



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

August 3, 2016

CERTIFIED MAIL # 7014 2120 0002 7587 6187

Alex Town, VP of Finance
Tri-State Memorial Hospital
1221 Highland Avenue
PO Box 189
Clarkston, WA 99403

RE: CN Application #16-14A

Dear Mr. Town:

We have completed review of the Certificate of Need application submitted on behalf of Tri-State Memorial Hospital proposing to establish a 2-OR ambulatory surgery center in Clarkston within Asotin County. Enclosed is a written evaluation of the application.

For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Tri-State Memorial Hospital agrees to the following in its entirety.

Project Description

This certificate approves the establishment of a two-operating room ambulatory surgery center in Clarkston, within Asotin County. The surgery center would serve patients who require interventional pain management surgical services that can be appropriately performed in an outpatient setting.

Conditions

1. Tri-State Memorial Hospital agrees with the project description as stated above. Tri-State Memorial Hospital further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Prior to providing services at TSMH IPC, Tri-State Memorial Hospital will submit an admission policy to the department for review and approval that is specific to TSMH IPC. This policy must address the admitting process and appropriate candidates for outpatient surgery.
3. Prior to providing services at TSMH IPC, Tri-State Memorial Hospital will submit an updated charity care policy that specifically references outpatient surgical services, and specifically references TSMH IPC.

4. Tri-State Memorial Hospital will provide charity care at TSMH IPC in compliance with the updated charity care policy as identified in condition #3. Tri-State Memorial Hospital will use reasonable efforts to provide charity care at the ambulatory surgery center in an amount consistent with the most recent three-year average of Tri-State Memorial Hospital's historical charity care. For years 2012-2014, this amount is 1.51%. Tri-State Memorial Hospital will maintain records at the ambulatory surgery center documenting the amount of charity care it provides, and demonstrating its compliance with its charity care policy.
5. Tri-State Memorial Hospital agrees that TSMH IPC will maintain Medicare and Medicaid certification, regardless of facility ownership.
6. Tri-State Memorial Hospital shall finance the project using cash reserves as described in the application.

Approved Capital Costs:

The approved capital expenditure for this project is \$2,771,148, which includes the construction, equipment, and associated fees and taxes.

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

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

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

Mailing Address:

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

Physical Address:

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

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

Sincerely,



Bart Eggen, Acting Director
Community Health Systems

Enclosure

EVALUATION DATED AUGUST 3, 2016 OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY TRI-STATE MEMORIAL HOSPITAL PROPOSING TO ESTABLISH AN AMBULATORY SURGERY CENTER IN ASOTIN COUNTY

APPLICANT DESCRIPTION

Tri-State Memorial Hospital (TSMH) was established in 1955, at 1221 Highland Avenue in Clarkston. Tri-State Memorial Hospital is a community-owned hospital. It is governed by a 13-member volunteer board of directors, and has a six-person leadership team. The leadership team operates under the direction of the board, and includes a CEO, CFO, and vice presidents of human resources, patient care services, quality and compliance, and community relations and foundation.

Tri-State Memorial Hospital provides a number of services on the six-acre medical campus. This includes the 25-bed critical access hospital (CAH)¹, physicians offices, laboratory space, pharmacy, assisted living, outpatient dialysis, and a number of specialty services. The facilities and services regulated by the state are listed in the table below:

Name	Facility/Service Type
Tri-State Memorial Hospital	Critical Access Hospital
Tri-State Dialysis	Dialysis Center
Evergreen Estates Retirement and Assisted Living ²	Assisted Living Facility

[source: Tri-State Memorial Hospital website, application p4, Exhibit 1]

Tri-State Memorial Hospital is Medicare and Medicaid-certified, and accredited by Det Norske Veritas.³

PROJECT DESCRIPTION

With this application, Tri-State Memorial Hospital proposes to establish a new, two-operating room ambulatory surgery center (ASC) located in Clarkston, within the Asotin County secondary service planning area. The ASC would be known as Tri-State Memorial Hospital Interventional Pain Consultants (TSMH IPC). This ASC, while not physically attached to the hospital, would be located on the hospital campus in an existing medical office building across the parking lot. It

¹ TSMH is licensed for 62 beds, but operates as a 25-bed CAH. In order to be designated as a CAH, a hospital must meet all the following criteria: be located in a state with a rural health plan, be in a rural area, demonstrate compliance with CFR part 485, subpart F, provide emergency services 24 hours a day, seven days a week, maintain no more than 25 inpatient beds (can be used for swing), and have an annual average length of stay of 96 hours or less for acute care. In addition to these criteria, a hospital must meet one of the following requirements: be located more than a 35 mile drive from any hospital, be located more than a 15 mile drive from any hospital in an area with mountainous terrain/only secondary roads, or be certified prior to January 1, 2006 based on state designation as a “necessary provider” of health services to residents in the area. [sources: application p4, CMS website]

² Evergreen Estates Retirement and Assisted Living Community – an assisted living facility – is licensed by the Department of Social and Health Services.

