

# **EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON BEHALF OF PEACEHEALTH ST. JOSEPH HOSPITAL PROPOSING TO ACQUIRE AND CONVERT AN EXISTING CERTIFICATE OF NEED EXEMPT OUTPATIENT ENDOSCOPY AMBULATORY SURGERY CENTER TO HOSPITAL BASED PROGRAM**

## **PROJECT DESCRIPTION**

The PeaceHealth Organization operate seven hospitals, medical groups, a chemical dependency program, healthcare related joint ventures and other services in Alaska, Oregon and Washington states. Within the city of Bellingham in Whatcom County, the PeaceHealth Organization operates a hospital under the business name of St. Joseph Hospital. [Source: <http://www.peacehealth.org/AboutPH/>] Information provided to the department by St Joseph Hospital states that on June 30, 2008, the Whatcom Region PeaceHealth Organization acquired the majority of the assets of Madrona Medical Group a local healthcare provider in Whatcom County. Excluded from the assets acquired in June 2008 was the Certificate of Need (CN) exempt ambulatory surgical center (ASC) that is the subject of this review. St. Joseph states it would also like to purchase the exempt ASC operated by the Madrona Medical group and convert it to a non-exempt ASC licensed under the hospital license. [Source: Application, Page 1] No new services are being proposed as part of this application.

The CN exempt Madrona ASC is located at 4545 Cordata Parkway within the city of Bellingham in Whatcom County. St Joseph Hospital states that if its Certificate of Need application is approved, the ASC's location would remain the same but its name would be changed to the "PeaceHealth Cordata Center". The estimated capital expenditure associated with the acquisition of the Madrona Medical Group endoscopy program is \$453,657. Of that amount, 46% is related to acquisition cost and 41% is related to property improvements and construction and 13% is related to fees and taxes. [Source: Application, Page 21]

If this project is approved, St. Joseph Hospital anticipates change of ownership of the Madrona Medical Group ASC and licensure under its hospital license would occur following CN approval. Under this timeline, year 2010 would be the second full calendar year of operation and year 2011 would be the third full year of operation. [Source: Application, Page 10] For ease of reference, the department would refer to the applicant St Joseph Hospital as "SJH" and the endoscopy center as the "PeaceHealth Cordata Center".

## **APPLICABILITY OF CERTIFICATE OF NEED LAW**

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

## **CRITERIA EVALUATION**

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment) and WAC 246-310-270 (ambulatory surgery).<sup>1</sup>

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

## **APPLICATION CHRONOLOGY**

June 23, 2008	Letter of Intent Submitted
July 29, 2008	Application Submitted
August 1, 2008, through September 5, 2008	Department's Pre-Review Activities <ul style="list-style-type: none"><li>• 1<sup>st</sup> screening activities and responses</li></ul>
September 12, 2008	Department Begins Review of Application
October 16, 2008	End of Public Comment
	No Public Hearing Requested or Conducted
October 30, 2008	Rebuttal Documents Received at Department
December 15, 2008	Department's Anticipated Decision Date
March 10, 2009	Department's Actual Decision Date

## **AFFECTED AND INTERESTED PERSONS**

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

## **SOURCE INFORMATION REVIEWED**

- SJH Certificate of Need Application received July 29, 2008.
- SJH supplemental information received September 5, 2008.
- Whatcom County planning area ASC operating room utilization survey response.
- Public comments received from Northwest Endoscopy Center dated October 9, 2008.
- Public comments received from Bellingham Surgery Center August 22, 2008.
- SJH rebuttal comments received October 30, 2008.
- Licensing and/or 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 received January 12, 2009.

## **CONCLUSION**

For the reasons stated in this evaluation and with agreement to the following terms and condition, PeaceHealth St Joseph Hospital Certificate of Need application proposing to acquire an existing Certificate of Need exempt outpatient endoscopy program and converting it to a hospital based program within the city of Bellingham in Whatcom County is approvable. Provided that PeaceHealth St Joseph Hospital agrees to the term and conditions outlined below, a Certificate of Need would be issued with the following.

