STATE OF WASHINGTON
DEPARTMENT OF HEALTH

October 8, 2013

CERTIFIED MAIL # 7011 2000 0000 5081 8616

April Gibson, Administrator
Lakewood Surgery Center
7308 Bridgeport Way W, Suite 201
Lakewood, Washington 98499

RE: CN13-37

Dear Ms. Gibson:

We have completed review of the Certificate of Need application submitted by Proliance Surgeons, Inc. PS, dba Lakewood Surgery Center proposing to establish a Medicare certified ambulatory surgery center serving residents of West Pierce County. For reasons stated in the evaluation, the application submitted is consistent with applicable criteria of the Certificate of Need Program, provided Proliance Lakewood agrees to the following in its entirety.

Project Description

Lakewood is proposing to establish a new healthcare facility by converting their two-OR ASC from an exempt ASC to a CN approved two-OR ASC. This action would allow physicians not employed by Lakewood to use its facility. Additionally, Lakewood proposes to expand the types of surgeries performed at the ASC to include general, gynecology, cosmetic/plastic, urology, ENT, and oral/maxilla-facial surgery. The services at Lakewood will not include a gastroenterology lab, ophthalmology, or care for pediatric patients. Lakewood does not propose to increase or decrease the number of operating rooms at Lakewood ASC

Conditions

1. Approval of the project description as stated above. Lakewood Surgery Center further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.

2. Lakewood Surgery Center will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Lakewood Surgery Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the West Pierce sub planning area. Currently, this amount is 1.57% gross revenue and 3.61% of adjusted revenue. Lakewood Surgery Center will maintain records documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

Approved Cost

The estimated capital expenditure associated with this project is $315,000.

You have two options, either accept or reject the above in its entirety. If you accept the above in its entirety, your application will be approved and a Certificate of Need sent to you. If you reject any provision of the above, you must identify that provision, and your application will be denied because approval would not be consistent with applicable Certificate of Need review criteria. Please notify the Department of Health within 20 days of the date of this letter whether you accept the above in its entirety.

Appeal Option 1:

You or any interested or affected person may request a public hearing to reconsider this decision. The request must state the specific reasons for reconsideration in accordance with Washington Administrative Code 246-310-560. A reconsideration request must be received within 28 calendar days from the date of the decision at one of the following addresses:

Mailing Address:	Other Than By Mail
Department of Health	Department of Health
Certificate of Need Program	Certificate of Need Program
Mail Stop 47852	111 Israel Road SE
Olympia, WA 98504-7852	Tumwater, WA 98501

Appeal Option 2:

You or any person with standing may request an adjudicative proceeding to contest this decision within 28 calendar days from the date of this letter. The notice of appeal must be filed according to the provisions of Revised Code of Washington 34.05 and Washington Administrative Code 246-310-610. A request for an adjudicative proceeding must be received within the 28 days at one of the following addresses:

Mailing Address:	Other Than By Mail
Adjudicative Service Unit	Adjudicative Clerk Office
Mail Stop 47879	111 Israel Road SE
Olympia, WA 98504-7879	Tumwater, WA 98501

If you have any questions, or would like to arrange for a meeting to discuss our decision, please contact Janis Sigman, Manager Certificate of Need Program at (360) 236-2955.

Sincerely,

Steven M. Saxe, FACHE
Director

Enclosure

EVALUATION DATED OCTOBER 8, 2013 OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY PROLIANCE SURGEONS, INC., DBA LAKEWOOD SURGERY CENTER PROPOSING TO ESTABLISH A TWO-OR AMBULATORY SURGERY CENTER IN PIERCE COUNTY

APPLICANT DESCRIPTION

Proliance Surgeons, Inc., dba Lakewood Surgery Center is a privately held corporation owned by the physicians who practice in the parent corporation for Lakewood Surgery Center. Lakewood Surgery Center is a state licensed and Medicare certified ambulatory surgery center (ASC).The names of the 10 surgeons currently using are shown below. [Source: Application, pp1-2]

Name
Julian Arroyo, MD
John Bargren, MD
John Blair, MD
Bede W. Brandt, MD
Spencer Coray, MD
Sean Ghidella, MD
Michael Martin, MD
Gavin Smith, DPM
Steven Teeny, MD
Alan Thomas, MD, PhD

Lakewood Surgery Center is located at 7308 Bridgeport Way W Suite 201, Lakewood within Pierce County.

