

**Comments in Opposition to
Project ID # G-11149-16
Wake Forest Baptist Imaging, LLC**

Comments Submitted by Southeastern Orthopaedic Specialists and Alliance Healthcare Services.

Pursuant to NCGS § 131E-185, Alliance Healthcare Services and Southeastern Orthopaedic Specialists (SOS) submit these comments in opposition to Wake Forest Baptist Imaging, LLC (WFBI).

REVIEW CRITERIA FOR NEW INSTITUTIONAL HEALTH SERVICES

- (3) The applicant shall identify the population to be served by the proposed project, and shall demonstrate the need that this population has for the services proposed, and the extent to which all residents of the area, and, in particular, low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups are likely to have access to the services proposed.**

WFBI fails to adequately identify the population to be served by the proposed project or the need that this population has for the services proposed. WFBI's entire Need and projected Utilization is based on an unreasonable methodology and assumptions. The following discussion highlights the problems with the methodology that results in unreasonable volume projections.

On page 46, WFBI identifies its "service area" by including a table that includes Guilford, Forsyth, Randolph, Rockingham, and Davidson. The additional four counties are included because patients from these counties have received services at WFBH Greensboro Medical Plaza; although these counties are included in WFBI's need methodology and its utilization projections (and thus are clearly part of the applicant's "proposed MRI service area"), WFBI fails to explain how patients seeking care for neurosurgery, reproductive medicine, spine, urology, or weight management translates in to MRI patients.

On page 47, WFBI calculates the NC MRI Utilization Rate for the years FY2010 through FY2014. WFBI calculates a weighted average statewide MRI utilization rate of 80.4 MRI scans per 1,000 population and

deem this utilization to be conservative, reasonable, and supported. WFBI then applies this MRI utilization rate to the five counties in its service area.

Although the MRI utilization rate of 80.4 per 1,000 population is accurate, WFBI did not explain why using it at the county-level is reasonable other than to state it is due to “an abundance of conservatism...” While it may be considered conservative to use a lower state use rate for projections for patients from Guilford County (where the county use rate is higher than the state use rate), there is no justification for replacing the lower county use rates in Randolph, Rockingham and Davidson with a higher state use rate.

As the following table shows, MRI utilization rates differ dramatically due to a county’s rural or urban demographic, the presence of fixed or mobile MRI scanners, as well as the nature of hospital services within the county.

County MRI Utilization Rates

County	MRI Scans	Population	MRI Use Rate	NC MRI Rate Variation County MRI Rate
Guilford	55,251	512,237	107.9	- 27.5
Forsyth	66,137	364,248	181.6	- 101.2
Randolph	4,034	143,079	28.2	+ 52.2
Rockingham	4,664	92,543	50.4	+ 30.0
Davidson	4,935	164,454	30.0	+ 50.4

Source: 2016 SMFP, NCOSBM.

Because of the dramatic variations in MRI utilization rates among the counties, as well as between the counties and the state, WFBI fails to validate the reasonableness of utilizing a state MRI utilization rate, as compared to a county MRI utilization rate.

In fact, when comparing the actual MRI scans performed in each county to the 2016 project MRI scans on page 48, the volumes are in no way reasonable. The projected volumes are either extremely high or extremely low in comparison to actual MRI scan volumes, as the following table shows.

Actual Versus Projected County MRI Scans

County	Actual FY2014 MRI Scans	Projected 2016 MRI Scans	# Difference Between Actual and Projected	% Difference Between Actual and Projected
Guilford	55,251	41,835	- 13,416	- 24.3%
Forsyth	66,137	29,877	- 36,260	- 54.8%
Randolph	4,034	11,597	+ 7,563	+ 187.5%
Rockingham	4,664	7,440	+ 2,776	+ 59.5%
Davidson	4,935	13,297	+ 8,362	+ 169.4%

Source: 2016 SMFP, Application Page 48.

Since WFBI is using an unsupportable MRI utilization rate to project county MRI scans, as shown in the previous table, the WFBI “projection” of market share is also unreasonable and unfounded.

