

**EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON BEHALF OF  
REGIONAL HOSPITAL FOR RESPIRATORY AND COMPLEX CARE PROPOSING TO ESTABLISH A  
25-BED LONG-TERM ACUTE CARE HOSPITAL IN TACOMA WITHIN PIERCE COUNTY**

**LONG TERM ACUTE CARE HOSPITALS**

Long-term acute care hospitals (LTACHs) differ from general acute care hospitals in that they furnish extended medical and rehabilitative care to individuals who are clinically complex and have multiple acute or chronic conditions. An LTACH must be certified as an acute care hospital that meets criteria to participate in the Medicare program and has an average inpatient length of stay greater than 25 days. [source: American Hospital Association Long Term Care Hospital home page]

LTACHs also differ from nursing homes and rehabilitation hospitals in that their patients generally require a higher level of medical attention. The LTACH is designed to provide extended medical and rehabilitative care for patients who are clinically complex and have multiple acute or chronic conditions. Most patients in LTACHs have several diagnosis codes on their Medicare claim, which indicates that they have multiple co-morbidities and are less stable on admission than patients admitted to other post-acute care settings. Approximately one half of the patients in an LTACH have five or more diagnoses noted on their claims. [source: Prospective Payment Assessment Commission, 1996]

Under the current Medicare payment system, LTACH reimbursement is structured to compensate hospitals for the care of patients whose average length of stay exceeds 25 days. The reimbursement model for general acute care hospitals is not designed to compensate hospitals for this population. As a result, the LTACH is a model of care that provides an environment tailored to medically complex patients and is able to serve those patients under a reimbursement model that adequately covers the costs of treatment. LTACHs in a community enable existing hospitals to improve facility utilization by discharging patients to the LTACH who would otherwise be occupying ICU or other acute care beds for long periods of time and place them in a suitable clinical setting. As a result, the existing hospitals are able to free space to more effectively manage their daily caseload, particularly in intensive care unit (ICU) and critical care unit (CCU) settings, which are often subjected to highly fluctuating occupancy rates. Referral of suitable patients to an LTACH improves hospitals' ability to ensure that ICU and CCU beds are available. [source: American Hospital Association Long Term Care Hospital home page]

**PROJECT DESCRIPTION**

Regional Hospital for Respiratory and Complex Care (Regional) is a non-profit LTACH located at 12844 Military Road South in the city of Tukwila, within King County. Regional is licensed by the Department of Health's Office of Health Care Survey as an acute care hospital and reimbursed by both Medicare and Medicaid. Regional is also fully accredited by the Joint Commission on the Accreditation of Health Care Organizations. [source: Application, p3 and CN historical files]

Currently, Regional is licensed for 27 acute care beds at its King County site. The 27 LTACH beds are used solely for long-term acute care patients. On May 10, 2006, the Certificate of Need (CN) Program issued CN #1329 to Regional approving the addition of 33 acute care beds, resulting in a 60 bed LTACH at its King County site. CN #1329 approved the bed addition in two phases--phase one is the addition of 8 beds, for a total of 35; and phase two is the addition of the remaining 25 beds, for a facility total of 60. [source: Regional Application #06-11]

This application currently under review proposes to establish a new, 25-bed LTACH in Pierce County. The new LTACH would be located within approximately 22,000 square feet of space on the top floor of a “to-be-built” medical office building located adjacent to the Franciscan Health System-St. Joseph Medical Center campus in Tacoma. The address of the site is 1602 South “J” Street in Tacoma. [source: Application, p3 & 6] Regional proposes to license the new 25-bed LTACH under the same license as the LTACH located in King County.

Further, if this project is approved, Regional proposes to relinquish 20 of 33 approved beds issued under CN #1329. The 20 beds would come from the second phase of the approved project, which would result in a 40-bed LTACH in Tukwila, rather than the approved 60 bed project. As a result, the two-phased projected approved under CN #1329 would be:

- Phase 1 - the addition of 8 beds, for a total of 35; and
- Phase 2 - the addition of 5 beds, for a facility total of 40.

If this project is approved, Regional would have the following bed configuration at its two sites:

<u>Location</u>	<u>Number of Beds</u>
Regional – Tukwila, King County	40 beds (after complete implementation of CN #1329)
Regional – Tacoma, Pierce County	<u>25 beds</u>
<b>Total</b>	<b>65 beds licensed under one acute care license</b>

[source: Application, pp6-7]

For this project under review, Regional anticipates construction of the medical office building would begin by August 2007, and the LTACH would be complete and operational by the end of January 2008. Under that timeline, 2009 would be Regional’s first calendar year of operation as a 25-bed LTACH, and year 2011 would be Regional’s third calendar year of operation. [source: Application, p13]

The estimated capital expenditure for this project is \$8,012,376, and of that amount, 58% is related to constructions costs; 28% is related to equipment (both fixed and moveable); 7% is related to state sales tax; and the remaining 7% is related to permits and fees. [source: Application, p25]

To avoid confusion within this evaluation, hereinafter the department will refer to Regional’s King County LTACH as “Regional-King;” and the proposed Pierce County LTACH as “Regional-Pierce.”

**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).

## **APPLICATION CHRONOLOGY**

July 26, 2006	Letter of Intent Submitted
November 1, 2006	Application Submitted
November 2, 2006, through January 24, 2007	Department's Pre-Review Activities <ul style="list-style-type: none"><li>• 1<sup>st</sup> screening activities and responses</li></ul>
January 25, 2007	Department Begins Review of the Application <ul style="list-style-type: none"><li>• public comments accepted throughout review</li></ul>
March 1, 2007	End of Public Comment (no public hearing requested or conducted)
March 16, 2007	Rebuttal Documents Submitted to Department <sup>1</sup>
April 30, 2007	Department's Anticipated Decision Date
April 30, 2007	Department's Actual Decision Date

## **AFFECTED PERSONS**

No entities sought or received affected person status under WAC 246-310-010.

