



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: #14-16A To be assigned by Agency

Date of Receipt:

APPLICANT PROFILE

Project Title: Addition of Second MRI Unit at Hawaii Diagnostic Radiology Services, LLC's Liliha Imaging Center

Project Address: 2230 Liliha Street, Suite 106 Honolulu, Hawaii 96817

Applicant Facility/Organization: Hawaii Diagnostic Radiology Services, LLC

Name of CEO or equivalent: Edwin Muranaka, M.D.

Title: Manager

Address: 1481 South King Street, Suite 210, Honolulu, Hawaii 96814

Phone Number: 792-7897 Fax Number: 690-9021

Contact Person for this Application: Marshall M. Miyoshi

Title: Chief Operating Officer

Address: 1481 South King Street, Suite 210, Honolulu, Hawaii 96814

Phone Number: 792-7897 Fax Number: 690-9021

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 Edwin Muranaka, M.D. Name (please type or print)

Date Manager Title (please type or print)

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1. TYPE OF 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: _____

2. PROJECT LOCATION INFORMATION

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

- Statewide: _____
- O`ahu-wide: X
- 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) – Not applicable. New equipment will be installed in existing facility
- 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
- C. Your governing body: list by names, titles and address/phone numbers
 - See Attachment 1
- 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 – See Attachment 2 (Articles of Organization)
 - By-Laws – Not Applicable
 - Partnership Agreements – See Attachment 3
 - Tax Key Number (project's location) – Portion of TMK 1-1-8-18-24

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					
Outpatient Facility		X			
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.

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

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6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

AMOUNT:

1.	Land Acquisition	_____
2.	Construction Contract	<u>\$ 438,766.00</u>
3.	Fixed Equipment	<u>\$1,812,953.00</u>
4.	Movable Equipment	_____
5.	Financing Costs	\$ _____
6.	Fair Market Value of assets acquired by lease, rent, donation, etc.	\$ _____
7.	Other: _____	\$ _____

TOTAL PROJECT COST: \$2,251,719.00

B. Source of Funds

1.	Cash	_____
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	<u>\$2,251,719.00</u>
6.	Other: _____	\$ _____

TOTAL SOURCE OF FUNDS: \$2,251,719.00

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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.

Addition of a second MRI at Hawaii Diagnostic Radiology Services, LLC's

Liliha Imaging Center. Reference HAR §§ 11-186-5(3)(Y).

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:

a) Date of site control for the proposed project: Not applicable. This application is for the addition of a second MRI at an existing Hawaii Diagnostic Radiology Services, LLC location, which is leased pursuant to an agreement executed in August 2012.

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

Building permit applied for: November 15, 2014

Building permit received: December 15, 2014

c) Dates by which financing is assured for the project: December 1, 2014

d) Date construction will commence: January 1, 2015

e) Length of construction period: 3 months

f) Date of completion of the project: April 1, 2015

g) Date of commencement of operation: April 15, 2015

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.

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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.

- a) Relationship to 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

Hawaii Diagnostic Radiology Services, LLC ("HDRS") seeks to install a second MRI at its Liliha imaging center ("Liliha Imaging Center"), which is located at the Sullivan Medical Office Building ("Sullivan MOB") on the campus of the Saint Francis Healthcare System of Hawaii ("St. Francis Campus"). *Reference Certificate of Need ("CON")* Application No. 12-05A (adding MRI, CT and mammography services at the Liliha Imaging Center), approved on June 12, 2012, and letters dated February 6, 2012, and June 25, 2012, from Romala Radcliffe to George Hetherington, confirming that no CON was required to relocate the Liliha Imaging Center.

This proposal will expand the availability of state-of-the-art MRI equipment which will provide enhanced imaging capability at significantly higher resolutions. The new MRI equipment will be a 3 Tesla MR, with a 70 cm. open bore design. Its 173 cm. length, together with its feet-first positioning option that is usable for almost all examinations conducted with the equipment, will reduce patient anxiety and claustrophobia. The installation will include a package of specialty applications that will expand the range of clinical MRI examinations that HDRS can perform.

- a) Relationship to the State of Hawai'i Health Services and Facilities Plan.

The Hawaii Health Services and Facilities Plan ("HSFP") states that, prior to the expansion of CT services, a provider's utilization of its existing CT units should be at least 8,500 procedures per unit per year. Prior to the expansion of MRI services, a provider's utilization of its existing MRI units should be at least 3,200 procedures per unit per year.

