STATE OF WASHINGTON

DEPARTMENT OF HEALTH

Olympia, Washington 98504

September 28, 2018

CERTIFIED MAIL # 7017 3380 0000 0863 8307

Thomas Kruse, SVP CSO
CHI Franciscan Health
1145 Broadway, #1000
Tacoma, Washington 98402

RE: Certificate of Need Application #18-19

Dear Mr. Kruse:

We have completed review of the Certificate of Need application submitted by CHI Franciscan Health. The application proposes the addition of 11 level III NICU beds to St. Joseph Medical Center in Tacoma, within Pierce County. Enclosed is a written evaluation of the application.

For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided CHI Franciscan Health agrees to the following in its entirety.

Project Description

This certificate approves the addition of 11 level III neonatal intensive care unit beds to St. Joseph Medical Center located in Tacoma. At project completion, St. Joseph Medical Center will be operating a 16-bed level III neonatal intensive care unit. Below is the configuration of acute care beds at completion of this project.

Services Provided	With 11 Level III Beds
General Medical Surgical	317
Intermediate Care Nursery - Level II	18
Neonatal Intensive Care Nursery – Level III	16
Psychiatric [dedicated] [see below]	0
Dedicated Rehabilitation – PPS Exempt [see below]	0
Total	**351**

Conditions

1. Approval of the project description as stated above. CHI Franciscan Health further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.

2. CHI Franciscan Health shall finance the project as described in the application.

3. St. Joseph Medical Center will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. St. Joseph 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 1.16% gross revenue and 3.2% of adjusted revenue. St. Joseph Medical Center will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.

Approved Costs:
The total estimated capital expenditure associated this project is $6,646,494.

Please notify the Department of Health within 20 days of the date of this letter whether you accept the above project description, conditions, and capital costs for your project. If you accept these in their entirety, your application will be approved and a Certificate of Need sent to you.

If you reject any of the above provisions, your application will be denied. The department will send you a letter denying your application and provide you information about your appeal rights.

Send your written response to the Certificate of Need Program, at one of the following addresses.

Mailing Address:
Department of Health
Certificate of Need Program
Mail Stop 47852
Olympia, WA 98504-7852

Physical Address:
Department of Health
Certificate of Need Program
111 Israel Road SE
Tumwater, WA 98501

If you have any questions, or would like to arrange for a meeting to discuss our decision, please contact the Certificate of Need Program at (360) 236-2955.

Sincerely,

Nancy Tyson, Executive Director
Health Facilities and Certificate of Need

Enclosure

EVALUATION DATED SEPTEMBER 28, 2018, FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY CHI FRANCISCAN HEALTH PROPOSING TO ADD 11 LEVEL III NEONATAL INTENSIVE CARE BEDS TO ST. JOSEPH MEDICAL CENTER IN TACOMA, WITHIN PIERCE COUNTY

APPLICANT DESCRIPTION

Catholic Health Initiatives (CHI)[1] is a not-for-profit entity and the parent company of CHI Franciscan Health System (FHS). In Washington State, FHS operates as the governance of a board of directors and an executive team that consists of a CEO and a number of vice presidential roles in finance, nursing, strategy, ethics, operations, and others.

In Washington State, CHI Franciscan operates a variety of healthcare facilities. Below is a listing of the nine hospitals, hospice care center, hospice agency, and two ambulatory surgery centers owned or operated by CHI Franciscan in Washington State. [source: CN historical files]

Hospitals
CHI Franciscan Rehabilitation Hospital, Tacoma[2]
Harrison Medical Center, Bremerton
Highline Medical Center, Burien
Regional Hospital, Tukwila
St Anthony Hospital, Gig Harbor
St Clare Hospital, Lakewood
St Elizabeth Hospital, Enumclaw
St Francis Hospital, Federal Way
St Joseph Medical Center, Tacoma

Ambulatory Surgery Centers
Gig Harbor Ambulatory Surgery Center
Franciscan Endoscopy Center

Hospice Care Center
FHS Hospice Care Center

Hospice Agency
Franciscan Hospice, Tacoma

On April 29, 2016, CHI Franciscan Health received Certificate of Need approval to establish a three station dialysis center in the Bonney Lake area of Pierce County.[3] Construction of the dialysis center is not completed and the facility is not yet operational. [source: CN historical files]

In addition to the nine hospitals listed above, CHI Franciscan has ownership interest in a CN approved psychiatric hospital that is not yet operational. The project is described below.

- On February 1, 2016, Alliance for South Sound Health received Certificate of Need approval to establish a 120-bed psychiatric hospital in Tacoma, within Pierce County. Alliance for South Sound Health is 50% owned by CHI Franciscan Health and MultiCare Health System. The new psychiatric hospital is expected to be operational by December 31, 2018. [source: CN historical files]

[1] In early December 2017, Catholic Health Initiatives (CHI) and Dignity Health announced that the two organizations have signed an agreement to combine their ministries. CHI Franciscan does not anticipate that the planned transaction will result in any new or additional entity obtaining a 10% or greater financial interest, directly or indirectly, in CHI Franciscan. The planned transaction is not expected to close until at least late 2018. Importantly, no change is anticipated in the corporate membership of CHI Franciscan or of CHI prior to completion of the project proposed in this CN application.

[2] CHI Franciscan Rehabilitation Hospital is owned by Franciscan Specialty Care, LLC which is 51% owned by CHI Franciscan Health dba St Joseph Medical Center and 49% owned by RehabCare Development 4 – a 100% subsidiary of Kindred Healthcare, Inc.

[3] Certificate of Need #1574.

PROJECT DESCRIPTION

This project focuses on St. Joseph Medical Center (SJMC) located in Tacoma. The hospital has been in operation for many years and provides a variety of healthcare services to the residents of Pierce County and surrounding communities. As of the writing of this evaluation, SJMC is licensed for a total of 366 beds located at 1717 South 'J' Street in Tacoma [98401]. Table 1 below shows 366 beds broken down by service. [source: CN historical files]

Table 1
St. Joseph Medical Center
Current Configuration of Licensed Acute Care Beds

Services Provided	Total Beds
General Medical Surgical	294
Intermediate Care Nursery - Level II	18
Neonatal Intensive Care Nursery – Level III	5
Psychiatric [dedicated] [see below]	23
Dedicated Rehabilitation – PPS Exempt [see below]	26
Total	**366**

A condition attached to CN #1594 that approved CHI Franciscan Rehabilitation Hospital requires CHI Franciscan to relinquish the 26 rehabilitation beds at St. Joseph Medical Center once the rehabilitation hospital is operational. The rehabilitation hospital was issued its initial license on May 25, 2018. CN historical files shows that the 26 rehabilitation beds have not yet been relinquished. Once relinquished, the total number of acute care beds at St. Joseph Medical Center will be 340.

Focusing on the 23 psychiatric beds, once the 120-bed psychiatric hospital is operational, St. Joseph Medical Center will convert its 23 psychiatric beds to general medical surgical use.[4] While the total number of licensed acute care beds at St. Joseph Medical Center will remain at 340, the breakdown by service is shown in Table 2 below.

Table 2
St. Joseph Medical Center
Current Configuration of Licensed Acute Care Beds

Services Provided	Total Beds	With 11 Level III Beds
General Medical Surgical	317	317
Intermediate Care Nursery - Level II	18	18
Neonatal Intensive Care Nursery – Level III	5	16
Psychiatric [dedicated] [see below]	0	0
Dedicated Rehabilitation – PPS Exempt [see below]	0	0
Total	**340**	**351**

As of the writing of this evaluation, SJMC provides a variety of general medical surgical services, including intensive care, emergency services, and cardiac care. The hospital is currently a Medicare and Medicaid provider, holds a level II adult trauma rehabilitation designation from the Department of Health's Emergency Medical Services and Trauma office. SJMC is also is part of the joint "Tacoma Trauma Center" with MultiCare Health System's Tacoma General Hospital. The Tacoma Trauma

[4] Consistent the Settlement Agreement among Department of Health, CHI Franciscan Health, MultiCare Health System, and Signature Healthcare Services, LLC effective March 5, 2018.

Center is also an Emergency Medical Services and Trauma office designation. SJMC holds a three-year accreditation from the Joint Commission[5]. [source: Application, pdf5 and CN historical files]

SJMC has operated its 5-bed level III neonatal intensive care unit (NICU) since year 2014; this project proposes the addition of 11 level III NICU beds to the services, for a facility total of 16 beds. The project would increase the number of licensed beds at SJMC by 11 acute care beds. [source: Application, pdf10]

The total estimated capital expenditure associated with the additional 11 NICU beds is $6,646,494. Of that amount, approximately 61% is related to construction; 23% is related to both fixed and moveable equipment, and the remaining 16% is for sales tax and fees (consulting, architect, and engineering). [source: Application, pdf29]

If approved, the 11 NICU beds would be operational in January 2020. CHI Franciscan provided the following information related to the timeline.
"*In order to accommodate 11 new Level III beds, and given the pending closure of the inpatient psychiatric unit, SJMC has determined that it is most cost effective to relocate all 16 beds to a single location on the 11th floor."* [source: Application, pdf16-17]

APPLICABILITY OF CERTIFICATE OF NEED LAW

CHI Franciscan's application is subject to review as the change in bed capacity of a health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

EVALUATION CRITERIA

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 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:

[5] The Joint Commission accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards. [source: Joint Commission website]

(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, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment).

TYPE OF REVIEW

CHI Franciscan submitted this application on December 22, 2017. On January 10, 2018, eleven working days after the CN Program received the CHI Franciscan project, MultiCare Health System submitted an application proposing to add 14 level IV NICU beds to Tacoma General Hospital in Tacoma.[6] When two (or more) applications are submitted within a few days of each other and each propose the same services, the CN Program will review the similar applications concurrently and competitively.

Within its public comment, MultiCare Health System provided the following information regarding the two separate reviews of the projects. [source: MultiCare Health System, May 8, 2018, public comment]

- *MultiCare does not oppose SJMC's request as such but does wish to point to a number of issues that have either not been addressed, or addressed incorrectly, by SJMC. These are issues the Department should consider in its evaluation.*
- *Most importantly, the Tacoma General application for 14 Level IV beds must be recognized and concurrently reviewed given the request overlaps with SJMC's in many regards. SJMC does not recognize this significant overlap.*
- *While the Department is not evaluating them concurrently, there are many project overlaps between SJMC and the Tacoma General CN requests. Given these overlaps and the fact the Tacoma General Level IV request is more comprehensive from a service provision level, since Level IV offers all the resources of a Level III program, but also is organized and equipped with significant additional resource capabilities,* ***if only one of these two applications can be approved, based on the Department's "need" findings, the Tacoma General project is clearly preferred.*** **[**emphasis in original public comment**]**

While the MultiCare Health System project requests additional level IV NICU beds and level III NICU patients can be served in a facility with level IV capabilities, the two services are not the same. As a provider of level IV NICU services, the CN Program expects Tacoma General Hospital's service area to be larger and may encompass more than one level III provider. Further, as a provider of level III NICU services, the CN Program expects some level IV patients may be transferred from SJMC's level III program to Tacoma General Hospital's level IV program. In summary, while the CN Program concurs that there are overlapping services provided, the two projects are not proposing the same type of bed addition, they are not competing for the same type of beds, and the CN Program did not review the two applications concurrently or competitively.

[6] As of the writing of this evaluation, the CN Program has not released its decision on the Tacoma General Hospital level IV project.

This project was reviewed under the regular timeline outlined in WAC 246-310-160, which is summarized below.

APPLICATION CHRONOLOGY

Action	CHI Franciscan
Letter of Intent Submitted	September 1, 2017
Application Submitted	December 22, 2017
Department's pre-review activities • DOH 1st Screening Letter • Applicant's Responses Received • DOH 2nd Screening Letter • Applicant's Responses Received	 January 17, 2018 February 21, 2018 March 14, 2018 March 28, 2018
Beginning of Review	April 4, 2018
End of Public Comment/No Public Hearing Conducted • Public comments accepted through end of public comment	 May 9, 2018
Rebuttal Comments Received	May 24, 2018
Department's Anticipated Decision Date	July 9, 2018
Department's Anticipated Decision Date with 90-day Extension	October 10, 2018
Department's Actual Decision Date	September 28, 2018

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."

WAC 246-310-010(2) requires an affected person to first meet the definition of an 'interested person.' WAC 246-310-010(34) defines "interested person" as:

(a) The applicant;
(b) Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;
(c) Third-party payers reimbursing health care facilities in the health service area;
(d) Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;
(e) Health care facilities and health maintenance organizations which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;
(f) Any person residing within the geographic area to be served by the applicant; and
(g) Any person regularly using health care facilities within the geographic area to be served by the applicant.

During the review of this project, three persons or health care providers sought interested person status. A brief description of each is below.

MultiCare Health System

MultiCare Health System is a not-for-profit health care organization that owns and operates five hospitals in King and Pierce counties. All five hospitals provide a variety of healthcare services to residents of King and Pierce counties and surrounding communities. MultiCare Health System also owns and operates a variety of healthcare clinics located in King, Kitsap, Pierce, Snohomish, and Thurston counties. [source: MultiCare Health System website] MultiCare Health System provided written comments on this project. MultiCare Health System meets the affected person qualifications identified above.

Providence Health & Services Washington

Providence Health & Services Washington submitted a request for interested and affected person status for this application. In Washington State, Providence Health & Services operates a variety of healthcare facilities, including St. Peter Hospital in Lacey, within Thurston County. While Providence St. Peter Hospital may provide healthcare services to residents of adjacent Pierce County, this does not meet the interested person criteria outlined in WAC 246-310-010(34) above. Further, Providence Health & Services did not provide public comment on this project. As a result, neither Providence Health & Services nor Providence St. Peter Hospital qualifies as an interested person and cannot qualify as an affected person for this project.

SEIU 1199NW

A representative from SEIU (**S**ervices **E**mployees **I**nternational **U**nion) 1199NW requested interested person status. SEIU 1199NW is a statewide union of nurses and healthcare workers. According to its website, SEIU 1199NW represents more than 30,000 nurses and healthcare workers across Washington State. [source: SEIU 1199NW website] Though SEIU 1199NW represents employees at St. Joseph Medical Center, it is not located within the applicant's health service area. SEIU 1199NW meets the definition of an 'interested person,' but does not qualify as an "affected person." As an interested person, SEIU 1199NW could provide public comments on the application. Since SEIU 1199NW does not meet the definition of an affected person, it could not provide rebuttal comments. SEIU 1199NW did not submit either public comments or rebuttal comments for this project.

SOURCE INFORMATION REVIEWED

- CHI Franciscan Health System's Certificate of Need application received December 22, 2017
- CHI Franciscan Health System's first screening responses received February 21, 2018
- CHI Franciscan Health System's second screening responses received March 28, 2018
- Public comments received from community members by the close of business on May 9, 2018
- MultiCare Health System public comment received on May 8, 2018
- Seattle Children's Hospital public comment received on May 3, 2018
- CHI Franciscan Health public comment received on May 9, 2018
- CHI Franciscan Health System's rebuttal documents received May 24, 2018
- Department of Health's Hospital and Patient Data Systems' Comprehensive Hospital Abstract Reporting System data for years 2012 through 2016
- Hospital/Finance and Charity Care (HFCC) Financial Review dated September 26, 2018
- Department of Health Integrated Licensing and Regulatory System database [ILRS]
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Licensing data provided by the Medical Quality Assurance Commission, Nursing Quality Assurance Commission, and Health Systems Quality Assurance Office of Customer Service

SOURCE INFORMATION REVIEWED (continued)

- Department of Health's Emergency Medical Services and Trauma designation dated October 2015
- CHI Franciscan Health System's website at www.chifranciscan.org
- St. Joseph Medical Center's website at www.chifranciscan.org/st-joseph-medical-center
- Joint Commission website at www.qualitycheck.org
- American Trauma Society website at www.amtrauma.org
- Certificate of Need historical files

CONCLUSIONS

For the reasons stated in this evaluation, the application submitted by CHI Franciscan Health proposing to add 11 level III neonatal intensive care unit (NICU) beds to St. Joseph Medical Center is consistent with applicable review criteria of the Certificate of Need Program, provided that CHI Franciscan Health agrees to the following in its entirety.

Project Description

This certificate approves the addition of 11 level III neonatal intensive care unit beds to St. Joseph Medical Center located in Tacoma. At project completion, St. Joseph Medical Center will be operating a 16-bed level III neonatal intensive care unit. Below is the configuration of acute care beds at completion of this project.