## **SOURCE INFORMATION REVIEWED**

- Regional Hospital for Respiratory and Complex Care's Certificate of Need application submitted November 1, 2006
- Regional Hospital for Respiratory and Complex Care's supplemental information dated January 15, 2007, and February 5, 2007
- Department of Health's Office of Hospital and Patient Data Systems financial feasibility and cost containment analysis dated April 11, 2007
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Public comment received during the course of the review
- Population data obtained from the Office Financial Management based on year 2000 census published January 2002.
- Data obtained from Regional Hospital for Respiratory and Complex Care's website at [www.regionalhospital.org](http://www.regionalhospital.org)
- Acute Care Bed Methodology extracted from the 1987 State Health Plan
- Certificate of Need Historical files
- Office of Health Care Survey data

## **CRITERIA EVALUATION**

To obtain Certificate of Need approval, Regional Hospital for Respiratory and Complex Care 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 portions of the 1987 State Health Plan as it relates to the methodology for acute care beds.<sup>2</sup>

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<sup>1</sup> Given that no comments were provided in opposition to this project, Regional did not provide rebuttal comments.

<sup>2</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).

**CONCLUSION**

For the reasons stated in this evaluation, Regional Hospital for Respiratory and Complex Care’s proposal to establish a 25-bed LTACH in central Pierce County is consistent with application criteria of the Certificate of Need Program, provided the applicant’s agreement to the following term and conditions.

**Term**

To ensure that appropriate ancillary and support agreements will be established at Regional Hospital for Respiratory and Complex Care’s Pierce County facility, the applicant must agree to the following term:

- 1) Prior to providing services at Regional Hospital for Respiratory and Complex Care’s Pierce County facility, Regional Hospital for Respiratory and Complex Care will provide an executed copy of the Purchased Services Agreement, consistent with the draft agreement provided in the application. The executed Purchased Services Agreement will outline the services to be provided by Franciscan Health Care’s St. Joseph Medical Center.

Provided Regional Hospital for Respiratory and Complex Care agrees to the term above, a Certificate of Need for the project will be issued with the following two conditions.

**Conditions**

- 1) Regional Hospital for Respiratory and Complex Care must provide charity care in compliance with the charity care policies provided in this Certificate of Need application and the requirements of the applicable law. For the Pierce County Long Term Acute Care Hospital, Regional Hospital for Respiratory and Complex Care will provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the Puget Sound Region during the three most recent years. For historical years 2003-2005, these amounts are 1.64% gross revenue and 3.46% adjusted revenue. Regional Hospital for Respiratory and Complex Care will maintain records at the Pierce County facility documenting the amount of charity care it provides and demonstrating compliance with its charity care policies and applicable law.
- 2) Regional Hospital for Respiratory and Complex Care will relinquish the rights to 20 beds authorized under Certificate of Need #1329. Approval of a new 25 bed LTACH in Pierce County results in the following bed configuration for Regional Hospital for Respiratory and Complex Care at its two sites:

<b><u>Location</u></b>	<b><u>Number of Beds</u></b>
Regional – Tukwila, King County	40 beds (after complete implementation of CN #1329)
Regional – Tacoma, Pierce County	<u>25 beds</u>
<b>Total</b>	<b>65 beds licensed under one acute care license</b>

Even though the two LTACHs would be licensed under one acute care license, any increase of acute care beds from the configuration identified above at either site requires prior Certificate of Need review and approval.

Provided the applicant’s agreement with the above term and conditions, a Certificate of Need should be issued. The approved capital expenditure for this project is \$8,012,376.

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

Based on the source information reviewed, the department determines that the application is consistent with the applicable need criteria in WAC 246-310-210.

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

**Summary of Regional Hospital for Respiratory and Complex Care Numeric Methodology**

As of the writing of this evaluation, Regional is currently licensed for 27 acute care beds at its King County site. The existing 27 LTACH beds are used solely for long-term acute care patients. The May 10, 2006, issuance of CN #1329 to Regional approves the addition of 33 acute care beds in two phases. [source: Regional Application #06-11] If this project currently under review is approved, Regional proposes to relinquish 20 of its 33 beds approved in phase two of the CN #1329 project, resulting in a 40-bed LTACH in Tukwila, rather than the approved 60 bed project. [source: Application, pp6-7]

Because the department does not have a need methodology in rule specific to LTACH beds, Regional provided a multi-step methodology to demonstrate numeric need for the additional LTACH beds that incorporated the following process/assumptions:

- 1) calculated a use rate;
- 2) applied the use rate to the estimated adult population of Washington State;
- 3) projected patient days assuming an average length of stay of 50 days;
- 4) adjusted for out-of-state use;
- 5) market share adjusted the projected patient days by holding Regional's actual 2004 market share constant; and
- 6) assumed a desired target midnight occupancy level of 65%.

After applying its process and assumptions above, Regional determined a need for a total of 24 LTACH beds in year 2013. [source: Application, pp15-18, Exhibit 4]

**The Department's Determination of Numeric Need:**

The department uses the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan (SHP) 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. 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 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. 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>3</sup>, and planning area. Given that the planning area for this analysis is Central Pierce County<sup>4</sup>, the department prepared bed need forecasts for central Pierce County relying on data provided by the applicant to determine baseline need for acute care capacity. This set of projections is completed prior to determining whether an applicant should be approved to meet any projected need.

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 Regional in its application of the methodology. The titles for each step are excerpted from the 1987 SHP.

