

**REVIEW OF NORTH STAR RADIOLOGY
CERTIFICATE OF NEED APPLICATION
IMAGING EXPANSION/ADDITION**

February 4, 2014



**SEAN PARNELL
GOVERNOR**

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COMMISSIONER**

**State of Alaska
Department of Health & Social Services
Division of Health Care Services
Certificate of Need Program**

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BACKGROUND

The applicant for this Certificate of Need (CON) is Fairbanks Medical Imaging d/b/a North Star Radiology (NSR). See *CON Application* at 1. The project at issue is the relocation of a health care facility from 1320 22nd Avenue, Fairbanks, Alaska to 2310 Peger Road, Fairbanks, Alaska. *Id.* at 7. This relocation included the addition, expansion, and replacement of services. *Id.*

This CON application is unique because the relocation took place in 2011. *Id.* at 8. The original operating entity was Fairbanks Community Imaging, LLC. *Id.* at 7. In 2010, NSR purchased the practice from Fairbanks Community Imaging, LCC, including its sublease for practice space at 2310 Peger Road. *Id.* Accordingly, NSR took over the practice in 2010, and relocated the practice to the Peger Road facility, per the sublease, when it was completed in July 2011. *Id.* at 8.

NSR has been in business at the Peger Road facility since 2011. After being established at the Peger Road facility, NSR's relocation, and the services that were added, expanded, and replaced during the relocation, were brought to the attention of the CON Program. After looking into the matter, the CON Program had several contacts with NSR. Per its application, NSR has made it clear that it believes that it is not subject to the State's CON laws. *Id.* at 4-6. The CON Program disagrees with NSR's position and believes that NSR is an Independent Diagnostic Testing Facility (IDTF) that is subject to the State's CON laws. Although NSR maintains its position that it is not required to apply for a CON, it agreed to apply for a CON with the understanding that its application in no way waives NSR's right to maintain its position that no CON is required for the activities in question. *Id.* at 6.

The application for a CON was received on October 28, 2013. No other entity has submitted a letter of intent or CON application for concurrent review.

PROJECT DESCRIPTION

NSR built/renovated a 4,800 square foot space that was completed in July 2011. See *CON Application* at 16. This included the routine replacement of the MRI mobile unit to a fixed unit, the modernization of the office space, the addition of CT scanning services, and the expansion of x-ray services. *Id.* at 25. For purposes of the CON analysis, the project added a Computed Tomography (CT) unit, expanded Fluoroscopy / X-Ray services, and replaced a Magnetic Resonance Imaging (MRI) machine. *Id.* at 8.

Project Breakdown

Service <u>Added</u> :	Computed Tomography
Service <u>Expanded</u> :	Fluoroscopy / X-Ray
Service <u>Replaced</u> :	Magnetic Resonance Imaging
Total Project Cost:	\$2,153,392.22

The project costs include relocation, changes to services, furnishings, and leasehold improvements. *Id.* at 9. NSR's target population consists of the Interior Region of Alaska, which was derived from Alaska Department of Labor and Workforce information. *Id.* at 27. The primary service area is the Fairbanks North Star Borough, and the secondary service area is the remainder of the Interior Region. *Id.*

REVIEW

NSR is a licensed health care facility under AS 18.07.111(8) and 7 AAC 07.900(23). The project at issue includes "the routine replacement of the GE 1.5 HDx Echospeed Mobile MRI equipment." *CON Application* at 16. Per AS 18.07.031(e), "expenditure" for purposes of CON does not include replacement of equipment at an existing health care facility. Accordingly, the total project cost should not include costs associated with the replacement of the MRI machine.

Despite the fact that the total project cost appears to include costs associated with replacing the MRI machine, the Department presumes that the remaining costs for the proposed project still amount to an "expenditure" that is over both the current \$1.45 million threshold for "construction" of a health care facility and the \$1.3 million threshold that was in place just prior to the relocation to the Peger Road facility.¹ Since the project as a whole is presumed to be an "expenditure" that exceeds either threshold, and since NSR is applying for a CON for the project as a whole, the project as a whole will be evaluated under the General Review Standards.

