



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

STANDARD APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 04-03

Applicant: Island Imaging, LLC
2374 Waipua Street
Paia, Maui, HI
Phone: 808-243-6518

Project Title: Establishment of an open Magnetic Resonance Imaging
(MRI) service at 441 Ala Makani Street, Kahului, Maui, HI

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

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

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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: X
- Kaua`i County: _____
- Hawai`i County: _____

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

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

Please see Attachment _____
- 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, Medicare certification, Medicaid licensing
- C. Your governing body: list by names, titles and address/phone numbers – **Please see Attached.**
- 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 -- **please see attached**
 - By-Laws – **please see attached**
 - Partnership Agreements -- **please see attached**
 - Tax Key Number (project's location) **151 Wakea Avenue; Kahului, Hawaii; 96732**

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:** \$2,535,000

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.

This project does not involve beds.

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

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 application is to establish open architecture MRI services on Maui.

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

A. List All Project Costs:	AMOUNT:
1. Land Acquisition	N/A
2. Construction Contract <small>RECEIVED</small> estimated less than	\$100,000
3. Fixed Equipment <small>04 JAN 29 P3:16</small>	\$1,550,000
4. Movable Equipment <small>RECEIVED</small>	\$45,000
5. Financing Costs	N/A*
6. Fair Market Value of assets acquired by lease, rent, donation, etc.	\$840,000
7. Other: _____	None

*Note: capitalized financing costs do not exist with respect to this project. The only required capital outlay for construction that won't be included in leasehold improvements provided by the lessor is a structurally improved concrete floor under the MRI unit. Estimated time for completion is less than four months, and it will be funded entirely by owner's capital.

TOTAL PROJECT COST: \$2,535,000

B. Source and Method of Estimation

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

Cost estimates were arrived at by different means. For the MRI unit itself, a quote was obtained from the manufacturer, Hitachi (a copy of which is attached). For the construction contract, a worst case estimate was derived based on phone conversations with local contractors; the actual cost is anticipated to be much less but will depend upon the exact location of the MRI in the building and other factors. The cost for the movable equipment, existing primarily of furniture and medical equipment was derived from online surveys of such costs performed by Dr. Scott Boren.

C. Source of Funds	AMOUNT:
1. Cash	\$250,000
2. State Appropriations	____-0-____
3. Other Grants	____-0-____

4.	Fund Drive	-0-
5.	Debt	\$1,445,000
6.	Other: <u>Value of Leased Office Space</u>	<u>\$840,000</u>
RECEIVED TOTAL SOURCE OF FUNDS:		\$2,535,000

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9. 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 – **Within two weeks of CON approval**
- b) Dates by which other government approvals/permits will be applied for and received – **Within three months of CON approval**
- c) Dates by which financing is assured for the project – **Within one week of CON approval**
- d) Date construction will commence – **Renovation of existing building to begin within one month of CON approval**
- e) Length of construction period – **Renovation estimate at 3 months.**
- f) Date of completion of the project – **Upon completion of construction**
- g) Date of commencement of operation -- **Approximately 4 months after CON approval**

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.

10. 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

EXECUTIVE SUMMARY

Island Imaging, LLC is proposing to establish open architecture MRI services on Maui. We propose to acquire a state-of-the-art, high field (0.7 tesla) MRI.

Island Imaging LLC is wholly composed of long time, local Maui radiologists. It is owned and operated by Scott R. Boren, MD and George S. Boren, MD., who currently provide all radiology services to Kaiser Permanente on Maui. The Boren doctors have a combined 30 years experience providing Radiology to Maui's residents and visitors at both Maui Memorial Medical Center and Kaiser Permanente. Radiologist staffing at Island Imaging MRI center will also include Blan Williams, MD and Lundie Fleming Robb, MD, and Stanislav Papez, MD, all currently practicing radiologists with Maui Medical Group. For their curriculum vitae, please see Exhibit C-2.

