



Office of Health Care Access Certificate of Need Application

Final Decision

Applicant: Prospect Diagnostic Imaging, LLC

Docket Number: 07-30988-CON

Project Title: Acquisition and Operation of an Open .70 Tesla-Strength, MRI Scanner, Replacing an Existing Open .23 Tesla-Strength, MRI Scanner in Prospect, CT

Statutory Reference: Section 19a-639, C.G.S.

Filing Date: October 19, 2007

Decision Date: December 11, 2007

Default Date: January 17, 2008

Staff Assigned: Jack A. Huber

Project Description: Prospect Diagnostic Imaging, LLC, proposes to acquire and operate an open .70 tesla-strength, magnetic resonance imaging (“MRI”) scanner that is replacing an existing .23 tesla-strength, MRI scanner at its office in Prospect, CT. The proposed capital expenditure of the proposal is \$1,699,982.

Nature of Proceedings: On October 19, 2007, the Office of Health Care Access (“OHCA”) received a Certificate of Need (“CON”) application from the Prospect Diagnostic Imaging, LLC (“Applicant”) seeking authorization to acquire and operate an open .70 tesla-strength, MRI scanner that is replacing an existing .23 tesla-strength, MRI scanner located at its office in Prospect, CT. The proposed capital expenditure of the proposal is \$1,699,982.

A notice to the public concerning OHCA's receipt of the Applicant's Letter of Intent was published on October 19, 2007 in the *Waterbury Republican American*. Pursuant to Section 19a-639 of the Connecticut General Statutes ("C.G.S."), three individuals or an individual representing an entity with five or more people had until November 9, 2007, the twenty-first calendar day following the filing of the Applicant's CON application, to request that OHCA hold a public hearing on the Applicant's proposal. OHCA received no response from the public concerning the Applicant's proposal.

OHCA's authority to review and approve, modify or deny the CON application 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. Prospect Diagnostic Imaging, LLC ("Applicant") is a private physician group, composed of thirteen radiologists, whose practice is located in Prospect, CT. (*June 18, 2007, Letter of Intent, page 6 and September 21, 2007, Initial CON Application, page 2*)
2. The Applicant provides comprehensive imaging services including open magnetic resonance imaging ("MRI"), computed tomography ("CT"), ultrasound, general radiology and echocardiology to the residents of the greater Waterbury area. (*June 18, 2007, Letter of Intent, page 6 and September 21, 2007, Initial CON Application, page 2*)
3. Naugatuck Valley Radiology Associates, P.C. ("NVRA") is a professional corporation, which offers comprehensive imaging services. NVRA does not own imaging equipment or imaging centers. (*October 19, 2007, Applicant's Completeness Response, page 2*)
4. Each of NVRA's practice locations are organized as separate limited liability companies with NVRA providing professional imaging services on a contractual basis. NVRA's practice locations are as follows:
 - Prospect Diagnostic Imaging, LLC: 166 Waterbury Road, Prospect, CT;
 - Naugatuck Valley Computerized Imaging, LLC: 500 Chase Parkway, Waterbury, CT;
 - Naugatuck Diagnostic Imaging, LLC: 305 Church Street, Naugatuck, CT; and
 - Diagnostic Imaging Associates, LLC: 1389 West Main Street, Waterbury, CT. (*October 19, 2007, Applicant's Completeness Response, pages 2 and 3*)

5. The radiology services provided at NVRA's Naugatuck and Waterbury practice locations are as follows:
 - Naugatuck Valley Computerized Imaging: nuclear medicine, CT, ultrasound, general radiology, nuclear cardiac stress test, echocardiography and fluoroscopy;
 - Naugatuck Diagnostic Imaging: CT, ultrasound and general radiology; and
 - Diagnostic Imaging Associates: CT, ultrasound, general radiology, echocardiography, digital mammography and densitometry.
(October 19, 2007, Applicant's Completeness Response, pages 3 and 4)
6. NVRA also functions as the provider of professional imaging services for Saint Mary's Hospital, including all imaging entities in which Saint Mary's Hospital or any of its affiliates has an ownership share. (October 19, 2007, Applicant Completeness Response, page 2)
7. The Applicant is the only entity wholly owned by the NVRA radiologists that offers MRI services. (October 19, 2007, Applicant Completeness Response, page 4)
8. The Applicant is requesting authorization to acquire and operate a new .70 tesla-strength, General Electric Open Speed MRI scanner. The proposed scanner will be replacing an existing .23 tesla-strength, Picker Proview Open MRI scanner.
(September 21, 2007, Initial CON Application, page 2)
9. The Applicant purchased the existing open scanner in February 2003 for \$364,000. The acquisition's total capital expenditure was inclusive of equipment and renovation costs. (September 21, 2007, Initial CON Application, page 2)
10. There was no Certificate of Need ("CON") authorization associated with the 2003 acquisition, as the purchase of the unit was under the existing \$400,000 CON threshold for imaging equipment at the time of the transaction. (September 21, 2007, Initial CON Application, page 2)
11. As an established imaging provider, the Applicant anticipates that there will be no change to the patient population, referral sources, payer mix or services offered to its patients. (September 21, 2007, Initial CON Application, page 2)
12. The Applicant indicates it currently serves a patient base, which includes residents of the following communities based on a review of its historical data by patient town of origin: primarily Prospect, Waterbury, Wolcott, Naugatuck, Watertown and secondarily Cheshire Middlebury, Thomaston and Southbury. (September 21, 2007, Initial CON Application, page 12)

