# EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY SOUTHWEST WASHINGTON MEDICAL CENTER PROPOSING TO AMEND CERTIFICATE OF NEED #1241 BECAUSE OF AN INCREASE IN APPROVED COSTS

# APPLICANT DESCRIPTION

Southwest Washington Health System is a not-for-profit corporation and a 501(c)(3) exempt organization with 100% ownership of Southwest Washington Medical Center (SWMC). SWMC is a Washington private, not-for-profit corporation and a 501(c)(3) exempt organization. SWMC is a hospital located at 400 Northeast Mother Joseph Place in the city of Vancouver, within Clark County. SWMC provides Medicare and Medicaid acute care services at the following two sites under a single hospital license.

Southwest Washington Medical Center
Memorial Health Center<sup>2</sup>
400 Northeast Mother Joseph Place, Vancouver
3400 Main Street, Vancouver

SWMC is currently licensed for 442 acute care beds, holds a three-year accreditation from the Joint Commission<sup>3</sup>, and is designated as a level II trauma hospital and trauma rehabilitation hospital. On November 9, 2009, Certificate of Need (CN) #1413 was issued to SWMC approving the establishment of an 8-bed level 3 neonatal intensive care unit (NICU). At project completion, SWMC's total acute care beds would increase from 442 to 450. As of the writing of this evaluation, the 8-bed level 3 NICU is not yet operational.

A breakdown of SWMC's 442 licensed acute care beds is shown in Table 1 below, with a recognition that SWMC is in the process of implementing CN #1413, which would increase SWMC's total acute care licensed beds from 442 to 450.

Table 1
Southwest Washington Medical Center Acute Care Bed Breakdown

Type of Service	Currently	Approved to
	Licensed	be Licensed
General Medical/Surgical	350	350
Level 2 intermediate care nursery	18	18
Level 3 neonatal intensive care unit	0	8
Rehabilitation, Level 1 (PPS exempt)	14	14
Psychiatric (located at the Memorial Health Center site)	60	60
Total	442	450

<sup>&</sup>lt;sup>1</sup> Southwest Washington Health System also has ownership percentages in a variety of other healthcare entities. Since these entities are not pertinent to this project, they will not be discussed in this evaluation.

<sup>&</sup>lt;sup>2</sup> Only psychiatric beds are located at the Memorial Health Center site.

<sup>&</sup>lt;sup>3</sup> The Joint Commission is an independent, not-for-profit organization that accredits and certifies more than 17,000 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.

Additionally, SWMC operates a Medicare certified hospice agency, known as Hospice Southwest, and Hospice Southwest operates a 20 bed hospice care center. Both facilities are also located in the city of Vancouver. [source: CN historical files]

#### **BACKGROUND INFORMATION**

On April 5, 2002, the department issued Certificate of Need (CN) #1241 to SWMC approving the addition of 82 acute care beds to the hospital. At that time, SWMC was licensed for 360 acute care beds. After completion of the project approved under CN #1241, SWMC's licensed beds would increase from 360 to 442. The capital expenditure associated with the project authorized under CN #1241 is \$13,668,792. [source: CN #1241]

The 82 bed addition was part of a larger, two-phase expansion project at SWMC. Portions of phase one did not require CN review and approval, which included remodel of the existing facility and seismic modernization in portions of the hospital. Phase one also include construction of shelled-in space for 33 of the 82 approved beds. This portion of phase one required CN approval. Phase one was expected to be complete in December 2003. Phase two of the project included completion of the shelled in space from phase one, plus remodel of existing space to house the remaining 49 of the 82 approved beds. This entire phase required CN approval. Phase two was anticipated to be complete by December 2005.

During implementation of CN #1241, SWMC experienced significant delays related, in part, to the following factors:

- changes in administration at SWMC;
- facility design changes required by the city of Vancouver;
- facility design changes included by SWMC based on an updated Master Plan required by the city of Vancouver; and
- facility design changes required by the department's Construction Review Services.

