EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON BEHALF OF PEACEHEALTH PROPOSING TO ESTABLISH A 10-BED HOSPITAL IN FRIDAY HARBOR, WITHIN SAN JUAN COUNTY

APPLICANT DESCRIPTION

On August 3, 1890, two members of the fledgling Sisters of St. Joseph of Peace left their convent in Newark, New Jersey bound for Fairhaven, Washington, a remote logging community in the country's far northwest corner. Their charge: to build a hospital to care for loggers, mill workers, fishermen and their families. The Sisters of St. Joseph of Peace have been providing healthcare in small communities throughout the Pacific Northwest since 1891. In 1976 they decided to consolidate the healthcare ministries of their Western Province by forming a not-for-profit system, Health and Hospital Services, which was renamed PeaceHealth in 1994. PeaceHealth now operates seven hospitals, medical office complexes, chemical-dependency services, home-health services, medical laboratories, and other services in three states—Alaska, Oregon, and Washington. Below is a listing of the hospitals by state. [source: PeaceHealth website]

Alaska
Ketchikan General Hospital, Ketchikan

Washington
St. Joseph Hospital, Bellingham
St. John Medical Center, Longview

Oregon
Sacred Heart Medical Center, Riverbend
Sacred Heart Medical Center, Eugene
Cottage Grove Community Hospital, Cottage Grove
Peace Harbor Hospital, Florence

PROJECT DESCRIPTION

PeaceHealth proposes to establish a new hospital in Washington State. The new hospital would be located in Friday Harbor, within San Juan County, and named PeaceHealth PeaceIsland Medical Center (referenced as "PIMC"). Currently, there is no acute care hospital located in San Juan County; however, a primary care clinic known as InterIsland Medical Center operates in Friday Harbor. This application proposes to build a new 10-bed acute care hospital, replace the InterIsland Medical Center with a new primary care clinic, and build an Emergency Medical System (EMS) facility.[1] All three facilities will be located on the same campus. [source: Application, Introduction; August 31, 2009, supplemental information, p1] Only the establishment of the hospital requires prior Certificate of Need review and approval, however, the EMS and primary care clinic portions of the project are referenced in this evaluation.

PIMC would be a ten-bed hospital located at 1049 San Juan Valley Road in Friday Harbor. Under a Purchase and Sales Agreement executed July 1, 2009, PeaceHealth has already purchased the site for the facility. The new hospital campus totals 42,242 square feet—30,108 hospital square feet and 12,134 square feet of clinic space. The new hospital space will include

[1] Located in Friday Harbor is the tax-supported emergency medical service that provides 9-1-1 advanced life support rescue and transport to the residents and visitors of San Juan Island. Currently, two of the three ambulances are housed at 540 Spring Street in Friday Harbor. This project would relocate the emergency medical services to the same site as the hospital and clinic. [source: San Juan Island EMS website]

clinic space for primary care providers, and visiting specialists and a 24/7 emergency department. The hospital includes approximately 3,000 square feet of shelled in space for one future operating room to be opened and used if needed in the future. [source: Application, p12; August 31, 2009, supplemental information, p4 & Exhibit 4]

PIMC would have 10 acute care beds, and of those, five would be "swing" beds as referenced in Washington Administrative Code (WAC) 246-310-010(57).[2] [source: Application, Introduction] Services to be provided at PIMC include non-complex inpatient care, hospital outpatient procedures, and swing bed care. Outpatient procedures include endoscopies, oncology infusion therapy, and outpatient surgeries, such as simple hernia repairs.[3] Swing bed care includes acute care or nursing home care. [source: Application, p12] Upon opening PIMC would apply to the Department of Health's Office of Emergency Medical Services and Trauma System for Level V trauma designation[4] and the department's Rural Health Program for critical access hospital designation.[5] [source: Application, pp10-12]

PIMC will be operated by PeaceHealth under a 50-year agreement between PeaceHealth and San Juan Public Hospital District (PHD) #1, the entity that currently operates the primary care clinic—InterIsland Medical Center. Under the agreement, PeaceHealth assumes full operational and financial responsibility for constructing and operating the new hospital and the clinic. While PeaceHealth will construct the EMS facility on the same campus as the hospital and the clinic, once it is constructed, PeaceHealth will sell it back to San Juan County PHD #1 for their operation and oversight. The district will have no governance, management, or operational responsibilities for the hospital and the clinic, however the agreement includes the hospital district's commitment to provide an annual subsidy to PeaceHealth to assist its efforts to provide healthcare services to the residents. [source: Application, p2; August 31, 2009, supplemental information, pp1-3]

The new hospital and clinic will be fully integrated with PeaceHealth's St. Joseph Hospital in Bellingham, within Whatcom County. Given that integration, PIMC, the clinic, and EMS facility will also participate in the integrated electronic health record system. [source: Application, p3]

The estimated capital expenditure associated with the entire project is $31,881,314, and is broken down in Table 1 on the following page. [source: August 31, 2009, supplemental information, Attachment 3]

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[2] "Swing beds" means up to the first five hospital beds designated by an eligible rural hospital which are available to provide either acute care or nursing home services. [WAC 246-310-010(57)]

[3] Inpatient surgery and obstetrical services are not proposed to be provided. [source: Application, p10]

[4] Trauma service means the clinical service within a hospital or clinic that is designated by the department to provide care to trauma patients. Designation levels are one (I) through five (V); with five being the least intensive level of care.

[5] The Critical Access Hospital Program was created by the 1997 federal Balanced Budget Act as a safety net device to assure Medicare beneficiaries access to health care services in rural areas. It was designed to allow more flexible staffing options relative to community need, simplify billing methods and create incentives to develop local integrated health delivery systems, including acute, primary, emergency and long-term care. [source: Rural Health Program website]

Table 1
PeaceHealth-San Juan Island Project's Estimated Capital Costs

Item	Total	% of Total
EMS Facility	$ 1,629,727	5.0%
Clinic	$ 5,414,033	17.0%
Acute Care Hospital	$ 24,837,554	78.0%
Total Estimated Capital Costs	**$ 31,881,314**	**100.0%**

If this project is approved, PeaceHealth anticipates the EMS facility, clinic, and new hospital would all become operational by December 2012. Under this timeline, year 2013 would be the hospital's first full calendar year of operation and 2015 would be year three. [source: Application, p19]

APPLICABILITY OF CERTIFICATE OF NEED LAW

The establishment of the 10-bed acute care hospital is subject to Certificate of Need review as the establishment of a new healthcare 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). The establishment of the medical clinic and the EMS facility do not require prior Certificate of Need review and approval.