Services Provided	With 11 Level III Beds
General Medical Surgical	317
Intermediate Care Nursery - Level II	18
Neonatal Intensive Care Nursery – Level III	16
Psychiatric [dedicated] [see below]	0
Dedicated Rehabilitation – PPS Exempt [see below]	0
Total	**351**

Conditions:

1. Approval of the project description as stated above. CHI Franciscan Health further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. CHI Franciscan Health shall finance the project as described in the application.
3. St. Joseph Medical Center will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. St. Joseph 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 1.16% gross revenue and 3.2% of adjusted revenue. St. Joseph Medical Center will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.

Approved Costs:

The total estimated capital expenditure associated this project is $6,646,494.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI Franciscan Health **met** the applicable need criteria in WAC 246-310-210.

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

WAC 246-310-020 states (in summary) that a level III obstetric service is to be in an area designed, organized, equipped, and staffed to provide services to the few women and infants requiring full intensive care services for the most serious type of maternal-fetal and neonatal illnesses and abnormalities. Such a service provides the coordination of care, communication, transfer, and transportation for level III patients in a given region. Level III services include the provision of leadership in preparatory and continuing education in prenatal and perinatal care and may be involved in clinical and basic research. Level III services are considered tertiary services as defined by WAC 246-310-010.

CHI Franciscan Health

CHI Franciscan provided a three step numeric need methodology for its level III bed addition. The methodology is restated below. [source: February 21, 2018, pdf 5-7 and March 28, 2018, screening response, numeric methodology]

"To estimate planning area Level III NICU bed need, CHI Franciscan employed a three step methodology that is very similar to that used by other applicants requesting Level II and Level III bed expansions.

As indicated on page 5 of the application, the planning area for SJMC's Level III NICU is defined as Pierce County, Kitsap County and the Southeast King Hospital Planning Area. Approximately 83% of its patients reside in this Planning Area region. In Step 1, 10 years of historical Level III patient days were determined and a use rate, based on the female population age 15-44 was established.

STEP 1: Identify 10-Year historic planning area resident days, discharges, and use rates for the service area (Pierce, Kitsap and SE King)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Level III Patient Days	*12,775*	*11,640*	*12,786*	*14,019*	*14,185*	*14,690*	*15,493*	*16,386*	*16,002*	*16,121*
Females 15-44 (population)	*326,956*	*329,431*	*330,209*	*327,502*	*328,910*	*329,582*	*329,072*	*329,203*	*329,797*	*331,704*
Use Rate	*39.1*	*35.3*	*38.7*	*42.8*	*43.1*	*44.6*	*47.1*	*49.8*	*48.5*	*48.6*

Source: CHARS for Level III Patient Days (defined as DRGs 789-790), Population: OFM 2012 Medium Series and 2016 Claritas Estimates (Southeast King only)

In Step 2, CHI Franciscan calculated a market share of planning area resident days and in-migration based on actual 2016 experience.

STEP 2: Calculate planning are provider Level III patient origin, in-migration ratio, and planning area provider market share

	2016
Total Level III Planning Area Days (Pierce, Kitsap and SE King)	*16,121*
Total Planning Providers' Days from Planning Area Residents	*11,378*
Planning Area Providers' Market Share	*70.6%*

Total Level III Patient Days to Planning Area Providers	*16,097*
Level III Patient Days to Planning Area Providers from outside of Planning Area	*4,719*
In migration Ratio	*29.3*

In Step 3, NICU days generated by Planning Area residents for the period of 2017-2023 were calculated using the use rate established in Step 1. The days were then adjusted to account for market share and in-migration. CHI Franciscan used a targeted provider occupancy of 65% and subtracted existing beds (53 beds include MHS Tacoma General at 40, SJMC at 5 and Valley Medical Center at 8 beds). The net bed need is 15 beds in 2017, increasing to 19 beds by 2023, fully supporting the 11 beds requested in the CN application.

STEP 3: Projected Need for Pierce, Kitsap and SE King for providers (at current market share and in-migration)

	2016	***2017***	***2018***	***2019***	***2020***	***2021***	***2022***	***2023***
Total Resident Patient Days	*16,121*	*16,247*	*16,374*	*16,504*	*16,764*	*16,866*	*16,968*	*17,071*
Planning Area Providers Market Share	*70.6%*	*70.6%*	*70.6%*	*70.6%*	*70.6%*	*70.6%*	*70.6%*	*70.6%*
Estimated Days from Planning Area Residents	*11,378*	*11,467*	*11,557*	*11,648*	*11,832*	*11,904*	*11,976*	*12,048*
Estimated Total Days including In-migration	*29.3%*	*16,223*	*16,350*	*16,479*	*16,740*	*16,841*	*16,943*	*17,045*
ADC		*44.45*	*44.79*	*45.15*	*45.86*	*46.14*	*46.42*	*46.70*
Occupancy		*65%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*
Bed Need		*68*	*69*	*69*	*71*	*71*	*71*	*72*
Bed Supply		*53*	*53*	*53*	*53*	*53*	*53*	*53*
Net Bed Need		***15.4***	***15.9***	***16.5***	***17.6***	***18.0***	***18.4***	***18.8***

Public Comments

During the review of this project, MultiCare Health System provided comments related to the planning area used in the numeric methodology provided by CHI Franciscan. MultiCare Health System's comments are below. [source: May 8, 2018, public comment]

MultiCare Health System

Planning area

"There are problems with the SJMC's planning area definition which should not have included Southeast King. A previous Department approach to assessing the reasonableness of an applicant's proposed service area definition is discussed and its application to current utilization experience by Southeast King residents and SJMC is examined.

SJMC designated Pierce County, Kitsap County, and Southeast King as its primary service area.5 SJMC further contends that the Pierce-Kitsap-SE King area has "historically" been its Level III program's service area. 6 This is inconsistent with previous certificate of need activity pertaining to SJMC's Level III program. In the Department's 2012 evaluation approving SJMC's existing 5-bed Level III unit, the Department accepted SJMC's use of a single county (Pierce) planning area. Further, while both SJMC and the Department recognized the single County definition as being "conservative", the same 2012 evaluation also examined an expansion request by MultiCare Tacoma General Hospital's NICU which was only certified as Level III program at the time. The MultiCare request evaluated in 2012 was very similar to SJMC's current project request, therefore, it can serve as a reasonable guide for how SJMC and the Department should proceed in the present scenario. The 2012 MultiCare request proposed a multi-county service area. The Department assessed the reasonableness of MultiCare's proposed counties by examining its historical market share by individual county. In particular, it appears the Department relied upon a "10% market share"

standard. The lone exception was Jefferson County where MultiCare had less than 5% market share. However, Jefferson County was deemed to still be appropriate given the county is geographically encompassed amidst other counties meeting the 10% standard.

In light of the Department's previous process for evaluating an applicant's primary service area definition, a similar approach should be applied to SJMC's current request. Table 1 below presents the findings from analysis examining SJMC patient origin for CY2017 from Washington State's inpatient CHARS database. As Table 1 demonstrates, SJMC currently has less than 10% market share (6.7%) of total SE King resident Level III patient days10. The SE King area should not have been included in the need model as prepared by SJMC; the SE King days should have been included as 'in-migration'. In contrast to SE King, SJMC does have a greater than 10% market share of Kitsap resident days. Therefore, SJMC is justified in expanding its originally defined service area (Pierce County) to include Kitsap as well.

Table 1. SJMC Level III Market Share by Patient Days - CY2017

Service Area	SJMC Market Share of County Total Days
Pierce County	14.4%
Kitsap County	20.1%
SE King	6.7%

*MS-DRGs 789-790
Source: CHARS 2017

A legitimate contention to the approach adopted above is that Level III neonate serves are relatively low volume events and this may unnecessarily cause variability of market share statistics from year to year.

Therefore, an alternative market share analysis, presented in Table 2 below, presents the same analysis on a 3-year basis (i.e. CY2015-2017) to better stabilize utilization volumes for accurate analysis. Table 2 demonstrates that even on a 3-year basis, SJMC does not comprise much more than 5% of total SE King Level III patient days, but still supports inclusion of Kitsap County.

Table 2. SJMC Level III Market Share by Patient Days - CY2015-2017

Service Area	SJMC Market Share of County Total Days
Pierce County	10.8%
SE King	5.4%
Kitsap County	12.6%

*MS-DRGs 789-790
Source: CHARS 2015-2017

In light of findings from the market share analyses presented in Table 1 and 2 above, we recommend that the Department evaluate the current SJMC request for additional Level III beds under a Pierce Kitsap service area and have SE King utilization properly included within the in-migration calculations."

Need Methodology

"There are issues with the SJMC Level III bed need model which underestimates future net need for Level III/IV beds. There has been a considerable increase in the use rate of patient days per resident for Level III services in the past five to 10 years. A trend-rate adjustment should have been applied in place of the constant use rate assumption used by SJMC. This adjustment to the bed need model, when also updated with 2017 Comprehensive Hospital Abstract Reporting System (CHARS) data, demonstrates net need for 34.8 beds by CY2024. This would allow the Department to approve both the SJMC and Tacoma General CN requests.

NICU Level III/IV services are recognized as tertiary services according to definitions contained in WAC 246-310-010. While some tertiary services (e.g. open heart, percutaneous coronary intervention) have an established methodology, no such methodology exists for NICU Level III/IV services. However, previous applications and Departmental reviews for NICU services can provide guidance on how to model the current and projected demand and how to subtract current supply, thus providing estimates of current and projected net need for Level III/IV services in the Planning Area. Here again, the Department's 2012 evaluation of Tacoma General and SJMC Level III programs can be used to provide guidance on an appropriate methodology. This methodology has been discussed thoroughly in Tacoma General Hospital's recent 2018 application requesting 14 additional Level IV NICU beds, but a summary outline is provided below.

***Step 1:** Identify 10-year historic planning area resident days, discharges and use rates.*
***Step 2:** Calculate planning area provider Level III/IV patient origin, in-migration ratio, and planning area provider market share.*
***Step 3:** Calculate future total patient days based on forecast use rates and forecast population of women of childbearing age. Apply the market share figures and in-migration ratio from Step 2 to calculate future total level III/IV patient days to planning area providers.*
***Step 4:** Use total days projected in Step 3 to determine gross and net Level III/IV bed need for the planning area.*

Historically, in Step 3 the Department has held the base year use-rate constant throughout the forecast period. Based on its screening response, SJMC followed suit in its application of the net need model and held the 2016 use-rate constant. However, across Washington State and in several regions, there has been a significant increase in the use-rate of number of patient days per resident for Level III/IV neonate services over the past five to ten years. Table 3 and Figure 1 below provides the historical use-rate and growth in the Pierce-Kitsap-SE King planning area.

Table 3. Pierce-Kitsap-SE King Level III/IV Use Rates, Based on Patient Days, 2008-2017

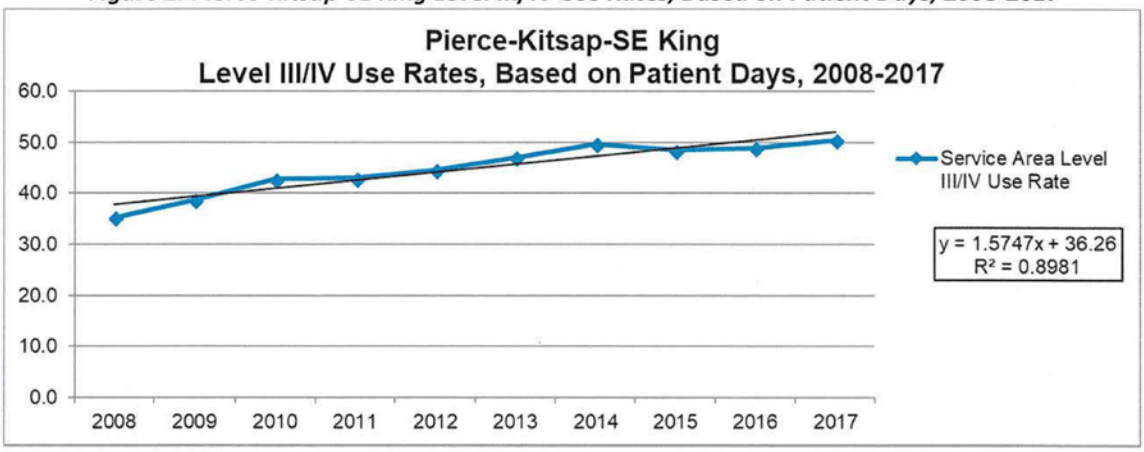
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Trend Adjustment
Service Area Level III/IV Patient Days	11,640	12,769	14,019	14,146	14,690	15,493	16,386	16,002	16,230	16,887	
Pop Fem 15-44	329,431	330,209	327,502	328,910	329,582	329,072	329,203	329,797	331,704	334,297	
Service Area Level III/IV Use Rates--patient days per 1,000 females age 15-44	35.3	38.7	42.8	43.0	44.6	47.1	49.8	48.5	48.9	50.5	1.57

Source: CHARS 2008-2017

Population Source: CHI-SJMC Screening Response (March 21, 2018).

Level III/IV DRGs include 789-790

Figure 1. Pierce-Kitsap-SE King Level III/IV Use Rates, Based on Patient Days, 2008-2017



Source: CHARS 2008-2017

Population Source: CHI-SJMC Screening Response (March 21, 2018).

Level III/IV DRGs include 789-790

Table 3 and Figure 1 above demonstrate that a constant use-rate assumption bears little resemblance to the empirical record in the Planning Area. In fact, the R-squared in Figure 1 is 0.9. R-squared figures measure goodness of fit between the fitted line and the actual data in this linear regression equation. R squared is a statistical measure of how close the actual data are to the fitted regression line. It is also known as the coefficient of determination, or the coefficient of multiple determination for multiple regression. An R-squared figure of 100% indicates that the model explains all the variability of the actual data around its mean. In the case of Figure 1, 90% of the variation of the actual data about its mean is explained by the regression, which simply means the linear fitted line closely approximates the actual data, in this case, patient days. In this case, it can be inferred that: (1) there is a consistent upward trend to the actual patient day figures; and (2), using the fitted line to forecast future patient days will be reasonable. This relatively high R-squared estimate supports trend-adjusting Level III/IV patient days, rather than holding the use rate constant at the base year. Otherwise, a constant use-rate assumption will significantly underestimate medium-to-long-term utilization.

Exhibit 1 provides a full methodology incorporating a trend adjustment to the Pierce-Kitsap-SE King planning area for Level III/IV neonate services. Findings from the revised need model presented in Exhibit 1 forecast net need in the planning area for 34.8 of beds by Year 7 (CY2024}. Without the use rate trend adjustment, SJMC's current model underestimates the net need present within the Pierce Kitsap-SE King Planning Area."

Rebuttal Comments

CHI Franciscan provided the following rebuttal comments related to this sub-criterion. [source: CHI Franciscan, May 24, 2018, rebuttal comments]

"Service Area and Service Area "Overlaps"

SJMC identified its service area as Pierce County, Kitsap County and Southeast King County. CHARS data contained on page 5 of the application confirm this fact. Multi Care argues that this is not the same service area as was depicted in the SJMC 2010 application to establish a NICU; and this is correct. In the 2010 application, CHI Franciscan based the service area on the best data at the time, and that this data preceded the addition of Harrison Medical Center, Harrison Health Partners, Highline Medical Center and the Highline Medical Group and a number of additional clinics into the Network. For example, today, CHI Franciscan's medical group operates 36 individual clinics with a total of 203 providers in the zip codes comprising the Southeast King Hospital Planning Area.

Multi Care further argues that in its 2010 request for NICU beds, "it appears that the Department relied upon a 10% market share standard". There is no such standard in rule, and in review of other CN applications for the establishment or expansion of NI CU beds, we find no such reference to any 10% standard. Table 1 reflects that SJMC's market share of Level III neonates from SE King has continued to increase. Including Southeast King as part of our service area was appropriate.

Table 1
SJMC Level III Neonatal Market Share of Patient Days from Southeast King Hospital Planning Area

	2014	2015	2016	2017
St. Joseph Medical Center	2.4%	4.2%	5.6%	6.7%

Source: WA State CHARS Database, DRGs 789-790

Level III Bed Projection Methodology

In projecting the need for additional Level III neonatal beds at SJMC, CHl Franciscan first evaluated inborn demand and the demand for transfer from our other hospitals' perinatal systems. CHI Franciscan also applied a slight variation of the Department's long-standing acute care bed need projection methodology. In its public comment MultiCare lays out a four-step methodology that it used to project bed need for its pending application. While this is not a concurrent review and our methodologies should not be "compared," for the record, CHI Franciscan notes that we followed the exact same methodology, with the only difference being that at Step 3, MultiCare used a trended use rate. CHI Franciscan held the use rate flat based on the last full year of CHARS data available at the time of application (2016). Our approach is an exact match with what the CN Program has done in every instance that it used the methodology since the early 2000s-for both acute care beds and neonatal beds. It has previously rejected trending of the use rate. The Level III beds requested for SJMC are fully supported using the methodology included in the application."