With the delays in implementation and changes in design came increases in costs of the project related to labor and materials. Some of the facility design revisions slightly decreased costs, however, the majority of the changes resulted in significant cost increases. [source: July 15, 2004, conference call, DOH meeting notes; July 30, 2004, DOH meeting notes]

#### PROJECT DESCRIPTION

With this application, SWMC proposes to amend CN#1241 because of an increase in the approved capital expenditure beyond those allowed. Under CN Program rules, if the capital costs of a project increase the greater amount of \$50,000 or 12% above the approved costs, an amended CN is required. Within its amendment application, SWMC identified an increase in capital expenditure from \$13,668,792 to \$16,598,227, equating to 21.4% increase. [source: Amendment application, p1]

#### APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to review under WAC 246-310-570(1)(e) because the costs of the project have increased beyond the amount allowable in WAC 246-310-570.

#### **CRITERIA EVALUATION**

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

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

- (a) In the use of criteria for making the required determinations, the department shall consider:
  - (i) The consistency of the proposed project with service or facility standards contained in this chapter;
  - (ii) In the event the standards contained in this chapter do not address in sufficient detail for a required determination the services or facilities for health services proposed, the department may consider standards not in conflict with those standards in accordance with subsection (2)(b) of this section; and
  - (iii) The relationship of the proposed project to the long-range plan (if any) of the person proposing the project."

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

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

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

The review for an amendment project is limited to only those criteria that would be affected by the amendment, <u>provided</u> that the amendment does not significantly alter the project. While SWMC's initial project was delayed and revised, the project was not significantly altered under CN rules. As a result, the department's review will focus on financial feasibility (WAC 246-310-220) and cost containment (WAC 246-310-240). Additionally, all terms and conditions of the initial approval that are not requested to be explicitly modified as part of an applicant's request for an amendment remain in effect. There were no additional terms or conditions attached to CN #1241.

# **APPLICATION CHRONOLOGY**

October 12, 2009	Letter of Intent submitted			
January 15, 2010	Application submitted			
January 16, 2010	Department's Pre-Review Activities			
through April 1, 2010	1 <sup>st</sup> screening activities and responses			
April 2, 2010	Department Begins Review of the Amendment Application			
	<ul> <li>public comments accepted throughout review (no public comments were submitted);</li> </ul>			
	<ul> <li>no public hearing conducted under the expedited review rules</li> </ul>			
April 22, 2010	End of Public Comment			
May 7, 2010	Rebuttal Comments Submitted by SWMC <sup>4</sup>			
May 27, 2010	Department's Anticipated Decision Date			
June 15, 2010	Department's Actual Decision Date			

# AFFECTED PERSONS

Washington Administrative Code 246-310-010(2) defines "affected person as:

"...an "interested person" who:

- (a) Is located or resides in the applicant's health service area;
- (b) Testified at a public hearing or submitted written evidence; and
- (c) Requested in writing to be informed of the department's decision."

Throughout the review of this project, no entities sought and received affected person status under WAC 246-310-010(2).

# **SOURCE INFORMATION REVIEWED**

- Southwest Washington Medical Center's Certificate of Need amendment application submitted January 15, 2010
- Southwest Washington Medical Center's supplemental information received March 12, 2010
- May 7, 2010, Hospital and Patient Data Systems financial feasibility and cost containment analysis
- Quarterly Progress Reports completed and submitted by Southwest Washington Medical Center related to CN #1241 [Reports submitted quarterly beginning in June 2002, and each quarter thereafter for years 2003, 2004, 2005, 2006, 2007, 2008, and 2009, plus March 2010 quarterly report.]
- The department's March 15, 2002, initial evaluation approving Southwest Washington Medical Center's initial application to add 82 acute care beds to the hospital
- Certificate of Need #1241 issued on April 5, 2002
- DOH meeting notes with representatives of Southwest Washington Medical Center dated November 6, 2003, July 30, 2004, October 29, 2004, May 9, 2006, and August 17, 2007
- DOH conference call notes with representatives of Southwest Washington Medical Center dated September 25, 2003, July 15, 2004, February 4, 2005, October 5, 2006, January 28, 2009, and September 24, 2009
- Joint Commission website [www.jointcommission.org]

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<sup>&</sup>lt;sup>4</sup> Since no public comments were submitted, no rebuttal comments were submitted.