CRITERIA EVALUATION

WAC 246-310-200(1)(a)-(d) identifies the four determinations that the department must make for each application. WAC 246-310-200(2) provides additional direction in how the department is to make its determinations. It states:

"Criteria contained in this section and in WAC 246-310-210, 246-310-220, 246-310-230, and 246-310-240 shall be used by the department in making the required determinations.

(a) In the use of criteria for making the required determinations, the department shall consider:

(i) The consistency of the proposed project with service or facility standards contained in this chapter;

(ii) In the event the standards contained in this chapter do not address in sufficient detail for a required determination the services or facilities for health services proposed, the department may consider standards not in conflict with those standards in accordance with subsection (2)(b) of this section; and

(iii) The relationship of the proposed project to the long-range plan (if any) of the person proposing the project."

In the event the WAC 246-310 does not contain service or facility standards in sufficient detail to make the required determinations, WAC 246-310-200(2)(b) identifies the types of standards the department may consider in making its required determinations. Specifically WAC 246-310-200(2)(b) states:

"The department may consider any of the following in its use of criteria for making the required determinations:

(i) Nationally recognized standards from professional organizations;

(ii) Standards developed by professional organizations in Washington state;
(iii) Federal Medicare and Medicaid certification requirements;
(iv) State licensing requirements;
(v) Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and
(vi) The written findings and recommendations of individuals, groups, or organizations with recognized expertise related to a proposed undertaking, with whom the department consults during the review of an application."

To obtain Certificate of Need approval, PeaceHealth 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).[6] Additionally, WAC 246-310 does not contain service or facility specific criteria for hospital projects. Therefore the department uses the acute care bed forecasting method from the 1987 State Health Plan as part of its need assessment.

APPLICATION CHRONOLOGY

May 29, 2009	Letter of Intent Submitted
June 30, 2009	Application Submitted
July 1, 2009 through October 13, 2009	Department's Pre-Review Activities • screening activities and responses
October 14, 2009	Department Begins Review of the Application • public comments accepted throughout the review • no public hearing requested or conducted
November 18, 2009	End of Public Comment
December 7, 2009	Rebuttal Documents Received at Department[7]
January 21, 2010	Department's Anticipated Decision Date
January 25, 2010	Department's Actual Decision Date

AFFECTED PERSONS

Washington Administrative Code 246-310-010(2) defines "affected person as:
"...an "interested person" who:
(a) Is located or resides in the applicant's health service area;
(b) Testified at a public hearing or submitted written evidence; and
(c) Requested in writing to be informed of the department's decision."

Throughout the review of this project, three entities sought and received interested person status under WAC 246-310-010. The three entities are:

- Premera Blue Cross—and insurer of health care services within San Juan County.

[6] Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6).
[7] The department received 95 letters of support and two letters of opposition. PeaceHealth elected to not provide rebuttal comments to the two letter of opposition.

- Public Hospital District #1 dba Skagit Valley Hospital—an acute care hospital located in Mount Vernon, within Skagit County.
- Public Hospital District #2 dba Island Hospital—an acute care hospital located in Anacortes, within Skagit County.

While all three entities requested affected person status, none of the three submitted comments as required under sub-section (b) above. As a result, no entities qualified for affected person status for this project.

SOURCE INFORMATION REVIEWED

- PeaceHealth's Certificate of Need application submitted June 30, 2009
- PeaceHealth's supplemental information received August 31, 2009, and October 6, 2009
- Letters of support and opposition submitted during the review of this project
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems received January 7, 2010
- Department of Health's Hospital and Patient Data Systems hospital financial database (http://www.doh.wa.gov/EHSPHL/hospdata/Financial)
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Office of Financial Management population data released November 2007
- 1987 State Health Plan
- 1980 State Health Plan
- Data obtained from PeaceHealth's webpage (peacehealth.org)
- Data obtained from the Department of Health's Rural Health Program's webpage (doh.wa.gov/hsqa/ocrh)
- Data obtained form the Department of Health's EMS and Trauma System webpage (doh.wa.gov/hsqa/emstrauma)
- Medical Quality Assurance compliance data webpage (wa.gov/doh/providercrenditalsearch)
- Quality of Care information for PeaceHealth's Alaska and Oregon healthcare facilities (jointcommission.org)
- Office of Financial Management population data (ofm.wa.gov/pop/estimates)
- San Juan Island EMS webpage (sanjuanems.org)

CONCLUSION

For the reasons stated in this evaluation, PeaceHealth's proposal to establish a ten-bed acute care hospital in Friday Harbor, within San Juan County, is consistent with application criteria of the Certificate of Need Program. Once PeaceHealth provides the department with a copy of a determination of non-significance or final environmental impact statement pertaining to the site for the facility, the department will issue a Certificate of Need for the project. The Certificate of Need will be issued with the terms and conditions stated on the following page.

TERMS:

1. Prior to providing services at the new hospital, PeaceHealth must provide to the Certificate of Need Program for review and approval a final "Admission Policy" for PeaceIsland Medical Center. The final Admission Policy will be consistent with the draft policy provided in Exhibit 5 of the application.

2. Prior to providing services at the new hospital, PeaceHealth must provide to the Certificate of Need Program for review and approval a final "Charity Care Policy" for PeaceIsland Medical Center. The final Charity Care Policy will be consistent with the draft policy provided in Exhibit 5 of the application.

3. Prior to providing services at the new hospital, PeaceHealth will provide a listing of providers with whom it has established new relationships/agreements. If any of the agreements require PeaceHealth to compensate for the services, PeaceHealth will provide a copy of the executed agreement for review by the department.

CONDITIONS:

1. PeaceIsland Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 1.93% of gross revenue and 4.20% of adjusted revenue. PeaceIsland Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

2. The funding sources are tax exempt bonds at 42.9%; local fundraising at 34.8% and reserves from PeaceHealth-Whatcom at 22.3%. If the funding sources or percentages for this project change, PeaceHealth must submit an amendment application for review and approval. The amendment application must be submitted and an amended Certificate of Need must be issued or denied prior to commencement of the project.

3. If the project is delayed after commencement, PeaceHealth must submit a revised timeline for review.

The total approved capital expenditure for this project is $24,837,554.

A. Need (WAC 246-310-210) Need and Acute Care Bed Forecasting Method

Based on the source information reviewed and the applicant's agreement to the terms and condition identified in the "Conclusion" section of this evaluation, the department determines that PeaceHealth has met the need criteria in WAC 246-310-210(1) and (2) and the project is consistent with the applicable acute care bed methodology portions of the 1987 State Health Plan.

