

# STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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May 17, 2005

## CERTIFIED MAIL, RETURN RECEIPT REQUESTED

IN THE MATTER OF	)	CERTIFICATE OF NEED
	)	APPLICATION
	)	NO. 04-26
Kaiser Foundation Health Plan, Inc.	)	
	)	
Applicant	)	
	)	DECISION ON THE MERITS
_____	)	

## DECISION ON THE MERITS

The State Health Planning and Development Agency (hereinafter "Agency"), having taken into consideration all of the records pertaining to Certificate of Need Application No. 04-26 on file with the Agency, including the written and oral testimony and exhibits submitted by the applicant and other affected persons, the recommendations of the Tri-Isle Subarea Health Planning Council and the Certificate of Need Review Panel, the Agency hereby makes its Decision on the Merits, including findings of fact, conclusions of law, order, and written notice on Certificate of Need Application No. 04-26.

I

## BACKGROUND

1. This is an application for a Certificate of Need ("Cert.") for the establishment of a 1.5T stationary Magnetic Resonance Imaging (MRI) service at 55 Maui Lani Parkway, Wailuku, Hawaii, at a capital cost of \$2,606,689.
2. The applicant, Kaiser Foundation Health Plan, Inc. is a non-profit corporation.

3. The Agency administers the State of Hawaii's Certificate Program, pursuant to Chapter 323D, Hawaii Revised Statutes (HRS), and Title 11, Chapter 186, Hawaii Administrative Rules (HAR).
4. On December 9, 2004, the applicant filed with the Agency a Certificate of need application for standard review for the establishment of a 1.5T stationary Magnetic Resonance Imaging (MRI) service at 55 Maui Lani Parkway, Wailuku, Hawaii, at a capital cost of \$2,606,689 (the "Proposal"). On February 28, 2005 and March 17, 2005, the applicant submitted additional information. On March 23, 2005, the application was determined to be complete. For administrative purposes, the Agency designated the application as Cert. #04-26.
5. The period for Agency review of the application commenced on March 24, 2005, the day notice was provided to the public pursuant to 11-186-39 HAR.
6. The application was reviewed by the Tri-Isle Subarea Health Planning Council at a public meeting on April 1, 2005. The Council voted 9 to 0 in favor of recommending approval of this application.
7. The application was reviewed by the Certificate of Need Review Panel at a public meeting on April 21, 2005. The Panel voted 7 to 0 in favor of recommending approval of this application.
8. The Statewide Health Coordinating Council review of the application was waived pursuant to Section 323D-44.6 HRS.
9. This application was reviewed in accordance with Section 11-186-15, HAR.
10. Pursuant to Section 323D-43(b), HRS:

"(b) No Certificate shall be issued unless the Agency has determined that:

  - (1) There is a public need for the facility or service; and
  - (2) The cost of the facility or service will not be unreasonable in the light of the benefits it will provide and its impact on health care costs."
11. Burden of proof. Section 11-186-42, HAR, provides:

"The applicant for a certificate of need or for an exemption from certificate of need requirements shall have the burden of proof, including the burden of producing evidence and the burden of persuasion. The degree or quantum of proof shall be a preponderance of the evidence."

II

**FINDINGS OF FACT**

A. REGARDING THE RELATION OF THE PROPOSAL TO THE STATE HEALTH SERVICES AND FACILITIES PLAN (HAWAII HEALTH PERFORMANCE PLAN) OR "H2P2"

12. The applicant states that its proposal will "...provide early and accurate diagnosis, will continue to help achieve the goals of increasing the span of healthy life for Hawaii's residents, and reduce health disparities among Hawaii's residents, by meeting the objective of 'Reducing morbidity and pain through timely and appropriate treatment.' "

13. The applicant states that "This project will improve the Statewide value of 'comprehensiveness' by continuing to provide MRI imaging services in Kaiser's continuum of care through integration, collaboration, and coordination to address holistically the health and wellness needs of individuals and families."

