



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH

February 26, 2015

CERTIFIED MAIL # 7009 0960 0000 5564 6584

David Schultz, President and CEO  
Harrison Medical Center  
2520 Cherry Avenue  
Bremerton, WA98310

Richard Petrich, VP Planning  
Franciscan Health System  
1149 Market Street  
MS- 10-12  
P.O. Box 2197  
Tacoma, WA 98402

RE: CN: App #15-08

Dear Mr. Bosch and Mr. Petrich:

We have completed review of the amended Certificate of Need (CN) application submitted by Harrison Medical Center and Catholic Health Initiatives Franciscan Health System proposing to amend CN#1463A-T due to increased capital costs beyond the \$24,963,634, associated with the 50 bed addition at its Silverdale campus. For the reasons stated in the enclosed decision, the amended application is consistent with the applicable criteria of the Certificate of Need Program, provided Harrison Medical Center and Catholic Health Initiatives-Franciscan Health System agrees to the following in its entirety.

Project Description

Harrison Medical Center and Catholic Health Initiatives-Franciscan Health System is approved to amend CN#1463A-T due to increased capital costs associated with the 50 bed addition at the Silverdale campus. At project completion, the total number of licensed acute care beds at Harrison Medical Center will be 347. The breakdown of the licensed acute care beds is shown below.

**CHI-FHS /Harrison Medical Center  
CN #1463A-T Acute Care Bed Breakdown**

Type of Service	Bremerton Campus Licensed Beds	Silverdale Campus Licensed Beds
General Medical Surgical	242	70
Psychiatric-PPS Exempt	11	0
Level II-Intermediate Care Nursery	0	24
<b>Total</b>	<b>253</b>	<b>94</b>



**Conditions<sup>1</sup>**

1. Approval of the project description as stated above.
2. Franciscan Health System and Harrison Medical Center will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Franciscan Health System and Harrison Medical 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 Puget Sound Region. Currently, this amount is 1.95% of gross revenue, and 4.73% of adjusted revenue. Franciscan Health System and Harrison Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

**Approved Costs:**

The approved capital expenditure is \$31,424,335.

Please notify the Department of Health within 20 days of the date of this letter whether you accept the above project description, conditions, and capital costs for your project. If you accept these in entirety, your application will be approved and a Certificate of Need sent to you.

If you reject any of the above provision your application will be denied. The department will send you a letter denying your application and provide you information regarding your appeal rights.

Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

Mailing Address:  
Department of Health  
Certificate of Need Program  
Mail Stop 47852  
Olympia, WA 98504-7852

Physical Address:  
Department of Health  
Certificate of Need Program  
111 Israel Road SE  
Tumwater, WA 98501

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<sup>1</sup> Conditions associated with CN#1463, CN#1463A and CN#1463A-T remains in effect.

David Schultz, President and CFO  
Harrison Medical Center, and;  
Richard Petrich, VP Planning  
Franciscan Health System  
February 26, 2015  
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If you have any questions, or would like to arrange for a meeting to discuss our decision, please contact Janis Sigman with the Certificate of Need Program at (360) 236-2955.

Sincerely,



Steven M. Saxe, FACHE  
Director, Office of Community Health Systems

Enclosure

**EVALUATION DATED FEBRUARY 26, 2015, OF THE CERTIFICATE OF NEEDS  
APPLICATION SUBMITTED BY HARRISON MEDICAL CENTER TO AMEND  
CERTIFICATE OF NEED #1463A-T DUE TO COST OVERRUN.**

**APPLICANT DESCRIPTION**

Catholic Health Initiatives (CHI) and Franciscan Health System (FHS) are the applicants. Franciscan Health System is part of the Catholic Health Initiatives. CHI is one of the largest not-for-profit health care systems in the United States. Through one of its subsidiaries, Catholic Health Initiatives operates 118 health care facilities in 22 states. For Washington State, FHS is the subsidiary that owns or operates a variety of health care facilities including hospitals, dialysis centers, a skilled nursing facility, ambulatory surgery centers, a Medicare certified hospice agency, and a hospice care center. Listed below are the seven hospitals own or operated by CHI-FHS. [Source: CN historical files]

