STATE OF WASHINGTON

DEPARTMENT OF HEALTH

Olympia, Washington 98504

July 24, 2015

CERTIFIED MAIL # 7009 0080 0000 5404 2243

John Gallagher, Chief Executive Officer
Sunnyside Community Hospital
1016 Tacoma Avenue
Post Office Box 719
Sunnyside, Washington 98944

RE: Certificate of Need Application #15-23

Dear Mr. Gallagher:

We have completed review of the Certificate of Need (CN) application submitted by Sunnyside Community Hospital Association proposing to establish a ten-bed level I rehabilitation unit at Sunnyside Community Hospital in Yakima County. Enclosed is a written evaluation of the application.

For the reasons stated in this evaluation, the department has concluded that the project is not consistent with the Certificate of Need review criteria identified below, and a Certificate of Need is denied.

Washington Administrative Code 246-310-210	Need
Washington Administrative Code 246-310-220	Financial Feasibility
Washington Administrative Code 246-310-230	Structure and Process of Care
Washington Administrative Code 246-310-240	Cost Containment

This decision may be appealed. The two appeal options are listed below.

Appeal Option 1:
You or any person with standing may request a public hearing to reconsider this decision. The request must state the specific reasons for reconsideration in accordance with Washington Administrative Code 246-310-560. A reconsideration request must be received within 28 calendar days from the date of the decision at one of the following addresses:

Mailing Address:	Physical Address
Department of Health	Department of Health
Certificate of Need Program	Certificate of Need Program
Mail Stop 47852	111 Israel Road SE
Olympia, WA 98504-7852	Tumwater, WA 98501

Appeal Option 2:
You or any person with standing may request an adjudicative proceeding to contest this decision within 28 calendar days from the date of this letter. The notice of appeal must be filed according to the provisions of Revised Code of Washington 34.05 and Washington Administrative Code 246-310-610. A request for an adjudicative proceeding must be received within the 28 days at one of the following addresses:

Mailing Address:	Physical Address
Department of Health	Department of Health
Adjudicative Service Unit	Adjudicative Service Unit
Mail Stop 47879	111 Israel Road SE
Olympia, WA 98504-7879	Tumwater, WA 98501

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 DATED JULY 24, 2015, FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY SUNNYSIDE COMMUNITY HOSPITAL ASSOCIATION DBA SUNNYSIDE COMMUNITY HOSPITAL & CLINICS PROPOSING TO ADD TEN ACUTE CARE BEDS TO SUNNYSIDE COMMUNITY HOSPITAL LOCATED IN YAKIMA COUNTY

APPLICANT DESCRIPTION

Sunnyside Community Hospital Association [SCHA] is a non-profit corporation governed by the following three members.

Name	Title
Chris Rivas	President
Dave Ballinger	Secretary
Stephen Winfree	Treasurer

SCHA is currently registered with both the Washington State Secretary of State office and the Department of Revenue. [source: Washington State Secretary of State and Washington State Department of Revenue websites]

SCHA owns and operates Sunnyside Community Hospital located in Yakima County. The hospital provides healthcare services to the residents of Yakima and Benton counties through its healthcare clinics listed below. [source: Application, Exhibit 1 and Sunnyside Community Hospital & Clinics website]

Name	Address	City / Zip	County
Grandview Medical Center	208 North Euclid	Grandview / 98930	Yakima
John Hughes Student Health Center	1801 East Edison	Sunnyside / 98499	Yakima
Lincoln Avenue Family Medicine	803 Lincoln Avenue	Sunnyside / 98944	Yakima
Lower Valley OB/GYN	803 Lincoln Avenue	Sunnyside / 98944	Yakima
Medical Plaza in Prosser	355 Chardonnay Avenue	Prosser / 99350	Benton
Sunnyside Pediatrics	812 Miller Avenue, #C	Sunnyside / 98944	Yakima
Sunnyside Specialty Center	500 South 11th Street	Sunnyside / 98944	Yakima
Valley Internal Medicine	2925 Allen Road	Sunnyside / 98944	Yakima
Valley Regional Orthopedics	2705 East Lincoln Avenue	Sunnyside / 98944	Yakima
Valley Regional Rural Health Clinic	2705 East Lincoln Avenue	Sunnyside / 98944	Yakima

All of the clinics listed above are included in Sunnyside Community Hospital's license issued by the Department of Health. [source: Application, p2 and DOH ILRS data]

Additionally, on May 12, 2015, Sunnyside Community Hospital was approved to establish a home health agency in Yakima County to provide Medicare and Medicaid home health services to the residents of Yakima and Benton counties.[1] The home health agency is not yet operational. [source: Certificate of Need historical files]

For this project, SCHA is the applicant and Sunnyside Community Hospital is the site for the project described below.

[1] CN #1546 approves Benton County and CN #1547 approves Yakima County.

PROJECT DESCRIPTION

This project focuses on Sunnyside Community Hospital [SCH] located at 1016 Tacoma Avenue in Sunnyside. SCH is currently licensed for 38 acute care beds and is designated by the Department of Health as a level IV adult trauma center. SCH holds a federal Critical Access Designation from Centers for Medicare & Medicaid Services.[2] Under the Critical Access Hospital [CAH] designation, hospitals can have no more than 25 acute care beds in operation. [source: Application, p1 and CN historical files] A CAH may also operate a distinct part rehabilitation and/or psychiatric unit, each with up to ten beds. [source: Department of Health and Human Services Centers for Medicare and Medicaid Services]

On June 15, 2015, SCH was approved for the establishment of a ten-bed psychiatric unit.[3] The psychiatric unit would use 10 of the 13 beds that have been retained by SCH after it received its CAH designation. The psychiatric unit approval reduces the total number of licensed beds from 38 to 35. As of the writing of this evaluation, SCH has not implemented the psychiatric project; therefore, SCH's license remains at 38.

This application proposes the establishment of a ten-bed level I rehabilitation unit within space at SCH. Level I rehabilitation services are services for persons with usually nonreversible, multiple function impairments of a moderate-to-severe complexity resulting in major changes in the patient's lifestyle and requiring intervention by several rehabilitation disciplines. Services are multidisciplinary, including such specialists as a rehabilitation nurse; and physical, occupational, and speech therapists; and vocational counseling; and a physiatrist. The service is provided in a dedicated unit with a separate nurses station staffed by nurses with specialized training and/or experience in rehabilitation nursing. While the service may specialize (i.e., spinal cord injury, severe head trauma, etc.), the service is able to treat all persons within the designated diagnostic specialization regardless of the level of severity or complexity of the impairments.[4]

The ten beds would be located in an existing wing of the hospital and would be designated as PPS exempt.[5] The table below is a summary of SCH's current and proposed license bed capacity by type,

---

[2] A Critical Access Hospital (CAH) is a federal designation under the Rural Hospital Flexibility Program that is administered by the federal Office of Rural Health Policy. A CAH is a small hospital located in rural areas of the state. CAHs are often the central hub of health services in their communities, providing primary care, long-term care, physical and occupational therapy, cardiac rehabilitation and other services in addition to emergency and acute care. Hospital staff provides these services either directly or in partnership with other community providers. A CAH has no more than 25 acute care beds and may add a distinct part ten bed psychiatric unit and/or a distinct part ten-bed rehabilitation unit.

[3] As of the release of this evaluation, SCH has not yet been issued a Certificate of Need for the ten-bed psychiatric project.

[4] Level I rehabilitation services must also include the requirements as identified in WAC 246-976 relating to level I trauma rehabilitation services.

