



Office Of Health Care Access Certificate of Need Application

Final Decision

Applicant: Norwich Radiology Group, P.C.

Docket Number: 01-559

Project Title: Replacement of CT Scanner and Mammography Equipment

Statutory Reference: Section 19a-639 of the Connecticut General Statutes

Filing Date: January 15, 2002

Hearing: Waived

Decision Date: February 19, 2002

Default Date: April 15, 2002

Staff Assigned: Harold M. Oberg and Steven Lazarus

Project Description: Norwich Radiology Group, P.C. (“Applicant”) proposes to replace its existing CT Scanner and Mammography equipment with new upgraded equipment, at a total capital cost of \$795,660.

Nature of Proceedings: On January 15, 2002, the Office of Health Care Access (“OHCA”) received a Certificate of Need (“CON”) application from Norwich Radiology Group, P.C. to replace its existing CT Scanner and Mammography equipment with new upgraded equipment, at a total capital cost of \$795,660. The Applicant is a health care facility or institution as defined by Section 19a-630 of the Connecticut General Statutes (“C.G.S.”).

The Applicant requested a waiver of public hearing for the CON application pursuant to Section 19a-643-45 of OHCA's Regulations, and claimed that the CON application is non-substantive as defined in Section 19a-643-95(3) of OHCA's Regulations. On January 24, 2002, the Hospital was informed that the CON application was eligible for consideration of waiver of public hearing, and a notice to the public was published in the *Norwich Bulletin* and the *Northeast Minority News, Inc.* OHCA received no comments from the public concerning the Applicant's request for waiver of public hearing during the public comment period, and therefore on February 15, 2002, OHCA granted the Applicant's request for waiver of public hearing.

OHCA's authority to review and approve, modify or deny this proposal is established by Section 19a-639, C.G.S. The provisions of this section as well as the principles and guidelines set forth in Section 19a-637, C.G.S., were fully considered by OHCA in its review.

Findings of Fact

Clear Public Need

Impact of the Proposal on the Applicant's Current Utilization Statistics Proposal's Contribution to the Quality of Health Care Delivery in the Region Proposal's Contribution to the Accessibility of Health Care Delivery in the Region

1. Norwich Radiology Group, P.C. ("Applicant") is a diagnostic imaging center located at 12 Case Street in Norwich that serves the towns and cities located in Eastern Connecticut. (*January 15, 2002 CON Application, pages 1 and 17*)
2. The Applicant is the only multifaceted, comprehensive, private imaging center located in Eastern Connecticut that provides general radiology, Osteoporosis evaluation – DEXA, mammography, CT scanning, ultrasound, routine x-rays, fluoroscopy, MRI and nuclear medicine services. (*January 15, 2002 CON Application, page 17*)
3. The Applicant proposes the replacement of its existing CT Scanner and its existing Mammography equipment with new upgraded equipment, at a total capital cost of \$795,660. (*January 15, 2002 CON Application, page 1*)
4. The Applicant proposes to acquire through an equipment lease agreement new upgraded diagnostic imaging equipment including a Helical CT Scanner, full field Digital Mammography equipment and a Kodak Dryview laser camera. (*January 15, 2002 CON Application, pages 17 and 21*)
5. Physicians refer all patients requiring CT Scans and Mammograms to the Applicant because there is no self-referral of patients by the Applicant. The Applicant's diagnostic imaging center operates Monday through Friday from 8:00 a.m. until 5:00 p.m. (*January 15, 2002 CON Application, pages 10 and 11*)