(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 does not contain an acute care bed forecasting method. Therefore the department uses the method from the 1987 State Health Plan as part of its need assessment. This forecasting method is designed to evaluate need for additional capacity in general, rather than identify need for a specific project. The department prepared bed need forecasts to determine baseline need for acute care capacity. This set of projections is completed prior to determining whether the applicant should be approved to meet any projected need.

Summary of PeaceHealth's Numeric Methodology for San Juan County

This project proposes to locate a new acute care hospital in San Juan County. PeaceHealth used the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan (SHP) to assist in its determination of numeric need. The department's methodology uses population and healthcare use statistics on several levels: statewide, Health Service Area (HSA)[8], and planning area. While San Juan County is included in HSA #1, the county is one planning area. Since there is no hospital located in San Juan County, PeaceHealth modified the methodology and relied on certain assumptions within its calculations. PeaceHealth's modifications and assumptions are discussed later in this evaluation. Table 2 below is a summary of PeaceHealth's bed need projections for San Juan County for years 2010 through 2018. [source: Application, pp 22-37]

Table 2
Summary of PeaceHealth's San Juan County Numeric Methodology

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of Beds Needed	7.4	7.6	7.8	8.0	8.3	8.4	8.6	8.8	9.0

Note: negative number indicates a surplus of beds.

As shown in Table 2 above, PeaceHealth projects a need for 7.4 acute care beds in year 2010, and the need increases to 9.0 beds eight years later in 2018.

[8] 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.

The Department's Determination of Numeric Need

The department also uses the Hospital Bed Need Forecasting Method contained in the 1987 SHP to assist in its determination of need for acute care bed capacity. 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 identified as 'Exhibit A.' The methodology presented here incorporates all adjustments that were made following preparation of the methodology. Where necessary, both adjusted and un-adjusted computations are provided. The methodology uses population and healthcare use statistics on several levels: statewide, HSA, and planning area. As previously stated, the planning area for this evaluation is the San Juan County.

The 1980 State Health Plan identifies San Juan County as one planning area. Whe n preparing acute care bed need projections, the department relies upon population forecasts published by the Washington State Office of Financial Management (OFM). OFM publishes a set of forecasts known as the "intermediate-series" county population projections, based on the 2000 census, updated November 2007.[9]

The next portion of the evaluation will describe the calculations the department 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 PeaceHealth in its application of the methodology. The titles for each step are excerpted from the 1987 SHP.

[9] The November 2007 series is the most current data set available during the production of the state acute care methodology following the release of the 2008 CHARS data.

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

For this step, attached as Appendix 1, the department obtained planning area resident utilization data for 1999 through 2008 from the Department of Health's Hospital and Patient Data Systems' CHARS (Comprehensive Hospital Abstract Reporting System) database. Total resident patient days were identified for the San Juan County 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.

When PeaceHealth submitted its application in June 2009, year 2008 CHARS data was not available. As a result, PeaceHealth based its historical projections on years 1998 through 2007. PeaceHealth also used resident patient days for the San Juan planning area, and provider days at the HSA and state level. These two deviations had a significant affect on PeaceHealth's bed need projections.

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, 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 resident patient days are shown in Appendix 2.

PeaceHealth followed this step as described above, however, since Step 1 above was based on provider days at the HSA and state level, PeaceHealth subtracted psychiatric provider days in this step.

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 of the HSA by the HSA's population and multiplied by 1,000. For the purposes of this application, the average use rate was also determined for the state and the San Juan planning area and is attached as Appendix 3. Actual and projected population figures for this analysis were derived from OFM county population projections as described above.

While PeaceHealth followed this step as described above with no deviations, as previously stated, PeaceHealth used population data for years 1998 through 2007. The applicant's and the department's population numbers differ slightly for the overlapping years of 1999 through 2007. This slight difference will affect the use rate derived in this step.

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 computed trend lines for the state, HSA 1, and the San Juan planning area based upon the trends in use rates from these ten years and included them as Appendix 4. The resulting trend lines for the HSA and state uniformly exhibit a mild upward slope. This mild upward slope 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.

The San Juan planning area trend line shows a very slight downward slope. Since there is no hospital located in the San Juan planning area, the planning area's slight downward slope could be the indicative of residents of the planning area permanently relocating as they reach the age of requiring hospital care.

PeaceHealth followed this step with no deviations. The HSA and statewide trend lines also resulted in a slight upward slope; the San Juan planning area trend line resulted in a slight downward slope.

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 uses data particular to the residents of the San Juan planning area. In order to forecast the availability of services for the residents of a given region, patient days must also be identified for the facilities available within the planning area. Step 5, included as Appendix 5, identifies referral patterns in and out of the San Juan 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 reported discharge data for Washington residents that receive health care in Oregon.

As has been noted earlier, the original purpose for this methodology was to create comprehensive, statewide resource need forecasts. Typically the state is broken into only two planning areas—the planning area under review and the state as a whole minus the planning area. Since there is no hospital in the San Juan planning area, the department based this step on all hospitals in the HSA. Appendix 5 illustrates the age-specific patient days for residents of the HSA and for the rest of the state, identified here as "WA – HSA."

For its application of step 5, PeaceHealth stated this step was "not applicable" because there are no hospitals in the San Juan planning area; as a result, PeaceHealth did not apply this step. Omission of this step is a significant deviation in the methodology that will substantially affect the applicant's calculations in subsequent steps.

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 2008, as defined in Step 3, for the HSA and for the rest of the state. The use rates are broken down by ages 0-64 and 65 and older.

To complete this step, PeaceHealth calculated the number of resident days for the San Juan planning area, plus San Juan resident days in Oregon broken down by the 0-64 and 65 and older age groups. PeaceHealth then applied these resident day numbers to the year 2007 population broken down by the same age groups. The results of these calculations were considered by PeaceHealth to be the planning area use rate. This is also a significant deviation in the methodology that will affect the applicant's calculations in subsequent steps.

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

As discussed in Step 4, the department used the ten-year use rate trends for 1999-2008 to reflect the use patterns of Washington residents. The 2008 use rates determined in Step 6 were multiplied by the slopes of both the HSA's ten-year use rate trend line and by the slope of the statewide ten-year use rate trend line for comparison purposes. The statewide trend has a lower projected rate (an annual increase of 3.4294) than the HSA trend rate of 3.6697. As directed in Step 7A, the department applied the statewide trend to project future use rates.

The methodology is designed to project bed need in a specified "target year." It is the practice of the department to evaluate need for a given project through at least seven years from the last full year of available CHARS data. For this application, the last full year of available CHARS data is 2008; therefore, the target year is 2015.

PeaceHealth followed this step as described above using its HSA trend rate calculated in its step 6.

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 target year 2015 and population projections, projected patient days for San Juan 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 San Juan Res Days."