Moreover, since the MRI machine portion of the project is limited to replacement activities, the Department does not need to analyze the MRI component of the project according to the service-specific review standards that would normally apply to a project that adds or expands MRI services. Accordingly, the service-specific review standards for Magnetic Resonance Imaging should be waived under 7 AAC 07.025(b). However, the review standards for Computed Tomography will be applied to the CT component of the project. This will include an analysis of NSR's request for a waiver under 7 AAC 07.025(b) to a part of the review standards that are specific to Computed Tomography.

General Review Standards

General Review Standard #1- Documented Need:

The applicant documents need for the project by the population served, or to be served, including, but not limited to, the needs of rural populations in areas having distinct or unique geographic, socioeconomic, cultural, transportation, and other barriers to care.

NSR contends that it "has served the needs of the entire Interior Region of Alaska since 2008." *CON Application* at 43. NSR therefore concludes that "[i]t is reasonable for the practice to continue to serve the needs of the service area." *Id.*

As shown above, the primary focus of General Review Standard #1 is whether there is a documented need for the project by the population served or to be served. NSR properly

¹ Per AS 18.07.111(6), "construction" includes the extension or modification of a health care facility.

demonstrates that the replaced MRI machine was in fact a routine replacement: “The costs to dismantle an older mobile were not cost effective and . . . [t]he useful life of an MRI according to the Estimated Useful Lives of Depreciable Hospital Assets, 2008 edition is 5 years.” *Id.* at 8. However, NSR does not properly demonstrate or document that there is a need for this project as a whole.

In its attempt to show that there is a documented need for the project, NSR rests on its analysis that was submitted in support of its contention that CT service-specific review standard #3 is satisfied. Unfortunately, as is shown on page 9 of this CON Staff Analysis, NSR’s demonstration appears to be either invalid or not confirmable. In addition to its demonstration, NSR repeatedly cites to a variety of statistics and trends in support of its conclusion that there is a documented need for this project. Again, as is shown on page 9 of this CON Staff Analysis, some of the statistics, and the use of those statistics, are convoluted.

Given the uniqueness of the application due to the fact that a CON is being requested after the project’s completion date, NSR requests a waiver to meeting CT service-specific review standard #1. As is shown on page 8 of this CON Staff Analysis, there is a legitimate concern that requiring NSR to meet CT service-specific review standard #1 would cause a reduction in the availability, quality, and accessibility of services to the consumers in the service area. General Review Standard #1 is directly related to CT service-specific review standard #1 because both are primarily concerned with documented need.

Given the legitimate concern that being required to meet this review standard will cause a reduction in the availability, quality, and accessibility of services in the Fairbanks area, it is surprising that NSR does not request a waiver to General Review Standard #1 as it does to CT service-specific review standard #1. Per 7 AAC 07.025(b), the Department will only recommend that a review standard be waived “if the applicant documents to the Department’s satisfaction.” As is shown on page 8 of this CON Staff Analysis, NSR does document to the Department’s satisfaction that a waiver is appropriate for CT service-specific review standard #1. Had NSR requested the same waiver to General Review Standard #1, the analysis shows that there is strong possibility that a waiver to this review standard would have been recommended to the Commissioner. However, NSR did not request a waiver, and its demonstration fails to meet this review standard.

Recommendation: The proposed project, as it relates to General Review Standard #1 has not been met. It should be noted that the Department would likely have recommended a waiver under 7 AAC 07.025 if NSR had extended its documented waiver request from CT service-specific review standard # 1.

General Review Standard #2-Evidence based planning and service delivery:

The applicant demonstrates that the project, including the applicant’s long-range development plans, augments and integrates with relevant community, regional, state, and federal health planning, and incorporates or reflects evidence-based planning and service delivery. (A demonstration under this standard should show that the applicant has checked with the Department regarding any relevant state plan, with appropriate federal agencies for relevant federal plans, and with the appropriate communities regarding community or regional plans.