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

For this step, attached as Appendix 1, the department obtained utilization data for 1996 through 2005 from the Department of Health Office of Hospital and Patient Data Systems' CHARS (Comprehensive Hospital Abstract Reporting System) database. Total patient days were identified for the Central Pierce Planning Area, HSA 1, and the State of Washington as a whole, excluding psychiatric patient days (Major Diagnostic Category (MDC) 19) and normal newborns (Diagnostic Related Group (DRG) 391), according to the county in which care was provided. Regional followed this step as described above with no deviations.

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

While 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. Regional followed this step as described above with no deviations.

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<sup>3</sup> The state is divided into four HSA's 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>4</sup> Described in 1981 by Puget Sound Health Systems Agency as zip codes 98303, 98333, 98335, 98349, 98351, 98388, 98394, 98395, 98401, 98402, 98403, 98404, 98405, 98406, 98407, 98408, 98409, 98411, 98416, 98421, 98422, 98424, 98443, 98465, 98466, and 98467. The applicant provided several additional zip codes that have been added in the years since 1981.

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. For the purposes of this application, the average use rate was also determined for the Central Pierce planning area and is attached as Appendix 3. Actual and projected population figures for this analysis were derived from the State of Washington Office of Financial Management (OFM) "medium-series" county population projections, based on the 2000 census, developed January 2002<sup>5</sup>, and from population data supplied by the applicant. Regional followed this step as described above, including use of the medium series population projections.

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 department has computed trend lines for the state, HSA 1, and the central Pierce planning area based upon the trends in use rates from these seven years and has included them as Appendix 4. The resulting trend lines uniformly exhibit a mild upward slope. This conclusion is supported by increasing utilization reported by hospitals throughout the state in recent years, and is indicative of a growing population. More significant than overall population growth is the fact that the state's population is growing older as the large 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. Regional followed this step as described above 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 central Pierce 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 used hospital discharge data obtained from 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).

As has been noted earlier, the original purpose for this methodology was to create comprehensive, statewide resource need forecasts. For purposes of this evaluation, the state was broken into only two planning areas – central Pierce and the state as a whole *minus* central Pierce. Appendix 5 illustrates the age-specific patient days for residents of the central Pierce planning area and for the rest of the state, identified here as "WA – CP." Regional followed this step as described above with no deviations.

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<sup>5</sup> Found on the World Wide Web at <http://www.ofm.wa.gov/pop902020/pop902020toc.htm>.

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 2005, as defined in Step 3, for the central Pierce planning area and for the rest of the state. Regional followed this step as described above with no deviations.

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.

The 2005 use rates determined in Step 6 were multiplied by the slopes of both the planning area's use rate trend line and by the statewide use rate trend line for comparison purposes. For the central Pierce planning area, the area trend is for a higher rate of increase (an annual increase of 7.2473 per 1,000 population) than the statewide rate (an annual increase of 2.956 per 1,000 population). Consequently, the department applied the statewide trend to project future use rates. By applying the use rate trend that differs least from the current use rate, the methodology uses the most conservative of trended use rates.

The methodology is designed to project need in a specified "target year." The applicant has indicated that all 25 beds would become operational by the end of January 2008. It is the practice of the department to evaluate need for a given project through at least three years following completion of the project. For this evaluation, 2010 has been selected as the target year for the calculations in Appendices 7 through 9. Additionally, the department uses the methodology to project need for a project over a series of years. To apply the methodology, the department relies on service area population data provided by the applicant. For this project, Regional provided population data to year 2013; as a result, the department will also provide projections to year 2013. The Department's projections are presented in the summary attached as Appendix 10 of this analysis.

For this step, Regional deviated from the methodology by applying the actual 2005 King County use rates to the population. Regional provided the following explanation for this deviation.

*"Regional elected to use only a King County use rate due to the fact that many other areas of the State are "underserved" which would serve to understate future demand. Further, because many patients on our waiting list die or transfer to other facilities prior to our ability to admit them, a use rate that does not incorporate this fact will also serve to understate demand. In our experience King County's use rate is the best proxy of what future demand will approximate when additional resources are available to accommodate patients."*

[source: Application, p17, footnote 4]

The use rate deviation used by Regional will impact future steps within this methodology.

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 forecasted use rate for the sample target year 2010 and OFM population projections, projected patient days for central Pierce planning area residents are 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 10 as “Total Central Pierce Res Days.” Regional applied this step with no deviations; however, as previously stated, the use rate deviation applied by Regional in step 7A above will impact this step and each step thereafter.

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 central Pierce planning area and the remainder of the state were allocated from county of resident to the area where the care is projected to be delivered in the sample target year 2010. The results of these calculations are presented in Appendix 10 as “Total Days in Central Pierce Hospitals.” Regional applied this step with no deviations.

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 available beds in the planning area was identified in accordance with the SHP standard 12.a., which identifies:

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.

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 the Department of Health’s Office of Hospital and Patient Data Systems records.

For this project, there are three existing hospitals and one CN approved hospital located in the central Pierce planning area. Below is a summary of the four facilities. [source: OHPDS data]

#### Tacoma General/Allenmore Hospital (part of the MultiCare Health System)

Tacoma General/Allenmore Hospital is actually two separate hospitals licensed under the same hospital license. Tacoma General is located at 315 Martin Luther King Jr Way in Tacoma. Allenmore Hospital is located at South 19<sup>th</sup> and Union Avenue also in Tacoma. The combined licensed number of beds at Tacoma General/Allenmore Hospital is 521. To determine Tacoma General/Allenmore’s number of available beds, the department reviewed annual reports submitted to the Department of Health’s Office of Hospital and Data Systems (OHPDS) by Tacoma General/Allenmore. In the last five years, Tacoma General/Allenmore has consistently reported

between 365 and 380 available beds. As of the writing of this evaluation, Tacoma General Allenmore reported 389 available beds. [source: OHPDS data]

