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**North State Imaging, LLC's
Comments in Opposition
Regarding Wake County 2010 MRI Review
July 30, 2010**

Three applications were submitted on June 15, 2009 in response to the need determination in the 2010 State Medical Facilities Plan for one fixed MRI scanner in Wake County. The applicants include:

North State Imaging, LLC d/b/a North Carolina Diagnostic Imaging-Holly Springs - ("NCDI-Holly Springs")
Project ID No. J-8537-10

Wake Radiology Diagnostic Imaging, Inc. and Wake Radiology Services, LLC (collectively referred to as "Wake Radiology")
Project ID No. J-8534-10

Duke University Health System d/b/a Duke Raleigh Hospital ("DRAH")
Project ID No. J-8529-10

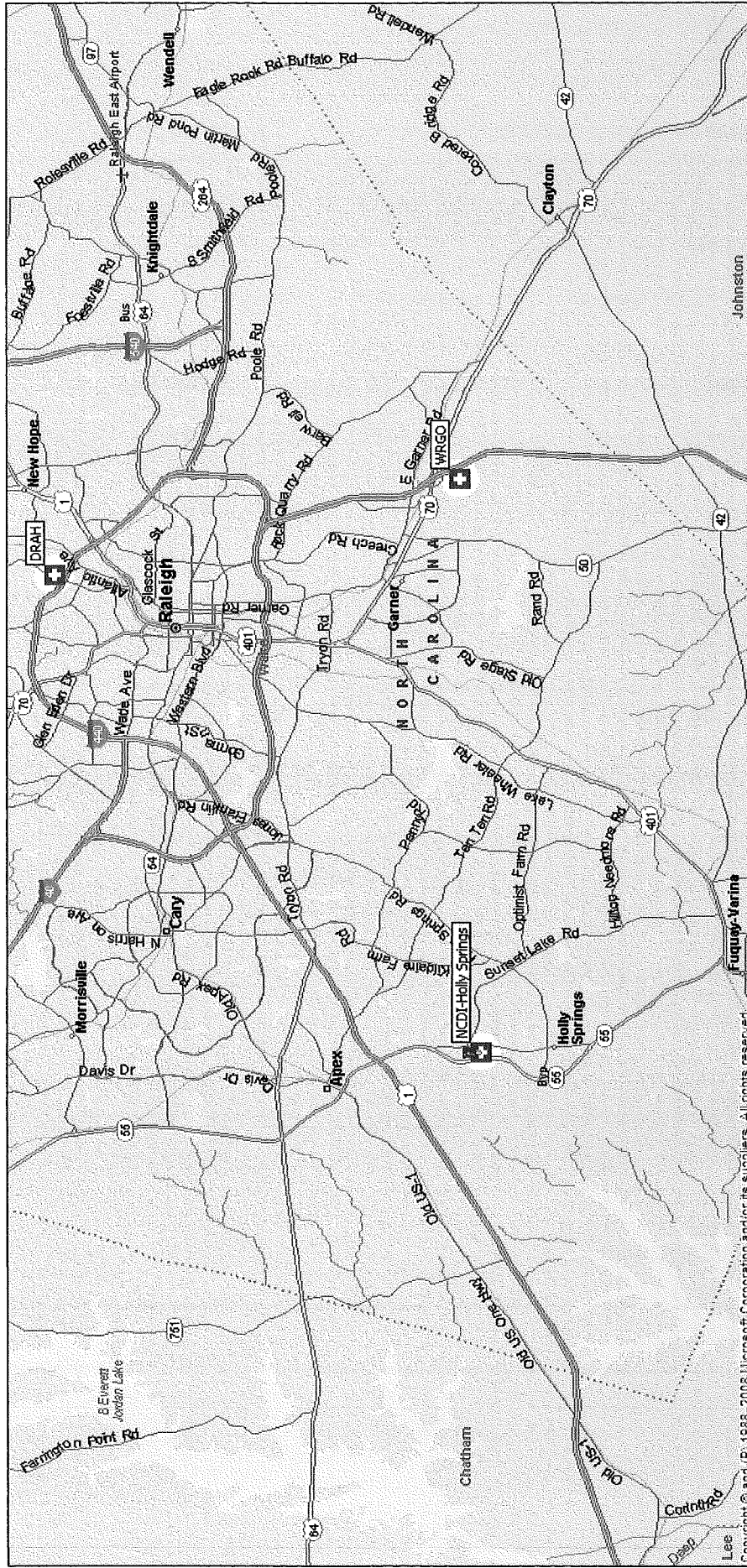
NCDI-Holly Springs has reviewed the applications submitted by Wake Radiology and DRAH. Wake Radiology proposes to replace its existing mobile MRI service with a fixed MRI scanner in Garner while DRAH proposes to add a second inpatient MRI scanner in Raleigh at its acute care facility. NCDI-Holly Springs has provided a comparative analysis of the applications based on several key issues, including:

- Geographic Accessibility
- Medicare & Medicaid Accessibility
- Provision of Charity Care
- Average Gross Charge
- Operating Cost per Scan
- Net Revenue per Scan

Geographic Accessibility

NCDI-Holly Springs is the only provider proposing a site in Holly Springs, which is part of Wake County that is not served by either fixed or mobile MR scanners at this time. At this time, the majority of fixed MRI scanners are located in Raleigh and Cary. Despite being one of the most rapidly growing municipalities in Wake County, Holly Springs lacks a basic foundation of fundamental healthcare services, such as diagnostic imaging. The approval of NCDI-Holly Springs's proposed project would be the only alternative in this review to improve geographic accessibility to MR services for residents of Holly Springs and the surrounding areas.

Proposed MRI Sites for the New Fixed MRI Scanner in Wake County:



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Wake Radiology proposes to locate a fixed MRI scanner in Garner at its existing office location, Wake Radiology -Garner or "WRGO". Wake Radiology currently provides mobile MR services at WRGO utilizing a mobile MRI scanner that is owned by Wake Radiology Diagnostic Imaging¹ in addition to service from Alliance Imaging. WRGO provides 5 days of mobile MRI service at this time and, if approved, the fixed scanner would provide 6 days of service (or 1 additional day of service overall).

According to data from the NC Office of Budget and State Management, Holly Springs is one of the fastest growing municipalities in Wake County and ranks 14th for North Carolina's Fastest Growing Municipalities, April 2000 to July 2008. The growth of the Holly Springs area is nearly three times the growth of Garner. At the current growth rate, the population of Holly Springs will easily surpass that of Garner in the next several years.

	April 1990		April 2000	July 2008	Growth	%
Wake	426,311		627,850	864,429	236,579	37.68
Angier(Part)	n/a		n/a	74	n/a	n/a
Apex	4,789		20,212	31,250	11,038	54.61
Cary(Part)	44,397		94,517	140,572	46,055	48.73
Clayton(Part)	n/a		n/a	0	n/a	n/a
Durham(Part)	n/a		0	0	0	n/a
Fuquay-Varina	4,447		7,898	16,054	8,156	103.27
Garner	14,716		17,787	26,109	8,322	46.79
Holly Springs	1,024		9,192	20,631	11,439	124.45
Knightdale	1,884		5,958	10,967	5,009	84.07
Morrisville(Part)	1,489		5,208	14,954	9,746	187.14
Raleigh(Part)	212,092		276,094	376,568	100,474	36.39
Rolesville	572		907	2,673	1,766	194.71
Wake Forest(Part)	5,832		12,588	26,858	14,270	113.36
Wendell	2,921		4,247	5,796	1,549	36.47
Zebulon(Part)	3,173		4,046	5,444	1,398	34.55

Source: NC OBSM website.

Duke Raleigh Hospital ("DRAH") is proposing to construct a 3,400 square feet addition to the hospital and install a second inpatient fixed MRI scanner at a capital cost of \$4,972,700. DRAH supplements its existing fixed MRI service with a mobile unit three days per week. On page 9, DRAH states that "non-emergent patients must wait a week or more" for MRI services and the existing scanner maintains an operational schedule of 106.5 hours per week. It is interesting to note that the proposed fixed scanner will only provide 70 hours of

¹ Based on the 2010 Medical Equipment Inventory Report filed by Wake Radiology Diagnostic Imaging and included as Exhibit 16, WRDI provides mobile service to WRGO four days per week.
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service per week. On page 8, DRAH indicates that the mobile scanner provides service 12 hours per day (36 hours per week). Essentially, the net increase in hours would only be 34 hours per week as a result of the approval for a second fixed MRI scanner (70 hours proposed for fixed scanner - 36 hours of mobile service = 34 hours). Assuming that an outpatient backlog is actually a problem at DRAH, the most effective alternative would be to operate the proposed scanner as much as the existing MRI scanner to improve accessibility.

