

**EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON BEHALF OF SKAGIT COUNTY PUBLIC HOSPITAL DISTRICT #1-SKAGIT VALLEY HOSPITAL PROPOSING TO ESTABLISH AN INTERMEDIATE CARE NURSERY WITH LEVEL IIA OBSTETRIC SERVICES**

**PROJECT DESCRIPTION**

Skagit County Public Hospital District #1-Skagit Valley Hospital (SVH) is located at 1415 East Kincaid Street in the city of Mount Vernon within Skagit County. SVH is currently a provider of Medicare and Medicaid acute care services to the residents of east Skagit County and surrounding areas. SVH is licensed for 137 acute care beds, holds a three-year accreditation from the Joint Commission on Accreditation of Healthcare Organizations, and is designated as a level III trauma hospital. [source: Application, pp1-2; CN historical files; and DOH Office of Emergency Medical and Trauma Prevention]

The hospital district owns or manages a variety of health care facilities in Skagit, Snohomish, and Island counties. The health care facilities are listed below.

**Hospitals**

Skagit Valley Hospital

**Hospice Agency**

Skagit Hospice Services, LLC

**Health Clinics/Medical Centers**

Camano Community Health Clinic-Camano Island (managed)

Skagit Valley Regional Cancer Care Center-Arlington (managed)

Stanwood Camano Medical Center, Inc. PS (rural health clinic)

Skagit Valley Medical Center Inc PS

**Dialysis Centers**

Skagit Valley Kidney Center

**Outpatient Facilities**

Outpatient Infusion Center located in Cascade Valley Hospital (managed)

Skagit Valley Hospital is currently licensed for 137 acute care beds, and of those, 15 beds are used for inpatient psychiatric services. [source: Application p4] SVH has been providing basic obstetric and newborn care services since its opening in 1958. This application proposes to establish an intermediate care nursery providing level IIA obstetric services within space at the hospital. If approved, SVH would allocate three acute care beds within its 137 licensed beds to the level IIA nursery. [source: Application cover sheet and p6]

Washington Administrative Code (WAC) 246-310-020 identifies specific tertiary services that require prior Certificate of Need review and approval before a hospital can provide the services. One such tertiary service is an intermediate care nursery and/or obstetric services level II. An intermediate care nursery is defined in WAC 246-318 as follows:

*“a level II obstetric service is in an area designed, organized, equipped, and staffed to provide a full range of maternal and neonatal services for uncomplicated patients and for the majority of complicated obstetrical problems. ”*

For Certificate of Need (CN) purposes, this service is known as "level II obstetric services" or simply "level II services."

Prior to submitting this application, SVH reviewed its diagnosis data using recommendations and guidelines within the Perinatal Levels of Care Criteria dated 2005. That review revealed that SVH was providing level IIA services without prior CN approval. [source: Application, p6] The Perinatal Levels of Care Criteria identify two sub-levels within the level II services, known as A and B. SVH recognized that

it was providing level IIA services, but not level IIB. SVH submitted this application to comply with state and federal rules and regulations for its level IIA services.<sup>1</sup> When a facility is determined to be performing a service that requires prior CN review and approval and that authorization has not been obtained, the remedy is to require the facility to close the service until a CN has been applied for and approved. Although the department does not condone SVH's actions of providing level IIA services without prior CN approval, SVH is following the procedures necessary to obtain the certification.

SVH's current family birth center is located in a new addition to the hospital. The new addition was completed in June 2007 and houses many services in addition to obstetric. The new family birth center was designed for future flexibility and to accommodate the proposed level IIA services. [source: Application, p7] This project requests the establishment of a three-bed level IIA service using SVH's current licensed bed complement of 137. SVH does not intend to expand its services to level IIB. Further, this project does not propose to increase the total acute care licensed bed capacity at SVH, within Skagit County, or Washington State as a whole. [source: Application, p1]

The capital expenditure for this project of \$97,102 has already been expended, and was solely related minor construction to accommodate the additional moveable equipment to meet the level IIA equipment guidelines. [source: Application, pp27-28]

Within its application, SVH asserts that it does not intend to expand its services beyond the current level IIA status. [source: Application, p6; July 12, 2007, supplemental information, p1; and August 15, 2007, supplemental information, p1] If this project is approved, SVH would have to agree to a condition to limit its services to level IIA unless prior Certificate of Need review and approval is obtained for expansion.