NSR's response starts with the statement that "[t]here is no current local, regional or state health plan." *CON Application* at 19. However, NSR did consult the Alaska Department of Health and Social Services' website for health care priorities identified by the State. Ultimately, NSR considered the *Healthy Alaskans 2020* initiative, which addresses the 25 leading health indicators in Alaska. See *Healthy Alaskans 2020*.² NSR believes that its project satisfies General Review Standard #2 because "this project provides primary and prevention care, and also increases access in a cost effective setting. The project supports the stated goal and objective in the [*Healthy Alaskans 2020*] documents." *CON Application* at 19.

While NSR does not provide overwhelming evidence that the project augments and integrates with relevant community, regional, state, and federal health planning, the project appears to satisfy this review standard because it considers the *Healthy Alaskans 2020* initiative and concludes that there are no other local or regional health plans to consider based on its "search of the FMH website and the Fairbanks North Star borough website[.]" *Id.* NSR should have also referenced federal plans, but its consideration of an old state health plan and the *Healthy Alaskans 2020* initiative outweighs this deficiency.

Recommendation: The proposed project, as it relates to General Review Standard #2 has been met.

General Review Standard #3 - Stakeholder Participation:

The applicant demonstrates evidence of stakeholder participation in planning for the project and in the design and execution of services.

NSR believes that its project meets this standard because its physicians participated in the planning and design of the facility. See *CON Application* at 44. "Physicians are also stakeholders . . . Lay staff members also participated in the planning of the space design." *Id.* While the participation referenced is beneficial, it fails to consider the community as stakeholders. In this context, insider stakeholders alone are not enough to satisfy this review standard. However, it should be noted that by way of the CON process, public participation from the community through written public comment and in-person testimony was overwhelmingly in favor of the project. Based on the favorable community support, if NSR had engaged the community as stakeholders at the initiation of the project, it appears that this standard would have been easily satisfied.

Recommendation: The proposed project, as it relates to General Review Standard #3 has not been met. It should be noted that based on the favorable community support, if NSR had engaged the community as stakeholders at the initiation of the project, it appears that this standard would have been easily satisfied.

² <http://hss.state.ak.us/ha2020/>

General Review Standard #4 – Alternatives Considered:

The applicant demonstrates that they have assessed alternative methods of providing the proposed services and demonstrates that the proposed services are the most suitable approach.

NSR concludes that the proposed project is the most suitable approach for service delivery in this context. NSR considered the alternative of doing nothing, but this was not a viable approach: “The size of the previous location at 1320 22nd, Fairbanks Alaska was inadequate and the lease was on a month to month basis.” *CON Application* at 13. Doing nothing was also deemed impractical because the Peger Road facility “was committed to when the lease was signed in September 2009 and the space layout design was underway in mid-2010.” *Id.* at 45. NSR also considered approaches concerning its diagnostic equipment. For example, NSR’s decision to replace its MRI machine is supported by the notion that “[t]he costs to dismantle an older mobile were not cost effective and would not be able to be placed into the building. The useful life of an MRI according to the Estimated Useful Lives of Depreciable Hospital Assets, 2008 edition is 5 years.” *Id.* at 8. Finally, NSR also considered an alternative that would discontinue the use of its CT scanner. It quickly dismissed this alternative because “the CT scan is in place and is serving the needs of the Interior Alaska population. To take it out of service would diminish accessibility and available of a needed service.” *Id.* at 45.

Recommendation: The proposed project, as it relates to General Review Standard #4 has been met.

General Review Standard #5 - Impact on the Existing System:

The applicant briefly describes the anticipated impact on existing health care systems within the project's service area that serve the target population in the service area, and the anticipated impact on the statewide health care system.