### **Terms**

1. Prior to providing services PeaceHealth St Joseph Hospital must provide to the department for review and approval an adopted/approved PeaceHealth Cordata Center admission policy. The adopted/approved admission policy must be consistent with the draft policy provided within the application.
2. Prior to providing services PeaceHealth St Joseph Hospital must provide to the department for review and approval an executed copy of the Medical Director's agreement. The executed medical director agreement must be consistent with the draft agreement provided within the application

**Condition**

1. PeaceHealth St Joseph Hospital Cordata Center out-patient endoscopy program is limited to endoscopic/GI type services as described within the application and relied upon by the department in this evaluation.

The approved capital expenditure is \$453,657.

**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 and WAC 246-310-270.

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

To demonstrate compliance with this criterion SJH states, “While we do not believe (and in fact the department has concurred) that the ASC need methodology contained in WAC 246-310-270 (9) can be used for dedicated endoscopy projects, SJH has run the methodology simply as one indicator of need. Using the latest available data (from 2002), the methodology predicts a surplus of 5.0 mixed use OR’s in 2011. Regardless, SJH concludes that the historical application of the methodology is not appropriate for justifying the need for this project for two reasons: 1) the methodology excludes special procedure rooms from both the count of supply and use. Additionally, the data collection instrument used by the Department also excludes from its count of “supply”, endoscopy rooms, and 2) the facility and its associated utilization already exist.”[Source: Application, page 14] “Therefore, since none of the volume or the rooms associated with SJH’s and Madrona’s existing activity (nor that of any other facility providing these services, most of which are classified as “exempt”) are included in the Department’s use rate or count of supply, the methodology can not accurately quantify need”. [Source: Application, page 15]

For this project, SJH proposes to acquire and convert an existing CN exempt endoscopy ASC to a hospital program. Within the application, SJH stated that the population data used to project endoscopic services need in the planning area was provided by the Department of Health Office of Financial Management. SJH stated the population data demonstrated that the planning area is expected to experience significant future growth. SJH also provided historical patient origin data for the CN exempt Madrona Medical Group showing that approximately 89.9% of those using the Madrona Medical Group reside within Whatcom County. [Source: Application, Page 16]

SJH Methodology

SJH ran the methodology as required the need assumptions used by SJH are summarized below:

<b>Assumption</b>	<b>Data Used</b>
Planning Area	Whatcom secondary planning area
Population Estimates and Forecasts	OFM population projections; Target year 2011
Use Rate	Divide 2007 estimated current surgical cases by estimated 2007 populations results in the service area use rate of 69.75/1,000 population
Average minutes per case	Outpatient— 50 minutes and Inpatient –100 minutes
Annual capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes (per methodology in rule)
Existing providers and dedicated OR capacity	3 existing providers identified in the application 11 dedicated outpatient and 7 mixed-use dedicated ORs.

In summary, using the assumptions outlined above, SJH concluded that there is a surplus of 5 mixed OR’s in the Whatcom County Secondary Planning area in target year 2011.

The department uses the methodology found in WAC 216-310-270, which divides Washington State into 54 separate planning areas for determining numeric need for additional ASC operating rooms (OR’s) in a planning area. WAC 246-310-270(9) estimates a planning area OR’s need using the multi-steps as defined therein. It relies on a variety of assumptions to

determine the existing capacity of dedicated outpatient and mixed-use operating rooms by subtracting from current capacity the forecasted number of surgeries expected to be performed in the planning area during the targeted year. The result is then examined to determine the followings:

- (a) Whether a surplus or shortage of OR's is predicted to exist in the target year, and
- (b) If a shortage of OR's is predicted, the shortage of dedicated outpatient and mixed-use rooms are calculated.
- (c) Data used to make these projections specifically exclude endoscopy rooms and procedures.<sup>2</sup>

There are a total of ten ASC's and one hospital located within the Whatcom County planning area with OR capacity and this includes SJH. Listed below are the facilities with OR capacity located within the planning area.

