

**EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON BEHALF OF HARRISON MEDICAL CENTER PROPOSING TO ADD 92 LICENSED ACUTE CARE BEDS TO THE SILVERDALE CAMPUS AND REDUCE 42 OF ITS EXISTING ACUTE CARE LICENSED BED CAPACITY FROM THE BREMERTON CAMPUS.**

**PROJECT DESCRIPTION**

Harrison Medical Center (HMC) a not-for-profit (501c3) hospital is located in the cities of Bremerton and Silverdale within Kitsap County. The hospital provides Medicare/Medicaid acute care services to residents of Kitsap County and surrounding areas. HMC is currently licensed for 297 acute care beds. The Bremerton campus currently has 242 acute care beds and 11 beds dedicated to psychiatric services. Silverdale currently has 44 acute care beds. HMC has an active accreditation from The Joint Commission effective through August 2010. In addition to the hospitals, HMC also owns and operates a Medicare certified home health agency, and an outpatient campus in Port Orchard that provides urgent care, imaging, and primary specialty care.

Inpatient services currently provided at HMC Bremerton include: medical-surgical services, orthopedic services, emergency services, critical care services, cardiovascular services including open heart surgery, rehabilitation services, oncology services, behavioral health, pain management, sleep center, and inpatient dialysis. The Silverdale campus provides mother/baby care, women's services, outpatient surgery, rehabilitation, and emergency services.

For this project, HMC is proposing to construct a 92 bed addition at its Silverdale campus. The applicant will transfer 42 acute care licensed beds from its Bremerton campus and add 50 new acute care licensed beds. After completion of the project, Silverdale would have 136 acute care licensed beds. Bremerton would have 211 acute care licensed beds and of these 11 will continue to be dedicated to psychiatric services.

This project is part of a larger construction project at HMC with a total capital expenditure of \$204,975,927. Approximately \$69,044,583 or 33.7 % of the \$204,975,927 is associated with this certificate of need.

**APPLICABILITY OF CERTIFICATE OF NEED LAW**

This project is subject to Certificate of Need Review as an increase of licensed acute care beds under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

## **APPLICATION CHRONOLOGY**

September 03, 2008	Letter of Intent Submitted
November 03, 2008	Application Submitted
November 04, 2008 through January 05, 2009	Department Pre-Review Activities <ul style="list-style-type: none"><li>• 1st screening activities and responses</li></ul>
January 06, 2009	Department begins review of application <ul style="list-style-type: none"><li>• Public comments accepted throughout review</li><li>• No public hearing conducted</li></ul>
February 10, 2009	End of Public Comment on application
February 26, 2009	Rebuttal Comments <sup>1</sup>
April 13, 2009	Department's anticipated decision due date
May 20, 2009	Department's revised decision due date
May 27, 2009	Department's actual decision date

## **AFFECTED AND INTERESTED PERSONS**

Throughout the review of this project, one entity MultiCare Health Systems sought affected person status but did not qualify under WAC 246-310-010.

## **SOURCE INFORMATION REVIEWED**

- Harrison Medical Center's November 3, 2008 Certificate of Need Application.
- Harrison Medical Center's supplemental information (December 29, 2008)
- Community member's comments received throughout the public comment period
- Population data obtained from the Office of Financial Management based on year 2000 census Published January 2007.
- HPDS financial feasibility and cost containment analysis dated March 26, 2009
- Healthcare cost and utilization project (HCUP) database of Oregon State Hospital discharge data 2006.
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Historical charity care data obtained from the Department of Health's Office of Hospital and Patient Data Systems (2005, 2006, 2007 summaries)
- Data obtained from Harrison Medical Center's website
- Hospital licensing and survey data provided by the Department of Health's Office of Health Care Survey
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Office of Hospital and Patient Data Systems (March 26, 2009)

## **CRITERIA EVALUATION**

To obtain Certificate of Need approval, HMC must demonstrate compliance with the criteria found in WAC 246-310-210- (need), 246-310-220 (financial feasibility), 248-310-230 (structure and process of care), and 246-310-240 cost containment. Additionally specific to acute care bed additions, HMC must comply with the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan (SHP).

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<sup>1</sup> No rebuttal comments were submitted

## **CONCLUSION**

For the reasons stated in this evaluation, the application submitted by HMC to relocate 42 acute care licensed beds from the Bremerton campus add 50 new acute care licensed beds to the Silverdale campus and construct a 92 bed addition is consistent with applicable criteria of the Certificate of Need Program. A Certificate of Need should be issued provided the applicant agrees to the term and condition stated below:

### **Term**

Prior to commencement, HMC must submit a copy of the approved Conditional Use Permit to show approval of the project as referenced in the letter dated December 28, 2008, from the Kitsap County Department of Community Development

### **Condition**

Harrison Medical Center will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. 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 1.93% of gross revenue, and 3.67% of adjusted revenue. Harrison Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

The approved capital expenditure associated with this CN portion of the project is \$69,044,583. The total cost of the larger construction project is \$204,975,927.

#### **A. Need (WAC 246-310-210)**

Based on the source information reviewed, the department determines that the applicant has met the need criteria in WAC 246-310-210(1) and (2).

*!. The population served or to be served has need for the project and other service and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.*

The department uses the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan to assist in its determination of need for acute care capacity. This forecasting method is designed to evaluate need for additional capacity in general, rather than identify need for a specific project. The department prepared bed need forecasts to determine baseline need for acute care capacity. This set of projections is completed prior to determining whether the applicant should be approved to meet any projected need.