Mary Bridge Children’s Hospital (part of the MultiCare Health System)

This children’s hospital is located within space at Tacoma General Hospital. Mary Bridge Children’s Hospital is licensed for 72 acute care beds; however, most recent reporting to OHPDS by Mary Bridge Children’s Hospital indicates 67 available beds. [source: OHPDS data]

St. Joseph Medical Center (part of the Franciscan Health System)

St. Joseph Medical Center is located at 1717 South “J” Street in Tacoma and is licensed for 320 acute care beds. Of the 320 beds, 16 are designated for psychiatric services. As a result, St. Joseph Medical Center’s total of available beds is 304 (320 less 16). [source: OHPDS data]

St. Anthony Hospital (part of the Franciscan Health System)

On May 26, 2004, the Certificate of Need Program issued a “Letter of Intent to Issue a Certificate of Need” to Franciscan Health System approving the establishment of an 80 bed acute care hospital in Gig Harbor.<sup>6</sup> While Franciscan Health System is implementing the approved project, as of the writing of this evaluation, the 80-bed hospital is not yet operational or licensed. However, consistent with Certificate of Need rules and regulations, the approved 80 acute care beds must be counted in the bed supply for the central Pierce planning area. [source: CN historical files]

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.

In summary, among the three existing hospitals and one Certificate of Need approved hospital located in the central Pierce planning area, there are 840 available acute care beds.

For its methodology, Regional counted a total of 834 beds in the central Pierce planning area broken down below. Regional also excluded short stay psychiatric beds in the bed count.

- Tacoma General Allenmore Hospital – 380
- Mary Bridge Children’s Hospital – 72
- St. Joseph Medical Center – 302
- St. Anthony Hospital - 80

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 central Pierce planning area’s weighted occupancy has been determined to be 72.38%. This reduction in occupancy standards, along with the weighted occupancy standard

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<sup>6</sup> Once the land use requirements were completed by Franciscan Health System, CN #1332 was issued on June 15, 2006.

assumptions detailed above, is reflected in the line “Wtd Occ Std” in Appendix 10. Regional also used the weighted occupancy percentage of 72.38% in its methodology.

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.

Regional proposes no psychiatric services at the new facility. In addition, the short-stay psychiatric bed need methodology relies on admissions data from federal and state-owned hospitals, which are not available to the department. For these reasons, the department concluded that psychiatric services should not be forecast while evaluating the current CN proposal. Regional also did not forecast psychiatric services in its methodology.

Step 12: Determine and carry out any necessary adjustments in population, use rates, market shares, 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 and described above. Regional’s adjustments were all described within its methodology. In summary, the two deviations used by Regional in its methodology were 1) applying the actual 2005 King County use rate to the projected population; and 2) the count of 834 acute care beds in the planning area, rather than the 840 as counted by the department.

The results of the department’s methodology is shown in Appendices 10a and 10b attached to this evaluation. Appendix 10a calculates the central Pierce planning area bed need without the proposed project. Appendix 10b demonstrates the impact of adding Regional’s proposed 25 bed LTACH in January 2008 through 2013. A summary of those appendices is shown below. [source: Department’s Appendices 10a & 10b attached to this evaluation]

**Table 1  
Central Pierce Planning Area Appendix 10A and 10B Summary**

	2007	2008	2009	2010	2011	2012	2013
<b>Planning Area # of beds</b>	840	840	840	840	840	840	840
<b>Appendix 10A (w/o project)</b>	-106	-92	-77	-64	-41	-18	8
<b>Planning Area # of beds</b>	840	865	865	865	865	865	865
<b>Appendix 10B (w/ project)</b>	-106	-110	-95	-82	-59	-35	-11

A negative number indicates a surplus of beds. Numbers are rounded to whole numbers

As shown in Table 1 above, for current year 2007, Appendices 10a and 10b illustrate a planning area net surplus of 106 beds. Appendix 10A shows without the addition of Regional’s proposed 25 beds, the planning area’s surplus would decrease, and ultimately become a net need of 8 beds in year 2013.

Appendix 10B illustrates the effect on the planning area if Regional adds 25 acute care beds to the planning area beginning in year 2008. The net surplus increases in year 2008 to 110 beds, and then begins to decrease each year, ending in a small surplus in year 2013 of 11 beds.

In comparison, the results of Regional’s application of the methodology, with its deviations, are shown in Table 2 below. [source: Application, p16]

**Table 2  
Applicant's Results of Numeric Methodology**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Gross Bed Need</b>	737	754	771	785	809	833	858
<b>Minus Existing Supply</b>	834	834	834	834	834	834	834
<b>Net Bed Need</b>	-97	-80	-63	-49	-25	-1	24

A negative number indicates a surplus of beds. Numbers are rounded to whole numbers

As shown in Table 2 above, Regional's application of the methodology also illustrates a decreasing planning area surplus for years 2007 through 2012, and a net need in year 2012 for 24 beds. Regional did not provide a table showing the effect on the planning area if Regional adds 25 acute care beds to the planning area beginning in year 2008.