**Harrison Medical Center**

St. Anthony Hospital, Gig Harbor  
Highline Medical Center  
Regional Hospital  
St. Elizabeth Hospital, Enumclaw

St. Joseph Medical Center, Tacoma  
St. Clare Hospital, Lakewood  
St. Francis Hospital, Federal Way

Harrison Medical Center (HMC) is a not-for-profit hospital serving the residents of Kitsap County. HMC includes two campuses under one license. The Silverdale campus is located in the city of Silverdale and Bremerton campus is located in the city of Bremerton within Kitsap County. HMC provides Medicare/Medicaid acute care services to the residents of Kitsap County and surrounding areas. HMC currently has licensed for 297 acute care beds and the breakdown of those beds is shown in Table1 below.

**Table 1  
CHI-FHS/HMC  
Current Acute Care Bed Breakdown**

<b>Type of Service</b>	<b>Licensed Beds Bremerton</b>	<b>Licensed Beds Silverdale</b>
General Acute Care	242	44
Psychiatric	11	0
<b>Total</b>	<b>253</b>	<b>44</b>

HMC was surveyed in 2013 and has an active accreditation from The Joint Commission effective through 2014. In addition to the hospitals, HMC also owns and operates a Medicare certified home health agency and an outpatient clinic in Port Orchard that provides urgent care, imaging, and primary specialty care. The inpatient services currently provided at the HMC campus located in Bremerton include medical-surgical services, orthopedic services, emergency services, and critical care services, cardiovascular services including open-heart surgery, rehabilitation services, oncology services, behavioral health, pain management, sleep center, and inpatient dialysis. Inpatient services currently provided at the campus located in Silverdale include mother/baby care, women’s services, outpatient surgery, rehabilitation, and emergency services.

## **BACKGROUND INFORMATION**

On November 3, 2008, Harrison Medical Center (HMC) submitted a Certificate of Need application proposing to add 92 acute care beds to the hospital. The bed addition was part of a larger construction project that included completion of a new six story patient tower. Because of the size of the construction project, HMC was required to obtain a conditional use permit. Since the department is precluded from issuing a Certificate of Need (CN) until an applicant obtains a conditional use permit, the department issued an "Intent to Issue" a CN for the project on June 1, 2009. On February 24, 2012, upon providing a copy its conditional use permit, the department issued CN #1463 to HMC consistent with the intent to issue. The approved capital expenditure was \$69,044,583. [Source: CN #1463 and progress report files]

On October 7, 2011, HMC submitted an application to amend CN #1463 by reducing the number of beds to be added to the hospital from 92 to 50 and reducing capital expenditure associated with the project. The department issued CN #1463A to HMC on May 22, 2012. The capital expenditure associated with the 50-bed addition to the hospital is \$24,963,634.

On August 1, 2013, HMC and Catholic Health Initiatives-Franciscan Health System (CHI-FHS) became affiliates as described by the determination of reviewability application submitted by FHS.<sup>1</sup> The applicant submitted application transfer CN #1463A. On June 12, 2014, the department issued CN#1463A-T to HMC/CHI-FHS with an approved capital expenditure of \$24,963,634. [Source: CN #1463A and progress report files]

## **PROJECT DESCRIPTION**

HMC proposes to amend CN#1463A-T because of an increase in expenditures beyond the \$24,963,634 approved costs associated with the 50 beds additions at its Silverdale campus. [Source: Application, Page 10]

### **Increase in Cost**

Under CN rules, if the cost of a project increases by more than \$50,000 or 12% above the approved amount, an amended CN is required. Within its application to amend CN #1463A-T, HMC identified an increase in capital expenditure from \$24,963,634 to \$31,424,335 equating to approximately 26% increase. [Source: Amendment Application, Page 10]

### **Harrison Medical Center**

HMC is a two-campus not-for-profit hospital that provides Medicare/Medicaid acute care services to residents of Kitsap County and surrounding areas. Both campuses are located in Kitsap County and licensed under one hospital license. The address of the Silverdale campus is 1800 Northwest Myhre Road [98383] and the Bremerton campus is 2520 Cherry Avenue [98310]. HMC holds a three-year accreditation with the Joint Commission<sup>2</sup> and is a Washington State designated level III adult trauma hospital. [Source: CN historical files]

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<sup>1</sup> Determination of Reviewability #13-24.