As stated in the project description portion of this evaluation, HMC proposes to add 50 acute care beds to its existing acute care beds at the Silverdale campus and relocate 42 beds from the Bremerton campus to the Silverdale campus. HMC anticipates it to be complete and operational by March 2012; with a facility total of 347 licensed acute care beds. [source: Application, pg 11 and 12]

Applicant’s Methodology

HMC expresses concern regarding the anticipated pressure that will be placed upon existing capacity in the coming years. Increases in general population for the region is cited as a contributing factor to a steady increase in patient days. The application also outlines a series of projections which identify the 65+ age cohort as a source of disproportionate growth in the area. [source: Application, pgs 9 and 31] The applicant also provides a graph showing that they are gaining a significant increase in market share for residents of Kitsap County. [source Application, pgs. 22 and 23]

The applicant used a seven-year horizon for forecasting acute care bed projections, consistent with the recommendations within the state health plan which states, “*For most purposes, bed projections should not be made for more than seven years into the future.*” Further, a seven year forecast is consistent with most projects for hospital bed additions reviewed by the CN Program. At the time the application was submitted, the seven-year projection year is 2014.

The method submitted by HMC based its projections on hospital discharges for years 1998-2007. This version resulted in a projected total of 66,937 patient days in year 2008; increasing through 2014. Year 2014 projections show 83,105 patient days. HMC determined a surplus of beds in the planning area through year 2009, with a need for 30 beds arising in 2012 (proposed start date of the project). Continuing the forecast through 2014, the applicant calculates a need for 54 beds. A complete summary of the applicant’s projections are shown below in Table 1. [source: Application, p115]

**Table 1**  
**Summary of HMC Need Methodology for Kitsap Planning Area**

	2008	2009	2010	2011	2012	2013	2014
Patient Days	66,975	69,410	71,638	74,315	77,114	80,042	83,105
Beds Currently in Planning Area	286	286	286	286	286	286	286
Adjusted Gross Need	274	284	293	304	316	328	340
Adjusted Net Need *	-12	-2	7	18	30**	42	54

\* Negative number indicates a surplus of beds to meet projected need

\*\* Proposed start date of the project

The Department’s Determination of Numeric Need:

The determination of numeric need for acute care hospital beds is performed using the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan (SHP). Though the SHP was “sunset” in 1989, the department has concluded that this methodology remains a reliable tool for predicting the baseline need for acute care beds.

The 1987 methodology was a revision of an earlier projection methodology prepared in 1979 and used in the development of subsequent State Health Plans. This

methodology was developed as a planning tool for the State Health Coordinating Council (SHCC) to facilitate long-term strategic planning of health care resources. The methodology is a flexible tool, capable of delivering meaningful results for a variety of applications, dependent upon variables such as referral patterns, age-specific needs for services, and the preferences of the users of hospital services, among others.

The 1987 methodology is a twelve-step process of information gathering and mathematical computation. The first four steps develop trend information on hospital utilization. The next six steps calculate baseline non-psychiatric bed need forecasts. The final two steps 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, and step 12 is the adjustment phase, in which 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.

The completed methodology is presented as a series of appendices to this evaluation. (Attachment A) The methodology presented here incorporates all adjustments that were made following preparation of the methodology. Where necessary, both adjusted and un-adjusted computations are provided. The methodology uses population and healthcare use statistics on several levels: statewide, Health Service Area (HSA)<sup>2</sup>, and planning area. The planning area for this evaluation is the Kitsap planning area located in HSA 1 and the bed need is calculated for the Kitsap County planning area.

When preparing acute care bed need projections, the department relies upon population forecasts published by the Washington State Office of Financial Management (OFM). OFM publishes a set of forecasts known as the “intermediate-series” county population projections, based on the 2000 census, developed November 2007<sup>3</sup>. These estimates are provided for county level populations.

This portion of the evaluation will describe, in summary, the calculations made at each step and the assumptions and adjustments made in that process. It will also include a review of any deviations related to the assumptions or adjustments made by HMC in its application of the methodology. The titles for each step are excerpted from the 1987 SHP.

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<sup>2</sup> The state is divided into four HSAs by geographic groupings. HSA 1 is composed of Clallam, Island, Jefferson, King, Kitsap, Pierce, San Juan, Skagit, Snohomish, and Whatcom Counties. HSA 2 is composed of Clark, Cowlitz, Grays Harbor, Klickitat, Lewis, Mason, Pacific, Skamania, Thurston, and Wahkiakum counties. HSA 3 is composed of Benton, Chelan, Douglas, Franklin, Grant, Kittitas, Okanogan, and Yakima Counties. HSA 4 is composed of Adams, Asotin, Columbia, Ferry, Garfield, Lincoln, Pend Oreille, Spokane, Stevens, Walla Walla, and Whitman counties.

<sup>3</sup> Found on the World Wide Web at <http://www.ofm.wa.gov/pop/estimates.asp> and at <http://www.ofm.wa.gov/pop/poptrends/default.asp> and compiled internally by DOH

Step 1: Compile state historical utilization data (i.e., patient days within major service categories) for at least ten years proceeding the base year.

For this step, attached as Appendix 1, the department obtained utilization data for 1998 through 2007 from the Department of Health's Office of Hospital and Patient Data Systems' CHARS (Comprehensive Hospital Abstract Reporting System) database. Total patient days were identified for the Kitsap Planning Area, HSA #1, and Washington State as a whole, excluding psychiatric patient days [Major Diagnostic Category (MDC) 19] and normal newborns [Diagnostic Related Group (DRG) 391<sup>4</sup>], according to the county in which care was provided. Normal newborn days were excluded because the normal newborn patients (babies) do not occupy a licensed acute care bed. The mothers of the normal newborns are included in the patient days (MDC 14 and DRG 370-384).

HMC followed this step as described above. The applicant used slightly different totals for 2002, 2003, and 2007 for the HSA and Statewide patient days than those calculated from department records. The statewide total patient days reported for 2007, and used in subsequent calculations are slightly larger than department figures but have an insignificant impact on the outcome of the calculations.

Step 2: Subtract psychiatric patient days from each year's historical data.