NSR takes the position that its project / services “complement existing services.” *CON Application* at 45. It supports this position based on its history of providing these services in Fairbanks: “[NSR] has been providing imaging services, together with its predecessor . . . since 2008 in Fairbanks, Alaska.” *Id.* It also supports its position on the contention that it provides “back up” to Basset Army base imaging services: “The practice sees a significant number of Tricare members and Veteran's Affairs Patients” *Id.* NSR also believes that its services have not “impacted the separate ultrasound imaging business” in Fairbanks. *Id.* at 46.

Given the nature of the services at issue (i.e. diagnostic imaging), the impact on the statewide health care system would be better assessed by evaluating the local impact. While NSR fails to fully address the impact on the local ultrasound imaging business, NSR does provide examples of how its services appropriately complement the local health care system. Given these examples, and given the public support of maintaining NSR in the health care system as is, it appears that NSR satisfies this review standard.

Recommendation: The proposed project, as it relates to General Review Standard #5 has been met.

General Review Standard # 6 - Access:

The applicant demonstrates that the project's location is accessible to patients and clients, their immediate and extended families and community members, and to ancillary services. This includes the relocation of existing services or facilities.

NSR's relocation to the Peger Road facility appears to provide adequate access to patients, clients, family members, and the community at large. At the time of the relocation in 2011, the building was new. See *CON Application* at 27. Additionally, NSR states that the "design layout is efficient for the practice . . . [and the] existing space meets the standards of the American with Disabilities Act." *Id.* at 14, 36. Hours of operation are Monday through Friday and every other Saturday, and the "practice does not discriminate based upon race, ethnicity, disability or the inability to pay." *Id.* at 36.

Recommendation: The proposed project, as it relates to General Review Standard #6 has been met.

Service-Specific Review Standards

Service-Specific Review Standards: Diagnostic Imaging Services

After determining whether a project has met the general review standards, the Department must apply service-specific review standards for services designated in the *Alaska Certificate of Need Review Standards and Methodologies*. As explained on page 3 of this analysis, only the additional CT services require this additional review.

Computed Tomography (CT)

Per its application, NSR added a single CT scanner. See *CON Application* at 8. The equipment is a Siemens Somatom Emotion 16-Q1-251HK. *Id.* at 9, 15.

- 1. An applicant who seeks to establish a new CT service in an urban area (population of 70,000 or more) demonstrates the ability to provide a minimum of 3,000 CT scans per year by the end of the third operational year, dating from the initiation of the service.***

NSR requests a waiver to this service-specific review standard under 7 AAC 07.025(b) "because meeting the standard would cause a reduction in the availability, quality or accessibility." *CON Application* at 20. NSR then provides several reasons in support of its waiver request.

7 AAC 07.025(b)(1) states: "The department will recommend to the commissioner that a review standard be waived if the applicant documents to the department's satisfaction that meeting the standard would cause a reduction in the availability, quality, or accessibility of services to the consumer in the service area[.]"

NSR offers several justifications for why this standard should be waived. It also offers calculations that may satisfy the standard in the event that a waiver is not recommended or granted. Although these justifications may be persuasive, the focus of 7 AAC 07.025(b)(1) is

whether there is a satisfactory showing or documentation that meeting the standard would cause a reduction in availability, quality, or accessibility of services. In this context, only a few of the reasons offered by NSR are especially relevant and merit close analysis.

NSR contends that “[t]aking this unit out of operation will reduce availability and accessibility to the patients of the Interior Region.” *Id.* at 20. It supports this contention with the fact that NSR acts as back up to the Bassett Army Community Hospital on Ft. Wainwright Military Base when its CT scanner is out of commission for repairs. *Id.* Additionally, “14% of [NSR’s] volume is from Tricare and Veterans Administration patients.” *Id.*

Based on utilization data submitted by applicable providers in the target service area, there were approximately 9,973 CT scans performed in 2012. *Id.* at 28. NSR states that it performed approximately 380 CT scans during that year. *Id.* Taken together, the total relevant CT scans performed was 10,353, which means that of four applicable providers, NSR performed about 3.7% of the CT scans in the target area in 2012.