PeaceHealth followed this step as described above resulting in projections through year 2018.

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 San Juan planning area and the remainder of the state were allocated from county of residence to the area where the care is projected to be delivered in the target year 2015. The results of these calculations are presented in Appendix 10 as "Total Days in San Juan Hospitals."

This step requires data obtained from step 5. As previously noted, PeaceHealth considered step 5 to be "*not applicable*." PeaceHealth noted on its methodology that step 9 was also "*not applicable*" and did not apply this step. This is also a significant deviation in the methodology that will substantially affect the applicant's calculations.

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. Since there are no hospitals in the San Juan planning area, the number of available licensed beds in the planning area is zero.

In applying this step, PeaceHealth also acknowledged there are no available licensed beds in the planning area.

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.
PeaceHealth is not proposing to provide any psychiatric services at the ten-bed hospital. For that reason, the department concluded that psychiatric services should not be forecast while evaluating this project.

PeaceHealth also did not provide psychiatric forecasts within 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.

PeaceHealth's deviations and adjustments were all described within its methodology. In addition to PeaceHealth's general acute care beds projections through year 2018, PeaceHealth also include adjustments for swing beds and critical access hospital.

A summary of the department's methodology is shown in Table 3 below. The detailed results for years 2008 through 2015 are available in Exhibit A as Appendix 10A attached to this evaluation. [source: Exhibit A]

Table 3
Department Methodology
Appendix 10A – Bed Need Summary

	2009	2010	2011	2012	2013	2014	2015
Number of Beds Needed	24.06	25.11	26.44	27.78	29.13	30.48	31.84

Note: negative number indicates a surplus of beds.

As shown above in Table 3, for current year 2009, the planning area has a need for 24 acute care beds. With projected population growth and applicable use rates, the planning area's need is expected to increase by another seven beds to 32 in year 2015. [source: department's methodology, Appendix 10A]

For comparison purposes, below is a replica of the applicant's methodology results shown in Table 2 of this evaluation.

Summary of PeaceHealth's San Juan County Numeric Methodology

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of Beds Needed	7.4	7.6	7.8	8.0	8.3	8.4	8.6	8.8	9.0

Note: negative number indicates a surplus of beds.

The difference in the department's projections shown in Table 3 and PeaceHealth's projections shown above and in Table 2 can be attributed to the deviations discussed in each of the 10 steps in the methodology. The most significant factors/deviations that affected

PeaceHealth numeric methodology is the historical CHARS data used, historical population data used, and omissions of steps 5 and 9 in the methodology. Based on these factors, the department considers its own numeric methodology summarized in Table 3 above to be more reliable than the applicant's methodology. As a result, numeric need for a new ten-bed acute care hospital in San Juan County has been demonstrated.

During the review of this application, the department received 95 letters of support and 2 letters of opposition. The letters of support were submitted by residents of San Juan County, as well as practicing physicians located within the planning area. The majority of the letters of support expressed the importance of an acute care hospital in the planning area and support of upgrading the existing medical center. All letters of support expressed concerns with patients having to travel off island for medical care and the increased population growth in the planning area. [source: public comments provided during the review]

Additionally, the department received two letters of opposition to this project. Both letters indicate that the majority of medical services required by patients residing in the planning area are outpatient services, rather than inpatient services provided by an acute care hospital. One of the letters from a local physician expressed concerns that there would not be enough hospital days to justify the existence of an acute care hospital.

The concerns raised by the letters of opposition are considered when evaluating need for a new hospital in the planning area. The numeric methodology has been a reliable tool for projecting the number of hospital beds to be added to a planning area, it has rarely been used to project need for a new hospital in a planning area with no existing hospital. In addition to the methodology, the department must consider the San Juan County planning area. For Washington State, when residents are located in a planning area where no hospital exists, the residents simply drive to the nearest planning area where a hospital is located to obtain the needed care. Since San Juan County is an island, simply driving to the nearest planning area is not an option for the residents. For scheduled medical services, residents must ferry to the mainland (Anacortes) and then drive from the ferry terminal to a hospital in Skagit, Island, or Whatcom County. For emergent care, a resident may have to be flown (medical evacuation) to the nearest hospital that could provide the services needed. When considering the options available for residents of the planning area, the department concludes need for a new hospital in San Juan County has been demonstrated. Taking in consideration that the number of beds needed in the planning area may be less than the results of the numeric methodology; the department considers PeaceHealth's application for a 10-bed acute care hospital to be reasonable. It is also noted that PeaceHealth intends to operate 5 of the 10 beds as swing beds. This means that long term care patients would also have access to services currently unavailable in the planning area.

In conclusion, the establishment of a 10-bed acute care hospital is supported by the majority of the residents and medical community in the planning area. The number of beds requested by PeaceHealth is very conservative when compared to the results of the department's methodology. Given that this project would create a hospital where there is none, approving a conservative number of beds is both prudent and warranted. 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.*

PeaceHealth is currently a provider of health care services to residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. As an acute care hospital, PIMC would participate in the Medicare and Medicaid programs. To determine whether all residents of the service area would have access to an applicant's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment.

To demonstrate compliance with this sub-criterion, PeaceHealth provided a copy of the draft Admission Policy that would be used at PIMC. The policy outlines the process/criteria that PeaceHealth will use to admit patients for treatment or care at the hospital. The applicant states that any patient requiring care will be accepted for treatment at PIMC regardless of race, color, creed, sex, national origin, or disability. [source: Application, Exhibit 5] Given that PeaceHealth provided a draft admission policy for PIMC, the department concludes that a term requiring PeaceHealth to provide the final admission policy is necessary.

To determine whether low-income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. To determine whether the elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination.

For its Washington State and out-of-state healthcare facilities, PeaceHealth currently provides services to Medicare and Medicaid eligible patients. Information provided in the application demonstrates that PeaceHealth intends to maintain this status for its existing facilities. Documentation provided in this application demonstrates that PeaceHealth also intends to seek Medicare and Medicaid reimbursement for PICM. A review of the policies and data provided for PeaceHealth and PIMC reveals the facility's financial pro forma includes both Medicare and Medicaid revenues. [source: Application, Exhibit 8 and Appendix 2]

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.