As demonstrated by the department's methodology summarized in Table 1 above, the central Pierce planning area currently does not show a need for additional acute care bed capacity until 2013. However, as previously indicated in this evaluation, while LTACHs are licensed as acute care hospitals, they are designed to provide extended medical and rehabilitative care for patients who are clinically complex and have multiple acute or chronic conditions. Most patients in LTACHs have several diagnosis codes on their Medicare claim, which indicates that they have multiple co-morbidities and are less stable on admission than patients admitted to other post-acute care settings. While the department's numeric bed methodology is a starting point for evaluating need for this project, it is not the sole determinant. In addition to the numeric methodology above, the department must also determine whether existing acute care providers are available and accessible in the planning area. During the review of this application, the department received three letters of support from the following entities.<sup>7</sup>

<u>Facility</u>	<u>City</u>	<u>County</u>
MultiCare Health System	Tacoma	Pierce
Franciscan Health System	Tacoma	Pierce
Providence St. Peter Hospital	Olympia	Thurston

The letters of support provided for the Regional project focused on the services provided by LTACHs. Typically, LTACH services include extensive rehabilitation and long term management of multiple acuity patients. Both MultiCare and Franciscan indicated that they can, and do, provide care for these patients; however, LTACHs provide the care more efficiently in the appropriate setting. Yet some patients who would benefit from care in an LTACH, elect not to be transferred because of the driving distance for the patients' families to Regional's LTACH in Tukwila. Providence St. Peter indicated that it does not provide long term acute care services; rather it has referred patients to Regional's Tukwila facility for more than ten years. Providence St. Peter indicated that an LTACH closer to Thurston County would be a positive impact on the hospital as well as patients' families. Further, all three letters of support indicated that these highly complex patients requiring extensive medical care, are more appropriately cared for in the LTACH setting. Further, each letter of support acknowledged a typical high occupancy at LTACHs, which results in increasing difficulty in finding bed space for patients. All three entities indicated that a new 25-bed LTACH in central Pierce would assist them in

<sup>7</sup> No letters of opposition were submitted regarding this project.

better management of their own patients. [source: public comment submitted by MultiCare Health System, Franciscan Health System, and Providence St. Peter Hospital] Finally, it is noted that the letters of support from both MultiCare Health System and Franciscan Health System make up 100% of the hospitals located in the central Pierce planning area.

In summary, applying the acute care bed methodology's mathematical calculation indicates that the addition of general acute care beds in the central Pierce planning areas is not necessary until year 2013. However, based on information provided in the application, the department concludes that need for a 25 bed LTACH has been demonstrated by Regional. Further, the department concludes that Regional's project is supported by the existing hospitals in the planning area, as well as a hospital in the planning area south of central Pierce. As a result, Regional has demonstrated that the central Pierce planning area population 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. 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.

As previously stated, Regional currently provides health care services to residents, including low-income, racial and ethnic minorities, handicapped and other underserved groups. To determine whether all residents of the service area would have access, or continue to have access, to an applicant's proposed services, the department requires an applicant to provide a copy of its 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 determine whether low income residents would have access, or continue to 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.

For this project, Regional provided a copy of its current admission policy used at Regional-King. Regional states that Regional-Pierce would be operated under the same acute care license as Regional-King, as a result, no separate admission policy or procedures will be established for the new LTACH. The existing policy demonstrates that all residents of the service area currently have access to the services provided by Regional provided that the patient is a candidate for LTACH services. The policy also indicates that patients are admitted to Regional without regard to age, race, color, religion, sex, national origin, handicap, or sexual preference and will be treated with respect and dignity. Additionally, Regional provided documentation to demonstrate that the existing LTACH currently provides, and will continue to provide, services to the Medicare and Medicaid patients, and the proposed LTACH will also provide services to the Medicare and Medicaid patients. [source: Application, p9 & 19, and Exhibit 6; January 15, 2007, supplemental information, p6]

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.

Regional also provided a copy of its current charity care policy. Again, since the proposed LTACH would be operated under the same acute care license as Regional-King, no separate charity care policy will be established for Regional-Pierce. The current Charity Care Policy confirms that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups currently have access to healthcare services through Regional. The policy also includes the process one must use to access charity care at the LTACH. [source: Application, pp19-20, and Exhibit 7; January 15, 2007, supplemental information, p6]

Further, for charity care reporting purposes, the OHPDS, divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Regional-Pierce would be located in Puget Sound Region. There are 19 hospitals located within the Puget Sound Region.

When the department reviewed Regional's bed addition project that resulted in the issuance of CN #1329, Regional's most recent three-year (2002-2004) average percentage of charity care for gross and adjusted revenues were reviewed. For that project, the department concluded that Regional's historical charity care percentages were considerably below the average for the King County Region for 2002-2004. While Regional proposed in its Regional-King application to provide charity care at a percentage higher than the regional average, Regional's historical charity care percentages and its current policy did not support this assertion. As a result, the department attached a condition to Regional's approval under CN #1329 regarding charity care percentages.

For its review of this project, the department again reviewed Regional King's most recent charity care data (2003-2005<sup>8</sup>). The 2003-2005 average for the Regional-King is 0.36% for gross revenue and 1.56%, for adjusted revenue. The department notes a substantial increase for charity care in year 2005 for Regional-King. Year 2005 data alone shows 1.04% in total revenue and 4.48% in adjusted revenue. [source: OHPDS 2003-2005 charity care summaries]

Given that Regional-Pierce would be located within the Puget Sound Region, the department also reviewed the most recent three year (2003-2005) average charity care percentages for the 19 hospitals located in the Puget Sound Region. The most recent three-year average percentage of charity care for gross and adjusted revenues for all 19 hospitals is 1.64% and 3.46%, respectively.

Regional-Pierce's pro formas and current charity care policies both indicate that the new 25-bed LTACH would provide charity care; further, the pro forma documents indicate that Regional-Pierce would provide charity care at a percentage slightly below the most recent three-year Puget Sound Region average. [source: Application, Exhibit 11] However, as with the recent approval of the Regional-King project, if the Regional-Pierce project is approved, to ensure that Regional-Pierce would provide at least the average charity care of the Puget Sound Region, the department would require Regional Hospital for Respiratory and Complex Care to agree to the condition on the following page.

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<sup>8</sup> Year 2006 charity care data is not available as of the writing of this evaluation.