³ Det Norske Veritas (DNV) accredits and certifies more than 500 hospitals throughout the United States. DNV accreditation involves annual surveys that are focused on high quality and continual improvement. DNV has had CMS deeming authority since 2008. [source: DNV website]

would be licensed as an outpatient department of the hospital. [source: February 26, 2016 screening response p1; application, Exhibit 2]

The ASC would serve patients that can be served appropriately in an outpatient setting. Surgical services to be provided at the ASC would be limited to interventional pain management procedures. Common procedures to be performed include the following: epidural steroid injections⁴, transforaminal epidural steroid injections,⁵ medial branch blocks,⁶ radiofrequency thermocoagulation (RFTC),⁷ vertebroplasty and vertebral augmentation,⁸ discogram,⁹ stellate, sacroiliac joint injections,¹⁰ and spinal cord stimulator implants.¹¹ [source: application p9]

There is only one existing resources for interventional pain management surgical services in Asotin County – within the existing program within TSMH. Up until recently, the closest existing resource for interventional pain management services outside of the hospital setting was a physician-owned surgical practice located in Lewiston, Idaho. This practice, formerly known as Interventional Pain Consultants, P.A., has been acquired by TSMH. As a result of this transaction, TSMH proposes to centralize the services formerly located in Lewiston to the TSMH campus. The associated practice has been absorbed into the TSMH physician practice group. [source: application p8]

TSMH IPC would be located on the lower floor of the medical office building. It would be operated as an outpatient department of the hospital. The space would include two operating

⁴ An epidural steroid injection is used to reduce the inflammation around the spinal nerves. Using X-rays, a needle is guided into the epidural space. The injection itself may include local anesthetic and/or saline along with the steroid medication to give immediate pain relief and flush the area of inflammatory agents. The mixture is injected and the steroid acts to reduce the inflammation around the spinal nerve roots. [source: www.spine-health.com]

⁵ A transforaminal injection is an injection of long acting steroid into the opening at the side of the spine where a nerve roots exits. [source: www.medcentral.org]

⁶ A medial branch nerve block is a procedure in which an anesthetic is injected near small medial nerves connected to a specific facet joint. [source: www.spine-health.com]

⁷ Radiofrequency thermocoagulation is also known as radiofrequency neurotomy. In this procedure, a heat lesion is created on certain nerves with the goal of interrupting the pain signals to the brain, thus eliminating pain. [source: www.spine-health.com]

⁸ Vertebroplasty is a procedure in which a cement is injected into a fractured vertebra — with the goal of relieving your spinal pain and restoring mobility. [source: www.hopkinsmedicine.org]

⁹ A discogram is a diagnostic procedure which helps determine if an abnormal disc is causing back pain. [source: www.mayoclinic.org]

¹⁰ The purpose of a sacroiliac joint injection is two-fold: to diagnose the source of a patient's pain, and to provide therapeutic pain relief. This injection takes place within the sacroiliac joints, which connect the sacrum with the hip on both sides. [source: www.spine-health.com]

¹¹ In spinal cord stimulation, soft, thin wires with electrical leads on their tips are placed through a needle in the back near to the spinal column. The leads are placed through a needle inserted in the back (no incision is required). A small incision is then made and a tiny, programmable generator is placed in the upper buttock or abdomen which emits electrical currents to the spinal column to electrically block pain signals. [source: www.spine-health.com]

rooms (ORs),¹² ten exam rooms, and eight recovery bays. The surgery center would occupy approximately 5,993 gross square feet. [sources: application p4, p11, CRS #60586167]

The estimated capital expenditure for the proposed ASC is \$2,771,148. Of this amount, approximately 67% is associated with building construction/remodel, 14% is associated with equipment, and the remaining 19% is associated with architect/engineer fees, consulting fees, supervision and inspection, and sales tax. [source: application p. 21]

TSMH has begun the plan review process with Construction Review Services, and expects to commence the project immediately upon Certificate of Need approval. TSMH anticipates that construction would take approximately 3 months. The surgery center would be operational by the end of 2016. Under this timeline, year 2017 would be the ASCs first full year of operation and 2019 would be year three. [source: application p11, February 26, 2016 screening response p2]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This application is subject to review as the construction, development, or other establishment of new health care facility under Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1)(a).

