



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number: #07-32A

Applicant: Kauai Veterans Memorial Hospital
4643 Waimea Canyon Drive
Waimea, Kauai, Hawaii

Phone: 808 338-9431

Project Title: Establishment of an extremity MRI service
Project Address: same

1. TYPE OF 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) **N.A., THIS IS THE EXISTING SITE FOR KVMH**
- 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.) **N.A.**
- C. Your governing body: list by names, titles and address/phone numbers **ATT. A**
- 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
 - By-Laws **ATT. B**
 - Partnership Agreements
 - Tax Key Number (project's location) **(4) 1-2-06:35**

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 Service	Change in Beds
Inpatient Facility				X	
Outpatient Facility					
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.

There will be no bed changes.

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

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:	AMOUNT:
1. Land Acquisition	_____
2. Construction Contract	_____
3. Fixed Equipment	_____
4. Movable Equipment	_____
5. Financing Costs	_____
6. Fair Market Value of assets acquired by lease, rent, donation, etc.	<u>\$395,000</u>
7. Other: _____	_____
TOTAL PROJECT COST:	<u>\$395,000</u>

B. Source of Funds	
1. Cash (from operating revenues)	<u>\$395,000</u>
2. State Appropriations	_____
3. Other Grants	_____
4. Fund Drive	_____
5. Debt	_____
6. Other: _____	_____
TOTAL SOURCE OF FUNDS:	<u>\$395,000</u>

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.

KVMH will add a stationary magnetic resonance imaging (MRI) service for extremities

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:

See page 7

- 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,
- 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.

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.

See page 7

- 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.

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.

RECEIVED

'08 JAN 28 AIO :16

8. Implementation Schedule

Acquisition (by lease) and installation	April 1, 2008
Operations begin	May 1, 2008

9. Executive Summary

Kaua`i Veterans' Memorial Hospital (KVMH) proposes to acquire an MRI extremity scanner. The equipment will be leased, with an annual lease expense of \$107,282. (The fair market value of the equipment is \$395,000). The scanner will be installed in existing space in our imaging department, and no renovations will be necessary. We expect to begin operations in May of 2008, and for the two months remaining in FY 2008, we anticipate providing an average of 5 procedures per day, which would be an annual rate of 1,300 procedures. By the third year of operation (FY 2010), this will increase to 7 daily or 1,820 annually.

The proposed MRI extremity scanner, which is a .2 Tesla unit, is used primarily for uncomplicated orthopedic injuries of the knees, ankles, feet, shoulders, wrists, and hands. It provides the same high-quality images as whole-body scanners, but does not require the patient's whole body to be enclosed within the machine. Rather, the patient simply sits in an attached chair and places the injured part into the machine. The extremity scanner provides greater comfort and mobility than a whole-body scanner. It is especially beneficial for pediatric patients and adults who are claustrophobic or might have trouble lying down in a tight space for a long period of time because of arthritis or other medical conditions.

This addition will be an important service for our patients and the physicians who serve them, especially the two orthopedic surgeons on our staff.

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

This proposal by KVMH to acquire an extremity MRI is consistent with the H2P2-stated goals and objectives for realizing the Hawai`i health care vision. The H2P2 goals include:

- "Reduce health disparities among Hawaii residents."
- "Achieve equitable and effective access at a reasonable cost for all Hawaii residents to health services that are responsible to the holistic needs of community's members."

This proposal will reduce disparities and further equitable access simply by making extremity MRI service available to the people of Kaua`i, especially those in KVMH's primary service area of West Kaua`i. It will also expedite

RECEIVED

'08 JAN 28 AIO

general access to MRI services, since the existing unit at Wilcox Memorial Hospital ("Wilcox") is so highly utilized that there are frequently waits of up to three weeks for a scan.

Among the objectives stated in the H2P2 are:

- "Early detecting and diagnosing of treatable disease."
- "Reducing the effects of chronic disease and prolonging health related quality life."
- "Reducing morbidity and pain through timely and appropriate treatment."

The extremity MRI scanner is extremely useful in the detecting and diagnosing of conditions such as injuries to the joints and arthritis. Morbidity, pain and other effects of chronic disease can be reduced by the prompt diagnosis afforded by the scanner, and appropriate subsequent therapy.

The H2P2 has no capacity threshold guideline specific to extremity MRI. However, it does contain a threshold for MRI in general:

"For a new unit/service or service, the minimum average annual utilization for all other providers in the service area is 1,500 procedures, and the utilization of the new unit/service is projected to meet the minimum utilization rate by the third year of operation."

Although KVMH's primary service area is West Kaua'i, which has no MRI unit, we do consider the rest of the island to be a secondary service area. There is only one MRI scanner on the island, and that is at Wilcox. The latest year for which MRI utilization data are available is 2005, in which Wilcox reported 4,498 MRI procedures. This is well above the 1,500 procedures which would permit a second unit in the service area. (See Table B-1 below for additional Wilcox utilization data). Further, KVMH is expecting to provide 1,820 procedures in the third year of operation, which would comply with the second test of the H2P2 threshold guideline, i.e., 1,500 procedures by the third year.

b. Need and Accessibility

Need. KVMH proposes to meet the need of West Kaua'i (primarily) residents for MRI scans of the extremities. We have surveyed our physicians, who estimated that there is a need among their patients for approximately 2,088 such procedures annually. The details of that survey are provided in Table B-1 on the following page. We have kept the names of the physicians confidential. Incidentally, two of our physicians are orthopedic surgeons, who would generate the bulk of the referrals. The need would be increased if we were to add patients from the rest of the island whose need for an extremity

scan would be served better in the extremity MRI scanner than the closed-bore scanner at Wilcox.

