Health Systems Agency of Northern Virginia

**3040 Williams Drive, Suite 200**

**Fairfax, Virginia 22030**

# Phone: 703-573-3100 Fax 703-573-3101

**Email: hsanv@aol.com**

#### September 4, 2024

### TO: Board of Directors, HSANV

**Interested Parties**

**FROM: Dean Montgomery**

### SUBJECT: Certificate of Public Need Application

**UVA Health Outpatient Imaging Gainesville, Establish MRI Service (COPN Request VA-8768)**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

1. **Summary of the Proposal**

UVA Health Outpatient Imaging Gainesville, a newly formed subsidiary of UVA Health, proposes to establish an MRI service in Gainesville, Virginia. The service would be known as UVA Health Outpatient Imaging Gainesville (UVA Health OIG). The new MRI service would be one of the diagnostic imaging modalities in a freestanding outpatient imaging center UVA Health is developing in Gainesville. In addition to the array of imaging capabilities found in most imaging centers, the UVA Health center is to include two services subject to certificate of public need (COPN) regulation, CT and MRI scanning.[[1]](#footnote-1)

UVA Community Health has three MRI services in northern Virginia (PD 8). These are UVA Prince William Medical Center (PWMC), UVA Haymarket Medical Center (HAMC), and UVA Health Outpatient Imaging Centreville (UVA OIC). UVA Prince William Medical Center (PWMC) has two scanners. UVA Haymarket Medical Center (HAMC) has one scanner. UVA Health Outpatient Imaging Centreville (UVA OIC) has one operational scanner and is authorized to add a second unit. Recent service volumes of these and other local MRI services are shown in Table 1.

Projected capital cost totals $2,709,102, slightly more than half of which ($1,640,347) would be for the scanner and associated equipment. Most of the remainder ($1,068,755) would be for space acquisition, furnishings, and construction. Capital costs would be paid from internal UVA Health funds.

UVA OIG justifies the proposal on the grounds that:

* Repositioning an MRI scanner from Centreville, VA to Gainesville is inventory neutral. It will not increase capacity or capability unnecessarily.
* Moving one of its MRI scanners from Centreville to Gainesville would enhance access to MRI services among UVACH service populations and in western Prince William County generally.
* Given current and projected caseloads, establishing an MRI service in Gainesville should not affect demand or service volumes at imaging services other than those owned and operated by UVACH.
* Capital costs are reasonable, within the expected range, for the service and equipment proposed.

If authorized on schedule, the scanner requested should be in service in the spring of 2026.

.

#### II. Discussion

1. **Northern Virginia MRI Scanning Capacity, Use, Trends**

There are 55 MRI scanners in Northern Virginia authorized for use in diagnostic imaging. They are widely distributed in various settings. More than half (30 of 55) are in hospitals (Table 1). About one-third (17 of 55) are freestanding services with no hospital affiliation. The remainder are in joint ventures of local hospital systems and local radiology groups. Most of these services are independent diagnostic testing facilities (IDTFs), rather than hospital outpatient departments.

MRI service volumes and the number of authorized scanners increased substantially in recent years, between 2017 and 2022 (Table 1). Demand increased by 23.5% between 2010 and 2019. With the advent of the COVID-19 epidemic demand fell sharply, 12.4% in 2020 (Table 1). Demand and service volumes rebounded region wide in 2022, returning to the local growth trend. The compound annual growth rate (CAGR) was about 3.0% over the last decade, between 2012 and 2022.

Average recent use of northern Virginia MRI scanning services in 2022 was below the *minimum* service volume planning standard (5,000 scans per scanner per year) specified in the Virginia SMFP. In 2019, the year before the dislocations induced by the COVID-19 epidemic, average use was 4,320 scans per scanner, about 87% of the nominal service volume standard. This metric dropped 12.4% to 3,708 scans per scanner in 2020, about 74% of the target value. With the rebound and return to trend in 2021-2022. The regional average was about 4,762 scans per scanner, about 95% of the *minimum* planning standard. There is no indication of a current or near-term *regional* need for additional MRI services or scanners. There is unused capacity in many imaging centers.

Though reported service volumes vary from year to year, there is no indication that near term (next five years) use rates and average annual increases in demand are likely to vary significantly from the experience of the last decade. MRI demand is likely to continue to increase at a rate marginally higher than the regional population growth rate.

