



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

June 24, 2011

CERTIFIED MAIL # 7008 1300 0000 7202 9652

Kevin Brown, Chief Strategic Officer
Swedish Health Services
747 Broadway
Seattle, Washington 98122

RE: CN11-30

Dear Mr. Brown:

We have completed review of Swedish Health Services application proposing to amend Certificate of Need (CoN) #1264R2 because of a change in the approved site. For the reasons stated in the enclosed decision, the department has concluded that the project as described below is consistent with the applicable CoN review criteria. The department is prepared to issue a CoN for this project provided Swedish Health Services agrees to the following in its entirety:

Project Description:

Swedish Health Services is approved to move the ambulatory surgery center authorized by Certificate of Need #1264 from 3326 – 160th Avenue Southeast in Bellevue to 751 Northeast Blakely Drive in Issaquah. Both sites are located in the east King County secondary health services planning area as identified in WAC 246-310-270(3).

At project completion, the number of operating rooms is five and the ambulatory surgery center would provide the following ambulatory services: orthopedic, gastroenterology, ENT, general surgery, urology, gynecology, and ophthalmology.

Once the Swedish Health Services' Issaquah hospital is licensed and the five operating rooms become part of that hospital, a new Certificate of Need would be required to license them as a freestanding ambulatory surgery center or move them off of the Issaquah hospital campus.

Conditions:

1. Approval of the project description as stated above.



2. Swedish Health Services' new ambulatory surgery center must provide charity care in compliance with the charity care policies provided in its Certificate of Need application and the requirements of the applicable law. Specifically, Swedish Health Services will use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the King County Region (less Harborview) during the three most recent years as of the writing of this amendment evaluation. For historical years 2007-2009, these amounts are 1.42% gross revenue and 2.51% adjusted revenue. Swedish Health Services will maintain records at the facility documenting the amount of charity care it provides and demonstrating compliance with its charity care policies and applicable law.
3. Prior to providing services at the ambulatory surgery center, Swedish Health Services will provide to the department for review and approval the executed medical director agreement. The executed agreement will be consistent with the draft agreement provided in this application.
4. Prior to providing services at the ambulatory surgery center, Swedish Health Services will provide to the department for review and approval the executed patient transfer agreement. The executed agreement will be consistent with the draft agreement provided in this application.

Approved Costs:

There is no approved capital expenditure associated with this project. The capital expenditure required for the ambulatory surgery center space within the new Issaquah hospital was included as part of the cost to build the hospital. Since the space for the ASC has already been built, no additional capital cost approval is necessary.

You have two options, either accept or reject the above in its entirety. If you accept the above in its entirety, your application will be approved and a Certificate of Need sent to you. If you reject any provision of the above, you must identify that provision, and your application will be denied because approval would not be consistent with applicable Certificate of Need review criteria. Please notify the Department of Health within 20 days of the date of this letter whether you accept the above in its entirety.

Your written response should be sent 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

Other Than By Mail:

Department of Health
Certificate of Need Program
310 Israel Road SE
Tumwater, WA 98501

Kevin Brown, Chief Strategic Officer
Swedish Health Services
June 24, 2011
Page 3 of 3

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

Sincerely,



Steven M. Saxe, FACHE
Director, Health Professions and Facilities

Enclosure

**EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY
SWEDISH HEALTH SERVICES PROPOSING TO AMEND CERTIFICATE OF NEED
#1264R2 BECAUSE OF A CHANGE IN THE APPROVED SITE**

APPLICANT DESCRIPTION

Swedish Health Services (SHS) is a not-for-profit corporation and a 501(c)(3) exempt organization with 100% ownership of Swedish Medical Center.¹ Swedish Medical Center is also a Washington private, not-for-profit corporation and a 501(c)(3) exempt organization. Swedish Medical Center provides Medicare and Medicaid acute care services at the following four campuses.

SHS-First Hill Campus	747 Broadway, Seattle	King County
SHS-Ballard Campus	5300 Tallman Avenue Northwest, Seattle	King County
SHS-Cherry Hill Campus	500 – 17 th Avenue, Seattle	King County
SHS Edmonds ²	21601 76th Avenue West, Edmonds	Snohomish County

In addition to the campuses above, the department issued SHS a Certificate of Need on May 31, 2007, for the establishment of a new 175-bed hospital in Issaquah.³ [source: CN Program’s May 31, 2007, remand evaluation] The construction of the hospital is nearing completion, and SHS anticipates the first phase—80 acute care beds—would be operational by mid-year 2012.

