



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

July 9, 2015

CERTIFIED MAIL # 7014 2120 0002 7587 6149

Rick Canning
Executive Vice President, Inpatient Services
Confluence Health
Wenatchee Valley Hospital
820 N Chelan Avenue
Wenatchee, WA 98801

RE: CN 15-16

Dear Mr. Canning:

We have completed review of your Certificate of Need (CoN) application proposing to convert three general medical/surgical beds to level I rehabilitation. For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Confluence Health on behalf of Wenatchee Valley Hospital agrees to the following in its entirety.

Project Description:

This Certificate approves the conversion of three licensed acute care beds from Wenatchee Valley Hospital's general medical-surgical capacity to its dedicated level I rehabilitation unit. At project completion, Wenatchee Valley Hospital will continue to be licensed for 20 acute care beds. A breakdown of the beds by type is summarized in the table below.

Type	Existing beds	# of beds after project completion
General Medical/Surgical Beds	14	11
Dedicated or PPS Exempt Rehabilitation Level 1 Beds	6	9
Total Licensed Beds	20	20

Conditions:

1. Wenatchee Valley Hospital agrees with the project description stated above. Wenatchee Valley Hospital 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. Prior to commencement of the approved project, Wenatchee Valley Hospital will provide the department a copy of its Admission policy for posting as required by WAC 246-320-141. The Admission policy must be consistent with the policy provided in this application.
3. Prior to commencement of the approved project, Wenatchee Valley Hospital will post to its website its Admission policy as required by WAC 246-320-141. The Admission policy posted must be consistent with the policy provided in this application.

Approved Costs:

The approved capital expenditure for this project is \$24,932. 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 their entirety, your application will be approved and a Certificate of Need sent to you.

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

Send your written response to the Certificate of Need Program, at one of the following addresses.

Mailing Address:

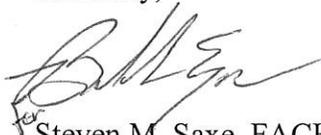
Department of Health
Certificate of Need Program
Mail Stop 47852
Olympia, WA 98504-7852

Physical Address:

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

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, Community Health Systems

Enclosure

**EVALUATION DATED JULY 9, 2015 FOR THE CERTIFICATE OF NEED
APPLICATION SUBMITTED BY WENATCHEE VALLEY HOSPITAL A WHOLLY
OWNED SUBSIDIARY OF CONFLUENCE HEALTH PROPOSING TO ADD THREE
LEVEL I REHABILITATION BEDS IN CHELAN COUNTY**

APPLICANT DESCRIPTION

Confluence Health (CH) is a not-for-profit health care delivery system formed in March 2012. CH is the sole member of Wenatchee Valley Hospital (WVH) and the sole member of Central Washington Hospital (CWH). It is governed by a Board of Directors made up of 9 community members and 6 Wenatchee Valley Medical Center (WVMC) members. The Board is responsible for general oversight and strategy of CH in coordination with the chief executive officer of WVH.

WVH is licensed by the Washington State Department of Health (department) as an acute care hospital and is designated by the department's Office of Emergency Medical Services and Trauma Systems as a Washington State level II rehabilitation trauma center. The Commission on Accreditation of Rehabilitation Facilities currently accredits WVH's rehabilitation unit.¹ [Source: Application pages 9 and 12]

PROJECT DESCRIPTION

WVH is a 20-bed acute care hospital with 6 beds dedicated to level I rehabilitation. This application proposes to convert three general/medical surgical beds to level I rehabilitation beds.

Healthcare services offered at WVH range from general inpatient acute care to specialty care and rehabilitative services. A breakdown of WVH's current and projected number of beds is shown below. [Source: Application, Page 13]

Type	Existing beds	# of beds after project completion
General Medical/Surgical Beds	14	11
Dedicated or PPS Exempt Rehabilitation Level I Beds	6	9
Total Licensed Beds	20	20

The estimated capital expenditure for this project is \$24,932, which is solely for moveable equipment and associated tax. [Source: Application, Page 20].

Based on the timeline established within the application, year 2016 would be WVH's first year of operation with 9 level I rehabilitation beds and 11 acute care beds, and year 2018 would be year three. [Source: Application, Page 14]

¹ The Commission on Accreditation of Rehabilitation Facilities, CARF International is an independent, nonprofit accreditor of health and human services in a variety of healthcare areas including rehabilitation. [source: www.carf.org]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review as the change in bed capacity of an existing health care facility under Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

EVALUATION CRITERIA

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 the 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 Certificate of Need approval, WVH 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).²

² 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); and WAC 246-310-240(2) and (3).