If this project is approved, SVH states that it would obtain any necessary surveys or certifications required to allow operation as a level IIA provider. Under this timeline, SVH anticipates completion of the project by the end of year 2007. [source: Application, p13]

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

The establishment of an intermediate care nursery providing level IIA obstetric services is subject to review as the establishment of a tertiary service under RCW 70.38.105(4)(f) and WAC 246-310-010(1)(d)(i)(C).

### **APPLICATION CHRONOLOGY**

April 25, 2007	Letter of Intent Submitted
May 25, 2007	Application Submitted
May 26, 2007 through August 22, 2007	Department's Pre-Review Activities <ul style="list-style-type: none"><li>• 1<sup>st</sup> screening activities and responses</li><li>• 2<sup>nd</sup> screening activities and responses</li></ul>
August 23, 2007	Department Begins Review of the Application <ul style="list-style-type: none"><li>• public comments accepted throughout review</li><li>• no public hearing conducted</li></ul>

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<sup>1</sup> Washington Administrative Code (WAC) 246-310-020 states that level II services require prior Certificate of Need review and approval before being established.

**APPLICATION CHRONOLOGY (continued)**

September 27, 2007	End of Public Comment
October 12, 2007	Rebuttal Documents Submitted to the Department
November 26, 2007	Department’s Anticipated Decision Date
November 26, 2007	Department’s Actual Decision Date

**AFFECTED PERSONS**

During the review of this project, one entity sought and received affected person status under WAC 246-310-010—Skagit County Public Hospital District #304 United General Hospital. United General Hospital is also located within Skagit County at 2000 Hospital Drive in Sedro Woolley.

**SOURCE INFORMATION REVIEWED**

- Skagit Valley Hospital Certificate of Need application submitted May 25, 2007
- Skagit Valley Hospital supplemental information dated July 12, 2007, and August 15, 2007
- Department of Health's Office of Hospital and Patient Data Systems financial feasibility and cost containment analysis dated November 7, 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.
- Emergency and trauma designation data provided by the Department of Health's Office of Emergency Medical and Trauma Prevention
- Washington State Perinatal Levels of Care Criteria adopted by the Perinatal Advisory Committee-- February 2005, used as guidance
- Certificate of Need Historical files
- Office of Health Care Survey data
- Medical Quality Assurance Commission compliance data

**CRITERIA EVALUATION**

To obtain Certificate of Need approval, Skagit Valley Hospital must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).<sup>2</sup> Additionally, specific to the level IIA services, SVH must demonstrate compliance with the February 2005 Washington State Perinatal Levels of Care Criteria adopted by the Perinatal Advisory Committee and used as guidance when evaluating the intermediate care nursery providing level II obstetric services.

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<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, Skagit County Public Hospital District #1’s proposal to establish a level IIA obstetric service and intermediate care nursery within space at Skagit Valley Hospital in Mount Vernon is consistent with application criteria of the Certificate of Need Program. This approval is based on Skagit Valley Hospital’s agreement to the following condition:

**Condition**

Skagit Valley Hospital is approved to provide level IIA services as described in the Washington State Perinatal Levels of Care Criteria adopted by the Perinatal Advisory Committee--February 2005. If Skagit Valley Hospital elects to expand its services beyond level IIA, prior Certificate of Need review and approval is required.

The approved capital expenditure for this project is \$97,102 and is broken down as follows.

<b>Item</b>	<b>3-Bed Level IIA Service</b>
Construction Costs w/ sales tax	\$ 87,075
Fixed and Moveable Equipment w/ sales tax	\$ 10,027
<b>Total</b>	<b>\$ 97,102</b>

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

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

(1) 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.

WAC 246-310-020(1)(i)(B) states (in summary) that a level II obstetric service is to be in an area designed, organized, equipped, and staffed to a full range of maternal and neonatal services for uncomplicated patients and for the majority of complicated obstetrical problems. Level II services are considered tertiary services as defined by WAC 246-310-010. For some tertiary services, such as open heart surgery, the department uses an established methodology to assist in its evaluation of need for the services. For other tertiary services, including level II services, no such methodology exists.