As a hospital-based inpatient scanner in Raleigh, the proposed project would not improve geographic accessibility for the underserved population in southern Wake County nor would it improve access for outpatients. As indicated by the map above, DRAH's location is the farthest north from the underserved area of southern Wake County. Considering the vast majority of MRI procedures are performed on an outpatient basis, a need exists in Wake County for a convenient outpatient setting, not an inpatient-based scanner. During FY 2009, 86.5% of MRI procedures performed in Wake County were outpatient procedures². The combination of the need to improve geographic accessibility for southern Wake County residents and the need for a convenient outpatient facility renders the DRAH application the least effective regarding geographic and outpatient accessibility.

According to the Office of State Budget and Management, the population of Holly Springs is increasing faster than either Garner or Raleigh with a growth rate of 124.4% from April 2000 to July 2008, whereas Garner's growth rate was 46.7% and Raleigh's was 36.3% for the same time period. Wake Radiology's primary service area residents already have access to mobile MRI services at WRGO five days per week utilizing a mobile scanner controlled by Wake Radiology. The availability of a fixed MRI scanner at WRGO will only offer one additional day of service. The approval of a new fixed scanner in Raleigh is not an effective alternative since the overwhelming majority of fixed MRI scanners are located in Raleigh. The addition of one more fixed MRI scanner in Raleigh will do little to improve geographic accessibility for the rapidly growing southern portion of Wake County. The most effective alternative regarding geographic accessibility is NCDI-Holly Springs as it would provide a full-time fixed MRI scanner for the residents of Holly Springs and surrounding areas in southern Wake County.

Medicare & Medicaid Service

Accessibility to healthcare services for the underserved populations is often measured by the percentage of care provided to Medicare and Medicaid patients. Wake County is a relatively young county with a median age of 34.63 compared

² Based on data in the draft 2011 SMFP, Wake County performed 73,036 unweighted MRI scans of which 9,881 were inpatient procedures and 63,155 were outpatient procedures.

to the North Carolina median age of 37.22³. Furthermore, while 65 + residents account for 12.8% of North Carolina's total 2010 population, the Wake County 65+ population represents only 7.9% of the total 2010 population for the county. While the proposed outpatient providers, NCDI-Holly Springs and Wake Radiology, estimate similar percentages of Medicare and Medicaid service, DRAH has a much higher Medicare percentage which can be attributed to its position as an acute care provider as well as proposed increases in its Medicare and Medicaid percentages from its historical experience which are unsupported in the application.

Medicare/Medicaid Comparison - Year 2

Applicant	Medicare %	Medicaid %	Combined Total
NCDI-Holly Springs	15.2	4.8%	20.0%
DRAH	42.2%	8.6%	50.8%
Wake Radiology	26.4%	2.7%	29.1%

Section VI of each application, Projected Second Full Fiscal Year for Service Component.

Charity Care Service

The provision of charity care by each applicant is a voluntary commitment or estimate of the amount of free care it anticipates providing for service area residents. The hardships created by the recent recession, such as loss of employment and health insurance benefits, continue to impact many families in Wake County. The availability of charity care is critical for service area residents who might otherwise forego this necessary healthcare service. NCDI-Holly Springs proposes a two-prong approach for providing a significant dollar amount of free care for the proposed service area. First, NCDI-Holly Springs will utilize the Novant Charity Care policy which has been recognized as one of the most generous in North Carolina by the North Carolina Health Access Coalition. As an additional step, NCDI-Holly Springs has contacted Project Access in Wake County in order to establish a partnership to provide 100 to 150 free MRI scans annually for its patients. This partnership alone represents a charitable contribution of \$200,000 to \$300,000 annually and clearly demonstrates NCDI-Holly Springs's commitment to providing charity care for service area residents. NCDI-Holly Springs estimates that in total it will provide over \$500,000 in charity care in Year 1 alone and escalating to nearly \$700,000 by Year 3. The

³ Based on data from the OBSM website for July 2010.
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following chart provides a comparison of the levels of indigent care proposed by each applicant.