"In closing, and while initially stating it is not opposed to our application, MultiCare ends with a statement that if only one of the two applications can be approved, based on the Department's need findings, the Tacoma General project is clearly preferred (page 4). CHI Franciscan respectfully disagrees with this statement for the following reasons:

- *The need in the Planning Area is for more Level III beds, not Level IV.*
- *The SJMC unit is undersized and operates at more than 100% occupancy on almost a daily basis.*
- *SJMC is the largest birth/neonatal hospital in Pierce County and the 4th largest provider statewide. Its 5 bed NICU is the smallest (in terms of beds) in the State. For hospitals with approximately 4,000-5,000 neonates annually, the vast majority operate between 14-16 bassinets. Importantly, because of the location of our sister hospitals and our referral patterns, the reality is that the universe of neonates potentially needing care is closer to 8,000 annually. SJMC's request for 11 additional beds will align it more closely with the capacity of that of other similarly sized providers."*

Department's Evaluation

Level III NICU 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 III services, no such methodology exists. Given that the department has not developed an established methodology for level III services, an evaluation of the need criterion begins with an evaluation of the methodology provided by the applicant.

CHI Franciscan's need methodology is based on three main factors:

- planning area;
- population projections, and
- current capacity.

A more extensive discussion of each factor used by CHI Franciscan is below.

Planning Area

CHI Franciscan used Pierce County, Kitsap County, and southeast King County. CHI Franciscan stated it used this planning area because approximately 83% of its patients reside in these three areas.

In public comment MultiCare Health System notes that the planning area used in this application is not the same planning area used by CHI Franciscan in 2012 when it submitted an application to establish its 5-bed level III NICU. MultiCare Health Systems does not appear to object to the inclusion of either Pierce or Kitsap County in the SJMC planning area, rather, the concerns focus on the inclusion of southeast King County.

To address this concern, the department reviewed the March 28, 2012, evaluation that approved both a 5-bed level III NICU at SJMC and a NICU bed addition for Tacoma General Hospital.[7] Since CHI Franciscan was not a provider level III NICU services at SJMC, the planning area used in the 2012 application was Pierce County alone. At that time, the conservative approach was both reasonable and reliable.

SJMC's level III NICU has been operational since year 2014; for this application, the department would expect CHI Franciscan to identify a planning area that is consistent with actual utilization of

[7] March 28, 2013, evaluation for CN Application #11-11 CHI Franciscan Health' SJMC and 11-07 MultiCare Health System's Tacoma General Hospital.

the NICU. Table 3 below shows the listing of southeast King County zip codes used by CHI Franciscan.

Table 3
CHI Franciscan Health's Southeast King County Zip Codes

Zip	City	Zip	City	Zip	City
98001	Auburn	98032	Kent	98057	Renton
98002	Auburn	98035	Kent	98058	Renton
98003	Federal Way	98038	Maple Valley	98059	Renton
98010	Black Diamond	98042	Kent	98063	Federal Way
98022	Enumclaw	98047	Pacific	98064	Kent
98023	Federal Way	98051	Ravensdale	98071	Auburn
98030	Kent	98055	Renton	98089	Kent
98031	Kent	98056	Renton	98092	Auburn
				98093	Federal Way

MultiCare Health System operates Auburn Regional Medical Center in Auburn and MultiCare Covington Hospital in Covington. While neither hospital is a provider of level III NICU services, the department expects that level III NICU patients from those two facilities would be transferred to Tacoma General Hospital in Tacoma. Therefore, it is understandable that MultiCare Health System may disagree with CHI Franciscan's use of southeast King County zip codes for its level III NICU services. However, if 83% of SJMC level III NICU patients reside in Pierce County, Kitsap County, or Southeast King County, using a planning area based on existing patient resident use is reasonable.

Population Projections

CHI Franciscan based its population projections on females between the ages of 15-44 years of age residing in Pierce County, Kitsap County, and southeast King County. Claritas population data was used because it is the most reliable population data that provides a breakdown of Washington Counties by zip code. For southeast King County, CHI Franciscan used the populations associated with the zip codes identified in Table 1. This approach is also reasonable.

Current Capacity

The applicant determined that there are 53 existing NICU level III beds operating in the planning area. Table 4 below shows the breakdown of NICU beds by facility.

Table 4
Current Capacity Used In CHI Franciscan Numeric Methodology

Name of Hospital	Planning Area	# of Level III NICU Beds
St. Joseph Medical Center	Pierce County	5
Tacoma General Hospital	Pierce County	40
UW/Valley Medical Center	Southeast King	8
Total Number of Level III NICU Beds Counted in Methodology		**53**

Based on the current capacity listed above, CHI Franciscan subtracted a total of 53 level III NICU beds from the number of beds projected to be needed in year 2019.

Numeric Need Methodology

Using the three main factors above, CHI Franciscan provided a numeric need methodology that is summarized in three steps:

- In Step 1, 10 years (2007 – 2016) of historical Level III NICU patient days were determined and a use rate, based on the female population age 15-44 was established.
- In Step 2, CHI Franciscan calculated a market share of planning area resident days and in-migration based on actual 2016 experience.
- In Step 3, NICU days generated by Planning Area residents for the period of 2017-2023 were calculated using the use rate established in Step 1. The days were then adjusted to account for market share and in-migration. CHI Franciscan used a targeted provider occupancy of 65% and subtracted the existing supply of 53 NICU beds.

Table 5 below is an excerpt from the third and final step of CHI Franciscan's numeric methodology. While the numeric methodology projected for years 2017 through 2023, only years 2019 through 2022 are shown below.

Table 5
CHI Franciscan Numeric Methodology Step Three

	Year 2019	**Year 2020**	**Year 2021**	**Year 2022**
Total Resident Patient Days	16,504	16,764	16,866	16,968
Planning Area Provider Market Share	70.6%	70.6%	70.6%	70.6%
Estimated Days from Planning Area Residents	11,648	11,832	11,904	11,976
Estimated Days Including In-migration (29.3%)	16,479	16,740	16,841	16,943
Average Daily Census	45.15	45.86	46.14	46.42
Occupancy	65%	65%	65%	65%
Bed Need	69.5	70.6	71.0	71.4
Minus Current Supply	53	53	53	53
Net Bed Need	**16.5**	**17.6**	**18.0**	**18.4**

As shown in Table 3 above, CHI Franciscan's numeric methodology projected need for an additional 16 level III NICU beds in year 2019, which increases to 18 beds by the end of year 2022. Given the space constraints at SJMC, this application requests 11 more level III NICU beds. Again, CHI Franciscan used a conservative approach in its application for NICU beds. In previous evaluations for level III NICU services, the department has concluded that 65% occupancy is reasonable to allow for flexibility and to accommodate for peak usage of the NICU.

Based on the information above, the department concludes that the applicant's methodology is reasonable. **This sub-criterion is met.**

In addition to the need methodology identified and discussed above, the department must also evaluation whether an applicant's project would be sufficiently available and accessible to all residents of the service area.

CHI Franciscan Health

CHI Franciscan provided the following information to demonstrate that the existing planning area providers would not sufficiently available or accessible for level III NICU services. [source: Application, pdf 26-27]

"The project is intended to serve neonates in need of Level III care. The primary service area for the project is Pierce County. As Table 8 indicates, there are 167,844 women of childbearing age (15-44), and this number is expected to increase by 2.8% to 172,509 by 2021. Within the larger service area (Pierce County, Southeast King, and Kitsap Counties), Table 9 shows that the population of childbearing age is 336,265 and the number of females 15-44 is projected to increase by 2.7% to 345,188 by 2021.

Applicant's Table 8
St. Joseph Medical Center
Pierce County, 2010-2021

	2010	***Percent of Total Population***	***2016 Est.***	***Percent of Total Population***	***Percent Change 2010-2016***	***2021 Projection***	***Percent of Total Population***	***Percent Change 2016-2021***
Females 15-44	*164,349*	*20.8%*	*167,844*	*20.0%*	*2.1%*	*172,509*	*19.5%*	*2.8%*
Total	*789,141*	*100%*	*837,861*	*100%*	*6.2%*	*884,269*	*100%*	*5.5%*

Source: 2016 Claritas Population Estimates

Applicant's Table 9
St. Joseph Medical Center
Pierce, Southeast King, and Kitsap Counties, 2010-2021

	2010	***Percent of Total Population***	***2016 Est.***	***Percent of Total Population***	***Percent Change 2010-2016***	***2021 Projection***	***Percent of Total Population***	***Percent Change 2016- 2021***
Females 15-44	*325,863*	*20.5%*	*336,265*	*19.8%*	*3.2%*	*345,188*	*19.2%*	*2.7%*
Total	*1,592,189*	*100%*	*1,701,643*	*100%*	*6.9%*	*1,802,006*	*100%*	*5.9%*

Source: 2016 Claritas Population Estimates

The NICUs at both SJMC and TG operate at high occupancies. As depicted earlier in this Section, SJMC currently has the fewest level III beds per 1,000 in-born births of any Level III NICU provider in the State. Given that SJMC currently operates in excess of 100%, MultiCare recently submitted multiple letters of intent requesting additional NICU capacity and further given that:

1) *SJMC has a very large OB delivery and neonatal population (the 4th largest in the State),*
2) *SJMC is currently transporting a neonate about one time per week for services it is capable of providing, but had no capacity to provide;*
3) *Travel times from Pierce County to Seattle Children's (where SJMC typically refers is in excess of one hour during most times of the average day), and*
4) *SJMC already has neonatologists, maternal fetal medicine specialists, and other required specialty staff in place.*

This requested expansion is needed, will promote efficiency and will assure access. It is not an unnecessary duplication."

Public Comment

During the review of this project, the department received letters focusing on the availability and accessibility of the level III NICU services at SJMC.

Seattle Children's Hospital [source: May 3, 2018, public comment]
"In April 2013, Seattle Children's began its collaboration with CHI-Franciscan, providing neonatal staffing and medical leadership to the Level III NICU and Level II Nursery at St. Joseph Medical Center (SJMC) and the Level II Nursery at St. Francis Hospital (SFH). In March 2016, services were expanded to include the Level II Nursery at Harrison Medical Center (HAMC). Since we began our collaboration, the number of newborns born at CHI-Franciscan hospitals have significantly increased, reaching nearly 8,000 in 2016 (with slightly more than half of total newborns born at SJ MC). As a result of this growth, the number of newborns requiring higher acuity Level II or Level III neonatal care have also increased, putting more stress on the limited number of Level II Nursery and Level III NICU beds at SJMC.

During high census times, admissions are delayed or diverted to another hospital due to insufficient bed capacity at SJMC. Not only is this stressful for our providers who have to spend time arranging transport, which ultimately results in delays in care, but it is also stressful for the families who are forced to travel or become separated from their newborn. Reducing the need to send newborns to another hospital for neonatal care is important since the risk inherent in transporting a critically-ill newborn and the emotional toll on the family is significant.

With only five Level III NICU beds, SJMC operates the smallest NICU in Washington State. For hospitals with approximately 4,000-5,000 newborns born annually, the vast majority operate between 14-16 Level III NICU beds. Furthermore, acknowledging the additional newborns who are born at other CHI-Franciscan hospitals and rely on SJMC when higher acuity neonatal care is required, it is important that SJMC have sufficient Level III NICU bed capacity, so appropriate care is timely and accessible.

In summary, SJMC's request for 11 additional Level III NICU beds is appropriate and aligns with the capacity of other similarly sized hospitals. The consequence of no new Level III NICU beds at SJMC would be detrimental to the health and well-being of neonates in Pierce County and surrounding areas and, for that reason, Seattle Children's supports SJMC's certificate of need application for 11 additional Level III NICU beds."

In addition to the letter of support from Seattle Children's Hospital, staff from CHI Franciscan also provided supporting comments related to this sub-criterion. CHI Franciscan staff comments are below. [source: May 9, 2018, public comment]

CHI Franciscan staff [Peter A. Robilio, MD obstetrician and Gynecologist]
"I specialize in Maternal Fetal Medicine (MFM), which is a subspecialty of Obstetrics and Gynecology that focuses on high-risk pregnancies. I have been with CHI Franciscan Health for nine years and witnessed the growing need for additional neonatal intensive care services. I am writing to ask that you approve CHI Franciscan Health's application to add bassinets to St. Joseph Medical Center. High-risk obstetrical patients in the growing Pierce County area rely on these critical services.

St. Joseph Medical Center is the largest birth/neonatal hospital in Pierce County with more than 3,700 deliveries and approximately 4,300 newborns annually. We have an excellent obstetrics department that is more than capable of delivering high-risk babies, however our NICU does not always have the capacity to care for high-risk babies.

I accept maternal transports and am often contacted by other hospitals in the area asking if their high-risk patients can be transported to St. Joseph's to give birth and be cared for at our NICU. I must confirm with the NICU first that they have capacity, but sometimes it is not possible. In 2017 alone, St. Joseph's NICU was on divert for a total of 74 days (20% of the year), because we did not have the bassinets to care for these infants.

The number of days St. Joseph's NICU has been on divert has increased in recent years. If the certificate of need application is approved, it would increase the number of NICU bassinets from five to 16 and decrease the number of days St. Joseph's is on divert."

CHI Franciscan staff [Stephen Weltly, MD Medical Director SJMC NICU]
"As the Neonatology Medical Director, I am in charge of the entire service line throughout the CHI-FH system, which includes all CHI Franciscan Health nurseries. In my role, I work within the system to make sure all our nurseries are operating at the highest caliber possible and we are constantly finding additional opportunities to serve the community.

At St. Joseph Medical Center, we lowered the gestational age for babies that our team will take care of in our nursery. Previously, we would care for babies at 27 weeks gestation or older. This artificial barrier for gestational ages meant that mothers and babies referred to us within our system had to be referred out of our system which did not serve our mothers and families well.

Furthermore, if a baby that was less than 27 weeks was delivered here inadvertently we referred the baby elsewhere which separated the baby and the mother and meant that a small fragile baby would have to transfer with all the attendant risks of acute neonatal transport.

By lowering the gestational age we serve our perinatal system better than we do now and it will improve outcomes in premature babies and enhance developing a strong bonding relationship with the mother and her baby. Our ultimate goal is to eliminate a gestational age cap altogether and provide our staff with the tools and training to care for a baby of any gestational age to the limits of viability.

Our level III nursery was started in April 2013, after working with the staff at Seattle Children's Hospital to attain the resources we needed to provide NICU care in our community. However, the five level III beds in the NICU at SJMC are inadequate in number, as they do not meet the growing demand for NICU services in our region and system.

Our number one priority is providing a continuum of quality care to our mothers, babies and families. Maintaining a continuum of care improves the outcome of the newborn and decreases the length of stay. In 2017, our NICU was on divert for a total of 74 days. Meaning that if a baby was referred to us or a maternal transport was proposed we would decline the referral/transport. We propose to expand our resources with the addition of level III beds so that our nursery has the capacity to care for babies born at our hospital and our mothers that seek perinatal care within the CHI-FH system.

St. Joseph Medical Center NICU supports the neonatal needs of a great and growing community. I would appreciate your support in approving this request for additional level III beds to the St. Joseph Medical Center NICU. In so doing we think that all mothers and babies of our far-reaching service line can maintain a continuum of quality care and improve the outcomes of our babies, mothers and families."

CHI Franciscan staff [Johnette Maehren, Regional Medical Director for CHI Franciscan]
"I am the team lead for the OB Hospitalist Group at St. Joseph Hospital and I also serve as the OB Regional Medical Director at CHI Franciscan. I am extremely fortunate to work with an amazing team of people. We are all dedicated to provide excellent obstetric and neonatal care. Our care now extends to 25 weeks gestation.

Our obstetrics department and NICU staff are highly skilled, however our NICU cannot accommodate all the high-risk neonates born at our facility every year due to space constraints. We've had to transport neonates to other NICUs in the region because we do not have the capacity to care for them at St. Joseph Medical Center.

I've been at CHI Franciscan for 24 years and have seen CHI Franciscan Health accommodate the needs of our community over time. Additional NICU bassinets are essential to the success of St. Joseph's NICU. If we don't have the neonatal capacity we will need to transport the pregnant moms outside our region to deliver or transport the neonates after delivery hence separating them from their moms. Our OB patients are very high risk and we need the capacity to care for high-risk neonates born at St. Joseph Medical Center."