NSR appears to be a fully established practice in Fairbanks. “[NSR] has been providing imaging services, together with its predecessor . . . since 2008 in Fairbanks, Alaska.” *Id.* at 45. As demonstrated above, the number of CT scans that it performed in 2012 is not insignificant. Additionally, as will be discussed in a later section, an overwhelming majority of the community and public that participated in the CON process support NSR as a practice and provided numerous favorable comments about the quality of services being provided by NSR. This included many firsthand accounts of the quality and same-day accessibility of services at NSR by actual recipients in the area.

Given the long presence of NSR’s practice in Fairbanks, the volume of services provided, and the validation of quality and accessibility of services by consumers in the service area, it does appear that NSR’s contention that meeting this standard “will cause a reduction in the availability and accessibility and eliminate the quality services provided at [NSR].” *Id.* at 21. Accordingly, per 7 AAC 07.025(b)(1), the Department recommends to the Commissioner that this review standard be waived because the applicant has documented to the Department’s satisfaction that meeting the standard would in fact cause a reduction in the availability, quality, and accessibility of services to the consumer in the service area.

Recommendation: This service-specific review standard should be waived under 7 AAC 07.025.

2. An applicant who seeks to establish a new CT service in a rural area demonstrates the ability to provide a minimum of 1,000 CT scans per year by the end of the third operational year, dating from the initiation of the service.

The CT service at issue is not in a rural area. Therefore, this service-specific review standard is not applicable.

Recommendation: This service-specific review standard should be waived under 7 AAC 07.025.

3. No new CT service will be approved in a service area or at a location that is less than 30 minutes travel time of an existing CT service performing fewer than 3,000 scans per year, or of a CON-approved but not yet operational, CT service.

NSR concludes that it meets this service-specific review standard. See *CON Application* at 24. NSR's conclusion is based on the following demonstration. It starts by identifying the average annual CT scan volume for 2010-2012 to be 10,313. *Id.* at 48. Unfortunately, this calculation appears to be flawed because the total actual number of scans performed by the applicable providers for 2012 was 10,313. *Id.* at 24. Additionally, NSR did not provide its CT scan volumes for years 2010-2011. Accordingly, from the very start, the demonstration appears to be either invalid or not confirmable.

If the average annual CT scan volume for 2010-2012 is correct, then NSR's expected number of total CT scans for 2015 is 11,035. *Id.* This was derived using a 7% increase for "population growth over 2010-12 avg." *Id.* Using these figures, NSR ultimately concludes that if the 3,000 scan threshold were to be evenly divided among the applicable CT scanners, the outcome calls for an additional CT scanner in the service area.

NSR repeatedly cites to scanner volume statistics, community factors, population and demographic statistics, and national trends as validation for its conclusion that an additional CT scanner could and should be approved for the service area. *Id.* at 24-30. However, some of the statistics, and the use of those statistics, are convoluted; and given the apparent discrepancy in the numbers used in the calculation, NSR's analysis that it meets this service-specific review standard is not convincing.

Although this analysis is not convincing, the service-specific review standard is directly related to service-specific review standard #1, meaning that there are still concerns that requiring NSR to meet this standard would cause a reduction in the availability, quality, and accessibility of services to consumers in the service area. However, per 7 AAC 07.025(b), the Department will only recommend that a review standard be waived "if the applicant documents to the department's satisfaction." The applicant did document to the Department's satisfaction that a waiver was appropriate for service-specific review standard #1. Had NSR requested a waiver to this service-specific review standard based on the same grounds that it provided for standard #1, the analysis shows that the Department would likely have recommended to the Commissioner that this review standard be waived under 7 AAC 07.025(b)(1). However, NSR did not request a waiver, and its demonstration fails to meet this review standard.

Recommendation: This service-specific review standard is not met. It should be noted that the Department would likely have recommended a waiver under 7 AAC 07.025 if NSR had extended its documented waiver request from service-specific review standard # 1.

