



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

STANDARD APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 06-23

Applicant: Acculmaging Kapahulu, LLC
500 Ala Moana Boulevard, Tower 4, Suite 510
Honolulu, Hawaii 96813
Phone 808-748-4721

Project Title: Establishment of Computed Tomography (CT) and Magnetic
Resonance Imaging (MRI) services

Project Address: 1029 Kapahulu Avenue
Honolulu, HI

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

- Public _____
- Private X
- Non-profit _____
- For-profit X
- 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: X
 - Honolulu: X
 - 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)

See Attachment 1

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
Radiology Facility License from State of Hawaii Department of Health

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

See Attachment 2

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: See Attachment 3 (Articles of Organization)
- By-Laws: Not applicable
- Partnership Agreements: See Attachment 4
- Tax Key Number (project's location) (1) 3-2-007-019 (portion of)

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:** \$7,070,927 (approximately)

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 |
|--------------|-------------------|--------------------------------|---|
| | | | |
| | | | |
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| | | | |
| 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.

Establishment of CT and MRI services for Kapahulu Avenue Doctors' Office Complex

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

| A. List All Project Costs: | AMOUNT: |
|--|------------------------------|
| 1. Land Acquisition | _____ |
| 2. Construction Contract | \$1,978,650.00 |
| 3. Fixed Equipment | \$3,050,000.00 |
| 4. Movable Equipment | \$ 268,845.00 |
| 5. Financing Costs | \$ 284,357.00 |
| 6. Fair Market Value of assets acquired by lease, rent, donation, etc. | \$1,489,075.00 |
| 7. Other: _____ | _____ |
| TOTAL PROJECT COST: | <u>\$7,070,927.00</u> |

B. Source and Method of Estimation

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

Estimates were obtained from equipment manufacturers and potential construction contractors.

| C. Source of Funds | AMOUNT: |
|-------------------------------------|------------------------------|
| 1. Cash | _____ |
| 2. State Appropriations | _____ |
| 3. Other Grants | _____ |
| 4. Fund Drive | _____ |
| 5. Loan from Equipment Manufacturer | \$5,581,852.00 |
| 5. Capital Lease | _____ |
| 6. Other: <u>Site Lease (Rent)</u> | \$1,498,075.00 |
| TOTAL SOURCE OF FUNDS: | <u>\$7,070,927.00</u> |

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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: May 2006

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

Applied for: August 2006

Received: September 2006

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c) Dates by which financing is assured for the project: July 2006

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d) Date construction will commence: February 2007

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e) Length of construction period: 4 months

f) Date of completion of the project: June 2007

g) Date of commencement of operation: July 2007

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.

EXECUTIVE SUMMARY

Acculmaging Kapahulu, LLC ("Acculmaging") seeks approval to develop CT and MRI services ("the proposed imaging services") as part of a medical office complex that is currently under development by Dr. Sharon Lawler at 1029 Kapahulu Avenue in Honolulu. See Attachment 5. (Other components of Acculmaging's proposed facility are addressed in a separate administrative CON application.)

Acculmaging is wholly owned by Radiology Associates, Inc. (RA). RA is comprised of 10 radiologists who have provided image interpretive services to many hospitals on Oahu including Waianae Coast Comprehensive Coast Health Center (Waianae Comp), Queen's Medical Center and Shriner's Hospital, as well as Molokai General Hospital and Kwajalein Hospital since the company's incorporation in 1970. Dr. Lawler sought RA's participation in the new office complex in order to fulfill her vision of offering a comprehensive array of medical services to the elderly and low-income residents of nearby neighborhoods at a single, easily accessible location. Through its cooperative efforts with other specialty physicians and health care providers who are planning to locate at the Kapahulu Avenue complex, RA hopes to improve coordination of care offered to residents of East Oahu and improve access for the elderly and low-income populations in such nearby areas as Kaimuki and Palolo Valley.

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

The proposed imaging services will help meet the H2P2's goal of increasing the span of healthy life for Hawaii's residents by providing timely access to imaging services that facilitate early detection and diagnosis of such treatable diseases as cancer and cardiovascular disease and by reducing the effects of chronic disease and reducing morbidity and pain by facilitating effective treatment of medical conditions.

It will reduce disparities among Hawaii's residents and promote equitable and effective access to primary care for elderly and low-income residents of such neighborhoods as Palolo Valley and Kaimuki, who now frequently must rely on downtown hospitals for care. As one of a wide range of medical service providers who will be available at the new medical office complex, the facility will contribute to improving the comprehensiveness and coordination of medical services that are available to the surrounding community and support a grassroots effort by local health providers to improve the quality of care offered to their patients, thereby promoting continuity of care.