CHI Franciscan staff [Kim Deynaka, MD & SJMC NICU Director]
"I am the Director of the St. Joseph Medical Center NICU, a facility that has served the needs of the South Sound for five years. I have worked for CHI Franciscan Health for 17 years and been in my role as director of our neonatal intensive care unit since 2014.

Since its creation in April 2013, the NICU has served many families, however we have a growing population of infants that need NICU services. Last year, we were on divert for 74 days, which meant that we could not accept any infants from our own service line or from other hospitals.
Having such a robust delivering service at St. Joseph Medical Center has led to a large community population wanting to deliver their babies at our facility. With over 4,100 women choosing our facility for a full complement of delivery services it's devastating to the medical team when a newborn needs NICU care and the NICU is out of beds. This means that we have to separate the mother and baby as we find a NICU bed in the community. Separating a mother and baby after birth is not best practices and can be devastating emotionally for the parents, as the mother remains an inpatient at SJMC. This is especially true for an operative delivery because the father usually follows the baby to another facility.

Finding a bed in the community is not always an easy task and there are times when transport is not available immediately, causing delays. It can be described as a chess game when we try to move babies back to their home community level II nurseries, so we can support more level III babies at St. Joseph Medical Center. If transport is not available and level II babies fill up the beds at our level III unit, then more mothers and babies who need level III care get separated as we need to ensure that the baby has a bed that can support its needs.

The five level III NICU bassinets our facility currently houses, no longer meet the needs of mothers and babies of our facility. Our community continues to grow and our facility needs to grow with it. The first step is to approve St. Joseph Medical Center's NICU certificate of need for 11 additional bassinets."

In addition to the letters of support from Seattle Children's and staff from CHI Franciscan, the department also received supporting comments from mothers of NICU patients at SJMC. The comments are below. [source: May 9, 2018, public comment]

Jorden Starkey, mother of a SJMC's NICU patient (Xander)
"I appreciate you taking the time to read my letter. I am writing to tell you about my great experience with St. Joseph Medical Center NICU and why I think you should approve their certificate of need application for additional bassinets.

I am a graduate of St. Joseph Medical Center's NICU. My son Alexander (Xander) was born at 32 weeks in August of 2016 and was treated at the St. Joseph's NICU for two weeks. The nurses and doctors helped me stay involved with my son's care, which was especially valuable because I live about one hour away from the hospital and could not always be with him. When I was at the NICU, the nurses would make sure I could bond with him by changing his clothes and giving him baths. When I wasn't there, the nurses would accept my calls and happily give me updates on his status. My positive experience with the NICU staff helped me make the best out of a difficult situation.

Adding bassinets to St. Joseph's not only increases their capacity to care for more babies, but it also gives more families hope. Hope that their child is in capable hands and will soon be able to come home. The NICU at St. Joseph's saved my son's life; every parent with a child in need should have the same opportunity. Additional bassinets can make that possible."

Verna Nelson, mother of a SJMC's NICU patient (Vincent)
"I am writing in support of St. Joseph Medical Center's application for additional NICU beds. As the mother of a former NICU patient, I can attest to the quality of care they provide and explain why these beds are so important. This is my story.

Having a baby at 31 weeks was very scary to begin with. I had an infection that spiked a fever and put stress on my baby. His heart rate dropped, so they decided to do a caesarian section. I had my baby on May 18, 2015 at 2:00pm and I could not see him until 10:00pm. When I finally got to see him, he was in a NICU bed, with multiple tubes attached to him. The nurse caring for him explained what all the tubes were doing and updated me on his status. She answered every question I had, until I felt comfortable. They informed me that he would be attached to oxygen for about seven to ten days until he could breathe on his own.

I was treated at the hospital for three days after giving birth and then I was sent home. At 5:00am on the fourth day after his birth, I got a call that Vincent, my son, was breathing without the assistance of a ventilator. I was so excited to hear that he was breathing on his own sooner than expected!

I visited my son as often as I could, but between a part-time job, two pre-teens, and a baby in the NICU, it was tough to manage. When I couldn't be there, the nurses would provide updates by phone whenever I called, which helped put me at ease.

The NICU at St. Joseph's was also great about listening to parents. After two weeks of being in the NICU, Vincent was still in isolate box, which is a multifunctional preemie bed that helps hold in heat. The nurses can also place a blanket over the isolate box to make it dark and feel more like a womb. I asked the nurse if he could come out of the isolate box and she said they'd be willing to try it out, but they would place him back in the isolate box if he had any complications.

I really appreciated that they were willing to safely try something I had requested. It felt like they were interested in working with parents on a case-by-case basis, as opposed to using the same approach for each scenario.

My son was released from the NICU, 30 days later. His release was such a special ·experience. My pre-teen daughters were there and had no idea their baby brother was coming home and our favorite nurse, Denyse was also there. Denyse informed the girls that Vincent had to pass some tests before he could be considered to leave. Vincent had to be able to suck, swallow and breathe on his own and fit securely in the car seat. After these tests, Denyse had my daughters take an 'oath' to be the best big sisters and care for Vincent if and when he was released. After they took the oath, the staff announced that Vincent would be able to come home with us that day. My entire family was emotional, especially my daughters who had no idea their brother would be able to come home so soon. The hospital estimated that Vincent would be in the NICU for two months, so it was incredible that he could come home after just one month.

The service we received at St. Joseph's NICU was so wonderful and impacted my family so much that we are still involved with the center today. When I took Vincent home, I wanted to buy him a car seat cover, but they were so expensive so I decided to make one for him. Then I had the idea to make car seat covers for other NICU babies. Every year, around Vincent's birthday in May, I multiple his age by the number of days early he was born (64 days) and create and donate that number of car seat covers to the NICU. This year I donated 192 car seats covers.

St. Joseph's NICU provides a necessary service and high-quality care. They really make everyone feel like a part of their family. However, the NICU staff can only provide their services to the babies they have capacity for. In the 30 days we stayed there, I watched babies come and go and because there wasn't enough room, they had to transfer some babies who were in less critical condition because they did not have capacity to care for them. I am thankful I did not have to go through moving hospitals, but no family should have to go through something like that. Which is why, St. Joseph's NICU needs more beds."

<u>Amanda Hegseth, mother of a SJMC's NICU patient (Rylen)</u>
"I am writing on behalf of CHI Franciscan Health's Neonatal Intensive Care Unit at St. Joseph's Medical Center. I passionately support their certificate of need application to add bassinets to the NICU.

I personally have a great relationship with the St. Joseph NICU's staff and witnessed the outstanding care they provide to the community. They cared for my son, Rylen, who was born 7 weeks early on April 17, 2017 and released on May 13, 2017. As a first time mom, I was nervous about nursing. However, two lactation specialists, Katie and Debbie at the NICU made me feel comfortable, by educating me on my breast milk production level and showing me the best practices for feeding a pre-mature baby.

My favorite part of St. Joseph's NICU is that they are always looking for feedback from NICU parents. They have created a parent advisory board, of which I am a member, where anyone can share recommendations with caregivers and staff.

In my opinion, the certificate of need application for additional NICU beds is another step St. Joseph's is taking to expand their neonatal intensive care services. As with the parent advisory meetings, they have identified the needs of the community and are working to accommodate them."

Katie Adams, mother of a SJMC's NICU patient (Will)

"I am writing to you in support of CHI Franciscan Health System's request to add additional Neonatal Intensive Care bassinets to those currently in operation, in accordance with the State of Washington's Certificate of Need Program.

I was 30 weeks and 3 days pregnant when I gave birth to my son, Will, on February 5, 2014. My son was treated at St. Joseph's NICU a total of 49 days. It was a tough time for us, but the staff went the extra mile to make us feel as comfortable as possible. There was a nurse, Kim, who stuck out to me. She would give my son a 'bubble bath' by placing the oxygen tube in the water to make bubbles. He loved it and it made an ordinary activity that much more special. When it came time to go home, we were slightly sad to leave the staff to which we'd become so close. I felt so connected to the staff and the community that I decided to serve on their Parent Advisory Team so I could support mothers in similar situations.

The staff at St. Joseph's NICU saved my baby's life. They provided an invaluable service to my family. It's so essential that the NICU receive more bassinets because there are many more families in Pierce County, like mine, who need their services."

Ann Wiley, mother of three SJMC's NICU patients (fraternal triplets-Anson, Lincoln, and Sloan)

"I am a mother of fraternal triplets, who were cared for at St. Joseph Medical Center's NICU. My children, Anson, Lincoln and Sloane were born in November of 2015 and were all cared for at St. Joseph's NICU.

The NICU staff made us comfortable and kept us informed of all our children's status. They allowed us to hold our babies as soon as possible. They were also our greatest advocates. When my son Lincoln was born he had a testicular torsion, so they transported him to Seattle Children's Hospital to fix it. However, once he got to Seattle Children's, his body had taken care of the issue itself, which meant that he didn't need Seattle Children's treatment after all. At that point, we had one child at Seattle Children's and two children at St. Joseph's. The staff at St. Joseph's advocated on our son's behalf and after a few weeks he was reunited with his siblings at St. Joseph's.

I was really fortunate that St. Joseph's had room for all of my babies. I was not supposed to go into labor as early as I did. There was an infection in one of the umbilical cords, so I went into labor at 28 weeks pregnant. The day I showed up to the hospital was the same day my doctor was going to tell them they should expect me in the coming weeks.

Although my kids we separated for a brief period of time, we were fortunate that St. Joseph's had the capacity to care for them during the months they needed NICU care. If St. Joseph's NICU did not have room for all three kids, then my babies would have been separated and cared for at different NICU's. That would have put additional stress on our whole family. To keep other families of multiples from experiencing something like this, St. Joseph's NICU needs additional NICU bassinets. Families of multiples want to stay together and additional bassinets can help keep them together."

LaToya Brooks, mother of a SJMC's NICU patient (Zayden)

"I'd like to express my strong support for CHI Franciscan Health System's request to add NICU beds for St. Joseph's Neonatal Intensive Care Unit's Certificate of Need application. The NICU is very near and dear to me, because of the care the staff showed for my son, Zayden who was born at 34 weeks.

My son was cared for at St. Joseph's NICU for 11 days, after being born on November 9, 2015. When Zayden was born, one of my biggest concerns was breastfeeding. I had fluid in my lungs and the medication I took to get better, had a side effect that reduced my breast milk production. However, I really wanted to feed him myself. Katie, a lactation nurse in the NICU, was great about showing me how to breastfeed, regardless of how much milk I could provide.

She encouraged me to breastfeed Zayden skin-to-skin, with what they called the kangaroo hold. The hold was supposed to help us bond and help Zayden improve faster. As a first time mother of a pre-mature baby, I wasn't sure what to expect, but St. Joseph's NICU made me feel like my baby was in good hands. When I couldn't be at the hospital, the staff would always accept my calls to give me updates. As his health improved, they were great about letting me know where in the hospital and when he would be moved.

My family is extremely grateful for all the care my son received at the NICU, which is why I fully support anything that meets the needs of the staff and patients. St. Joseph's does not have enough NICU beds to care for the growing number of pre-mature babies in Pierce County and it would place less stress on the patients and staff if they are added."

Rebuttal Comments

CHI Franciscan provided the following rebuttal comments related to this sub-criterion. [source: CHI Franciscan, May 24, 2018, rebuttal comments]

"In addition to the application and supplemental screening responses, the file includes a number of letters of support which describe the impacts on families and care delivery when the SJMC unit is at capacity and a letter from Seattle Children's Hospital describing the clinical care issues associated with the current high census at SJMC."

Department Evaluation

Other than expressing concerns with the planning area, MultiCare Health System does not assert that there is no need for additional level III NICU beds at SJMC. CHI Franciscan's application proposes to add additional level III NICU beds, but does not propose to change the current hospital market shares or referral patterns in the planning area.

During the review of this project, many letters of support were provided from mothers of NICU patients. The letters provided a patient perspective on the importance of additional level III NICU bed capacity at SJMC. Based on the information provided in the application, the department concludes that **this sub-criterion is met.**

(2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

To evaluate this sub-criterion, the department evaluates an applicant's admission policies, willingness to serve Medicare and Medicaid patients, and to serve patients that cannot afford to pay for services.

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 assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

Medicare certification is a measure of an applicant's willingness to serve the elderly. With limited exceptions, Medicare is coverage for individuals age 65 and over. It is also recognized that women live longer than men and therefore more likely to be on Medicare longer.

Medicaid certification is a measure of an applicant's willingness to serve low income persons and may include individuals with disabilities.

Charity care shows a willingness of a provider to provide services to individuals who do not have private insurance, do not qualify for Medicare, do not qualify for Medicaid, or are under insured.[8] With the passage of the Affordable Care Act in March 2010, the amount of charity care is expected to decrease, but not disappear.

CHI Franciscan Health

CHI Franciscan provided copies of the following policies currently in used at SJMC. [source: February 21, 2018, screening response, Exhibits 4 & 5]

- Admission Policy-Approved March 2014
- Non-Discrimination Policy – Updated August 2017
- Charity Care Policy-Updated March 2017

SJMC is currently Medicare and Medicaid certified. CHI Franciscan provided its current source of revenues by payer for SJMC and stated that the additional 11 level III NICU beds would not change the payer mix. However, in order to add the NICU beds, a number of rehabilitation and psychiatric beds and services will be relocated to other sites in years 2018 and 2019, respectively. The reduction in these beds and services change the payer mix slightly at SJMC. [source: February 21, 2018, screening response, pdf5]

Current and projected hospital-wide payer mix is shown below.

Revenue Source	Current 366 beds	Projected 377 beds
Medicare	46.0%	45.5%
Medicaid	22.6%	23.1%
Commercial	26.2%	26.2%
Other	5.2%	5.2%
Total	**100.0%**	**100.0%**

[8] WAC 246-453-010(4)

In addition to the policies and payer mix information, CHI Franciscan provided the following information related to uncompensated care provided by CHI Franciscan. [source: Application, pdf23]

"In addition to charity care as measured by the department, CHI Franciscan provides numerous uncompensated services to the communities served. In fiscal year 2016 alone, CHI Franciscan's quantifiable Community Benefit (including the cost of charity care) totaled $156 million. A sampling of local CHI Franciscan education and community outreach programs include:"

- *Our Congregational Health Ministries Program provides support to about 70+ congregations which includes program guidance, education and resources to area congregations with a faith community nurse/health ministry program. We provide support to the participating churches who are the ones who do the blood pressure checks, health fairs, walking programs, etc.*
  - *Provision of blood pressure clinics.*
  - *Offering of Nutrition and Fitness Programs (walking program, exercise classes)*
  - *Provision of health education resources;*
- *Dental care provided to low-income or unemployed adults without access to other low-cost dental services through the dental van.*
- *Neighborhood clinic: CHI Franciscan provides lab tests to Neighborhood Clinic patients.*
- *CHI Franciscan provided immunizations for nearly 3,000 individuals.*
- *CHI Franciscan donated hospital and clinic care are through Project Access*
- *Community Outreach and Sponsorship provides support for community programs (Communities in School, Reach Out and Fusion); sponsorship for various community events*
- *In FY2016, CHI Franciscan volunteers provided over 142,000 hours of service.*
- *The Foundation Grants Program provides funding for many programs related to the social determinants of health—homelessness, food/nutrition, domestic violence programs and transportation.*

Public Comments

During the review of this project, MultiCare Health System provided comments related to this sub-criterion. Those comments are below. [source: May 3, 2018, public comment]

MultiCare Health System

"One way the Department evaluates a project's assurance that all residents of the service area, including low-income, racial and ethnic minorities, handicapped and other underserved groups, will have access to healthcare services of the applicant is to examine historical charity care provision.

The Department of Health evaluates hospital charity care based on the applicant's charity care provisions represented as a percentage of either total revenues or adjusted (i.e. non-Medicaid and non-Medicare) revenues in comparison to one of 5 geographic regions. SJMC is within the Puget Sound Region, and as Table 4 below indicates, SJMC has, year-over-year, been below the regional average whether calculated as a percent of total revenues or adjusted (i.e. non-Medicaid and non-Medicare) revenues.