<sup>2</sup> The Joint Commission accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards. [source: Joint Commission website]

On July 14, 2014, the department issued CN#1463A-T approving the transfer of CN#1463A from HMC to CHI-FHS. CN #1463A approved the addition of 50 acute care beds to HMC Silverdale campus. The project has been completed and the department record shows HMC is licensed for 347 acute care beds at two campuses. The breakdown of HMC 347 beds by type and campus is shown in Table 2 below.

**Table 2**  
**CHI-FHS /Harrison Medical Center**  
**CN #1463A-T Acute Care Bed Breakdown**

Type of Service	Bremerton Campus Licensed Beds	Silverdale Campus Licensed Beds
General Medical Surgical	242	70
Psychiatric-PPS Exempt	11	0
Level II-Intermediate Care Nursery	0	24
<b>Total</b>	<b>253</b>	<b>94</b>

This application does not propose any change in the project, other than to amend CN#1463A-T due to capital expenditure approved costs increases from \$24,963,634 to \$31,424,335 or 26% higher.

**APPLICABILITY OF CERTIFICATE OF NEED LAW**

This project is subject to review under WAC 246-310-570(1)(e) because the costs of the project have increased beyond the amount allowable in WAC 246-310-570.

**CRITERIA EVALUATION**

WAC 246-310-200(1)(a)-(d) identifies the four determinations that 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.*”

The review for a project amendment is limited to only those criteria that would be affected by increase in the project. Information within the application stated the project associated with CN#1463A-T has been completed and the applicant submitted this application solely because of an increase in capital cost beyond the approved amount. As a result, the department’s review will focus on the applicable portions of financial feasibility (WAC 246-310-220) and cost containment (WAC 246-310-240).<sup>3</sup> Additionally, all conditions of the initial approval that are not requested to be explicitly modified as part of an applicant’s request for an amendment remain in effect.

**APPLICATION CHRONOLOGY**

<b>Action</b>	<b>HMC</b>
Letter of Intent Submitted	March 13, 2014
Application Submitted	September 12, 2014
Department’s Pre-review Activities including <ul style="list-style-type: none"> <li>• DOH 1st Screening Letter</li> <li>• Applicant’s Screening Responses Received</li> </ul>	October 3, 2014 November 17, 2014
Beginning of Review	November 24, 2014
End of Public Comment <ul style="list-style-type: none"> <li>• Public comments accepted through</li> <li>• Public hearing conducted<sup>4</sup></li> <li>• Rebuttal Comments Received<sup>5</sup></li> </ul>	December 15, 2014 December 30, 2014
Department’s Anticipated Decision Date	January 20, 2015
Department’s Actual Decision Date	February 26, 2015

**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.*”

Throughout the review of this project, no entities sought and received affected person status under WAC 246-310-010(2).

<sup>3</sup> Each criterion contains certain sub-criteria. The following sub criteria are not relevant to this project: WAC 246-310-210(1), (3), (4), (5) and (6) and WAC 246-310-230.

<sup>4</sup> There is no public hearing conducted under the expedited review rules

<sup>5</sup> There were no public comments received for this project. Therefore, the applicant did not provide rebuttal comments.