Lakewood Surgery Center operates under a Certificate of Need (CN) exemption granted in September 5, 2002 based, in part, on the operation and use of the ASC by only the physicians associated with the practice. [Source: CN Historical Files, Washington Secretary of State web search]

Lakewood has two ORs that are used exclusively for outpatient orthopedic, podiatric, pain management, and neurology procedures performed by Lakewood's 12 surgeons.

PROJECT DESCRIPTION

Lakewood is proposing to establish a new healthcare facility by converting their two-OR ASC from an exempt ASC to a CN approved two-OR ASC. This action would allow physicians not employed by Lakewood to use its facility. Additionally, Lakewood proposes to expand the types of surgeries performed at the ASC to include general, gynecology, cosmetic/plastic, urology, ENT, and oral/maxilla-facial surgery. The services at Lakewood will not include a gastroenterology lab, ophthalmology, or care for pediatric patients. Lakewood does not propose to increase or decrease the number of operating rooms at Lakewood Surgery Center

The capital expenditure associated with this project is $315,000 which will be used to purchase additional equipment to accommodate the additional procedures. [Source: Application, p19 & p53]. If approved, Lakewood expects begin offering additional surgeries by non-owning physicians immediately. Under this timeline and based upon the expected release of this evaluation, 2014 would be the first year of operation as a CN approved facility and 2016 would be year three

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project requires review as the establishment of a new health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

EVALUATION CRITERIA

WAC 246-310-200(1)(a)-(d) identifies the four determinations the department must make for each application. WAC 246-310-200(2) provides additional direction in how the department is to make its determinations. It states:

"Criteria contained in this section and in WAC 246-310-210, 246-310-220, 246-310-230, and 246-310-240 shall be used by the department in making the required determinations.

(a) In the use of criteria for making the required determinations, the department shall consider:

- *(i) The consistency of the proposed project with service or facility standards contained in this chapter;*
- *(ii) In the event the standards contained in this chapter do not address in sufficient detail for a required determination the services or facilities for health services proposed, the department may consider standards not in conflict with those standards in accordance with subsection (2)(b) of this section; and*
- *(iii) The relationship of the proposed project to the long-range plan (if any) of the person proposing the project."*

In the event WAC 246-310 does not contain service or facility standards in sufficient detail to make the required determinations, WAC 246-310-200(2)(b) identifies the types of standards the department may consider in making its required determinations. Specifically WAC 246-310-200(2)(b) states:

"The department may consider any of the following in its use of criteria for making the required determinations:

- *(i) Nationally recognized standards from professional organizations;*
- *(ii) Standards developed by professional organizations in Washington State;*
- *(iii) Federal Medicare and Medicaid certification requirements;*
- *(iv) State licensing requirements;*
- *(v) Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and*
- *(vi) The written findings and recommendations of individuals, groups, or organizations with recognized expertise related to a proposed undertaking, with whom the department consults during the review of an application."*

To obtain CN approval, Lakewood Surgery Center must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure

and process of care); and 246-310-240 (cost containment).[1] Additionally, WAC 246-310-270 contains service or facility specific criteria for ASC projects and must be used to make the required determinations.

TYPE OF REVIEW

This application was submitted under the regular review process and was reviewed under the timeline described in WAC 246-310-160.

APPLICATION CHRONOLOGY

Action	Lakewood ASC
Letter of Intent Submitted	December 11, 2012
Application Submitted	March 27, 2013
Department's Pre-Review Activities • screening activities and responses	March 28,2013 through June 10, 2013
Department Begins Review of the Application	June 11, 2013
End of Public Comment • No public hearing conducted • public comments accepted through end of public comment	July 15, 2013
Rebuttal Comments Submitted	July 29, 2013
Department's Anticipated Decision Date	September 12, 2013
Department's Actual Decision Date	October 8, 2013

AFFECTED PERSONS

Washington Administrative Code 246-310-010(2) defines "affected person" as:
"an interested person who:

(a) Is located or resides in the applicant's health service area;
(b) Testified at a public hearing or submitted written evidence; and
(c) Requested in writing to be informed of the department's decision."

During the review of this application one entity sought affected person status under WAC 246-310-010. The entity is listed below.

Franciscan Health System-Franciscan Health System is the operator of St. Clare Hospital which is located in the West Pierce ASC planning area and provides surgery services. No other entities sought or received affected person status for this project

[1] Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(3), (4), (5), & (6), WAC 246-310-220(3), and WAC 246-310-240(2) and (3).