[5] Prospective Payment System (PPS) is a method of reimbursement in which Medicare payment is made based on a predetermined, fixed amount. The payment amount for a particular service is derived based on the classification system of that service (for example, diagnosis-related groups [DRGs] for inpatient hospital services). CMS uses separate PPSs for reimbursement to acute inpatient hospitals, home health agencies, hospice, hospital outpatient, inpatient psychiatric facilities, inpatient rehabilitation facilities, long-term care hospitals, and skilled nursing facilities. Since October 1, 1983, most hospitals have been paid under the hospital inpatient PPS. However, certain types of specialty hospitals and units were excluded from PPS because the PPS

and includes the recently approved ten-bed psychiatric unit. [source: Application, pp6-7 and CN historical files-Application #15-12]

Bed Type	Current	Psychiatric Project	Rehabilitation Project
Medical/Surgical	25	25	25
PPS Exempt Psychiatric	0	10	10
PPS Exempt Rehabilitation	0	0	10
Licensed Beds Not In Use	13	0	0
Total Licensed Beds	**38**	**35**	**45**

SCHA describes the services to be provided in the proposed ten-bed unit to include inpatient intensive rehabilitation in combination with management of the primary diagnosis and co-morbidities. The most common conditions treated include stroke and other cerebrovascular accidents/conditions, respiratory diseases, neurologic disorders, such as multiple sclerosis and musculoskeletal/orthopedic conditions including major joint replacements and amputations. [source: Application, p9]

If approved, SCHA anticipates the ten-bed rehabilitation unit would be operational in January 2017. Under this timeline, SCH's first full calendar year of operation with a ten-bed rehabilitation unit is 2017 and year three is 2020. [source: Application, p15]

The estimated capital expenditure associated with the establishment of the ten-bed rehabilitation unit at SCH is $2,634,000, and includes construction, equipment, and associated fees and taxes. [source: Application, p32]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review as an increase in bed capacity at a healthcare 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). The project is also subject to review as the establishment of a tertiary health services under the provisions of RCW 70.38.105(4)(f) and WAC 246-310-020(1)(d)(i)(F).

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.*

---

diagnosis related groups do not accurately account for the resource costs for the types of patients treated in those facilities. Facilities originally excluded from PPS included rehabilitation, psychiatric, children's, cancer, and long term care hospitals, rehabilitation and psychiatric hospital distinct part units, and hospitals located outside the 50 states and Puerto Rico. These providers continued to be paid according to Section 1886(b) of the Social Security Act, as amended by Section 101 of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982. They are frequently referred to as TEFRA facilities or PPS exempt. These facilities are paid on the basis of Medicare reasonable costs per case, limited by a hospital specific target amount per discharge. Each hospital has a separate payment limit or target amount which was calculated based on the hospital's cost per discharge in a base year. The base year target amount is adjusted annually by an update factor. [source: CMS website]

(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."*

WAC 246-310 does not contain service or facility standards for acute care bed additions. To obtain Certificate of Need approval, SCHA must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment); and portions of the 1987 Washington State Health Plan as it relates to the acute care bed methodology.[6]

TYPE OF REVIEW

This application was reviewed under the regular review timeline outlined in WAC 246-310-160, which is summarized on the following page.

[6] Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(3), (4) (5), and (6).

APPLICATION CHRONOLOGY

Action	Sunnyside Community Hospital Association
Letter of Intent Submitted	August 12, 2014
Application Submitted	February 2, 2015
Department's pre-review activities • DOH 1st Screening Letter • Applicant's Responses Received	 March 6, 2015 April 13, 2015
Beginning of Review	April 17, 2015
Public comments accepted through end of public comment	May 22, 2015
Public hearing conducted	None
End of Public Comment	May 22, 2015
Rebuttal Comments Submitted[7]	June 9, 2015, 2015
Department's Anticipated Decision Date	July 24, 2015
Department's Actual Decision Date	July 24, 2015

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."

Providence Health and Services requested affected person status related to this project on behalf of Kadlec Regional Medical Center located in Richland, within Benton County. Neither Providence Health and Services nor Kadlec Regional Medical Center submitted comments related to the project. As a result, no entities qualified to receive affected person status as defined above.

SOURCE INFORMATION REVIEWED

- Sunnyside Community Hospital Association application received February 12, 2015
- Sunnyside Community Hospital Association supplemental information received April 13, 2015
- Public comments received through May 22, 2015
- Department of Health Hospital and Patient Data Systems Analysis received July 10, 2015
- Population data obtained from the Office of Financial Management based on year 2010 census and published May 2012.
- Historical charity care data for years 2011, 2012, and 2013 obtained from the Department of Health Hospital and Patient Data Systems office
- Hospital Discharge Data for years 2012, 2013, and 2014 for rehabilitation DRGs 945 and 946
- 1987 Washington State Health Plan

[7] All public comments submitted were in support of the project. SCHA did not provide rebuttal comments.

SOURCE INFORMATION REVIEWED (continued)

- Licensing and survey data provided by the Department of Health's Investigations and Inspections Office
- Licensing and compliance history data provided by the Department of Health's Medical Quality Assurance Commission
- Department of Health internal database - Integrated Licensing and Regulatory System [ILRS]
- Sunnyside Community Hospital & Clinics website at http://sunnysidehospital.org
- Yakima Regional Medical and Cardiac Center website at www.yakimaregional.com
- Year 2015 Annual Hospital License Application submitted on November 19, 2014, by Yakima Regional Medical and Cardiac Center
- Year 2014 Annual Hospital License Application submitted on December 4, 2013, by Yakima Regional Medical and Cardiac Center
- Washington State Secretary of State website at www.sos.wa.gov
- Washington State Department of Revenue website at www.dor.wa.gov
- Centers for Medicare & Medicaid Services website at www.cms.gov
- Certificate of Need historical files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Sunnyside Community Hospital Association proposing to establish a ten-bed PPS exempt level I rehabilitation unit at Sunnyside Community Hospital is not consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need is denied.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210) and Home Health Need Methodology

Based on the source information reviewed the department determines that Sunnyside Community Hospital Association's application does not meet 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 does not contain an acute care bed forecasting method. The determination of numeric need for acute care hospital beds is performed using the Hospital Bed Need Forecasting method contained in the 1987 Washington State Health Plan (SHP). Though the SHP was "sunset" in 1989, the department has concluded that this methodology remains a reliable tool for predicting baseline need for acute care beds. The 1987 SHP does not include a numeric methodology for projecting level I rehabilitation bed need. As a result, SCHA adjusted the twelve-step methodology to focus on rehabilitation. The evaluation of the need criterion for level I rehabilitation beds begins with an evaluation of the numeric need methodology provided by the applicant.

Sunnyside Community Hospital Alliance's Numeric Need Methodology

[source: Application, 24-30; Exhibit 8; and April 13, 2015, supplemental information, Attachment 8]

While SCHA provided two separate numeric need methodologies, both were based on the following factors: planning area, historical data, population estimates and forecasts, projected use rates, market share, and current capacity. Table 1 below shows the factors used in both methodologies.

Table 1
Level I Rehabilitation Methodology Assumptions and Data

Assumption	Data Used
Planning Area	Yakima County
Historical Data	CHARS[8] data based on years 2004 through 2013 Patients aged 15 and older
Diagnosis Related Grouping [DRG][9]	DRG 945 – Rehabilitation with complications/co-morbidities or major complications/co-morbidities. DRG 946-Rehabilitation without complications/co-morbidities or major complications/co-morbidities
Population Forecasts	Office Of Financial Management Population Data released May 2012. Population aged 15 years and older. Population was broken into two categories: 15-64 and 65+ Forecast years 2014 through 2020.

[8] Comprehensive Hospital Abstract Reporting System.
[9] For years 2004 through 2006, DRG 462 was used for level I rehabilitation services; beginning in 2007 through present year 2015, DRGs 945 and 946 are used.

Table 1 (continued)
Level I Rehabilitation Methodology Assumptions and Data

Projected Use Rates	Methodology #1 Calculated and applied use rates from health service area (HSA) #3, which includes the following eight counties: Benton, Chelan, Douglas, Franklin, Grant, Kittitas, Okanogan, and Yakima. Methodology #2 Calculated and applied use rates from HSA #4 which includes the following eleven counties: Adams, Asotin, Columbia, Ferry, Garfield, Lincoln, Pend Oreille, Stevens, Spokane, Walla Walla, and Whitman.
Market Shares	Based on Year 2013 CHARS data and broken down by age groups Ages 15-64 Percentage of Yakima County residents that obtained rehabilitation services in Yakima County is 50.93%. Percentage of Washington residents residing outside of Yakima County that obtained rehabilitation services in Yakima County 0.14%. Ages 65+ Percentage of Yakima County residents that obtained rehabilitation services in Yakima County is 82.18%. Percentage of Washington residents residing outside of Yakima County that obtained rehabilitation services in Yakima County 0.31%.
Current Capacity	15 level I rehabilitation beds All are located at Yakima Regional Medical and Cardiac Center.