Regional Hospital for Respiratory and Complex Care must provide charity care in compliance with the charity care policies provided in this Certificate of Need application and the requirements of the applicable law. For the Pierce County Long Term Acute Care Hospital, Regional Hospital for Respiratory and Complex Care will provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the Puget Sound Region during the three most recent years. For historical years 2003-2005, these amounts are 1.64%% gross revenue and 3.46% adjusted revenue. Regional Hospital for Respiratory and Complex Care will maintain records at the Pierce County facility documenting the amount of charity care it provides and demonstrating compliance with its charity care policies and applicable law.

Provided that Regional agree to the condition as stated above, this sub-criterion is met.

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

Based on the source information reviewed, the department determines that the application is consistent with the applicable financial feasibility criteria in WAC 246-310-220.

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

To assist the department in its evaluation of this sub-criterion, Office of Hospital and Patient Data Systems (OHPDS) 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, OHPDS compared the financial health of the hospital for December 31, 2006 to the statewide year 2005 financial ratio guidelines for hospital operations. Additionally, OHPDS compared Regional’s proposed financial ratios to the year 2005 financial ratio guidelines. Given that the proposed 25-bed LTACH would become operational by the end of January 2008, year 2009 would be the new hospital’s first full year of operation; and year 2011 would be the third full year of operation. Table 3 below summarizes the comparison provided by OHPDS. [source: OHPDS analysis, p3]

**Table 3  
Regional Hospital for Respiratory and Complex Care’s Projected Financial Ratios**

<b>Financial Ratio</b>	<b>OHPDS Guideline</b>		<b>Regional’s Current - 2006</b>	<b>Year 1 2009</b>	<b>Year 2 2010</b>	<b>Year 3 2011</b>
Long Term Debt to Equity	0.540	* Below	0.014	0.524	0.392	0.299
Current Assets/Current Liabilities	2.049	* Above	2.555	1.798	2.006	2.259
Assets Funded by Liabilities	0.432	* Below	0.338	0.614	0.560	0.509
Total Operating Expense to Total Operating Revenue	0.956	* Below	0.956	0.967	0.944	0.942
Debt Service Coverage	4.377	* Above	n/a	7.493	9.040	8.648

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

After reviewing the financial information for Regional regarding the proposed 25-bed LTACH, staff from OHPDS stated the following:

"All the ratios for Regional Hospital for Respiratory and Complex Care are better than the state average [when compared to] fiscal year end 2005, or are within appropriate range of the state 2005 figures except for Assets Funded by Liabilities. This ratio can be expected to be higher than a state average after a new project since the additional debt is at its highest. The applicant is making reasonable progress in reducing its debt during the years reviewed and this exception is acceptable." [source: OHPDS analysis, p3]

In addition to the projected ratios above, OHPDS also prepared a summary of Regional's Statement of Operations for years 2007 through 2011. [source: Application, Exhibit 1; OHPDS analysis, p4] A summary of the Statement of Operations for partial year one (2008) and full years one through three (2009 – 2011) is shown in Table 4 below.

**Table 4**  
**Regional Hospital for Respiratory and Complex Care**  
**Statement of Operations Summary Projected Years 2008 through 2011**

	Partial Year (2008)	Year One (2009)	Year Two (2010)	Year Three (2011)
# of Beds	25	25	25	25
# of Patient Days	5,586	6,568	7,662	7,662
% Occupancy	61.2%	72.0%	84.0%	84.0%
Net Revenue*	\$ 11,645,164	\$ 13,684,882	\$ 15,957,361	\$ 15,957,361
Total Expense	\$ 11,622,005	\$ 13,301,343	\$ 15,102,774	\$ 15,102,774
Net Profit or (Loss)	\$ 23,159	\$ 383,539	\$ 854,587	\$ 854,587
Net Revenue per patient day	\$ 2,084.71	\$ 2,083.57	\$ 2,082.66	\$ 2,082.66
Total Expenses per patient day	\$ 2,080.56	\$ 2,025.17	\$ 1,971.13	\$ 1,971.13
Net Profit or (Loss) per patient day	\$ 4.15	\$ 58.40	\$ 111.53	\$ 111.53

\*Includes deductions for bad debt, charity care, and contractual allowances

As noted in Table 4 above, Regional anticipates operating at a slight profit beginning in partial year one (2008); by the end of the second full year of operation (2010), Regional anticipates operating at a sufficient profit. After reviewing the Statement of Operations summary shown above for the new 25-bed LTACH, staff from OHPDS stated the following:

*"Regional's rates are similar to the Washington statewide averages given that Regional is a Long Term Acute Care hospital and the majority of community hospitals are short term hospitals. Review of the data shows no unreasonable impact on the hospital or the community. The project costs to the patient and community are similar to current providers."* [source: OHPDS analysis, p4]

In the need portion of this evaluation, the department noted that Regional's 2005 charity care percentages substantially increased from previous years (2002-2004). Regional's 2006 Statement of Operations reviewed by OHPDS in the previous section would include this increase in charity care percentages. As a result, even with the increased charity care, Regional anticipates revenues to cover expenses beginning in partial year 2008. Based on information provided in the application and data

reviewed by OHPDS staff, the department concludes that Regional would be able to 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.

To assist the department in its evaluation of this sub-criterion, OHPDS provides a summary of the reasonableness of building construction costs. Below is a summary of the OHPDS review.