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	Wenatchee Valley Hospital
Letter of Intent Submitted	September 8, 2014
Application Submitted	November 13, 2014
Department's Pre-review Activities including	
• DOH 1st Screening Letters	November 20, 2014
• Applicant's 1st Screening Responses Received	January 22, 2015
• DOH 1st and 2 nd Screening Letters	February 23, 2015
• Applicant's 2nd Screening Responses Received	March 2, 2015
Beginning of Review	March 10, 2015
• End of Public Comment	
• Public comments accepted through	April 14, 2015
• No Public hearing conducted	
• Rebuttal Comments Received ³	April 28, 2015
Department Anticipated Decision Date	June 12, 2015
Department's Actual Decision Date	July 9, 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 or received affected person status.

SOURCE INFORMATION REVIEWED

- Wenatchee Valley Hospital Certificate of Need Application received November 13, 2014
- Wenatchee Valley Hospital supplemental information received January 22, 2015, and March 22, 2015
- Historical charity care data obtained from the Department of Health's Hospital and Patient Data Systems (2011, 2012, and 2013 summaries)
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems received April 16, 2015
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Washington State Secretary of State website [www.secstate.wa.gov]

³ The department did not receive any public comment; therefore, no rebuttal comments could be submitted.

- Data obtained from CARF website www.carf.org
- Certificate of Need historical file

CONCLUSION

For the reasons stated in this evaluation, the Certificate of Need application submitted by Wenatchee Valley Hospital proposing to add three dedicated level I rehabilitation beds to the hospital, is consistent with applicable criteria of the Certificate of Need Program, provided Wenatchee Valley Hospital agrees to the conditions stated below in its entirety.

Project Description:

This Certificate approves the conversion of three licensed acute care beds from Wenatchee Valley Hospital’s general medical-surgical capacity to its dedicated level I rehabilitation unit. At project completion, Wenatchee Valley Hospital will continue to be licensed for 20 acute care beds. A breakdown of the beds by type is summarized in the table below.

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Approved Costs:

The approved capital expenditure for this project is \$\$24,932.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

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 Wenatchee Valley Hospital has met the need criteria in WAC 246-310-210.

(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

There is no specific rehabilitation bed methodology in rule. Therefore, the applicant used a variation of the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan that is used for determining general acute care capacity.

Summary of Wenatchee Valley Hospital's Numeric Methodology

WVH submitted this application to increase its level I rehabilitation beds. To demonstrate numeric need WVH provided a modified version of the acute care bed methodology that focuses on rehabilitation patients and patient days. [Source: Application, Pages 23-29 and Exhibit 9].

Level I rehabilitation services are a tertiary service as identified in WAC 246-310-035. As a tertiary service the planning area is typically much larger than the hospital's general acute care planning area.

For this project, WVH identified its assumptions and factors used in its numeric methodology.

- Level I Rehabilitation Planning Area—four counties: Chelan, Douglas, Grant, and Okanogan.
- Historical Level I Rehabilitation data – CHARS⁴ data years 2004 through 2013.
- Age 15 and older
- Projected Population– Office of Financial Management (OFM) Intercensal and Postcensal Estimates, 1990-2010, and 2010-2013 (November 2013 release); and OFM medium series estimates, 2000-2030 (2012 release).
- Rehabilitation DRGs⁵
- DRG 945 – Rehabilitation with CC⁶ or MCC⁷
- DRG 946 – Rehabilitation without CC or MCC
- Psychiatric Data and DRGs—patients, patient days, and DRGs related to psychiatric services were excluded.

Steps 1 through 4 of the methodology develop trend information on hospital utilization.

In steps 1 through 4, WVH appropriately focused on historical data to determine the health service area [HSA], planning area, and use trends for level I rehabilitation services. Providence computed a use trend line for the HSA, planning area, and statewide. The use trend line projected a mild decline in level I rehabilitation use for the HSA, planning area,

⁴ Comprehensive Hospital Abstract Reporting System.

⁵ DRG=Diagnosis Related Group

⁶ CC=complication or co-morbidity

⁷ MCC=major complication or co-morbidity

and statewide. WVH determined that the HSA trend line was most statistically reliable and applied the data derived from those calculations to the projection years in the following steps.