Below is a summary of the twelve-step methodology and a description of SCHA's application of the methodology for this project.

Steps 1 through 4 of the numeric methodology develop trend information on hospital utilization.
In these steps, SCHA appropriately focused on historical data to determine the health service area [HSA], planning area, and use trends for level I rehabilitation services. SCHA computed a use trend line for the HSA, planning area, and statewide. The use trend line projected a mild decline in level I rehabilitation use for the HSA, planning area, and statewide. It is the practice of the CN program to accept the use of the trend line that has the lowest adjustment because the lower adjusted trend line would show the least change from base-year use rates. Following this practice, SCHA determined that the statewide trend line was the most statistically reliable and applied the data derived from those calculations to the projections years in the following steps.

Steps 5 through 9 calculate a baseline non-psychiatric bed need forecasts.
These steps determine in-migration and out-migration for residents of Yakima County that obtained level I rehabilitation services. These steps also apply the use trend line to the projected population to determine a use rate broken down by population ages 15-64 and 65+.

In Methodology #1, SCHA multiplied the use rates derived from step 6 for the HSA #3 planning area by the projected population for Yakima County. The population is broken down by age group and projects for years 2014 through 2020.

In Methodology #2, SCHA multiplied the use rates calculated in the HSA #4 planning area by the projected population in Yakima County. The population is broken down by age group and projects for years 2014 through 2020.

Below is the use rates and in-migration ratio, by age group that SCHA applied to the projected population.

Table 2
Level I Rehabilitation Methodology
Use Rates and In-Migration Ratio Applied to Projected Populations

	15-64 Age Group	**65 + Age Group**
Use Rate-HSA #3	11.36 days/1,000 residents	68.10 days/1,000 residents
Use Rate-HSA #4	11.71 days/1,000 residents	122.47 days/1,000 residents
In-Migration Ratio	0.14%	0.31%
Project Population	151,746	31,393

When the use rates are applied to the projected population, the result is the projected number of rehabilitation patient days for the planning area. A comparison of the use rates by age group in Table 2 shows that the 15-64 use rates are not significantly different between HSA #3 and HSA #4. However, the HSA #4 use rate for the 65+ population is nearly double the use rate for HSA #3. Table 2 also shows a small percentage of in-migration for patients that do not reside in Yakima County.

It is the practice of the department to evaluate need for a given project through at least seven years from the last full year of available CHARS data. For this application, the last full year of available CHARS data is 2013; therefore the target year is 2020.

Steps 10 through 12 are intended to determine the total baseline hospital bed need forecasts, including need for short-stay psychiatric services.
In steps 10 through 12, SCHA projected the number of rehabilitation beds needed in Yakima County, subtracted the existing capacity, resulting in a net need for level I rehabilitation beds. For existing capacity, SCHA subtracted 15 rehabilitation beds located at Yakima Regional Medical and Cardiac Center.

Step 11 projects short-stay psychiatric bed need, which SCHA appropriately did not compute. Step 12 is the adjustment phase where any necessary changes are made to the calculations in the prior steps to reflect conditions which might cause pure application of the methodology to under-or over-state the need for acute care beds. SCHA did not make any adjustments in these steps; all adjustments that were made by SCHA were described in the previous steps.

Tables 3 on the following page show the results of the numeric methodology for years 2014 through 2020 using the HSA #3 use rates calculated by SCHA in step 6. [source: April 13, 2015, supplemental information, Attachment 8]

Tables 3
Bed Need Methodology Results Using HSA #3 Use Rates

	15-64 Age Group	65 + Age Group
Use Rate-HSA #3	11.36	68.10

	2015	2016	2017	2018	2019	2020
Gross Number of Beds Needed	15	15	16	16	16	17
Minus Existing Capacity	15	15	15	15	15	15
Net Bed Need or (Surplus)	0	0	1	1	1	2

Tables 4 below show the results of the numeric methodology for years 2014 through 2020 using the HSA #4 use rates in step 6. [source: April 13, 2015, supplemental information, Attachment 8]

Tables 4
Bed Need Methodology Results Using HSA #4 Use Rates

	15-64 Age Group	65 + Age Group
Use Rate-HSA #4	11.71	122.47

	2015	2016	2017	2018	2019	2020
Gross Number of Beds Needed	22	23	24	24	25	25
Minus Existing Capacity	15	15	15	15	15	15
Net Bed Need or (Surplus)	7	8	9	9	10	10

Comparing the results in Tables 3 and 4 shows that applying the higher use rate to the 65+ population projects an additional eight rehabilitation beds in Yakima County for year 2020. SCHA asserts that it is reasonable to apply the HSA #4 use rate in Yakima County for the reasons summarized below. [source: Application pp28-30]

- <u>HSA #3 use rates understate actual need in Yakima County</u>
  Washington State in general and HSA #3 in particular have limited availability of acute rehabilitation services. This lower availability is likely impeding access. HSA #3's use rate and bed-to-population ratios are lower than the State—68.1/1,000 residents for the HSA vs. 82.4/1,000 residents for the state. HSA #4 has the best availability of beds at 0.14/1,000 residents when compared to HSA #3 (0.05/1,000 residents) and the state (0.06/1,000 residents). Applying the HSA #4 use rate to the numeric methodology results in an additional 1,710 days in the community, which equates to 8 more beds projected in year 2020.

- <u>Out-migration for rehabilitation services have increased Yakima County residents</u>
  Information provided in Table 7 [of the application] shows an increase in out-migration for residents of Yakima County requiring rehabilitation services. The table [replicated on the following page] shows out-migration has increased by 13% in Yakima County and by 54% in the primary service area between 2004 and 2013. Higher out-migration is disruptive to patients and families, more costly, and could impact outcomes for rehabilitation patients.

Percentage of Acute Rehabilitation Discharges in Yakima County
[source: Application, p18]

	2004 Percentage of Discharges Occurring in Yakima County	2013 Percentage of Discharges Occurring in Yakima County	Percentage of Change
Primary Service Area*	58.6%	26.8%	-54.2%
Yakima County	86.6%	75.5%	-12.8%

* The primary service area is described on page 17 of the application. Yakima County zip codes are: 98944-Sunnyside; 98930-Grandview; 98935-Mabton; 98938, Outlook; 98932-Granger; and 98953-Zillah. The primary service are also includes 99350-Prosser located in Benton County and 99349-Mattawa located in Grant County.

- <u>The 1987 State Health Plan allows for considerations other than numeric need</u>
  Criterion #2 of the 1987 State Health Plan (SHP) provides the following guidance when the methodology does not identify need, but the community has need. [source: 1987 SHP, C27-C28]

  Hospital bed need forecasts are only one aspect of planning hospital services for specific groups of people. Bed need forecasts by themselves should not be the only criterion used to decide whether a specific group of people or a specific institution should develop additional beds, services, or facilities. Even where the total bed supply serving a group of people or planning area is adequate, it may be appropriate to allow an individual institution to expand.

  Standards:
  b. Under certain conditions, institutions may be allowed to expand even though the bed need forecasts indicate that there are underutilized facilities in the area. The conditions might include the following:
  - *the proposed development would significantly improved the accessibility or acceptability of services for underserved groups; or*
  - *The proposed development would allow expansion or maintenance of a institution which has staff who have greater training or skill, or which has wider range of important services, or whose programs have evidence of better results than do neighboring and comparable institutions; or*
  - *the proposed development would allow expansion of a crowded institution which has good cost, efficiency, or productivity measures of its performance while underutilized services are located in neighboring and comparable institutions with higher costs, less efficient operations, or lower productivity.*

  In such cases, the benefits of expansion are judged to outweigh the potential costs of possible additional surplus.

  SCHA states in the case of this application for level I rehabilitation, the proposed services will significantly improve accessibility for the communities that SCH serves and will provide access to high quality post-acute services. SCHA asserts that the HSA #4 use rate is a better reflection of demand when beds are appropriately available and accessible. The HSA #4 use rate identifies need for the beds requested at SCH.

  No public comments were submitted for this sub-criterion.