Unlike most other diagnostic imaging services, average use of freestanding MRI scanners (4,990 scans per scanner in 2022) is higher than hospital-based services (4,572 scans per scanner in 2022). There is unused capacity in both settings. It is worth noting that much of the unused capacity is in facilities where a second (or third) scanner has been added recently, under the institutional need provision of the Virginia SMFP, to respond to institution specific demand.



Given no evident regional need for additional MRI capacity, the question of authorizing additional scanners, whether in the form of new services or expansions of existing services, is a matter of weighing the inherent merit of such proposals against their potential negative effects.

***SMFP Planning Guidance***

The Virginia State Medical Facilities Plan (SMFP) provides planning guidance for establishing and expanding MRI services. The sections covering establishing new services and expanding existing services read:

**“12VAC5-230-250 - Need for new fixed site service.**

No new fixed site MRI services should be approved unless fixed site MRI services in the health planning district performed an average of 5,000 procedures per existing and approved fixed site MRI scanner during the relevant reporting period and the proposed new service would not significantly reduce the utilization of existing fixed site MRI providers in the health planning district. The utilization of existing scanners operated by a hospital and serving an area distinct from the proposed new service site may be disregarded in computing the average utilization of MRI scanners in such health planning district.

**12VAC5-230-160. Expansion of fixed site service.**

Proposals to expand an existing medical care facility's MRI services through the addition of an MRI scanner may be approved when the existing service performed an average of 5,000 MRI procedures per scanner during the relevant reporting period. The commissioner may authorize placement of the new unit at the applicant's existing medical care facility, or at a separate location within the applicant's primary service area for MRI services, provided the proposed expansion is not likely to significantly reduce the utilization of existing providers in the health planning district.” (**Virginia State Medical Facilities Plan, p. 10)**

UVA OIG proposes to establish a new MRI service in Gainesville, Virgina, by repositioning the scanner authorized in 2021 to expand UVA OIC. Under COPN planning and regulation regulated equipment is site specific. Relocating the scanner constitutes establishing a new service. Section 12VAC5-230-250 applies.

UVA OIG does not argue that there is a general regional need, as defined in the Virginia State Medical Facilities Plan. Rather it notes the intrinsic benefits and value of the project, and asserts a service specific need, or institutional need, for additional capacity as permitted by Section 12VAC5-230-80, which states:

**“12VAC5-230-80. When institutional expansion needed.**

A. Notwithstanding any other provisions of this chapter, the commissioner may grant approval for the expansion of services at an existing medical care facility in a health planning district with an excess supply of such services when the proposed expansion can be justified on the basis of a facility's need having exceeded its current service capacity to provide such service or on the geographic remoteness of the facility.

B. If a facility with an institutional need to expand is part of a health system, the underutilized services at other facilities within the health system should be reallocated, when appropriate, to the facility with the institutional need to expand before additional services are approved for the applicant. However, underutilized services located at a health system's geographically remote facility may be disregarded when determining institutional need for the proposed project.

C. This section is not applicable to nursing facilities pursuant to §32.1-102.3:2 of the Code of Virginia.

D. Applicants shall not use this section to justify a need to establish new services.”

Whatever the merits of the proposal, the repeated assertions and claims of “institutional need” as justification for the project are unavailing. Section 12VAC5-230-80.D (above) of the Virginia State Medical Facilities Plan (SMFP) states unequivocally that institutional need may not be used to warrant the creation of a new service. UVA OIG notes that relocation of an MRI scanner from Centreville to Gainesville would not increase the regional MRI complement. That is correct, but under applicable law and service planning regulation COPN authorizations are site specific. The relocation of the covered services and equipment constitute the establishment of a new service.

Though the circumstances are atypical, Section 12VAC5-230-150 applies to the UVA OIG proposal.

***Consistency with Planning Principles and Guidelines***

UVA OIG proposes to reposition its recently authorized, but yet to be placed in service second MRI scanner. The scanner would be placed in a diagnostic imaging center the UVACH is developing in Gainesville, VA. The applicant notes that the project would be inventory neutral. Though it would increase the number of MRI services in the region, there would be no increase in the number of authorized scanners.