On page 49, WFBI projects MRI market share in the five counties in its proposed MRI service area; however, the application does not provide sufficient information to support any of the projected market shares. The narrative states little more than that the market shares are based on need, demographics, support letters and estimates by the applicant. The projected market shares are included in the following table.

Projected Market Share

County	2017	2018	2019
Guilford	5.00%	7.00%	9.00%
Forsyth	0.50%	0.75%	1.00%
Randolph	0.50%	0.75%	1.00%
Rockingham	1.00%	1.25%	1.50%
Davidson	0.50%	0.75%	1.00%

Source: Application Page 48.

Further on page 49, WFBI states that it bases its market share projection on the following six factors;

1. 2016 SMFP Need Determination
2. Guilford County population growth
3. Age distribution in Guilford County
4. Growth in the +65 population in Guilford County
5. Letters of Support
6. Reasonable estimate of MRI scans per day

Since WFBI will be a new provider in the service area, it is especially important that WFBI provide adequate support for its projected market shares. Yet, nothing in the list of six factors can be used to support or validate any of the projected market shares shown in the previous table. The first four factors are directly related to Guilford County and cannot be used for the other four counties in the service area; in addition, WFBI does not provide any data explaining how the 2016 need determination, the growth in Guilford County population (overall and for the 65+ population) or the age distribution in Guilford County relates to market shares. The application as submitted does not demonstrate how, if at all, these four factors result in a 2017 market share of 5.00 percent. Additionally, the WFBI application fails to provide support for a growth in market share of 2.00 percent per year. The application does not document a correlation, if any, between the listed factors and the projections of market share and market share growth over the years. (See, e.g., Project ID #E-10261-14 “However, the applicants provide insufficient information in the application as submitted to adequately document a correlation, if any, between the higher median age of the population ... and an unmet need”)

More troubling is that WFBI projects that Guilford County MRI scans will increase by 889 MRI scans between 2016 and 2019, but projects that it will perform 3,845 MRI scans in 2019. The WFBI application fails to provide any explanation as to where the additional 3,000 MRI scans will come from. On page 56, WFBI shows in the table that all of the current Cornerstone physician referrals led to 4,509 MRI scans at Cornerstone Health Care; as such, the MRI scanner at Cornerstone Health care will continue to need ALL of the MRI scan referrals from its physicians to support its MRI scanner. This information in the WFBI application does not suffice to explain how WFBI expects to attract an additional 3,000 MRI scans. Although WFBI supplies Letters of Support from physicians (factor five), it does not differentiate between Cornerstone Health Care physicians and non-Cornerstone Health Care physicians; considering the

information provided by WFBI, WFBI failed to provide reasonable documentation and support for its projection for an additional 3,000 MRI scans in Guilford County.

The sixth factor also provides no information or data to explain the market share proposed by WFBI in Guilford County.

In relation to the projected market share in Forsyth, Rockingham, Randolph, and Davidson counties, WFBI provides NO data or information to explain the level of market share in any of these counties. WFBI has NOT shown that its projected market shares are reasonable; because the market share assumptions are not credible or supported, the WFBI MRI volume projections are likewise unreasonable and unsupported.

On page 53, WFBI projects to provide the following number of MRI scans from the five counties included in its proposed MRI service area:

Projected MRI Scans

County	2017	2018	2019
Guilford	2,107	2,971	3,845
Forsyth	151	229	308
Randolph	58	88	117
Rockingham	74	93	112
Davidson	67	100	134
Total	2,457	3,481	4,517

Source: Application Page 48.

Of the total MRI scans show on the previous table, WFBI has only provided information relating to 889 MRI scans projected for Guilford County.

- (4) Where alternative methods of meeting the needs for the proposed project exist, the applicant shall demonstrate that the least costly or most effective alternative has been proposed.**

On pages 63 through 67 of its application, WFBI describes the alternatives considered, which were limited to the Proposed Project, Develop in Another Area of Guilford County, and Develop a Mobile MRI Service. However, because of the failure of the applicant to demonstrate its conformity with Criteria (3) and (5), the application is un-approvable and not the most effective alternative.