The department uses historical Comprehensive Hospital Abstract Reporting System (CHARS) data to assist in evaluating whether an applicant’s projections are reasonable. The CHARS data provides historical trends in discharges and lengths of stay for newborn patients for the major diagnostic category (MDC) #15—NEOBORNS AND OTHER NEONATES WITH CONDITIONS ORIGINATING IN THE PERINATAL PERIOD. MDC #15 is made up of seven diagnosis related groups (DRGs)--385 through 391. The chart below provides the DRG and corresponding definition for MDC #15.<sup>3</sup>

<b>DRG</b>	<b>Definition</b>	<b>Level of Care</b>
385	NEONATES, DIED OR TRANSFERRED TO ANOTHER ACUTE CARE FACILITY	Level III
386	EXTREME IMMATURITY OR RESPIRATORY DISTRESS SYNDROME, NEONATE	Level III
387	PREMATURITY WITH MAJOR PROBLEMS	Levels II or III
388	PREMATURITY WITHOUT MAJOR PROBLEMS	Level II
389	FULL TERM NEONATE WITH MAJOR PROBLEMS	Level II
390	NEONATE WITH OTHER SIGNIFICANT PROBLEMS	Levels I or II
391	NORMAL NEWBORN	Level I

As shown in the chart above, of the DRGs included in MDC #15, some do not correspond exactly with the level of care definitions. However, the majority of level II patients are included in DRGs 388 and 389, with a few level II patients in DRGs 387 and 390.

Given that the department has not developed an established methodology for level II services, the evaluation of the need criterion begins with an evaluation of the methodology provided by the applicant. A summary of SVH's methodology and rationale for establishing a level IIA service follows.

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<sup>3</sup> Each DRGs corresponding level of care is based on October 3, 2001, testimony provided by Louis Pollack, MD, a board certified neonatologist and member of Washington State Perinatal Advisory Committee.

**Applicant’s Methodology and Assumptions**

To demonstrate need for the level IIA services at SVH provided the following statements. [source: Application p6]

- *SVH has been providing obstetric and newborn care services since its initial opening in 1958. A recent review of SVH’s newborn services indicated that SVH is meeting or exceeding the Washington State February 2005 Perinatal Level of Care Guidelines for Level I and Level IIA services. ...largely due to recent updates and changes in the gestational age cut-offs in the Perinatal Levels of Care Guidelines, other hospitals have noticed that they may be providing Level II services without Certificate of Need approval. Through its own internal review, SVH recognized that it is also in this scenario with regard to Level IIA services.*
- *Providing Level IIA services is very important for the residents of the area served by SVH. SVH is located in the East Skagit Planning area, however it provides obstetric and nursery services to residents throughout all of Skagit County and to some residents of other surrounding counties. The provision of Level IIA services allows many of the newborns of local area residents to be delivered and cared for close to their families and homes, thus minimizing time and distance travel issues, being away from family support, and other inconveniences.*
- *[Approval of this project] allows those more complicated neonates that are delivered in other hospitals with Level IIB and Level III services to be transferred sooner to SVH which is located closer to their homes and families for the newborns’ final hospital follow-up care of feeding and growing.*

Using calendar year 2006 level II discharges and days, SVH projected the average daily census and number discharges and days for the first three years of operation for its proposed level IIA service. Those projections are shown in Table 1 below. [source: Application, p8]

**Table 1  
Skagit Valley Hospital’s Projected Level IIA Activity**

	<b>Partial Year 1 2007</b>	<b>Full Year 1 2008</b>	<b>Full Year 2 2009</b>	<b>Full Year 3 2010</b>
# of beds	3	3	3	3
Discharges	106	108	110	112
Patient Days	621	632	643	653
Average Length of Stay <sup>4</sup>	5.86	5.85	5.85	5.85
Average Daily Census <sup>5</sup>	1.7	1.7	1.8	1.8
Occupancy <sup>6</sup>	56.7%	57.7%	58.7%	59.6%

As shown in Table 6 above, SVH projects 108 level IIA discharges in full year one (2008), with an increase of approximately 2% each year through the end of year three (2010). SVH indicates that its projections are based on level IIA patients currently served by SVH, with no changes in market shares or referral patterns.

<sup>4</sup> Average length of stay is calculated by dividing the patient days by the number of discharges.

<sup>5</sup> Average daily census is calculated by dividing the patient days by 365.

<sup>6</sup> Occupancy is calculated by dividing the patient days by 1,095 [the product of the number of beds (3) multiplied by 365 (days)].

### **Department's Evaluation of Applicant's Methodology and Assumptions**

A review of an applicant's methodology for level IIA services begins with an identification of the proposed service area. For this project, SVH is located in the east Skagit County service area, however, SVH states that it serves all of Skagit County for level IIA services. Further, based on its geographic location, SVH also serves portions of Island, San Juan, Snohomish, and Whatcom counties. To assist in its review of the level IIA services portion of this project, the department reviewed SVH's historical patient discharge data for years 2000 through 2006 for MDC #15.<sup>7</sup> The historical data was further broken down by patient zip code.