<b>Hospital, City</b>	<b>ASC</b>
St. Joseph Hospital, Bellingham	Bellingham Surgery Center
	Parkway Surgical Center
	Northwest Endoscopy Center
	Northwest Surgical Center
	Whatcom Surgery Center
	Northwest Ambulatory Surgery Services
	Mt Baker Spine Center
	Pacific Rim Outpatient Surgery Center
	Bellingham Urology Specialist
	Aim-HY, Inc.

According to CN historical information and the information provided by SJH, there is one hospital in the Whatcom County planning area. That hospital is the applicant. Of the ten ASCs located in Whatcom County, seven are CN exempt. These facilities were established as part of a physician's or group practice and only physicians that are employees or members of the clinical practice may use these ASCs. These seven ASCs therefore do not meet the ASC definition found in WAC 246-310-010. The remaining three ASCs are CN approved.

During the review of this project, the department conducted an ASC utilization survey with the Whatcom County planning area. The survey requested information from known ASCs. Five ASCs responded to the department's survey. Of those ASCs responding, four were exempt ASCs. One, Northwest Endoscopy Center, LLC (NEC) stated there was a possibility of reduced patient volumes at their facility if the proposed project was approved. No documentation was provided to support this statement. Since this ASC is CN exempt its use is restricted to the physicians either employed or members of the group clinical practice. Therefore, if this project is approved, its impact on Northwest Endoscopy Center, LLC is expected to be minimal.

Only one CN approved ASC responded to the department's survey. Bellingham Surgery Center responded that they do not do any gastroenterology procedures. Therefore, approval of this project is not expected to have an impact on Bellingham Surgical Center. The other CN approved ASCs did not respond to the department's survey.

<sup>2</sup> WAC 246-310-270(9)(a)(iv).

The numeric portion of the methodology requires a calculation of annual capacity of existing OR's, outpatient, and inpatient and it excludes specialized dedicated rooms. Examples of dedicated rooms are open heart surgery rooms, delivery rooms, cystoscopic rooms, and endoscopic rooms. Given that endoscopic rooms are specifically excluded from the utilization calculations and this project proposes to establish an ASC dedicated to endoscopic procedures, the numeric methodology would not project need for the OR's specific to this project.

The department recognizes that dedicated endoscopy procedures and rooms are deliberately excluded from the numeric methodology outlined in WAC 246-310-270(9). In conclusion, the department concurs with the applicant that the numeric methodology outlined in WAC 246-310-270(9) is not a predictor of need for dedicated outpatients endoscopic ASC's. Therefore the department evaluated the historical volumes of procedures and the applicant's projected procedure volumes to assist in the need determination.

SJH provided the number of historical number of inpatient and outpatient endoscopy/GI procedures performed at the hospital's one GI procedure room and the current Madrona CN exempt two-room ASC. The table 1 below summarizes this data.

**Table 1  
Historical Number of Surgical Procedures**

Fiscal Year <sup>3</sup>	St. Joseph Hospital-Inpatient	St. Joseph Hospital-Outpatient	Madrona	Total
2004	742	644	2,932	4,318
2005	716	464	3,255	4,435
2006	728	629	3,722	5,079
2007	702	660	3,812	5,174
2008 <sup>4</sup>	715	691	4,060	5,466

SJH also provided its projected volumes through the first three years of operation. The table 2 below summarizes the applicant's projected procedure volumes at the Cordata center.

**Table 2  
Projected Procedures-PeaceHealth Cordata ASC**

Year	Number of Procedures
2009	4,251
2010	4,458
2011	4,677
2012	4,814

A comparison of the previous two tables shows that the current exempt ASC is performing the majority of the outpatient endoscopy procedures. If this project is approved, the PeaceHealth Cordata ASC is expected to continue to perform the majority of the outpatient procedures.

The department received public comments from Northwest Endoscopy Center, a CN exempt ASC in the planning area regarding the possible impact this project might have on their ASC.

<sup>3</sup> SJH fiscal year end June 30. Madrona fiscal year ends December 31.

<sup>4</sup> Estimated 2008 for Madrona.