SOURCE INFORMATION REVIEWED

- Lakewood Surgery Center Certificate of Need Application received March 27, 2013Lakewood Surgery Center supplemental information received May 9, 2013
- Pierce County ASC operating room utilization survey responses
- Data reported to the Integrated Licensing and Regulatory System (ILRS)
- Office of Financial Management population data released May 2012
- Historical charity care data obtained from the Department of Health's Hospital and Patient Data Systems (2009, 2010, and 2011 summaries)
- Washington Secretary of State web site
- Department of Health / Health Systems Quality Assurance Provider Credential Information
- Certificate of Need historical files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Lakewood Surgery Center proposing to establish a Certificate of Need approved ambulatory surgery center by converting its Certificate of Need exempt ambulatory surgery center is consistent with the applicable review criteria provided Lakewood Surgery Center agrees to the following in its entirety.

Project Description

Lakewood is proposing to establish a new healthcare facility by converting their two-OR ASC from an exempt ASC to a CN approved two-OR ASC. This action would allow physicians not employed by Lakewood to use its facility. Additionally, Lakewood proposes to expand the types of surgeries performed at the ASC to include general, gynecology, cosmetic/plastic, urology, ENT, and oral/maxilla-facial surgery. The services at Lakewood will not include a gastroenterology lab, ophthalmology, or care for pediatric patients. Lakewood does not propose to increase or decrease the number of operating rooms at Lakewood ASC

Condition

1. Approval of the project description as stated above. Lakewood Surgery Center further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.

2. Lakewood Surgery Center will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Lakewood Surgery Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the West Pierce sub planning area. Currently, this amount is 1.57% gross revenue and 3.61% of adjusted revenue. Lakewood Surgery Center will maintain records documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

Approved Cost

The estimated capital expenditure associated with this project is $315,000.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210) and Ambulatory Surgery (WAC 246-310-270)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the 'Conclusion' section of this evaluation, the department concludes that Lakewood Surgery Center has met the need criteria in WAC 246-310-210 and WAC 246-310-270.

(1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need

WAC 246-310-270(9) – Ambulatory Surgery Numeric Methodology

The Department of Health's Certificate of Need Program uses the numeric methodology outlined in WAC 246-310-270(9) for determining need for additional ASCs in Washington State. The numeric methodology provides a basis for comparing existing operating room (OR) capacity for both outpatient and mixed use[2] ORs in a planning area using the current utilization of existing providers. The methodology separates Washington State into 54 secondary health services planning areas. Lakewood Surgery Center is located in the West Pierce ASC planning area.

Applicant's Numeric Methodology

The numeric methodology requires a calculation of annual capacity of existing ORs, both outpatient and mixed use. To support its application, Lakewood applied the methodology for the West Pierce planning area, but excluded the four outpatient ORs located in Avalon Clinic for Cosmetic Surgery and Lakcwood because they are CN exempt facilities. Assumptions used by Lakewood are shown below [Source: Application, pp 16a-16i]

Table 1
Lakewood Surgery Center Methodology Assumptions

Assumption	Data Used
Planning Area	West Pierce
Target Year	2016
Population-Target Year	222,605
Use Rate	33.60/1,000
Average minutes per case	Inpatient cases= 120 minutes Outpatient cases = 58.1 minutes
OR capacity counted:	Mixed Use: 5 Dedicated outpatient: 0

Based on the assumptions above, Lakewood's methodology projected a shortage of four outpatient ORs in year 2016.

[2] Mixed use operating rooms located in a hospital are used for both inpatient and outpatient surgeries.

Department's Numeric Methodology

The numeric methodology estimates OR need in a planning area using multi-steps as defined in WAC 246-310-270(9). This methodology relies on a variety of assumptions and initially determines existing capacity of dedicated outpatient and mixed-use operating rooms in the planning area, subtracts this capacity from the forecast number of surgeries to be expected in the planning area in the target year, and examines the difference to determine:

a) Whether a surplus or shortage of OR's is predicted to exist in the target year, and

b) If a shortage of ORs is predicted, the shortage of dedicated outpatient and mixed-use rooms are calculated. Preference is given to dedicated outpatient operating rooms.[3]

In the West Pierce planning area there is one hospital and two ASCs. The table below lists this hospital and the ASCs. Both ASCs are exempt ASCs and can only be used by the medical staff that are members of the practice owning the ASC.