Our proposal would provide Maui residents for the first time to access the full array of MRI services on island. The high field unit we are proposing is capable of producing high quality, detailed images. Further, the open MRI is capable of doing procedures not possible on a closed bore unit. Examples are listed below:

- The open architecture MRI is capable of scanning patients on their sides.
- In an open architecture MRI, imaging of certain off-center anatomic regions is enhanced over closed bore units because it is possible to center the area of interest within its larger open architecture and flexible coil design. In a closed bore MRI, the "sweet spot" of the magnet is fixed in the middle of the cylindrical shape of the magnet and maneuvering the patient into other imaging positions is not possible.
- The open architecture MRI enables a physician to do kinematic evaluation of joints (such as range of motion), which are much more limited in the closed bore unit.
- The open architecture MRI is able to accommodate patients with physical disabilities who are not able to maneuver into or lay in a closed bore MRI. We believe this is crucial in providing disabled patients reasonable access to care as per the spirit of the federal Americans with Disabilities Act (ADA).
- The open architecture MRI is able to image claustrophobic patients who cannot tolerate the confined space of a closed bore MRI.
- The open architecture MRI is able to accommodate large/obese patients who cannot fit into a closed bore MRI.

- The open architecture MRI is able to scan pediatric patients who would be more likely to have a successful MRI scan without the need for sedation that scans in a closed bore MRI often require. It allows their parent/caregiver to hold their hand and comfort them as the scan is being done.
- Also, there is the development of more sophisticated medical treatments such as breast biopsy procedures which can only be done with an open architecture MRI. The open MRI would allow immediate access to up-to-date and essential procedures to the people of Maui as is already available on Oahu and the Big Island.
- Finally, an open architecture MRI in an outpatient setting is more financially accessible for some patients as it is less costly. This is because an outpatient center does not have all of the fixed overhead expenses of a hospital. The comparative cost figures are found in the "Cost and Finances" section of this application.

By providing the citizens of Maui with quality open MRI imaging services, we will provide the community support that will help the people of Maui to achieve optimum health and independent personal functioning, reduce health disparities, and achieve access to cost-effective services.

A. Relationship to the Hawaii Health Performance Plan (H2P2), also known as the State of Hawaii Health Services and Facilities Plan

Our proposal to establish an outpatient open MRI imaging center on Maui addresses all of H2P2's goals and vision and guiding principles. The goals of H2P2 address all age groups of our community from children to adolescents to young and older adults.

At each stage in a person's life, there may be injuries or conditions that require an internal examination of soft tissue and other internal structures that can be achieved via an open MRI (more details on the types of treatment will be discussed in later sections). By providing the citizens of Maui with quality open MRI imaging services, we will provide the community support that will help the people of Maui to achieve optimum health and independent personal functioning, reduce health disparities, and achieve access to cost-effective services. Thus, our proposal intends to fill in the gap to provide access to appropriate imaging services for our community.

The open architecture MRI we are proposing will achieve the following H2P2 goals: 1) enhanced capabilities for treatment, 2) increased flexibility in treatment, 3) a broader patient population, 4) access to cost-efficient services, and 5) access to up-to-date technologies.

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Further, our proposal also seeks to ensure that access to Maui's health care delivery system includes comprehensive, cost-effective and well-coordinated imaging services as a part of our region's health care system. We will also coordinate care with Maui Memorial Medical Center (MMMC), Kaiser Permanente, the Maui Medical Group (MMG) and other health professionals in the service area to nurture and enhance a comprehensive imaging service as a part of our regional health care delivery system. Attachment F contains letters of support from Kaiser and MMG.

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To ensure that community input and feedback mechanisms are in place, we will welcome input from patients, health providers, SHPDA, and SHPDA's Tri-Isle Subarea Health Planning Council.

B. Need and Accessibility

Because of the unusual situation on Maui in which the Agency has received two applications for MRI in response to a recent bankruptcy filing by another provider, there is already an existing patient base utilizing open MRI services. Our proposal seeks to assume care for these patients. Also note that as further evidence of need, there is also prior SHPDA CON application approval for a second MRI service on record showing that the Agency believes that a need exists on Maui for a second MRI. Therefore, the methodology used to estimate supply and utilization is based on a conservative annual population growth rate applied to historic closed bore MRI utilization data.