Steps 5 through 9 calculate a baseline non-psychiatric bed need forecasts.

For these steps, WVH applied its use trend line to the projected population to determine a rehabilitation use rate broken down by population ages 15-64 and ages 65 and older. WVH multiplied the use rates derived from step 6 by the slopes of the HSA, planning area, and statewide ten-year use rate trend line. This step is completed for comparison purposes. The use rates, broken down by age group, and the out-migration ratio are each applied in future steps of this methodology.

Below is the rehabilitation use rate and out-migration ratio, by age group, that WVH applied to the projected population.

Table 1
Wenatchee Valley Hospital Methodology
Use Rate Applied to Projected Population

	Use Rate	Out-Migration Ratio
15- 65 Age Group	10.82/1,000	0.011
65 and Older Age Group	95.02/1,000	0.095

When the use rates are applied to the projected population, the result is the projected number of rehabilitation patient days for the planning area. The numeric methodology is designed to project bed need in a specified “target year.” For bed additions to existing hospitals, it is the practice of the department to evaluate need for a given project through at least seven years from the last full year of available CHARS data. For this application, the last full year of available CHARS data is 2013; therefore, the target year is 2020.

Steps 10 through 12 are intended to determine the total baseline hospital bed need forecasts, including need for short-stay psychiatric services.

Step 11 projects short-stay psychiatric bed need. Step 12 is the adjustment phase where any necessary changes are made to the calculations in the prior steps to reflect conditions, which might cause the pure application of the methodology to under-or over-state the need for acute care beds.

In steps 10 through 12, WVH projected the number of rehabilitation beds needed in the planning area, subtracted the existing capacity of rehabilitation of beds, resulting in a net need for level I rehabilitation beds. For existing capacity, WVH subtracted 6 rehabilitation beds that are currently operated by WVH.

These steps also allow psychiatric projections, which WVH appropriately did not compute [step 11], and allow for other adjustments in population, use rates, market shares, out-of-area use and occupancy rates [step 12]. WVH did not include any other adjustments than those described in the previous steps. The table below shows the results of WVH’s numeric methodology for years 2015 through 2020.

Table 2
Wenatchee Valley Hospital Methodology Bed Need Summary

	2015	2016	2017	2018	2019	2020
Gross Number of Beds Needed	6.97	7.10	7.23	7.37	7.52	7.69
Minus Existing Capacity	6	6	6	6	6	6
Net Bed Need or (Surplus)	0.97	1.10	1.23	1.37	1.52	1.69

As shown above in Table 2, for current year 2015, WVH projected a need for 0.97 rehabilitation beds, which increases to 1.69 by the end of year 2020 or a need for 2 beds. Using only this method, a need for 3 beds does not materialize until the year 2026. However, WVH identified three recent developments in the planning area that it suggests impact the need for additional beds and are not reflected in the historical bed use data.

First, WVH recently affiliated with University of Washington Medical Center to develop and offer a telestroke program. Second, WVH expanded physician clinic operations in the planning area, which it expects will reduce current outmigration for rehabilitation services. Finally, with the creation of Confluence Health referrals from Central Washington Hospital is expected to be more likely. The department concurs that these factors are likely to make a difference in the number of patients seeking rehabilitation services at WVH.

WVH is the only provider of adult level I rehabilitation services in the planning area. WVH stated 11 patients during 2014 as of the date of their application could not be accepted because it did not have a rehabilitation bed available. In WVH's January 2015 screening response that number had risen to 16 patients. [Source: Application Page 29 and January 23, 2015 screening responses Page 3] The next closest rehabilitation unit is in Central Washington and is approximately 100 miles one way in Yakima. Even though this is a tertiary health service where patients are expected to travel farther to obtain those services, this places a burden on the patients and their families. Based on the source information evaluated the department concludes **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 a planning area would have access to an applicant's proposed services, the department requires applicants 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 that 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 policy 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, the applicant provided a copy of WVH “Hospital, Admissions, Transfers and Referrals: Medical/Surgical/Rehabilitation Unit”⁸ policy currently used by the hospital. The policy outlines the process/criteria that WVH currently uses to admit patients for treatment or care at the hospital. The policy provides the required non-discrimination statements to ensure continued access to the hospital by residents of the service area. [Source: Application, Page 31 and Exhibit 11]. The department notes the policy posted to the hospital’s website as required by WAC 246-320-141(8) is not same as the admission policy #1175 provided in the application. Additionally, the department has not received a copy of WVH’s admission policy to post on its website. Therefore, if this application is approved an admission policy condition would be necessary.