BACKGROUND INFORMATION

On November 14, 2002, Swedish Health Services submitted an application to establish a freestanding ambulatory surgery center (ASC) in Bellevue, within King County. On May 14, 2003, the department issued CN #1264 for the project. The department’s approval was affirmed by the health law judge on November 9, 2006, and the department issued CN #1264R for the project. On September 23, 2010, the health law judge’s order was affirmed by the Washington State Supreme Court. This action resulted in the issuance of CN #1264R2. In summary, after the department’s issuance of the initial CN in May 2003, the approval was undergoing adjudicative or judicial appeal for more than seven years.

¹ Swedish Health Services also has ownership percentages in a variety of other healthcare entities, such as home health, ambulatory surgery, and urgent care clinics. Since these entities are not pertinent to this project, they will not be discussed in this evaluation.

² On February 26, 2010, SHS created a separate corporation known as Swedish Edmonds, where SHS is 100% sole member. On August 26, 2010, CN #1426 was issued to Swedish Edmonds approving a long-term lease agreement with Public Hospital District #3-Stevens Hospital located in Edmonds, within Snohomish County. The lease agreement became effective September 1, 2010, and is expected to continue for 30 years, with two 10-year options to renew.

³ Subsequent to the November 2006 approval, SHS was also issued CN #1379A approving a change in the approved site to another parcel of land in Issaquah, within King County. SHS was also issued CN #1379A2 approving a change in the financing for the hospital. These two amendments to CN #1379 are not pertinent to this project, they will not be further discussed in this evaluation.

During the approximately seven years that lapsed between the issuance of CN #1264 and the conclusion of the legal challenges in September 2010, two developments occurred related to this project.

- 1) SHS's option to lease space for the ASC expired; and
- 2) SHS was issued CN #1379 approving the establishment of a 175-bed hospital in Issaquah, within east King County.

PROJECT DESCRIPTION

With this application, SHS proposes to amend CN#1264R2 because of a change in the approved site. CN #1264 approved the establishment of the ASC to be located at 3326 – 160th Avenue Southeast in Bellevue.⁴ This application proposes to relocate the facility within space at SHS's future Issaquah hospital at 751 Northeast Blakely Drive. Both sites are located in the east King County secondary health services planning area as identified in WAC 246-310-270(3). Moving the site for CN #1264R2 to the new site allows SHS to use five of the operating rooms being built out as part of the new hospital's outpatient department before the hospital becomes operational by mid-year 2012. SHS intends to license the ASC at the new site under its SHS First Hill hospital license until the Issaquah hospital campus becomes operational and is licensed. At the time the Issaquah hospital is licensed, SHS intends to have the proposed ASC space licensed as part of the Issaquah hospital outpatient department. Once the ASC ORs become licensed hospital space, they cannot later be converted back to freestanding OR space or move off the Issaquah hospital campus, without further Certificate of Need review and approval.

In the initial application, SHS stated the ASC would provide the following ambulatory services: orthopedic, gastroenterology, ENT, general surgery, urology, gynecology, and ophthalmology. [source: Initial application, p11] This amendment application does not propose to change the scope of services to be provided. [source: May 11, 2011, supplemental information, p1]

Additionally, CN #1264 was issued with an approved capital expenditure of \$7,410,555.⁵ This amendment application does not propose any increase or decrease to the capital expenditure for the project. [source: Application, p10]

SHS states no other changes to this project have occurred. As a result, this evaluation will only address the change in the approved site.

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to review under WAC 246-310-570(1)(f) because the site for the project has changed.

⁴ Issuance of CN #1264R and CN #1264R2 did not change the location of the ASC.

⁵ Issuance of CN #1264R and CN #1264R2 did not change the approved capital expenditure for the project.