### Northwest Endoscopy Center Comments

Northwest Endoscopy Center states, "Possible reduction of volume at our facility" [Source: Northwest Endoscopy Center Survey response and comments received October 9, 2008]

Summarized below are the rebuttal comments provided by SJH in response to the public comments by Northwest Endoscopy Center.

### SJH Rebuttal Comments

"NEC provided no data or evidence to support this claim. As noted in our application, this project will ensure continued access to an existing service; and while it reclassifies the licensure and certification of that service, it does not create a new service. The existing Madrona endoscopy center already performs more than 4,000 procedures per year. Allowing SJH to acquire this existing facility will ensure continued access for residents of Whatcom County".

"Average annual growth of endoscopy procedures at Madrona over the past five years has been close to 9%. SJH conservatively assumed a 5% growth rate for the next three years, and then a 3% annual rate of growth thereafter (which reflects the growth in the over 50 age cohort in the County.)Our growth rates assume no shift in market share or impact on NEC".

"According to its survey, NEC has three procedure rooms and performs over 6,400 procedures annually. This equate to about 2,125 procedures per room (or about one every hour). Therefore, if our CN is not approved, there is not sufficient capacity at NEC or at any other place in the community to absorb the historical volume that has been provided [by] Madrona. Furthermore, because NEC is a CN-exempt unit, non-NEC gastroenterologists do not have access to this location". [Source: Rebuttal comments received October 30, 2008]

### The department's response

The department noted earlier in this evaluation that Northwest Endoscopy Center provided no data to support its patient loss comments. Further, Northwest Endoscopy Center is an exempt facility that cannot be accessed by providers who are not employed or members of the clinical practice of NEC In its survey response NEC reported performing over 7,000 procedures in its three procedure rooms in 2007. At the same time SJH and Madrona performed another 4,472 in total outpatient endoscopy procedures during this same time period. This data shows that NEC is the largest know provider of endoscopy procedures in the planning area. Because of the limitation on who can perform procedures at NEC and the current volume of procedures performed by in the Whatcom planning area, the department expects only a minimal impact on NEC should this application be approved.

Within the application, SJH stated that it would continue to provide only endoscopic procedures at the PeaceHealth Cordata Center. To ensure that SJH continues to operate only endoscopy/GI services at the acquired ASC as stated within the application, the department would condition any approval of this project as follows.

Condition: PeaceHealth St Joseph Hospital Cordata Center out-patient endoscopy program is limited to endoscopic/GI type services as described within the application and relied upon by the department in this evaluation.

Based on the source information reviewed and with agreement to the condition stated above, the department concludes that 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.

SJH states that upon its CN application approval, the off-campus hospital based endoscopy program will provide endoscopic services to all residents of the planning area.

To determine whether all residents of the service area will have access to an applicant's proposed services, the department requires applicants to provide a copy of its 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.

To demonstrate compliance with this sub-criterion, St. Joseph Hospital provided a copy of its existing EMTALA policy, admission policy for the PeaceHealth Cordata Center, and Bridge Assistance (charity care) policy. The PeaceHealth Cordata Center's admission policy provided by SJH states the overall guiding principles regarding the types of patients appropriate to use ASC. The admission policy demonstrates that patients needing care are admitted for services without regard to age, race, color, religion, sex, national origin, citizenship, handicap, or pre-existing condition. [Source: Application, Supplemental Information, September 5, 2008, Attachment 2] Unlike the EMTALA and Bridge Assistance policies provided, the admission policy for the PeaceHealth Cordata Center is missing the name of who approved the policy, date of the admission policy was approved, and a document number. The lack of this information leads the department to conclude that the ASC admission policy provided is a draft. Therefore, if is project is approved, the following term is necessary:

Term:

Prior to providing services PeaceHealth St Joseph Hospital must provide to the department for review and approval an adopted/approved PeaceHealth Cordata Center admission policy. The adopted/approved admission policy must be consistent with the draft policy provided within the application.

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. SJH states that Medicaid recipients will have access to the ASC and the department's review of the application shows revenue from Medicaid is expected by the applicant.