As previously stated, OHPDS also compared Regional’s proposed costs and charges to the year 2006 statewide average and determined that they are reasonable. [source: OHPDS analysis, p3]

Regional proposes to establish the 25 bed LTACH in year 2008. The estimated capital expenditure for this project is \$8,012,376, and of that amount, 58% is related to constructions costs; 28% is related to equipment (both fixed and moveable); 7% is related to permits and fees; and the remaining 7% is related to state sales tax. [source: Application, p25] OHPDS provided the following summary of its review of Regional’s construction costs. [source: OHPDS analysis, p5]

**Table 5  
Regional Hospital’s Capital Cost Breakdown**

	Total
Total Capital Expenditure	\$ 8,012,376
Construction costs	\$ 5,370,000
Gross Square Footage	22,000
Total Number of Beds	25
Total Capital Expenditure per Gross Square Foot	\$ 364.20
Construction Cost per Gross Square Foot	\$ 244.09
Total Expenditure Cost per Unit (bed)	\$ 320,495.04

The applicant will adhere to the latest building codes for construction and energy conservation. After reviewing the construction costs above, staff from OHPDS concluded that the costs are within past construction costs reviewed and are appropriate. [source: OHPDS analysis, p5]

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 can be appropriately financed.

Regional intends to fund this project from a combination of its existing reserves and leasehold improvements. Below is a breakdown of the funding sources identified by Regional. [source: January 15, 2007, supplemental information, p7]

Source	Amount	Percentage of Total
Leasehold Improvements	\$4,400,000	54.9%
Reserves	\$3,612,376	45.1%

To demonstrate that the funding is available, Regional provided a copy of its January through November 2006 unaudited income statement for the existing Regional-King facility. The statement shows that Regional-King has operated ahead of budget, with operating costs at approximately 7% of operations. Additionally, Regional provided its most recent audited financial statements (year 2005) showing Regional has approximately \$6.7 million in current assets. [source: January 15, 2007, supplemental information, Attachment 7] The total capital expenditure of \$8,012,376 represents 85.8% of total assets and 38.7% of Regional's reserves.

After reviewing the applicant's 2005 audited financial reports and 2006 un-audited financial reports, OHPDS provided the following statements:

*“Regional Hospital for Respiratory and Complex Care is committing a huge amount of the corporations’ assets on this capital expenditure. Regional will use a combination of financing. It will use reserves and leasehold improvements. Reserves are accumulated mainly from prior year profits or debt acquisition. Leasehold improvement is built into the future lease costs. Since the 2005 audited balance sheet results provided by Regional do not show the hospital financially able to fund the proposed project, I reviewed the pro-forma ‘balance sheet with project’ to check hospital expectations. The pro-forma shows a very large increase in cash in 2006 from operating income. To substantiate this large increase, I reviewed Regional’s full year 2006 quarterly report submitted to the Washington State Department of Health’s Hospital and Patient Data Systems [OHPDS] section which is preliminary actual results. The quarterly report shows that while Regional did not meet the income projection, they are close enough that they can fund the project with the new reserves.”* [source: OHPDS analysis, p2]

Based on the source information reviewed for Regional's project and the review performed by OHPDS above, the department concludes that the proposed financing is the most prudent approach, and would not negatively affect Regional's total assets, total liability, or general financial health. 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 application is consistent with the applicable 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.*

If this project is approved, Regional anticipates hiring staff beginning in late 2007 to prepare for the January 2008 opening of the new 25-bed LTACH. Table 6 on the following page shows the breakdown of Regional's proposed staff through year 2010. [source: January 15, 2007, supplemental information, p9]

**Table 6**  
**Regional Hospital for Respiratory and Complex Care**  
**Projected FTEs for Pierce County LTACH**

FTEs	2007 Begin	2008 Increase	2009 Increase	2010 Increase	Total
Administration	2.90	5.70	2.90	0.60	12.10
Patient Care	9.80	20.40	19.10	8.90	58.20
All Others Total <sup>9</sup>	0.70	1.40	0.40	0.50	3.00
<b>Total FTE's</b>	<b>13.40</b>	<b>27.50</b>	<b>22.40</b>	<b>10.00</b>	<b>73.30</b>

As shown in Table 6 above, Regional recognizes it would need to begin recruiting staff in late year 2007 to become operational in January 2008. The majority of staff would be recruited in years 2008 and 2009. By the end of year 2010—Regional’s second full year of operation—a total of 73.3 staff is expected to be recruited for the 25 bed LTACH.

As stated in the project description portion of this evaluation, if this project is approved, Regional proposes to relinquish 20 of its 33 beds approved in phase two of CN #1329. With the establishment of this LTACH in Pierce County, some staff from the Regional-King facility would transfer to the proposed Regional-Pierce facility. As a result, Regional anticipates only a limited number of new staff would have to be recruited. To assist in its recruitment and retention of registered nurses, Regional emphasizes the opportunity for a critical care nurse to use his/her skills in a less stressful environment of an LTACH. Other strategies to recruit and retain LTACH staff include:

- offer an environment where staff can make a difference, use professional skills, and grow;
- redesign jobs to allow less physical demand (i.e. mechanical lifting, etc);
- work with local educational institutions to train new professionals; and
- offer competitive wage and benefit packages.

[source: Application, pp32-33]

Based on the information provided in the application, the department concludes that Regional provided a comprehensive approach to recruit and retain staff necessary for the new 25 bed LTACH. As a result, the department concludes that qualified staff can be recruited and retained. 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.*

As an existing provider of LTACH services in Washington State, Regional has already established ancillary and support services at Regional-King. Regional anticipates that the Regional-Pierce LTACH would operate as a “department” of the Regional-King LTACH. Under this configuration, both LTACHs will share administration, human resources, billing, information systems, utilization review, and finance. Given that this project proposes a new LTACH to open in January 2008, ancillary agreements have not yet been established.

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<sup>9</sup> All others include nurse educator, quality specialists, and wound care specialists.