- (5) Financial and operational projections for the project shall demonstrate the availability of funds for capital and operating needs as well as the immediate and long-term financial feasibility of the proposal, based upon reasonable projections of the costs of and charges for providing health services by the person proposing the service.**

As discussed in Criterion (3), WFBI fails to demonstrate that its projected MRI scan volumes are reasonable, credible, or supported.

Additionally, WFBI includes its Year 2 staffing and salaries, but does not include any data or information for Year 1 or Year 3 to allow the Agency to determine if its Clinical, Administrative, or Support Personnel expenses are correct.

WFBI fails to utilize the MRI scan projections included on page 53, Section III, of the application. In fact, there are at least three MRI scan volume projections included in the application and summarized in the following table.

Projected MRI Scans

Application Location	2017	2018	2019
Page 53 (not including free scans)	2,457	3,481	4,517
Page 54 & 73 (including free scans)	2,509	3,533	4,569
Form D	2,511	3,535	4,571

Source: Application.

Furthermore, the inclusion of the fifty-two “free” MRI scans in the pro forma financial statements makes no sense. Since the “free” MRI scans total 52, as shown on page 54, at a minimum the “self-pay” payer category should reflect at least those 52 MRI scans; however, in Year 1, WFBI shows only a total of 45 scans as “self-pay.” There is no other category in which the “free” MRI scans can logically be included as the scans would not be appropriately included in the Medicare, Medicaid, Commercial/Managed Care/BCBS, or Worker’s Compensation categories. WFBI has a line item to deduct from revenue the “Offer of Charitable Scans” while at the same time deducting from revenue “Write Down for Self-Pay.” This presentation of information is not adequately explained by the applicant. In any event, the applicant fails to adequately identify the number of MRI scans which are classed as “free” and the number which are categorized as Self Pay. By double deducting revenue, WFBI is decreasing its net revenue, which will result in an artificially lower net revenue per MRI scan in the Comparative Analysis.

- (6) The applicant shall demonstrate that the proposed project will not result in unnecessary duplication of existing or approved health service capabilities or facilities.**

WFBI fails to adequately demonstrate the need for the proposed project. See Criterion (3) for discussion. Consequently, WFBI did not adequately demonstrate that its proposal will not result in unnecessary duplication of existing or approved health service capabilities or facilities.

- (18a) The applicant shall demonstrate the expected effects of the proposed services on competition in the proposed service area, including how any enhanced competition will have a positive impact upon the cost effectiveness, quality, and access to the services proposed; and in the case of applications for services where competition between providers will not have a favorable impact on cost-effectiveness, quality, and access to the services proposed, the applicant shall demonstrate that its application is for a service on which competition will not have a favorable impact.**

WFBI failed to adequately demonstrate that its proposal will have a positive impact upon the cost effectiveness, access, and quality of the proposed services. See also Criteria (3) and (5) for discussion.

Comparative Analysis

Geographic Distribution

The *2016 State Medical Facilities Plan* identifies the need for one fixed MRI scanner in Guilford County. The following table identifies the location of the existing and approved fixed MRI scanners in Guilford County.

Facility	City/Town	# of Existing Fixed MRI Units
Cone Health	Greensboro	3
High Point Regional Health	High Point	2
Cornerstone Imaging	Greensboro	1
Greensboro Imaging	Greensboro	3
Greensboro Orthopaedics	Greensboro	1
Triad Imaging	Greensboro	1

As shown in the table above, there are 11 existing fixed MRI scanners located in Guilford County. Nine are located in Greensboro and two are located in High Point. Both SOS and WFBI propose to locate an additional fixed MRI scanner in Greensboro.

Fixed MRI Ownership

The following table identifies the ownership of the existing fixed MRI scanners in Guilford County, either hospital, hospital JV, or physician.