## **SOURCE INFORMATION REVIEWED**

- Harrison Medical Center's Certificate of Need amendment application submitted September 12, 2014
- Harrison Medical Center's supplemental information received November 17, 2014
- The department's May 20, 2009, initial evaluation approving Harrison Medical Center's addition of 92 beds to the Silverdale campus and reduction of 42 beds at the Bremerton campus
- "Intent to Issue CN" dated June 1, 2009
- Certificate of Need #1463 issued on February 24, 2012
- CN #1463A issued on May 8, 2012
- Certificate of Need #1463A-T issued on July 14, 2014
- The department's June 12, 2014 evaluation approving the transfer of CN#1463A from Harrison Medical Center to CHI-Franciscan Health Systems due acquisition
- Quarterly Progress Reports completed and submitted by Harrison Medical Center related to the Intent to Issue [Reports submitted quarterly beginning in September 2009, and each quarter thereafter for years 2010 through August 2014]
- Financial Feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems dated September 29, 2014
- Financial Feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems dated January 14, 2015
- Joint Commission website [[www.jointcommission.org](http://www.jointcommission.org)]



**CONCLUSIONS**

For the reasons stated in this evaluation, the application submitted by Franciscan Health System and Harrison Medical Center proposing to amend Certificate of Need #1463A-T because an increase in costs is consistent with applicable criteria of the Certificate of Need Program, provided Franciscan Health System and Harrison Medical Center agrees to the following in its entirety.

**Project Description**

This certificate approves Harrison Medical Center and Catholic Health Initiatives Franciscan Health System to amend CN#1463A-T due to increased capital costs associated with the 50 bed addition at the Silverdale campus. At project completion, the total number of licensed acute care beds at Harrison Medical Center and Catholic Health Initiatives-Franciscan Health System will be 347. The breakdown of the licensed acute care bed is shown below.

**CHI-FHS /Harrison Medical Center  
CN #1463A-T Acute Care Bed Breakdown**

<b>Type of Service</b>	<b>Bremerton Campus Licensed Beds</b>	<b>Silverdale Campus Licensed Beds</b>
General Medical Surgical	242	70
Psychiatric-PPS Exempt	11	0
Level II-Intermediate Care Nursery	0	24
<b>Total</b>	<b>253</b>	<b>94</b>

**Conditions<sup>6</sup>**

1. Approval of the project description as stated above.
2. Franciscan Health System and Harrison Medical Center will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Franciscan Health System and Harrison Medical 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 Puget Sound Region. Currently, this amount is 1.95% of gross revenue, and 4.73% of adjusted revenue. Franciscan Health System and Harrison Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

**Approved Costs:**

The approved capital expenditure is \$31,424,335.

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<sup>6</sup> Conditions associated with CN#1463, CN#1463A and CN#1463A-T remain in effect.

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

Based on the source information reviewed and Catholic Health Initiatives-Franciscan Health System- Harrison Medical Center agreement to the conditions identified in the 'Conclusion section of this evaluation, the department determines that the applicant 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.

### **Previous Certificate of Need Action Relating to This Project**

In its May 1, 2012, amendment evaluation the department concluded that the application met this sub-criterion. This conclusion was reached based on the following factors:

- Reasonableness review of the reduction in its projected number of patients, patient days, and percentage of occupancy based on the reduction in beds from 92 to 50;
- A review of HMC's historical balance sheet for year 2010 and projected balance sheet for the third year of operation with the additional 50 beds (year 2018);
- A review of HMC's projected revenue and expense statements covering years 2013 through 2018 with the additional 50 beds; and
- The department Hospital and Patient Data Systems analysis focusing on current (2013) and projected (2016-2018) debt ratios. [Source: September 19, 2014, amendment evaluation, pages 8-12]

### **Previous Certificate of Need Action Relating to This Project**

In its June 12, 2014, Transfer evaluation the department concluded that the application met this sub-criterion. This conclusion was based on the followings:

- No changes were expected in the projected number of admissions, patient days, or average daily census of the hospital for years 2013 through 2018;
- Projected Revenue and Expense statements for years 2013 through 2018 did not change,
- HMC would continue to be a two-campus hospital with a total of 347 licensed acute care beds; and
- Projected payer mix was not expected to change from the hospital's historical payor mix.

**CHI-FHS /HMC Current Application Review**

To comply with this sub-criterion the applicant stated all financing associated with CN#1463A has been completed and ongoing costs associated with the financing were included in its pro-forma financial statement. The applicant stated it obtained private placement bond financing through the Washington Health Care Facility Authority and the bond financing closed on June 28, 2012. Further, the applicant stated that in November 2013, it refinanced the debt associated with CN#1463A and any long-term debt with Catholic Health Initiatives. Information within the application stated the interest and terms associated with the refinancing are reflected in the pro-forma financial statement within the application.