To demonstrate compliance with this review criterion, Regional provided a listing of the healthcare entities that Regional-King has already established agreements. Regional-Pierce would have similar relationships with existing healthcare entities in Pierce County. [source: Application, p34; January 15, 2007, supplemental information, Appendix 9]

Since the Pierce County LTACH is proposed to be located on the Franciscan Health Systems-St. Joseph Medical Center campus, Regional also anticipates entering into a “Purchased Services Agreement” with Franciscan Health System for specific patient care services that need to be close to the actual campus. To demonstrate compliance with this review criterion, Regional provided a copy of the draft Purchased Services Agreement with Franciscan Health System. [source: Application, Exhibit 10]

If this project is approved, to ensure that appropriate ancillary and support agreements will be established at for Regional-Pierce, the applicant must agree to a term requiring it to provide a copy of the executed Purchased Services Agreement.

Based on the above information provided in the application and agreement with the term stated above, the department concludes that Regional Hospital for Respiratory and Complex Care will have appropriate relationships with ancillary and support services for its 25-bed LTACH in Pierce County. 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 in the project description portion of this evaluation, Regional is a non-profit LTACH located in the city of Tukwila, within King County. Regional is licensed by the Department of Health’s Office of Health Care Survey as an acute care hospital and reimbursed by both Medicare and Medicaid. Regional is also fully accredited by the Joint Commission on the Accreditation of Health Care Organizations [source: Application, p3 and CN historical files]

As part of its review, the department must conclude that healthcare services provided by Regional would be provided in a manner that ensures safe and adequate care to the public<sup>10</sup>. To accomplish this task, the department reviews the quality of care compliance history for all healthcare facilities owned, operated, or managed by Regional. Regional does not own or operate any other healthcare facilities in Washington or any other state. Since year 2000, the Department of Health’s Office of Health Care Survey, which surveys hospitals within Washington State, has completed two compliance surveys for the hospital.<sup>11</sup> The surveys revealed minor non-compliance issues, and Regional submitted and implemented plans of correction for the non-compliance issues within the allowable response time. [source: compliance survey data provided by Office of Health Care Survey]

Regional identified seven physicians anticipated to have privileges at the new LTACH in Pierce County, including the current medical director for the King County LTACH. The current medical director, Robert Clark, MD, would also be the medical director for the Pierce County facility. A review of all seven physicians’ compliance history with the Department of Health’s Medical Quality

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<sup>10</sup> WAC 246-310-230(5)

<sup>11</sup> Surveys conducted in 2002 and 2005.

Assurance Commission reveals no recorded sanctions. [source: Medical Quality Assurance Commission compliance data]

Based on Regional's compliance history and the compliance history of the physicians that would have access to the new LTACH, the department concludes that there is reasonable assurance that the hospital would continue to operate in conformance with state and federal regulations. 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.

In addition to the ancillary and support services in the previous sub-section, Regional provided documentation to demonstrate extensive relationships with existing providers, including area nursing homes, home health, and hospice programs. When appropriate for the patient, Regional also works with community based programs for post discharge patient care. [source: Application, pp32-35]

Based on the above information, the department concludes that Regional demonstrated current continuity in the provision of health care at its existing LTACH in King County, and proposed continuity for this project. Based on the documents and information provided in the application, the department concludes that the addition of a 25-bed LTACH in Pierce County would not result in an unwarranted fragmentation of services within the existing health care system. Therefore, 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. This sub-criterion is met.

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

Based on the source information reviewed, the department determines that the application is consistent with the applicable cost containment criteria in WAC 246-310-240.

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

As previously stated, before submitting this application, on May 10, 2006, Regional obtained approval under CN #1329 for the addition of 33 acute care beds to its LTACH located in King County. Within that evaluation, the department acknowledged one of the alternatives considered by Regional was the establishment of a new LTACH in a "satellite location." Regional stated in its application for the addition of 33 beds to its existing King County LTACH that the establishment of a new LTACH located further south was the preferred alternative, however, at that time, Regional was unable to secure a site. As a result, Regional chose the option of expanding the number of long term acute care beds at the current location, and CN #1329 was issued for that project. [source: Department's April 28, 2006, evaluation approving the additional 33 beds at the Regional-Tukwila site]

Even though CN #1329 was issued to expand the bed capacity at Regional-King, Regional continued its search for a site that would accommodate an LTACH in Pierce County. Once a site became

available, Regional submitted this application with the proposal of relinquishing a number of its recently approved beds at its Regional-King site. [source: Application, pp36-37]

Generally, approval of acute care beds in one planning area does not affect another planning area, however, LTACHs typically serve an area larger than one planning area. Within its previous application to add 33 beds in King County, Regional identified a number of service area zip codes within Pierce County. If this project is approved, the department would anticipate patients residing in Pierce County and further south, would likely obtain services at an LTACH located in Pierce County. As a result, Regional would not need to add all 33 beds in phase two of its previously approved project. Therefore, the department agrees with Regional that the best alternative is to relinquish 20 beds at Regional-King and establish a 25-bed LTACH in Pierce County. Further, with Regional's addition of 25 beds in central Pierce County is somewhat offset by its relinquishment of 20 beds in King County, which results in a net bed addition of 5 acute care beds for the state as a whole.

Additionally, in the need section of this evaluation, the department concurred with Regional's position regarding need for additional beds in the central Pierce planning area. Further, in the financial feasibility section of this evaluation, the department concluded that the applicant's long-term capital and operating costs of this project could be met.

Based on the information provided above, the department concludes that this project is the best alternative, provided the applicant agrees to the following condition.

Regional would have the following bed configuration at its two sites:

<u>Location</u>	<u>Number of Beds</u>
Regional – Tukwila, King County	40 beds (after complete implementation of CN #1329)
Regional – Tacoma, Pierce County	<u>25 beds</u>
<b>Total</b>	<b>65 beds licensed under one acute care license</b>

With the agreement to this condition, this sub-criterion is met for the Pierce County project under review.

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

(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).

Based on the above evaluation, the department concludes that costs, scope, and methods of construction and energy conservation are reasonable and the project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.