# **CONCLUSION**

For the reasons stated in this evaluation, the application submitted on behalf of Southwest Washington Medical Center proposing to amend Certificate of Need #1241 because of an increase in approved costs is approved, and an amended Certificate of Need should be issued. The approved amended capital expenditure associated with the addition of 82 acute care beds to Southwest Washington Medical Center is \$16,598,227.

# A. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed, the department determines that the applicant has met the financial feasibility criteria in WAC 246-310-220.

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

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.

#### **SWMC's Initial Application Summary**

In its March 15, 2002, initial evaluation supporting the issuance of CN #1241, the department concluded that this sub-criterion was met based on the following factors:

- 1) a review of SWMC's projected hospital utilization with the additional 82 acute care beds. This review included proposed revenues, expenses, and net profit for years 2006, 2007, and 2008:
- 2) financial ratio analysis provided by the department's Hospital and Patient Data Systems (HPDS) dated March 11, 2002; and
- 3) a review of SWMC's historical audited financial reports dated December 31, 2000. [source: Department's initial evaluation, pp42-45]

#### **SWMC Amendment Application Review**

Within its amendment application, SWMC provided updated pro forma revenue and expense summaries and balance sheets used to demonstrate that even with the increase in capital costs, the immediate and long range capital and operating costs of the project could be met.

Table 2 below is a comparison of the facility's third year of operation shown in the initial application (2008) and this amendment application (2012) using the updated capital costs. [source: Department's initial evaluation, p243; SWMC's amendment application, Tab 9]

Table 2
Southwest Washington Medical Center Year 3 Only--Comparison

	Initial Application Year 3 - 2008	Amended Application Year 3 - 2012
#of Acute Care Beds	360	442
Net Revenue	\$ 246,037,743	\$ 574,885,000
Total Expense	\$ 241,481,026	\$ 535,964,000
Net Profit or (Loss)	\$ 4,556,717	\$ 38,921,000

The 'net revenue' line item in Table 2 is the result of gross revenue minus any deductions for contractual allowances, bad debt, and charity care, plus additional operating revenue from rental property and interest. The 'total expense' line item includes staff salaries/wages and all direct and indirect expenses of the hospital.

As shown in Table 2 above, the increase in costs related to addition of 82 acute care beds does not negatively affect the ability of SWMC to meet its short and long-term financial obligations. As a 442-bed hospital, SWMC expects to operate with a larger profit margin than it would as a 360 bed hospital.

To determine whether SWMC would meet its immediate and long range capital costs, HPDS reviewed its current and projected balance sheets for the hospital as a whole. Table 3 below shows the current balance sheet (2008) and projected balance sheet for year three (2012). [source: HPDS analysis, p2]

Table 3
Southwest Washington Medical Center Current Balance Sheet Year 2008

Assets		Liabilities	
Current Assets	\$86,773,912	Current Liabilities	\$ 62,694,787
Fixed Assets	\$ 274,140,457	Long Term Debt	\$ 197,021,166
Board Designated Assets	\$ 222,775,383	Other Liabilities	\$ 22,896,899
Other Assets	\$ 38,714,636	Equity	\$ 339,791,536
Total Assets	\$ 622,404,388	<b>Total Liabilities and Equity</b>	\$ 622,404,388

Southwest Washington Medical Center Balance Sheet for Projected Year 3 - 2012

Assets Liabilities			
Current Assets	\$ 109,407,000	Current Liabilities	\$ 67,313,000
Fixed Assets	\$ 329,699,000	Long Term Debt	\$ 266,113,000
Board Designated Assets	\$ 256,259,000	Other Liabilities	\$ 000
Other Assets	\$ 56,849,000	Equity	\$ 418,788,000
Total Assets	\$ 752,214,000	<b>Total Liabilities and Equity</b>	\$ \$ 752,214,000

To assist the department in its evaluation of this sub-criterion, the HPDS provided a summary of the short and long-term financial feasibility of the SWMC as a whole, which includes a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are 1) long-term debt to equity; 2) current assets to current liabilities; 3) assets financed by liabilities; 4) total operating expense to total operating revenue; and 5) debt service coverage. If a project's ratios are within the expected value range, the project can be expected to be financially feasible.