Historical discharge data for years 2000 through 2006 substantiates SVH's assertion that it serves patients in Skagit, Island, San Juan, Snohomish, and Whatcom counties. The historical data for MDC #15 also shows that SVH shares the Skagit County service area with another hospital—Island Hospital in Anacortes.<sup>8</sup>

Given that San Juan County does not have a hospital, either SVH or Island Hospital would typically receive patients crossing on the state ferry. Most recent year 2006 CHARS data demonstrates that the majority of San Juan County patients typically receive general OB services at Island Hospital in Anacortes, rather than SVH. Island Hospital provides level I OB services only, therefore it is reasonable to assume that Skagit Valley Hospital would provide level IIA services to those San Juan county patients.

Camano Island is located in Island County, however, geographically, Camano Island residents must travel north through Skagit County to obtain services in Island County. As a result, the majority of Camano Island residents receive health care services at SVH or a Snohomish County hospital. As a result, it is reasonable to include Camano Island residents in SVH's level IIA service area.

There is one hospital located in north Snohomish County—Cascade Valley in Arlington. Year 2006 CHARS data also demonstrates that SVH receives a very small percentage of patients Snohomish County. While Cascade Valley Hospital provides level I OB services only, many of its patients would typically travel to the nearest level III provider in the county—Providence Everett Medical Center in Everett.

Whatcom County has one hospital, with two campuses, in the southern portion of the county—Peace Health St. Joseph Hospital (St. Joseph). St. Joseph currently provides level II services. Year 2006 CHARS data also demonstrates that SVH receives a very small percentage of patients Whatcom County.

In conclusion, SVH's level IIA planning area appears to include all of Skagit and San Juan counties, and a portion of Island County.

Regarding SVH's methodology and assumptions provided in Table 1, the department must consider SVH's proposed service area and any comments provided by existing level II or level III providers in the service area. During its review of this application, the department received 10 letters of public

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<sup>7</sup> As of the writing of this evaluation, year 2007 CHARS data is not available.

<sup>8</sup> While United General Hospital in Sedro Woolley also serves east Skagit County, United General Hospital does not provide OB services.

comment. Of the 10 letters, 7 were sent by providers of healthcare services in Skagit County. A listing of the 7 healthcare providers is shown below.

Skagit County Health Department  
Skagit County Welcome Baby Program  
Skagit Valley Hospital Medical Staff

North Cascade Family Physicians  
Skagit Valley Medical Center  
Skagit Pediatrics, LLP  
Skagit Valley Hospital Family Birth Center Staff

All 7 letters of support acknowledged that Skagit County does not have a level IIA provider, and if approved, Skagit Valley Hospital would be the only provider in the county. The 7 letters also addressed the high standards and quality of care currently provided at SVH.

The remaining 3 letters were provided by hospitals in Skagit, Snohomish, and Whatcom counties. For Skagit County, Island Hospital provided the following statements:

*“As public hospital districts, SVH and Island Hospital are responsible for assuring that high quality needed services are available for their residents. The high rate of population growth in Skagit County, along with a high Medicaid population, contribute to the continued and growing need for [level IIA] services. I do not believe that the continuation of the level IIA nursery service at SVH will have a negative impact on Island Hospital, which is a level I nursery provider.”* [source: Island Hospital public comment, dated June 4, 2007]

In Snohomish County, Providence Everett Medical Center provided the following statements:

*“SVH is the sole provider of level IIA nursery services in Skagit County. With a population in excess of 110,000, I believe it is prudent for these services to be available locally within Skagit County. Traveling to Bellingham, Everett, or Seattle for this service would be difficult and an added burden for the mothers and families of these newborns. Providence Everett Medical Center provides levels I, II, and III nursery / neonatal services. The continuation of the level IIA nursery service at SVH will not have an impact on Providence Everett Medical Center.”* [source: Providence Everett Medical Center public comment dated June 12, 2007]

For Whatcom County, St. Joseph Hospital provided the following statements:

*“SVH is the only provider of level IIA nursery services in Skagit County and I believe it is important for those services to be locally available to the residents of Skagit County. St. Joseph Hospital in Bellingham is a level IIA and IIB nursery provider. We do not believe that the continuation of the level IIA nursery service at SVH will have a negative impact on St. Joseph Hospital.”* [source: PeaceHealth St. Joseph Hospital public comment dated June 12, 2007]

As noted above, two of the three hospitals above currently provide at least level IIA services, and both state that approval of SVH’s level IIA service would not negatively impact their own.