Table 4. St. Joseph Medical Center – Tacoma and Puget Sound Regional Average Charity Care as a Percent of Total Revenues and Adjusted Revenues, 2014-2016

	% of Total Revenue				% of Adjusted Revenue			
Region/Hospital	2014	2015	2016	3 Year Average, 2014-2016	2014	2015	2016	3 Year Average, 2014-2016
Saint Joseph Medical Center - Tacoma	1.38%	0.70%	0.53%	0.84%	3.72%	1.74%	1.66%	2.33%
PUGET SOUND REGION TOTALS	**1.65%**	**0.92%**	**0.91%**	**1.14%**	**4.60%**	**2.37%**	**2.67%**	**3.15%**

Source: DOH Charity Care Reports, 2014-2016

Given SJMC's historical performance, the Department must require that SJMC provide charity care in an amount comparable to or exceeding the average amounts of charity care provided by hospitals in the Puget Sound Region. The department should also require SJMC to annually report its conformance to this condition to the Department."

Rebuttal Comments

In response to the comments above, CHI Franciscan provided the following rebuttal comments. [source: CHI Franciscan, May 24, 2018, rebuttal comments]

"MultiCare suggests that a condition be placed on the SJMC CN award related to charity care. Despite MultiCare's statement on page 9 to the contrary, the NICU pro formas actually assume charity care at the 2017 SJMC average, which is higher than the regional average. That said, CHI Franciscan is very willing to accept a condition on its CN consistent with the standard language requiring it to use reasonable efforts to provide charity care comparable to the regional average on its CN."

Department Evaluation

CHI Franciscan has been providing healthcare services to the residents of King, Kitsap and Pierce counties through its hospitals and medical clinics for many years. Healthcare services are stated to be available to low-income, racial and ethnic minorities, handicapped and other underserved groups. [source: CHI Franciscan Health System website]

The Admission Policy describes the process SJMC uses to admit a patient and outlines rights and responsibilities for both SJMC and the patient. Included with the Admission Policy is the Patient Rights and Responsibilities Policy. This policy includes the following non-discrimination language.
"As a patient at Franciscan Health system you have the right to…. not be discriminated against because of your race, beliefs, age, ethnicity, religion, culture, language, physical or mental disability, socio-economic status, sex, sexual orientation, gender identity or expression and your ability to pay for care. Be treated with dignity and respect including cultural and personal beliefs, values and preferences."

The Non-Discrimination Policy includes the following language.
"As a recipient of Federal financial assistance, CHI Franciscan Health (CHI FH) is dedicated to providing services to patients and welcoming visitors in a manner that respects, protects, and promotes patient rights. CHI FH does not exclude, deny benefits to, or otherwise discriminate against any person on the basis of age, race, color, creed, national origin, ethnicity, religion, marital status, sex, sexual orientation, gender identity or expression, physical , mental or other disability, citizenship, medical condition, or any other basis prohibited by federal, state, or local law in admission to, participation in, or receipt of the services and benefits under any of its programs and

activities, whether carried out by CHI FH directly or through a contractor or any other entity with which CHI FH arranges to carry out its programs and activities."

SJMC currently provides services to both Medicare and Medicaid patients. CHI Franciscan does not anticipate any changes in Medicare or Medicaid percentages resulting in approval of this project, however, as clarified by CHI Franciscan, upcoming changes in both psychiatric and rehabilitation services at SJMC may result in a slight decrease in Medicare percentages and a slight increase in Medicaid percentages.

SJMC's current Medicare revenues are approximately 46.0% of total revenues, which may decrease to 45.5%; likewise, Medicaid revenues are currently 22.6%, which may increase to 23.1%. Commercial and other revenues are expected to remain the same at 26.2% and 5.2%, respectively. Financial data provided in the application also shows both Medicare and Medicaid revenues.

The Financial Assistance Policy (Charity Care) provided in the application has been reviewed and approved by the Department of Health's Hospital Financial/Charity Care Program (HFCCP). The policy outlines the process one would use to obtain financial assistance or charity care. The policy was approved in March 2017. This is the same policy posted to the department's website for SJMC. The pro forma financial documents provided in the application include a charity care 'line item' as a deduction of revenue

Charity Care Percentage Requirement

For charity care reporting purposes, Washington State is divided into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. CHI Franciscan proposes to add 11 NICU beds to SJMC located in Pierce County within the Puget Sound Region. Currently there are 19 hospitals operating within the region. Of the 19 hospitals, some did not report charity care data for years reviewed.[9]

Table 6 below compares the three-year historical average of charity care provided by the hospitals currently operating in the Puget Sound Region and SJMC's historical charity care percentages for years 2014-2016. The table also compares the projected percentage of charity care. [source: March 28, 2018, screening response, Attachment 2 and HFCCP 2014-2016 charity care summaries]

Table 6
Charity Care Percentage Comparisons

	Percentage of Total Revenue	Percentage of Adjusted Revenue
Puget Sound Region Historical 3-Year Average	1.16%	3.20%
St. Joseph Medical Center Historical 3-Year Average	0.87%	2.37%
St. Joseph Medical Center Projected Average	1.07%	3.40%

As noted in Table 4 above, the three-year historical average shows SJMC has been providing charity care below both the total and adjusted regional averages. For this project, CHI Franciscan projects that SJMC would provide charity care below the regional average for total revenues and above the average for adjusted revenues.

[9] For year 2014, the following three hospitals did not report data: Forks Community Hospital in Forks; Whidbey General Hospital in Coupeville; and EvergreenHealth-Monroe [formerly Valley General Hospital, Monroe]. For year 2016, USS/BHC Fairfax Hospital North did not report data.

CHI Franciscan has been providing health care services at SJMC for many years. Charity care is health care provided through the hospital at no cost or reduced cost to low income patients. Charity care is a state-mandated and partially state-funded program that allows uninsured or underinsured people to receive inpatient and outpatient care at a reduced cost. Only people who meet certain income and asset criteria are eligible to receive charity care. Information provided in the application indicates that CHI Franciscan offers a variety of community outreach programs throughout Pierce, King, and Kitsap counties. Outreach programs help offset costs for healthcare services in the communities, but it is not charity care and cannot be counted toward the percentage of charity care provided by a hospital under Certificate of Need rules.

The focus of this sub-criterion is charity care percentages specific to SJMC. MultiCare Health System expressed concerns regarding the historical percentages of charity care provide at SJMC. CHI Franciscan stated that it projected percentages of charity care is at the year 2017 regional average. Given that year 2017 charity care data is not yet available for this review, it is unclear where CHI Franciscan obtained the data. Regardless, MultiCare Health System suggested a charity care condition if this project is approved; CHI Franciscan stated it is willing to agree to such a condition. In past hospital CN applications, the department has been attaching a charity care condition to the approvals, based, in part, on the fluctuation of charity care percentages since the passage of the Affordable Care Act in March 2010.

For these reasons, if this project is approved, the department concurs that CHI Franciscan must agree to the charity care condition stated below. [10]

> St. Joseph Medical Center will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. St. Joseph 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 1.16% gross revenue and 3.2% of adjusted revenue. St. Joseph Medical Center will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.

Based on the information provided in the application and with CHI Franciscan's agreement to the condition, the department concludes t**his sub-criterion is met.**

(3) The applicant has substantiated any of the following special needs and circumstances the proposed project is to serve.

(a) The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both, to individuals not residing in the health service areas in which the entities are located or in adjacent health service areas.

Department Evaluation
This sub-criterion is not applicable to this application.

[10] The condition related to the percentage of charity care and its impact on SJMC's revenue and expense statement is further addressed in the financial feasibility section of this evaluation.

(b) The special needs and circumstances of biomedical and behavioral research projects designed to meet a national need and for which local conditions offer special advantages.

Department Evaluation
This sub-criterion is not applicable to this application.

(c) The special needs and circumstances of osteopathic hospitals and non-allopathic services.

Department Evaluation
This sub-criterion is not applicable to this application.

(4) The project will not have an adverse effect on health professional schools and training programs. The assessment of the conformance of a project with this criterion shall include consideration of:

(a) The effect of the means proposed for the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.

Department Evaluation
This sub-criterion is not applicable to this application.

(b) If proposed health services are to be available in a limited number of facilities, the extent to which the health professions schools serving the area will have access to the services for training purposes.

Department Evaluation
This sub-criterion is not applicable to this application.

(5) The project is needed to meet the special needs and circumstances of enrolled members or reasonably anticipated new members of a health maintenance organization or proposed health maintenance organization and the services proposed are not available from nonhealth maintenance organization providers or other health maintenance organizations in a reasonable and cost-effective manner consistent with the basic method of operation of the health maintenance organization or proposed health maintenance organization.

Department Evaluation
This sub-criterion is not applicable to this application.

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI Franciscan met the applicable financial feasibility criteria in WAC 246-310-220.

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

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.

CHI Franciscan

CHI Franciscan provided the following assumptions to determine the projected number of admissions, patient days, and average length of stay for SJMC's level III NICU cost center. [source: February 21, 2018, screening response, pdf7]

"The following assumptions were used to project Level III patient days at SJMC:

- *Projected Level III patient admissions were assumed to grow 1.0% per year for the period of 2018-2020. Average length of stay (ALOS) was held flat at the actual 2017 level of 19.1.*
- *In 2020 and 2021, ALOS was assumed to increase by 1.5 days each year (to an average of 20.6 and 22.1, respectively) to reflect SJMC's ability to accommodate patients at a higher acuity level due to the expanded capacity.*
- *In 2020, SJMC assumed an increase of 8% in admissions due to expanded capacity. Future annual growth was assumed to be 3% in both 2021 and 2022."*

Using the assumptions stated above, CHI Franciscan projected the number of discharges, patient days, average daily census, and occupancy of SJMC's level III NICU cost center with 16 bassinets. The projections shown in Table 7 below beginning with calendar year 2020. [source: Application, pdf28]

Table 7
St. Joseph Medical Center
Level III Projections for Years 2020 through 2022

	CY 2020	CY 2021	CY 2022
Total Bassinets	16	16	16
Level III Discharges	175	180	185
Level III Patient Days	3,603	3,969	4,097
Average Daily Census	9.87	10.87	11.23
Occupancy Percentages	61.7%	68.0%	70.2%

The assumptions CHI Franciscan used to project revenue, expenses, and net income for SJMC's level III NICU cost center with 16 bassinets for projection years 2020 through 2022 are below. [source: Application, pdf35; February 21, 2018, screening response, pdf13; and Attachment 7]

"Revenues

A - Gross patient revenues for the projected years of 2018 through 2022 are proportionate to the increase in patient days. Gross revenue per patient day is based upon 2017 which was the last year with actual data in the statement. No inflation or increases in charges were assumed.

B - Net patient revenue for each year of 2018 through 2022 is consistent with the reimbursement facts and payer contracts in existence in 2017. The statement does not contain any increases or decreases in reimbursement. Charity and bad debt expense are proportionately the same as the base year of 2017. Specifically, charity care is 0.2% of gross revenues and bad debt is 0.02% of gross revenues.

Revenue Sources by Payer

Payer	***Percentage***
Medicaid	*68.1%*
Commercial/HMO	*27.9%*
Other	*4.0%*
Total	***100.0%***

Expenses

C - Salary expense corresponds to the FTE's needed to provide the service. FTE's increase in accordance with the increase in patient days. This level of productivity is based upon the productivity that occurred in 2017. The statement does not include any compensation increases.

D – Employee benefits are kept constant throughout the statement, at the same percentage of salary as 2017 or 27.06%.

E – Professional fees are assumed to be fixed and the same as 2017 for the years of 2018 and 2019. In conjunction with the opening of the new larger unit in 2020, there is an anticipated increase in the cost of services provided by professionals from Seattle Children's Hospital in the amount of $100,383.

F – Supplies expense increases proportionate to the increase in patient days. There is no inflation associated with this expense or any expenses in the statement.

G – Utilities expense is based upon actual utility expense for the unit in 2017 and is kept constant in years 2018 and 2019. The new unit will be approximately 105% larger in terms of square footage and hence the utilities expense was increased accordingly in 2020 and kept at this new amount through 2022. There is no inflation associated with this expense or any expenses in the statement.

H – Purchased Services are assumed to be 70% variable and 30% fixed. Hence 70% of this expense changes proportionate to the change in patient days. The 30% fixed portion is constant from 2017. There is no inflation associated with this expense or any expenses in the statement.

I – Depreciation expense associated with the capital assets of the unit as of 2017 is kept constant throughout the statement at $92,989 per year.

J – The project anticipates capital spending of $6,646,491 with an associated annual depreciation expense of $331,923. The combined assets of the project have 20 year depreciable life.

K – Rents and leases are somewhat minor in nature at $3842 in 2017 and are assumed to be fixed costs. In conjunction with the opening of the new larger unit in 2020, it is assumed that these costs will increase by 50% to $5763 annually. There is no inflation associated with this expense or any expenses in the statement.

L – Other Direct expenses are assumed to be 25% variable and 75% fixed. Hence 25% of this expense changes proportionate to the change in patient days. The 75% fixed portion is constant from 2017. There is no inflation associated with this expense or any expenses in the statement.

a) Professional Fees: This line item contains expenses paid to non-employed physicians and clinicians for medical services provided.

b) Purchase Services Other: This line item contains fees paid for outside services specific to the NICU. CHI Franciscan's parent company, CHI, for services provided to CHI Franciscan such as Legal, Compliance, Information Technology, and Revenue Cycle. This line item also includes payments to vendors for such things as laundry service, security services, etc. In addition, several SJMC's support departments, such as Dietary, are managed by outside companies that have expertise in managing these types of services.

c) Other Direct Expense: This line item contains such items as business & occupation tax, property tax, the Washington state safety net provider tax, use tax, bank fees, dues and subscriptions, education, travel, postage & freight, etc.

The NICU cost center pro forma includes 100% of all direct costs. In addition, indirect costs for staff and services specific to the NICU are included in the" purchase services – other" line item. Allocated costs, both from SJMC and CHI, are generally not included in the cost center financials."

Based on the assumptions above, CHI Franciscan provided the following revenue and expense statement for SJMC's level III NICU cost center. The statement shows both current year 2018 with a 5-bed NICU and projected years 2019 through 2022. [source: March 28, 2018, screening response, Attachment 2]

Table 8
St. Joseph Medical Center Level III NICU Cost Center
Projections for Years 2020 through 2022

	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
# of NICU Beds	5	5	16	16	16
Net Revenue	$5,869,305	$5,958,400	$7,273,007	$7,717,797	$7,927,744
Total Expenses	$4,050,514	$4,083,799	$5,405,931	$5,833,523	$5,983,161
Net Profit / (Loss)	**$1,818,791**	**$1,874,601**	**$1,867,076**	**$1,884,274**	**$1,944,583**

In addition to providing the level III cost center revenue and expense statement, CHI Franciscan also provided a projected revenue and expense statement for SJMC as a whole with the additional 11 level III NICU beds. Below are the assumptions used by CHI Franciscan used to project the hospital-wide statement. [source: February 21, 2018 screening response, p15 and Attachment 8]

St. Joseph Medical Center Financial Assumptions
The starting point for this statement is the year of 2017, meaning that the exact financial statement and all of its activity for 2017 was projected forward to 2022 except for the following adjustments:
1 – in 2018 and 2019, very small changes in utilization were assumed, based on the incremental increase in volume (see Table 3). No additional acute care patient days were assumed.
2 – also in 2018, six months of activity associated with the Rehab unit was removed; meaning admissions, patient days, and all revenues, expenses, and FTE's. The discontinuance of the Rehab unit was necessary because of the anticipated transfer of these patients to the new Rehab hospital in Tacoma in late June of 2018.
5 – also included in 2019, nine months of activity associated with the Psych unit was removed; meaning admissions, patient days, and all revenues, expenses, and FTE's. The discontinuance of the Psych unit was necessary because of the anticipated transfer of these patient to the new Behavioral Health Hospital in Tacoma in late March of 2019.

a) Other Administrative Adjustments/Allowances: Amounts in this category are the result of the organization's decisions and policies to write off or most often discount the amount of patient's bills. Most common and the largest portion of this category is associated with the discounts provided to self-pay patients.
b) Professional Fees: This line item contains expenses paid to other non-employed physicians and clinicians for medical services provided to the organization. Examples would include Medical Director fees as well as emergency room call coverage fees.

c) Purchase Services Other: This line item contains fees paid to CHI Franciscan's parent company, CHI, for services provided to CHI Franciscan such as Legal, Compliance, Information Technology, and Revenue Cycle. This line item also includes payments to vendors for such things as, laundry service, security services, etc. Several of SJMC's support departments, such as Dietary, are managed by outside companies that have expertise in managing these types of service. Payments for these type of management services is included in this expense category.
d) Other Direct Expense: This line item contains such items as business & occupation tax, property tax, the Washington state safety net provider tax, use tax, bank fees, dues and subscriptions, education, travel, postage & freight, etc.

Allocated costs for the hospital are included in the "purchased services-other" line item.