14. The applicant states that "The proposed MRI unit will actually be the third additional unit to the Kaiser Permanente Hawaii system."

15. The applicant states that "In 2002 Kaiser Permanente performed 7,406 procedures with one MRI unit (as stated in the SHPDA Health Care Utilization Report – 2002). In 2003, there were 8,976 procedures performed with two MRI units (2<sup>nd</sup> MRI installed 9/03) at Kaiser Permanente Moanalua Medical Center and 11,148 procedures performed in 2004. This... shows that Kaiser's utilization is significantly above the H2P2 capacity threshold of 2,750 scans per year or 5,500 scans for 2 units..."

16. The applicant states that "This project also addresses the values the Tri-Isle Subarea Health Planning Council considered essential to the design of a comprehensive, responsive, accessible and cost-effective quality health care system. Having the scanner located at Kaiser's Maui Lani Clinic will improve access and be more accessible to Maui patients."

17. With respect to Chapters IV to XI of H2P2, the applicant states "...the MRI will enable Kaiser Permanente to continue to effectively diagnose and treat cancer patients in an appropriate and timely manner. Also, elderly patients who have osteoarthritic changes may be difficult to assess for fractures. MRI can more accurately assess these subtle occult fractures because it is very sensitive to bone marrow edema."

18. The Agency finds that this criterion has been met.

**B. REGARDING NEED AND ACCESSIBILITY CRITERIA**

19. The applicant states that "Kaiser Permanente's Maui members already receive the benefits of MRI services either at Kaiser's Medical Center on Oahu or at Maui Memorial Medical Center (with Kaiser being accountable for the cost)."

20. The applicant states that "In 2003, there were 1,503 Maui Kaiser Permanente members that went to the Medical Center on Oahu for MRI services and 63 Maui members that were sent to MMMC. It is estimated that over 2,100 Maui members will need MRI services in the next year."

21. The applicant states that "The proposed MRI unit will actually be the third additional unit to the Kaiser Permanente Hawaii system."

22. The applicant states that "A preliminary analysis of the Kaiser Hawaii demand determined that Kaiser Oahu's second MRI unit will reach capacity in 2005."

23. The applicant states that "In 2002 Kaiser Permanente performed 7,406 procedures with one MRI unit (as stated in the SHPDA Health Care Utilization Report – 2002). In 2003, there were 8,976 procedures performed with two MRI units (2<sup>nd</sup> MRI installed 9/03) at Kaiser Permanente Moanalua Medical Center and 11,148 procedures performed in 2004. This... shows that Kaiser's utilization is significantly above the H2P2 capacity threshold of 2,750 scans per year or 5,500 scans for 2 units..."

24. The applicant states that "Adding the MRI unit at Kaiser Permanente's Maui Lani Clinic will improve the availability and timeliness of diagnosis and treatments. Kaiser Permanente Maui members would not need to travel to Oahu for this service and would have less or no wait-time for scheduling. Also, Kaiser providers will have real-time access to studies and will be available for immediate consultation in care management decisions and provide expedited managed care plans."

25. In a memorandum dated April 26, 2005, Wini Odo, Chair, Certificate of Need Review Panel forwarded the Panel's recommendation for approval of this application. The recommendation states in pertinent part:

"The applicant has sufficient membership on Maui to support the proposal. Given that the majority of its members now travel to Oahu for MRI

procedures, the proposal will increase the accessibility to MRI services for Kaiser members."

26. The applicant states that "The proposed project will increase capacity and enhance access for all patients requiring MRI services. This includes people with disabilities, low income persons, racial and ethnic minorities, women, and the elderly."

27. The Agency finds that the need and accessibility criteria have been met.

### C. REGARDING QUALITY AND LICENSURE CRITERIA

28. The applicant states that "The proposed project will improve the quality of care to patients requiring MRI services in Maui."