The department uses Medicare certification to determine whether the elderly would have access, or continue to have access, to the proposed services. To demonstrate compliance with this sub-criterion, WVH stated that it currently contracts with Medicare and it intends to maintain this status with additional rehabilitation beds. Further, financial data provided in the application includes Medicare revenues [Source: Application, Page 16 and Supplemental information received March 2, 2015, Exhibit 26]

The department uses the facility’s Medicaid certification or contracting with Medicaid to determine whether low-income residents would have access, or continue to have access, to the proposed services. To demonstrate compliance with this sub-criterion, WVH stated that it currently contracts with Medicaid and intends to maintain this status with additional rehabilitation beds. Further, financial data provided in the application includes Medicaid revenues. [Source: Application, Pages 16 and Supplemental information received March 2, 2015, Exhibit 26]

A facility’s charity care policy should confirm that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to healthcare services of the applicant. The policy should also include the process one must use to access charity care at the facility.

To demonstrate compliance with this sub-criterion, WVH provided a copy of the current, Compassionate Care Program policy used at WVH. [Source: Application, Exhibit 10] The policy outlines the process/criteria that patients use to access services at WVH. Further, WVH included a ‘charity care’ line item as a deduction from revenue within its pro forma financial statement. [Source: Supplemental information received March 2, 2015, Exhibit 26] The policy is consistent with the charity care policy approved by the department and posted to its website.

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. WVH is located in Chelan County within the Central Region. Currently there are 21 hospitals located within the region, including WVH. The table below shows a comparison of WVH’s most recent three-year (2011-2013) average percentage of charity care for gross and adjusted revenues and the Central Region’s averages. [Source: HPDS 2011-2013 charity care summaries and January 23, 2015 Screening responses Page 4 and 17]

⁸ Policy and Procedure #1175

Table 4
Charity Care Percentage Comparison

	% of Total Revenue	% of Adjusted Revenue
Central Region 3-year historical average	2.37%	5.46%
WVH 3-year historical average	2.69%	6.30%

As shown in table 4, WVH has exceeded the Central Region’s historical averages for both total revenue and adjusted revenue. WVH projects its charity care percentage to be 3.00% of total revenue for at least the first three years of operation with 9 beds. Based on WVH’s history the department concludes this level of charity care is appropriate. Therefore, **this sub-criterion is met.**

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

Based on the source information reviewed 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 directs 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.

To evaluate this sub-criterion, the department first reviewed the assumptions used by WVH to determine the projected number of patient discharges and days for level I rehabilitation services. The assumptions used by WVH are summarized below. [Source: Application, Pages 11-12 and 41-42]

- Actual 2009 through 2013 rehabilitation patient discharges and days were reviewed. The review showed an upward trend in both discharges and days. Discharges increased at 0.94% on average and patient days increased by 2.43% per year.
- A linear regression curve was applied to the historical data to forecast discharges and patient days for years 2014 through 2021.
- Average length of stay (ALOS) was held constant at the 2014 ALOS of 14.20 days.
- In year 2018, when the level I rehabilitation patient days reaches 5,917, the occupancy percentage would be 63.0%.

Using the assumptions stated above, WVH projected its patient discharges and days for years 2015 through 2020 summarized in the table below. [Source: Application, Page 34]

Table 5
Wenatchee Valley Hospital Projected
Level I Rehabilitation Discharges and Days

	2015	2016	2017	2018	2019	2020
Number of Beds	9	9	9	9	9	9
Patient Discharges	382.6	368.2	389.8	393.5	397.2	401.0
Patient Days	5,503	5,636	5,774	5,917	6,066	6,237
Average Occupancy	44.2%	53.5%	58.2%	63.0%	67.9%	70.3%

After reviewing WVH assumptions and projections above, the department concludes they are reasonable. Based on the timeline established within the application, year 2016 would be WVH first year of operation with 9 level 1 rehabilitation beds and year 2018 would be year three. [Source: Application, Page 14]