In 2017, SJMC had extraordinary income that resulted in the pre tax income for 2017 being significantly higher than 2016. These were one time only and included the sale of services and assets (the dialysis service, outreach lab and several medical office buildings). Since these were one time only, they were not assumed to occur again in the pro forma financial statements.

The revenue is based on the current SJMC payer mix and charges. Current hospital-wide payer mix is shown below.

Revenue Source	***Current 366 beds***	***Projected 377 beds***
Medicare	*46.0%*	*45.5%*
Medicaid	*22.6%*	*23.1%*
Commercial	*26.2%*	*26.2%*
Other	*5.2%*	*5.2%*
Total	***100.0%***	***100.0%***

CHI Franciscan provided the following explanation for the expected change in payer mix shown above. [source: February 21, 2018, screening response, pdf5]

"The additional 11 NICU beds do not significantly change the hospital wide payer mix. The loss of the rehabilitation and the psychiatric services (in 2018 and 2019, respectively) are the main reasons for the expected change in payer mix."

Based on the assumptions CHI Franciscan used to project revenue, expenses, and net income for SJMC as a whole with the 16-bed level III NICU bassinets for projection current year 2018 through projection year 2022 are below. [source: Application, pdf28 and March 28, 2018, screening response, Attachment 2]

Table 9
St. Joseph Medical Center
Current Year 2018 and Projection Years 2019 through 2022

	CY 2018	**CY 2019**	**CY 2020**	**CY 2021**	**CY 2022**
Net Revenue	$714,291,774	$700,051,920	$698,874,280	$699,319,070	$699,529,017
Total Expenses	$650,678,461	$641,199,896	$640,914,208	$641,341,800	$641,491,438
Net Profit / (Loss)	**$69,641,313**	**$64,880,024**	**$63,988,072**	**$64,005,270**	**$64,065,579**

The 'Net Revenue' line item is gross inpatient and outpatient hospital revenue, plus any non-operating revenue. The 'Total Expenses' line item includes all expenses related to hospital operations, including all staff salaries/wages and allocated costs from SJMC to CHI Franciscan.

Public Comments
During the review of this project, MultiCare Health System provided comments related to this sub-criterion. MultiCare Health System's comments are below. [source: May 8, 2018, public comment]

MultiCare Health System
"To review an applicant's compliance to criteria established under WAC 246-310-220 pertaining to Financial Feasibility, the Department evaluates an applicant's income statement projection. In this evaluation, the Department must determine whether the underlying assumptions that drive the financial projections presented in the pro forma are reasonable. If the financial projections are not substantiated, then the Department cannot determine whether the project can meet its immediate and long-range capital and operating costs.

Findings presented in Table 4 show SJMC charity care percentages have been historically low and well below the Puget Sound regional averages. This finding remains regardless of whether examining total revenues or adjusted revenues. As stated above, the Department should require that SJMC provide charity care in an amount comparable to or exceeding the average amounts of charity care provided by hospitals in the Puget Sound Region. This condition would require SJMC to considerably raise its charity care provisions which may adversely affect financial performance. This impact was never modeled by SJMC and adds uncertainty to the SJMC financial forecasts. This issue must be considered and properly evaluated for."

Rebuttal Comments
None

Department Evaluation
To evaluate this sub-criterion, the department first reviewed the assumptions used by CHI Franciscan to determine the projected number of admissions, patient days, and occupancy of SJMC's level III NICU. Since SJMC will continue to be operational during the bed addition project, CHI Franciscan provided its patient days and discharge projections beginning with year 2018 through year 2022. When compared to historical data [years 2015, 2016, and 2017] obtained from the Department of Health's Hospital and Patient Data Systems' Hospital Census and Charges Report, the projections are reasonable. The department can reasonably substantiate CHI Franciscan's assumptions. After reviewing CHI Franciscan's admission and patient day assumptions for SJMC, the department concludes they are reasonable.

CHI Franciscan based its revenue and expenses for SJMC on the assumptions referenced above. CHI Franciscan also used its current operations as a base-line for the revenue and expenses projected for SJMC as a whole with the additional 11 level III NICU beds. A review of SJMC's fiscal year historical data reported to the Department of Health shows that CHI Franciscan operated SJMC at a profit for fiscal years 2013 through 2016. [source: DOH Hospital and Patient Data Systems' Hospital Census and Charges Report-year 2013, 2014, and 2015]

In the 'need' section of this evaluation, the department discussed the low percentage of charity care projected at SJMC and concluded that a charity care condition is necessary. The revenue and expense statement in Table 9 is based on CHI Franciscan's projections that charity care dollars and

percentages at SJMC would be below the regional average. Table 10 below shows SJMC revenue and expense summary with the lower percentage of charity care and a revised revenue and expense summary using the recalculated charity care dollars consistent with the charity care condition.

Table 10
St. Joseph Medical Center
Current Year 2018 and Projection Years 2020 through 2022

	Projected by CHI Franciscan		
	CY 2020	**CY 2021**	**CY 2022**
Net Revenue	$698,874,280	$699,319,070	$699,529,017
Total Expenses	$640,914,208	$641,341,800	$641,491,438
Net Profit / (Loss)	**$63,988,072**	**$64,005,270**	**$64,065,579**

	Projected with Revised Charity Care Amounts		
	CY 2020	**CY 2021**	**CY 2022**
Net Revenue	$696,501,747	$696,918,182	$697,118,199
Total Expenses	$640,914,208	$641,341,800	$641,491,438
Net Profit / (Loss)	**$55,587,539**	**$55,576,382**	**$55,626,761**

As shown in Table 10 above, with the increase in charity care dollars, SJMC would continue to operate at a profit with the additional 11 level III NICU beds.

To assist in the evaluation of this sub-criterion, the Department of Health's Hospital/Finance and Charity Care Program (HFCCP) reviewed the pro forma financial statements submitted by CHI Franciscan for SJMC. To determine whether CHI Franciscan would meet its immediate and long range capital costs, HFCCP reviewed the 2017 historical balance sheet for both CHI Franciscan Health and SJMC. The information shown in Table 11 below is for CHI Franciscan as a whole. [source: HFCCP analysis, p2]

Table 11
CHI Balance Sheet for Year 2017

Assets		**Liabilities**	
Current Assets	$ 4,542,088,000	Current Liabilities	$ 4,697,502,000
Board Designated Assets	$ 6,786,471,000	Other Liabilities	$ 2,919,312,000
Property/Plant/Equipment	$ 8,569,313,000	Long Term Debt	$ 6,588,202,000
Other Assets	$ 2,033,878,000	**Equity**	**$ 7,726,734,000**
Total Assets	**$ 21,931,750,000**	**Total Liabilities and Equity**	**$ 21,931,750,000**

The information shown in Table 12 below is the 2017 historical balance sheet for SJMC alone. [source: HFCCP analysis, p2]

Table 12
St. Joseph Medical Center
Balance Sheet for Current Year 2017

Assets		Liabilities	
Current Assets	$ 226,644,000	Current Liabilities	$ 94430,000
Board Designated Assets	$ 54,812,000	Other Liabilities	$ 0
Property/Plant/Equipment	$ 195,868,000	Long Term Debt	$ 10,267,000
Other Assets	$ 6,647,000	**Equity**	**$ 379,274,000**
Total Assets	**$ 483,971,000**	**Total Liabilities and Equity**	**$ 483,971,000**

For hospital projects, HFCCP provides a financial ratio 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. Historical and projected balance sheet data is used in the analysis. CHI Franciscan's 2017 balance sheet and SJMC's 2017 balance sheets were both used to review applicable ratios and pro forma financial information.

Table 13 compares statewide data for historical year 2017, CHI Franciscan and SJMC historical year 2017, and projected years 2020 through 2021. [source: HFCCP analysis, p3]

Table 13
Current and Projected Debt Ratios
CHI Franciscan and St. Joseph Medical Center

Category	Trend *	State 2017	CHI 2017	SJMC 2017	SJMC 2020	SJMC 2021	SJMC 2022
Long Term Debt to Equity	B	0.453	0.853	0.027	0.017	0.015	0.014
Current Assets/Current Liabilities	A	3.348	0.967	2.400	2.319	2.325	2.327
Assets Funded by Liabilities	B	0.377	0.515	0.216	0.150	0.136	0.124
Operating Expense/Operating Revenue	B	0.979	1.038	0.793	0.913	0.913	0.913
Debt Service Coverage	A	4.820	4.231	75.642	25.316	25.322	25.346

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

***** A is better if above the ratio; and B is better if below the ratio.

After reviewing the financial ratios above, staff from HFCCP provided the following statements. [source: HFCCP analysis, p3]

> *"CON year 3, (third year following addition of the beds) fiscal year end ratios for SJMC are within acceptable range of the 2017 State average, with the exception of Current Assets to Current Liabilities. That value is below the state average, but within acceptable bounds and demonstrating an improving trend. The hospital is breaking even in each year of the projections. CHI corporate ratios are generally weaker than the desired range for this project, but SJMC itself has assets and financial strength sufficient to support this project."*

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.

CHI Franciscan

The capital expenditure associated with the addition of 11 level III NICU beds is $6,646,494. The table below shows the breakdown of the costs. [source: Application, pdf29]

Table 14
St. Joseph Medical Center
Estimated Capital Expenditure Breakdown

Item	Total Cost	Percentage of Total
Building Construction	$4,066,750	61.2%
Moveable Equipment	$1,501,288	22.6%
Architect/Engineering Fees	$456,873	6.9%
Sales Tax	$621,583	9.4%
Total	**$ 6,646,494**	**100.0%**

CHI Franciscan provided a letter from 'Cumming' a contractor in Seattle attesting that the costs identified above are reasonable. [source: Application, Exhibit 7]

Since SJMC is currently operational with 366 licensed acute care beds, and of those 5 are dedicated to level III NICU services, no start-up costs are required. [source: Application, pdf32]

Public Comments
None

Rebuttal Comments
None

Department Evaluation

CHI Franciscan provided a letter from a contractor, attesting that the construction estimate within the application is reasonable. CHI Franciscan confirmed that SJMC would continue full operations during construction and the addition of 11 level III NICU beds. As a result, no start-up costs are required.

In its financial review, the HFCCP provided the following information and review regarding the rates proposed by CHI Franciscan for SJMC. [source: HFCCP Program analysis p3]
"There are several ways to review hospital newborn cost information. Hospitals report data to DOH through the financial format and the hospital inpatient format. In the financial reporting system, hospitals can report all newborn revenue and expense for delivery and post-partum care under account 6100 Alternative Birth Center or they can report it under 6170 Nursery for the baby only and 6070

Acute Care for the mother. Newborns that need intensive care are reported under 6010 Intensive Care, which also includes Adult and Pediatric patients.

Newborn days in Intensive Care are usually a small percent of the total. I reviewed the hospital inpatient database (CHARS) for comparison data. Revenue Code 0172 is Level II Nursery care and 0173 is Level III Nursery Care in the CHARS database. I calculated the average charges per day for those discharges that included Revenue Code 0172 and those for 0173. The average charge per day in 2017 in CHARS was lower than, but similar to the projections in the applicant's individual level III pro-forma."

CHI Franciscan stated under WAC 246-310-220(1) that the payer mix is not expected to change significantly with the addition of 11 level III NICU beds. Further, CHI Franciscan stated that all assumptions related to costs and charges are based on current rates at SJMC with no proposed changes.

Based on the above information, the department concludes that SJMC's expansion of its level III NICU would probably not have an unreasonable impact on the costs and charges for healthcare services in Pierce County and surrounding communities. **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.

CHI Franciscan

The total estimated capital expenditure associated with the additional 11 level III NICU beds is $6,646,494. Of that amount, approximately 61% is related to construction; 23% is related to both fixed and moveable equipment, and the remaining 16% is for sales tax and fees (consulting, architect, and engineering). [source: Application, pdf29]

CHI Franciscan intends to fund the project using CHI Franciscan reserves and provided a letter of financial commitment for the project. There are no start-up costs associated with this project. [source: Application, pdf33 and Exhibit 8]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

After reviewing the balance sheet, the HFCCP provided the following statements. [source: HFCCP analysis, p4]

> *"The CN project capital expenditure is $6,646,491. SJMC will use existing reserves. This investment represents 1.4% of total assets, and 12.1% of Board Designated Assets of the hospital itself as of 2017. The project can be appropriately financed. This criterion is satisfied."*

If this project is approved, the department would attach a condition requiring CHI Franciscan to finance the project consistent with the financing description in the application. With the financing condition, the department concludes **this sub-criterion is met.**

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI Franciscan Health met the applicable structure and process of care criteria in WAC 246-310-230.

(1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

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 [full time equivalents] 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.

CHI Franciscan

SJMC currently provides level III NICU services within its 5-bed unit. Table 15 provides a breakdown of current and projected FTEs [full time equivalents] for the Level III NICU. For this table, current year is 2018 and projected years begin with 2020 through 2022, which is the third year following completion of the project. [source: Application, pdf36]

Table 15
St. Joseph Medical Center
Current and Proposed FTEs for Level III NICU

FTE by Type	CY 2018 Current	CY 2019 Increase	CY 2020 Increase	CY 2021 Increase	CY 2022 Increase	Total FTEs
Nursing FTEs	24.03	0.25	6.39	3.20	1.12	34.99
Ancillary/Support FTEs	1.62	0.00	0.25	0.00	0.00	1.87
Total FTEs	**25.65**	**0.25**	**6.64**	**3.20**	**1.12**	**36.86**

CHI Franciscan provided the following description of the FTEs referenced in the table.

- Nursing FTEs = nursing managers, RNs, LPNs, patient care assistants, technicians and professional staff, and support staff
- Ancillary/Support FTEs = ancillary/support managers, RNs, patient care assistants, technicians, and support staff

In addition to the table above, CHI Franciscan provided the following statements related to this sub-criterion. [source: Application, pdf37-38]

"As an existing Level III provider, SJMC already has in place the neonatologists, maternal fetal medicine specialists, and all other required specialty staff. Additional staff will be required for the incremental census, and several staff have already expressed interest in increasing their FTE from part time to full time. In addition, and in an effort to assure that we always have the staff needed to support existing, expanding and any new programs, CHI Franciscan offers a competitive wage and benefit package as well as numerous other recruitment and retention strategies. Specific strategies for clinical, ancillary and support staff include:

- *CHI Franciscan offers, and will continue to offer, a generous benefit package for both full and part time employees that includes: Medical, Dental, Paid Time Off/Extended Illness/Injury Time, Employee Assistance Plans, and a Tuition Reimbursement Program, among other benefits.*
- *CHI Franciscan posts all of its openings on our website via our online applicant tracking system. In addition to our own website, CHI Franciscan has agreements with several job boards including Indeed.com, Health-e-Careers, and Washington HealthCare News to name a few.*
- *CHI Franciscan currently has contracts with more than 40 technical colleges, community colleges, and four year universities throughout the United States that enable us to offer either training and/or job opportunities. In addition, CHI Franciscan Education Services staff serves on healthcare program advisory boards and as clinical or affiliate faculty at a number of local institutions. CHI Franciscan constantly monitors the "wage" market, making adjustments as necessary to ensure that our hospitals' wage structures remains competitive.*
- *In partnership with Pierce County Health Careers Council, CHI Franciscan provides a career counselor who is available to all staff to encourage development and growth within the healthcare industry. This is further supported through a tuition reimbursement program and referrals to state and federal funds for continuing education. In addition, the Franciscan Foundation has annual scholarships available for current employees to advance their education.*
- *CHI Franciscan's various facilities serve as clinical training sites for healthcare specialties such as nursing, diagnostic imaging, physical/occupational therapy, and pharmacy, (to name a few).*
- *CHI Franciscan also offers various other recruitment strategies (i.e., nursing new grad events, nursing school class visits, job fairs, career days, direct e- mail campaigns, etc.) as other ways to bring new healthcare workers to the CHI Franciscan organization.*
- *CHI Franciscan works closely with agency personnel, not only to negotiate rates but to also ensure that agency staff is able to provide the same high quality skill level that CHI Franciscan requires of our own employees.*
- *CHI Franciscan holds residency program RN career fairs twice a year to help recruit and train new RNs. The candidates participate in a formal residency program at the site and in the specific department that hires them. CHI Franciscan also attends campus career fairs and speaks with graduating RN classes about our opportunities and training for new nurses. CHI Franciscan advertises on popular job boards as well as specialty niche sites."*

Public Comments
None

Rebuttal Comments
None

Department Evaluation
SJMC is currently licensed for 366 acute care beds, which includes a 5-bed level III NICU. With an additional 11 level III NICU beds, staff of the unit would increase by approximately 11 FTEs. The increase in staff coincides with the increase in admissions and patient days for the level III NICU.