Information within the application stated pre-affiliation; Harrison was able to secure the capital expenditure needed for the project and it substantially completed the project before it affiliated with CHI-FHS. A review of the department historical record shows the applicant submitted a final attestation of costs from the building construction contractor on December 2013. [Source: Amendment Application, Pages 30-34]

For this amendment project, to evaluate whether the project would meet its immediate and long range operating costs, the department reviewed CHI-FHS/HMC’s pro forma financial statements. A summarized of the revenue and expense statements is shown below.

**Table 3**  
**CHI-FHS/HMC Pro forma With Project Revenue and Expense Statement Summary**  
**Years 2012-2018**

	2012	2013	2014	2015	2016	2017	2018
Total Revenue	\$368,666,000	\$399,939,000	\$435,419,000	\$469,472,000	\$505,430,000	\$541,293,000	\$547,337,000
Total Expenses	\$365,736,000	\$389,107,000	\$416,528,000	\$442,249,000	\$468,070,000	\$493,563,000	\$497,508,000
Net Profit or (Loss)	\$2,930,000	\$10,831,000	\$18,891,000	\$27,222,000	\$37,360,000	\$47,730,000	\$49,829,000

The ‘total operating expense’ line item includes staff salaries/wages and other direct expenses. As shown in Table 3 above, the applicant projects net profits for the project. CHI-FHS/HMC provided its depreciation and interest expenses cost comparison for the initial amendment application and this cost overrun amendment application. Summarized below is that comparison. [Source: Supplemental information received November 17, 2014]

**Table 4**  
**CHI-FHS/HMC Comparison of Depreciation and Interest Expenses 2011 Amendment**  
**Application and 2014 Cost Overrun Application**

	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Depreciation (Current Application)	\$22,640,000	\$22,640,000	\$22,640,000	\$22,640,000
Depreciation (2011 Application)	\$22,225,000	\$22,225,000	\$22,225,000	\$22,225,000
Difference	\$415,000	\$415,000	\$415,000	\$415,000
% of Difference	1.9%	1.9%	1.9%	1.9%
Interest Expenses (2011 Amendment)	\$5,780,000	\$5,740,000	\$5,699,000	\$5,699,000
Interest Expenses (current Application)	\$4,885,000	\$4,657,000	\$4,415,000	\$4,160,000
% of Difference	-15.5%	-18.9%	-22.5%	-27.0%

Further, to comply with this sub criterion, the applicant also provided its financial balance sheets. A summary of the applicant's balance sheet is shown below.

**Table 5**  
**CHI 2013 Balance Sheet**

Assets		Liabilities	
Current Assets	\$3,175,461,000	Current Liabilities	\$2,940,822,000
Board Designated Assets	\$7,099,006,000	Long Term Debt	\$6,334,985,000
Property/Plant/Equip.	\$7,786,240,000	Other	\$1,787,787,000
Other	\$1,249,012,000	<b>Equity</b>	<b>\$8,246,125,000</b>
<b>Total Assets</b>	<b>\$19,309,719,000</b>	<b>Total Liabilities and Equity</b>	<b>\$19,309,719,000</b>

**Table 6**  
**HMC's Balance Sheet Year 2013**

Assets		Liabilities	
Current Assets	\$85,777,715,000	Current Liabilities	\$56,274,198,000
Board Designated Assets	\$170,910,474,000	Long Term Debt	\$112,185,021,000
Property/Plant/Equip.	\$139,267,068,000	Other	\$42,401,006,000
Other	\$44,871,676,000	<b>Equity</b>	<b>\$229,966,708,000</b>
<b>Total Assets</b>	<b>\$440,826,933,000</b>	<b>Total Liabilities and Equity</b>	<b>\$440,826,933,000</b>