Table 2
West Pierce Planning Area Hospitals and ASCs

Hospital/City	
St. Clare Hospital	Lakewood
ASCs	
CN approved ASC	
None	
Exempt ASCs	
Avalon Clinic for Cosmetic Surgery	Lakewood
Lakewood Surgery Center	Lakewood

On April 25, 2013 the department sent a utilization survey to all ASCs in Washington State. For the West Pierce planning area the department received responses from St. Clare Hospital and Lakewood. The department did not receive a response from Avalon Clinic for Cosmetic Surgery. When a facility does not return a utilization survey, the department uses licensing application data to determine utilization. The utilization, or number of surgical cases, but not the OR capacity of the facility is counted in the numeric methodology.

Of the two ASCs, one provided utilization and OR count data. Both are Certificate of Need exempt ASCs and the utilization, but not the ORs are counted in the methodology. The utilization, but not the OR capacity, of these exempt ASCs is counted in the numeric methodology.

Based on the data obtained in the utilization surveys and the department's internal data base, the following assumptions were used in applying the numeric methodology.

[3] WAC 246-310-270(9)(a)(iv). "…Exclude cystoscopic and other special purpose rooms (e.g., open heart surgery) and delivery rooms.

Table 3
DOH Methodology Assumptions

Assumption	Data Used
Planning Area	West Pierce
Target Year	2016
Population-Target Year	222,605
Use Rate	32.85/1,000
Average minutes per case	Inpatient cases = 120 minutes Outpatient cases = 50 minutes
OR capacity counted:	Mixed Use: 5 Dedicated outpatient: 0

Based on these assumptions, the department's application of the numeric methodology indicates a numeric need for three mixed-use inpatient ORs and four dedicated outpatient ORs. The department's methodology is included in Attachment A of this evaluation.

Public Comment

The deparment received comment from Franciscan Health System (FHS) who operates, St. Clare Hospital. FHS calculated the ambulatory surgery methodology using their data and concluded that there was a surplus of operating rooms in the West Pierce ASC planning area. FHS also contends that this project will jeopardize their ability to maintain their extended operating room hours. They are also concerned that this change will reduce their utilization and occupancy. [Source: FHS Public Comment]

Lakewood Rebuttal

The applicant responded to the public comment from FHS by contending that FHS is proposing to revise the ambulatory surgery methodology published in WAC 246-31-270. The applicant states that since the capacity is published in rule and is clearly stated FHS's calculations are not valid. The applicant provided revised ASC methodology calculations using St. Clare Hospital surgeries and determined there was a need for outpatient operating rooms in the West Pierce ASC planning area. The applicant provided the following comments regarding the contention that this project is not needed and will reduce the St. Clare OR's volumes.

- "The standard of "need" is that of the ASC need methodology, its calculation. and the mathematical results. Even if one adopts St. Clare's numbers of cases and average minutes per case assumptions from its July 14, 2013 letter, the method shows need for more than 5 dedicated outpatient OR's in the West Pierce Planning Area.
- The ASC rule at 246-310-270 favors the establishment of dedicated outpatient operating rooms. The West Pierce planning area has no dedicated outpatient operating rooms available to physicians outside the practice.
- The FHS letter does not provide sufficient detail for us to respond to the concern that growing volumes at an approved Lakewood ASC will impact St. Clare's operation. The Proliance application fully documented growth in demand projected for West Pierce and much of that growth will result in more cases at St. Clare as well." [Source: Rebuttal information, P3]

Department's Conclusion

The applicant's comments about changing the methodology are valid. Capacity is defined to allow for consistency for applicants in applying the methodology. The department's calculation of the methodology indicates a need for four ambulatory surgery centers in the West Pierce ACS planning area thus supporting the applicant's contentions. There are currently no CN approved freestanding ASCs in the West Pierce ASC planning area.

Based on review of information submitted by the applicant, need methodology calculated by the department, public comment, and rebuttal by the applicant, the department concludes the numeric need for additional outpatient ORs in the West Pierce ASC planning area has been established. **This sub-criterion is met.**

WAC 246-310-270(6) An ambulatory surgical facility shall have a minimum of two operating rooms

The applicant provided a single line drawing showing that the existing ASC currently has the 2 required operating rooms. [Source: Application, Exhibit 5] **This sub-criterion is met**.