Indigent Care Comparison- Year 2

Applicant	Charity % of Net Revenue	Charity Care Dollar Amount
NCDI-Holly Springs	25.1%	\$612,846
DRAH	11.6%	\$705,089
Wake Radiology	2.6%	\$112,896

Form C of the pro formas from each application.

NCDI-Holly Springs’s percentage of charity care greatly exceeds the percentages set forth by the other applicants. As a dollar amount, NCDI-Holly Springs is comparable to the amount proposed by DRAH, a large acute care facility adding a second fixed scanner and proposing almost twice as many scans as NCDI-Holly Springs.

Average Gross Charge Per Scan

Of the three applicants, NCDI-Holly Springs proposes the lowest average charge per scan. NCDI-Holly Springs and Wake Radiology each propose global charges, which mean the technical and professional radiology fees are included in the charges. DRAH proposes the highest average charge and will bill the patient for the technical component only so the patient will receive an additional bill from the radiologist. The chart below provides the average gross charges used by each applicant in its financial pro formas.

Applicant	Average Gross Charge- Yr2 (FY 2013)
NCDI-Holly Springs	\$2,046
DRAH	\$2,731
Wake Radiology	\$2,171

Source: Financial Pro Formas for each applicant, Form D.

NCDI-Holly Springs is the most effective alternative regarding average gross charges.

Net Revenue per MRI Scan

The average charge multiplied by the unweighted procedures generates the estimated gross revenue for a facility. The net revenue provides an approximate amount the facility will receive after contractual adjustments and charity care adjustments. NCDI-Holly Springs is proposing the lowest net revenue per scan of the three applicants.

Applicant	Net Patient Revenue- Yr 2	Scan Volume- Yr 2	Net Revenue per Scan
NCDI-Holly Springs	\$2,441,402	4,115	\$593.29
DRAH	\$6,095,665	7,269	\$838.58
Wake Radiology	\$4,261,805	3,851	\$1,106.67

Source: Financial Pro Formas for each applicant, Form C.

Operating Cost per MRI Scan

The following chart provides a comparison of the operating costs per MRI scan for each applicant. Of the three applicants, DRAH has the lowest operating costs per scan due in part to the higher scan volume associated with two fixed MRI scanners. NCDI-Holly Springs offers the second lowest operating cost per MRI scan.

Applicant	Operating Costs - Yr 2	Scan Volume	Operating Cost per Scan
NCDI-Holly Springs	\$1,779,425	4,115	\$432.42
DRAH	\$1,988,733	7,269	\$273.59
Wake Radiology	\$2,628,302	3,851	\$682.50

Source: Financial pro formas for each applicant, Form C.

Conclusion

NCDI-Holly Springs is the most effective alternative for the development of the fixed MRI scanner for Wake County for the following reasons:

- NCDI-Holly Springs has selected a site in Holly Springs that would increase geographic accessibility for one of Wake County's fastest growing communities that is currently not served by either a fixed or mobile MRI scanner.
- NCDI-Holly Springs proposes the highest percentage of charity care of all the applicants.
- NCDI-Holly Springs proposes the lowest net revenue per MRI scan.
- NCDI-Holly Springs proposes the lowest average charge per MRI scan.
- NCDI-Holly Springs proposes the second lowest operating costs per MRI scan of all the applicants.
- NCDI-Holly Springs will increase competition by introducing a new provider of fixed MRI services in Wake County.

**Comments regarding Wake Radiology
Project ID No. J-8534-10**

- Wake Radiology states that mobile MRI service is expensive. However, it appears that the majority of the mobile MRI service is provided by a mobile MRI scanner owned by Wake Radiology Diagnostic Imaging (“WRDI”). The pro formas indicate the following expenses related to the mobile service:

Year	Mobile MRI Expense	Unweighted MRI Volume	Cost/Scan
FY 2009	\$1,229,168	2,323	\$529
FY 2010	\$1,310,881	2,417	\$542
FY 2011	\$1,398,027	2,515	\$556