However, SHPDA has stated that the utilization thresholds merely guide the initial determination of need, and that applications are neither approved nor disapproved solely on the basis of whether the thresholds are met. The thresholds may be modified to allow for suboptimum utilization if a proposal's benefits clearly outweigh the costs to the community of duplicating or under-using services, facilities or technologies. Such benefits may include improved access for the service area combined with significant

improvements in quality of care. Thresholds may also be modified to incorporate current and best clinical practices and for other reasons, including addressing the documented needs of an actual population.

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The MRI equipment currently in use at the Liliha Imaging Center performed 2,553 examinations between August 2013 (when it was first put into service), and August 2014. This utilization is very close to the threshold case volumes established by the HSFP. However, HDRS has experienced a significant upsurge in demand in recent weeks and has expanded its hours to accommodate this increased need for services. Moreover, the increased demand is expected to accelerate after January 1, 2015, with the opening of Hawaii Pacific Neuroscience's ("HPN") second location on the St. Francis Campus, on the ground floor of the Sullivan MOB directly across the lobby from HDRS. Accordingly, utilization of the existing equipment is expected to reach the HSFP threshold by the time the new equipment has been installed and is operational.

Moreover, this proposal also meets the criteria for suboptimal utilization because it will improve quality of care by making the newest and most technologically advanced imaging equipment available to Oahu residents. The new equipment's specialized orthopedics and body applications will permit improved imaging of the spine, knee, hip, shoulder and abdominal organs. The MAGNETOM Skyra features the highest density coils available for musculoskeletal imaging. At 16 channels, these coils enable higher resolution images of these body party than is possible with any other available equipment. The Skyra's whole-body imaging capabilities increase its potential usefulness in oncology applications because whole-body imaging is better suited for cancer staging. Additionally the equipment's Dot technology, combined with its higher density coils, the highest in the industry, enable advanced body imaging for patient that cannot tolerate CT contrast or have conditions that require the higher tissue differentiation of MR. Additionally, as discussed in detail in section (b), below, the new equipment will be important in addressing the developing health needs of Hawaii's increasingly older population and improve access for this population because of its location on the St. Francis Campus, which is being developed with an emphasis on providing various senior services in a convenient, central location.

This proposal will advance the Statewide Health Coordinating Council's priority of ensuring maintenance of overall access to quality health care at a reasonable cost. MRI procedures allow for the early and/or timely detection of various diseases and conditions. This proposal will provide uninterrupted access to these diagnostic imaging services to the Liliha community. The early detection and treatment of medical conditions is a key factor in preventing the onset of acute and/or chronic conditions. By facilitating easy access to advanced technology imaging procedures, this proposal will encourage patients to obtain these diagnostic imaging procedures and, thereby, lower health care costs associated with delayed diagnosis and treatment.

Finally, this proposal will advance the Honolulu Subarea Council's priority of controlling escalating costs in the senior care industry and other needed services. Although diseases such as cancer can occur at any age, they occur more frequently

with advancing age. As discussed in section (b), below, the new equipment will be especially useful in facilitating early diagnosis of Alzheimer's disease and related dementias ("ADRD"), for which seniors are particularly at risk. The early detection and treatment of these diseases and conditions may slow or prevent the onset of debilitating health conditions. In doing so, this proposal would help control escalating health care costs in the senior care industry.

ST. FRANCIS HEALTH CARE & DEV. AGENCY
 b) Need and Accessibility

As illustrated by Table 1, below, HDRS has experienced a steady increase in demand for MRI services at its Liliha Imaging Center during the past year.

Month	Number of MRI Procedures Performed
August 2013	70
September 2013	174
October 2013	198
November 2013	183
December 2013	194
January 2014	177
February 2014	205
March 2014	185
April 2014	202
May 2014	229
June 2014	239
July 2014	261
August 2014	236
Total	2,553

Table 1. Number of MRI Procedures Performed Monthly

Demand for these services will continue to increase as the population of urban Honolulu, which had a 3.2% growth rate from April 1, 2010 to July 1, 2013, continues to grow. Demand will also increase as more physicians open offices on the newly renovated St. Francis Campus, and as St. Francis Health Care System of Hawaii ("SFHCS") begins operation of the skilled nursing facility expected to open in 2015.¹

HDRS especially expects the addition of HPN to the mix of medical specialties at the St. Francis Campus to drive demand for the new MRI service. HPN is expected to utilize the enhanced imaging capability of the MAGNETOM Skyra to visualize neurological structures in the brain in diagnosing and treating such disorders as Alzheimer's disease, dementia, other memory impairments, chronic headaches, and the long term complications of stroke.

¹ Plans for additional senior services such as independent and assisted living facilities and hospice care are in development.