UVACH’s three services reports providing 16,788 patient scans in 2023 with four operational scanners. The highest used was at UVA OIC which reported 6,754 procedures, about 40% of the total, in 2023. The second, yet to be deployed scanner at UVA OIC was authorized in 2021 on the grounds of high and increasing service volumes at the site.

The Virginia SMFP does not address directly the question of relocating major medical equipment. UVA OIG presents a strong argument that placing the scanner in Gainesville would result in a more rational distribution of MRI capacity within UVACH and in more responsive and efficient service delivery in the region. The project is not inconsistent with any planning consideration specified in the Virginia SMFP or with in consideration normally applied to similar COPN proposals.

The project would not alter the number of hospital-bsed and freestanding (IDTF paid) imaging services in the region. UVACH would continue to have three hospital-based and two freestanding MRI scanners.

Success of the service is not dependent on taking patients from competing services. UVA OIG projects an average of 2,571 patient scans during the first two operational year of service. most of these patients are likely to come from among those who now use UVA OIC and other UVACH services.

**B. Cost Considerations**

Projected capital costs of the project total to $2,709,102. This is within the capital expenditure range seen for similar projects locally (PD 8) and statewide. The scanner would be in an independent diagnostic testing facility (IDTF) and would be paid accordingly by Medicare, Medicaid and other insurers.

The proposal is distinct in that it entails the repositioning of a previously authorized MRI scanner.

That project is for a 1.5 Tesla MRI scanner at a capital cost of $2,002,052, $707,050 less than the current proposal.[[2]](#footnote-2) The increased costs is largely a function establishing the service in a new location rather than adding a scanner at an existing facility. Both estimates are well within the range commonly seen for similar projects.

There is no reason to doubt that the project can be undertaken and completed as described. The *pro forma* budget for the initial two years of operations indicates that UVA Community Health expects the project to be profitable from the start. It assumes an average caseload of 2,571 patient scans per year during the first two operational years and average payment of $543.61 per case. These assumptions yield a projected modest profit of $17.41 per case during the first two years of operations. Both revenue and profit per case estimates are notably lower than most MRI service development and expansion projects.

Profit margins can be expected to increase significantly over the useful life of the scanner, as depreciation and amortization costs decrease, and fixed costs are spread over larger caseloads. Like other diagnostic imaging services, the marginal cost of providing a scan will decrease as demand and service volumes increase.

UVA Health and UVA Health Community Services commit to providing a reasonable amount of charity care and have a history of doing so.[[3]](#footnote-3)

##### Access Considerations

With 29 MRI services and 59 widely distributed scanners, northern Virginians have ready geographic access to MRI scanning. Nearly everyone is within less than 30 minutes travel time of several MRI services. Neither additional services nor additional scanners are necessary to ensure reasonable geographical access.

UVA Community Health has three medical care facilities in northern Virgina (PD 8) with an MRI service. These services are authorized to operate five MRI scanners: UVA Health Prince William Medical Center (two scanners); UVA Haymarket Medical Center (one scanner); UVA Health Centreville Imaging (one scanner operational and a second authorized).

As an equipment relocation project, the UVA OIG proposal is inventory neutral, but the relocation of the scanner would result in the establishment of a new service near the center of the geographic area and the primary service area populations now served by UVACH facilities. Arguably, this would facilitate access to MRI services in western Prince William County.

The proposal is to place the second MRI scanner authorized to expand UVA OIC in a new imaging center UVACH is developing in Gainesville, VA. The Gainesville site is near the center of the population served by UVACH facilities (Map 1). The Gainesville location would permit many of those now using UVACH facilities to obtain MRI scans at a closer, more convenient and less costly location. UVACH patient origin and destination data show that about 40% of those now using that service reside closer to the Gainesville site. UVA OIG expects about one-third of these patients will shift to the Gainesville service, reducing the high caseload and decreasing demand at the Centreville.



Relocation of the UVA Health scanner is not likely to have notable health system effects outside the UVACH network. No change in the primary service areas is expected or likely. It would permit more flexible, and arguably more convenient, scheduling of patients, particularly as service volumes increase. There is no indication of likely negative effects at nearby competing services. Most of MRI services in nearby areas of Fairfax County and Loudoun County have substantial service volumes. Some are adding capacity.