4. An applicant who seeks to expand an existing CT service must demonstrate an average service volume of at least 4,000 CT scans annually for each existing CT scanner at the service site.

NSR is not seeking to expand an existing CT service. Therefore, this service-specific review standard is not applicable.

Recommendation: This service-specific review standard should be waived under 7 AAC 07.025.

FINANCIAL FEASIBILITY

NSR indicates that the project was funded from a combination of a line of credit from Skagit Radiology, PS, Inc. and an equipment lease. See *CON Application* at 35. Skagit Radiology, PS, Inc is the sole member of NSR. *Id.* The income statement (below) supports NSR’s contention that the “[t]he project has a positive projected cash flow[.]” *Id.* at 36.

Section IX. Financial Data – All Proposed Activities

Provide an accompanying narrative explanation for each of the schedules below if there are any significant trends or significant changes in any item or group of items from year to year.

Note: Indicate whether you are using a calendar year or other fiscal year period.

Calendar year is used

A. Attach Schedule I - Facility Income Statement

1. For the most recent prior full fiscal or calendar years.

Schedule I Facility Income Statement

	<u>2011</u>	<u>2012</u>	<u>2013 (9 months)</u>
Patient Revenue	\$ 1,120,161	\$ 3,654,027	\$ 2,608,114
Less Refunds	\$ (12,999)	\$ (59,559)	\$ (55,224)
other income	<u>\$ 36,000</u>	<u>\$ 223,750</u>	<u>\$ -</u>
Total income	\$ 1,143,161	\$ 3,818,218	\$ 2,552,890
Expenses			
Salaries / Labor	\$ 172,454	\$ 361,448	\$ 532,910
Other expenses	\$ 263,675	\$ 115,928	\$ 155,931
Depreciation	\$ 676,942	\$ 1,009,914	
Interest	\$ 62,320	\$ 88,867	\$ 5,046
Equipment rental	\$ 414,974	\$ 407,706	\$ 192,006
Rent	\$ 232,565	\$ 248,897	\$ 212,392
Supplies	\$ 64,490	\$ 57,527	\$ 39,912
Utilities	\$ 97,348	\$ 96,748	\$ 90,606
Repairs and Maintenance	\$ 139,118	\$ 242,930	\$ 245,648
Property tax			\$ 5,655
Total Expense	\$ 2,123,884	\$ 2,629,964	\$ 1,480,107
Excess (Shortage) of Revenue	\$ (980,723)	\$ 1,188,254	\$ 1,072,783

PUBLIC COMMENT SUMMARY

On December 17, 2013 a public meeting was held in Fairbanks, Alaska. Approximately 68 people attended the meeting. Most, if not all, registered attendees provided verbal comment, with the vast majority providing positive testimony in support of NSR's application for a CON concerning its current practice in Fairbanks. The audience was outfitted in North Star Radiology tee-shirts, and public support in this particular venue was clear. The themes that resonated throughout the favorable comments was support for NSR, a desire to keep its current services in Fairbanks, and the importance of consumer-choice and fair marketplace competition for diagnostic imaging services.

Two people provided testimony in opposition to NSR's CON application. One person was a provider of diagnostic imaging services in Fairbanks, and the other was that provider's attorney. The opposing testimony was extensive and centered on the contention that NSR did not follow the state's CON laws and regulations in a timely manner. The testimony essentially advocated NSR did not follow the rules as other providers are required to do, and these actions need to be addressed by way of a denial of this CON application.

The period for providing public comments in writing spanned from November 26, 2013 to December 30, 2013. The CON Program received approximately 524 written comments. Of those comments, approximately 518 were in support of the application and approximately 6 were in opposition to the application. It should be noted that the comments in support were primarily form letters that were signed and submitted. It should also be noted that one of the written public comments in opposition to the application consisted of an extensive analysis of the project and provided several reasons that a CON should be denied in this matter.

