



WRITTEN COMMENTS ON PROJECT ID B-012567-24

NOVANT HEALTH ASHEVILLE IMAGING CENTER, LLC

SUBMITTED BY ADVENTHEALTH HENDERSONVILLE

NOVEMBER 29, 2024

AdventHealth Hendersonville and AdventHealth Asheville submit these comments in accordance with N.C. Gen. Stat. § 131E-185(a1)(1) to address the representations in the application submitted by Novant Health Asheville Imaging Center, LLC and Novant Health, Inc. to develop a diagnostic center in Asheville, including a discussion of the most significant issues regarding the applicants' conformity with the statutory and regulatory review criteria ("the Criteria") in N.C. Gen. Stat. §131E-183(a). Other non-conformities in the application may exist.

The Novant Health (NH) application fails to conform with the statutory review criteria based on the following:

1. The NH application fails to demonstrate that its projected utilization is based on reasonable and supported assumptions.

As detailed below, NH fails to provide support for its estimates of service area procedures, fails to support its market share estimates, fails to validate its projections, and fails to demonstrate the need for its proposed units of equipment. As a result, NH fails to demonstrate need for its proposed project.

Failure to Provide Support for Estimates of Service Area Procedures

In its Utilization Methodology and Assumptions, NH provides a methodology for estimating service area diagnostic imaging procedures but fails to provide any information, source data, or references that support its rationale and results.

NH claims that "best available data indicates that approximately 1.5 million CT scans were performed in North Carolina, with approximately 80% being outpatient." However, NH fails to disclose the source of this statistic, the year the data was collected, or the research supporting the assertion that 80% of these scans were outpatient. The absence of such critical details undermines the credibility of this assumption, making it impossible to evaluate its accuracy or relevance to the current context. Without transparent and verifiable data, the reasonableness of this claim cannot be properly assessed.

Similarly, NH states that "Best available data indicates that approximately 700,000 mammograms were performed in North Carolina." Again, NH fails to include a source for this statistic or the year

that these scans occurred. These same failures are true for DXA Scans, “Best available data indicates that approximately 200,000 DXA scans were performed in North Carolina. Research indicates that around 70% of DXA scans are performed on females aged 50+ and 30% on males aged 50+” as well as for ultrasounds, “Best available data indicates that approximately 1,200,000 outpatient ultrasounds were performed in North Carolina. Nearly 90% of ultrasounds are performed on females aged 18+ and 10% on males aged 50+.”

These unsupported statistics form the basis of NH’s utilization methodology. If any of these figures are inaccurate, the resulting utilization projections would also be erroneous. Further, NH relies exclusively on statewide utilization (e.g., the total number of scans in North Carolina for each imaging modality). Use rates may vary geographically, not just by age and sex. NH has no discussion of geographic variability for these services or why statewide rates would be applicable to the proposed service area.

Failure to Provide Support for Market Share Estimates

In Step 5 of its Utilization Methodology and Assumptions, NH provides its assumptions for projected market share for its proposed facility, as follows:

Projected Tiered, Service Area Imaging Modality Market Percentages

	2026	2027	2028
CT	2.0%	4.0%	5.0%
Ultrasound	3.0%	6.0%	8.0%
Mammography	4.0%	8.0%	10.0%
DXA Scan	4.0%	8.0%	10.0%

However, NH fails to provide reasonable and adequate support for its market share assumptions. While it references its affiliates—such as Open MRI & Imaging of Asheville, GoHealth Urgent Care, and Novant Health Surgical Partners-Biltmore—as well as future plans to develop a hospital and recruit physicians, it offers no concrete data to substantiate these claims. NH asserts, “These healthcare providers and locations will be the referral sources for NH Asheville Imaging Center.” However, it does not present any evidence, such as the number or types of imaging procedure referrals from these affiliates, to support this assertion.

If NH intends to rely on these providers and locations as referral sources for the proposed project, it could and should have included referral data to justify its market share assumptions. Notably, NH appears to have access to such data, as it is used elsewhere in its application. For instance, in its financial assumptions, NH states that estimates for Charity Care, Bad Debt, and Payor Mix are based on “Novant Health patients living in the service area and receiving an outpatient diagnostic image at a Novant Health facility.”