WVH provided two separate Revenue and Expense statements for this project. One statement focuses on the level I rehabilitation cost center only and the other is for the hospital as a whole, with the three additional rehabilitation beds. The department also reviewed the assumptions used by WVH to determine revenue and expense projections for the rehabilitation cost center and the hospital as a whole. The assumptions used by WVH are summarized below. [Source: Application, pages 41-43]

Rehabilitation Cost Center Statement

- Expenses, gross revenue and net revenues are driven from the cost center 2013 actuals.
- Reimbursement in 2014 assumed at 67% of gross revenue to 60% in 2019
- Payer mix for the cost center is Medicare 73.1%, Medicaid/DSHS 7.4%, commercial insurance 18.1% and private pay 1.4%.
- Projected inpatient and outpatient 2013 revenues per patient day is multiplied by the projected patients days and outpatient visits.
- Cost center wages and salary expenses are calculated from FTE projections and these includes wages, salaries and benefits.

Hospital Wide Statement

- Forecast model excludes the medical practices.
- Hospital patient revenues with the project include incremental rehabilitation revenues driven by increased patient days.
- Reimbursement is assumed to remain constant at 60% over forecast.
- Bad debt is modeled at approximately 2.2% of gross revenues with and without the project over the forecast period.
- The ‘with project’ operating expenses reflects the incremental effect of the project, including operating expenses from caring for additional rehabilitation patients and depreciation costs from incremental capital expenditures.
- Charity care remains constant at 3% of gross revenue.

After reviewing WVH’s assumptions above, the department concludes they are reasonable. The table below shows the projected revenue, expenses, and net income for the rehabilitation cost center only. [Source: March 2, 2015 supplemental information, Revised Exhibit 26B]

Table 6
Years 2015 through 2018
Projected Revenue and Expense Statement
Level I Cost Center Only

	Partial 2015	Year 1-2016	Year 2-2017	Year 3-2018
Net Revenue	\$ 2,503,776	\$ 2,484,885	\$ 2,703,972	\$ 2,927,302
Total Expenses	\$ 1,900,039	\$ 2,167,856	\$ 2,303,960	\$ 2,442,699
Net Profit /(Loss)	\$ 153,737	\$ 317,029	\$ 400,012	\$ 484,603

The ‘Net Revenue’ line item is gross revenue minus any deductions for charity care, bad debt and contractual allowance. The ‘Total Expenses’ line item includes rehabilitation specific salaries and wages and supplies. As shown above, WVH projected the rehabilitation cost center would be profitable starting from partial year 2015 through year 2018.

The table below shows the projected revenue, expenses, and net income for WVH as a 20-bed hospital and the additional three rehabilitation beds. [Source: March 2, 2015 supplemental information, Revised Exhibit 26B]

Table 7
Years 2015 through 2018
Projected Revenue and Expense Statement
Wenatchee Valley Hospital

	Partial 2015	Year 1-2016	Year 2-2017	Year 3-2018
Net Revenue	\$ 27,635,802	\$ 28,118,970	\$ 28,381,976	\$ 29,118,468
Total Expenses	\$ 22,564,005	\$ 23,214,854	\$ 23,767,327	\$ 24,362,810
Net Profit /(Loss)	\$ 5,071,797	\$ 4,904,116	\$ 4,614,649	\$ 4,755,658

The ‘Net Revenue’ line item is gross revenue minus any deductions for charity care, bad debt and contractual allowance. The ‘Total Expenses’ line item includes salaries and wages, amortization, and depreciation. As shown above, WVH projected net profits in all four years shown.

To analyze the 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. The analysis provided by the Department of Health’s Hospital and Patient Data Systems office (HPDS) 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.

For Certificate of Need applications, HPDS compares the projected ratios with the most recent year’s financial ratio guidelines for hospital operations. For this project, HPDS used 2013 data for comparison. The ratio comparisons shown below include WVH in 2013, and projected ratios for the hospital. [Source: HPDS analysis, Page 3] The ratio review is shown in the table 8.