RECOMMENDATION

Overall Recommendation

The CON Program recommends that the Commissioner approve NSR's application for a CON for the project at issue.

Rationale:

- The project satisfies General Review Standards #2, #4, #5, and #6.
 - Had NSR requested a waiver to General Review Standard #1, the Department would likely have recommended approval of the waiver request per 7 AAC 07.025(b)(1).
 - Based on favorable community support demonstrated through the CON process, had NSR engaged the community as stakeholders at the initiation of the project, it appears that General Review Standard #3 would have been satisfied.
- The project is validly waived from CT Service-Specific Review Standard #1, and standards #2 and #4 are not applicable.
 - Had NSR requested a waiver to CT Service-Specific Review Standard #3, the Department would likely have recommend approval of the waiver request per 7 AAC 07.025(b)(1).

Recommended Conditions

None

APPENDIX A

I. General Review Standards Applicable to all Certificate of Need Applications

Review Standards

The department will apply the following general review standards, the applicable service-specific review standards set out in this document, the standards set out in AS 18.07.043, and the requirements of 7 AAC 07 in its evaluation of each certificate of need application:

1. The applicant documents need for the project by the population served, or to be served, including, but not limited to, the needs of rural populations in areas having distinct or unique geographic, socioeconomic, cultural, transportation, and other barriers to care.
2. The applicant demonstrates that the project, including the applicant's long-range development plans, augments and integrates with relevant community, regional, state, and federal health planning, and incorporates or reflects evidence-based planning and service delivery. A demonstration under this standard should show that the applicant has checked with the department regarding any relevant state plan, with appropriate federal agencies for relevant federal plans, and with appropriate communities regarding community or regional plans.
3. The applicant demonstrates evidence of stakeholder participation in planning for the project and in the design and execution of services.
4. The applicant demonstrates that CPH have assessed alternative methods of providing the proposed services and demonstrates that the proposed services are the most suitable approach.
5. The applicant briefly describes the anticipated impact on existing health care systems within the project's service area that serve the target population in the service area, and the anticipated impact on the statewide health care system.
6. The applicant demonstrates that the project's location is accessible to patients and clients, their immediate and extended families and community members, and to ancillary services. This includes the relocation of existing services or facilities.

APPENDIX B

VII. Diagnostic Imaging Services: Review Standards and Methodology

The department will develop and maintain data sources for measuring utilization rates and will identify regional and national norms to use in assessing the reasonableness of applicant assertions about projected levels of service.

A. Magnetic Resonance Imaging

Review Standards

After determining whether an applicant has met the general review standards in Section I of this document, the department will apply the following service-specific review standards, as applicable, in its evaluation of an application for a certificate of need for magnetic resonance imaging:

1. Except as provided in Review Standard 2, an applicant who seeks to establish an MRI service demonstrates the ability to provide a minimum of 3,000 MRI scans per year by the end of the third operational year, dating from the initiation of the service.
2. An applicant who seeks to establish an MRI service in a community with a population of 10,000 or less demonstrates the ability to provide a minimum of 1,000 MRI scans per year by the end of the third year, dating from the initiation of the service. (Based on the estimate of a minimum of 2,500 scans/70,000 people, it is estimated that the minimum service area population for an MRI service to provide a minimum of 1,000 MRI scans per year would be 28,000 people.)
3. No MRI service will be approved at a location that is less than 30 minutes access time of an existing MRI service performing fewer than 3,000 scans per year, or of a CON-approved, but not yet operational, MRI service.

B. Positron Emission Tomography (including PET/PET-CT)

Review Standards

After determining whether an applicant has met the general review standards in Section I of this document, the department will apply the following service-specific review standards in its evaluation of an application for a certificate of need for Positron Emission Tomography:

1. An applicant who seeks to establish a new PET service demonstrates the ability to provide a minimum of 750 PET scans per year by the end of the third operational year, dating from the initiation of the service.
2. No new PET scanner will be approved at a location that is less than one hour travel time of an existing PET scanner performing fewer than 750 scans per year, or of a CON-approved, but not yet operational, PET scanner.