To substantiate whether approval of SVH’s level IIA services would negatively impact St. Joseph in Bellingham or Providence Everett Medical Center in Everett, the department reviewed year 2006 discharge data for the two facilities using the DRGs included in MDC #15. Table 2 on the following page is a summary of that review.

**Table 2**  
**Year 2006 MDC #15 Discharges**  
**St. Joseph Hospital, Bellingham**  
**Providence Everett Medical Center, Everett**

<b>DRG</b>	<b>St. Joseph Hospital</b>	<b>Providence Everett Medical Center</b>
385	28	6
386	7	88
387	27	97
388	69	206
389	71	260
390	255	708
391	1,669	2,541
<b>Total</b>	<b>2,126</b>	<b>3,906</b>

A review of historical files reveals that St. Joseph Hospital (SJH) has been providing level II services since at least 1986. Since specific data regarding SJH's level II services is not available, the department used SVH's ALOS of 5.88 days to determine the impact of SVH's proposed level II services on SJH's existing level II services.<sup>9</sup> Using the ALOS of 5.88 days per level II patients, the department calculated SJH's level II ADC of 3.85. The year 2005 standard of care guidelines outlined in the Washington State Perinatal Level of Care Criteria recommend a level II ADC of 2-4 patients. Department calculations reveal that SJH is meeting the recommended ADC for its level II services. Further, SJH provided comments indicating the continuation of SVH's level IIA services would not have a negative impact on SJH's level IIA and IIB services.

On January 8, 2002, Providence Everett Medical Center (PEMC) received Certificate of Need approval to expand its existing level II services to level III. Within its application, PEMC provided assumptions for average lengths of stay for its 6-bed level III NICU. Using the ALOS assumptions provided by PEMC in its application of 12.8, the department calculated an ADC of 10.3 for year 2006. The standard of care guidelines outlined in the Washington State Perinatal Level of Care Criteria recommend a combined level II/level III ADC 10 patients.<sup>10</sup> These calculations reveal that PEMC is meeting the recommended ADC for its level III services. Further, PEMC provided comments indicating the continuation of SVH's level IIA services would not have a negative impact on its level III services.

In conclusion, based on the information provided in the application, historical CHARS data, historical and projected OFM population data provided by SVH, and the support of both SJH in Bellingham and PEMC in Everett, the two facilities that would be expected to bear the impact of SVH's level IIA services, the department concludes that SVH has demonstrated need for a level IIA service in Skagit County. Further, SVH has demonstrated that 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 as required in WAC 246-310-210. This sub criterion is met.

<sup>9</sup> To calculate patient days, the department counted ½ of the number of discharges for DRG 387, all of the discharges in DRGs 388 and 389, and 1/3 of the number of discharges for DRG 390, for a total number of discharges of 239.

<sup>10</sup> To calculate PEMC patient days, the department counted the number of discharges for DRGs 385, 386, 387, and ½ of the discharges for DRG 388, for a total of 294 discharges in year 2006.

(1) 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, SVH currently provides health care services to residents of Skagit County and surrounding areas, 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, SVH provided a copy of its current admission policy. The policy demonstrates that SVH accepts patients for treatment without regard to age, race, color, religion, sex, national origin, handicap, or sexual preference and will be treated with respect and dignity. The approval of level IIA service is not expected to change this access. [source: Application, Appendix 8]

Additionally, SVH provided a copies of its "Patient Rights and Responsibility Policy" and "Financial Assistance Policy" to demonstrate that it currently provides, and will continue to provide, services to Medicare and Medicaid patients, and the proposed level IIA service will also provide services to Medicare and Medicaid patients. [source: Application, Appendices 6 & 7]

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.

SVH's current charity care policy, known as the "Financial Assistance 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 SVH. The policy also includes the process one must use to access charity care at SVH. [source: Application, Appendix 7]

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. SVH is located in the Puget Sound Region. There are 19 hospitals located within the Puget Sound Region, including SVH.

According to 2003-2005<sup>11</sup> charity care data obtained from OHPDS, SVH has historically provided greater than the average percentage of charity care provided 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. The 2003-2005 average for SVH is 2.02% for gross revenue and 4.26% for adjusted revenue. [source: OHPDS 2003-2005 charity care summaries]

Within this application to provide level IIA services, SVH proposed to continue to provide charity care at 1.60% gross revenues and 4.12% adjusted revenues. Given that SVH’s proposed percentages are slightly lower than its three year average, the department concludes that SVH would continue to provide charity care to the residents of the service area and a condition related to charity care is not necessary for this project. 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.*