6. Currently, the Applicant performs two CT scans daily and has no scheduling backlog for its CT scanning services. The Applicant's CT scan volume has decreased over the past two to five years due to the lack of the availability of a subsecond Spiral CT Scanner at its imaging center. The Applicant anticipates that it will regain some referral base lost as a result of the lack of its ability to perform this CT scan technique. *(January 15, 2002 CON Application, page 11)*
7. The replacement of the Applicant's existing CT Scanner with a subsecond Spiral CT Scanner will enable the Applicant to use quality state-of-the-art technology in providing its CT Scanning diagnostic imaging services that will result in a faster CT scan technique, high resolution images and improved patient compliance and cooperation during the performance of the CT Scan. *(January 15, 2002 CON Application, page 17)*
8. Currently, the Applicant performs twelve analogue mammograms daily and has a three-week scheduling backlog for its mammography services. Since digital mammography can be performed in fifteen minutes, which is faster than analogue mammography, the Applicant's backlog for mammography services should eventually be reduced. This increased efficiency is in part due to the reduction of retakes. *(January 15, 2002 CON Application, page 10)*
9. The replacement of the Applicant's existing analogue mammography equipment will enable the Applicant to become the first provider of diagnostic imaging services in its local service area to introduce full field digital mammography services. High resolution digital images increase the diagnostic capability of the radiologist for the detection of breast cancer. Digital mammography reduces the need for retakes, thereby reducing radiation exposure and decreases patient anxiety when retakes are required. *(January 15, 2002 CON Application, page 17)*
10. The proposed full field digital mammography equipment is compatible with only an FDA approved Kodak Dryview laser imaging system, which provides superior quality diagnostic laser images essential for early and accurate detection of breast cancer. The Kodak Dryview laser camera uses specially designed film and provides the best image resolution, which will enhance workflow and expand the Applicant's diagnostic imaging capability. *(January 15, 2002 CON Application, page 17)*
11. The Applicant projects the following CT Scan and Mammogram volume with the CON proposal for the first three years of operation of the new replacement equipment: *(January 18, 2002 Supplemental CON Application filing, page 1)*

Year	CT Scans	Mammograms
1	735	3,213
2	985	3,463
3	1,235	3,713

Financial Feasibility and Cost Effectiveness of the Proposal and its Impact on the Applicant's Rates and Financial Condition

12. The CON proposal consists of the following capital cost components: *(January 15, 2002 CON Application, page 5)*

Description	Amount
Helical CT Scanner (Lease)	\$372,360
Digital Mammography Equipment (Lease)	361,300
Kodak Dryview Laser Camera (Lease)	
	<u>62,000</u>
Total Capital Cost	\$795,660

13. The CON proposal's total capital cost of \$795,660, which represents the fair market value of the three items of equipment to be acquired, will be funded by an equipment lease agreement between the Applicant and GE Medical Systems. *(January 15, 2002 CON Application, pages 6 and 21)*

14. The equipment lease agreement with GE Medical Systems includes a term of five years, a 0% interest rate and sixty payments of \$13,261 per month. The equipment to be leased by the Applicant has a useful life of five years and an anticipated value at the end of the lease of \$228,500. *(January 15, 2002 CON Application, page 6)*

15. The Applicant projects the following incremental revenue from operations, operating expenses, and earnings from operations associated with the CON proposal: *(January 18, 2002 Supplemental CON Application filing, page 1)*

Description	Year 1	Year 2	Year 3
Incremental Revenue from Operations	\$637,120	\$847,000	\$970,000
Incremental Operating Expenses	424,112	495,316	523,316
Incremental Earnings from Operations	\$213,008	\$351,684	\$444,684

16. The Applicant's projected payer mix for the first three years of operation of the new replacement equipment, is as follows: *(January 15, 2002 CON Application, page 7)*

Payer Source	Year 1	Year 2	Year 3
Medicare	28%	30%	32%
Medicaid	2%	2%	2%
TriCare	1%	1%	1%
Commercial Insurers	62%	60%	58%
Self-Pay	5%	5%	5%
Workers Compensation	2%	2%	2%
Uncompensated Care	0%	0%	0%
Total Payer Mix	100%	100%	100%

Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines

The following findings are made pursuant to the principles and guidelines set forth in Section 19a-637, C.G.S.:

17. There is no State Health Plan in existence at this time. *(January 15, 2002 CON Application, page 2)*
18. The Applicant did not provide any evidence that it has a long-range plan. *(January 15, 2002 CON Application, page 2)*
19. The Applicant did not provide any evidence that it has any teaching or research responsibilities. *(January 15, 2002 CON Application, page 4)*
20. The Applicant has adduced evidence that there are distinguishing characteristics of the patient/physician mix with regard to its diagnostic imaging center. *(January 15, 2002 CON Application, page 4)*
21. The Applicant did not present any evidence regarding activities to improve productivity and contain costs. *(January 15, 2002 CON Application, page 3)*
22. The Applicant has sufficient technical and managerial competence to provide efficient and adequate service to the public. *(January 15, 2002 CON Application, pages 12 through 14)*
23. The Applicant's rates are sufficient to cover the proposed capital expenditure and operating costs. *(January 18, 2002 Supplemental CON Application filing, page 1)*

Rationale

Norwich Radiology Group, P.C. ("Applicant") proposes the replacement of its existing CT Scanner and its existing Mammography equipment with new upgraded equipment, at a total capital cost of \$795,660. The Applicant proposes to acquire a Helical CT Scanner, full field Digital Mammography equipment and a Kodak Dryview laser camera, which represents a significant upgrade in the quality and capability of the CT Scanner and Mammography equipment currently operated by the Applicant.

The replacement of the Applicant's existing CT Scanner with a subsecond Spiral CT Scanner will enable the Applicant to use quality state-of-the-art technology in providing CT Scanning diagnostic imaging services resulting in a faster CT scan technique, high resolution images and improved patient compliance and cooperation during the performance of the CT scan.

The replacement of the Applicant's existing analogue Mammography equipment will enable the Applicant to become the first provider of diagnostic imaging services in its local service area to introduce full field digital mammography services. High resolution digital images increase the diagnostic capability of the radiologist for the detection of breast cancer. Digital mammography reduces the need for retakes, thereby reducing radiation exposure and decreases patient anxiety when retakes are required, which sometimes occurs with the use of an analogue mammography system.

The proposed full field digital mammography equipment is compatible with only an FDA approved Kodak Dryview laser imaging system, which will provide superior quality diagnostic laser images essential for early and accurate detection of breast cancer. The Kodak Dryview laser camera that the Applicant proposes to acquire uses specially designed film and provides the best image resolution, which will enhance workflow and expand the Applicant's diagnostic imaging capability.

The CON proposal's total capital cost of \$795,660, which represents the fair market value of the three items of equipment to be acquired, will be funded by an equipment lease agreement. The Applicant is projecting 735, 985 and 1,235 CT scans and 3,213, 3,463 and 3,713 mammograms, respectively for the first three years of operation of the new replacement equipment. The Applicant is also projecting incremental earnings from operations of \$213,008, \$351,684 and \$444,684 for the first three years of operation of the new replacement equipment. These projections appear to be both reasonable and achievable. Therefore, OHCA finds that the CON proposal will not only improve the quality and accessibility of CT scanning and mammography services provided by the Applicant but also that the CON proposal is financially feasible and cost effective.

Based upon the foregoing Findings and Rationale, the Certificate of Need application of Norwich Radiology Group, P.C. to replace its existing CT Scanner and Mammography equipment with new upgraded equipment, at a total capital cost of \$795,660, is hereby GRANTED.

Order

Norwich Radiology Group, P.C. ("Applicant") is hereby authorized to replace its existing CT Scanner and Mammography equipment with new upgraded equipment, at a total capital cost of \$795,660, subject to the following conditions:

1. This authorization shall expire on February 19, 2003. Should the Applicant's equipment replacement project not be completed by that date, the Applicant must seek further approval from OHCA to complete the project beyond that date.
2. The Applicant shall not exceed the approved capital cost of \$795,660. In the event that the Applicant learns of potential cost increases or expects that final project costs will exceed those approved, the Applicant shall file with OHCA a request for approval of the revised project budget.

All of the foregoing constitutes the final order of the Office of Health Care Access in this matter.

By Order of the
Office of Health Care Access

Date

Raymond J. Gorman
Commissioner

RJG/ho