13. The Applicant indicates the need for the proposed scanner is based on the following:

- The technology of the existing MRI scanner is outdated as the unit is 12 years old and has exceeded its useful life;
- The existing MRI scanner is operating above optimal capacity and cannot handle any material increase in future service demand;
- Demand for MRI services is expected to grow in the Applicant's service area;
- The proposed scanner is required :
 - To maintain the quality of MRI services; and
 - To enhance patient throughput, reduce patient examination times and improve efficiencies of operation and staff productivity; and
- The proposed scanner represents the only advanced open technology in the greater Waterbury area.

(September 21, 2007, Initial CON Application, pages 4 through 12)

14. The proposal is intended to accomplish the following:

- Prevent the existing imaging center's open MRI service from becoming outdated; and
- Allow the existing imaging center to serve its existing patient base.

(September 21, 2007, Initial CON Application, pages 4 through 12)

15. The Applicant's actual open MRI scanning volumes for fiscal years ("FYs") 2004 through 2007 are as follows:

Table 1: Actual Open MRI Scan Volume

| | FY 2004 | FY 2005 | FY 2006 | FY 2007* |
|-------------------------------|----------------|----------------|----------------|-----------------|
| Total # Scans | 1,964 | 2,643 | 2,864 | 3,133 |
| % Increase between FYs | --- | 34.6% | 8.3% | 6.1% |

Note: * FY 2007 utilization is based on nine months of actual volume annualized.

16. The following table provides a description of the annual scanning capacity analysis for the Applicant's existing open MRI scanner for FY 2006 actual and FY 2007 projected/actual:

Table 2: Open MRI Scan Capacity

| | FY 2006 | FY 2007* |
|--|----------------|-----------------|
| Number of MRI Scanners | 1 | 1 |
| Average # Hours/Week Scanner Operates | 69 | 69 |
| Weeks/Year Operational** | 51 | 51 |
| Targeted Utilization as % of Capacity | 85% | 85% |
| Annual Total Capacity for Scans in Hours | 2,991 | 2,991 |
| Average Scan Time in Hours | 1.0 | 1.0 |
| Annual Capacity - # MRI Scans/Scanner | 2,991 | 2,991 |
| Actual & Projected/Actual # MRI scans | 2,861 | 3,038 |
| % Total MRI Capacity | 95.7% | 101.6% |

Note: * FY 2007 utilization is based on nine months of actual volume annualized.

** 51 operating weeks per year reflects the adjustment attributable to the number of office days closed in observance of annual holidays.

(September 21, 2007, Initial CON Application, page 6 and October 19, 2007, Applicant Completeness Response, page 4)

17. The Applicant projected the following number of open MRI scans to be performed at the Prospect practice site from FYs 2008 through 2011:

Table 3: Projected Open MRI Volume*

| Prospect Office | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|-----------------|---------|---------|---------|---------|
| <i>Total</i> | 3,212 | 3,396 | 3,591 | 3,796 |

Note: * The Applicant used a 5.7% growth rate between fiscal years to project the total scan volume with the proposed equipment. The growth rate represents a blending of two methodologies, which incorporated the Applicant's historical average annual increase in scans (7.2%) from FY 2005 to 2007 with a calculated annual increase in scans performed by Connecticut providers (4.2%) as reported by CHIME for FYs 2004 to 2006. (September 21, 2007, Initial CON Application, pages 16 and 17)

18. Another open MRI provider who is currently serving the Applicant's patient base is as follows:

Table 4: Open MRI Provider

| Provider Name | Office Address | Number and Tesla Strength of Open MRI Scanner |
|---|-------------------------------|---|
| Valley Imaging Partners, LLC Diagnostic Radiology Associates | 799 New Haven Road, Naugatuck | 1 - .20 T |

(September 21, 2007, Initial CON Application, pages 20 and 22)

19. Closed MRI providers who are currently serving the Applicant's patient base are as follows:

Table 5: Other Closed MRI Providers

| Provider Name | Office Address | Number and Tesla Strength of Closed MRI Scanners |
|---|-----------------------------------|--|
| Greater Waterbury Imaging Center | 68 Robbins Street, Waterbury | 2 – 1.5 T |
| Naugatuck Valley MRI | 56 Franklin Street, Waterbury | 1 – 1.5 T |
| Saint Mary's Hospital | 475 Chase Parkway, Waterbury | 1 – 1.5 T* |
| Diagnostic Radiology Associates, LLC | 1579 Straits Turnpike, Middlebury | 1 – 1.5 T |
| Housatonic Valley Radiological Associates | 800 Main Street South, Southbury | 1 Mobile – 1.5 T |
| Diagnostic Imaging of Southbury | 385 Main Street, Southbury | 1 – 1.5 T |

Note: * MRI scanner is not yet operational.