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. The proposed PeaceHealth Cordata Center care center would be Medicare certified. A review of the application shows that revenue is expected from Medicare.

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 provided by 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, SJH provided a copy of its existing charity care policy known as the “Bridge Assistance”. The Bridge Assistance policy provided by the applicant indicated that charity care is available to the residents of the planning area. Additionally, the Bridge Assistance policy also states that all residents of the service area including low-income, racial, and ethnic minorities, handicapped, and other underserved groups would have access to community hospice services provided by the applicant.

Further, SJH states that the Bridge Assistance policy would be adopted for use at the PeaceHealth Cordata Center. SJH provided a pro-forma income statement that included a charity care line item as a deduction from revenue. [Source: Application and Exhibit 8]

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. PeaceHealth St. Joseph Cordata Center is located within the Puget Sound Region. According to the 2004-2006<sup>5</sup> charity care data obtained from HPDS, the three-year average for the Puget Sound Region is 1.89% for total revenue and 4.07% for adjusted revenue. The three-year average charity care data reported by SJH is 2.23% of total revenue and 5.58% of adjusted revenue. [Source: HPDS 2004-2006 charity care summaries] SJH pro-forma financial data indicated that the Cordata Center will provide charity care at 2.25% of total revenue. [Source: Application, Exhibit 9] St. Joseph has historically provided a level of charity care that is above the regional average for both total revenue and adjusted revenue. The projected level of charity care for the ASC is above the three year average for total revenue<sup>6</sup>. Based on SJH’s charity care history there is reasonable assurances the ASC will meet or exceed the percentage stated in the application.

Based on the source information reviewed and with agreement to the term stated above the department concludes 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.*

If this project is approved, St. Joseph Hospital anticipates change of ownership of the Madrona Medical Group exempt ASC and licensure under St. Joseph Hospital license would be January 2009. Under this timeline, year 2010 would be the second full calendar year of operation and year 2011 would be the third full year of operation. [Source: Application, Page 10] To determine whether SJH can meet its immediate and long range operating costs, the department reviewed the applicant balance sheets and the projected revenue and expense statements for the first three full years of operation.

Table 3 below summarizes the projected revenues and expenses for the first three full years of operation for the ASC. [Source: Application, Exhibit 9]

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<sup>5</sup> Year 2007 charity care data is not available as of the writing of this evaluation.

<sup>6</sup> Data to calculate an adjusted revenue charity care figure was not available.

**Table 3**  
**SJH Cordata Center- Revenue and Expense Summary**

	<b>Year 2009</b>	<b>Year 2010</b>	<b>Year 2011</b>
# Of Procedures	4,251	4,458	4,677
Net Revenue <sup>7</sup>	\$2,366,751	\$2,482,444	\$2,603,921
Total Expense	\$1,611,116	\$1,654,727	\$1,718,408
Net Profit or (Loss)	\$755,635	\$827,717	\$885,513
Net Revenue per Procedure	\$557	\$557	\$557
Total Expenses per Procedure	\$379	\$371	\$367
Net Profit or (Loss) per Procedure	\$178	\$186	\$189

\*Includes deductions for charity care and bad debt.

As shown in the table above, at the projected volumes identified, the PeaceHealth Cordata Center would be operating at a profit from year one or 2009 through the third year of operation or year 2011.

The department's Office of Hospital and Patient Data Systems (OHPDS) provided the following comments regarding the immediate and long term operating costs of the project:

"I have also reviewed various ratios' that can give a picture of the financial health of St. Joseph ambulatory surgery center. I have also reviewed various ratios' that can give a picture of the financial health of St. Joseph Hospital. Important ratios used by Certificate of Need are listed below. ...St. Joseph ambulatory surgery center Income statement ratio is above average at the end of the 3<sup>rd</sup> year and the ASC is better than break even as required by CON rules. St. Joseph ratios for 2007 are all above average except Current compared to the state averages for 2007. St. Joseph has chosen to keep funds in Board Designated Assets rather than cash and this is not an issue." [Source: OHPDS analysis, p 2].