As shown above, it appears the project is financial feasible. To analyze short- and long-term financial feasibility of hospital projects and to assess the financial impact of a project on overall facility operations, the department uses financial ratio analysis provided by the department's Hospital and Patient Data Systems (HPDS). The analysis assesses the financial position of an applicant both historically and prospectively. The financial ratios utilized are 1) long-term debt to equity ratio; 2) current assets to current liabilities ratio; 3) assets financed by liabilities ratio; 4) total operating expense to total operating revenue ratio; and 5) debt service coverage ratio. If a project's ratios are within the expected value range, the project can be expected to be financially feasible. The ratios are calculated from all community hospitals in Washington State. The "A" means it is better if the number is above the state average number and "B" means it is better if the number is below the state number. A summary HPDS analysis is shown in Table 7.

**Table 7  
Current and Projected HPDS Debt Ratios for CHI-FHS/HMC**

Category	Trend	State	HMC	Projected				
		2012	2013	2014	2015	2016	2017	2018
Long Term Debt to Equity	B	0.586	0.485	0.403	0.347	0.291	0.238	0.198
Current Assets/Current Liabilities	A	1.797	2.176	2.115	2.143	2.135	2.123	2.140
Assets Funded by Liabilities	B	0.468	0.373	0.343	0.316	0.287	0.257	0.229
Operating Expense/ Revenue	B	0.945	0.973	0.973	0.942	0.926	0.912	0.909
Debt Service Coverage	A	5.362	4.057	4.922	5.842	6.901	8.157	8.544
<b>Definitions:</b>	<b>Formula</b>							
Long Term Debt to Equity	Long Term Debt/Equity							
Current Assets/Current Liabilities	Current Assets/Current Liabilities							
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets							
Operating Expense/Operating Revenue	Operating expenses / operating revenue							
Debt Service Coverage	Net Profit+Depr. and Interest Exp/Current Mat. LTD and Interest Exp							

HPDS in its analysis of the applicant ratios stated the project would have an impact, but it will not adversely affect the applicant's financial health if the patient volumes are realized. HPDS shows the applicant Long-Term Debt to Equity Ratio at the end of 2013 fiscal year is 0.485, which is better than the 2012 state average of 0.586. HPDS review shows that the applicant ratio for year 2018 is better than the state average or within a reasonable range. HPDS review also shows the applicant's Long Term Debt to Equity and the Debt Service Coverage improving. HPDS concluded the applicant ratios are normally going to be out of range for a new project due to the new debt added for this project, but the applicant financial appears to be even by the sixth year of operation. [Source: HPDS 2014, analysis, p3] Based on the information above, the department concludes that the immediate and long-range 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 directs 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.

**Previous Certificate of Need Action Relating to This Project**

In its May 1, 2012, amendment evaluation the department concluded the application met this sub-criterion. This conclusion was reached based on the following factors:

- HMC's basis for establishing its construction costs for the project;
- construction cost analysis provided by HPDS dated May 12, 2012;
- the non-binding construction cost estimator letter confirming the reasonableness of the reduced construction costs; and
- a reasonableness review of the building construction costs in relation to the potential impact on costs and charges. [Source: May 1, 2012, initial evaluation, Page 12]

### **CHI-FHS/ HMC Current Application Review**

In this amendment application, the applicant stated the project is complete and submitted this application to amend Certificate of Need #1463A-T because of increase in approved cost. On November 4, 2014, documentation provided by the applicant with its September 2014 progress report includes a final cost verification letter from the project contractor. The letter shows the final costs associated with construction and taxes to be \$20,745,484.42. [Source: September 2014 Progress report received November 4, 2014]

In addition, HPDS reviewed the applicant construction costs and stated the costs are reasonable when compared to similar projects previously reviewed. HPDS concluded, "*The costs of the project are the costs and charges the patients and community actually see come out of their pocketbook*". [Source: HPDS 2014 analysis, Page 4] Based on the information above, the department concludes **this sub-criterion remains met.**

#### **(3) The project can be appropriately financed.**

WAC 246-310 does not contain specific source of financing 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 directs how a project of this type and size should be financed. Therefore, using its experience and expertise the department compared the proposed project's source of financing to those previously considered by the department.

