in Chapter II are these: *"Achieve equitable and effective access at reasonable cost for all Hawaii residents..."* *"Establish regionalized health care delivery systems..."* **This proposed imaging center will reduce costs through aligned incentives for all partners and promote a cooperative approach to radiology on Maui. Consistent with national and Hawaii trends, health care is being steadily moved to outpatient facilities through realized efficiencies when compared to the substantially higher overhead of the inpatient settings. The patients who use MDI now will continue to utilize this imaging center under the new ownership. This imaging center will maintain its current location(s). This continues to compliment the regional services in Maui County. The future inclusion of Maui Memorial Medical Center (MMMC) in this partnership further enhances the development of regionalized health care and also completes the conditional CON originally obtained by MRC for the MRI in the imaging center.**

Chapter II of H2P2 also calls for *"Supporting collaborative relationships between... health care providers..."*

This imaging center, by its very nature is a partnership that fosters collaborative relationships between health care providers; MMMC has supported this project in a written statement.

Chapter III. Statewide and Regional Priorities Maui County Subarea Values and Priorities

Among the Values and Priorities for Maui County on page III-9 and 10 are: *"Accessible/Easy Access, meaning the ability to be seen in acute and chronic situations... access to physician services... and Efficient, meaning ...service provision efficient to consumer; one stop convenience."*

This project will continue to provide access to radiology physician services and convenience for consumers. More importantly this access to radiology physicians will be severely curtailed and certainly less efficient for consumers if it is no longer available. Some consumers requiring immediate diagnosis may be required to travel to Oahu for these services to be obtained in a timely manner.

Chapter VII. Heart Disease and Stroke

The diagnosis of Heart Disease and Stroke requires ready access to imaging modalities. If this application is not approved the remaining imaging services will be utilized at such a high frequency that delays in diagnosis are likely to occur. Patients who are scheduled, even routinely, for imaging studies will by necessity be placed in longer and longer queues for these services.

b) Need and Accessibility

Maui County population grew at a rate of 26% between 1990 and 2000. There has been a 5% increase in population between 2000 and 2002 the last year for which statistics are recorded. (US census data) The need for outpatient imaging services has been consistently demonstrated through previous CON applications approved and granted to MRC in the past. Given the continued population growth, outstripping all other counties in the State of Hawaii, the need for such outpatient imaging centers remains clear. The capacity to serve the imaging needs of the population of Maui County without the facilities encompassed by this CON application is also clear. It would cause significant delays in the diagnosis and care for the population. All other imaging facilities in Maui County are at or near capacity and distributing the workload from this imaging service provider to the remaining imaging providers would produce a gap in the health care system of Maui County.

The population served and geographic origin of patients will remain unchanged with the new ownership.

The overall service area for this proposed imaging center is all of Maui County. A portion of this target population is Native Hawaiian, at greater **REPLACEMENT PAGE** than the general population and more likely underserved.

All residents of the area, and in particular low income persons, racial and ethnic minorities, woman, people with disabilities, and other under-served groups, and the elderly, will have access to these services. To the extent allowable under federal guidelines transportation will be provided for patients utilizing the imaging center.

c) Quality of Service/Care

This project, if approved, will become licensed by the State Department of Health, radiation branch and will be regularly inspected by the State regulatory agency responsible for ensuring radiation safety meets or exceeds statutory requirements. This includes State Department of Health operating and radiation permits. The existing accreditation from the American College of Radiology (ACR) to operate mammography units will be maintained by MDI. The voluntary accreditation for Ultrasound provided by the ACR will also be maintained.

The Six physician partners in this project are all licensed in the State of Hawaii, all the physicians are board certified and 4 have completed specific MRI and CT fellowships and have been previously practicing radiographic medicine at these facilities. They will continue to provide the same quality care through and beyond this transition.