Based on the foregoing discussion, NH’s market share assumptions are unsupported.

Failure to Validate Projections

In Step 6 of its Utilization Methodology, NH provides its attempt to validate its projections and concludes that “As a result the imaging modality volumes projected by NH Asheville are very

reasonable and conservative.” However, NH’s discussion absolutely fails to support such a conclusion. As NH states at the start of the section, “Because of the different sizes of imaging modality providers and the lack of required imaging modality volume reporting for CT scans, mammography, ultrasound, and DXA scan, it is virtually impossible to know the actual number of imaging procedures performed in the service area” (emphasis added). Given this statement, it is contradictory for NH to conclude that its projections are “very reasonable and conservative.” NH provides outpatient imaging data for hospitals in the service area which further contradicts its conclusions. As shown below, NH’s estimates for service area outpatient ultrasound and DXA procedures exceed reported hospital volumes but NH’s estimates for outpatient CT and mammography are well below reported hospital volumes.

Modality	Projected Service Area Outpatient Volume for 2026	Reported Hospital Outpatient Volume
CT	45,332	132,223
Ultrasound	48,022	33,108
Mammography	28,030	74,880
DXA Scan	9,186	5,886

NH does not explain why its market estimates would exceed ultrasound and DXA scan hospital volume but fall well below hospital CT and mammography volume. To add to the contradiction and confusion, NH suggest, without any basis whatsoever, that the actual imaging volume in the service area is “75-100% larger.” Based on this discussion, NH’s market projections are unsupported.

Failure to Demonstrate the Need for Proposed Units of Equipment

In its response to Section C.1, NH provides excerpts of its line drawings which indicate that the proposed facility will have three units of mammography equipment and two units of ultrasound equipment. (Of note, these line drawing excerpts also show a “Future Ultrasound” space.) This is confirmed by a table following Form F.1a which indicates the same number of units, excerpted below:

**Novant Health Asheville Imaging Center
Major Medical Equipment**

Modality	Vendor	As quoted	Sales tax:	Total	7-Year Depreciation
Revolution Ascend Plus CT	GE	\$675,594	\$48,981	\$724,575	\$103,511
Logoq E10s Ultrasound (2)	GE	\$276,197	\$20,024	\$296,221	\$42,317
Horizon-A DXA Scan	Hologic	\$106,381	\$7,713	\$114,093	\$16,299
3Dimensions Mammography (3)	Hologic	\$2,100,090	\$152,257	\$2,252,346	\$321,764
Miscellaneous Equipment	Multiple	\$359,395	\$26,056	\$385,451	\$55,064
				\$3,772,687	\$538,955

Sales Tax Rate 7.25%

However, NH fails to provide any discussion whatsoever for the need for this number of units of mammography and ultrasound equipment. NH proposes one unit of CT and one unit of DXA scan equipment. While it is unstated, it is obvious that NH needs at least one unit in order to provide these services, as proposed. However, there is no discussion for why more than one unit of ultrasound and mammography equipment is needed for the project. NH provides absolutely no demonstration that one unit of mammography or ultrasound equipment would be insufficient in terms of utilization capacity, patient convenience, or staffing efficiency. As such, NH fails to demonstrate that need for its additional units of mammography and ultrasound equipment.

Summary of Utilization Issues

Based on NH's failure to provide support for its estimates of service area procedures, failure to support its market share estimates, failure to validate its projections, and failure to demonstrate the need for its proposed units of equipment discussion above, the NH application fails to demonstrate that its projected utilization is reasonable and supported. **Therefore, the NH application is non-conforming with Criteria (3), (4), (5), (6), and (18a).**

2. The NH application fails to demonstrate that projected expenses are reasonable and that the project is financially feasible.

NH failed to include appropriate expenses, understated expenses, or document the reasonableness of expenses in its proforma financial statements including Miscellaneous Expenses, Medical Expenses, Professional Fees, Depreciation Expenses, and Lease Expenses. Given the NH's projected net income, it is not reasonable to assume that the proposed project will be financially feasible.

Miscellaneous Expenses

In its Form F.3 Expense Assumptions, NH states that Miscellaneous expenses are increased by 3.0% per year for the project years, as excerpted below:

Miscellaneous Expenses

Miscellaneous expenses include expenses not large enough to have a dedicated expense line. These expenses may include office supplies, meals, training, etc. Miscellaneous expenses are equal to \$6.22 per procedure. These expenses are increased by 3.0% per year for the project years.