**Table 8
Current & Projected HPDS Debt Ratios for Wenatchee Valley Hospital**

Category	Trend*	State 2013	WVH 2013	WVH 2015	WVH 2016	WVH 2017	WVH 2018
Long Term Debt to Equity	B	0.483	7.259	0.040	0.679	0.486	0.360
Current Assets/Current Liabilities	A	2.481	1.336	1.498	1.619	1.727	1.834
Assets Funded by Liabilities	B	0.400	0.961	0.801	0.738	0.685	0.637
Operating Exp. to Operating Rev.	B	0.945	0.807	0.925	0.872	0.852	0.834
Debt Service Coverage	A	5.977	5.041	4.200	4.272	4.308	4.345
Definitions:	Formula						
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 Exp/Operating Rev	Operating Expenses/Operating Revenue						
Debt Service Coverage	Net Profit+Depr. and Interest Exp/Current Maturity LTD and Interest Exp						

*A is better if above the ratio, and B is better if below the ratio.

In its review of WVH ratios HPDS stated, *“In 2013 WVMC transitioned from a stand-alone corporation by becoming part of an umbrella corporation known as Confluence Health. The financial ratios changed dramatically from 2012 (not shown) to 2013 due to certain assets being moved to the new parent corporation. Because of this, the four ratios involving the Balance Sheet are out of range. The operating expense/operating revenue is in range for all the years shown. However, WVMC now has Confluence Health as a partner. By the end of the third year of the CON, year 2018, three of the five ratios are still out of range of the 2013 State average. These are Current Assets/Current Liabilities, Assets Funded by Liabilities and Debt Service Coverage. However all these are improving and are acceptable because of the support of the parent corporation”*. [Source: HPDS analysis, Pages 2-3]

Based on the information above, the department concludes that the immediate and long-range operating costs of the project can be met and **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.

This project does not involve construction. The estimated capital expenditure associated with this project is \$24,932, which is solely for moveable equipment and associated tax. In its

analysis, HPDS determined the costs and charges are reasonable and comparable. [Source: HPDS analysis, Page 3] Based on the information, the department concludes that **this sub-criterion is 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.

The capital cost for this project is \$24,932, which solely for moveable equipment and associated tax. The capital expenditure has already been expended under the board member approval. [Source: Application, Page 20] Based on the information provided above, 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 the department determines that the applicant has met the structure and process 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 directs what specific staffing patterns or numbers of FTEs that should be employed for projects of this type or size. Therefore, using its experience and expertise the department concludes that the planning would allow for the required coverage.

With the additional rehabilitation capacity, WVH proposed staffing is summarized in the table below. [Source: Source: Application, Exhibit 14]

Table 9
Years 2015 through 2019 Existing and Projected Staffing
Wenatchee Valley Hospital

	Current Partial 2015	Increase Year 1 2016	Increase Year 2 2017	Increase Year 3 2018	Increase Year 4 2019	Total
Direct Clinical ⁹	9.16	1.42	0.73	0.73	0.74	12.78
Indirect Clinical ¹⁰	5.97	0.00	0.00	0.00	0.00	5.97
Dietician	0.17	0.04	0.02	0.01	0.01	0.25
Therapists	4.19	0.45	0.23	0.23	0.23	5.33
Total	19.49	1.91	0.97	0.98	0.98	24.33

⁹ Direct Clinical includes RN’s, aides, and RN Charge Nurse

¹⁰ Indirect Clinical includes supervisor, receptionist, admitting coordinator, unit secretary and social worker.

As shown in table 9, WVH is planning to add a total of 4.84 FTEs over the first three years. WVH states, several staff members have worked in the rehab unit for over 10 years. The staff experience and skill is invaluable in training new hires for the rehab unit. Further, the applicant stated the current program has low turnover and it has been successful at recruiting professional staff. [Source: Application, Page 43] Based on the information provided above, the department concludes that sufficient staff is available or 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 when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

In its responses to this sub criterion, WVH stated it has existing relationships with other ancillary providers in the planning area. The applicant stated this existing ancillary relationship includes transport providers, medical groups and other physician groups, home health, hospice and other long-term care providers. [Source: Application, Page 45]

As an existing provider of rehabilitation services adding additional bed capacity is not expected to change these relationships. Based on source documents reviewed, the department concludes **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 the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

WVH and its affiliates own and operate a variety of healthcare facilities, including hospitals, home health and hospice agencies. As part of its review, the department must conclude that services would be provided in a manner that ensures safe and adequate care to the public.¹¹ The department's Investigations and Inspections Office (IIO) conducts quality of care and compliance surveys for the hospitals, home health, and hospice agencies. Records indicate that since IIO completed a compliance survey for WVH in 2014. The compliance surveys

¹¹ WAC 246-310-230(5)

revealed minor deficiencies for the facility and the deficiencies have been corrected. [Source: Facility survey data provided by the IIO]

WVH and CWH are both sole members of CH. CWH holds a three-year Joint Commission certification. WVH does not currently have Joint Commission certification. Since WVH and CWH are sole members of CH and both entities currently own or operate healthcare facilities in Washington State therefore as part of its review, the department must conclude that healthcare services provided by WVH and CWH are safe to the public.