Table 4, below is a summary of the ratios evaluated by OHPDS.

**Table 4**  
**SHJ Cordata Center Financial Ratios**

Saint Joseph Bellingham ASC Ratio Category	Trend	State07	PHSJ	ASC Only		
				YR1	YR2	YR3
Long Term Debt to Equity	Below	0.523	0.198			
Current Assets/Current Liabilities	Above	2.135	1.621	38.807	11.538	18.836
Assets Funded by Liabilities	Below	0.419	0.279	0.014	0.068	0.046
Operating Expense/Operating Revenue	Below	0.950	0.940	0.681	0.667	0.660
Debt Service Coverage	Above	6.041	6.093			
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities+Long term Debt/Assets					
Operating Expense/Operating Revenue	Operating Expense/Operating Revenue					
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp					

In summary OHPDS stated "The project Operating Expense/Operating Revenue ratio is appropriate. The applicant projects an above average financial foundation for the ASC. The

<sup>7</sup> Includes deductions for charity care, bad debt, and contractual adjustments

applicant should not have any trouble meeting the immediate and long term needs of this project.” [Source: OHPDS analysis, p 3]

SJH provided an executed triple net lease agreement between Koniag, Inc. (landlord) and Madrona Medical Group, Inc. (tenant). The lease agreement provided identified rent and the monthly base amount plus the operating cost associated with the leased. Section 15 of the lease permits the tenant to sublease the premises without the landlord consent. Therefore, if this project is approved the current lease would remain in effect. SJH also provided a draft copy of the Medical Director contract. The department’s review of the cost center pro-forma income statement shows that both rent and Medical Director expenses consistent with lease and draft Medical Director’s agreement, respectively. [Source: Application, p115]

Based on the source information reviewed, the department concludes 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.

SJH provided the following capital expenditure breakdown for the project. [Source: Application, p 21]

**Table 5**  
**SJH Cordata Center Costs**

<b>Item</b>	<b>Cost</b>	<b>% of Total</b>
Building Construction & Tenant Improvements	\$185,000	41%
Acquisition Cost	\$207,389	46%
Sales Tax and Fees	\$61,268	13%
Total Project Cost	\$453,657	100%

“SJH stated, “Over the past few years, SJH has successfully completed several construction projects including relocation of physical therapy and construction of new short stay unit and we are confident that this project’s costs have been calculated accurately”. [Source: Application, p 22] “The costs to establish this project (to acquire an existing center and modify it so that it can be licensed and operated as an outpatient department of the hospital) are relatively minor. To add capacity at the hospital to be able to accommodate the existing utilization would be significantly higher (about \$3 million). [Source: Application, p 22] OHPDS states, “St. Joseph ambulatory surgery center statistics for year three are appropriate. This office does not have much data on outpatient surgery costs. The data we have is reported under a cost center called Short Stay that covers ambulatory surgery but also can cover other treatments which result in stays less than 24 hours. The applicant’s charges and expenses are similar to the actual 2007 short stay cost center data. The project costs to the patient and community are similar to current providers.” [Source: OHPDS analysis, p 3] Based on the source information reviewed, the department concludes this sub-criterion is met.

(3) The project can be appropriately financed.

SJH states that it will utilize reserves to finance the project. SJH further states there are no financing costs associated with the use of reserves. [Source: Application, p 22]

The department reviewed the audited December 31, 2007 for St. Joseph Medical Center. Below is a summary of SJH’s balance sheet information:

**Saint Joseph Bellingham**  
**from fiscal year end financial statements in submitted to DOH**

Assets		Liabilities	
Current	\$61,220,473	Current	\$37,771,580
Board Designated	\$67,906,064	Long Term Debt	\$38,282,280
Property/Plant/Equipment	\$139,321,688	Other	\$2,575,869
Other	\$ 3,695,657	Equity	\$193,514,153
<b>Total</b>	<b>\$272,143,882</b>	<b>Total</b>	<b>\$272,143,882</b>

OHPDS provided the following comments regarding the project’s source of financing.