Department's Evaluation

In general, SCHA submitted a numeric methodology consistent with other rehabilitation methodologies reviewed and approved by the department for applications requesting to expand level I rehabilitation beds. As shown in Table 1 of this evaluation, SCHA relied on seven assumptions in the methodology. Of the seven assumptions identified, five are consistent with past applications and the department does not dispute them. The remaining two assumptions must be further discussed. The T-Chart below shows the seven assumptions.

Assumptions-Undisputed	Assumptions-Further Discussion
• Planning Area • Historical CHARS Data • DRGs • Population Forecasts • Market Shares	• Current Capacity • Use Rates

Current Capacity

The numeric methodology requires a projection of rehabilitation beds and a subtraction of current capacity, resulting in a net need. For its methodology, SCHA identified 15 level I rehabilitation beds in Yakima County. All 15 beds are located at Yakima Regional Medical and Cardiac Center. The department verified that Yakima Regional Medical and Cardiac Center is the only provider of level I rehabilitation services in the county.

To determine current capacity, the department reviewed Yakima Regional Medical and Cardiac Center's Certificate of Need facility file. From at least 1971 through approximately 2000, the hospital was known as St. Elizabeth Medical Center. In year 2000, the name was changed to Providence Yakima Medical Center. In year 2003, the hospital was purchased by Health Management Associates, Inc. and the name was changed to Yakima Regional Medical and Cardiac Center. In year 2014, Health Management Associates, Inc. and Community Health Systems, Inc. merged which resulted in change of ownership for Yakima Regional Medical and Cardiac Center, but no name change.

- On July 21, 1983, CN #747 was issued to St. Elizabeth Medical Center approving the establishment of a 12-bed level II adult inpatient rehabilitation unit.
- In 1986, the department approved the expansion of St. Elizabeth Medical Center's level II adult rehabilitation service from 12 to 15.
- Certificate of Need historical files show that in 1990, St. Elizabeth Medical Center was operating a 17-bed level III rehabilitation unit. In 1990, rehabilitation services were listed by levels—I, II, and III; with level III the most acute type of service.
- In 1996, the Certificate of Need rules changed level III rehabilitation services to level I to align the Certificate of Need definition with the definition used by the Department of Health's Office of Emergency Medical and Trauma Prevention.
- Year 2014 annual hospital license application shows 17 level I rehabilitation beds at Yakima Regional Medical and Cardiac Center. The license application was submitted on December 4, 2013.

- Year 2015 annual hospital license application shows 17 level I rehabilitation beds at Yakima Regional Medical and Cardiac Center. The license application was submitted on November 19, 2014.

In summary, Yakima Regional Medical and Cardiac Center is approved for the operation of a 17-bed PPS exempt level I rehabilitation unit at the hospital. The current capacity in Yakima County is 17, rather than 15 as identified by SCHA in the methodology.

Use Rate

SCHA relied on a numeric methodology used in previous rehabilitation applications; however, in both previous applications, the hospitals relied on the use rate of their own HSA. SCHA asserts that the lack of rehabilitation beds in the HSA would artificially suppress a calculated use rate; therefore the larger use rate of HSA #4 is more reliable. In lieu of using use rates derived from HSA #3, SCHA relied on the use rate of HSA #4, where the long-established, 102-bed rehabilitation hospital known as St. Luke's Rehabilitation Institute is located.[10] SCHA further asserts that Yakima County patients are out-migrating because the county does not have enough rehabilitation beds.

The department reviewed statewide rehabilitation discharge data for DRGs 945 and 946 for historical years 2012, 2013, and 2014. The data includes all patient discharges for rehabilitation services, regardless of where the patient lives (patient zip code) or where the patient received the services in Washington State. Table 5 below provides a summary of all rehabilitation discharges for Washington State hospitals, regardless of patient zip code. [source: CHARS data, years 2012, 2013, and 2014]

Table 5
Statewide Rehabilitation Discharges

	2012	2013	2014
Patient Discharges	8,149	7,971	7,428
Patient Days	106,462	103,192	99,171

Table 6 below provides a summary of all rehabilitation discharges for residents of HSA #3 regardless of where the patient received the rehabilitation services in the state.

Table 6
Rehabilitation Discharges for Patient Residing in HSA #3 Counties of Benton, Chelan, Douglas, Franklin, Grant, Kittitas, Okanogan, and Yakima

	2012	2013	2014
Patient Discharges	1,219	1,261	979
Patient Days	13,285	14,036	11,638

[10] On October 10, 1994, CN #1113 was issued to joint applicants Empire Health Centers Group and Sacred Heart Medical Center approving the establishment of a 102-bed rehabilitation hospital—now known as St. Luke's Rehabilitation Institute. The dedicated rehabilitation hospital was opened 1996 and has remained in continuous operation since its inception. As a dedicated rehabilitation hospital in Spokane County, St. Luke's Rehabilitation Institute draws patients from neighboring counties and neighboring states.

Table 7 below provides a summary of all rehabilitation discharges for residents HSA #4 regardless of where the patient received the rehabilitation services in the state.

Table 7
Rehabilitation Discharges for Patient Residing in HSA #4 Counties of Adams, Asotin, Columbia, Ferry, Garfield, Lincoln, Pend Oreille, Stevens, Spokane, Walla Walla, and Whitman

	2012	2013	2014
Patient Discharges	2,298	1,749	1,793
Patient Days	33,471	23,250	23,918

When comparing the discharge and patient day data in Tables 5, 6, and 7, the department notes an overall decrease in rehabilitation discharges for statewide (Table 5) and in both HSAs for year 2012 to 2014. The statewide decrease in patients and patient days is 8.8% and 6.8%, respectively. For HSA #3, the decrease is 19.7% and 12.4%, respectively (Table 6). For HSA #4, the decrease is 22.1% and 28.5% respectively (Table 7). Although not shown in the tables above, of the four HSAs in Washington State, only HSA #1 has experienced a slight increase from year 2012 to 2014.[11] For HSA #1, the increase in patients and patient days is 2.0% and 8.5%, respectively.

The department also reviewed patient discharge and patient day data for historical years 2012, 2013, and 2014 for the 17 dedicated level I rehabilitation beds at Yakima Regional Medical and Cardiac Center. Table 8 below provides a summary of the review.

Table 8
Yakima Regional Medical and Cardiac Center
Three-Year Rehabilitation Discharge, Utilization, and Occupancy Percentages

	2012	2013	2014
Patient Discharges	335	256	173
Patient Days	3,892	2,848	1,774
Total Number of Beds	17	17	17
Occupancy Percentage	62.7%	45.9%	28.6%
# of available beds	6	9	12

The discharge and patient day data in Table 8 also shows a decrease in rehabilitation discharges for Yakima Regional Medical and Cardiac Center. The decrease in patients and patient days is 48.4% and 54.4%, respectively. The occupancy data shows that Yakima Regional Medical and Cardiac Center has rehabilitation beds available to serve patients in the county.

SCHA asserts that an increasing number of Yakima County residents are out-migrating to hospitals outside of Yakima County for rehabilitation services. Table 9 on the following page summarizes the three year historical out-migration for Yakima County residents for DRGs 945 and 946.

[11] The ten counties included in HSA #1 are: Clallam, Island, Jefferson, King, Kitsap, Pierce, San Juan, Snohomish, Skagit, and Whatcom. The ten counties included in HSA #2 are: Cowlitz, Clark, Grays Harbor, Klickitat, Lewis, Mason, Pacific, Skamania, Thurston, and Wahkiakum.

Table 9
Yakima County Resident Data
Three-Year Rehabilitation Patient Discharges and Patient Days

	2012	2013	2014
Total Yakima County Resident Patient Discharges	392	325	222
Total Yakima County Resident Patient Days	4,821	3,850	2,567
# of Yakima Patients at Yakima Regional MC	335	256	173
# of Yakima Patient Days at Yakima Regional MC	3,892	2,848	1,774
YRMC Percentage of Yakima County Patient Discharges	85.5%	78.7%	77.9%
YRMC Percentage of Yakima County Patient Days	79.4%	74.1%	69.1%

Table 9 above shows that the out-migration percentages are increasing for Yakima County residents. However, the number of available rehabilitation beds shown in Table 8 indicates that the out-migration may not be the result of lack of rehabilitation beds in the county.