However, NH failed to increase its projected Miscellaneous Expenses per procedure 3.0 percent annually and as result has understated those expenses.

NH's projected Miscellaneous Expenses are only included in the Form F.3b following the "Administration" title page. As shown on the Form F.3b Assumptions and Calculations page that follows the "Administration" F.3b, Miscellaneous Expenses (per procedure) are assumed to remain at \$6.22 through the three project years (see bottom of excerpt below).

	1st Full FY	2nd Full FY	3rd Full FY
1 Salaries from Form H Staffing			
2 Taxes and Benefits = Salaries X	29.2%	29.2%	29.2%
3 Purchased Services (per year)	\$65,000	\$66,950	\$68,959
4 Maintenance and Repairs (per Year)		\$101,500	\$104,545
5 Management Service Fee (% of Net Revenue)	11.0%	11.0%	11.0%
6 Other Expenses	0.00%	0.00%	0.00%
7 Miscellaneous Expenses (per procedure)	\$6.22	\$6.22	\$6.22

As a result, NH has understated its Miscellaneous Expenses by failing to appropriately account for annual inflation.

Medical Expenses

In its Form F.3 Expenses Assumptions, NH states that Medical Supplies Expenses are based on NHI Cabarrus CT services, as shown in the excerpt below:

Medical Supplies

Medical supply expenses are estimated based on historical supply costs for NHI Cabarrus CT services. The projected medical supply expense of \$7.95 is inflated by 3.0% annually during the project years. Furthermore, case volume increases have been factored in to projected supply costs during the project years.

NH makes no mention of how such expenses are projected for its other proposed imaging services (i.e., Dexa, Mammography, and Ultrasound). In fact, NH's proposed financial statements assumes that there are zero projected medical supplies expenses for its proposed DEXA Scanner, Mammography, and Ultrasound services. In fact, the only projected expenses that appear on the Form F.3bs that appear to represent the NH DEXA Scanner, Mammography, and Ultrasound services are Salaries, Taxes and Benefits, and Depreciation-Equipment, as excerpted below:

DEXA Scanner

	Form F.3b Projected Operating Costs upon Project Completion	1st Full FY	2nd Full FY	3rd Full FY
	NH Asheville Imaging Center	F: 01/01/2026 T: 12/31/2026	F: 01/01/2027 T: 12/31/2027	F: 01/01/2028 T: 12/31/2028
	1 Salaries (from Form H Staffing)		\$20,408	\$28,027
2 Taxes and Benefits		\$6,122	\$8,408	\$10,825
3 Depreciation - Equipment		\$16,299	\$16,299	\$16,299
4 Other Expenses (specify)		\$0	\$0	\$0
5 Total Expenses		\$42,830	\$52,734	\$63,209
Row 5 Total = (Sum of Rows 1-4)				

F: = From
T: = To

Mammography

	Form F.3b Projected Operating Costs upon Project Completion	1st Full FY	2nd Full FY	3rd Full FY
	NH Asheville Imaging Center	F: 01/01/2026 T: 12/31/2026	F: 01/01/2027 T: 12/31/2027	F: 01/01/2028 T: 12/31/2028
	1 Salaries (from Form H Staffing)		\$77,454	\$119,666
2 Taxes and Benefits		\$23,236	\$35,900	\$49,303
3 Depreciation - Equipment		\$321,764	\$321,764	\$321,764
4 Other Expenses (specify)		\$0	\$0	\$0
5 Total Expenses		\$422,454	\$477,330	\$535,408
Row 5 Total = (Sum of Rows 1-4)				

F: = From
T: = To

Ultrasound

Form F.3b Projected Operating Costs upon Project Completion NH Asheville Imaging Center		1st Full FY	2nd Full FY	3rd Full FY
		F: 01/01/2026 T: 12/31/2026	F: 01/01/2027 T: 12/31/2027	F: 01/01/2028 T: 12/31/2028
1	Salaries (from Form H Staffing)	\$77,454	\$119,666	\$164,342
2	Taxes and Benefits	\$23,236	\$35,900	\$49,303
3	Depreciation - Equipment	\$321,764	\$321,764	\$321,764
4	Other Expenses (specify)	\$0	\$0	\$0
5	Total Expenses	\$422,454	\$477,330	\$535,408
		Row 5 Total = (Sum of Rows 1-4)		

F: = From
 T: = To

Further, these expenses are not included in Miscellaneous Expenses as NH states (as shown above) that Miscellaneous Expenses include expenses not large enough to have a dedicated expense line, which is not the case for Medical Expense, which does have a dedicated expense line.