For this project, CHI Franciscan intends to use the strategies for recruitment and retention of staff it has successfully used in the past. The strategies identified by CHI Franciscan are consistent with those of other applicants reviewed and approved by the department.

Information provided in the application demonstrates that CHI Franciscan is a well-established provider of healthcare services Pierce County and surrounding areas. Information provided in the

application demonstrates that CHI Franciscan has the ability and expertise to recruit and retain a sufficient supply of qualified staff for this project.

Washington State Perinatal Levels of Care Guidelines

The department also uses the standards of care guidelines outlined in the Washington State Perinatal Levels of Care Guidelines in evaluating this project. The guidelines, adopted by the Perinatal Advisory Committee, offer recommendations on facility and staffing standards for perinatal and neonatal services within a hospital. The guidelines were initially developed in 1988, and revised in years 1993, 2001, 2005, 2010, 2013, and 2018. When this application was submitted in December 2017, the 2013 Washington State Perinatal Levels of Care Guidelines were effective. In March 2018, the guidelines were updated and are now in effect. For consistency, this application will be reviewed using the guidelines in effect at the time the application was submitted-the 2013 guidelines.[11]

The Perinatal Levels of Care Guidelines recommend that an applicant be providing the previous level of services before applying for the next higher level. Given that SJMC is currently providing both level II and level III NICU services, this recommendation is met. CHI Franciscan provided a comparison chart as verification and documentation that its existing level III services meet or exceed the advisory committee's recommended guidelines. [source: Application, Exhibit 10] The comparison chart is provided in Appendix A attached to this evaluation.

There was no public comment related to this sub-criterion. Based on the above information, the department concludes that CHI Franciscan demonstrated adequate staffing for the 16-bed level III NICU at SJMC 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(2) 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 relationships, ancillary and support services should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials contained in the application.

CHI Franciscan

CHI Franciscan provided the following statements related to this sub-criterion. [source: Application, pdf39]

"As noted in other sections of this application, SJMC, as part of CHI Franciscan is committed to meeting the health care needs of the patients and families that it serves.

When the SJMC NICU operates at or above capacity, we are increasingly transferring neonates for care that we are fully capable of providing. In addition, the closest comparable service to us is based

[11] Staff from the Perinatal Advisory Committee stated that the majority of the changes from the 2013 to the 2018 guidelines were about updating references in the document. The biggest change is on page 5 of the guidelines under *"Obstetrical Patients: Services and Capabilities."* The changes focus on the hospital's ability to care for the pregnant woman, hence the reference in the document to MFM or maternal fetal medicine. Staff from the Perinatal Advisory Committee stated there were no concerns with the CN Program's review of this project using the 2013 guidelines since it is an existing level III NICU program.

at TG, and they, too, often do not have capacity, which means neonates are increasingly transferred to Seattle.

SJMC has a contractual arrangement in place with Seattle Children's Hospital for its NICU to provide neonatal coverage. SJMC has also enjoyed a longstanding positive relationship with TG's Regional Perinatal network. In addition to a team of maternal fetal medicine specialists at SJMC, we work closely with the high-risk maternal program at the University of Washington for patients needing quaternary support, such as those with congenital malformations. Finally, CHI Franciscan has a long history of partnering with the March of Dimes which advocates for improved health of babies by preventing birth defects, premature birth, and infant mortality."

CHI Franciscan provided the following list of vendors with whom SJMC currently contracts for services. [source: February 21, 2018, screening responses, p9]

"The following is a list of the current ancillary and support providers that SJMC typically uses for the existing Level III NICU.

- *Cardiology – South Sound Pediatric Cardiology affiliated with SCH with local clinics full range of expertise and imaging short of cardiac catheterization and Cardiac Surgery*
- *Genetics (Clinical and Biochemical), Neurosurgery, Pediatric Neurology, Pediatric Pulmonology, Pediatric Surgery, Pediatric Dermatology Nephrology Orthopedics Plastic Surgery – Telemedicine consulting with Seattle Children's and local clinics*
- *Pediatric Gastroenterology- Dr. Abdullah Bischer*
- *Neonatal Physical Therapy – Pediatric Rehab Northwest LLC (Jane Sweeney, PT)*
- *Ophthalmology – Inpatient and outpatient with Dr. Deems*
- *Radiology –Using the PAC system imaging at SJMC can be exported in real time to SCH radiology*
- *Blood Bank – SJMC blood bank with a full range of diagnostics and transfusions of blood Products*

There are no expected changes to any of the existing ancillary or support relationships or agreements as a result of this project."

Public Comments
None

Rebuttal Comments
None

Department Evaluation
SJMC has been providing level III NICU services in a 5-bed unit since April 2013. All ancillary and support services are already in place. With the addition of 11 more NICU bassinets, CHI Franciscan expects some ancillary and support needs may increase. Additionally, this application includes the relocation of the level III NICU services to another area of the hospital. However, CHI Franciscan does not expect the existing ancillary and support agreements to change with the relocation.

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that CHI Franciscan will continue to maintain the necessary relationships with ancillary and support services with the addition of NICU beds. The department concludes that

approval of this project would not negatively affect existing healthcare relationships. **This sub-criterion is met.**

(3) <u>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.</u>

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.

<u>CHI Franciscan</u>

CHI Franciscan provided the following statements related to this sub-criterion. [source: Application, pdf41]

"Neither SJMC nor CHI Franciscan nor any of the entities it owns or operates have any history with respect to the actions noted in Certificate of Need regulations WAC 248-19-390(5)(a) (now WAC 246-310-230). SJMC operates in conformance with all applicable federal laws, rules, and regulations for the operation of a health care facility."

<u>Public Comments</u>

During the review of this project, MultiCare Health System provided comments related SJMC's approach to caring for its level III NICU patients with only 5 NICU bassinets. [source: May 8, 2018, public comment]

<u>MultiCare Health System</u>

"In screening, SJMC admits to placing Level III neonates in Level II beds. While this may be necessary under special and extraordinary circumstances, SJMC's response and occupancy statistics suggests that this may have been a routine practice. It is also likely to continue in to the future. This is prohibited under Certificate of Need rules and regulations and must raise important quality concerns.

Level III neonates require specialized services, staff, equipment, support, and procedures as reflected in the Washington State Perinatal and Neonatal Level of Care Guidelines. Although SJMC's Level III program is co-located and adjacent to the Level II bassinets, making such shared services and staff accessible, it is suboptimal for patient care. Very simply, that is why there are separate requirements for Level II and Level III services and why the department distinguishes between them. We acknowledge SJMC's intent to correct the present situation by proposing its current expansion request, but we must recommend that the Department further evaluate and question existing practices and conformance to applicable guidelines. Finally, if this is a concern, then the timeline proposed by SJMC, January 2020, for the expansion, will only exacerbate the situation."

<u>Rebuttal Comments</u>

In response to the comments provided by MultiCare Health System, CHI Franciscan provided the following rebuttal comments. [source: CHI Franciscan May 24, 2018, rebuttal comments]

"The record also includes a letter from MultiCare, which, with one exception, seems more related to its separate CN request to add additional neonatal beds, than to the SJMC request, which is the subject of this rebuttal. The exception from Multi Care that we refer to is the comment on page 9

about the fact that SJMC is forced, due to high census, to use Level II beds to manage Level III patients, which is entirely correct and supports further the current CN application, which seeks to rectify this situation by adding new Level III beds. We appreciate the concern of our colleagues at MultiCare but we can assure you and our families at SJMC that when we overflow Level III patients to Level II beds that we staff and care for our babies in a way that addresses the increased acuity that this situation demands and never let it affect care and outcomes."

Department Evaluation

As part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.[12] To accomplish this task, the department reviewed the quality of care compliance history for the healthcare facilities owned, operated, or managed by CHI Franciscan or its subsidiaries.

CHI Franciscan Health System is part of Catholic Health Initiatives (CHI), which is one of the largest not-for-profit healthcare systems in the United States. CHI operates several healthcare facilities and services nationwide through a number of subsidiaries. Its Washington facilities are operated under the CHI Franciscan Health subsidiary. [sources: Application, pdf5 and Exhibit 1]

Washington State Survey Data

The nine CHI Franciscan hospitals currently operating include CHI Franciscan Rehabilitation Hospital, Harrison Medical Center in Bremerton and Silverdale, Highline Medical Center in Burien, Regional Hospital located in Burien, St Anthony Hospital located in Gig Harbor, St Clare Hospital located in Lakewood, St Elizabeth Hospital located in Enumclaw, St Francis Community Hospital located in Federal Way, and St Joseph Medical Center located in Tacoma.

Eight of the nine hospitals are accredited by the Joint Commission.[13] Highline Medical Center and St Joseph Medical Center have additional advanced certification as Primary Stroke Centers. [source: Joint Commission website, CN historical files]

In addition to the nine hospitals, department also reviewed the compliance history for the two ambulatory surgery centers,[14] one hospice care center, and one hospice agency owned and operated by CHI Franciscan. All four of these CHI Franciscan facilities are operational. Using its own internal database, the survey data showed that more than 25 surveys have been conducted and completed by Washington State surveyors since year 2011. All surveys resulted in no significant non-compliance issues. [source: ILRS survey data and Department of Health Investigations and Inspections Office]

In its public comments, MultiCare Health System expressed concerns with SJMC's approach to accommodate NICU patients with 5 NICU beds. CHI Franciscan's rebuttal states that this action further supports the need for additional NICU beds at the hospital. While the approach used by SJMC is not recommended for the long term, a review of the hospital's quality of care surveys does not show a citation for this action.

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

[13] CHI Franciscan Rehabilitation Hospital is accredited through mid-year 2021; Harrison Medical Center through January 2019, Highline Medical Center through 2019, Regional Hospital through 2018, St Anthony Hospital through 2018, St Clare Hospital through early year 2020, St Francis Community Hospital through 2020, and St Joseph Medical Center through 2018. St Elizabeth Hospital does not hold Joint Commission accreditation.

[14] Gig Harbor Ambulatory Surgery Center is operated under St. Joseph Medical Center's hospital license and Franciscan Endoscopy Center is operated under the St. Francis Hospital license.

Other States

In addition to a review of all Washington State facilities owned and operated by CHI Franciscan, the department also examined a sample of CHI facilities nationwide. According to information in the application and its website, CHI operates healthcare facilities in 19 states. The department reviewed information from the licensing authorities for each of the facilities listed, and concluded that these facilities are substantially compliant with state licensure and Medicare conditions of participation. The department did not identify facility closures or decertification.

Table 16
CHI Rehabilitation Hospitals

Hospital Name	Location	Joint Commission Accredited?
St Vincent Rehabilitation Hospital	Sherwood, AR	yes
St Anthony Hospital	Lakewood, CO	yes
Jewish Hospital	Louisville, KY	yes
CHI Mercy Hospital	Devils Lake, ND	yes
Good Samaritan Hospital	Dayton, OH	yes
CHI Mercy Medical Center	Roseburg, OR	yes
CHI Memorial	Chattanooga, TN	yes
CHI St Luke's Health Memorial	Lufkin, TX	yes

[sources: Joint Commission website]

In addition to the facility review above, CHI Franciscan provided the names and provider credential numbers for its current NICU staff. The listing includes registered nurses, nursing assistants, nurse technicians, and respiratory care practitioners, for a total of 81 FTEs. A review of each providers credential revealed no sanctions.

Based on the above information, the department concludes that CHI Franciscan demonstrated reasonable assurance that SJMC would continue to operate in compliance with state and federal requirements if this project is approved. **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.

CHI Franciscan

CHI Franciscan provided the following statements related to this review criteria. [source: Application, pdf40]

"For all SJMC patients, including those in the Level III NICU, discharge planning is initiated shortly after admission. It is the goal of the Level III NICU to ensure that the newborns are discharged home as soon as it is medically and clinically appropriate. For those families who may have additional needs, a case manager is assigned. The case manager then coordinates all post discharge services.

Either the case manager or nursing staff will ensure that the parents are provided with the training and education that they need to manage their infant at home."

Public Comments
None

Rebuttal Comments
None

Department Evaluation
The letters sent by CHI Franciscan medical staff focused on the necessity to avoid delays in admissions or preventable diversions. The comments from Seattle Children's Hospital focused on collaboration between SJMC and Seattle Children's Hospital. These clinical perspectives are valuable for this review.

The letters from mothers of NICU patients provided a different, but equally valuable, perspective. These letters touched on the need for the additional level III NICU beds at SJMC from the family perspective. These fragile NICU patients receiving the intensive care are better served when there are no delays in admission and families are close enough to bond with their babies. Many of the letters mentioned opportunities for families to participate in daily routine care of the babies.

Information in the application demonstrates that as a current provider of level III NICU services, SJMC has the basic infrastructure in place to expand the number of NICU beds by 11, to a 16-bed level III NICU. Additionally, CHI Franciscan provided information within the application to demonstrate it intends to continue existing relationships and establish new relationships as necessary.

Based on the information provided in the application, the department concludes there is reasonable assurance that this project will continue to promote continuity in the provision of health care services in the community with the expanded level III NICU. **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 met**.

D. Cost Containment (WAC 246-310-240)
Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI Franciscan Health met the applicable cost containment criteria in WAC 246-310-240.

(1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.
To determine if a proposed project is the best alternative, in terms of cost, efficiency, or effectiveness, the department takes a multi-step approach. First the department determines if the application has met the other criteria of WAC 246-310-210 thru 230. If the project has failed to meet one or more of these criteria then the project cannot be considered to be the best alternative in terms of cost, efficiency, or effectiveness as a result the application would fail this sub-criterion.

If the project has met the applicable criteria in WAC 246-310-210 through 230 criteria, the department then assesses the other options considered by the applicant. If the department determines

the proposed project is better or equal to other options considered by the applicant and the department has not identified any other better options this criterion is determined to be met unless there are multiple applications.

If there are multiple applications, the department's assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type. The adopted superiority 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 type superiority 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.

CHI Franciscan

Step One

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

Step Two

Before submitting this application, CHI Franciscan considered three other options. The options and CHI Franciscan's rationale for rejecting them is below. [source: Application, pp45-46]

- *Do Nothing*
  The first option, do nothing, was quickly ruled out given the current high census and demand for Level III NICU services at SJMC.

- *Expand at SJMC but keep the level III basinets in two locations [within the hospital]*
  The second option, to expand but maintain the bassinets in two locations was given significant consideration. However, as plans were developed and it was found that there was sufficient space on the 11th floor to accommodate all 16 beds, this option was ultimately rejected. Having Level III services on two floors would result in some duplication of services and general inefficiencies, and add confusion for families and even staff.

- *Establish a Level III NICU at one of the other CHI Franciscan locations*
  The third option, to expand at another CHI Franciscan location was eliminated as it was determined to be more costly: it would result in the duplication of infrastructure (capital costs and staffing) and would be less efficient overall (higher operating costs) than a 16 bassinet unit in a single location.

The option selected, to expand and consolidate the 16 beds together was selected to meet the demand for additional Level III NICU services and to be able to increase the overall operational efficiency of the SJMC Level III NICU.

Step Three

This step is applicable only when there are two or more approvable projects. CHI Franciscan's application is the only application under review to add level III NICU beds in Tacoma, within Pierce County. Therefore, this step does not apply.

Public Comments
None

Rebuttal Comments
None

Department Evaluation

Information provided in the CHI Franciscan application and within public comments demonstrates that that the additional level III NICU beds are needed at SJMC. CHI Franciscan discussed the additional staff required to operate an expanded NICU and demonstrated its ability to recruit and retain necessary staff. The application and public comments support that a "do nothing" option was appropriately ruled out by the applicant.

CHI Franciscan provided information in the application that supports rejection of splitting the level III NICU in two locations at SJMC. The added costs and duplication of staff necessary to operate a level III NICU in two separate areas of the hospital assisted in the rejection of this alternative. This option was appropriately rejected by CHI Franciscan.

CHI Franciscan also rejected the option of establishing a new level III NICU at a different CHI Franciscan Hospital location. While the applicant did not identify which facility it considered, the choices for locations are limited. If CHI Franciscan intended to add the NICU beds in Pierce County, there are only three facilities that could be considered:

- CHI Franciscan Rehabilitation Hospital in Tacoma cannot be considered a viable option because it is a dedicated level I rehabilitation hospital, not a general acute care facility.
- Both St. Anthony Hospital in Gig Harbor and St. Clare Hospital in Lakewood do not provide obstetric services and cannot be considerate a viable option.

This option was appropriately rejected by CHI Franciscan.