3. In a community that produces isotopes locally, no new PET scanner will be approved in the service area unless average use of each existing PET scanner exceeds 1,300 scans per year.
4. In a community that is dependent upon shipped isotopes, no new PET scanner will be approved in the service area unless average use of each existing PET scanner exceeds 1,000 scans per year.
5. An applicant who seeks to expand a PET service demonstrates an average service volume of at least 1,300 PET scans annually for each PET scanner at the service site.
6. PET services must be located in the same community as, or co-located with, facilities offering comprehensive oncology, cardiovascular, and neurology services.

C. Computed Tomography

Review Standards

After determining whether an applicant has met the general review standards in Section I of this document, the department will apply the following service-specific review standards in its evaluation of an application for a certificate of need for computed tomography (CT) services:

1. An applicant who seeks to establish a new CT service in an urban area (population of 70,000 or more) demonstrates the ability to provide a minimum of 3,000 CT scans per year by the end of the third operational year, dating from the initiation of the service.
2. An applicant who seeks to establish a new CT service in a rural area demonstrates the ability to provide a minimum of 1,000 CT scans per year by the end of the third operational year, dating from the initiation of the service.
3. No new CT service will be approved in a service area or at a location that is less than 30 minutes travel time of an existing CT service performing fewer than 3,000 scans per year, or of a CON-approved but not yet operational, CT service.
4. An applicant who seeks to expand an existing CT service must demonstrate an average service volume of at least 4,000 CT scans annually for each existing CT scanner at the service site.

APPENDIX C

Estimated Impact to Medicaid



THE STATE
of ALASKA
GOVERNOR SEAN PARNELL

Department of
Health and Social Services

OFFICE OF RATE REVIEW

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MEMORANDUM

To: Alexandria Hicks, CON Coordinator, ORR
From: Jared C. Kosin, Executive Director, ORR
Date: January 15, 2014

A handwritten signature in blue ink, appearing to be "J. Kosin".

Re: *Impact on Medicaid Analysis for Fairbanks Medical Imaging, LLC d/b/a North Star Radiology Certificate of Need*

The project at issue is from Fairbanks Medical Imaging, LLC d/b/a North Star Radiology (NSR). The project pertains to the relocation of an existing practice, and it includes the addition of a CT scanner, expansion of fluoroscopy (X-ray) services, replacement of an MRI machine, and the modernization of office space. The total cost of the project is \$2,153,392.22, and the project was completed in July 2011.

Payment for the above services is based upon a fee schedule and, as such, the capital costs to the facility do not affect Medicaid reimbursement from the State. Per information on pages 28 and 32 of the Certificate of Need (CON) application, a total of 380 CT Scans and 1,597 Fluoroscopic X-rays were performed in fiscal year (FY) 2012. Of those, according to a report compiled from the Alaska Medicaid Health Enterprise system, it appears that only 10 CT scans and 4 Fluoroscopic X-rays were provided for Medicaid recipients at this facility.

Based on the facility's estimated revenue for FY2013-FY2015 and per information on page 35 of the CON application, which states that less than 3% of revenue is from Medicaid, this facility's impact to Medicaid is minimal.

	FY2013	FY2014	FY2015
Patient Revenue	\$3,686,134.45	\$3,907,302.52	\$4,141,740.67
Medicaid Percentage	3%	3%	3%
Medicaid Revenue	\$110,584.03	\$117,219.08	\$124,252.22

Please note, all calculations in this memorandum are estimates only and are based on the assumptions set forth in the CON application. The Department is not bound by these estimates or assumptions.

January 15, 2014
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Also, please note 7 AAC 07.070(i):

Approval of a certificate of need does not imply any guarantee of federal, state, or private money, including Medicaid payments or grant awards, and does not imply any guarantee of profitability.

Should you have any questions, please contact Christine Goetz at 334-2476 or me at 334-2447.