EVALUATION CRITERIA

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

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

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

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

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

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

In the event that 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:

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

¹² While the application refers to these rooms as “treatment rooms” and “procedure rooms,” for Certificate of Need purposes, they are considered operating rooms, and will be referred to as such throughout this evaluation.

- (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 experience related to a proposed undertaking, with whom the department consults during the review of an application.”*

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment). Additionally, WAC 246-310-270 (ambulatory surgery) contains service or facility specific criteria for ASC projects and must be used to make the required determinations for applicable criteria in WAC 246-310-210.

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.

APPLICATION CHRONOLOGY

Action	Date
Letter of Intent Submitted	April 21, 2015
Application Submitted	October 21, 2015
Department’s pre-review activities	
DOH 1st Screening Letter	November 12, 2015
Applicant’s Responses Due	December 28, 2015
Applicant’s Responses Received	February 26, 2016 ¹⁴
Application Amended ¹³	February 26, 2016
DOH Amendment 1st Screening Letter	March 18, 2016
Applicant’s Responses Received	May 2, 2016
DOH Amendment 2nd Screening Letter	N/A ¹⁵
Applicant’s Responses Received	N/A
Beginning of Review	May 9, 2016
Public Hearing Conducted	N/A ¹⁶
Public Comments accepted through end of public comment	June 13, 2016
Rebuttal Comments Due	N/A ¹⁷
Department’s Anticipated Decision Date	August 11, 2016
Department’s Actual Decision Date	August 3, 2016

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.”

As noted above, WAC 246-310-010(2) requires an affected person to first meet the definition of an ‘interested person.’ WAC 246-310-010(34) defines “interested person” as:

- (a) The applicant;
- (b) Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;
- (c) Third-party payers reimbursing health care facilities in the health service area;

¹³ There was information within the screening responses received by the department that included a change in the source of financing for the project. Under WAC 246-310-100(1)(d), this constitutes an amendment.

¹⁴ The original due date for TSMH’s screening responses was December 28, 2015. On December 28, 2015, TSMH requested a 60-day extension to respond to the department’s screening questions. This request was granted.

¹⁵ TSMH waived a second screening, and instead requested that the department begin review regardless of whether the information was complete.

¹⁶ No public hearing was requested or conducted

¹⁷ There were no public comments submitted for this application. As a result, no rebuttal comments could be accepted.

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

Providence St Mary Medical Center in Walla Walla requested interested person status and to be informed on the department's decision. Providence Sacred Heart Medical Center in Spokane also requested interested person status and to be informed of the department's decision. Neither Providence St Mary Medical Center nor Providence Sacred Heart Medical Center is located within Asotin County – the secondary service planning area associated with this application. According to the Providence Health and Services website, Providence does not offer any services within Asotin County. Neither Providence St Mary Medical Center nor Providence Sacred Heart Medical Center meets the definition of “interested person” under WAC 246-310-010(34). Even if Providence met the qualifications for “interested person” status, Providence did not provide any written or oral comments for the project. As a result, neither can qualify as an “affected person” as it relates to this application.

SOURCE INFORMATION REVIEWED

- TSMH's Certificate of Need application submitted October 21, 2015
- TSMH's screening responses received February 26, 2016
- TSMH's screening responses received May 2, 2016
- Compliance history for credentialed or licensed staff from the Medical Quality Assurance Commission and Nursing Quality Assurance Commission
- Compliance history for TSMH facilities and services from the Washington State Department of Health – Office of Investigation and Inspection
- Compliance history for Evergreen Estates Assisted living from the Washington State Department of Social and Health Services
- DOH Provider Credential Search website: <http://www.doh.wa.gov/pcs>
- Historical charity care data for years 2012, 2013, and 2014 obtained from the Department of Health Hospital and Patient Data Systems Office
- Year 2015 Annual Ambulatory Surgery Provider Survey for Surgical Procedures Performed During Calendar Year 2014 for hospitals, ambulatory surgery centers, or ambulatory surgical facilities located in Asotin County.
- Year 2012 OFM population estimates, medium series
- Department of Health internal database – Integrated Licensing & Regulatory Systems (ILRS)
- Idaho Board of Nursing website: <https://ibn.idaho.gov/IBNPortal/>
- Idaho Board of Medicine website: <https://bom.idaho.gov/BOMPPortal/Home.aspx>
- Det Norske Veritas website: <http://dnvglhealthcare.com/>
- TSMH website: <http://tristatehospital.org>
- Asotin County Assessor website: <http://www.co.asotin.wa.us/assessor/>

- Washington State Department of Revenue website: <http://www.dor.wa.gov>
- Center for Medicare and Medicaid Services website: <https://www.cms.gov>
- Construction Review Services application #60586167
- Certificate of Need historical files

CONCLUSIONS

For the reasons stated in this evaluation, the application submitted by Tri-State Memorial Hospital proposing to establish a two-operating room ambulatory surgery center in Clarkston, within Asotin County is consistent with the applicable criteria of the Certificate of Need Program, provided Tri-State Memorial Hospital agrees to the following in their entirety.