The better option of consolidating level III NICU beds into one location at SJMC requires CHI Franciscan to delay this project a bit to allow for the space to be available after the relocation of rehabilitation and psychiatric beds. While this is the better alternative for SJMC's physical structure, the risk for the delay in implementation is the lack of available services for patients and families. In response to concerns regarding space constraints or patient access, CHI Franciscan provided the following assurances. [source: May 24, 2018, rebuttal comments, p1]

"The exception from Multi Care that we refer to is the comment on page 9 about the fact that SJMC is forced, due to high census, to use Level II beds to manage Level III patients, which is entirely correct and supports further the current CN application, which seeks to rectify this situation by adding new Level III beds. We appreciate the concern of our colleagues at MultiCare but we can assure you and our families at SJMC that when we overflow Level III patients to Level II beds that we staff and care for our babies in a way that addresses the increased acuity that this situation demands and never let it affect care and outcomes."

The department did not identify any alternative that was a superior alternative in terms of cost, efficiency, or effectiveness that is available or practicable.

The department concludes that the project as submitted by CHI Franciscan is the best available option for the planning area and surrounding communities. **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;

CHI Franciscan

"The remodeled space will be designed with a focus on value. Capital cost reductions will be achieved by comparing the methods and materials selected for this project against completed projects both within and outside of the healthcare industry for proven cost reduction strategies. These capital cost reduction ideas will be evaluated based on initial cost savings, lifecycle cost savings and impact to operations. Capital cost reduction opportunities that provide immediate and long term value without impacting operations will be incorporated in the project."
[source: Application, pdf43]

Public Comments
None

Rebuttal Comments
None

Department Evaluation

As part of its analysis, HFCCP provided the following statements regarding the construction costs, scope, and method. [source: HFCCP analysis, p5]

"*The costs of the project are the cost for construction, planning and process. SJMC's projections are below."*

Total Capital	*$6,646,491*
Beds/Stations/Other (Unit)	*11*
Total Capital per Unit	*$604,226.45*

"The costs shown are within past construction costs reviewed by this office. Also construction cost can vary quite a bit due to type of construction, quality of material, custom vs. standard design, building site and other factors. SJMC is remodeling existing space and will construct the facility to the latest energy and hospital standards. Staff is satisfied the applicant plans are appropriate. This criterion is satisfied."

Based on the information provided in the application and the analysis from HFCCP, the department concludes **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.

CHI Franciscan

"CHI Franciscan has provided compassionate, quality health care to the residents of the South Sound for more than 125 years. As a mission-driven organization, we have displayed a continuing commitment to outreach and to development of quality services accessible to the people they are intended to serve. Throughout our existence, CHI Franciscan has demonstrated the proven ability to effectively manage resources, and to provide services that are responsive to community need."
[source: Application, pdf18]

Public Comments
None

Rebuttal Comments
None

Department Evaluation
As part of its analysis, HFCCP provided the following statements related to this sub-criterion. [source: HFCCP analysis, p5]

> *"Staff is satisfied that adding NICU bassinets to the existing facility will not have an unreasonable impact of the costs and charges to the public of providing services by other persons. Staff is satisfied the project is appropriate. This criterion is satisfied."*

The department concludes **this sub-criterion is met.**

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

CHI Franciscan Health
"*With the availability of expanded Level III services at SJMC, both staff and system efficiency will be enhanced. Presently, when SJMC is at capacity—which is a near daily occurrence—we both transfer existing SJMC patients and delay referral of patients from our other sister hospitals. The transfer out of SJMC requires staff time and resources to assess the patient's need and then implement and coordinate the transfer. Furthermore, there are additional costs to the health care delivery system as well as the family for the transfer (estimated to cost at least $5,000 to $6,500 per transfer). With additional capacity, these costs will be avoided for most neonates and families.*

In addition, if SJMC is approved to expand its NICU, the capacity to care for all level III babies within the CHI Franciscan system and maintain family centered care principles by keeping the mother-baby dyad together will be enhanced. Data suggests that neonatal length of stay decreases (saving health care dollars) when the dyad remains together. Importantly, the clinical risks of transferring a critically ill newborn is also reduced. Finally, with SJMC's focus on assuring that neonates be fed exclusively breast milk, retaining optimal health into adulthood will be enhanced." [source: Application, pdf43]

Public Comments
None

Rebuttal Comments
None

Department Evaluation
This project has the potential to improve delivery of acute care services to the residents of Pierce County and surrounding communities with the addition of level III NICU beds at SJMC. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**

APPENDIX A

Level I	Level II	Level III	SJMC
simultaneously cover body surface under and over baby. • Irradiance meter to measure light irradiance of equipment *(ref 9)* • Device to measure blood gas in <0.4 mL blood	• Average daily census of at least two - four Level II patients	*add:* • NICU respiratory care practitioners continuously present in the NICU during use *If services include major surgical procedure, add:* • 24/7 pediatric surgeons • 24/7 pediatric anesthesiologists • 24/7 pediatric diagnostic and interventional radiology • NICU nurses trained to care for post-op infants	Same SJMC does not provide surgical procedures

Obstetrical Patients: Services and Capabilities

Level I	Level II	Level III	SJMC
Uncomplicated pregnancies ≥ 35-37 weeks gestation Capabilities include • continuous electronic fetal monitoring • initiate cesarean section within 30 minutes of decision to do so • Management consistent with ACOG guidelines of potentially complicated births, but with low likelihood of neonatal or maternal morbidity *(ref6)* • Stabilization and transport for unexpected maternal problems consistent with ACOG guidelines *(ref 6)*	*Level I patients and services plus:* For hospitals prepared to care newborns ≥ 34 0/7 weeks gestation and estimated birthweight > 2000 grams, OB capabilities include management consistent with ACOG guidelines of selected high-risk pregnancy conditions such as *(ref 6)* • complications not requiring invasive maternal monitoring or maternal intensive care • preterm labor or other complications of pregnancy judged unlikely to deliver before 34 weeks gestation For hospitals prepared to care for newborns ≥ 32 0/7 weeks gestation and estimated birthweight > 1500 grams, OB capabilities include management consistent with ACOG guidelines of selected high-risk pregnancy conditions such as: • preterm labor or other complications of pregnancy judged unlikely to deliver before 32 weeks gestation	*Level II patients and services plus:* For hospitals prepared to care for newborns < 28 weeks gestation and estimated birthweight less than 1000 grams, OB capabilities include • immediate cesarean delivery • maternal intensive care For hospitals prepared to care for newborns at all gestational ages, OB capabilities include • diagnosis and treatment of all perinatal problems	Same as level III

Patient Transport

Level I	Level II	Level III	SJMC
All hospitals demonstrate capabilities to stabilize and initiate transport of patients in the event of unanticipated maternal-fetal-newborn problems that require care outside the scope of the designated level of care. Access to return transport services may be a necessary capability for Level III and Level IV intensive care nurseries. **Transport patients**: • Who are anticipated to deliver a neonate of earlier gestational age than appropriate for the facility's designated level of care, but should not transport if the fetus or mother is medically unstable or delivery is imminent. • Whose illness or complexity requires services with a higher level of care than provided at the admitting facility. For neonatal transport, refer to AAP reference titled, "Guidelines for Air and Ground Transport of Neonatal and Pediatric Patients *(ref 7)*. **A hospital that transports patients to a higher level of care facility should**: • Demonstrate on-going relationships with referral hospital(s) for education, immediate consultation, urgent transport facilitation, and quality assurance • Establish a written policy and procedure for maternal and neonatal transport that includes an established triage system for identifying patients at risk who should be transferred to a facility that provides the appropriate level of care • Establish guidelines that ensure a provider's continuing responsibility for and care of the patient until transport team personnel or receiving hospital personnel assume full responsibility for the patient **A hospital that accepts maternal or neonatal transports in order to provide a higher level of care than is offered at the referral hospital, should:** • participate in perinatal and/or neonatal case reviews at the referral hospital • maintain a 24 hrs/day, 7 days/week system for reliable, comprehensive communication between hospitals for immediate consultation, initiation, and approval of maternal and newborn transports • provide referring physicians with ongoing communication and recommendations for ongoing patient care at discharge			Same as level III

Medical Director

Level I	Level II	Level III	SJMC
Obstetrics: Board- certified in OB/GYN or family medicine Nursery: Board - certified in pediatrics or family medicine If the medical director is a family medicine physician, he or she may direct both services	Obstetrics: Board-certified in OB/GYN Nursery: Board-certified in pediatrics *If caring for 32-34 week infants:* Obstetrics: Board-certified in OB/GYN Nursery: Board-certified in neonatology	Obstetrics (if provided): Board-certified in maternal-fetal medicine Nursery: Board-certified in neonatology	Same as level III

Healthcare Providers

Level I	Level II	Level III	SJMC
Physician or credentialed obstetrical provider in-house, immediately available in late stage labor or when fetal or maternal complications are imminent or apparent Every delivery is attended by at least one person whose sole responsibility is the baby, whose Neonatal Resuscitation Program (NRP) provider status is current, and who is capable of initiating newborn resuscitation *(ref 2)* Another person is in-house and immediately available whose NRP provider status is current and who is capable of assisting with chest compressions, intubation, and administering medications *(ref 2)* Anesthesiologist or nurse-anesthetist available to initiate cesarean section within 30 minutes of decision to do so Consultation arrangement with genetic counselor per written protocol.	*Level I coverage plus:* Every **high risk** delivery is attended by at least two people *(ref 2),* one of whom is a pediatrician, family practice physician, or advanced practice nurse capable of a complete resuscitation, including chest compressions, intubation and administering medications *If providing HFNC or CPAP:* Continuous in-house availability of personnel experienced in airway management and the diagnosis and treatment of pneumothorax when a patient is being treated with high flow nasal cannula or nasal CPAP. Radiologist on-staff with daily availability who can interpret neonatal studies such as chest and abdominal radiographs, and cranial ultrasounds Ophthalmologist with pediatric experience available to do eye exams for neonates who are at high risk for retinopathy of prematurity (ROP) if accepting back transport of such infants; written protocol for referral or treatment Arrangement for neurodevelopmental follow-up or referral per written protocol.	*Level II coverage plus:* Obstetrics: Immediate availability of an obstetrician with demonstrated competence in the management of complicated labor and delivery patients Newborn: Immediate availability of neonatologist, pediatrician, or neonatal nurse practitioner with demonstrated competence in the management of severely ill neonates, including those requiring mechanical ventilation Obstetrical anesthesiologist or nurse anesthetist immediately available If services include major surgical procedure, add: Pediatric surgeon available within 30 minutes of request 24/7 Pediatric anesthesiologist, with at least 10 infant cases per year, available within 60 minutes of request 24/7	Same as level III SJMC NICU does not do surgical procedures

Nurse: Patient Ratio

Level I	Level II	Level III	SJMC
Staffing parameters should be clearly delineated in a policy that reflects (a) staff mix and ability levels; (b) patient census, intensity, and acuity; and (c) plans for delegation of selected, clearly defined tasks to competent assistive personnel. It is an expectation that allocation of personnel provides for safe care of all patients in a setting where census and acuity are dynamic *(ref 15).* Newborns • 1:6-8 neonates requiring only routine care* • 1:4 recently born neonates and those requiring close observation • 1:3-4 neonates requiring continuing care • 1:2-3 neonates requiring intermediate care • 1:1-2 neonates requiring intensive care • 1:1 for unstable neonates requiring multisystem support • 1:1 or greater for unstable neonates requiring complex critical care *Reflects traditional newborn nursery care. A nurse should be available at all times, but only one may be necessary, as most healthy neonates will not be physically present in the nursery. Direct care of neonates in the nursery may be provided by ancillary personnel under the nurse's direct supervision. Additional staff is needed to respond to acute and emergency situations. The use of assistive personnel is not considered in the nurse: patient ratios noted here.			Same at Level III

Nursing Management

Level I	Level II	Level III	SJMC
*Nurse manager of perinatal and nursery services: • Maintains RN licensure • Directs perinatal and/or nursery services • Guides perinatal and/or nursery policies and procedures • Collaborates with medical staff • Consults with higher level of care units as necessary *One RN may manage both services but additional managers may be necessary based on number of births, average daily census, or number of full-time equivalents (FTEs).	*Same as Level I plus:* • Advanced degree or equivalent experience is desirable		*Same as level III*

Pharmacy, Nutrition/Lactation and OT/PT

Level I	Level II	Level III	SJMC
Pharmacy services Registered pharmacist immediately available for telephone consultation, 24 hrs/day and 7 days/wk Provision for 24 hr/day and 7 days/wk access to emergency drugs	Registered pharmacist available 24 hrs/day and 7 days/wk *If caring for 32-33 week infants:* Registered pharmacist with experience in neonatal/perinatal pharmacology available 24 hrs/day, and 7 days/wk	Same as Level II	Same as level III
Nutrition/Lactation: Dietary and lactation services and consultation available (*ref 5*)	One healthcare professional who is knowledgeable in management of special maternal and neonatal dietary needs. Lactation services and consultation available. Diabetic educator for inpatient and outpatient OB services. *If caring for 32-33 week infants:* Registered dietician knowledgeable in parenteral nutrition of low birthweight and other high-risk neonates	*Level II services plus:* At least one registered dietitian who has special training in neonatal/perinatal nutrition and can plan diets that meet the special needs of high-risk mothers and neonates	*Same as level III*
OT/PT Services:	Provide for inpatient consultation and outpatient follow-up services		

Social Services/Case Management, Respiratory Therapy, Nurse Educator/Clinical Nurse Specialist

Level I	Level II	Level III& Level IV	SJMC
Social services/case management: Mechanism available for high-risk assessment and provision of social services	*Level I services plus:* Personnel with relevant experience whose responsibilities include perinatal patients; specific personnel for discharge planning and education, community follow-up, referral process, and home care arrangements *If caring for 32-33 week infants:* At least one MSW with relevant experience	*Level II services plus:* At least one full-time licensed MSW (for every 30 beds) who has experience with socioeconomic and psychosocial problems of high-risk mothers and babies, available 24 hrs/day and 7 days/wk.	*Same as Level III*
Nurse educator/ Clinical Nurse Specialist: Phone/TeleHealth/ email consultation /education provided by nurse educator/CNS located at regional Level III or IV NICU. Staff education on maternal or newborn stabilization prior to transport, provided to all staff caring for newborns via TeleHealth/ computer technology or onsite.	A nurse educator with appropriate training in special care nursery or perinatal care to coordinate staff education and development. If caring for full spectrum of Level II patients, a clinical nurse specialist with graduate education is recommended for staff development and to effect system-wide changes to improve programs of care.	A clinical nurse specialist with graduate education is preferred for staff development and to effect system-wide changes to improve programs of care.	Same as level III

Level I	Level II	Level III& Level IV	SJMC
Respiratory Therapy: The role of a Respiratory Care Practitioner is prescribed by the medical director and clearly delineated per written protocol. If attending deliveries or providing neonatal respiratory care will have current NRP Provider status	*Same as Level I plus:* *When CPAP in use:* in-house and immediately-available RCP with documented competence and experience in the management of neonates with cardiopulmonary disease.	*Level II plus:* 1 Respiratory Care Practitioner : 6 or fewer ventilated neonates with additional staff for procedures RCP skilled in neonatal airway management immediately available for every high-risk delivery	*Same as level III*

X-Ray/Ultrasound

Level I	Level II	Level III	SJMC
Portable x-ray and ultrasound equipment available to Labor & Delivery and Nursery within 30 minutes Performance and interpretation of neonatal x-rays and perinatal ultrasound available 24 hrs/day and 7 days/wk Antepartum surveillance techniques available	*Level I services plus:* Ultrasound equipment immediately accessible and available to the Labor and Delivery unit 24 hrs/day and 7 days/wk	*Level II services plus:* Advanced level ultrasound available to Labor & Delivery and Nursery on-site	*Yes, obstetrical services are offered:* Same as Level III

Laboratory and Blood Bank Services

Level I	Level II	Level III	SJMC
LABORATORY Laboratory technician available 24 hrs/day, and 7 days/wk present in the hospital or within 30 minutes Capability to report laboratory results in a timely fashion	*Same as Level I plus:* Lab technician in-house 24 hrs/day and 7 days/wk Personnel skilled in phlebotomy and IV placement in the newborn immediately available 24 hrs/day and 7 days/wk Microtechnique for hematocrit and blood gases within 15 minutes	Comprehensive services available 24 hrs/day and 7 days/wk	Same as level III
BLOOD BANK Blood bank technician on-call and available w/in 30 minutes for performance of routine blood banking procedures Provision for emergent availability of blood and blood products			