Table 10 below shows the number of Yakima County residents that received rehabilitation services outside of the county. [source: 2012, 2013, 2014 CHARS discharge data]

Table 10
Yakima County Resident Data Out-Migration by Facility
Three-Year Rehabilitation Patient Discharges

	County Location	2012	2013	2014
Kadlec Regional Medical Center	Benton	22	22	4
Prosser Memorial Hospital	Benton	20	18	29
Lourdes Medical Center	Franklin	2	3	2
EvergreenHealth	King	1	1	0
Harborview Medical Center	King	9	7	7
Northwest Hospital	King	1	0	0
Seattle Children's Hospital	King	10	13	8
Swedish Health Services Cherry Hill	King	4	4	1
University of Washington Medical Center	King	5	7	4
Virginia Mason Medical Center	King	8	4	3
MultiCare Good Samaritan Hospital	Pierce	1	2	2
St. Luke's Rehabilitation Hospital	Spokane	5	3	2
PeaceHealth St. Joseph Medical Center	Whatcom	0	1	0
Totals		**88**	**85**	**62**

The increase in out-migration in Table 9 shows that some Yakima County residents choose to receive rehabilitation services outside of Yakima County. The decrease in rehabilitation services within the hospitals outside of Yakima County in Table 10 above shows that Yakima County rehabilitation patients are receiving rehabilitation services in a setting other than a hospital. While level I rehabilitation services are limited to a hospital setting, levels II and III—which are the less acute rehabilitation services—could be provided in the patient's home through home health; in a nursing home; or another setting. Year 2013 CHARS data supports this conclusion. For example, SCH is not approved to provide level I rehabilitation services, yet 2013 data shows SCH provided rehabilitation care to 12 patients for a total of 102 days. The department concludes the increase in out-migration for Yakima County residents shown in Table 9 may have no bearing on the number of available rehabilitation hospital beds within the county.

During the review of this project, the department received a total of three letters of support and no letters of opposition for the ten-bed rehabilitation unit at SCH. Below is a summary of the comments that focus on need for the additional level rehabilitation beds and services in the county.

- Neuro related diagnoses and disorders are the top reasons for referral to acute rehabilitation. Nationwide, stroke accounts for about 20% of all acute rehab admissions. Debility and neurologic disorders account for anther 20%. Today, with my Lower Valley practice, I recommend about 10 patients per month for acute rehabilitation, but it is my experience that there are delays in transfer, and some patients and families opt not to go to acute rehabilitation because they do not want to leave the lower valley. As the Lower Yakima Valley grows and ages, neuro disorders and diagnoses are increasing, and more accessible acute rehabilitation and other post-acute services are a top need. [source: neurosurgeons, Nova Health]
- The vast majority of our patients reside in the Lower Yakima Valley, and many have limited transportation and resources to access care out-of-area. Historically the Lower Valley has had limited rehabilitation options. Because fracture of the lower extremity and major joint procedures are two of the most high volume reasons for admissions to acute rehabilitation, I personally refer about 10 to 15 patients per month to acute rehabilitation. …Given the rapidly growing population and the need to achieve optimal patient outcomes, a local acute rehabilitation program would help us achieve better patient outcomes. [source: physician at Sunnyside Community Hospital]
- Yakima Valley Farmworkers Clinic provides comprehensive medical, dental, behavioral health and other enabling services to over 127,000 patients in Washington and Oregon. In Yakima County, we operate clinics in Toppenish, Yakima, Sunnyside, Grandview, and Wapato. …Historically there have been barriers for Lower Yakima Valley residents needing access to post-acute services in particular, the lack of local services. [source: Executive Director, Yakima Valley Farm Workers Clinic]

Department's Evaluation

The department concluded that Yakima Regional Medical and Cardiac Center has a total of 17 level I rehabilitation beds. Using the numeric methodology provided by the applicant and summarized in Table 3 of this evaluation, when the 17 beds are subtracted, year 2016 shows a surplus of two beds and projection year 2020 shows no need for additional rehabilitation beds in Yakima County.

The letters of support focused on need for level I rehabilitation services in the Lower Yakima Valley region where SCH is located. Tertiary health service is defined in WAC 246-310-010 as "*a specialized service meeting complicated medical needs of people and requires sufficient patient volume to optimize provider effectiveness, quality of service, and improved outcomes of care*."

For these reasons, level I rehabilitation services are not, and should not be, offered in every hospital within the state, nor should they be limited to a given service area. With a tertiary service, it is expected that a patient will be transported some distance to receive quality care from a quality provider. WAC 246-310-010 defines health service area as "*a geographic region appropriate for effective health planning including a broad range of health services*." For this project, it is unreasonable to approve a tertiary service based on lack of services in the Lower Yakima Valley when the services are available in Yakima County as a whole.

SCHA asserts that the department has the authority under Criterion #2 of the 1987 State Health Plan to consider other criteria or conditions if need is not demonstrated in the numeric methodology. The specific language referenced by SCHA does allow for consideration of other criteria. However, Criterion #2 is a small portion of the Hospital Bed Need Forecasting Method section that the department uses for general medical surgical beds at a hospital, rather than a tertiary service. SCHA suggests applying the section to the tertiary service, as defined in RCW 70.38.025(14) and WAC 246-310-010(59), which states:

> "*Tertiary health service" means a specialized service that meets complicated medical needs of people and requires sufficient patient volume to optimize provider effectiveness, quality of service, and improved outcomes of care*. "

WAC 246-310-020(1)(d)(i)(F) further defines level I rehabilitation services as:

> *"Inpatient physical rehabilitation services level I. Level I rehabilitation services are services for persons with usually nonreversible, multiple function impairments of a moderate-to-severe complexity resulting in major changes in the patient's lifestyle and requiring intervention by several rehabilitation disciplines. Services are multidisciplinary, including such specialists as a rehabilitation nurse; and physical, occupational, and speech therapists; and vocational counseling; and a physiatrist. The service is provided in a dedicated unit with a separate nurses station staffed by nurses with specialized training and/or experience in rehabilitation nursing. While the service may specialize (i.e., spinal cord injury, severe head trauma, etc.), the service is able to treat all persons within the designated diagnostic specialization regardless of the level of severity or complexity of the impairments and include the requirements as identified in chapter 246-976 WAC relating to level I trauma rehabilitation services."*

The department will take into consideration other factors when applying a numeric methodology. Other factors could be geographical or other types of identified barriers to healthcare services. Generally, the other factors do not take the place of the methodology, rather the other factors supplement and support the methodology.

In this project, SCHA's methodology using HSA #3 use rate shows no need. SCHA asserts that the more appropriate use rate that should be applied to the methodology is HSA #4. However, historical utilization data for both HSA #3 and #4 do not support SCHA's assertion that rehabilitation services in Yakima County are unavailable; or that the existing providers are unavailable or inaccessible; or that applying a use rate that is almost twice the use rate of HSA #3 for population 65+ is justified. [HSA #3 use rate is 68.1/1000 vs HSA #4 use rate of 122.47/1,000] The department does not concur with SCHA that the higher use rate is more appropriate.

Based on the above information, need for ten level I rehabilitation beds to be located in Yakima County is not demonstrated. **This sub-criterion is not 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.*

SCH has been providing healthcare services to the residents of Yakima County and surrounding communities for many years through its hospital and medical clinics. Healthcare services have been available to low-income, racial and ethnic minorities, handicapped and other underserved groups. SCH currently participates in the Medicare and Medicaid programs. For this project, SCHA must demonstrate a commitment to be available to the residents of the community, maintain its Medicare and Medicaid participation, and provide a percentage of charity care in the planning area.

Admission Policy

To determine whether all residents of the community would continue to have access to the applicant's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the service area would have access to 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.

To demonstrate compliance with this sub-criterion, SCHA provided copies of three separate policies: Patient's Rights Policy; Informed Consent Policy, and the Nondiscrimination Policy. [source: Application, Exhibit 5]

The Patient Rights Policy provides the following non-discrimination language:

> *"Each patient has the right to impartial access to treatment, regardless of race, religion, sex, sexual orientation, ethnicity, age, or handicap."*

This policy provides roles and responsibilities for both SCH and the patient and outlines the process for admission into SCH.

The Informed Consent Policy is used to describe the various types of patient consent for treatment at SCH, such as implied consent, express consent, and emergent consent. This policy is used in conjunction with the Admission Policy described above.