UVA Health and UVACH provides reasonable amounts of charity care and serve the medically indigent equitably. There is no indication that economic access to MRI scanning services would be affected significantly by relocating the UVA OIC scanner to Gainesville.

##### Health System Considerations

UVA OIG proposes to establish a new MRI service as part of a diagnostic imaging center UVACH is developing in Gainesville, VA. Like the Centreville service, the Gainesville facility would be operated as an independent diagnostic testing facility. The project is inventory neutral. The scanner that would be relocated has been authorized, in accordance with the institutional need provision of the Virginia SMFP, to add capacity at UVA OIC in response to its high and growing service volume.

The Gainesville location is near the center of geographic area and populations now served by three UVACH diagnostic imaging services. The applicant notes that the MRI services near the site are UVA Health facilities (UVA Prince William Medical Center, UVA Haymarket Medical Center, and UVA Outpatient Imaging Centreville). Any noticeable health system effects, such as a reduction in demand, will occur at these services. The principal argument in support of the project is to reduce demand at UVA OIC by serving western Prince William County residents who now use the service in a more convenient location. UVACH estimates that about 40% of those now using the Centreville service reside nearer to the Gainesville facility location and that about one-third of those now using the Centreville service to shift to Gainesville.

It is worth noting that UVACH facilities assert an “institutional need” for the project. Claims of and references to institutional need are sprinkled throughout the application. This may be the applicant’s perspective, but as noted above this does not qualify the proposal for consideration under the institutional need provision of the Virginia SMFP. The institutional need provision is site specific. It contemplates onsite expansions to meet demand at the location where authorized. The provision cannot and should not be used to justify establishing new services. In this case the argument stretches the provision beyond its legitimate elastic potential. It also is superfluous. The inherent merit of the project is such that novel claims are not necessary.

There is little likelihood that a Gainesville service would affect any competing service negatively. StoneSprings Hospital Center in southeastern Loudoun County, and other competing services outside the outside the UVACH network, are more than ten miles from the proposed site and are not likely to be affected noticeably by a Gainesville service.

.

The UVA OIG proposal is not needed to respond to a regional need or to address a health system deficiency. It would improve the distribution of MRI capacity within UVACH and in western Prince Willliam County without collateral negative effects.

**III. Conclusions and Alternatives for Agency Action**

**A. Summary Conclusions and Findings**

UVA OIG does not assert a regional need for additional MRI capacity. Its assertion of an institutional need for the project is not well founded. The intrinsic merits of the proposal are evident.

The application, and related market information, support the following findings and conclusions:

1. There is no indication of a current or near-term regional need for additional MRI services or capacity.
2. Use of northern Virginia MRI services varies considerably, but overall regional average scanner use is near the nominal planning standard. Recent average regional service volumes range between 85% and 95% of Virginia State Medical Facilities Plan planning guidance, 5,000 scans per scanner annually.
3. Regional demand for MRI services, which grew at a compound annual rate of about 3.0% over the last decade, is expected to continue to grow at a rate marginally higher than the population growth rate.
4. Most of the additional capacity authorized over the last decade has been in expansion projects at heavily used services in accordance with the institutional need provision of the Virginia SMFP. The second scanner authorized for UVA OIG in 2021 is one of these projects.
5. Repositioning the UVA Centreville scanner would result in the establishment of a new service but not an increase in regional capacity.
6. Patient origin and destination data in western Prince William County and among UVACH MRI services indicate locating an MRI scanner in Gainesville would be more productive than expanding UVA OIG.
7. The project is conducive to rationalizing UVACH’s diagnostic imaging services network in northern Virginia and is not likely to affect competing services negatively.
8. The projected capital cost, though $707,050 more than the 2021 expansion project, is within the range commonly seen locally and elsewhere in Virginia.
9. UVACH services in northern Virginia have acceptable charity care policies and practices.

**B. Alternatives for Agency Action**

* 1. The Health Systems Agency of Northern Virginia may recommend to the Commissioner of Health that a Certificate of Public Need authorizing the project be granted.

Support for the proposal could be based on concluding that:

* + Repositioning the Centreville scanner is likely to result in more responsive and efficient operations within UVACH’s diagnostic imaging service network,
  + Though there is no public regional need for an additional MRI service, the likely benefits of rationalizing the UVACH MRI service network outweigh concerns about higher capital costs, unnecessary duplication of capacity, and potential negative effects at other services.