By facilitating early diagnosis and treatment of debilitating chronic diseases such as osteoporosis, heart disease and cancer, the proposed imaging services will promote cost-effective treatment by allowing such conditions to be treated before their severity leads to the need for costly nursing home care and more expensive, late-stage treatment modalities. By enabling the new medical complex's physicians to provide effective triage and evaluation of patients without referring them to hospital emergency rooms, the proposed radiology facility will also assist in providing a cost-effective alternative to working poor, whose lack of health insurance often leads them either to delay treatment until health impairments have advanced to a stage that is difficult to treat or to seek primary care in hospital emergency rooms for non-emergency conditions.

Finally, the proposed imaging services will improve detection and treatment of cancer, the focus of Chapter V of the H2P2, and of heart disease and stroke, which are the foci of Chapter VII of the H2P2.

b) Need and Accessibility

The new radiology facility will be located on Kapahulu Avenue in order to insure easy access for elderly and low-income residents of nearby residential neighborhoods. The site is easily accessible by public transportation, and the new medical complex of which it is to be a part will offer ample parking. Medical service providers who will be participating in the new complex will also cooperate in funding a free shuttle service to augment public transportation for those who lack personal transportation resources.

In addition to contributing to the provision of integrated primary care at the Kapahulu complex, the new radiology center will also provide needed augmentation to Oahu's capacity to provide diagnostic imaging procedures. Existing radiology providers on Oahu are operating at or near capacity. The supply of CT and MRI services on Oahu lags behind the need for such services, even taking into account new capacity that has recently, or will in the near future, become available. The gap between supply and demand can be expected to continue to grow as population increases, increased utilization of such services arising from both new applications for this technology as well as substitution of modern imaging techniques for older, less effective diagnostic procedures, and the increased demand for medical services overall that will be generated by an aging population force demand to grow at more rapid rates than ever before.

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Moreover, Hawaii's utilization of key imaging technology is below that of the nation as a whole. According to The IMV Medical Information Division's (IMV) Benchmark Report for CT – 2004, Hawaii ranks 48th out of the 50 states in utilization of CT scanning. IMV MEDICAL INFORMATION DIVISION, INC., BENCHMARK REPORT – CT 2004, at 13. The IMV Benchmark Report for MRI – 2004, shows that Hawaii's utilization of MRI is also low compared to national averages; the State ranks 43rd among the 50 states in utilization of MRI scanning procedures. IMV MEDICAL INFORMATION DIVISION, INC., BENCHMARK REPORT – MRI 2004, at 15. These low utilization rates support the conclusion that patients throughout Hawaii are **not** receiving needed services. Because appropriate and timely medical intervention is **not** being offered to these patients, they are suffering the mortality and morbidity associated with late intervention.

The proposed imaging services will be available to all on a non-discriminatory basis consistent with RA's policy of imaging all patients with a physician's order without regard to ability to pay.

c) Quality of Service/Care

The facility will be accredited by the American College of Radiology and licensed by the State of Hawaii. The staff Radiologists will be certified by the American Board of Radiology and be licensed physicians in Hawaii. All technologists will be certified by the American Registry of Radiologic Technologists, certified as CT or MRI technologists, and licensed by the State of Hawaii. The facility will operate in accordance with all applicable state and federal regulations and the standards of the accrediting body, and will have a written policies and procedures to insure the quality and safety of patient care.

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

The total capital expenditure for the project is estimated at approximately \$7,070,927, which includes \$1,978,650 for site improvements, \$3,050,000 for Fixed Equipment, \$268,845 for Movable Equipment, \$284,357 for Financing Costs, and \$1,489,075 for acquisition of the site pursuant to a ten-year lease with an option for renewal. The costs will be financed by a loan from the equipment manufacturer.

The net operating revenue for the first year of operation is projected at \$1,600,265 and operating expenses for the same period are projected at \$1,982,128, resulting in an operating loss of \$381,863. By the third year of operation, operating revenue is expected to increase to \$2,466,134, with total expenses projected at \$2,144,943, resulting in net income of \$321,191. A summary of the projected annual revenues and costs associated with the facility is set forth in Exhibit D-2.

e) Relationship to the Existing Health Care System

The proposed imaging facility will be part of a medical complex that is being developed as the result of the efforts of a local physician, dedicated to providing integrated primary care that will reduce the fragmentation of care that now characterizes medical services available to residents of nearby neighborhoods. It will cooperate with other medical service providers located at the complex in order to provide a comprehensive array of services at a single site in order to facilitate access by persons who now are forced to rely largely on downtown hospitals for much of their medical care and for whom transportation can create a barrier to receiving care and to improve the cost-effectiveness of care offered to the target population.

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By providing fast and effective diagnostic tools to the complex's urgent care clinic, the proposed radiology facility will also help to provide an alternative to use of costly emergency room facilities for non-emergency conditions and thereby free up hospital emergency room resources for treatment of true medical emergencies.

f) Availability of Resources

There are no financial obstacles to this project. Financing is available through the equipment manufacturer. The project site will be acquired by lease and paid for via monthly rent payments throughout the lease's term.

RA does not foresee difficulties in recruiting staff for the facility from the local pool of qualified personnel and is prepared to seek the assistance of mainland recruiters as needed.

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