29. The applicant states that "Adding the MRI unit at Kaiser Permanente's Maui Lani Clinic will improve the availability and timeliness of diagnosis and treatments. Kaiser Permanente Maui members would not need to travel to Oahu for this service and would have less or no wait-time for scheduling. Also, Kaiser providers will have real-time access to studies and will be available for immediate consultation in care management decisions and provide expedited managed care plans."

30. The applicant states that "The Kaiser Permanente Moanalua Medical Center has received continuing approval by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO). Kaiser Permanente has also been awarded full accreditation by the National Committee for Quality Assurance (NCQA)."

31. The applicant states that "To ensure that quality health care is provided to members, Kaiser Permanente has developed and implemented an extensive Quality Assurance Program for Kaiser Foundation Hospital, hospital departments, outside services (by non-Kaiser Permanente providers), and ambulatory services."

32. The applicant states that "All patient care staff will be specially trained to meet the requirements of their job descriptions. Technologists will also be licensed and registered as required with the State of Hawaii and the American Registry of Radiologic Technologists (ARRT)."

33. The Agency finds that the quality and licensure criteria have been met.

D. REGARDING THE COST AND FINANCIAL CRITERIA

34. The applicant states that "Other possible options were analyzed to determine their feasibility. The proposed project was the most financially and operationally feasible alternative."

35. The applicant states that "In 2004, Kaiser Permanente's two MRI units performed 11,148 procedures (with the second unit operational from September 2003.) Kaiser Permanente is in need of a third unit. Without this additional unit on Maui, Kaiser Permanente will be paying over \$40 million over 10 years in outside cost for MRI services at the current negotiated rate. The current negotiated rate averages \$400 (\$350 without contrast and \$450 with contrast) as compared to our projected internal rate of \$267 for the same service."

36. The applicant states that "Internalization is the most cost-effective option for Kaiser Permanente."

37. The applicant states that "While capital investment in this project will result in higher fixed costs, this will be mitigated by more efficient operation and the capacity to serve a greater number of members in the future. The ability to manage the cost of MRI services will support Kaiser's efforts to minimize premium increases and keep the health plan affordable for the increasing number of Maui residents that select Kaiser Permanente as their healthcare provider."

38. The applicant states that "If MRI studies were to be provided by an affiliated care provider, images obtained from the outside provider would need to be transported to Kaiser Permanente's Moanalua Medical Center for interpretation via disk so that the images can be downloaded into Kaiser's PACS. This would take an additional 2 to 3 days. The affiliated care providers would also perform the interpretation of the images, not a Kaiser provider, and would not be accessible in Kaiser Permanente's Health Connect (automated medical record) for Kaiser providers to expedite managed care plans."

39. The Agency finds that cost and financial criteria have been met.

E. REGARDING THE RELATIONSHIP OF THE PROPOSAL TO THE EXISTING HEALTH CARE SYSTEM OF THE AREA

40. The applicant states that "In 2003, there were 1503 Maui Kaiser Permanente members that went to the Medical Center on Oahu for MRI services and 63 Maui members that were sent to MMMC."

41. The applicant states that "Adding the MRI unit at Kaiser Permanente's Maui Lani Clinic will improve the availability and timeliness of diagnosis and treatments. Kaiser Permanent Maui members would not need to travel to Oahu for this service and would have less or no wait-time for scheduling. Also, Kaiser providers will have real-time access to studies and will be available for immediate consultation in care management decisions and provide expedited managed care plans."

42. The applicant states that "Kaiser Permanente will continue to use community services for specific cases (such as inpatient cases)."

43. The applicant states that "With Maui Lani Clinic being in close proximity to Maui Memorial Medical Center, the Kaiser Permanente MRI unit could serve as a back up scanner to the island's only hospital."