(September 21, 2007, Initial CON Application, pages 20 and 22)

20. The Applicant anticipates no change in the hours of operation of the open MRI service due to the proposed project. The service's hours of operation are as follows:

- Monday through Friday from 8:00 am to 9:00 pm; and
- Saturdays from 8:00 to 12:00 pm.

(September 21, 2007, Initial CON Application, page 15)

**Financial Feasibility and Cost Effectiveness of the Proposal and its Impact on the
Applicant's Rates and Financial Condition
Impact of the Proposal on the Interests of Consumers of Health Care Services and
the Payers for Such Services
Consideration of Other Section 19a-637, C.G.S., Principles and Guidelines**

21. The proposal's total capital expenditure is \$1,699,982 and consists of the following:

Table 6: Total Capital Expenditure Itemization

| | |
|----------------------------------|--------------------|
| Imaging Equipment Purchase | \$1,386,078 |
| Renovation Work | \$22,000 |
| Total Capital Expenditure | \$1,699,982 |

(September 21, 2007, Initial CON Application, page 30)

22. Project financing will consist of \$339,996 in operating funds and \$1,359,986 in debt financing. *(September 21, 2007, Initial CON Application, pages 34 and 35)*
23. The Applicant has secured a letter of interest from Wachovia Bank with respect to the proposed debt financing. *(September 21, 2007, Initial CON Application, pages 34 and 35 and Exhibit 10, page 114)*
24. The Applicant currently leases approximately 6,000 square feet in the Pond Place Medical Building in Prospect. The footprint of the proposed MRI scanner is larger than the existing MRI suite requiring the Applicant to lease an additional 1,154 square feet of adjacent space in the medical office building to house the proposed scanner. *(September 21, 2007, Initial CON Application, page 2)*
25. The Applicant anticipates the proposed MRI scanner will become operational in March 2008. *(September 21, 2007, Initial CON Application, page 32)*
26. The Applicant expects there will be no change in the service's payer mix attributable to the proposal. The service's current and three-year projected payer mix is as follows:

Table 7: Open MRI Service Payer Mix

| Description | Current | Year 1 | Year 2 | Year 3 |
|-----------------------------|---------------|---------------|---------------|---------------|
| Medicare | 24.5% | 24.5% | 24.5% | 24.5% |
| Medicaid | 1.3% | 1.3% | 1.3% | 1.3% |
| Champus | 0.2% | 0.2% | 0.2% | 0.2% |
| Total Government | 26.0% | 26.0% | 26.0% | 26.0% |
| Commercial Insurers | 65.0% | 65.0% | 65.0% | 65.0% |
| Uninsured | 0.3% | 0.3% | 0.3% | 0.3% |
| Workers Compensation | 8.7% | 8.7% | 8.7% | 8.7% |
| Total Non-Government | 74.0% | 74.0% | 74.0% | 74.0% |
| Total Payer Mix | 100.0% | 100.0% | 100.0% | 100.0% |

(September 21, 2007, Initial CON Application, page 36)

27. The Applicant estimates projected net (loss)/ income incremental to the project is (\$105,188), (\$117,722) and (\$20,393) and \$102,307 for FYs 2008 through 2011, respectively. *(September 21, 2007, Initial CON Application, page 29 and Exhibit 12, page 120)*
28. The Applicant estimates projected net income for all imaging center activities with the project of \$657,904, \$574,727 and \$597,880 and \$642,695 for FYs 2008 through 2011, respectively. *(September 21, 2007, Initial CON Application, page 29 and Exhibit 12, page 120)*
29. There is no State Health Plan in existence at this time. *(September 21, 2007, Initial CON Application, page 3)*
30. The proposal is consistent with the Applicant's long-range plan. *(September 21, 2007, Initial CON Application, page 3)*
31. The Applicant has improved productivity and contained costs through applications of new technologies and reengineering of its operations. *(September 21, 2007, Initial CON Application, page 27)*
32. The proposal will not change the Applicant's teaching or research responsibilities. *(September 21, 2007, Initial CON Application, page 28)*
33. There are no distinguishing characteristics of the patient/physician mix with regard to the proposal. *(September 21, 2007, Initial CON Application, page 28)*
34. The Applicant has sufficient technical and managerial competence to provide efficient and adequate service to the public. *(September 21, 2007, Initial CON Application, page 25 and Exhibit 3, pages 55 through 87)*
35. The Applicant's rates are sufficient to cover the proposed capital expenditure and operating costs. *(September 21, 2007, Initial CON Application, page 29 and Exhibit 12, page 120)*