This step was partially accomplished by limiting the data obtained for Step 1, above. The remaining data still included non-MDC 19 patient days spent at psychiatric hospitals. Patient days at dedicated psychiatric hospitals were identified for each year and subtracted from each year's total patient days. The adjusted patient days are shown in Appendix 2.

HMC followed this step as described above with no deviations.

Step 3: For each year, compute the statewide and HSA average use rates.

The average use rate (defined as the number of patient days per 1,000 population) was derived by dividing the total number of patient days in each HSA by that HSA's population and multiplied by 1,000. Using the same process, the average use rate was also determined for the Kitsap planning area and is attached as Appendix 3. Historical and projected population figures for this analysis were derived using the intermediate series OFM population data dated November 2007.

HMC followed this step as described above with no deviations.

Step 4: Using the ten-year history of use rates, compute the use rate trend line, and its slope, for each HSA and for the state as a whole.

The resulting trend lines from the ten-year history, 1998-2007, of rates uniformly exhibit an upward slope in HSA and State trends. A trend line for the specific planning area also indicates an upward trend. This conclusion is generally supported by increasing utilization reported by hospitals throughout the state in recent years.

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<sup>4</sup> In October 2007, CMS released a new listing (v. 25) of DRG classifications. Data up to 2006 will continue to use the 391 citation, 2007 forward will use DRG 795.

More significant than overall population growth is the fact that the state's population is growing older as the number of "baby boomers" (those born from 1946 to 1964) age and begin to demand more health services. Utilization of hospital beds by patients aged 65 and older is significantly higher than bed utilization by younger patients, as demonstrated in subsequent calculations.

HMC followed this step as described with no deviations.

Step 5: Using the latest statewide patient origin study, allocate non-psychiatric patient days reported in hospitals back to the hospital planning areas where the patients live. (The psychiatric patient day data are used separately in the short-stay psychiatric hospital bed need forecasts.)

The previous four steps of the methodology involved data identified by the planning area where care was provided. In order to determine the need for services for residents of a given planning area, patient days must be identified, instead, by the area where the patients live. Step 5, included as Appendix 5, identifies referral patterns in and out of the Kitsap planning area and illustrates where residents of the planning area currently receive care. For this calculation, the department separated patient days by age group (0-64 and 65 and older), and subtracted patient days for residents of other states. The department also uses data from the Healthcare Cost and Utilization Project (HCUP) compiled by the Oregon Department of Human Services to identify patient days for Washington residents obtaining health care in Oregon (the department is not aware of similar data for the state of Idaho). The most recent Oregon data was for 2007.

The original purpose for this methodology was to create comprehensive, statewide resource need forecasts. For this project, the state was broken into two planning areas Kitsap and the State as a whole minus Kitsap. Appendix 5 illustrates the age-specific patient days for residents of the Kitsap planning area and for the rest of the state, identified here as "WA – KC."

HMC followed this step as described but used a smaller population number for the 65+ age group for the year 2007. The applicant used a population figure 26,558 compared to the department's population figure of 28,558 which is a difference of 2,000 persons. Their 65+ population figure is substantially lower resulting in a higher use rate in step 6 for the 65+ population. This affects the outcome of the methodology.

Step 6: Compute each hospital planning area's use rate (excluding psychiatric services) for each of the age groups considered (at a minimum, ages 0-64 and 65+).

Appendix 6 illustrates the age-specific use rates for the year 2007, as calculated in Step 3, for the Kitsap planning area and for the rest of the state.

The Department and the Applicant calculated a slightly different use rates due having slightly different population figures for the Kitsap County 0 to 64 and a significantly different use rate for the 65 + populations due to the difference in population. The

department also used the H.S.A. rate which is lower (2.74) while the applicant used the state rate which is 2.94. The methodology specifies using the use rate that will cause the least adjustment.

The applicant states in step 12 that they have not made adjustments to the population. Program staff was not able to determine the source of the 65+ population figure for Kitsap used by the applicant. Since the applicant indicates, and the program agrees, that the 65+ population is growing rapidly it seems logical to use the higher number used in the department calculations.

Step 7A: Forecast each hospital planning area's use rates for the target year by "trend-adjusting" each age-specific use rate. The use rates are adjusted upward or downward in proportion to the slope of either the statewide ten-year use rate trend or the appropriate health planning region's ten-year use rate trend, whichever trend would result in the smaller adjustment.

As discussed in Step 4, the department used the ten-year use rate trends for 1998-2007 to reflect the use patterns of Washington residents. The 2007 use rates determined in Step 6 were multiplied by the slopes of both the Health Service Area's ten-year use rate trend line and by the slope of the statewide ten-year use rate trend line for comparison purposes. For the Kitsap planning area, the HSA trend is a lower projected rate (an annual increase of 2.7353) than the state planning area rate of increase of 2.9379. As directed in Step 7A, the department applied the HSA trend to project future use rates.

The methodology is designed to project bed need in a specified "target year." It is the practice of the department to evaluate need for a given project through seven years from the last full year of available CHARS data, or 2007 for purposes of this analysis. therefore, the target year for this analysis will be 2014.

HMC deviated from the methodology at this portion of step 7 by applying the state use rate trend which results in a larger adjustment. Due to the cumulative effect of the larger population, the applicant reports a projected use rate of those 65+ in the population for 2014 to be 1,306.4 notably higher than the Department's calculation of 1,235.44 This use rate will affect this step and each step thereafter.

Step 8: Forecast non-psychiatric patient days for each hospital planning area by multiplying the area's trend-adjusted use rates for the age groups by the area's forecasted population (in thousands) in each age group at the target year. Add patient days in each age group to determine total forecasted patient days.