For this application, HPDS compared the hospital's current and projected ratios with the most recent year's financial ratio guidelines for hospital operations. For this project, HPDS used 2008 data for comparison. Table 4 below shows the hospital's ratio comparison for current year (2008) and year three (2012). [source: May 7, 2010, HPDS analysis, p4]

Table 4
Current and Projected HPDS Debt Ratios for Southwest Washington Medical Center

Current and Projected III Do Debt Nation for Southwest Washington Medical Center				
Category	Trend <sup>5</sup>	<b>State 2008</b>	Current 2008	Projected 2012
Long Term Debt to Equity	В	0.527	0.580	0.635
Current Assets/Current Liabilities	A	1.946	1.384	1.625
Assets Funded by Liabilities	В	0.432	0.417	0.443
Operating Expense/Operating	В	0.949	0.991	0.932
Revenue				
Debt Service Coverage	A	4.717	5.030	10.160
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			
Operating Expense/Operating Revenue	Operating Expenses / Operating Revenue			
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp			

After reviewing the ratios shown in Table 4 above, staff from HPDS provided the following analysis.

"The 2008 data is before the long term debt was added for this project. The ratios while not all favorable for SWMC are within acceptable range. The 2012 fiscal year end ratios (CON year 3) for Southwest Washington Medical Center are within acceptable range also. The Long Term Debt to Equity is below average due to the newness of the project and paying off the extra debt created by the project. This will improve as the long term debt is paid down. Current Assets/Current Liabilities are also below average but this seems to be by choice of the hospital. SWMC has more than enough reserves to protect them."

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.

# **SWMC's Initial Application Summary**

In its March 15, 2002, initial evaluation supporting the issuance of CN #1241, the department concluded that this sub-criterion was met based on the following factors:

- 1) SWMC's basis for establishing its construction costs for the 82-bed addition; and
- 2) construction cost analysis provided by HPDS dated March 11, 2002. [source: Department's initial evaluation, p45]

<sup>&</sup>lt;sup>5</sup> A is better if above the ratio, and B is better if below the ratio.

# **SWMC Amendment Application Review**

SWMC's costs for this project increased from \$13,668,782 to \$16,598,227, which equates to a 21.4% overall increase. SWMC states that one of the major contributors to the increase in costs was the revisions made to the implementation of the bed addition. The T-chart below compares the two phases as described in the initial approval and the two phases as implemented by SWMC. [source: Application, cover letter, p1]

INITIAL PROJECT	AMENDED PROJECT
Phase one included completion of shelled-in	Phase one was revised to include build out of
space for 33 of the beds	the new Firstenburg Tower attached to the
	hospital. The new tower housed 62 of the 82
	beds. Completion of this portion of the project
	was considered implementation of phase one.
Phase two was a remodel of existing space within the hospital to house the remaining 49 beds	At first, <u>phase two</u> included the minor construction needed to house the remaining 20 beds on the far west end of the third floor of the existing hospital. This project was determined by SWMC to have limited long-term flexibility for the hospital.
	Ultimately, SWMC determined that the 20 remaining beds should be located on the sixth floor of the Firstenburg Tower. This required a build-out of the sixth floor before the beds could become operational in that space. Once completed, phase two was considered complete.

As shown in the T-chart above, both phases were substantially changed, which resulted in increased costs in construction, architecture/consultants, fees/permits, and state taxes.

To demonstrate that the increase in costs above did not result in an unreasonable impact on the costs and charges for health services, SWMC provided a comparison of the projected sources of revenue identified in the initial application, and the actual sources of revenue for the hospital with 442 acute care beds. That comparison is shown in Table 5 below. [source: March 12, 2010, supplemental information, p3]

Table 5
Southwest Washington Medical Center
Sources and Percentages of Revenue

Source of Revenue	<b>Initial Application</b>	Amended Application
Medicare	34.0%	36.0%
State (Medicaid)	9.0%	10.0%
Commercial/Other	57.0%	54.0%
Total	100%	100%

As shown above, in the initial application, Medicare and State (Medicaid) entitlements were projected to equal 43% of the revenue at the hospital, compared to 46% for the amended application, which is the actual percentage. These are not cost based revenue sources. However, the majority of the revenue shown above is cost based. In response to this sub-criterion, SWMC provided the following statements:

"The increase in the cost of the project will result in an increase in cost per patient day of approximately \$6.99. This amount was calculated by dividing the increase in cost by the average depreciable life of 20 years to get a total cost per year and then dividing that amount by the estimated number of patient days occupying the 82 beds in one year's time (assuming 70% occupancy)."