Our need projections also utilize data from MMMC that was reported in 2001 in CON application #01-32. We consider these data to be representative of Maui as MMMC has been the only established MRI service on the island. MRC has been in the MRI business for less than two years. In 2001, Maui Memorial Medical Center reported to SHPDA the open MRI potential patient population on Maui at the time as:

- Outpatient: 3,120 MRI scans or 78% of total scans.
- Claustrophobic, heavy and what they described as "difficult patients" unable to have a closed bore MRI: 63 or approximately 2% of total scans
- Children (up to the age of 10): 15 patients

We determined that our **target population** would mainly consist of patients from these special populations. The target population for our proposal is based on an estimate of 50% of the above described patient population or approximately 1,600 procedures. This projection provides a reasonable utilization rate and is above the threshold stated in H2P2 as 1,500 procedures.

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accessible. The center will be accessible to all residents and visitors of Maui in need of MRI services. We will serve low-income persons, racial and ethnic minorities, women, people with disabilities, other underserved groups, and the elderly who need MRI services. We will also provide services to the uninsured and have made allowances for charity care.

C. Quality of Service/Care

The quality of care for our proposed outpatient open MRI imaging center will be upheld to national and State of Hawaii accreditation and licensing standards. The radiologists of Island Imaging are all long time, local Maui physicians and have many years of providing quality radiology services to the people of Maui.

The establishment of the island's first open MRI will substantially improve quality of care for Maui's people as it is capable of performing procedures that a closed bore MRI cannot. With the open MRI, Maui patients and physicians will for the first time have on island access to the full array (both open architecture and closed bore) of MRI services.

Improved quality of care is achieved because the open architecture MRI is capable of procedures that cannot be done in or are limited in a closed bore MRI. Therefore, with the addition of an open architecture MRI on Maui, residents will have immediate access to the full array of MRI services that is non-existent now. In addition, access and thereby quality of care is improved for those who simply cannot maneuver into or lay in the existing closed bore MRI unit for physical, psychological, or financial reasons.

D. Cost and Finances

The project will have minimal impact on health care costs. This is because it seeks to assume the care for patients that were seen by another provider who has recently filed for bankruptcy. It is anticipated that Island Imaging will reach breakeven by the end of month 8 and begin to generate revenue.

Our per unit charge and cost will be lower than the state average because our open architecture MRI will operate in an outpatient setting. Our average outpatient charge is estimated at \$700. By being having lower fixed overhead and start-up costs, we are able to pass these savings on to fund charity care services and prepare for bad debt.

E. Relationship to the Existing Health Care System

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E. Relationship to the Existing Health Care System

Our proposal seeks to maintain the current level of MRI imaging services for Maui's people by assuming the care provision for patients currently seen by another provider who has filed for bankruptcy.

Our proposal will improve the existing health care system because an open architecture MRI will offer additional services that are not capable or limited on a closed bore MRI unit. This proposal represents an enhancement, not a duplication, of equipment for the existing health care system as it expands Maui's MRI capacity and increases the imaging selections available to physicians on Maui. Our open MRI also improves access to disabled, claustrophobic, and large patients and children.

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F. Availability of Resources

The personnel and financial resources are available. The primary physician participants have been members of the Maui Radiology community for years, and have access to sufficient human and financial capital to successfully implement this project. In addition, radiologist staffing at Island Imaging MRI center will also include Blan Williams, MD and Lundie Fleming Robb, MD, and Stanislav Papez, MD, all currently practicing radiologists with Maui Medical Group. For their curriculum vitae, please see Exhibit C-2.

To properly demonstrate the economic feasibility of this project, we have attached detailed breakdowns in the Exhibits to Section D. We even detail, month by month, all of the economic variables used in determining our cash balance. Please note that we are able to maintain a positive cashflow for this project using the conservative utilization projections contained in Section B of this application which are based on the projected overall population growth rate of 5%.

In all places where estimates were employed, conservative figures were used. For example, the interest rate employed for both the lease and operating capital loans was 12%. In all likelihood, the actual negotiated rates will be considerably less than these values, but this allows us to project a reasonable worst case scenario and still be confident that we have sufficient financial resources for success and the maintenance of solid quality care.