Using the HSA forecasted use rate for the target year 2014 and age cohort population projections provided by OFM for the planning area (Kitsap County), the department's projected patient days for the Kitsap planning area residents is illustrated in Appendix 8. As noted in Step 7 above, forecasts have been prepared for a series of years and are presented in summary in Appendix 10a & 10b as "Total Kitsap res. Days."

Due to the difference between the 65 + use rate calculated by HMC and the 65+ calculated by the department; HMC patient day projections are higher than those calculated by the department.

Step 9: Allocate the forecasted non-psychiatric patient days to the planning areas where services are expected to be provided in accordance with (a) the hospital market shares and (b) the percent of out-of-state use of Washington hospitals, both derived from the latest statewide patient origin study.

Using the patient origin study developed for Step 5, Appendix 9 illustrates how the projected patient days for the Kitsap planning area and the remainder of the state were allocated from county of residence to the area where the care is projected to be delivered in the target year 2014. The results of these calculations are presented in Appendix 10a & 10b as “Total Days in Kitsap Hospitals.”

HMC prepared this step as above. Previously noted variations in figures and trend slopes resulted in higher patient day totals, and their related percentages, than those derived by the department.

Step 10: Applying weighted average occupancy standards, determine each planning area’s non-psychiatric bed need. Calculate the weighted average occupancy standard as described in Hospital Forecasting Standard 11.f. This should be based on the total number of beds in each hospital (Standard 11.b), including any short-stay psychiatric beds in general acute-care hospitals. Psychiatric hospitals with no other services should be excluded from the occupancy calculation.

The number of beds in the planning area was identified in accordance with the SHP standard 12a, which states:

1. beds which are currently licensed and physically could be set up without significant capital expenditure requiring new state approval,
2. beds which do not physically exist but are authorized unless for some reason it seems certain those beds will never be built;
3. beds which are currently in the license but physically could not be set up (e.g., beds which have been converted to other uses with no realistic chance they could be converted back to beds);
4. beds which will be eliminated.

The SHP determines the number of available beds in each HSA, by including only those beds that meet the definition of #1 and #2 above, plus any CN approved beds. This information was gathered through CN surveys, facility licensing records, and hospital historical data. HMC operates the only hospital in Kitsap County planning area and has 297 licensed acute care beds (11 dedicated to psychiatric services).

The weighted occupancy standard for a planning area is defined by the SHP as the sum, across all hospitals in the planning area, of each hospital’s occupancy rate times that hospital’s percentage of total beds in the area. In previous evaluations, the department determined that the occupancy standards reflected in the 1987 SHP are higher than can be maintained by hospitals under the current models for provision of care. As a result, the department has adjusted the occupancy standards presented in

the SHP downward by 5% for all but the smallest hospitals (1 through 49 beds). As a result of this change, the Kitsap planning area's weighted occupancy has been determined to be 66.92% for 2008. This is reflected in the line "Wtd. Occ Std" in Appendix 10a.

Currently, HMC operates 286 acute care beds (not including the psychiatric beds) and proposes to add 50 beds by March 2012 for a total of 336 acute care beds. The department prepared the bed need methodology to show the effect of implementing the project as proposed and detailed in Appendix 10b.

While the methodology states that short-stay psychiatric beds should be included in the above total, the fact that all psychiatric patient days were excluded from the patient days analyzed elsewhere in the methodology makes their inclusion inconsistent with the patient days used to determine need.

HMC also reduced the weighted occupancy consistent with the reductions outlined by the department, and did not include short stay psychiatric beds within its calculations.

Step 11: To obtain a bed need forecast for all hospital services, including psychiatric, add the non-psychiatric bed need from step 10 above to the psychiatric inpatient bed need from step 11 of the short-stay psychiatric hospital bed need forecasting method. The applicant is not proposing to add psychiatric services at the facility. In step 10, the department excluded the short stay psychiatric beds from the bed count total. For these reasons, the department concluded that psychiatric services should not be forecast while evaluating this project.

HMC also did not provide psychiatric forecasts within its methodology.

Step 12: Determine and carry out any necessary adjustments in population, use rates, market shares, and out-of-area use and occupancy rates, following the guidelines in section IV of this Guide.

Within the department's application of the methodology, adjustments have been made where applicable.

Referring back to step 10, Appendix 10a calculates the planning area bed need without the project. Appendix 10b calculates the planning area bed need with the project. A summary of those appendices is shown below.

**Table 2**  
**Department Methodology**  
**Appendix 10A – Without Project - Summary**

	2008	2009	2010	2011	2012	2013	2014
Kitsap County Planning Area # of beds	286	286	286	286	286	286	286
Adjusted Gross Need	269.77	276.69	283.65	294.20	304.17	315.45	327.57
Need/Surplus – Without Project ( <b>Appendix 10a</b> ) *	-16.23	-9.31	-2.35	8.20	18.17	29.45	41.57

**Table 3**  
**Department Methodology**  
**Appendix 10B – With Project – Summary**

	2008	2009	2010	2011	2012**	2013	2014
Kitsap County Planning Area # of beds	286	<b>286</b>	286	286	336	336	336
Adjusted Gross Need	269.77	276.69	283.65	294.20	299.45	310.56	322.49
Need/Surplus – With Project ( <b>Appendix 10b</b> )**	-16.23	-9.31	-2.35	8.20	-36.55	-25.44	-13.51

\*A negative number indicates a surplus of beds.

\*\*Projected Project First Full Year

For the current year 2009, Appendices 10a and 10b both illustrate a planning area surplus of 9 beds, which changes to a need of 8 by the end of year 2011. Appendix 10a projects an increasing bed need to target year 2014 of 42 beds. The projections prepared by the department do not reach the 50 new acute care licensed beds proposed by the applicant until after 2014.