TABLE B-1
PHYSICIAN PREDICTIONS OF NUMBER OF EXTREMITY MRI PROCEDURES THEIR PATIENTS WOULD NEED

'08 JAN 28 AIO :16

Physician #	Daily procedures	Weekly procedures	Monthly procedures	Annual procedures
1	-	1.2	6	72
2	-	-	-	-
3	2	10	40	480
4	-	3	12	144
5	-	3	12	144
6	-	-	-	-
7	-	1.2	6	72
8	-	3	12	144
9	-			
10	-			
11	-			
12	-			
13	-	1.2	6	72
14	1	5	20	240
15	2	10	40	480
E.R.	-	4	20	240
Total				2,088

Although the need for West Kaua'i alone may exceed 2,000 procedures, we are being more cautious in our utilization projections. As shown in Exhibit D, the unit will be put in service effective May, 2008, and we project 215 scans for the two months of May and June, 2008. This is an annual rate of 1,300 scans. We project that this will rise to 1,820 in fiscal year 2010, the third year of operation.

The proposed unit is especially useful in meeting the needs of patients who have difficulty utilizing the closed bore unit at Wilcox. This would include pediatric patients and adults who are claustrophobic or might have trouble lying down in a tight space for a long period of time because of arthritis or other medical conditions.

Table B-2 below shows the utilization of the MRI unit at Wilcox for the years 2001 to 2005. This unit is the only unit on the island. The table shows that utilization increased 87% in the two-year period from 2003 to 2005, and the

RECEIVED

'08 JAN 28

4,498 procedures done in 2005 far exceed the H2P2 threshold of 1,500 procedures which would permit another unit on the island. We do not have data for 2006 or 2007, but we believe that utilization continues to increase. Our physicians tell us that sometimes there is a wait of up to 3 weeks before a patient can be scheduled. This makes it more and more difficult for our patients to have timely access, prompt diagnosis and the initiation of appropriate therapy.

TABLE B-2
MRI PROCEDURES AT WILCOX MEMORIAL HOSPITAL
2001 – 2005

YEAR	NUMBER OF MRI PROCEDURES
2001	1,823
2002	2,051
2003	2,400
2004	Did not report
2005	4,498

Source: SHPDA Annual Utilization Reports. 2006 report not yet issued.

Accessibility. The proposed service will be accessible to any person who needs an extremity MRI. KVMH provides service to all patients, including low income persons, racial and ethnic minorities, women, handicapped persons, other underserved groups and the elderly.

Of course, the major impact on accessibility is simply the result of establishing an extremity MRI service on the island. Patients who need such an MRI will have quicker access to a service that is also more appropriate and more comfortable than the existing service.

c. Quality of Service/Care

KVMH is certified by Medicare and Medicaid, and has a history of providing quality care. Apropos of this service, we are also certified by the American College of Radiography (ACR). Procedures will be performed by one of the licensed Radiographic Technologists on our staff. The vendor will provide one week of on-site training, with additional follow-up training later.

The quality of care for West Kaua'i residents will be improved simply by establishing this service that will allow for prompt diagnosis and treatment.

RECEIVED

d. Cost and Finances

'08 JAN 28 AIO:1
 The capital value of the equipment is \$395,000. However, the equipment will be acquired by lease, so that no capital funds are required. The unit will be installed in an existing space, with no additional construction required.

Exhibit D is a revenue and expense projection for this service. The Exhibit shows that the project is financially feasible since operating revenues will exceed operating expenses. In fiscal year 2009, the second year of operation, we project a total net income of \$632,911 and total expenses of \$313,345. This leaves an excess of revenue over expenses of \$319,566.

Exhibit D-2 is a quote from the vendor showing the availability of the unit at the price of \$395,000.

e. Relationship to the Existing Health Care System

The proposal will strengthen the existing health care system by providing a specialized service not now available on Kaua'i, i.e., an extremity MRI service. The service will mainly benefit the residents of West Kaua'i, which is our primary service area, but will also be available to all residents of the island.

Persons who now need an MRI scan of an extremity can get one in the closed bore, high field MRI unit at Wilcox. However, the establishment of a specialized unit at KVMH will make the service more accessible, more comfortable and more convenient. The unit will make MRI service available to some patients who are claustrophobic or might have trouble lying down in a tight space for a long period of time because of arthritis or other medical conditions. Finally, the addition of this unit will positively impact the health care system by expediting diagnosis and treatment, since the existing Wilcox unit is heavily utilized and patients sometimes have to wait as much as three weeks to get a scan.

Another positive impact on the system will be the positive cash flow it generates for KVMH (see Exhibit D). KVMH now operates at a loss, and must be subsidized by the State. Helping KVMH become self-supporting, and reducing its reliance on subsidies, is a beneficial impact to the health care system.

The establishment of this unit will have some negative financial impact on Wilcox, since some patients who would have been scanned at Wilcox will now be scanned at KVMH. We are unable to determine what this impact will be, since the Wilcox unit is already heavily used and since there are no utilization data reported since 2005. Further, the negative impact will be offset by the continuing increase in MRI scans at Wilcox resulting from the normal growth of the service.

continuing increase in MRI scans at Wilcox resulting from the normal growth of the service.

In summary, we believe the positive impact on the overall health care system outweighs the negative impact on Wilcox.

f. Availability of Resources

Both the financial and personnel resources needed to implement the proposal are available. As noted above, there is no capital expense, and the revenue generated will cover the operating expenses, including the lease of the unit.

No additional staff will be needed, since the existing staff can assume this workload. For accounting purposes, we attribute some existing support staff expenses to the MRI service in our revenue and expense projections. However, they are not new staff.

08 JAN 28 AM 0:17

RECEIVED