CRITERIA EVALUATION

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

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

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

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

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

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

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

The review for an amendment project is limited to only those criteria that would be affected by the amendment, provided that the amendment does not significantly alter the project. While SHS’s initial project was significantly delayed, the project was not significantly altered under CN rules. As a result, the department’s review will focus on applicable portions of financial feasibility (WAC 246-310-220) and cost containment (WAC 246-310-240).

CN #1264 was issued with two conditions. One condition related to the provision of charity care to be provided at the ASC as required under WAC 246-310-210(2) and WAC 246-310-270(7). Given the significant time that has lapsed between the initial approval and the conclusion of the appeals, this condition will be revised to reflect current charity care requirements.

The second condition required executed copies of ancillary and support agreements for pharmacy, laundry, and hazardous waste disposal reviewed under WAC 246-310-230 (structure and process of care). During this amendment review, SHS provided documentation to meet this condition. As a result, this condition is no longer applicable.

During the review of this amendment application, SHS provided two draft agreements—a medical director agreement and the patient transfer agreement. The medical director agreement is between Swedish Health Services and Physicians Anesthesia Services, Inc., PS. SHS states that it created the agreement as a short term solution for quality health care services and patient care. The one year duration of the agreement covers the time when the ASC is operational, but the Issaquah hospital is not. This agreement ensures that the ASC would have medical director oversight and the efficient delivery of healthcare to its patients. [source: May 11, 2011, supplemental information, Exhibit 6]

The draft Patient Transfer agreement between SHS First Hill and SHS’s ASC was also created as a short term solution for quality health care services and patient care. The agreement identifies its First Hill facility for patients requiring care not available at the ASC. Once the Issaquah hospital becomes operational, SHS intends to simply admit these types of patients into the hospital for appropriate care.

If this amendment project is approved, the department would include the updated charity care condition as previously described. Additionally, since the medical director and patient transfer agreement are in draft format, the department would also include a condition requiring SHS to provide executed copies of the agreements.

APPLICATION CHRONOLOGY

Action	SHS
Letter of Intent Submitted	April 8, 2011
Application Submitted	April 19, 2011
Department’s pre-review Activities including screening and responses	May 10, 2011, through May 15, 2011
Beginning of Review <ul style="list-style-type: none"> • public comments accepted throughout review (no public comments were submitted); • no public hearing conducted under the expedited review rules 	May 16, 2011
End of Public Comment	June 6, 2011
Department's Anticipated Decision Date	July 11, 2011
Department's Actual Decision Date	June 24, 2011

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

- Swedish Health Services’ Certificate of Need amendment application submitted May 9, 2011
- Swedish Health Services’ supplemental information received May 11, 2011
- The department’s May 3, 2003, initial evaluation approving Swedish Health Services’ ambulatory surgery center under CN #1264
- Quarterly Progress Reports completed and submitted by Swedish Health Services related to the CN #1264 [Reports submitted quarterly beginning in September 2003, and each quarter thereafter for years 2004 through March 2011 provided that the CN was not under a judge ordered stay.] Certificate of Need #1264 issued on May 14, 2003
- Certificates of Need #1264R and #1264R2 issued on July 9, 2007 and October 26, 2010, respectively
- Joint Commission website [www.jointcommission.org]

CONCLUSIONS

For the reasons stated in this evaluation, the application submitted by Swedish Health Services proposing to amend Certificate of Need #1264R2 because of a change in the approved site is consistent with applicable criteria of the Certificate of Need Program, provided Swedish Health Services agrees to the following in its entirety:

Project Description:

Swedish Health Services is approved to move the ambulatory surgery center authorized by Certificate of Need #1264 from 3326 – 160th Avenue Southeast in Bellevue to 751 Northeast Blakely Drive in Issaquah. Both sites are located in the east King County secondary health services planning area as identified in WAC 246-310-270(3).

At project completion, the number of operating rooms is five and the ambulatory surgery center would provide the following ambulatory services: orthopedic, gastroenterology, ENT, general surgery, urology, gynecology, and ophthalmology.

Once the Swedish Health Services’ Issaquah hospital is licensed and the five operating rooms become part of that hospital, a new Certificate of Need would be required to license them as a freestanding ambulatory surgery center or move them off of the Issaquah hospital campus.