SWMC provided detailed discussion to document that the 21.4% increase in capital expenditure would not result in an unreasonable impact on the costs and charges for health services as required under this sub-criterion. Based on the information considered, the department concludes that 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.

#### **SWMC's Initial Application Summary**

The approved capital expenditure associated with CN #1241 was \$13,668,782. The majority of the costs were associated with construction (70%) and fixed/moveable equipment (11%). In the initial application, SWMC proposed to fund the project through accumulated reserves. The department concluded that the funding sources were reasonable based on historical financial statements from SWMC. [source: Department's initial evaluation, p46]

#### **SWMC Amendment Application Review**

To show where the increases in costs occurred, SWMC provided a table comparing its initial capital expenditure with the amended capital expenditure. The comparison is shown in Table 6 below. [source: March 12, 2010, supplemental information, p2]

Table 6 Southwest Washington Medical Center Initial and Amended Capital Cost Comparison

Item	<b>Initial Costs</b>	<b>Amendment Costs</b>
Construction Costs	\$ 9,725,956	\$ 13,362,974
Land Improvements & Site Preparation	\$ 14,303	\$ 8,289
Fixed & Moveable Equipment	\$ 1,477,964	\$ 559,779
Fees, Permits, Supervision, Inspections	\$ 1,287,259	\$ 1,310,039
Consultants/Management	\$ 381,410	\$ 268,076
Washington State Sales Tax	\$ 781,890	\$ 1,089,070
<b>Total Estimated Capital Costs</b>	\$ 13,668,782	\$ 16,598,227

As shown in Table 6 above, while costs decreased in some categories, the increase in costs in construction, fees/permits/supervision/inspection, and state sales tax offset those decreases, resulting in an overall increase in capital costs for the project.

In the initial application, SWMC proposed to fund the project through accumulated reserves of the hospital. The funding sources for the project did not change, and SWMC was able to fund the entire project with reserves. [source: March 12, 2010, supplemental information, pp2-3]

Based on the information above, the department concludes that the project can be appropriately financed. This sub-criterion is met.

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

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

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

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

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

#### **SWMC's Initial Application Summary**

In its March 15, 2002, initial evaluation supporting the issuance of CN #1241, the department concluded that this sub-criterion was met based on the following factors:

- 1) a review of the options considered by SWMC before submitting the initial application; and
- 2) the department's numeric need methodology concluded need for additional bed capacity in Clark County was demonstrated; and
- 3) SWMC's application proposed to add acute care bed capacity to Clark County by January 2004, thereby filling the need within a short timeframe.

As a result, the department concluded SWMC's project was one of the best alternatives for the county. [Source: Department's initial evaluation, p49-51 and Appendix A]

# **SWMC Amendment Application Review**

To evaluate SWMC's amendment project, the department begins with the three steps identified above.

# Step One

For this project, SWMC has met the applicable review criteria under WAC 246-310-220. Therefore, the department moves to step two below.

#### Step Two

SWMC is nearing completion of the overall project. WAC 246-310-570(1)(e) requires a certificate holder to obtain an amended Certificate of Need if the costs for the project increase beyond 12% or \$50,000 [whichever is greater] of the approved costs. Since SWMC's costs increased 21.4% of the approved costs, no other option was available to SWMC for this project. Moving forward with this project, even with the increase in capital costs, is ultimately the best option for the residents of Clark County.

# Step Three

This step is used to determine between two or more approvable projects which is the best alternative. While SWMC's initial application did undergo a comparative review with Legacy Health Systems' Salmon Creek Hospital project, this amendment application is not undergoing concurrent review.

Based on the information above, the department concludes this project continues to be one of the best available alternatives for Clark County. This sub-criterion is met.

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

(a) <u>The costs, scope, and methods of construction and energy conservation are reasonable; and</u> This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concludes that this sub-criterion is met.

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

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

<sup>&</sup>lt;sup>6</sup> Legacy Health Systems' Salmon Creek Hospital project was also considered one of the best alternatives for the county and was also approved.