As such, NH understated its Medical Expenses by failing to include any such expenses for its non-CT services.

Professional Fees

On page 85 of its application, NH responded “Yes” to Section F.4.c, affirming that the facility would “bill the patient for any professional fees such as interpretation of radiological studies by a radiologist or review of specimens by a pathologist.” Given that NH proposes an imaging center, it is reasonable to assume that such professional fees would be billed for interpretation of radiological studies, and not a review of specimens by a pathologist, but there is no confirmation in NH’s application.

In its Form F.3 Expenses Assumptions, NH states that Professional Fees are based on NHI Cabarrus, as shown in the excerpt below:

Professional Fees

Professional fees are based on the FY2023 NHI Cabarrus professional fees expense. This expense is increased by 3.0% per year for the project years.

NH’s projected Professional Fees are only included in the Form F.3b following the “Administration” title page. As shown on the Form F.3b Assumptions and Calculations page that follows the “Administration” F.3b, Professional Fees are projected “per year” with an annual inflation factor applied and have no relationship to the volume of radiological studies.

	1st Full FY	2nd Full FY	3rd Full FY
1 Salaries from Form H Staffing			
2 Taxes and Benefits = Salaries X	29.2%	29.2%	29.2%
3 Purchased Services (per year)	\$65,000	\$66,950	\$68,959
4 Maintenance and Repairs (per Year)		\$101,500	\$104,545
5 Management Service Fee (% of Net Revenue)	11.0%	11.0%	11.0%
6 Other Expenses	0.00%	0.00%	0.00%
7 Miscellaneous Expenses (per procedure)	\$6.22	\$6.22	\$6.22
8 Professional Fees (per year)	\$50,000	\$51,500	\$53,045
9 Rent (per SF)	\$24.00	\$24.72	\$25.46
10 Utilities (per SF)	\$6.50	\$6.70	\$6.90
11 Depreciation	\$267,590	\$267,590	\$267,590
	Annual Expense Inflation Rate of 3.0%		
IDTF/Diagnostic Center SF	6,500	6,500	6,500
Total Diagnostic Imaging Procedures	4,263	8,600	11,150

As shown above, NH projects \$50,000 for professional fees in its first full FY where it proposes to serve 4,263 diagnostic imaging procedures. This equates to \$11.73 in professional fees per study that would be paid for radiological interpretation. In its third full FY, NH projects \$53,045 for professional fees and 11,150 diagnostic procedures. This equates to \$4.76 in professional fees per study for radiological interpretation. These amounts and the dramatic reduction over the project years are simply not reasonable. As such, NH has understated its Professional Fees expense.

Depreciation Expense

On Form F.1a Capital Cost, NH provides a summary of its projected Depreciation and Amortization expense, excluding Medical Equipment which is calculated on the following page. NH notes that “ * Contingency is not included” as shown below.

Depreciation and Amortization*:		Full FY1-FY3	
Construction/Renovations	20 years	\$154,629	= (Sum of Rows 5 and 7) / 20
FF&E	7 years	\$45,897	= (Sum of Rows 9 and 10) / 7
Amortization	5 years	\$12,000	= (Sum of Rows 11) / 5
Total		\$212,525	

* Contingency is not included.

NH’s total capital cost of \$8,333,516 includes \$1,086,980 for Contingency Expense per Form F.1a. However, NH’s application makes clear that its projected Depreciation Expense does not include the Contingency Expense portion of its capital cost. As NH included this Contingency Expense in its capital cost, it is seeking CON approval to spend that amount towards the development of the project. If NH spends the Contingency funds in the development of the project, those funds would be depreciated and the proposed imaging center would incur them as depreciation expense. As such, it is not reasonable for NH to fail to include depreciation expense for these Contingency funds in its projected financial results. As such, NH has failed to include appropriate and reasonable Depreciation expenses.