The applicant also forecasted a surplus of beds through 2009 and a need for 30 beds in 2012, and 54 beds in the target year of 2014. The difference in projections is attributed to the difference in the 2007 65+ population used by the applicant and the OFM population used by the department

Appendix 10b illustrates the effect on the planning area if this project is approved. A need of 8 beds is projected in 2011, and the addition of 50 beds in 2012 changes the projection to a surplus in 2012, that declines through 2012 to 14 beds.<sup>5</sup>

In summary, the applicant and the department both show a need for acute care beds in the Kitsap County planning area in the time period used in the acute care bed need methodology

The applicant and the department differ on the projected number of beds needed based on the acute care bed methodology. For the target year 2014, the applicant

<sup>5</sup> While not shown in Appendix 10b, 2015 shows a surplus of 3 beds and 2016 shows a need for 4 beds.

projects a need for 54 acute care beds compared to the department's projections of 42 beds. The addition of the 50 beds will result in a surplus starting in 2012, which decreases each year to. The surplus would be 36.55 in 2012, 25.44 in 2013, and 13.51 in 2014. With no other provider in the planning area, this will not be a significant surplus of beds. Based on information submitted by the applicant and calculations by the department, the department has determined that there is a need for 50 beds in the target year. This sub-criterion is met.

*a. In the case of a reduction, relocation, or elimination of a service, the need the population presently served has for the service, the extent which the need will be met adequately by the proposed relocation or by alternative arrangements, and the effect of the reduction, elimination, or relocation of the service on the ability of low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly to obtain needed health care.*

Since the applicant is proposing to move 42 beds and associated ancillary services from its Bremerton campus this sub-criterion is relevant to this project. The applicant is moving the services from a downtown location in the city of Bremerton to a less developed urban growth area in the city of Silverdale. The applicant states that a primary characteristic of the Silverdale property is its close proximity to Highways 3 and 303. The applicant further states that this campus is in the virtual center of Kitsap County and is conveniently accessible not only to the County's (currently) largest population concentrations in Bremerton, but also to the substantial and most rapidly growing populations to the south. [source: Application, p 26] The department agrees that this move will improve access for the population of the County. This sub-criterion is met.

*b. In the case of health services or facilities proposed to be provided, the efficiency and appropriateness of the use of existing services and facilities similar to those proposed;*

HMC the only acute care hospital provider in the Kitsap County planning area. The applicant is proposing to convert the double rooms in the Bremerton facility to single rooms within its proposed acute care licensed bed capacity. This will improve the efficient use of these rooms and be more consistent with current infection control and privacy practices recommended by the Joint Commission

The navel hospital Bremerton is not counted since it is a military hospital not generally available to the civilian population of the County. The applicant is the only acute care hospital provider in the Kitsap hospital planning area available to the civilian population of Kitsap County. 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 low income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. To determine whether the

elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination.

HMC currently provides services to Medicare and Medicaid eligible patients. Documents provided in the application demonstrate that it intends to maintain this status. For this project, a review of the policies and data provided for HMC identifies the facility's financial resources as including both Medicare and Medicaid revenues. [source: Application, p 15, 43 and Appendix 1]

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.

HMC's current charity care policy outlines the process a patient would use to access this service. Further, HMC included a 'charity care' line item as a deduction from revenue within the pro forma financial documents for the hospital. [source: Application exhibit 6]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Located in Kitsap County, HMC is one of 18 hospitals in the Puget Sound Region. According to 2005-2007<sup>67</sup> charity care data obtained from HPDS, HMC has historically provided less than the average charity care provided in the region based on total revenue and more than the average based on adjusted revenue. HMC's most recent three years (2005-2007) percentages of charity care for gross and adjusted revenues are 1.55% and 4.20%, respectively. The 2005-2007 average for the Puget Sound Region is 1.93% for gross revenue and 3.67% for adjusted revenue. [source: HPDS 2005-2007 charity care summaries]

HMC's pro forma revenue and expense statements indicate that the hospital will provide charity care at approximately 2.34% of gross revenue and 7.30% of adjusted revenue. [Source: Application, Exhibit 6] RCW 70.38.115(2) (j) requires hospitals to meet or exceed the regional average level of charity care. HMC's 3 year average for adjusted revenue was above the 3 year historical average but below for the total revenue average. Given that the historical amount of charity care for total revenue at HMC was below the three-year historical total revenue averages for the region, the department concludes that a condition related to the percentage of charity care to be provided at HMC is necessary if this project is approved.

With agreement to the charity care condition, the department concludes that all residents, including low income, racial and ethnic minorities, handicapped, and other

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<sup>6</sup> Year 2008 charity care data is not available at this time.

under-served groups would have access to the services provided by the hospital. 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.*

As previously stated, this bed addition project is part of a larger construction project at the hospital. The capital costs for the larger project are estimated at \$204,975,927, and of that amount \$69,044,588 is attributed to this project. [source: Application, p 13]

Funding for the larger project will be obtained through a combination of bond funding and hospital reserves. The bed addition portion of the project will be funded through bonds. As part of this review of this sub-criterion, the department reviewed HMC’s year 2007 actual balance sheet and year 2014 projected balance sheet. A summary of the balance sheet is shown in Table 5

**Table 5  
Harrison Medical Center 2007 Actual  
CON Year 3 Projected  
Balance Sheet**

Assets		Liabilities	
Current	\$57,851,755	Current	\$25,779,367
Board Designated	\$99,021,346	Long Term Debt	\$63,830,436
Property/Plant/Equip.	\$80,124,315	Other	\$12,818,114
Other	\$22,288,332	Equity	\$156,857,831
Total	\$259,285,748	Total	\$259,285,748

Fiscal Year End Financial and Utilization Report to WA ST Dept. of Health

Harrison Medical Center CON year 3

Assets		Liabilities	
Current	\$74,404,000	Current	\$40,612,000
Board Designated	\$244,805,000	Long Term Debt	\$262,018,000
Property/Plant/Equip.	\$286,052,000	Other	\$12,894,000
Other	\$2,969,000	Equity	\$292,706,000
Total	\$608,230,000	Total	\$608,230,000

From CN Application for 50 new Licensed Beds-End of 3<sup>rd</sup> Year

The table on the following page shows percentages of the certificate of need and total project expenditures compared to various assets of Harrison 2007 fiscal year end.