Rationale

The Office of Health Care Access (“OHCA”) approaches community and regional need for the proposed service on a case-by-case basis. Certificate of Need (“CON”) applications do not lend themselves to general applicability due to a variety of factors, which may affect any given proposal; e.g. the characteristics of the population to be served, the nature of the existing services, the specific types of services proposed to be offered, the current utilization of services and the financial feasibility of the proposal.

Prospect Diagnostic Imaging, LLC (“Applicant”), a private radiology physician practice, is requesting authorization to acquire and operate a new .70 tesla-strength, GE Open Speed magnetic resonance imaging (“MRI”) scanner. The proposed scanner will replace an existing .23 tesla-strength, Picker Provview Open MRI scanner at the Applicant’s office in Prospect, CT. The Applicant purchased the existing scanner in February 2003 for \$364,000. There was no Certificate of Need authorization associated with the 2003 acquisition, as the purchase of the unit was under the existing \$400,000 CON threshold for imaging equipment. As an established imaging provider, the Applicant anticipates that there will be no change to its service’s patient population, referral sources, payer mix or services offered to its patients.

The Applicant seeks to acquire a new open MRI scanner based on the outdated technology of the current 12 years old scanner. As the existing scanner is also operating above optimal operating capacity, the Applicant is seeking to replace the existing scanner to meet its current and future demand for MRI services. The new scanner will enhance patient throughput, reduce patient examination times and improve efficiencies of operation and staff productivity. The Applicant estimates the annual capacity of the existing MRI scanner to be 2,991 scans per year. The Applicant indicates the percentage of actual MRI scans has increased an average of 7.2% annually between FYs 2005 and 2007. The Applicant reports having performed 2,864 MRI scans in FY 2006, and a projected-actual 3,133 MRI scans for FY 2007, based on nine months of actual volume annualized. The Applicant’s existing scanner operated at 95.7% of actual MRI capacity in FY 2006 and 101.6% of capacity in 2007, based on annualized figures. Consequently, OHCA finds that the Applicant has demonstrated a need for the new open MRI scanner. The Applicant’s proposal will improve the accessibility and quality of open MRI scanning services for the Applicant’s existing patient population.

The total capital expenditure associated with the proposal is \$1,699,982. The proposed project’s financing consists of \$339,996 in Applicant operating funds and \$1,359,986 in debt financing. The Applicant projects net income from all imaging center activities with the project of \$657,904, \$574,727 and \$597,880 and \$642,695 for fiscal years 2008 through 2011, respectively. The Applicant’s volume and financial projections upon which they are based appear to be reasonable and achievable. Therefore, OHCA finds that the CON proposal is financially feasible and cost-effective.

Order

Based upon the foregoing Findings and Rationale, the Certificate of Need application of Prospect Diagnostic Imaging, LLC ("Applicant"), to acquire and operate an open .70 tesla-strength, magnetic resonance imaging ("MRI") scanner in place of an existing open .23 tesla-strength, MRI scanner for its office located in Prospect, CT, is hereby GRANTED, subject to the following conditions:

1. This authorization shall expire November 30, 2008. Should the Applicant's 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 expenditure of \$1,699,982. In the event that the Applicant learns of potential cost increases or expects that the final project costs will exceed those approved, the Applicant shall notify OHCA immediately.
3. With respect to the acquisition of the new open MRI scanner, the Applicant shall submit to OHCA in writing the following information by no later than one month after the new scanner becomes operational:
 - a) The name of the equipment manufacturer;
 - b) The model name and description of the new equipment; and
 - c) The date of service commencement with the new equipment.
4. This authorization requires the removal of the Applicant's existing open MRI scanner for disposition, such as sale or salvage, outside of and unrelated to the Prospect imaging office or the subsidiaries of Naugatuck Valley Radiology Associates, P.C. Furthermore, the Applicant shall provide evidence to OHCA of the disposition of the existing open MRI scanner by no later than six months after the new open MRI scanner has become operational.
5. Should the Applicant propose any change in its complement of imaging equipment, the Applicant shall file with OHCA appropriate documentation regarding its change, including either a Certificate of Need Determination Request or a Certificate of Need Letter of Intent.

Should the Applicant fail to comply with any of the aforementioned conditions, OHCA reserves the right to take additional action as authorized by law.

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

Signed by Commissioner Vogel on December 11, 2007

Date

Commissioner

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