PeaceHealth demonstrated its intent to provide charity care to San Juan County residents by submitting a draft charity care policy that outlines the process one would use to access this service. Further, PeaceHealth included a 'charity care' line item as a deduction from revenue within the pro forma financial documents for PIMC. [source: Application, Exhibit 8]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget

Sound (less King County), Southwest, Central, and Eastern. PIMC would be located in San Juan County within the Puget Sound Region. Currently there are 18 hospitals located within the region, including PeaceHealth's St. Joseph Hospital located in Bellingham, within Whatcom County. According to 2005-2007 charity care data obtained from HPDS, St. Joseph Hospital has historically provided better than the average charity care provided in the region. St. Joseph Hospital's most recent three years (2005-2007) percentages of charity care for gross and adjusted revenues are 2.51% and 6.38%, respectively. The 2005-2007 average for the Puget Sound Region is 1.93% for gross revenue and 4.20% for adjusted revenue. [source: HPDS 2005-2007 charity care summaries]

PIMC's pro forma revenue and expense statements indicate that the hospital will provide charity care at approximately 2.53% of gross revenue and 8.56% of adjusted revenue. RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. Since the amount of charity care calculated from the forecasted financials provided in the application and the three-year historical average is above that for the region, the department concludes PeaceHealth intends to meet this requirement. Because PIMC would be a new hospital in the planning area and an additional hospital in the Puget Sound Region, the department concludes that a condition related to the percentage of charity care to be provided at PIMC is necessary if this project is approved. Additionally, given that PeaceHealth provided a draft charity care policy for PIMC, the department concludes that a term requiring PeaceHealth to provide the final charity care policy is also necessary.

With agreement to the terms requiring PeaceHealth to provide the final admissions and charity care policies and agreement to the condition regarding the percentages of charity care provided at PIMC, the department concludes that all residents, including low income, racial and ethnic minorities, handicapped, and other under-served groups would have access to the services provided by the hospital. This sub-criterion is met.

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

Based on the source information reviewed and the applicant's agreement to the terms and condition identified in the "Conclusion" section of this evaluation, the department determines that PeaceHealth has met the financial feasibility criteria in WAC 246-310-220.

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

WAC 246-310 does not contain specific WAC 246-310-220(1) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what the operating revenues and expenses should be for a project of this type and size. Therefore, using its experience and expertise the department evaluates if the applicant's pro forma income statements reasonably project the proposed project is meeting its immediate and long-range capital and operating costs by the end of the third complete year of operation.

If this project is approved, PeaceHealth anticipates the new hospital would become operational in year 2012. To demonstrate compliance with this sub-criterion, PeaceHealth provided its Statement of Operations for the hospital's first three fiscal years of

operations—year 2012 through 2014. Using t he financial information provided in the application, Table 4 illustrates the projected revenue, expenses, and net income for years 2012-2014 for PIMC. [source: Application, Exhibits 7 & 8]

Table 4
PeaceIsland Medical Center
Projected Revenue and Expenses for Fiscal Years 2012 – 2014

	Year 1 - 2012	Year 2 - 2013	Year 3 - 2014
# of set up/licensed beds	10	10	10
# of admissions (includes swing pts)	199	211	223
# of patient days (includes swing days)	1,428	1,468	1,510
Average Length of Stay	3.5	3.5	3.5
Occupancy of set up/licensed beds	39.1%	40.2%	41.4%
Total Operating Revenue	$ 6,555,080	$ 6,763,405	$ 7,077,823
Total Expenses	$ 6,568,110	$ 6,689,566	$ 6,988,621
Net Profit or (Loss)	($ 13,030)	$ 73,839	$ 89,202

The 'total operating revenue' line item in Table 4 is the result of gross revenue minus any deductions for contractual allowances and charity care directly related to the hospital. The 'total operating expenses' line item includes staff salaries/wages and all hospital cost allocations for PeaceHealth, depreciation, and property tax subsidy. Table 4 reflects the gradual increase in both admissions and patient days. As shown in Table 4, PeaceHealth expects the new hospital would operate at a loss in year one and be profitable beginning in year two.

To determine whether PIMC would meet its immediate and long range capital costs, the department's Hospital and Patient Data Systems (HPDS) reviewed its projected balance sheet for year three. Projected year 2014 is shown in Table 5 below. [source: HPDS analysis, p2 and Application, Exhibit 8]

Table 5
PeaceIsland Medical Center Balance Sheet for Projected Year 3 - 2014

Assets		Liabilities	
Current Assets	$ 6,658,243	Current Liabilities	$ 610,208
Fixed Assets	$ 19,489,530	Long Term Debt	$ 10,500,000
Board Designated Assets	$ 0	**Total Liabilities**	**$ 11,110,208**
Other Assets	$$ 0	**Equity**	**$ 15,037,565**
Total Assets	**$ 26,147,773**	**Total Liabilities and Equity**	**$ 26,147,773**

To assist the department in its evaluation of this sub-criterion, the HPDS provided 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; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. If a project's ratios are within the expected value range, the project can be expected to be financially

feasible. Additionally, HPDS reviews a project's three-year projected statement of operations to evaluate the applicant's immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compared the projected ratios with the most recent year's financial ratio guidelines for hospital operations. For this project, HPDS used 2008 data for comparison. The ratio comparisons are shown in Table 6 below. [source: January 7, 2010, HPDS analysis, pp2-3]

Table 6
Current and Projected HPDS Debt Ratios for PeaceIsland Medical Center

Category	Trend[10]	State 2008	Projected 2012	Projected 2013	Projected 2014
Long Term Debt to Equity	**B**	**0.527**	**0.733**	**0.724**	**0.698**
Current Assets/Current Liabilities	**A**	**1.946**	**4.229**	**7.523**	**10.911**
Assets Funded by Liabilities	**B**	**0.432**	**0.436**	**0.433**	**0.425**
Operating Expense/Operating Revenue	**B**	**0.949**	**1.002**	**0.991**	**0.990**
Debt Service Coverage	**A**	**4.717**	**3.6645**	**3.821**	**3.901**
Definitions:	Formula				
Long Term Debt to Equity	Long Term Debt/Equity				
Current Assets/Current Liabilities	Current Assets/Current Liabilities				
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets				
Operating Expense/Operating Revenue	Operating Expenses / Operating Revenue				
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp				

After evaluating the hospital's projected ratios and statement of operations for years 2012-2014, staff from HPDS provided the following analysis. [source: HPDS analysis, p3]

"CON year 3 fiscal year end ratios for PeaceHealth are within acceptable range of the 2008 state average. The project's financial ratios are helped considerably by the fundraising which is 35% of the capital expenditure. The hospital is breaking even in the third year of operations."

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

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

WAC 246-310 does not contain specific WAC 246-310-220(2) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what an unreasonable impact on costs and charges would be for a project of this type and size. Therefore, using its experience and expertise the department compared the proposed project's costs with those previously considered by the department.

As previously stated, the establishment of the new ten-bed acute care hospital is part of a larger project that will be undertaken by PeaceHealth in the San Juan planning area.