CWH

CWH is credentialed by the Joint Commission and is in full compliance with all applicable standards following the most recent on-site survey in January 2014.¹²

WVH

Since year 2010, the Department of Health's Investigations and Inspections Office (IIO) has completed two surveys at WVH¹³ there was no adverse licensing action because of these surveys. [Source: Facility survey data provided by the IIO]

WVH identified Dr. Egbert, Dr. Fowler, Dr. Long, Dr. Havlicek and Dr. Allen as physicians who would provide care as needed. WVH identified Dr. Jacob Egbert a physician employee of Wenatchee Valley Medical Group an affiliate of Confluence Health as the medical director for the WVH rehabilitation unit. WVH provided Dr. Jacob Egbert credential information. The department review of Dr. Egbert, Dr. Fowler, Dr. Long, Dr. Havlicek and Dr. Allen compliance history revealed no recorded sanctions. [Source: January 22, 2015 supplemental information, Page 8 and March 2, 2015 supplemental information, Exhibit 25, and Compliance history provided by Medical Quality Assurance Commission]

Based on the compliance histories of WVH, its affiliates and that of Dr. Egbert, Dr. Fowler, Dr. Long, Dr. Havlicek and Dr. Allen the department concludes there is reasonable assurance that WVH would continue to operate 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 directs how to measure unwarranted fragmentation of services or what types of relationships with a services area's existing health care system should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

¹² <http://www.qualitycheck.org>

¹³ Surveys were completed in years 2010 and 2012.

WVH has been providing health care services to the residents of the four counties of Chelan-Douglas-Grant-Okanogan for a number of years and it currently have strong working relationships with community providers. WVH asserted the additional three rehabilitation beds would assist WVH with its mission to continue to provide in the four counties.

After reviewing the application, the department concludes that approval of this project is not expected to change the relationships in place with the health care providers in the area since it does not involve a reduction in services for the planning area. The department also concludes there is reasonable assurance that approval of this project could improve the access to rehabilitation services in Chelan, Douglas, Grant, and Okanogan counties. Based on the information provided in the application, the department concludes that approval of this project will not result in an unwarranted fragmentation of services. **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 addressed in sub-section (3) above and **is met.**

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

Based on the source information reviewed the department determines that the applicant has met the cost containment criteria in WAC 246-310-240(1).

- (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. First, the department 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 has met the applicable criteria in WAC 246-310-210 through 230 criteria, the department then assesses the other options considered by the applicant. If the department determines the proposed project is better or equal to other options considered by the applicant and the department has not identified any other better options this criterion is determined to be met unless there are multiple applications.

If there are multiple applications, the department's assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type. The superiority 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 type superiority 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.

For this project, WVH demonstrated that it has met the review criteria in the applicable sections of WAC 246-210, WAC 246-310-220, and WAC 246-310-230. Within the application, WVH considered three alternatives besides the project. Below are the alternatives considered and rejected by WVH

Do nothing [Source: Application, Page 49 and January 22, 2015 supplemental information, Page 7]
WVH stated doing nothing would not improve patient access and care to rehabilitation services therefore, this option was rejected.

Add six beds

WVH considered adding 6 beds to existing capacity and stated the option was not financially feasible because of bed space limitations. The applicant stated conversion of six license beds would create an imbalance of acute care and rehab beds at the hospital. For these reasons, this option was rejected.

Add three new beds to capacity

The applicant considered adding three new beds in increments to existing capacity for twenty-three beds after project completion. The applicant rejected this option because of lack of available space for the additional three beds and due to lack of space for three additional bed spaces for private patient rooms. The applicant stated the option of converting three rooms to semi-private was considered, but was rejected because patients prefer private rooms. Further, the applicant stated the build out was deemed too costly. For these reasons, the applicant rejected this option.

The department did not identify any other alternatives that would equal to or superior to the options WVH identified. Based on the source information evaluated the department concludes that **this sub-criterion is met.**