The cost per scan identified in the chart above is consistent with the numbers reported in the pro forma assumption no. 8 which identifies these costs as “Alliance Mobile MRI Services/scan”. While Alliance may provide what appears to be one day of service at WRGO, it reasonable to assume that WRDI is the primary provider of mobile MRI service at WRGO⁴. Wake Radiology states in its application that the benefits associated with the proposed project include “reduced costs associated with providing MRI services at WRGO”. The actual arrangement with WRDI and WRGO regarding the cost of the mobile service is unclear in the application as it appears that Wake Radiology is attributing the costs per scan to Alliance Imaging. Although Wake Radiology may be reducing its internal cost per scan at WRGO, it does not appear that any significant cost savings will be passed on to the consumers, such as a reduction in charges.

- Based on the amount of charity care projected each year at \$112,896, it appears that the 52 charity scans for Project Access will be the extent of the free care offered by Wake Radiology (52 scans x \$2171 charge =\$112,896). WRGO currently provides virtually no charity care as its charity amount for FY 2009 was \$1,026, or 0.03%, of the \$2,738,712 in net patient revenue for the same time period.

⁴ See Exhibit 16 of the Wake Radiology application, which indicates that the WRDI mobile is on site 4 days per week.

**Duke Raleigh Hospital
Project ID No. J-8529-10**

- DRAH's funding letter in Exhibit 8 is deficient. The letter only talks about availability of funds. It does not talk about commitment of funds. The Agency cannot tell from the letter: (a) does the person signing have the authority to commit the funds; and (b) even if he does, the letter says nothing about the funds being committed. Another problem is that the Agency does not have a letter from the appropriate person at Duke Raleigh saying that if they get this money they will use it for the proposed project. Thus, essential links in the funding chain (a process with which Duke is intimately familiar, given the number of CON applications it files) are missing. Duke University Health System is a very large organization with significant capital needs, so making sure the funds are committed is essential. Duke Raleigh Hospital is relying on funding from Duke University Health System. Duke University Health System does not own Duke Raleigh Hospital; rather, Duke University Health System leases Duke Raleigh Hospital from Duke University. See Exhibit VIII.9, page 8. The Agency cannot tell from the information provided what obligation, if any, Duke University Health System has to provide funding for Duke Raleigh. The applicant is required to show a commitment of funds from Duke University Health System, which it failed to do. See *Johnston Health Care Center, L.L.C. v. North Carolina Dept. of Human Resources*, 136 N.C.App. 307, 524 S.E.2d 352 (2000).
- DRAH projects shifts in its payor percentages with the proposed project. For example, DRAH projects that commercial insurance will decrease from 47.7% to 43.1% while Medicaid will increase from 5.8% to 8.6% and Medicare from 40.4% to 42.2%. As of July 2010, 7.9% of Wake County's population was over the age of 65. The projections from the NC OBSM indicate that the number of 65+ residents will only increase to 8.9% by July 2014. DRAH provides no explanation for the increase in Medicaid service. Considering that Wake County's 65+ population remains relatively small over the next four years⁵, the overall shifts in payor percentages for commercial insurance, Medicare and Medicaid service are unreasonable and unsupported in the application.

⁵ In 2014, the percentage of Wake County residents over the age of 65 will be 8.9% compared to North Carolina at 13.7%. See NC OBSM website, age group totals by county for July 2014.
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- Considering Policy GEN-3 which requires an applicant to demonstrate that it will maximize healthcare value for the resources expended, DRAH's proposed project is not an effective alternative. DRAH proposes the highest capital cost of the three applicants at nearly \$5,000,000. The North State Imaging proposal, by contrast is less than half that amount at \$2,099, 869. It should be noted that both North State and DRAH are proposing new GE 1.5T scanners. DRAH is spending more than \$2 million in construction for the MRI scanner, which is extremely high. North State is clearly doing more to maximize health care value. The net increase in operational hours as a result of the proposed project would only be 34 hours of service. DRAH proposes the highest charges of all the applicants, which do not include the additional expense related to the radiologist fees. DRAH failed to demonstrate that its proposal will maximize healthcare value for the resources expended.

- As indicated by the floorplan contained in the application, the proposed MRI scanner will not be easily accessible for outpatient use as it would be located near the Emergency Department and Ambulance Entrance for the Hospital.