The Nondiscrimination Policy includes the required non-discrimination language and is used for "*all members of the Sunnyside Community Hospital's workforce, including employees, medical staff members, contracted services providers, and volunteers, and all vendors, representatives, and any other individuals providing services to or on behalf of Sunnyside Community Hospital*."

All three policies are posted on the Department of Health website. Additionally, all three policies include the following language: *"Printed copies are for reference only. See the hospital intranet for approved version.*" It is unclear why this language is included in the policies; however, because it is included, for Certificate of Need purposes, all three policies must considered draft. If this project is approved, the department would attach conditions requiring SCHA to provide the approved versions of all three policies.

In addition to the policies referenced above, SCHA also provided a document specific to rehabilitation services to be used at SCH. This document is a draft and is entitled "Rehabilitation Unit Admission Criteria." The document identifies the 13 CMS designated diagnoses for patients before admission into the rehabilitation unit. It also outlines the process SCH will use for patients that do not fall within the 13 diagnoses to ensure appropriateness for the rehabilitation unit. [source: April 13, 2015, supplemental information, Attachment 7] If this project is approved, the department would attach a condition requiring SCHA to provide the approved version of this document.

Medicare and Medicaid Programs

The department uses Medicare certification to determine whether the elderly would have access or continue to have access to the proposed services. The department uses the facility's Medicaid eligibility or contracting with Medicaid to determine whether low-income residents would have access to the proposed services.

To demonstrate compliance with this sub-criterion SCHA provided the current source of revenues by payer at SCH. SCHA also provided the projected revenue sources for rehabilitation unit only, and the hospital wide revenue sources with the recently approved psychiatric services and this rehabilitation project. The information is summarized in Table 11 below.

Table 11
Revenue Sources

	Percentages		
Payer Source	**Current**	**Rehab Only**	**With Rehabilitation and Psychiatric**
Medicare	28.9%	50.0%	33.8%
Medicaid	44.5%	37.0%	42.7%
HMO/PPO/Commercial	21.8%	8.0%	18.6%
Private Pay/Other Insurance	4.8%	5.0%	4.9%
Total	**100.0%**	**100.0%**	**100.0%**

Additionally, the financial data provided in the application shows Medicare and Medicaid revenues. [source: April 13, 2015, supplemental information, Attachment 9]

Charity Care Policy

A facility's charity care policy should confirm that all residents of the service area, including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to healthcare services of the applicant. The policy should also include the process one must use to access charity care at the facility.

SCH has historically provided charity care to community residents for many years. To demonstrate compliance with this sub-criterion, SCHA provided a copy of the Charity Care Policy currently used at SCH and posted on the Department of Health's website. The policy includes the process one must use to access charity care, and includes the non-discrimination language referenced above. The pro forma financial documents provided in the application also include a charity care 'line item.' [source: April 13, 2015, supplemental information, Attachment 9] This policy also includes the following language: *"Printed copies are for reference only. See the hospital* *intranet for approved version.*" If this project is approved, the department would attach a condition requiring SCHA to provide the approved version of this policy.

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. SCH is one of 21 hospitals located in the Central Washington Region. According to 2011 - 2013[12] charity care data obtained from HPDS, SCH has historically provided less than the three-year average charity care provided in the region. The table below is a comparison of the average charity care for the Central Washington Region, and the historical and projected percentages of charity care for SCH. [source: March 4, 2015, supplemental information, Attachment 1 and HPDS 2011-2013 charity care summaries]

Table 12
Charity Care Percentage Comparisons

	% of Total Revenue	% of Adjusted Revenue
Central Washington Region	2.34%	5.39%
Sunnyside Community Hospital Historical	1.80%	5.12%
Sunnyside Community Hospital Projected	2.21%	8.32%

The pro forma revenue and expense statements submitted by SCHA for SCH indicate that the hospital will provide charity care at slightly less than the regional average for total revenue. The department concludes a charity care condition is necessary for this project.

No public comments were submitted for this sub-criterion.

If this project is approved, the department would attach conditions requiring SCHA to provide the approved versions of its Patient's Rights Policy; Informed Consent Policy, Nondiscrimination Policy, and Charity Care Policy. The approved versions of the policies would exclude the following language:

"Printed copies are for reference only. See the hospital intranet for approved version."

Additionally, the department would attach a condition requiring SCH to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Central Region.

Based on the source documents evaluated and the applicant's agreement to the conditions referenced above, the department concludes that all residents, including low income, racial and ethnic minorities, handicapped, and other under-served groups would continue to have access to the services provided by SCH. **This sub-criterion is met.**

[12] Charity care data for year 2014 is not available as of the writing of this evaluation.

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

Based on the source information reviewed the department determines that Sunnyside Community Hospital Association's application does not meet the applicable need criteria in WAC 246-310-220.

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

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

If this project is approved, SCHA anticipates the ten-bed rehabilitation unit would be operational in January 2017. Under this timeline, SCH's first full calendar year of operation with a ten-bed rehabilitation unit is 2017 and year three is 2020. [source: Application, p15]

To evaluate this sub-criterion, the department first reviewed the assumptions used by SCHA to determine the projected number of level I rehabilitation discharges and patient days at SCH. The assumptions are summarized below. [source: Application, p30 and April 13, 2015, supplemental information, pp3-4]

- Based on actual Yakima County data per CHARS for rehabilitation patients age 15+, an average length of stay of 12 days was assumed.
- Use rates will be in line with HSA #4 use rates as bed availability in the planning area increases.
- Based on the enhanced use rate, SCHA projects the hospital will have 24% of the planning area patient days in year one, which is projected to grow to 34% in year three.
- Based on SCH's proximity to western Benton County and Klickitat County, 10% of the patient days are assumed to come from non-Yakima County residents.
- Despite declining volumes over the past several years, Yakima Regional Medical and Cardiac Center's rehabilitation days from Yakima County are held flat at 2013 volumes.
- Continued out-migration for specialty rehabilitation services at Harborview Medical Center, Seattle Children's, and University of Washington Medical Center is assumed. The volumes are held flat at 2013 levels.

Using the assumptions summarized above, SCHA projected the number of rehabilitation patients, patient days, average daily census, and utilization for the ten-bed level I rehabilitation unit shown in Table 13 on the following page. [source: April 13, 2015, supplemental information, p1]

Table 13
Sunnyside Community Hospital Level I Rehabilitation Projections

	Year 1-2017	Year 2-2018	Year-3-2019
Level I Rehabilitation Patient Discharges	133	165	198
Average Length of Stay	12 days	12 days	12 days
Level I Rehabilitation Patient Days	1,596	1,980	2,376
Average Daily Census	4.4	5.4	6.5
Percentage of Utilization	43.7%	54.2%	65.1%

In its application, SCHA also assumed its level I rehabilitation services would reduce out-migration for the county. In response to the department's inquiry regarding this assumption, SCHA provided the following explanation. [source: April 13, 2015, supplemental information, p5]

> *"Declining utilization at Yakima Regional has resulted in increased outmigration for services. Establishing rehabilitation services at Sunnyside will reduce the need for patients to leave Yakima County for services."*

Taking into consideration the need projection methodology and the assumptions used by SCHA to project the number of rehabilitation patients and patient days, the department concludes that the assumptions used are not reasonable.

Using the projected number of rehabilitation patients and patient days in Table 13 above, SCHA provided the projected revenue and expense statement for the ten-bed rehabilitation unit and the hospital-wide statement, which includes the psychiatric unit. Table 14 below provides a summary of the ten bed rehabilitation unit. [source: April 13, 2015, supplemental information, Attachment 9]

Table 14
Sunnyside Community Hospital
Level I Rehabilitation Unit Revenue and Expense Summary

	Year 1-2017	Year 2-2018	Year-3-2019
Net Revenue	$ 1,340,641	$ 1,663,200	$ 1,995,840
Total Operating Expenses	$ 1,613,578	$ 1,646,298	$ 1,921,957
Net Profit /(Loss)	($ 272,937)	$ 16,902	$ 73,883

The 'Net Revenue' line item is gross revenue and any deductions for charity care, bad debt, and contractual allowances. The 'Total Operating Expenses' line item includes salaries and wages for the rehabilitation unit's staff, and all allocated costs. As shown in the table above, SCHA projected the level I rehabilitation unit would operate at a loss in year 2017; and a profit in full years 2018 and 2019.