‘The funds will come from reserves. Reserves only cost is the funds are not able to be used for something else. St. Joseph currently has the board designated assets to fund the entire project. This is an appropriate financing option.

The financial status of St. Joseph is adequate to fund their participation in this project. This project will not adversely impact reserves, or total assets, total liability or the general health of St. Joseph Medical Center.” [Source: OHPDS analysis, p 2]

The department concludes the source of financing for this project is appropriate. 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.

To demonstrate that staffing is available and accessible the applicant states, “SJH is simply proposing to convert an existing exempt ASC to an outpatient department of the hospital. All required trained and qualified staff is already in place. All of the existing staff will continue to work at the proposed PeaceHealth Endoscopy Center”. [Source: Application, Pages 25 and 26] Summarized in Table 6 below, is the current Madrona Medical Group ASC staffing and the proposed staffing for this project.

**Table 6**  
**PeaceHealth Cordata Center FY 2009-2011 Staffing**

Type of Staff	Current FTE's	Year 2009	Year 2010	Year 2011
RNs	4.60	4.60	4.60	4.60
LPN	1.00	1.00	1.00	1.00
LPN's/Tech's	3.00	3.00	3.00	3.00
<b>Total FTEs</b>	<b>8.60</b>	<b>8.60</b>	<b>8.60</b>	<b>8.60</b>

As shown in Table 6 above, no staff increases are expected at the PeaceHealth Cordata Center. The department concludes there is a sufficient supply of qualified staff for the ASC.

SJH identified Dana Stiner, MD referred to as (“Physician”) for the PeaceHealth Cordata Center and provided a draft medical director agreement between St. Joseph Hospital referred to as (“Hospital”) and the Physician. The draft medical consultant agreement provided outlines the roles and responsibilities for both parties. The draft medical director document also identified the Physician annual compensation. [Source: Application, Page 4 and September 5, 2008; Supplemental Information, Attachment 1] If approved, the department would include the term below.

Term:

Prior to providing services, St. Joseph Hospital must provide to the department for review and approval the executed copy of the medical consultant agreement. The executed agreement must be consistent with the draft agreement provided within the application.

Based on source information reviewed, and with agreement to the term stated above the department concludes 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.

SJH is a subsidiary of the PeaceHealth organization a major healthcare provider located in Alaska, Oregon and Washington states. As the only major healthcare provider in Whatcom County, SJH has ancillary and support services in place for the PeaceHealth Cordata Center. SJH states “the existing ASC is located in a Medical Office Building (MOB) that also houses pharmacy, laboratory, and imaging services and various other ancillary services.” [Source: Application, p 26] Further, SJH states “all of the ancillary services in the MOB will continue to operate in their existing locations, under SJH operation and as such, will be available to provide support as needed to the endoscopy suites. These services are more than adequately sized to support the volume level project.” [Source: Application, p 26] Since the proposed ASC is currently operational it currently has ancillary and support services necessary to support it operation. Approval of this application this not expected to negatively impact those relationships.

Based on the source information 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.

As stated within the evaluation, SJH is affiliated with the PeaceHealth organization which operates six hospitals and healthcare related services in Alaska, Oregon, and Washington states. [Source: Application pages 1 and 15]

Currently within Washington State, the PeaceHealth Organization owns and operates a dialysis treatment center and two hospitals. As part of its review, the department must conclude that the proposed services would be provided in a manner that ensures safe and adequate care to the public<sup>8</sup>. To accomplish this task, the department requested quality of care compliance history from the state licensing and/or surveying entities responsible for monitoring healthcare facilities where the PeaceHealth Organization and its subsidiaries operates healthcare facilities. The department received responses from the states of Alaska and Oregon where the PeaceHealth

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<sup>8</sup> WAC 246-310-230(5).

Organization and its subsidiaries operate healthcare facilities<sup>9</sup>. The compliance history responses provided to the department by the states of Alaska and Oregon surveying entities did not reveal any citable compliance issues.