Harrison CON Portion of Project	
Capital Expenditure	\$ 69,044,583
Percent of Total Assets	26.6%
Percent of Board Designated Assets	69.7%
Percent of Equity	44.0%
Total Project	
Capital Expenditure	\$ 204,975,927
Percent of Total Assets	79.1%
Percent of Board Designated Assets	207.0%
Percent of Equity	130.7%

Harrison Medical Center will use tax-exempt bonds for the costs of the project.

Review shows that while this project will have a considerable impact to the hospital; this project will not adversely impact the financial health of the hospital if the patient volume is realized.

Based on the need for the applicant to achieve the projected patient volumes, CN staff compared the results of the Need projections calculated by the applicant and those calculated by DOH staff using the acute care bed methodology. Table 6 contains the comparison of the projected patient days.

**Table 6  
Projected Patient Day Comparison**

	2011	2012	2013	2014
HMC Patient Days	74,315	77,114	80,042	83,105
DOH Patient Days	71,863	74,299	77,055	80,015
Difference	2,453	2,815	2,987	3,090
% Difference	3.41	3.65	3.73	3.72

[Application pg. 25, DOH acute care bed need projection Kitsap County]

DOH acute care bed methodology calculations result in a projection of 3.65% less in 2012 (proposed) project start date to 3.72% less in 2014 the third full year of operation. The applicant provided a chart on page 23 of the application that shows a steady increase in patient days over the time period of 1997 to 2007. On this same chart the applicant shows a steady increase in market share of the resident patient days at HMC. The applicant reports that their market share has increased from 56% in 1998 to 65% in 2007. With the improvement in facilities, it would seem reasonable for the applicant to improve their market share of resident patient days.

HPDS staff has also reviewed various ratios that can give a picture of the financial health of the hospital and the project. These ratios are shown in Table 7. The A means it is better if the hospital number is above the State number and B means it is better if the hospital number is below the State number. This part of the review assumes HMC patient day projections can be met. HMC long-term debt to equity ratio at the end of the

2007 fiscal year is 0.407 which is better than the 2007 state average of 0.531 as calculated using CHS/Hospital and Patient Data. The projections for this ratio are above the average which can happen with a major new project coming on line.

To assist the department in its evaluation of this sub-criterion, Office of Hospital and Patient Data Systems (HPDS) provides a summary of the short and long-term financial feasibility of the project, which includes a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed 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. Additionally, OHPDS reviews a project’s three-year projected statement of operations.

For this project, HPDS compared the financial health of HMC for December 31, 2007 to the statewide year 2007 financial ratio guidelines for hospital operations. Given that the Services would be operational by the end of year 2012, OHPDS compared the financial ratios for 2013 through 2015—or three full years after project completion. Table 7 below summarizes the comparison provided by HPDS. [source: HPDS analysis, p3]

**Table 7  
Harrison Medical Center’s Financial Ratios**

<b>Financial Ratio</b>	<b>HPDS Guidelines</b>	<b>Trend</b>	<b>Harrison 07</b>
Long Term Debt to Equity	0.531	*Below	0.407
Curr. Assets/Curr. Liab.	2.136	*Above	2.244
Assets Funded by Liab.	0.421	*Below	0.346
Oper. Exp. /Oper. Rev.	0.948	*Below	0.946
Debt Service Coverage	6.177	*Above	6.048

\* a project is considered more feasible if the ratios are above or below the value guideline as indicated

HMC Long-Term Debt to Equity Ratio at the end of 2007 fiscal year is 407 which is much better than the 2007 state average of .531 as calculated by CHS/Hospital and Patient Data. Certificate of Need year three for HMC as a whole are better than the State average or are within a reasonable span. Long Term Debt to Equity and the Debt Service Coverage are improving each year. These ratios are normally going to be out of range for a new project due to the new debt added for this project. The hospital is breaking even by the end of the third year.

Review of the financial and utilization information show that the immediate and long-range capital expenditure as well as the operating costs for the whole hospital can be met. This criterion is satisfied.

For total operating expense to total operating revenue, HPDS reviewed HMC's ratios through year 2015, or three full years following project completion. [source: HPDS analysis, p3] A summary of that review is shown in Table 8 below.

**Table 8**  
**Harrison Medical Center**  
**Total Operating Expenses to total Operating Revenues**

<b>Financial Ratio</b>	<b>HPDS Guideline</b>		<b>HMC 2007</b>	<b>HMC 2013</b>	<b>HMC 2014</b>	<b>HMC 2015</b>
Total Operating Expense to Total Operating Revenue	0.948	* Below	0.946	1.017	1.00	0.978

HPDS review reveals that HMC's operation will break even by the end of the third year.

In addition to the projected ratios above, HPDS also prepared a summary of HMC's Statement of Operations for years 2013 through 2015. [source: HPDS analysis, p4] A summary of the Statement of Operations is shown in Table 6 on the following page.

**Table 9**  
**Harrison Medical Center's Statement of Operations Summary**

	<b>CY-1 -- 2013</b>	<b>CY-2 -- 2014</b>	<b>CY-3 -- 2015</b>
Projected # of beds	336	336	336
Projected # of patients	31,528	32,849	33,833
Projected # of patient days	78,628	82,122	84,900
Projected ALOS <sup>8</sup>	2.49	2.49	2.51
Projected ADC <sup>9</sup>	215.42	224.99	232.60
Projected occupancy <sup>10</sup>	64.0%	67.0%	69.0%
<b>Net Patient Revenue</b>	\$362,268,000	\$380,322,000	\$400,397,000
<b>Operating Expense</b>	\$373,956,000	\$384,901,000	\$396,895,000
<b>Annual Net Income</b>	(\$6,410,000)	(\$146,000)	\$ 9,133,000

As shown in Table 9 above HMC projects its revenues with the project will cover expenses by the third year of operation.