Taking into consideration the need projection methodology and the assumptions used by SCHA to project the number of rehabilitation patients and patient days, the department concludes that the projected revenue and expense statement for the level I rehabilitation unit cannot be substantiated.

Table 15 on the following page provides a summary of the projected hospital-wide statement, which includes the recently approved psychiatric unit. [source: April 13, 2015, supplemental information, Attachment 9]

Table 15
Sunnyside Community Hospital
Hospital-Wide Revenue and Expense Summary

	Year 1-2017	**Year 2-2018**	**Year-3-2019**
Net Revenue	$ 58,484,513	$ 58,807,072	$ 59,139,712
Total Operating Expenses	$ 56,321,060	$ 56,353,780	$ 56,629,439
Net Profit /(Loss)	$ 2,163,453	$ 2,453,292	$ 2,510,273

The 'Net Revenue' line item is gross revenue and any deductions for charity care, bad debt, and contractual allowances. The 'Total Operating Expenses' line item includes salaries and wages for all staff, including the recently approved psychiatric unit and the level I rehabilitation unit. As shown in the table above, SCHA projected the hospital would operate at a profit in all projections years with the both new services. Taking into consideration the need projection methodology, the assumptions used by SCHA to project the number of rehabilitation patients and patient days, the projected revenue and expense statement for the level I rehabilitation unit, the department concludes that the hospital wide statement cannot be substantiated.

HPDS also provided a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. If a project's ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, HPDS reviews a project's projected statement of operations to evaluate the applicant's immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2013 data for comparison with projected years 2016 through 2019. The ratio comparisons for full years 2017 through 2019 are shown in the table below. [source: July 10, 2015, HPDS analysis, p3]

Table 16
Projected Debt Ratios for Sunnyside Community Hospital

Category	**Trend***	**State 2013**	**Projected Year 1 2017**	**Projected Year 2 2018**	**Projected Year 3 2019**
Long Term Debt to Equity	B	0.513	0.260	0.189	0.131
Current Assets/Current Liabilities	A	2.356	2.100	2.282	2.472
Assets Funded by Liabilities	B	0.415	0.404	0.362	0.322
Operating Expense/Operating Revenue	B	0.945	0.958	0.948	0.948
Debt Service Coverage	A	5.887	18.513	20.132	20.297

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

As shown in Table 16, by the end of the fourth year of operation for the psychiatric unit and the third full year of operation of the level I rehabilitation unit, all ratios are within range.

There was no public comment submitted related to this sub-criterion.

Taking into consideration the need projection methodology, the assumptions used by SCHA to project the number of rehabilitation patients and patient days, the projected revenue and expense statement for the level I rehabilitation unit, and the projected hospital-wide revenue and expense statement, the department concludes that the immediate and long-range operating costs of the project cannot 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.

The estimated capital expenditure associated with the establishment of the ten-bed rehabilitation unit at SCH is $2,634,000. A breakdown of the costs is shown below. [source: Application, p32]

Item	Cost	% of Total
Construction Costs [includes fixed equipment]	$ 2,098,239	79.7%
Moveable Equipment	$ 185,357	7.0%
Architect/Engineering/Supervision Fees	$ 170,000	6.5%
Sales Tax	$ 180,404	6.8%
Total	**$ 2,634,000**	**100.0%**

The hospital has been located at 1016 Tacoma Avenue in Sunnyside for many years. The rehabilitation unit within the hospital is expected to be approximately 6,000 gross square feet [gsf] and would be located within an existing, to-be-renovated wing of the hospital. With the recently approved 5,200 gsf 10-bed psychiatric unit, the hospital's inpatient units would increase by approximately 11,200 gsf. Construction costs identified above include all costs for construction or renovation and any fixed equipment to be installed into the space. [source: Application p14 & p32]

SCHA also provided the estimated start-up costs for the project. These start-up costs include all costs incurred after construction is complete, but before the rehabilitation unit is open for patient care. A breakdown of the start-up costs are shown in below. [source: Application, p34]

Item	Cost	% of Total
Recruitment/Staff Training	$ 74,000	77.9%
Supplies	$ 6,000	6.3%
Minor Equipment	$ 10,000	10.5%
Allocated Costs	$ 5,000	5.3%
Total	**$ 95,000**	**100.0%**

To further demonstrate compliance with this sub-criterion, SCHA provided SCH's hospital-wide current and projected revenue sources. SCHA states that the revenue sources are not expected to change significantly with the addition of rehabilitation services at the hospital. The projected revenue sources include the recently approved ten-bed psychiatric unit and are shown in the table below. [source: April 13, 2015, supplemental information, pp5-6]

Table 17
Sunnyside Community Hospital
Sources of Patient Revenue

Payer Source	Current Percentage	Projected Percentage
Medicare	28.9%	33.8%
Medicaid	44.5%	42.7%
HMO/PPO/Commercial	21.8%	18.5%
Private Pay/Other Insurance	4.8%	5.0%
Total	**100.0%**	**100.0%**

As shown in the table above, currently 28.9% of the payer source is Medicare; which increases to 33.8% when both the psychiatric unit and the proposed rehabilitation unit become operational. Since both units will be PPS exempt, the reimbursement is made based on a predetermined, fixed amount. As a result, these costs are not expected to have an impact on the operating costs and charges for rehabilitation services in Yakima County. Typically, Medicaid is also a cost-based reimbursement. [source: CMS website]

There was no public comment submitted related to this sub-criterion.

Since the combined percentages of Medicare and Medicaid payer source make up the majority [76.5%] of the projected revenue at SCH, the department could conclude that the costs of this project will probably not result in an unreasonable impact to the costs and charges for health care services within the services area. However, in the need section of this evaluation, the department concluded that SCHA did not demonstrate need for ten additional level I rehabilitation beds in Yakima County. On that basis, **this sub-criterion is not met**.

(3) <u>The project can be appropriately financed.</u>

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.

As previously stated, the total capital expenditure for the establishment of the ten-bed rehabilitation unit at SCH is $2,634,000. SCHA intends to fund the project with hospital reserves. The startup costs of $95,000 will also be funded with SCH reserves. A breakdown of the funding sources and amounts for this project is shown in Table 18 on the following page. [source: Application, pp29-30]

Table 18
Funding Sources for
Sunnyside Community Hospital Rehabilitation Unit

Item	Hospital Reserves
Capital Expenditure	$ 2,634,000
Startup Costs	$ 95,000
Total Project Cost	**$ 2,729,000**

To demonstrate that the funding for the project is available, SCHA provided the following documents. [source: Application, Appendix 1 & April 13, 2015, supplemental information, Attachment 4]

- A letter from SCH's chief financial officer demonstrating a commitment to the project and the costs;
- SCHA's year 2012 and 2014 audited financial statements demonstrating the funds for the project are available.

There was no public comment submitted related to this sub-criterion.

Based on the documents submitted, the department concludes the project can be funded. **This sub-criterion is met.**

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

Based on the source information reviewed and provided the applicant agree to the conditions identified in the 'conclusion' section of this evaluation, the department concludes Sunnyside Community Hospital Association has met the 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 that should be employed for projects of this type or size.