(2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

To determine whether all residents of the service area would have access to an applicant's proposed services, the department requires the applicant to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients who are appropriate candidates to use the facility and any assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the service area would have access to services. This is accomplished by providing an admission polity that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

To demonstrate compliance with this sub-criterion, Proliance provided a copy of its charity care policy and mission statement. The mission statement states that services will be provided regardless of race, color, creed, sex, national origin, or disability. [Source: Application, p18, Exhibit 8]

The department uses Medicare certification to determine whether the elderly would have access or continue to have access to the proposed services. Lakewood Surgery Center currently provides services to Medicare eligible patients and indicates that current sources of revenue include 18% Medicare revenue. Lakewood Surgery Center's financial pro forma includes Medicare revenues. [Source: Application, p9]

The department uses the facility's Medicaid eligibility or contracting with Medicaid to determine whether low-income residents would have access to the proposed services. Lakewood Surgery Center currently provides services to Medicaid eligible patients and indicates that current sources of revenue include 6% Medicaid revenue. Lakewood Surgery Center's financial pro forma includes Medicaid revenues. [Source: Application, p9]

WAC 246-310-270(7) states: "*Ambulatory surgical facilities shall document and provide assurances of implementation of policies to provide access to individuals unable to pay consistent with charity care levels provided by hospitals affected by the proposed ambulatory surgical facility. The amount of an ambulatory surgical facility's annual revenue utilized to finance charity care shall be at least equal to or greater than the average percentage of total patient revenue, other than Medicare or Medicaid, that affected hospitals in the planning area utilized to provide charity care in the last available reporting year*."

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems program (HPDS) divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Lakewood is located in the Puget Sound Region. There are 21 hospitals located within the region. For this project, the department reviewed the most recent three years of charity care data for the 19 existing hospitals currently operating within the Puget Sound Region and the one hospital operating in Pierce West ASC Planning Area. The three years reviewed are 2009, 2010, and 2011.[4] Below is a comparison of the average charity care for the Puget Sound Region, the one hospital in West Pierce Planning Area, and Lakewood Surgery Center projected charity care. [Source: 2009, 2010, and 2011 HPDS charity care summaries]

Table 4
Charity Care Percentage Comparison

	% of Total Revenue	% of Adjusted Revenue
Puget Sound Region	2.01%	4.52%
St. Clare Hospital	1.57%	3.61%
Lakewood Surgery Center	2.00%	4.88%

As shown in the table above, the region average for percent of total revenue is higher than the three year average percent of total revenue provided by St. Clare Hospital.

Lakewood proposes to provide charity care at the same percentage as the South Puget Sound region average for total revenue and higher than the regional average for adjusted revenue. However, since this is a new ASC, if this project is approved the department would attach a charity care condition.

Based on the information provided in the application and Lakewood's agreement to the conditions related to the admission policy and charity care percentages, the department concludes **this sub-criterion is met**.

[4] 2011 charity care data was not available as of the writing of this evaluation

B. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the 'Conclusion' section of this evaluation, the department concludes Lakewood Surgery Center has met the financial feasibility criteria in WAC 246-310-220.

(1) *The immediate and long-range capital and operating costs of the project can be met.*

WAC 246-310 does not contain specific WAC 246-310-220(1) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that direct what the operating revenues and expenses should be for a project of this type and size. Therefore, using its experience and expertise the department evaluates if the applicant's pro forma income statements reasonably project the proposed project is meeting its immediate and long-range capital and operating costs by the end of the third complete year of operation.

Lakewood Surgery Center is currently operating as a CN-exempt ASC. Since it is owned by a group of orthopedic surgeons the surgeries being provided at the facility are primarily orthopedic. The table below shows Lakewood's historical utilization.

Table 5
Lakewood ASC
Historical Surgical Utilization

Year	# Of Procedures
2007	1,305
2008	2,139
2009	2,179
2010	2,158
2011	2,150

The applicant projected its financial viability on its experience and letters from local surgeons expressing a need for access to its ORs. In addition to orthopedic services, Lakewood proposes to expand the types of surgeries performed at the ASC to include general, gynecology, cosmetic/plastic, urology, ENT, and oral/maxilla-facial surgery. The table below is Lakewood Surgery Center's projected surgeries from 2013 through 2015. [Source: Application Appendix N]

Table 6
Lakewood Surgery Center
Estimated Surgical Utilization

Current Services	2013	2014	2015	2016
Orthopedic	2,312	2450	2403	2541
New Services				
ENT/Plastic Surgery	60	120	120	120
General/Other	60	120	120	120
Gynecology/Urology	80	168	168	120
Additional Pain	240	480	480	480
Total	**2,756**	**3,338**	**3,291**	**3,629**

Using the projections above Lakewood Surgery Center also provided its projected revenue and expense statement for years 2013 to 2016.