Facility	Ownership	# of Existing Fixed MRI Units
Cone Health	Hospital	3
High Point Regional Health	Hospital	2
Cornerstone Imaging	Hospital JV	1
Greensboro Imaging	Hospital JV	3
Greensboro Orthopaedics	Physician	1
Triad Imaging	Hospital	1

As shown in the table above, there are 11 existing fixed MRI scanners located in Guilford County. Ten are hospital or hospital JV owned and one is physician owned. SOS proposes a joint physician management ownership and WFBI proposes a hospital JV ownership.

Demonstration of Need

SOS demonstrated that projected utilization of its proposed fixed MRI scanner is based on reasonable, credible and supported assumptions. Whereas, WFBI used the following questionable data points:

1. Added counties to their MRI service area due to several health services offered at their Greensboro facility, but unrelated to MRI services.
2. Using state MRI utilization rate, as opposed to county MRI utilization rates.
3. Market share for the counties in its MRI service area NOT based on any data or information included in the application.
4. Only able to support 889 MRI scans due to increase in Guilford County population.

Revenues

The third full fiscal year of operation (Project Year 3) for SOS is October 1, 2019 to September 30, 2020. Project Year 3 for WFBI is January 1, 2019 to December 31, 2019. Both SOS and WFBI included professional fees (i.e. charges for interpretation of the images by a radiologist) in its charges. SOS deducted bad debt from gross revenue and WFBI deducted bad debt from net revenue.

The average gross revenue per MRI scan for Project Year 3 was calculated by dividing (total gross revenue minus professional fees) by total unweighted MRI scans. See the following table.

**Project Year 3
Average Gross Revenue per Unweighted MRI Scan**

	Total Gross Revenue	Professional Fees	Total Gross Revenue – Professional Fees	# of Unweighted MRI Scans	Average Gross Revenue per MRI Scan
WFBI	\$8,590,207	\$407,661	\$8,182,546	4,517	\$1,812
SOS	\$7,227,654	\$400,093	\$6,827,561	5,196	\$1,314

As shown in the previous table, SOS is the more effective alternative as SOS projects the lowest average gross revenue per unweighted MRI procedure by \$498.

The average net revenue per MRI scan for Project Year 3 was calculated by dividing (total net revenue minus professional fees minus bad debt for WFBI) by total unweighted MRI scans. See the following table.

**Project Year 3
Average Net Revenue per Unweighted MRI Scan**

	Total Net Revenue	Professional Fees	Bad Debt	Total Net Revenue – Professional Fees – Bad Debt	# of Unweighted MRI Scan	Average Net Revenue per MRI Scan
WFBI	\$2,547,879	\$407,661	\$120,263	\$2,019,955	4,517	\$447
SOS	\$2,582,941	\$400,093	\$0	\$2,182,848	5,196	\$420

As shown in the previous table, SOS is the more effective alternative as SOS projects the lowest average net revenue per unweighted MRI scan by \$27. The average gross revenue per MRI scan and average net

revenue per MRI scan for WFBI's application are both questionable because projected utilization is not based on reasonable, credible and supported assumptions.

Conversely, the average gross revenue per MRI scan and average net revenue per MRI scan for SOS's application are appropriately based on reasonable, credible and supported assumptions.

Operating Costs

Both SOS and WFBI include professional fees (i.e. charges for interpretation of the images by a radiologist) in its charges. SOS deducts bad debt from gross revenue and WFBI deducts bad debt from net revenue.

The average operating cost per MRI scan for Project Year 3 was calculated by dividing total operating expenses minus professional fees (minus bad debt for SOS) by total unweighted MRI scans.

Project Year 3
Average Operating Cost per Unweighted MRI Scan

	Total Operating Costs	Professional Fees	Bad Debt	Total Operating Costs – Professional Fees – Bad Debt	# of Unweighted MRI Scan	Average Cost per MRI Scan
WFBI	\$2,162,134	\$407,661	\$0	\$1,754,473	4,517	\$388
SOS	\$1,635,486	\$400,093	\$14,455	\$1,220,938	5,196	\$235

As shown in the previous table, SOS is the more effective alternative as SOS projects the lowest average operating cost per unweighted MRI scan by \$153.