Lease Expenses

In its Form F.3 Expenses Assumptions, NH states that Rent is based on “current market lease rates” as shown in the excerpt below:

Rent

Rent expense is \$24.00 per square foot and inflated by 3.0% annually during the project years based on the current market lease rates.

However, NH is proposing a specific location, 1815 Hendersonville Rd, Asheville, NC and provides no evidence to support its statement that its proposed lease rate reflects current or future market lease rates. In fact, NH does not even demonstrate that the site is available for lease.

On page 103, in response to Section K.4.b which states “If the applicant is not the current owner in fee simple, provide documentation that the site is available for purchase or lease”, NH states that “Pulliam Developers LLC is the legal entity that currently holds fee simple title to the proposed site” and provides documentation in Exhibit K.4 that Pulliam Developers LLC is the owner of the site, but not that the site is available for lease, as proposed by NH, or at the rate that NH has assumed.

As such, NH has failed to demonstrate that its proposed lease expense is reasonable or supported.

Summary of Expense and Financial Feasibility Issues

Based on the previously described issues with NH’s proposed Miscellaneous Expenses, Medical Expenses, Professional Fees, Depreciation Expenses, and Lease Expenses, it is clear that the projected expenses for the proposed project are not reasonable or supported. According to its Form F..2b Projected Revenues and Net Income upon Project Completion, NH projects negative net income for its first two years of operation and \$125,557 in positive net income in its third year of operation. Given that NH only projects one year of positive net income at \$125,557 and the missing or understated expenses identified above, it is not reasonable to assume that the proposed project will be financially feasible.

Based on the discussion above, the NH application fails to demonstrate the immediate and long-term financial feasibility of the project and that its projected revenues and expenses are reasonable and supported. **Therefore, the NH application is non-conforming with Criterion (5).**

3. The NH application fails to demonstrate that the proposed project will not result in unnecessary duplication.

On page 87, NH lists facilities in the service area that provide similar imaging services as compared to those in the application, as excerpted below.

RESPONSE: The NC Division of Health Service Regulation does not report IDTFs/diagnostic centers located in each county. However, Novant Health believes the following facilities provide similar imaging services as compared to those proposed in this application.

County	Facility
Buncombe	Emerge-Ortho-Blue Ridge Division
Buncombe	Mission Imaging Services
Buncombe	Mission Hospital
Buncombe	Open MRI of Asheville
Buncombe	Providence Imaging Services
Henderson	AdventHealth Hendersonville
Henderson	Providence Imaging Services
Henderson	UNC Pardee Hospital

On the following page, NH refers to these existing facilities and, without basis, states that they “face several challenges.”

First, NH claims that “Many patients experience long wait-times for essential imaging services. Scheduled appointments for many imaging services including CT scans or mammograms can often exceed two weeks, which is problematic for conditions that require prompt diagnosis and treatment.” However, NH provides no evidence that service area patients experience these wait-times. NH’s application fails to include any documentation that such wait times exist in the service area. As noted above, NH argues that it has a base of affiliated healthcare providers that will serve as the referral base for the proposed facility. However, there is no documentation in the application that those providers and their patients face the wait times described.

Second, NH claims that “Residents in rural areas of Buncombe and Henderson counties often encounter barriers when accessing healthcare services, including long travel distances and limited transportation options . . . NH Asheville Imaging Center located for ease of access can serve residents of these underserved areas, ensuring equitable access to critical diagnostic services.” However, NH provides no evidence in its application that its proposed location is located for ease of access, provides a more convenient location than existing providers, or will be accessible to patients in rural areas.

Third, NH claims “Anecdotally, current imaging centers are often operating at or near capacity. NH Asheville Imaging Center can relieve some of this pressure, allowing existing facilities to maintain high-quality service standards.” Again, NH provides absolutely no evidence for this statement. NH does not state who provided this “anecdotally”, provides no data suggesting that this is true, or corroborating evidence.

As noted above, NH’s market projections are unsupported. Given this and NH’s unfounded statements regarding duplication, the NH fails to document that the proposed project will not result in unnecessary duplication. **Therefore, the NH application is non-conforming with Criterion (6).**