The table below is a summary of Lakewood Surgery's projected financials. [Source: Application, Appendix N]

Table 7
Lakewood Surgery Center
Revenue and Expense Summary

	Projected FY 2013	**Projected FY 2014**	**Projected FY 2015**	**Projected FY 2016**
Number of Procedures	2,756	3,338	3,291	3,269
Net Revenue	$4,295,384	$5,121,291	$5,045,688	$5,733,895
Total Expenses	$2,890,498	$3,362,058	$3,345,881	$3,628,984
Net Profit or (Loss)	$1,404,885	$1,759,233	$1,699,807$	$2,104,912
Average Revenue per Procedure	$1,559	$1,534	$1,533	$1,754
Average Expenses per Procedure	$1,049	$1,007	$1,017	$1,110
Net Profit or (Loss) per Average Procedure	**$510**	**$527**	**$526**	**$644**

The 'net revenue' line item above is the result of gross revenue minus any deductions for contractual allowances, bad debt, and charity care. The 'total expenses' line item includes staff salaries/wages and other direct costs. It does not include overhead costs. As shown, Lakewood Surgery Center anticipates the ASC would operate at a profit from the beginning in year 2013.

The applicant does not keep balance sheets at the level of the ASC itself. A balance sheet is available, however for the entire operation at the Lakewood location. This includes Puget Sound Orthopaedics (the physician practice), the MRI department at that location, and Lakewood Surgery Center. The applicant provided 2010 and 2011 and 2012 historical balance sheets for the entire Lakewood operation. Below is a summary of years 2010 and 2011, from the audited financial statements. [Source: Second Supplemental Information, Appendix SC2-1]

Tables 8
Lakewood Surgery Center Balance Sheets
Year 2012

Assets		**Liabilities**	
Cash	($742,383)	Current Liabilities	$2,633,309
Accounts Receivable	$2,821,722	Long Term Debt	$3,480,861
Inventories & Other	$161,000	Other Liabilities	$0
Fixed Assets	$4,342,322	**Equity**	**$468,591**
Total Assets	**$6,582,662**	**Total Liabilities and Equity**	**$6,582,662**

Year 2010

Assets		Liabilities	
Cash	($204,765)	Current Liabilities	$2,545,665
Accounts Receivable	$2,493,563	Long Term Debt	$1,517,165
Inventories & Other	$264,428	Other Liabilities	$0
Fixed Assets	$2,372,261	**Equity**	**$762,658**
Total Assets	**$4,825,488**	**Total Liabilities and Equity**	**$4,825,488**

Lakewood Surgery Center made a sizable addition to their fixed assets in 2011 which will affect the balance sheet for several years. The Surgery is profitable and the additional revenue expected to be generated for the small capital expenditure will speed the improvement of the balance sheet.

Based on the financial information above, the department concludes the immediate and long range capital and operating costs of the project can be met. **This sub-criterion is met**.

(2) The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.

WAC 246-310 does not contain specific WAC 246-310-220(2) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that direct what an unreasonable impact on costs and charges would be for a project of this type and size. Therefore, using its experience and expertise the department compared the proposed project's costs with those previously considered by the department.

The capital expenditure associated with this project is $315,000. The entire expenditure will be for medical equipment.

Based on the information provided in the application, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health services within the service area. **This sub-criterion is met**.

To demonstrate compliance with this sub-criterion, Lakewood Surgery Center provided the projected sources of patient revenue at the Center. This source data is shown in the table on the following page. [Source: Application, p32]

Table 9
Lakewood Surgery Center
Projected Sources and Percentages of Revenue

Source of Revenue	Projected
Medicare	18%
State (Medicaid)	6%
Commercial	34.5%
L &I/Workers Comp.	34%
Other	7.5%
Total	**100%**

The majority of revenues are expected to be paid by Medicare/Medicaid, commercial payers, and other state payments. These payer sources are not expected to raise fees or reimbursements based on this project. Based on this information, the department concludes **this sub-criterion is met**.