<sup>8</sup> ALOS or average length of stay is calculated by dividing the projected number of patient days by the projected number of patients for each year.

<sup>9</sup> ADC or average daily census is calculated by dividing the projected number of patient days by 365 for each year.

<sup>10</sup> Projected occupancy is calculated by dividing the projected number of patient days by the product of 365 multiplied by the number of beds for each year.

Based on information provided in the application and data reviewed by HPDS staff, the department could meet its short and long term financial obligations and capital and operating costs of the project. 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.

HPDS compared HMC's costs and charges to the year 2007 statewide average and determined that they are reasonable. [source: OHPDS analysis, p4]

The costs shown are within past construction costs reviewed by this office. Also construction cost can vary quite a bit due to type of construction, quality of material, custom vs. standard design, building site and other factors. Harrison Medical Center is adding to an existing building in a facility it currently occupies for healthcare services and will construct the new area to the latest energy and hospital standards.

Based on the information provided above, the department concludes that 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. 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.

Staff is satisfied this project will allow Harrison Medical Center as they note to improve system efficiency for the hospital.

Staff is satisfied the project is appropriate and needed. This criterion is satisfied.

### **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 need 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.

HMC anticipates that the total number of staff will increase from 606.6 in 2009 to 652.9 in the first full year of operation in 2013. The number of FTEs will increase by 23 in FY 2014 and by 27.8 in FY 2015. A breakdown of the FTEs for the first three years of operation is shown in Table 10a and 10b on the next page

**Table 10a**  
**Estimated FTEs by Year and Campus**

<b>Bremerton</b>					
	FY2009 Total	FY2013 Change	FY2014 Change	FY2015 Change	FY2015 Total
RN	321.3	(88.7)	8.0	10.1	250.7
LPN	9.5	(1.2)	0.4	0.4	9.1
Nurse Asst.	0.0	0.0	0.0	0.0	0
Support	0.0	0.0	0.0	0.0	0
Technical	0.3	(0.1)	0.0	0.0	0.2
Clerical	0.0	0.0	0.0	0.0	0
Mgt./Admin	0.0	0.0	0.0	0.0	0
Other	193.3	(53.5)	4.3	5.5	149.6
<b>Total</b>	<b>524.4</b>	<b>(143.5)</b>	<b>12.7</b>	<b>16.0</b>	<b>409.6</b>

**Table 10b**  
**Estimated FTEs by Year and Campus**

<b>Silverdale</b>					
	FY2009 Total	FY2013 Change	FY2014 Change	FY2015 Change	FY2015 Total
RN	55.4	114.1	7.2	7.6	184.4
LPN	3.5	1.8	0.3	0.3	5.9
Nurse Asst.	0.0	0.0	0.0	0.0	0
Support	0.0	0.0	0.0	0.0	0
Technical	4.1	0.1	0.2	0.0	4.4
Clerical	0.0	0.0	0.0	0.0	0
Mgt./Admin	0.0	0.0	0.0	0.0	0
Other	19.2	73.8	3.5	3.7	100.2
<b>Total</b>	<b>82.2</b>	<b>189.8</b>	<b>11.2</b>	<b>11.8</b>	<b>294.8</b>

Source: Supplemental Questions Pg. 6

HMC is planning to transfer most of the staff needed for the Silverdale facility from the Bremerton facility and are proposing to add 46.3 total FTEs for FY2013.

HMC data shows a need for 46.3 additional staff in FY 2013. The data indicates a need for 25.4 FTE RNs and 20.3 other staff. The applicant states that this is not a large number of employees to recruit and proposes to rely on its historical recruitment and retention practices summarized below:

- A tuition reimbursement program: This program offers eligible employees \$2,500/year reimbursement for training and classes to enhance their careers at Harrison. This program encourages retention by requiring a two year commitment from employees.
- Ongoing continuing education is also provided via the hospital's clinical educators, and education department.
- Employee referral program for employees for referring friends and family to predetermined "hard to fill" positions. (These positions are looked at annually to determine the highest need and difficulty of positions and then advertised at all campuses to all employees.
- Relocation assistance for harder to fill and upper level positions when relocating more than 50 miles.
- Other sign-on/retention bonuses are available and are determined by need. They may include relocation bonuses as well.

Harrison recruits both regionally and locally for staff. Advertisements are placed on our web-site; niche/specialty websites, trade journals, schools, and other predetermined locations to capture the attention of potential candidates [source: Application, pgs. 45 and 46].

Based on the information provided in the application, the department concludes that HMC provided a comprehensive approach to recruit and retain staff necessary for the expanded services. 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.