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 SVH for December 31, 2006 to the statewide year 2005 financial ratio guidelines for hospital operations. Given that the level II services would be operational by the end of year 2007, OHPDS compared the financial ratios for 2006 through 2009—or two full years after project completion. Table 3 below summarizes the comparison provided by OHPDS. [source: OHPDS analysis, p3]

**Table 3  
Skagit Valley Hospital’s Current and Projected Financial Ratios**

<b>Financial Ratio</b>	<b>OHPDS Guideline</b>		<b>SVH 2006</b>
Long Term Debt to Equity	0.540	* Below	1.626
Current Assets/Current Liabilities	2.049	* Above	2.055
Assets Funded by Liabilities	0.432	* Below	0.660
Total Operating Expense to Total Operating Revenue	0.956	* Below	0.923
Debt Service Coverage	4.774	* Above	5.657

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

<sup>11</sup> Year 2006 charity care data is not available as of the writing of this evaluation.

As noted in Table 3, three of the five ratios for SVH are better than the state average for fiscal year end 2006 or are within appropriate range of the state 2005 figures. After reviewing the financial information for SVH above, staff from OHPDS stated the following:

*"Skagit Valley Hospital debt service coverage ratio is not applicable because the project will be financed through hospital reserves and no extra debt will be generated by this project. Skagit Valley Hospital's long-term debt to equity ratio at the end of year 2006 is 1.626, which is worse than the 2005 state average of 0.540 as calculated by OHPDS. However, this ratio is reasonable given the large construction project currently in progress. The operating expense to operating revenue ratio indicates that the Level IIA service at Skagit Valley Hospital will not break even with allocated costs."* [source: OHPDS analysis, p3]

For total operating expense to total operating revenue, OHPDS reviewed SVH's ratios through year 2009, or two full years following project completion. [source: OHPDS analysis, p3] A summary of that review is shown in Table 4 below.

**Table 4**  
**Skagit Valley Hospital's**  
**Total Operating Expenses to total Operating Revenues**

<b>Financial Ratio</b>	<b>OHPDS Guideline</b>		<b>SVH 2006</b>	<b>SVH 2007</b>	<b>SVH 2008</b>	<b>Year 1 2009</b>
Total Operating Expense to Total Operating Revenue	0.956	* Below	0.923	1.193	1.190	1.188

OHPDS review reveals that SVH's level IIA service will not break even in year 2007, and may not break even in the near future.

In addition to the projected ratios above, OHPDS also prepared a summary of SVH's Statement of Operations for years 2008 through 2010. [source: OHPDS analysis, p4] A summary of the Statement of Operations is shown in Table 5 on the following page.

**Table 5**  
**Skagit Valley Hospital's Statement of Operations Summary**  
**Level IIA Services Only**

	CY-1 -- 2008	CY-2 -- 2009	CY-3 -- 2010
Projected # of beds	3	3	3
Projected # of patients	108	110	112
Projected # of patient days	632	643	653
Projected ALOS <sup>12</sup>	5.85	5.85	5.83
Projected ADC <sup>13</sup>	1.73	1.76	1.79
Projected occupancy <sup>14</sup>	28.9%	29.4%	29.8%
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Net Patient Revenue	\$ 1,308,186	\$ 1,055,732	\$ 1,073,574
Operating Expense	\$ 1,238,983	\$ 1,256,380	\$ 1,275,326
Annual Net Income	(\$ 200,797)	(\$ 200,648)	(\$ 201,752)

The pro forma expenses for the level IIA services include allocated costs. These costs represent the level II services' fair share of hospital non-revenue producing expenses (such as administration). As noted in Table 5 above, SVH projects its revenues for level 2A services will not cover expenses in the first three years of operation. Further, according to the projections above, it appears that the level 2A services may not break even in the near future.

SVH provided the rationale for approval of this project even though a net loss is expected through at least year 2010. A summary of SVH's rationale is restated below. [source: August 15, 2007, supplemental information, pp3-4]

- Many of the patients using the existing level 2A services at SVH are Medicaid recipients for which reimbursement levels are modest. Medicaid accounts for 61% of the revenue for all births at SVH. Therefore, revenues do not generally exceed the expenses for providing nursery services.
- The physical space for the level IIA nursery is located within the Family Birth Center's new nursery area. These areas have already been built and are considered an existing fixed cost. Thus, any revenue contribution from the level IIA nursery toward direct costs will off-set the fixed costs that currently exist.
- SVH is a public hospital district and committed to providing its constituents with needed services. As a public hospital district and a community based hospital, SVH accepts the responsibility to provide a broad range of needed services including those that do not generate net revenue.
- SVH is located within the east Skagit planning area, however it provides obstetric and nursery services to residents throughout all of Skagit County and surrounding areas.
- Recently implemented changes in Medicaid reimbursement methods indicate that there should be an increase in the reimbursement level. If there are changes in reimbursement

<sup>12</sup> ALOS or average length of stay is calculated by dividing the projected number of patient days by the projected number of patients for each year.