Conditions:

1. Approval of the project description as stated above.
2. Swedish Health Services' new ambulatory surgery center must provide charity care in compliance with the charity care policies provided in its Certificate of Need application and the requirements of the applicable law. Specifically, Swedish Health Services will use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the King County Region (less Harborview) during the three most recent years as of the writing of this amendment evaluation. For historical years 2007-2009, these amounts are 1.42% gross revenue and 2.51% adjusted revenue. Swedish Health Services will maintain records at the facility documenting the amount of charity care it provides and demonstrating compliance with its charity care policies and applicable law.
3. Prior to providing services at the ambulatory surgery center, Swedish Health Services will provide to the department for review and approval the executed medical director agreement. The executed agreement will be consistent with the draft agreement provided in this application.
4. Prior to providing services at the ambulatory surgery center, Swedish Health Services will provide to the department for review and approval the executed patient transfer agreement. The executed agreement will be consistent with the draft agreement provided in this application.

Approved Costs:

There is no approved capital expenditure associated with this project. The capital expenditure required for the ambulatory surgery center space within the new Issaquah hospital was included as part of the cost to build the hospital. Since the space for the ASC has already been built, no additional capital cost approval is necessary.

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.

SHS's Initial Evaluation Summary

In the initial application, the ASC would begin using two ORs, and expand to five ORs by the end of year four—year 2007. The services to be provided at the ASC included orthopedic, gastroenterology, ENT, general surgery, urology, gynecology, and ophthalmology. [source: Initial evaluation, p1]

In its May 8, 2003, initial evaluation supporting the issuance of CN #1264, the department concluded that this sub-criterion was met based on the following factors:

- 1) a review of SHS's projected utilization of the ASC. This review included proposed revenues, expenses, and net profit for its first three years of operation—2004, 2005, and 2006; and
- 2) a review of SHS's historical audited financial reports filed with HPDS.
[source: Initial evaluation pp9-10]

SHS Amendment Application Review

In its amendment application, SHS states that since significant time has passed since the issuance of CN #1264, a phased in approach for the ORs is no longer necessary. With this amendment application, SHS intends to make all five ORs operational in the first year.

In the initial application, SHS identified the following ambulatory services to be provided at the ASC: orthopedic, gastroenterology, ENT, general surgery, urology, gynecology, and ophthalmology. In this amendment application, SHS states there is no change in the services to be provided. [source: May 11, 2011, supplemental information, p1]

In the initial application, SHS provided the assumptions and calculations it used to project the number of surgeries to be provided in the first three years of operation—2004, 2005, and 2006. [source: May 8, 2003, initial evaluation, pp5-8] For this amendment project, SHS updated its assumptions and calculations to project the number of surgeries and revised its first three years of operation to 2012, 2013, and 2014. [source: May 11, 2011, supplemental information, pp2-5] Below is a summary of the updated assumptions and calculations used by SHS.

Volumes

- Claritas⁶ population forecast data for years 2012 through 2016 for east King County planning area based on zip codes.
- The market share assumptions for the ASC are 4.2% in 2012; 6.2% in 2013; and 8.2% in 2014. These market shares are a slight reduction from the market share assumptions used in the initial application.

Revenues

- Gross revenue statistics were obtained from SHS outpatient surgery files for January 1, 2010 through September 30, 2010 for ICD-9 procedure code groups included in the utilization model. The outpatient surgery statistics included all outpatient cases at the following three SHS hospitals-Cherry Hill campus; First Hill campus; and Ballard campus.
- Gross revenues per case were prepared for each ICD-9 procedure code group and held constant over the 2012 through 2014 forecast period.
- Gross revenue per case figures were multiplied by volume forecasts by procedure code group to estimate the total gross charges.
- Net revenue was obtained from the same 2010 outpatient surgery data set referenced above. Net revenue estimates per case for each ICD-9 procedure code group was calculated similar to gross revenues, and also held constant over the 2012 through 2014 forecast period.
- Deductions from revenue per case for each of the ICD-9 procedure code groups were calculated as the difference between gross and net revenue per case. The percentage amount for deductions from revenue, by ICD-9 procedure code group, was calculated by dividing deductions by gross revenues. These percentage figures were also held constant over the forecast period.
- The percentage deductions figures were multiplied by gross revenue forecasts to obtain forecast deductions from revenues, by ICD-9 procedure code group.
- Net revenues were calculated as the difference between gross revenues and deductions from revenue, by year, by ICD-9 procedure code group.
- An adjustment was also made to include 'bad debt' within the deductions from revenue figure, rather than treating it as an operating expense.