The existing Bremerton facility was originally constructed in 1965 with additions in the 1970's, 1980, 1995, 2000, and 2004. The 1965 structure is 117,640 sq. ft. or 27.3 % of the total square footage for the Harrison Bremerton campus. The 1970s and 1980 additions total 178, 724 sq. ft. or 32.3 % of the total square footage for the Bremerton campus. This means that approximately 70% of the Bremerton Campus buildings are at least 29 years old or older. With the changes in technology and services provided this would indicate a probable problem with availability of space in some departments and problems with availability of utilities. Increases in volumes also generally cause space problems in older facilities, which the applicant asserts in the application is occurring at the Bremerton facility. In addition to relocating 42 beds to the Silverdale campus, HMC is proposing a major increase in space for ancillary and support services at the Silverdale facility. The applicant is also proposing to size the new ancillary and support services to handle increasing work loads. The current size of the Silverdale campus is 79,102 sq. ft. and the size of the proposed addition is 267,000 sq. ft. The applicant has submitted information in the application and supplemental questions indicating the ancillary and support services will be sufficient to support the health services to be provided on each of their campuses. [source: Application p 10, 11, and 19, December 23, 2008 supplemental questions p 1]. Based on the information submitted by the applicant the department

concludes that HMC will provide improved ancillary and support services with this project. 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.*

HMC will continue to provide Medicare and Medicaid acute care services to the residents of the service area. Harrison Medical Center is currently accredited through August 2010 by the Joint Commission. The facility was re-licensed in August 2007 based upon the successful completion of the Joint Commission inspection [source: ILRS data provided by Office of Health Care Survey]. HMC also operates a Medicare certified home health agency under the hospital license. The home health agency is also the Joint Commission accredited. Within the last two years, the Department of Health's Office Health Care Survey, which surveys hospitals within Washington State, has completed one compliance survey for the hospital. The hospital survey revealed minor non-compliance issues typical of a hospital, and HMC submitted and implemented a plan of correction for the non-compliance issues within the allowable response time. [source: compliance survey data provided by DOH Office of Health Care Survey]

Given the compliance history of the facilities operated by HMC, there is reasonable assurance that HMC will continue to operate the facilities on both campuses 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.*

With this project, HMC anticipates that it will improve the overall operation of the hospital by replacing double bed rooms with single bed rooms, increasing the size of ancillary and support services to current standards to better serve the patients and accommodate new technology, and to more efficiently coordinate inpatient and outpatient services provided by the hospital. [source: Application p 16] 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.

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

Based on the source information reviewed, the department determines that the applicant has met the need criteria in WAC 246-310-240.

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

Before submitting this application for review, HMC considered and dismissed three options. Those options and the reasons they were rejected by HMC are discussed below. [source: Application, pgs. 50 and 51]

##### Option 1

Renovating and expanding the Bremerton campus. This option would retain the current bed configuration of the 2 campuses. HMC rejected this option based on the following reasons:

- The existing Bremerton site is at capacity with no opportunities for expansion without the acquisition of adjacent property that is not currently owned by Harrison and closing of the main street in front of the hospital (Cherry Street) to allow contiguous expansion to occur.
- The site has sloped topography which would make floor to floor alignment of any new expansion difficult.
- The oldest building systems are beyond useful life and are functionally obsolete.
- Surgery, lab, central sterile services, pharmacy and medical imaging are all landlocked with no opportunity for expansion in place.

##### Option 2

Entire replacement of the Bremerton campus at another location in Bremerton. This option was found to be both cost prohibitive and unnecessary. HMC has made considerable investment in the Bremerton campus. Likewise, many physicians and other health care providers have made investments in services and facilities adjacent to the campus that are of benefit to the entire community. HMC values and recognizes these commitments and as such ruled out the option of total replacement.

##### Option 3

Entire replacement of the Bremerton campus at the Silverdale campus. This option would have similar draw backs to the previous option except that HMC has a site at Silverdale that has substantial undeveloped land that could be developed. Also completely replacing the total facility would result in a substantial increase in the cost of the project.

After rejecting the options discussed above, HMC elected to reduce the number of beds at the Bremerton campus and move licensed beds to the Silverdale campus. This project will free up space for the ancillary and support services at Bremerton. The ancillary and

support services will be expanded at the Silverdale campus to further reduce the pressure on the Bremerton facilities. This enables HMC to use the more recently constructed facilities at the Bremerton campus. The additions since 1995 amount to 136,525 square feet or 31.2% of the total facility space at the Bremerton campus.

Additionally, HMC indicates that that this option is a more conservative option by moving 42 beds from the Bremerton campus thus being able to improve the distribution of ancillary and support services. This reduces the amount of new space required at the Silverdale campus and thus reduces the potential cost of the project. The applicant is also able to preserve the use of more recently constructed facilities at the Bremerton campus.

Based on the information submitted by the applicant the department would concur that the applicant is making best use of existing resources while expanding their facilities in a location that will improve services to the population being served.

This sub-criterion has been met.

2. In the case of a project involving construction:

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

The total capital cost for the 42 relocated and 50 new beds at the Silverdale campus is \$69,044,583 which results in a cost per bed of \$1,380,891.66. HPDS staff report that this cost per bed is comparable to past construction costs reviewed by their office. Construction costs can vary quite a bit due to type of construction, quality of material, custom versus standard design, building site and other factors. HMC is adding to an existing building in a facility if currently occupies for healthcare services and will construct the new area to the latest energy and hospital standards. HMC is proposing to recycle gray water, include active solar panels for preheating water, and orient the facility to reduce cooling costs in the summer [source: Application pg. 52].

This project requires a Conditional Use permit based on a letter from Kitsap County Department of Community Development [source: Response to screening questions Appendix 1]

The applicant indicated in the response to screening questions that the Conditional Use Permit may not be issued before the department completes its review of this project. The permit is a requirement of the county's Department of Community Development and must be obtained prior to any work occurring at the site to ensure all site and zoning requirements will be met, the department attaches the following term to this application.

This information and with the applicant's agreement to the term below, the department concludes the Certificate of Need zoning requirements will be met

Prior to commencement, HMC must submit a copy of the approved Conditional Use Permit to show approval of the project as referenced in the letter dated

December 28, 2008, from the Kitsap County Department of Community Development

Based on the information reviewed and with the above term, the Department concludes this project's construction costs are reasonable. 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.*

Harrison Medical Center is proposing to make maximum utilization of existing facilities minimize the construction costs to be incurred, and develop new areas using the latest in technology to reduce operating (utility) costs.

This sub-criterion is also evaluated within the financial feasibility criterion under WAC 246-310-220(2). This sub-criterion is met