[10] A is better if above the ratio, and B is better if below the ratio.

Specifically, the new hospital—PeaceIsland Medical Center—would be located on a 21 acre site located in Friday Harbor within San Juan County. The campus totals 42,242 square feet—30,108 hospital square feet and 12,134 square feet of clinic space. In addition to building a new hospital and replacing the InterIsland Medical Center primary care clinic, the project also includes building a new emergency medical system facility. While located on the same campus, the new emergency medical system facility will be separate and distinct from both the hospital and the new clinic. The total capital expenditure for the entire project is $31,881,314. The costs are broken down in Table 7 below. [source: August 31, 2009, supplemental information, Attachment 3]

Table 7
PeaceHealth San Juan County Project Estimated Capital Costs

Item	EMS Facility	Medical Clinic	Hospital	Total
Construction Costs	$ 1,311,815	$ 3,541,611	$ 15,031,316	$ 19,884,742
Land Purchase & Site Preparation	$ 0.00	$ 26,392	$ 980,811	$ 1,007,203
Fixed & Moveable Equipment	$ 60,000	$ 419,141	$ 4,580,859	$ 5,060,000
Fees, Permits, Supervision, Inspections	$ 169,679	$ 973,867	$ 2,527,171	$ 3,670,717
Capitalized Interest	$ 0.00	$ 170,683	$ 512,048	$ 682,731
Washington State Sales Tax	$ 88,233	$ 282,339	$ 1,205,349	$1,575,921
Total Estimated Capital Costs	**$ 1,629,727**	**$ 5,414,033**	**$ 24,837,554**	**$ 31,881,314**

PeaceHealth provided a signed letter from The Healthcare Collaborative Group[11] to demonstrate that the costs identified above are accurate and reasonable for this type of project. [source: Application, Exhibit 7]

The department recognizes that the majority of reimbursement for the hospital is through Medicare and Medicaid. To further demonstrate compliance with this sub-criterion, PeaceHealth provided the sources of patient revenue shown in Table 8 below. [source: Application, p45]

Table 8
PeaceIsland Medical Center Sources and Percentages of Revenue

Source of Revenue	Inpatient	Outpatient	Swing Bed
Medicare	57.0%	53.0%	80.0%
State (Medicaid)	13.0%	8.0%	10.0%
Commercial	23.0%	35.0%	7.0.%
Other	7.0%	4.0%	3.0%
Total	**100%**	**100%**	**100%**

As shown above, for the hospital (inpatient), the Medicare and State (Medicaid) entitlements are projected to equal 70% of the revenue at the facility. The outpatient and swing bed Medicare and Medicaid equal 61% and 90%, respectively. The department concludes that the majority of revenue is dependent upon entitlement sources that are not cost based

[11] Located in Portland Oregon, The Healthcare Collaborative Group conducts research and reasonableness assessments related to healthcare projects. [source: The Healthcare collaborative Group website]

reimbursement and are not expected to have an unreasonable impact on charges for services. The remaining percentages will be derived through other or private insurance reimbursements.[12]

Based on the information provided, the department concludes that the costs of this project would not result in an unreasonable impact to the costs and charges for health care services. This sub-criterion is met.

(3) *The project can be appropriately financed.*

WAC 246-310 does not contain specific source of financing criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how a project of this type and size should be financed. Therefore, using its experience and expertise the department compared the proposed project's source of financing to those previously considered by the department.

PeaceHealth intends to finance the hospital portion of this project through three sources—tax exempt bonds, local fundraising (philanthropy) and PeaceHealth's Whatcom Region reserves. For the EMS portion of the project, PeaceHealth will pay for and construct the facility, and once completed, sell it back to the district. Other than providing the funding and then constructing the EMS building, PeaceHealth intends to have no ownership or operational responsibilities for the completed EMS facility.

The clinic and the ten-bed hospital will be funded, built, and operated by PeaceHealth under an agreement between PeaceHealth and the hospital district. The agreement, known as the "*Subsidy Agreement for a Combined Clinic and Hospital Facility*" is effective for 50 years. Under the agreement, the district agrees to subsidize PeaceHealth annually starting at $1,483,082 beginning the first calendar year that the hospital and clinic begin operations.

A breakdown of the costs and sources for financing is shown below. [source: Application, p40]

Table 9
PeaceIsland Medical Center Funding Sources

Source of Funding	Amount	% of Total
Tax Exempt Bonds	$ 10,650,000	42.9%
Local Fundraising	$ 8,650,000	34.8%
PeaceHealth-Whatcom	$ 5,552,554	22.3%
Total	**$ 24,852,554**[13]	**100.0%**

The largest funding source is the tax exempt bonds at 42.9%. For this portion of the funding, PeaceHealth provided a letter from the Washington Health Care Facilities Authority ("Authority"). While the Authority cannot provide assurances that the project

[12] PICM's financial statements do not rely on critical access hospital approval and subsequent reimbursement percentages.
[13] This amount is $15,000 more than the amount identified in the application that is attributed to the hospital portion of the project.

would be financed with bonds issued by it before an application to the Authority is submitted, the Authority provides the following information. [source: August 31, 2009, supplemental information, Attachment 7]

"PeaceHealth currently qualifies as a 'participant' as defined in Authority statute section RCW 170.38.020 and has issued bonds through the Authority in 1993, 1994, 1995, 1998, 2001, 2005, and 2008."

Additionally, PeaceHealth provided an amortization schedule showing payments from 2013 through 2040 using a 6.5% rate. The schedule demonstrates that at approximately $1.3 million in annual payments, the debt would be paid in 24 years. The department considers the documentation from the Authority and the amortization schedule to be a demonstration that the bond funding would be available and the debt would be paid.

The second largest funding source is local fundraising at 34.8%. For this portion of the funding, PeaceHealth provided the following statements. [source: August 31, 2009, supplemental information, p7]

"The subsidy agreement for a combined clinic and hospital facility between the parties calls for local and private fundraising in the amount of $10,000,000. Section 4.2 of the definitive agreement "Termination Due to External Events" indicates that if the required fundraising is not secured by a given date (currently September 2010), PeaceHealth can terminate the agreement. While we are confident that the private funds will be raised well in advance of this timeline, at this time, we anticipate we would delay (not terminate) the project if the funds are not in place. Ultimately, we would exercise the termination clause and not proceed with the project if the required private fundraising is not secured."

Considering the community support provided in response to this project, the department considers this information a reasonable demonstration that the fundraising portion of the funding would be available. It is clear that PeaceHealth would prefer to delay the project, rather than terminate if the fundraising efforts are not realized. Any delays for this project could affect the ability of PeaceHealth to raise the funds. To ensure that PeaceHealth would continue toward commencement, if this project is approved, the department would attach the following condition related to delays in completion of the project.