As a 25-bed CAH, SCH has been currently staffed to provide acute care services. The recent approval of a ten-bed psychiatric unit required additional staff beginning in year 2016 through year 2019. The addition of a ten-bed rehabilitation unit requires additional staff beginning in year 2017 through year 2019. To demonstrate compliance with this sub-criterion, SCHA provided SCH's current full time equivalents (FTEs), its projected FTEs for the recent psychiatric approval, projected FTEs for the rehabilitation unit, and projected hospital-wide FTEs with both the psychiatric unit and the rehabilitation unit. [source: April 13, 2015, supplemental information, pp7-9]

Specific to the ten-bed rehabilitation unit, SCHA expects to add 13.0 FTEs in year 2017, then another 2.3 FTEs in year 2019, for a total increase of 15.3 FTEs specific to the proposed rehabilitation services. Table 19 on the following page provides a breakdown of the projected FTEs for the rehabilitation unit only. [source: April 13, 2015, supplemental information, p7]

Table 19
Sunnyside Community Hospital
Rehabilitation Unit Staffing for Years 2017-2019

Category	Full Year 2017	Full Year 2018	Full Year 2019
Program Manager	1.0	1.0	1.0
Registered Nurse (RN)	6.6	6.6	8.4
Nursing Assistants	1.0	1.0	1.0
Admission Coordinator	1.0	1.0	1.0
Therapists	2.0	2.0	2.5
Housekeeping	1.4	1.4	1.4
Total FTE's	**13.0**	**13.0**	**15.3**

As a 35-bed CAH, SCH employs approximately 336 FTEs. With the recent addition of psychiatric services, SCH's FTEs would increase to approximately 343 FTEs in year 2016 and 352 FTEs by the end of year 2018. The addition of rehabilitation services proposed in this application increases FTEs at SCH to approximately 363 in year 2017 and to 368 by the end of year 2019. Table 20 below provides a breakdown of hospital-wide FTEs that includes the recently approved psychiatric unit and the proposed FTEs for the ten-bed rehabilitation unit. [source: April 13, 2015, supplemental information, pp8-9]

Table 20
Sunnyside Community Hospital
Hospital-Wide Staffing for Years 2016-2019

Category	Current 2015 Excludes Rehab & Psych	Full Year 2017	Full Year 2018	Full Year 2019
Clinical Director	0.0	2.0	2.0	2.0
Registered Nurse (RN)	52.0	65.0	67.0	68.8
Medical Social Workers (MSW)	1.0	2.0	2.0	2.0
Nursing Assistants	30.0	31.0	31.0	31.0
Admissions Coordinator	1.0	2.0	2.0	2.0
Clinical Coordinator	0.0	1.0	1.0	1.0
Therapists	3.0	6.4	6.4	6.9
Housekeeping	15.0	17.8	17.8	17.8
Other[13]	234.0	236.0	236.0	236.0
Total FTE's	**336.0**	**363.2**	**365.2**	**367.5**

To further demonstrate compliance with this sub-criterion, SCHA provided the following statements related to its ability to recruit and retain staff. [source: Application, p39]

> *"Sunnyside [Community Hospital] has a proven history as a competitive employer, offering a comprehensive wage and benefit package to its employees. To assist with retention, Sunnyside [Community Hospital] annually undertakes a survey to ensure that its salary and benefit levels remain competitive. ...Sunnyside [Community Hospital] has, over the past two years, expanded and/or added new services. As these new services have come online, qualified new staff have been recruited and on-boarded. Sunnyside*

[13] Other staff includes administration, medical records, business office, human resources, dietary, plant administration, and information technology staff.

[Community Hospital] does not have in-house specialty recruiters, but has been very successful using external expertise to recruit specialty staff for newly expanded services.] Sunnyside [Community Hospital] is also committed to ensuring that bilingual and bicultural staff are available for the rehabilitation unit due to the large number of residents in our service area who speak a language other than English at home."

SCHA must recruit rehabilitation specific staff for the ten-bed rehabilitation unit, which includes a medical director. All staff, including the medical director, will be employees of SCH, so no medical director contract will be established. SCHA provided a draft job description for the medical director that outlines responsibilities for the position. [source: April 13, 2015, supplemental information, Attachment 3]

There was no public comment submitted related to this sub-criterion.

If this project is approved, the department would attach a condition requiring SCHA to provide a copy of the approved medical director job description and identification of the medical director.

Based on the source information reviewed the department concludes that sufficient staffing 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.

SCH has been providing acute care hospital services to Yakima County and surrounding communities for many years. As a 25-bed CAH, SCH currently has long established ancillary and support relationships. Specific to its recently approved ten-bed psychiatric unit, SCH would provide much of the ancillary services on site, such as pharmacy, dietary, and lab services. The recent addition of psychiatric services will require SCH to establish working relationships with existing behavioral health specialists, such as private outpatient providers, designated mental health professionals, Regional Support Network staff, etc. Since the psychiatric services are not operational, SCH has not yet secured these relationships. [source: Application, pp39-40 and CN historical files]

The proposed rehabilitation services will require SCH to establish relationships with local community based or outpatient rehabilitation providers to ensure patients continue to receive rehabilitation services as necessary. Additionally, SCH intends to work closely with the patient and patient's family to ensure that rehabilitation care is provided in the least intensive and least restrictive environment. [source: Application, p40]

No public comments were submitted for this sub-criterion.

Based on documents provided in the application and SCH's historical ability to establish ancillary and support relationships, the department concludes there is reasonable assurance that SCH will have appropriate ancillary and support services for the ten-bed rehabilitation unit. **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. As part of its review, the department must conclude that the proposed service would be operated in a manner that ensures safe and adequate care to the public. 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.

SCH has been a healthcare provider in Washington for many years through its hospital in Sunnyside and physician clinics in Yakima and Benton Counties. As part of this review, the department must conclude that the proposed services provided by SCH would be provided in a manner that ensures safe and adequate care to the public.[14] To accomplish this task, the department reviewed the quality of care compliance history for all healthcare facilities either owned, operated, or managed by SCH or SCHA.

Using the department's internal database, the department obtained survey data for SCH. Since 2011, three surveys have been conducted and completed by Washington State surveyors. All surveys resulted in no significant non-compliance issues.[15] [source: ILRS survey data]

Given the compliance history of the SCH, the department concludes that there is reasonable assurance that SCH would continue to operate in compliance with state and federal regulations with addition of the ten-bed rehabilitation services. **This sub-criterion is met.**

There was no public comment submitted related to this sub-criterion.

Given the compliance history of SCH, the department concludes there is reasonable assurance the new inpatient rehabilitation services would be operated in conformance with state and federal regulations. **This sub-criterion is met**

(4) *<u>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.</u>*
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 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

[14] WAC 246-310-230(5).
[15] Quality of care surveys conducted in November 3, 2011, December 13, 2012, and November 20, 2013.

this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

To demonstrate compliance with this sub-criterion, SCHA stated it fully expects that the proposed inpatient rehabilitation services would promote continuity in the delivery and care of patients in Yakima County and surrounding communities. SCHA also states that the rehabilitation unit will offer a therapeutic environment for the purpose of increasing functional abilities in self-care, mobility, communication, and cognitive performances. Discharge planning would begin at admission to ensure that continuity of care is achieved, while also ensuring that the patient receives the most appropriate level of care in the least intensive and less restrictive level. [source: Application, p40]

There was no public comment submitted related to this sub-criterion.

In the need section of this evaluation, the department concluded that SCHA did not demonstrate need for ten additional level I rehabilitation beds in Yakima County. On that basis, the department concludes that approval of this project could cause unwarranted fragmentation of the existing healthcare system. **This sub-criterion is not 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 evaluated in sub-section (3) above, and based on that evaluations; the department concludes that **this sub-criterion is met**.

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

Based on the source information reviewed and provided the applicant agree to the conditions identified in the 'conclusion' section of this evaluation, the department concludes Sunnyside Community Hospital Association has met the cost containment criteria in WAC 246-310-240.

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

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

Step three of this assessment is to apply any service or facility specific criteria (tie-breaker) contained in WAC 246-310. The tiebreaker criteria are objective measures used to compare competing projects and make the determination between two or more approvable projects, which is the best alternative. If WAC 246-310 does not contain any service or facility criteria as directed by

WAC 246-310-200(2)(a)(i), then the department would look to WAC 246-310-240(2)(a)(ii) and (b) for criteria to make the assessment of the competing proposals. If there are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b), then using its experience and expertise, the department would assess the competing projects and determine which project should be approved.

Step One

For this project, SCHA's project did not meet the review criteria under WAC 246-310-210, 220, and 230. Therefore, steps two and three under this sub-criterion are not reviewed. Based on that evaluation, the department concluded **this sub-criterion is not met.**

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

(a) *The costs, scope, and methods of construction and energy conservation are reasonable;*

In response to this sub-criterion, SCHA states that the construction for this project includes new space to house the rehabilitation unit. Due to space constraints within the hospital, SCHA had limited options for where the unit would be located. SCHA further states that the space will be designed and constructed to be cost effective and energy efficient. [source: Application, p43]

After reviewing the information summarized above, the department concludes SCHA has many years of experience ensuring its existing facilities are compliant with Medicare certification and the local authority construction and energy conservation codes. Based on the information, 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.*

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concluded **this sub-criterion is not met**