### **Previous Certificate of Need Action Relating to This Project**

In its May 1, 2012, amendment evaluation the department concluded the application met this sub-criterion. This conclusion was reached based on the following factors:

- HMC's basis for establishing its construction costs for the project
- construction cost analysis provided by HPDS dated May 12, 2012;
- the non-binding construction cost estimator letter confirming the reasonableness of the reduced construction costs; and
- HPDS reasonableness review of the building construction costs in relation to the potential impact on costs and charges. [Source: May 1, 2012, initial evaluation, Page 12]

In its June 12, 2014, transfer evaluation the department concluded HMC's application demonstrated compliance with this sub criterion based on the following factors:

- HMC completed the majority of the project before affiliation with CHI-FHS and refinanced the project long-term debt with Catholic Health Initiatives, the parent company of FHS. The new financing has a 19-year term with a variable interest rate. The new financing was reflected in the financial statements provided in the transfer application
- The final costs of the project exceed the capital cost increases as allowed under WAC 246-310-570. Documentation within the transfer application demonstrated the applicant intend to submit an amendment application related to the cost increases

### **CHI-FHS/HMC Current Application Review**

In this amendment application, the applicant stated the project has been completed and submitted this application to amend Certificate of Need #1463A-T because of increase in approved cost. On November 4, 2014, documentation provided by CHI-FHS/HMC with its September 2014 progress report includes a final cost verification letter from the project contractor.

The letter shows \$20,745,484.42 as the final costs associated with construction. Information within the application showed the applicant used \$5,112,535 from its cash reserve and financed the sum of \$19,851,099 with tax-exempt bond. In its review of the applicant's financials, HPDS staff concluded the applicant has adequate reserves and the interest rate associated with bond financing is reasonable. [Source: HPDS 2014 analysis, Page 5]

The department concludes the applicant has demonstrated a financial commitment for this project and the project was appropriately financed. **This sub-criterion is met.**

### **C. Cost Containment (WAC 246-310-240)**

Based on the source information reviewed and provided that Catholic Health Initiatives-Franciscan Health System- Harrison Medical Center agrees to the conditions identified in the 'conclusion' section of this evaluation, the department determines that the application 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.* WAC 246-310 does not contain specific WAC 246-310-240(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how to measure superior alternatives for a specific project. Therefore, using its experience and expertise the department assessed the materials in the application that addressed the reasonableness of choosing this project over others considered.

### **Previous Certificate of Need Action Relating to This Project**

In its May 1, 2012, initial evaluation supporting the issuance of CN #1463A, the department concluded that this sub-criterion was met based on the following factors:

- 1) A review of the options considered by HMC before submitting the initial application; and
- 2) The numeric hospital bed need methodology outlined in the 1987 Washington State Health Plan projected a need for additional acute medical/surgical bed capacity in Kitsap County. As a result, the department concluded HMC's project was the best available alternative for Kitsap County. [Source: Initial evaluation, Pages 22 & 23]

In its June 12, 2014, transfer evaluation the department concluded HMC's application proposing to transfer CN#1463A to FHS demonstrated compliance with the followings:

- The documentation provided by the applicant and co-applicant demonstrated that the project as approved under CN #1463A had not changed and the approved project was substantially completed by August 1, 2013. [Source: Transfer evaluation, Pages 19-20]

There is no additional information reviewed in this amendment application that would change the department's previous amendment and transfer evaluations conclusions. **This sub-criterion remains met.**

(2) In the case of a project involving construction:

(a) The costs, scope, and methods of construction and energy conservation are reasonable; and

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concludes that **this sub-criterion is met.**

(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concludes that **this sub-criterion is met.**

(3) The project will involve appropriate improvements or innovations in the financing and delivery of health services which foster cost containment and which promote quality assurance and cost effectiveness.

There is no additional information reviewed in this amendment application that would change the department's previous amendment and transfer evaluations conclusions. The department is satisfied the project is appropriate and needed. **This sub-criterion remains met.**