The nine radiographic technologists (RTs) who have been performing the radiographic studies previously will continue to work with the new entity; all RTs are licensed by the State of Hawaii and have ARRT certification and maintain continuing education to stay current in their field of expertise. There are four specific modality specialties among these RTs: Ultrasound, (2 RT specialists) computerized tomography, (2 RT specialists) general radiology, (3 RT staff) and magnetic resonance imaging (2 RT specialists). The current high level of quality will be maintained through the retention of these highly skilled individuals.

MDI will participate in JCAHO surveys when able and/or appropriate.

The new administrator for this project, Scott Stienfeldt, has over 10 years of imaging experience and has relocated from Montana and a similar outpatient imaging project to bring expertise and financial acumen to this project.

d) Cost and Finances

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The total cost for this project is \$3,118,637. \$2,295,000 comes from a lease / purchase agreement and financing through Philips Medical Capital, a letter of commitment from Philips Medical Capital is included as attachment K. \$300,000 is cash contributions from National Medical Development and MRA. The property lease asset value is 1,400,000.

The expenses for the first year are budgeted at \$3,421,174; this provides an operating surplus in the first year. By year three the expenses are expected to reach \$3,850,358 and the revenues should be \$4,688,928; this will lead to a third year surplus of \$838,570. A detailed three year cost and revenue statement is included as Exhibit D-2.

There is no anticipation of rate changes or charge increases for the services offered to the population served.

e) Relationship to the Existing Health Care System

As this project is not establishing a new service, nor expanding an existing service, we anticipate no impact on existing health care providers should this application be approved. We believe there will be a negative effect on providers without the continued operations of these existing facilities through an overload and burden due to a sudden and sharp increase in utilization for which they are unprepared, understaffed and under-equipped.

The absence of these facilities and the capacity they bring would provide a gap in services to the population of Maui County, potentially requiring some of the population to travel to Oahu for timely services which would be available only after a significant delay on Maui.

MRC, a debtor-in-possession under order from The United States Bankruptcy Court in the State of Hawaii, at this time, continues to operate the imaging services in this application. After review of all documentation the bankruptcy court found MDI to be acting in "good faith" and the proposed transfer of assets and ownership to be "fair and reasonable". No alternative to this proposal from any other person or entity was considered by the Bankruptcy Court.

The approval of this application will fulfill the intent of certain conditions set in the conditional approval of CON application 01-26 for an MRI by Maui Radiology Consultants (MRC). Collaboration between MDI and MMMC is shown through the letters of support and agreement to admit member documentation in this application. This demonstrates integration into the existing healthcare system.

Patient transfers between MMMC and MDI, should that become necessary, will have protocols agreed to in advance for smooth and seamless continuation of care.

f) Availability of Resources

The Office of the United States Trustee for the District of Hawaii has permitted the continued operation of these facilities to the benefit of the population of Maui County. MRC is currently

operating these facilities as a debtor-in-possession with the knowledge of the Court. Existing employees will be retained to provide a seamless transition and have all agreed to remain as employees of MDI should this application be approved. This assures availability of staff and physicians for the project.

The CT and MRI vendor (GE) has chosen not to continue the relationship with MDI through this transition. The CT unit that had been in operation prior to the bankruptcy proceeding was removed by GE and replaced with a modern day equivalent unit from Philips Medical Systems. This allowed virtually uninterrupted service to the residents of Maui. The MRI in place continues to operate, it is anticipated that the MRI unit will be removed by GE and Philips has written a commitment letter for the replacement of the MRI, at such time as the replacement becomes necessary an application will be made to SHPDA for a modern day equivalent replacement.

Management and human resources support are in place and operational. Additional support is readily available, if needed, through the sister operations existing on Oahu.

Financial resources are available for this project through the combined resources of National Medical Development Inc., Maui Radiology Associates as well as secured financing through Philips Medical Capital. A letter of commitment from Philips Medical Capital for lease/purchase and for financing dependent on the approval of this application is also available as Exhibit D-5 .

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