If the project is delayed after commencement, PeaceHealth must submit a revised timeline for review.

PeaceHealth states that the remainder of the funds would be from PeaceHealth Whatcom Region reserves (22.3%). HPDS notes that PeaceHealth does not report its financial information separately for its Whatcom Region. Ultimately, PeaceHealth, as a whole, is responsible for this portion of the funding. To demonstrate that PeaceHealth has the funds to finance this portion of the project, PeaceHealth provided its most recent (2008) audited financial statements. The financial statements demonstrate that the reserves are available. Based on the 2008 audited financial report, the $5,552,554 capital costs is approximately 1.4% of PeaceHealth's board designated assets. [source: Application, Appendix 2] PeaceHealth's financial health is also verified by HPDS financial database. [source: HPDS financial data]

The department considers this information a reasonable demonstration that the funding for this portion of the capital expenditure would be available and use of the reserves would not adversely affect the financial stability of PeaceHealth as a whole.

Based on the information provided, the department concludes the project can be appropriately financed. Since the project will be funded through three separate sources and funding from all three sources must be obtained for this project to be successful, the department will attach the following condition related to the funding sources for this project.

The funding sources are tax exempt bonds at 42.9%; local fundraising at 34.8% and reserves from PeaceHealth-Whatcom at 22.3%. If the funding sources or percentages for this project change, PeaceHealth must submit an amendment application for review and approval. The amendment application must be submitted and an amended Certificate of Need must be issued or denied prior to commencement of the project.

Provided the applicant agrees to the condition as stated above, this sub-criterion is met.

C. Structure and Process (Quality) of Care (WAC 246-310-230)

Based on the source information reviewed and the applicant's agreement to the terms and condition identified in the "Conclusion" section of this evaluation, the department determines that PeaceHealth 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.

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of FTEs that should be employed for projects of this type or size. Therefore, using its experience and expertise the department concludes that the planning would allow for the required coverage.

As stated in the project description of this evaluation, currently, no hospital exists in the San Juan planning area. An outpatient medical clinic is located on Friday Harbor, and as part of a larger project, will be replaced in conjunction with building the new hospital. Because the facility will have ten acute care beds, all core staff are expected to be in place when the hospital opens in late 2012. By the end of full year two (2014), PeaceHealth anticipates adding one or two patient care staff. A breakdown of the proposed FTEs is shown in Table 10 on the following page. [source: Application, p45; August 31, 2009, supplemental information, p2 & p13]

Table 10
PeaceIsland Medical Center Projected FTEs

	Year 2012 Projected	Year 2013 Increases	Year 2014 Increases	Total
Administration Staff	13.50	0.00	0.00	13.50
Patient Care Staff	23.00	0.00	1.00	24.00
FTE Total	**36.50**	**0.00**	**1.00**	**37.50**

Administration staff includes the hospital administrator, billing clerk, IT staff, facility shipping/receiving, and housekeeping. Patient care staff includes physicians, RNs, LPNs, MSW, CNAs and NAs. The addition of 0.7 RN and 0.3 CNA is anticipated in year 2014. PeaceHealth anticipates all current staff of the medical clinic will become employees of the PeaceHealth when the new facility opens in 2012. No recruitment or lead time is necessary for these individuals. PeaceHealth is currently working on identifying the hospital administrator for the new hospital. PeaceHealth provided a timeline when physicians, licensed/technical staff, and support and clerical staff would become employees of PeaceHealth. Specifically, the physicians would become employees of PeaceHealth approximately 18 months prior to opening; licensed and technical staff would be 12 months prior to opening; and support and clerical staff would be 3 months prior to opening. Since the physicians and patient care staff will be employees of PeaceHealth, no contractual relationships will be established. Once the new hospital is operational, PeaceHealth expects no difficulty recruiting the additional FTEs expected to be necessary for year 2014.

Based on this information above, the department concludes that adequate staffing for new hospital is available or can be recruited. This sub criterion is met.

(2) *The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.*
WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Documentation provided in past PeaceHealth applications confirms that PeaceHealth maintains appropriate relationships with ancillary and support services for its existing hospitals and other health care facilities. For this project, PeaceHealth anticipates it would create some new relationships and maintain some current relationships. Examples of new relationships include laundry services, patient transfer agreements with the medical community, radiology, pharmacy, and anesthesia services. Existing relationships primarily include information technology to ensure the new hospital would be fully integrated with PeaceHealth St. Joseph Hospital in Bellingham. [source: August 31, 2009, supplemental information, pp8-9]

Given that the new hospital would not become operational until year 2012, establishment of new relationships have not yet occurred. Based on the information provided in the application, the department concludes that PeaceHealth intends to meet this requirement. To ensure appropriate agreements will be established, the applicant must agree to the following term:

> Prior to opening the new hospital, PeaceHealth will provide a listing of providers with whom it has established new relationships/agreements. If any of the agreements require PeaceHealth to compensate for the services, PeaceHealth will provide a copy of the executed agreement for review by the department.

Provided that the applicant would agree to the term outlined above, the department would conclude that there is reasonable assurance that PeaceHealth would have appropriate ancillary and support services, and this sub-criterion would 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.

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

As stated earlier, PeaceHealth is a provider of acute care services in the states of Alaska, Oregon, and Washington. [source: PeaceHealth website] Currently within Washington State, PeaceHealth owns and operates two separate acute care hospitals in two separate counties. As part of its review, the department must conclude that the proposed hospital would be operated in a manner that ensures safe and adequate care to the public.[14]

For the out-of-state facilities, the department reviewed credentialing by the Joint Commission. All five out-of-state facilities hold three year accreditation with the Joint Commission and are in compliance with commission requirements. [source: Joint Commission website]

For Washington State, regular surveys are conducted by the Department of Health's Investigations and Inspections Office. Records indicate that the department has completed at least two compliance surveys each for PeaceHealth's two hospitals in Washington State since 2008. Each compliance survey revealed deficiencies typical for the facility and PeaceHealth submitted an acceptable plan of corrections and implemented the required actions. Additionally both hospitals hold current accreditations from the Joint Commission.

[14] WAC 246-310-230(5).