Expenses

- Projected FTEs were updated to reflect more recent SHS outpatient surgery operations experience.
- Adjustments were made to all wage and salary figures, by FTE type, to reflect 2010 SHS three hospitals actuals. These hourly or annual figures per FTE were held constant over the forecast period.

⁶ Claritas [pronounced 'CLAIR-uh-toss'], Inc. is a marketing information resources company dedicated to helping companies engaged in consumer and business-to-business marketing. Claritas, Inc. provides clients' with the data, tools, applications, and expertise needed to examine, target and execute profitable marketing opportunities. [source: Claritas Inc. website]

- Other operating expenses were updated from the 2002 operating expense file. In general, costs were on a per case basis; costs per case were inflated 10% per year over the interval between the original analysis (year 2003) and the new forecast period (beginning 2012)
- Other direct expenses were increased to reflect current SHS three hospitals actual for comparable activities, e.g., medical director fees, insurance, utilities, etc.
- Allocated costs include both a campus specific indirect and corporate overhead indirect costs. This amount is included in the line item ‘other non-operating expenses.’

Also in the initial application, SHS provided its projected revenue and expense statements for years 2004-2006, based on the projected number of surgeries. [source: May 8, 2003, initial evaluation, pp10-11] For this amendment project, SHS also revised its revenue and expense statements based on the updated methodology and assumptions described above. [source: May 11, 2011, supplemental information, Exhibit 4] Table 1 below is a summary of the revised surgery volumes, revenues, and expenses for years 2012 through 2014.

Table 1
Swedish Eastside ASC
Years 2012 – 2014 Revised Revenue and Expense Statement Summary

	2012	2013	2014
# of ORs operational	5	5	5
# of OR cases	1,679	2,506	3,351
Gross Revenue			
	\$ 27,890,347	\$ 41,373,864	\$ 55,146,214
Minus Deductions			
	\$ 18,317,620	\$ 27,175,596	\$ 36,223,321
Net Revenue			
	\$ 9,572,727	\$ 14,198,268	\$ 18,922,893
Operating Expenses (salaries)			
	\$ 6,443,390	\$ 9,022,827	\$ 10,960,553
Plus Non-Operating Expenses*			
	\$ 3,082,790	\$ 3,776,621	\$ 4,485,315
Total Expenses			
	\$ 9,526,180	\$ 12,799,448	\$ 15,445,868
Net Profit or (Loss)			
	\$ 46,547	\$ 1,398,820	\$ 3,477,025

*= non-operating expenses include allocated costs and depreciation

As shown in Table 1 above, with the assumed reduction in market share, projected increase in expenses, including updated salaries for FTEs, and cost allocations for SHS, the revised statements show a net profit in all three years of operation.

In the initial evaluation, the department reviewed SHS’s most recent historical audited financial reports filed with the department’s Hospital and Patient Data Systems (HPDS) to determine the long term sustainability of the ASC. At that time, the most recent report covered year 2001. For this amendment review, the most recent audited financial report filed with HPDS in April 2010 covers years 2008 and 2009. A review of the 2008 and 2009 data shows SHS has a strong asset base to secure and sustain this project. [source: SHS combined financial statements and supplemental information, December 31, 2009 and 2008]

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.

SHS's Initial Evaluation Summary

In its May 8, 2003, evaluation supporting the issuance of CN #1264, the department concluded that this sub-criterion was met based on the following factors:

- 1) SHS's basis for establishing its construction costs for the ASC; and
- 2) construction cost analysis provided by HPDS dated May 5, 2005.

[source: Initial evaluation, pp10-11]

SHS Amendment Application Review

In this amendment application, SHS states the change in the site results in no change in the capital costs. SHS also states that since the new site is on the soon-to-be-completed Issaquah Hospital campus, build out for the outpatient portion is nearing completion and the majority of the costs have already been expended. SHS still intends to closely monitor the costs of the project. Further, if the capital costs of the project ultimately exceed the 12% of the approved costs of \$7,410,555, SHS would submit another amendment application. [source: Application, p10]

Based on the information above, the department concludes this **sub-criterion remains 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.