C. Structure and Process (Quality) of Care (WAC 246-310-230)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the 'Conclusion' section of this evaluation, the department concludes Lakewood Surgery Center has met the structure and process (quality) of care criteria in WAC 246-310-230.

(1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that direct what specific staffing patterns or numbers of Full Time Equivalents (FTEs) should be employed for projects of this type or size. Therefore, using its experience and expertise the department reviews whether the proposed staffing would allow for the required coverage.

Lakewood Surgery Center anticipates being able to recruit any additional staff needed. The table on the following page shows Lakewood Surgery Center's current and projected staffing.

Table 10
Lakewood Surgery Center
Staffing Totals for Years 2013 through 2015

Type of Staff	Current	2013 Year 0	2014 Year 1	2015 Year2	2016 Year 3	Total
Medical Director						
RN	6.30	1.77	1.71	-0.14	0.99	10.63
Surgical Technicians	3.00	0.85	0.81	-0.07	0.47	5.06
Medical Assistant	1.00	0.28	0.27	-0.02	0.16	1.69
LPN	0.00	0.00	0.00	0.00	0.00	0.00
Administration	1.75	0.00	0.00	0.00	0.00	1.75
Surgery Schedulers	1.00	0.00	0.00	0.00	0.20	1.20
Reception	1.60	0.00	0.00	0.00	0.00	1.60
Business Office	1.40	0.10	0.10	0.10	0.10	1.80
IS	0.10	0.00	0.00	0.00	0.00	0.10
Other	0.00	0.00	0.00	0.00	0.00	0.00
Total	**16.15**	**3.00**	**2.89**	**-0.13**	**1.92**	**23.83**

As shown above, Lakewood Surgery Center anticipates adding 3.0 FTEs in year 2013, 2.89 FTEs in 2014 and 1.92 FTEs in2016. Lakewood Surgery Center does not anticipate any difficulties in recruiting new staff since it offers a competitive wage and benefits package. [Source: Application, p33]

Lakewood Surgery Center rotates their medical director among the staff; therefore no medical director was identified.

Based on the information provided above, the department concludes there is a sufficient supply of staff available or staff can be recruited. **This sub-criterion is met**.

(2) *The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.*
WAC 246-310 does not contain specific WAC 246-310-230(2) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet regarding appropriate relationships with ancillary and support services. Therefore, using its experience and expertise the department assesses this sub-criterion.

To comply with this sub-criterion, Lakewood Surgery Center provided a list of existing ancillary and support services vendors. [Source: Application, p33 & Appendix P] If this project is approved, Lakewood Surgery Center does not expect any changes to the existing ancillary and support agreements. The applicant also included a patient transfer agreement. [Source: Application, Appendix Q]

Based on the source information reviewed, the department concludes that there is reasonable assurance Lakewood Surgery Center will continue its relationships with ancillary and support services and approval of this project would not affect those relationships. **This sub-criterion is met.**

(3) *There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.*
WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed Lakewood Surgery Center's history in meeting these standards.

Puget Sound Orthopaedics does not own or operate any other health care facilities in Washington State or out of state. Lakewood Surgery Center has been licensed by the department as an ASC at its current location since 2002. The department's Investigations and Inspections Office (IIO) has completed both compliance and licensing surveys for Lakewood Surgery Center related to its ASC licensure. The most recent survey in February 2013 revealed no substantial non-compliance issues. [Source: IIO compliance data]

The application identifies the ten orthopedists that use Lakewood Surgery Center as those who will continue to be the primary users of the ORs if this project is approved. The names of the 10 surgeons currently using are shown below. [Source: Application, pp1-2]

Table 11
Lakewood Surgery Center Physicians

Name
Julian Arroyo, MD
John Bargren, MD
John Blair, MD
Bede W. Brandt, MD
Spencer Coray, MD
Sean Ghidella, MD
Michael Martin, MD
Gavin Smith, DPM
Steven Teeny, MD
Alan Thomas, MD/PhD

All of these physicians are licensed in the state of Washington and none of them have been disciplined by the department. [Source: Licensing and compliance history data provided by DOH-Medical Quality Assurance Commission]

After reviewing Lakewood Surgery Center's survey history and the physicians' licensing histories, the department concludes the applicant would likely continue to operate Lakewood Surgery Center in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met**.