<sup>13</sup> ADC or average daily census is calculated by dividing the projected number of patient days by 365 for each year.

<sup>14</sup> Projected occupancy is calculated by dividing the projected number of patient days by the product of 365 multiplied by the number of beds for each year.

levels, it is possible that this service could break even in future years. If level IIA services do not break even, as a public and community hospital, SVH is willing to subsidize the needed service.

Based on information provided in the application and data reviewed by OHPDS staff, the department concludes that while SVH's level IIA services may not break even, the services are needed in the planning area and SVH has demonstrated a commitment to provide, and continue to provide, level IIA services as necessary. As a result, with financial subsidization to the level IIA services, SVH could meet its short and long term financial obligations and capital and operating costs of the project. This sub-criterion is met.

(2) *The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.*

OHPDS compared SVH's costs and charges to the year 2006 statewide average and determined that they are reasonable. [source: OHPDS analysis, p3]

The capital expenditure for the level IIA services at SVH is projected to be \$97,102 and is primarily due to construction costs and fixed/moveable equipment to meet the recommended perinatal guidelines for space and equipment. SVH has already expended the dollars to update the existing special care nursery space and purchase a small amount of equipment. The new space was completed and SVH relocated its OB and nursery area in June 2007. [source: Application, pp27-28]

SVH adhered 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, p6]

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.*

The \$97,102 capital expenditure for this project was funded from board designated assets (or hospital reserves) from funds generated from operations. [source: Application, p29]

After reviewing SVH's December 31, 2006 audited financial report, staff from OHPDS provided the following evaluation:

*"Skagit Valley Hospital's capital expenditure is projected to be only \$97,102 or .01% of total assets. The system indicates it will use current reserves to finance this project. This project will not adversely impact reserves, or total assets, total liability or the general health of the hospital in a significant way. The use of current funds is inexpensive. The only cost would be that the money would not be available for other uses."* [source: OHPDS analysis, p2]

As noted by OHPDS, the minimal capital costs for this project will not have an effect on the hospital's reserves, nor will it adversely affect the hospital's total assets, total liability, or general financial health. Therefore, the department concludes that the proposed financing is appropriate, and 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 (quality) 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.*

As stated in the project description portion of this evaluation, SVH is currently providing basic OB services (level I) and due to changes in the gestational age cut-offs in the Washington State Perinatal Levels of Care guidelines is occasionally providing Level IIA services. As a result, SVH does not anticipate adding more than 0.4 FTEs for this project. Further, SVH states any additional increases of FTEs would be a direct result of increased patient volumes, and staffing would be adjusted as appropriate to meet the care delivery needs. [source: July 12, 2007, supplemental information, pp3-5]

#### **Washington State Perinatal Levels of Care Guidelines**

In addition to the structure and process of care criteria found under WAC 246-310-230, the department uses the standards of care guidelines outlined in the Washington State Perinatal Levels of Care Criteria as guidance in evaluating this project. The guidelines, adopted by the Perinatal Advisory Committee in February 2005, offer recommendations on facility and staffing standards for level II services. Within the guidelines, level II services are separated into A and B, with A being the least intensive of level II services and B as the most intensive. The Perinatal Levels of Care Criteria recommend that an applicant be providing the previous level of services before applying for the next higher level. For this application, SVH should already be providing level I--basic OB services, before applying for level IIA services. Within its Certificate of Need application, and verified by OHPDS CHARS data, SVH meets this recommendation.

Within its application and supplemental documents, SVH provided comparison charts to verify and document that its proposed IIA services would meet or exceed the advisory committee's recommended guidelines. [source: Application, Appendix 3 and July 12, 2007, supplemental information, pp3-5] The comparison charts are summarized in Appendix A attached to this evaluation.

As noted in Appendix A, SVH currently meets or will meet all recommendations for level IIA services. In addition, SVH identified current staff that meets the recommended perinatal guidelines staffing requirements. [source: July 12, 2007 supplemental information, pp3-5 and August 15, 2007, supplemental information, pp4-5]

Based on the information provided by SVH in the application and supplemental documentation, the department concludes that the level IIA project is consistent with the Washington State Perinatal Levels of Care guidelines. As a result, 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.*

This sub-criterion was extensively evaluated within the sub-criterion above and is determined to be 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, Skagit County Public Hospital District #1 or SVH owns or manages a variety of health care facilities in Skagit, Snohomish, and Island counties. [source: Application, pp1-2; CN historical files] The hospital district or SVH does not own or operate any healthcare facilities outside of Washington State.