2. The Health Systems Agency of Northern Virginia may recommend to the Commissioner of Health that a Certificate of Public Need not be granted.

A negative recommendation could be based on concluding that:

* Centreville imaging has the highest MRI service volume among the UVACH MRI services in northern Virginia. The scanner authorized for the service should remain there.
* The project is not necessary to assure reasonable access to MRI services.
* The inherent $707,050 capital cost increase is unnecessary. The proposed capital outlay is not necessary to improve access to care or to address an identified system deficiency.

**IV. Checklist of Mandatory Review Criteria**

* + 1. **Maintain or Improve Access to Care**

Northern Virginia residents have ready access to diagnostic imaging services, including MRI scanning. There is no documented regional need for an additional MRI service or additional capacity.

The UVACH project would establish a new service but would not increase capacity. Patient origin and destination data show that a freestanding diagnostic imaging center in Gainesville should be more responsive to current and projected demand within and among UVACH medical facilities. It is not likely to affect competing services negatively.

1. **Meet Needs of Residents**

The diagnostic imaging needs of the communities and populations UVACH facilities serve, and propose to serve, are being met. The project would alter, and arguably improve, the existing service array by adding a diagnostic imaging point of service. It would not increase licensed MRI capacity in the region.

1. **Consistency with Virginia State Medical Facilities Plan (SMFP)**

The UVACH project, which entails relocating an MRI scanner from Centerville, VA to Gainesville, VA, is generally consistent with the applicable provisions of the Virginia State Medical Facilities Plan. Approval would be consistent with the treatment accorded historically to similar proposals to reconfigure authorized diagnostic imaging services.

1. **Beneficial Institutional Competition while Improving Access to Essential Care**

The proposal is from an existing local MRI service that competes regularly with other services. It is not designed or intended to gain competitive advantage. No price competition is suggested or anticipated. The project should permit more convenient and responsive service within UVACH and, thereby, help maintain reasonably convenient access to MRI scanning in western Prince William County.

**5. Relationship to Existing Health Care System**

Repositioning the UVACH scanner would entail establishing a diagnostic imaging service in Gainesville, VA, near the center of the geographic area and populations served by UVACH facilities. No significant health system effects are likely. Relocation of the Centreville scanner should permit more efficient operations within UVACH. It is not likely to affect noticeably demand or operations at competing MRI services.

UVACH now serves most of those residing in the Gainesville area. Success of the project depends on attracting western Prince William County patients who otherwise would use neighboring UVACH services.

**6. Economic, Financial Feasibility**

The proposed capital outlay is about 35% higher than the Centreville expansion project authorized in 2021 but is still within the range commonly seen for MRI projects locally and statewide. It is financially feasible and would be expected to generate substantial operating margins and returns on investment over the useful life of the scanner.

**7. Financial, Technological Innovations**

The project does not involve innovative technologies, practices or economic aspects that warrant special consideration.

**8. Research, Training Contributions, and Innovations**

The project does not include research or training elements that warrant special consideration.

1. UVA Health Outpatient Imaging Gainesville filed two COPN applications to establish new services in the current diagnostic imaging COPN review cycle: COPN Request VA-8768, for MRI Scanning, and COPN Request VA-8769, for CT scanning. The CT scanning application is examined in a separate report.

   The corporate structure of Prince Wiliam Health System (PWHS), formerly a subsidiary of Novant Health, changed recently. It is now a subsidiary of UVA Community Health (UVACH), which is a wholly owned subsidiary of University of Virgina (UVA) Health. The facilities controlled and operated by PWHS, UVA Prince William Medical Center (PWMC), UVA Haymarket Medical Center (HAMC), and UVA Health Outpatient Imaging Centreville (UVA OIC) are owned and operated by UVACH. The applicant, UVA Outpatient Imaging Gainesville (UVA OIG), will be (is) a subsidiary of UVACH. [↑](#footnote-ref-1)
2. COPN No. VA-04752, issued 8/16/2021. HSANV recommended approval of the application. [↑](#footnote-ref-2)
3. The *pro forma* budget assumes a charity care load of 2.63% of revenue. [↑](#footnote-ref-3)