(4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that direct how to measure unwarranted fragmentation of services or what an appropriate relationship to a services area's existing health care system should look like a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

Lakewood Surgery Center currently operates as a CN-exempt ASC in Pierce County. Since the physician's offices are located with the ASC, staff and records can easily be shared promoting continuity. Ancillary and support service agreements, including existing patient transfer agreements, are not expected to change if this project is approved.

Based on the information provided in the application, the department concludes that approval of this project would not result in unwarranted fragmentation of services within the planning area. **This sub-criterion is met.**

(5) There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.

This sub-criterion is evaluated in sub-section (3) above. Based on that evaluation, the department concludes that **this sub-criterion is met**.

D. Cost Containment (WAC 246-310-240)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the 'Conclusion' section of this evaluation, the department concludes Lakewood Surgery Center has met the cost containment criteria in WAC 246-310-240.

(1) *Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.*

To determine if a proposed project is the best alternative, the department takes a multi-step approach. For applications such as this one under regular review, there are three steps. Step one determines if the application has met the other criteria of WAC 246-310-210 through 230. If it has failed to meet one or more of these criteria, then the project is determined not to be the best alternative, and would fail this sub-criterion. If the project met WAC 246-310-210 through 230 criteria, the department would move to step two in the process.

If the project met WAC 246-310-210 through 230 criteria, the department would move to step two in the process and assess the other options the applicant or applicants considered prior to submitting the application under review. If the department determines the proposed project is better or equal to other options the applicant considered before submitting their application, the determination is either made that this criterion is met (regular or expedited reviews), or in the case of projects under concurrent review, move on to step three.

Step three of this assessment is to apply any service or facility specific criteria (tie-breaker) contained in WAC 246-310. The tiebreaker criteria are objective measures used to compare competing projects and make the determination between two or more approvable projects which is the best alternative. If WAC 246-310 does not contain any service or facility criteria as directed by WAC 246-310-200(2)(a)(i), then the department would look to WAC 246-310-240(2)(a)(ii) and (b) for criteria to make the assessment of the competing proposals. If there are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b), then using its experience and expertise, the department would assess the competing projects and determine which project should be approved.

Step One

For this project, Lakewood Surgery Center's project met the review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step two

For this project, the applicant identified five options before submitting this application. [Source: Application, p55] The options considered by the applicant are listed below.

- No action or postponing action
- Acquistion of a facility with an existing CON
- Limiting CON to Lakewood Surgery Center's existing scope of service (orthopedics, podiatry neurology, and pain)
- Joint venture with a large health care system
- Collaborative service development with a large health care system

The applicant's evaluation of each alternative is shown below.

Aternative 1-No action or postponing action
The disadvantages of the alternative outweighed its advantages. While no action is legally feasible and had no capital or staffing impacts, it neither responds to physician and community need nor improves the cost effectiveness of the existing operation. It does not allow the facility to respond to requests from area surgeons to bring their surgery patients to the facility.

Alternative 2- Acquistion of a facility with an existing CON
Acquisition of a facility with an existing CON was considered but rejected as not feasible. The only available CON-approved facility (since closed) was not located in the West Pierce Planning Area. Since this alternative was not feasible, it was rejected and the remaining criteria were not applied.

Alternative 3- Limiting CON to Lakewood Surgery Center's existing scope of service (orthopedics, podiatry neurology, and pain)
The disadvantages of applying for a limited scope CON outweighed the advantages. Since Lakewood Surgery Center already has a very large market share of the Pierce County orthopedic surgery, getting a CON in order to attract additional orthopedic surgeons would not be a productive strategy. Limiting the CON would prevent Lakewood Surgery Center from expanding with the other types of surgery services being requested by outside surgeons.

Alternative 4- Joint venture with a large health care system
The disadvantages of this alternative outweighed the advantages. Though feasible within CON rules and likely to result in the timely receipt of a CN; the capital requirements of this project were small and access to capital was not required. Also, the complex legal and organizational issues of partnering were difficult to overcome.

Alternative 5- Collaborative service development with a large health care system
At this point in time and for this project, this alternative is not determined to be advantageous by the applicant. Proliance is exploring possible affiliations in the future as the health care system changes, but for immediate needs of the community this alternative was rejected.

Step Three
There were no competing applications for this project; therefore step three was not evaluated.

The department concluded that the need for additional CN-approved operating rooms was appropriate under WAC 246-310-270(9). As a result, **this sub-criterion is met**.

APPENDIX A