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DEPARTMENT OF HEALTH

Alzheimer's disease is the sixth leading cause of death in the United States. Hawaii 2025: State Plan on Alzheimer's Disease and Related Dementias ("Hawaii 2025")² at 6. While rate of deaths from other major diseases, such as stroke, cancer, heart disease and HIV, have decreased, deaths from Alzheimer's are rising. *Id.* Since 2000, deaths from Alzheimer's disease have risen by 68%. *Id.* In 2010, Hawaii had approximately 27,000 cases of diagnosed dementia in its population age 65 and older. *Id.* at 7. That number is expected to reach 34,000 by 2025. *Id.* These estimates do not reflect the greater number of people who are undiagnosed. Sources cited by the Alzheimer's Association and the Centers for Disease Control and Prevention ("CDC") have estimated that approximately two-thirds of the people who meet the diagnostic criteria for ADRD have not received a diagnosis. *Id.*

The most important known risk factor for Alzheimer's disease is age. *Id.* at 8. From 2010 to 2015, Hawaii's population over the age of 65 will increase by 67 percent. *Id.* The growth in Hawaii's elderly population has surpassed the national average every year since 2000. *Id.* A contributing factor in the growth of Hawaii's senior population is the fact that Hawaii residents have the highest average life expectancy in the nation – 86.3 years. *Id.* This growth in the number of older Hawaii residents can be expected to increase, the prevalence of age-related illness, including Alzheimer's disease.

Early diagnosis of ADRD is important because it gives individuals an opportunity to plan and make decisions about their own futures prior to the onset of diminished mental capacity. *Id.* at 9. Although a primary care physician can screen for memory loss, once a screening indicates dementia, referral to a geriatrician or neurologists, such as those on the staff of HPN, is necessary for comprehensive assessment and development of a treatment plan. *Id.* According to a University of Wisconsin study, early diagnosis and treatment "could save millions or even billions of dollars while simultaneously improving care." *Id.* Neurological studies that will be performed with HDRS' new MAGNETOM Skyra are an important component of that process and the addition of this equipment now is critical to the ability of Hawaii's health care system to respond effectively to this developing need among the state's ever-increasing older population.

Designed to specialize in senior care, the St. Francis Campus includes an Americans with Disabilities Act ("ADA") compliant 780-stall parking garage. The campus is also easily accessible by public transportation.

HDRS welcomes all residents of Oahu to its facilities, including low income persons, racial and ethnic minorities, women, people with disabilities, the elderly and the medically underserved. HDRS provides services to patients covered by Medicare and Medicaid, and provides special concessional services in support of community health clinics and nonprofit health programs such as Kalihi Palama Health Clinic, Waikiki Health Center and Kokua Kalihi Valley Health Center.

² Hawaii 2025 is a publication of the Hawaii Department of Health's Executive Office on Aging.

c) Quality of Service/Care

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HDRS has a long history of complying with applicable State and Federal regulations. HDRS is Medicare and Medicaid certified and is accredited by the American College of Radiology. Radiology services will be provided by board certified radiologists with fellowship training in MRI and neuroradiology. Staff technologists will be certified by the American Registry of Radiologic Technologists. Staff competency will be maintained by ongoing medical education.

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

The new equipment will cost \$2,251,719, which includes the price of the equipment, installation and staff training.

Table 2, below, summarizes the projected revenues and costs attributable to the new equipment for the first and third years of operation:

	Projected 1st Full Year Operations	Projected 3rd Full Year Operations
Total Operating Revenue	\$1,526,040	\$1,779,973
Salaries and wages	382,000	394,606
Expenses	105,015	216,769
Depreciation	208,929	208,929
Debt Service	273,571	273,571
Total Expenses	969,515	1,093,875
Net Income (Loss) from Operations	\$556,525	\$686,098
Add Back: Depreciation	208,929	208,929
Excess (Deficit) Fund from Operations	\$765,454	\$895,027

Table 2. Projected Revenues and Expenses During Years 1 and 3 of Operation

e) Relationship to the existing health care system

This proposal is not expected to have any, negative impact on the existing health care system. It is intended to provide radiology imaging services support to physicians with medical practices at the Sullivan MOB and to the SFHCS skilled nursing facility that is expected to open in 2015, and therefore, will enhance services provided by those components of Oahu's health care system.

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Availability of Resources.

HDRS's Liliha Imaging Center currently employs two (2) Radiologists, twelve (12) technologists and four (4) patient services staff and will add 2 MR technologists to implement the second MRI service. HDRS has already begun recruiting new personnel to fill these positions and believes that there is a sufficiently large pool of qualified applicants in the community to allow the positions to be filled without causing any negative impact on the staffing levels of other health care providers.

There are minimal financial obstacles to this proposal. Siemens Medical Solutions USE, Inc., the equipment manufacturer, will provide financing for the purchase.

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.