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. The Department of Health's Office of Health Care Survey (OHCS) is the licensing and surveying entity for all of the SVH facilities. Since January 2000, OHCS has completed approximately 17 compliance surveys for the SVH facilities in operation. Of the compliance surveys completed, all revealed minor non-compliance issues related to the care and management at the healthcare facilities. These non-compliance issues were typical of the respective healthcare facility and SVH submitted and implemented acceptable plans of correction. [source: facility ownership and survey data provided by the Office of Health Care Survey]

For its level IIA service, SVH identified specific staff that fill the positions in compliance with the perinatal guidelines. A review of the compliance history with the Department of Health's Medical Quality Assurance Commission reveals no recorded sanctions for any of the identified staff. [source: Medical Quality Assurance Commission compliance data]

As stated in the project description portion of this evaluation, SVH acknowledges it has been providing level IIA services without prior CN approval. By submission of this application, however, SVH is following the procedures necessary to continue providing level IIA services and expand the program to meet the standards of care guidelines outlined in the Washington State Perinatal Levels of Care Criteria adopted by the Perinatal Advisory Committee. Therefore, this evidence would support a conclusion that there is reasonable assurance SVH would operate its level IIA service in conformance with state and federal regulations.

Based on SVH's compliance history for all of its healthcare facilities and the compliance history of the identified staff the department concludes that there is reasonable assurance SVH would operate its level IIA service 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.*

Within its application, SVH indicates that the types of patients currently being care for within its nursery are clinically appropriate for the hospital, given its equipment, staffing, and community needs. Additionally, SVH uses Medicon, a central dispatch service for perinatal services. If a newborn needs to be transported, Medicon directs where the newborn should appropriately be sent regarding level of care and where space is available. Medicon is based at the University of Washington Medical Center and uses Children's Hospital and Regional Medical Center and Providence Everett Medical Center. Swedish Medical Center also provides SVH with maternal-fetal/neonatal and pediatric specialty consultation services. Additionally, SVH provided a listing of the healthcare entities with which it has working relationships and/or contractual agreements, including pediatric services. [source: Application, pp37-40]

Based on the information provided by SVH, the department concludes that there is reasonable assurance that approval of this project will promote, or continue to promote, continuity in the provision of level IIA services at SVH. Additionally, the project will have, or continue to have, appropriate relationships to the service area's existing health care system. Further the project will not result in an unwarranted fragmentation of level IIA services. Finally, the department notes that none of the existing level II providers submitted information in opposition to SVH's level IIA project. Absent information in opposition to this project, the department must conclude that this project's impact on existing level II providers is minimal. This sub-criterion is met.

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

This sub-criterion is addressed in sub-section (3) above and is determined to be met.

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

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

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

Before submitting this project, SVH considered and rejected the following two alternatives. [source: Application, pp43-44]

##### Status Quo or Do Nothing

SVH states this option was considered unacceptable once it recognized that it was operating out of compliance with Washington State Perinatal Guidelines and Certificate of Need statute.

##### Cease Provision of Level IIA Services

SVH states this option would put an unnecessary burden on the residents and community by requiring them to travel for 30-65 miles to Everett, Bellingham or Seattle. SVH believes this travel would cause emotional trauma for patients and would be disruptive and costly for the patient's families.

The department agrees with SVH regarding the do nothing option. Doing nothing would only serve to continue operating out of compliance.

As stated in the project description portion of this evaluation, SVH recognizes it has been providing level IIA services for some time. Given this background information, the only alternative to this application would be for SVH to discontinue the level IIA services.

The department recognizes that SVH has submitted this application in an attempt to comply with state and federal requirements. However, that reason alone is not justification to approve the project if need for the level IIA service is not demonstrated. In the need portion of this evaluation, the department concluded that need for the project had been demonstrated, and the existing providers were not expected to be significantly affected by SVH's level IIA service.

Further, the quality of care portion of this evaluation concluded that SVH's level IIA services would be operated in conformance with state and federal regulations. On the basis of these conclusions, the department concludes that approval of this project is the best available alternate for the service area, and 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; and

(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 addressed in the financial feasibility criteria above and is determined to be met.

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

This sub-criterion is addressed in the financial feasibility criteria above and is determined to be met.