44. The Agency finds that the relationship to the existing healthcare system criteria have been met.

#### F. REGARDING THE AVAILABILITY OF RESOURCES

45. The applicant states that "The proposed project will require an additional 3.0 patient care FTEs. There will be 2.0 FTEs MRI technologists and 1.0 FTE MRI clerk. The interpretation of the MRI studies will be provided by the Radiologists at Kaiser Permanente Moanalua Medical Center. Patient care staff will be hired either locally (when possible) or nationally. Also, Kaiser Permanente's internal promotion program for x-ray technicians will help support staffing needs. Kaiser Permanente does not foresee any problems hiring for the positions."

46. The applicant states that "Kaiser Permanente has determined that it will require a capital investment of \$2,606,689 for the addition of an MRI unit at Maui Lani Clinic. In order to ensure the most efficient use of funds, Kaiser Permanente Hawaii is financing this project through its national program ... This project has already been approved by Kaiser Permanente's leadership and funding has been allocated for it."

47. The Agency finds that the applicant has met this criterion.

III

**CONCLUSIONS OF LAW**

Having taken into consideration all of the records pertaining to Certificate of Need Application No. 04-26 on file with the Agency, including the written and oral testimony and exhibits submitted by the applicant and other affected persons, the recommendations of the Tri-Isle Subarea Health Planning Council and the Certificate of Need Review Panel and based upon the findings of fact contained herein, the Agency concludes as follows:

The applicant has met the requisite burden of proof and has shown by a preponderance of the evidence that the Proposal meets the criteria established in Section 11-186-15, HAR.

Accordingly, the Agency hereby determines that, pursuant to Chapter 323D-43(b):

- (1) There is a public need for this proposal; and
- (2) The cost of the proposal will not be unreasonable in light of the benefits it will provide and its impact on health care costs.

**ORDER**

Pursuant to the findings of fact and conclusions of law contained herein, IT IS HEREBY DECIDED AND ORDERED THAT:

The State Health Planning and Development Agency hereby APPROVES and ISSUES a certificate of need to Kaiser Foundation Health Plan, Inc. for the proposal described in Certificate Application No. 04-26. The maximum capital expenditure allowed under this approval is \$2,606,689.

**WRITTEN NOTICE**

Please read carefully the written notice below. It contains material that may affect the Decision on the Merits. The written notice is required by Section 11-186-70 of the Agency's Certificate of Need Program rules.

The decision on the merits is not a final decision of the Agency when it is filed. Any person may request a public hearing for reconsideration of the decision pursuant to Section 11-186-82 HAR. The decision shall become final if no person makes a timely request for a public hearing for reconsideration of the decision. If there is a timely request for a public



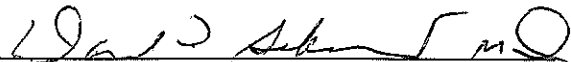
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hearing for reconsideration of the decision and after the Agency's final action on the reconsideration, the decision shall become final.

(Note, pursuant to Chapter 323D-47, Hawaii Revised Statutes, a request for reconsideration shall be received by the Agency within ten working days of the state agency decision.)

DATED: May 17, 2005  
Honolulu, Hawaii

HAWAII STATE HEALTH PLANNING  
AND DEVELOPMENT AGENCY



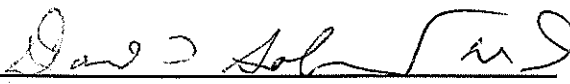
David T. Sakamoto, M.D.  
Administrator

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the attached Decision on the Merits, including findings of fact, conclusions of law, order, and written notice, was duly served upon the applicant by sending it by certified mail, return receipt requested, in the United States Postal Service addressed as follows on May 17, 2005.

Ms. Janice Head  
President and Regional Manager  
Kaiser Foundation Health Plan, Inc.  
2828 Pa'a Street  
Honolulu, HI 96819

HAWAII STATE HEALTH PLANNING  
AND DEVELOPMENT AGENCY

  
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David T. Sakamoto, M.D.  
Administrator