For Washington State, the Department of Health Office of Health Care Survey (OHCS) within the past two years (2006 and 2007) completed compliance surveys for the healthcare facilities owned and operated by the PeaceHealth Organization. A review of the compliance surveys of these facilities in Washington State did not reveal any non-compliance deficiencies<sup>10</sup>. [Source: Compliance survey data provided by Office of Health Care Survey]

As a hospital operator in Whatcom County, SJH expects that the PeaceHealth Cordata Center endoscopy program would be licensed under hospital licensure. SJH identified Dr. Dana Stiner as the medical director for the PeaceHealth Cordata Center. The department's compliance history review of Dr. Dana Stiner record did not reveal any recorded sanction. Given the compliance history of the PeaceHealth Organization and that of Dr. Dana Stiner, the department concludes there is reasonable assurance that the PeaceHealth Cordata Center would be operated in conformance with state and federal regulation.

Based on the source information reviewed, the department concludes 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.*

To demonstrate compliance with this sub-criterion, SJH states “the conversion of the existing CN exempt ASC to hospital based outpatient department will ensure continuity of care for patients as well as continued access to vital community diagnostic.” [Source: Application, p 27] Additionally, the applicant states, “As a goal of the recent asset sale and acquisition between Madrona and SJH was to provide more seamless and coordinated care for patients.” [Source: Application, Page 27] SJH stated “protocols are in place to allow for timely transport of patients to the hospital since the endoscopy center will function as a department and there is no need for formal transfer agreement.” [Source: Application, Page 27] The department agrees the approach taken in this application is one approach to promote continuity of care for the patients.

Based on the source information reviewed, the department concludes this sub-criterion is met.

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

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

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

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

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<sup>9</sup> PeaceHealth facilities surveyed in Oregon State: Peace Harbor Hospital, Sacred Heart Medical Center and Cottage Grove Community Hospital and in Alaska State: Ketchikan General Hospital.

<sup>10</sup> Facilities owned and operated by the PeaceHealth Organization in Washington State: PeaceHealth St. Joseph, PeaceHealth Dialysis Center and PeaceHealth St. John Medical Center.

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

Before submitting this application, SJH stated that two alternatives were considered. Summarized below are the alternatives considered by SJH.

Close the existing ASC and relocate and expanding the existing GI service within the hospital  
SJH states, “The existing Madrona ASC contains (2) procedure rooms and the necessary pre and post patients spaces. SJH currently has one GI procedure room and limited pre and post patient spaces in the vicinity of the GI procedure room. The current location within the hospital is not conducive for large volumes of outpatients as the spaces are not contiguous or easily accessible. At the PeaceHealth Cordata Center, patients will be admitted and receive services in single location. Given that it is estimated to cost more than \$3 million to relocate and expand the hospitals program in order to support as estimated 5,000 cases annually, this option was ruled out”. [Source Application, Page 28]

Closing the ASC without expanding the hospital program

SJH states, “Closing the center was also deemed to be an unreasonable option as there is currently no other option for patients in the county. As noted in earlier sections of this application, the only other GI/endoscopy center in the county is CN exempt and therefore its use is limited to its physician owners. Patients would be forced to travel out of area for care, and may opt to delay or forego treatment as a result. Given the proven efficacy of endoscopy, SJH needs to ensure that it is easily available and accessible”. [Source: Application, page 29]

During this review, the department identified limited capacity of ASCs that perform GI/endoscopy procedures. Currently only one room is located outside of an exempt ASC. That one room is within the applicant’s hospital. If this project is approved, it will not increase the over-all capacity of ORs performing GI/endoscopy procedures. It will however change the accessibility to two of these ORs from only members of the group practice to any privileged physician. The department concludes this increased access to CN approved ORs is the best available alternative for the population in the Whatcom service area.

Based on the source information reviewed, the department concludes this sub-criterion is met.

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

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

As stated in the project description portion of this evaluation, this project involves minor construction. This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined that the sub-criterion was met. Therefore, this sub-criterion would also be considered met.

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

This sub-criterion is also evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined that the sub-criterion was met. Therefore, this sub-criterion would also be considered met.