SHS's Initial Evaluation Summary

In its May 8, 2003, evaluation supporting the issuance of CN #1264, the department evaluated SHS's funding for the project. In the initial application, SHS intended to fund the project through its cash reserves. The department concluded that this method of funding was reasonable and this sub-criterion was met based on the following factors:

- 1) SHS's basis for establishing its construction costs for the ASC; and
- 2) SHS's historical financial analysis provided by HPDS *dated May 5, 2005*.

[source: Initial evaluation, p11]

SHS Amendment Application Review

In the initial application, SHS identified a capital cost to build the ASC of \$7,410,555 and intended to fund the project with cash reserves. For this amendment project, SHS states that the change in site does not affect the cost of the ASC. The build out of the outpatient space

is nearing completion and, if this amendment project is approved, the ASC is expected to become operational by August 1, 2011. Phase one, or the first 80 beds, for the hospital is expected to become operational by mid-year 2012.

The department reviewed SHS's most recent quarterly financial data submitted to HPDS. The historical financial data covers full years 2008 and 2009. Based on SHS's historical financial review, even with the recent downturn in the economy, SHS continues to be in strong financial health. [source: Full year 2008 and 2009 quarterly financial reports and SHS combined financial statements and supplemental information, December 31, 2009 and 2008 obtained from HPDS]

SHS states that the capital cost of \$7,410,555 and the source of financing for the project did not change for this amendment project. However, since the ASC would be located on the proposed Issaquah hospital campus within the hospital's outpatient surgery space, the costs to build the ASC were expended when SHS built out the outpatient surgery space for the hospital. On November 29, 2010, the department issued CN #1379A2 to SHS approving a change in the source of financing for the hospital and an increase in the capital expenditure for the establishment of the 175-bed hospital. Given that the capital costs to build out the space where this ASC would be located were expended when the outpatient surgery space was built out, the department considers the capital expenditure for this amendment project to be zero. As a result, this **sub-criterion is no longer applicable to this project.**

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

WAC 246-310 does not contain specific WAC 246-310-240(1) 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 superior alternatives, in terms of cost, efficiency, or effectiveness 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.

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

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

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

SHS's Initial Evaluation Summary

In its May 8, 2003, initial evaluation supporting the issuance of CN #1264, the department concluded that this sub-criterion was met based on the following factors:

- 1) a review of the options considered by SHS before submitting the initial application; and
- 2) the department's numeric need methodology outlined in WAC 246-310-270(9) concluded need for additional OR capacity in the east King County planning area was demonstrated.

As a result, the department concluded SHS's project was the best alternative for the East King County planning area, and SHS's ASC to be located in Bellevue, within the east King planning area was approved. [source: Initial evaluation, p14]

SHS Amendment Application Review

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

Step One

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

Step Two

SHS is in the early stages of beginning construction of the new hospital at a site in Issaquah. The hospital is expected to become operational with 80 acute care beds by the end of year 2012. In its initial application, SHS demonstrated that the east King planning area would need additional ORs capacity in the near future.

WAC 246-310-570(1)(f) requires a certificate holder to obtain an amended Certificate of Need if the approved site for the project has changed. Even though this project proposes to relocate the ASC from Bellevue to Issaquah, the proposed site is still located in the east King planning area where additional OR capacity is projected to be needed. In the financial feasibility section of this evaluation, the department concluded that the capital costs for establishment of the ASC were expended when SHS built out its outpatient surgery space at its Issaquah hospital campus. As a result, the department acknowledges that relocation of this ASC allows SHS to implement CN #1264 without expending the \$7,410,555 initially attributed to the project. As a result, moving forward with this project, even after the substantial delays from appeals and the change in the site, is ultimately the

best option for the residents of the community and contains healthcare costs in the planning area.

Step Three

This step is used to determine between two or more approvable projects which is the best alternative. This step does not apply to this amendment project.

Based on the information above, the department concludes this project continues to be the best available alternative for the residents of the east King 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;
and

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.**