PeaceHealth is co-owner of an ambulatory surgery facility located in Whatcom County.[15] Records indicate that the department completed one compliance survey for the facility which resulted in no deficiencies. PeaceHealth also owns and operates a hospice agency and hospice care center in Whatcom County. Records indicate that both facilities have been operating in compliance with no survey deficiencies since 2008. [source: facility survey data provided by the Investigations and Inspections Office]

Since PeaceHealth proposes to build a new hospital that is not anticipated to be operational before year 2012, staff for the hospital has not yet been identified. PeaceHealth states that the current staff of the existing InterIsland Medical Center will form the core staff of the hospital. To demonstrate compliance with this sub criterion, PeaceHealth provided names and professional license numbers of all medical staff associated with the current medical center. [source: August 31, 2009, supplemental information, p5] Compliance history reviews of the existing medical center staff revealed no recorded sanctions.

Given the compliance history of PeaceHealth and the current medical center staff, the department concludes that there is reasonable assurance that the PeaceIsland Medical Center would operate in compliance with state and federal regulation. This sub-criterion is met.

(4) *The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.*

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how to measure unwarranted fragmentation of services or what types of relationships with a services area's existing health care system should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

In response to this sub-criterion, PeaceHealth provided the following statements. [source: Application, pp50-51]

> *"The very purpose of the PeaceIsland Medical Center is to improve access to care and promote continuity in the provision of health care. San Juan is the only county in Washington that is literally "isolated' or detached/cut off, from the rest of the state. It is impossible to drive to and from the county—one must rely on Washington State ferries, other boats, or airplanes. The establishment of an actual hospital for the hospital planning area will provide residents local access to services that the medical center is unable to provide. [The new] PeaceIsland Medical Center will also be fully integrated into the larger PeaceHealth system, thereby ensuring access to services that the critical access hospital is not able to provide directly. ...PeaceIsland Medical Center will also provide observation and swing bed care. The majority of patient transports to the mainland requires observation and or result in hospitalization of patients who previously would have been transported to the mainland. The observation capability will allow the community to avoid some mainland hospitalizations/transports altogether. ...The availability of swing beds*

[15] PeaceHealth Medical Group Endoscopy Center.

will permit local patients with lower-acuity inpatient care needs to remain in the community and enable an earlier return of some patients hospitalized on the mainland."

The department concurs with PeaceHealth's assertions regarding the current limited access to medical care for San Juan County residents. Additionally, the establishment of a new hospital by a current provider with a proven track record of establishing small, community based hospitals is a benefit to the community. The department also acknowledges that PeaceHealth intends to obtain critical access hospital designation once the hospital is operational, however, for this review, the department does not assume the critical access hospital designation will be approved. Even without the critical access hospital designation, PeaceHealth demonstrated that the new ten-bed hospital would be integrated with its St. Joseph Hospital facility on the mainland in Bellingham. Further, the integration of the new hospital with the new InterIsland Medical Center and new emergency medical system facility further demonstrates compliance with this sub-criterion.

The department also considered PeaceHealth's history of providing care to residents in Washington State. The department concludes that the applicant has been providing acute care services to the residents of Washington State for several years and has been appropriately participating in relationships with community facilities to provide a variety of medical services. Nothing in the materials reviewed by staff suggests that approval of this project would change these relationships. [source: CN historical files]

Additionally, the department considers the results of the numeric methodology and review criteria outlined in WAC 246-310-210. Application of the numeric methodology shows a need for acute care beds in the San Juan planning area. Within the application, PeaceHealth demonstrated it met the standards to receive approval to establish the new hospital.

Therefore, the department concludes that approval of a ten-bed acute care hospital in Friday Harbor would not have the potential of fragmentation of acute care services within the planning area. 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 considered met.

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

Based on the source information reviewed and the applicant's agreement to the terms and condition identified in the "Conclusion" section of this evaluation, the department determines that PeaceHealth 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.

To determine if a proposed project is the best alternative, the department takes a multi-step approach. Step one determines if the application has met the other criteria of WAC 246-310-210 thru 230. If it has failed to meet one or more of these criteria then the project is determined not to be the best alternative, and would fail this sub-criterion.

If the project met WAC 246-310-210 through 230 criteria, the department would move to step two in the process and assess the other options the applicant or applicants considered prior to submitting the application under review. If the department determines the proposed project is better or equal to other options the applicant considered before submitting their application, the determination is either made that this criterion is met (regular or expedited reviews), or in the case of projects under concurrent review, move on to step three.

Step three of this assessment is to apply any service or facility specific criteria (tie-breaker) contained in WAC 246-310. The tiebreaker criteria are objective measures used to compare competing projects and make the determination between two or more approvable projects which is the best alternative. If WAC 246-310 does not contain any service or facility criteria as directed by WAC 246-310-200(2)(a)(i), then the department would look to WAC 246-310-240(2)(a)(ii) and (b) for criteria to make the assessment of the competing proposals. If there are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b), then using its experience and expertise, the department would assess the competing projects and determine which project should be approved.

Step One

For this project, PeaceHealth's project met the review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two

Within the application, PeaceHealth states that it was invited by the public hospital district to participate in the development of a hospital in San Juan County. Before the district invited PeaceHealth, the district completed a data collection and needs assessment process that concluded that a hospital was needed and would be supported by the community. Once PeaceHealth became involved in the project, it evaluated and ultimately rejected three separate options before submitting this application. A summary of each option and PeaceHealth's rationale for rejection is below. [source: Application, pp54-55]

Option 1-Status Quo or Do Nothing

This option was rejected because both the district and PeaceHealth concluded that need for a small, community based hospital was needed in the planning area and

would be supported by the community. The conclusion was reached by both entities after their respective extensive data collection and review.

Option 2-Phasing the project to reduce initial capital development costs

PeaceHealth only considered this option if the need and community support resulted in the establishment of a large hospital. Since the PeaceHealth's needs assessment concluded that the establishment of a small, ten-bed hospital was supported, a phased project was considered to be unnecessary.

Option 3-Establish a 23/59[16] facility rather than an acute care hospital

A "23/59 facility" refers to a non-hospital, emergent care facility capable of accommodating patients for extended periods, but less than 24 hours (the term 23/59 refers to 23 hours and 59 minutes). This option was ultimately rejected by PeaceHealth because this type of facility does not receive provider based or cost based reimbursement for care. Without appropriate reimbursement for care, an emergent care facility would not be able to financially survive in the small community of Friday Harbor, or the San Juan planning area.

Taking into account the results of the numeric need methodology and the letters of community support, the department concludes that the establishment of a small, ten-bed hospital in the planning area is the best available alternative for the community. This sub-criterion is met.

Step Three

For this project, only PeaceHealth submitted an application to add or establish acute care bed capacity to the San Juan planning area. As a result, step three is not evaluated under this sub-criterion.

(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). Based on that evaluation, the department concludes that this sub-criterion is met.

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

This sub-criterion is also evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concludes that this sub-criterion is met.

[16] The application inadvertently references a 23/57 facility, rather than a 23/59 facility.