Project Descriptions:

This certificate approves the establishment of a two-operating room ambulatory surgery center in Clarkston, within Asotin County. The surgery center would serve patients who require interventional pain management surgical services that can be appropriately performed in an outpatient setting.

Conditions:

1. Tri-State Memorial Hospital agrees with the project description as stated above. Tri-State Memorial Hospital further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Prior to providing services at TSMH IPC, Tri-State Memorial Hospital will submit an admission policy to the department for review and approval that is specific to TSMH IPC. This policy must address the admitting process and appropriate candidates for outpatient surgery.
3. Prior to providing services at TSMH IPC, Tri-State Memorial Hospital will submit an updated charity care policy that specifically references outpatient surgical services, and specifically references TSMH IPC.
4. Tri-State Memorial Hospital will provide charity care at TSMH IPC in compliance with the updated charity care policy as identified in condition #3. Tri-State Memorial Hospital will use reasonable efforts to provide charity care at the ambulatory surgery center in an amount consistent with the most recent three-year average of Tri-State Memorial Hospital's historical charity care. For years 2012-2014, this amount is 1.51%. Tri-State Memorial Hospital will maintain records at the ambulatory surgery center documenting the amount of charity care it provides, and demonstrating its compliance with its charity care policy.
5. Tri-State Memorial Hospital agrees that TSMH IPC will maintain Medicare and Medicaid certification, regardless of facility ownership.
6. Tri-State Memorial Hospital shall finance the project using cash reserves as described in the application.

Approved Costs:

The approved capital expenditure for this project is \$2,771,148, which includes the construction, equipment, and associated fees and taxes.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes that Tri-State Memorial Hospital has **met** the 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 246-310-270(9)-Ambulatory Surgery Numeric Methodology

The Department of Health's Certificate of Need Program uses the numeric methodology outlined in WAC 246-310-270 for determining the need for additional ASCs in Washington State. The numeric methodology provides a basis of comparison of existing operating room (OR) capacity for both outpatient and inpatient ORs in a planning area using the current utilization of existing providers. The methodology separates Washington State into 54 secondary health services planning areas. Tri-State Memorial Hospital Interventional Pain Consultants would be located in Clarkston, within the Asotin County planning area.

The methodology estimates OR need in a planning area using multiple steps as defined in WAC 246-310-270(9). This methodology relies on a variety of assumptions and initially determines existing capacity of dedicated outpatient and mixed-use operating room in the planning area, subtracts this capacity from the forecast number of surgeries expected in the planning area in the target year, and examines the difference to determine:

- (a) Whether a surplus or shortage of ORs is predicted to exist in the target year; and
- (b) If a shortage of ORs is predicted, the shortage of dedicated outpatient and mixed-use rooms are calculated.

Data used to make these projections specifically exclude special purpose and endoscopy rooms and procedures. Dedicated interventional pain management surgical services are among the excluded rooms and procedures.

Tri-State Memorial Hospital Methodology

TSMH determined the existing capacity in the Asotin County planning area to be 0 dedicated outpatient ORs and 4 mixed use ORs. Based on 2014 utilization and population data, the methodology identified a use rate of 111.67/1,000 population. Focusing on year 2018, the applicant projected Asotin County's population to be 21,947. Applying the use rate to the projected population and subtracting the existing number of ORs in the planning area, TSMH projected a need for 0 dedicated outpatient ORs in Asotin County for projection year 2019. The methodology provided by TSMH shows a surplus of 2.20 mixed use ORs. [source: application Exhibit 5]

Public Comment

None

Department’s Numeric Methodology and Evaluation

The numeric portion of the methodology requires a calculation of the annual capacity of the existing providers inpatient and outpatient OR’s in a planning area – Asotin County.

According to the department’s historical records, there are two planning area providers – including the applicant – with OR capacity. Of the two providers, one is a hospital [the applicant] and one is an ambulatory surgery center. Below, Table 1 shows the two providers. [source: CN historic files and DOH ILRS database]

Table 1
Asotin County Planning Area Surgical Providers

Facility	Facility Type	City
Tri-State Memorial Hospital	Hospital	Clarkston
The Laser and Surgery Center	ASC	Clarkston

[source: ILRS]

For the hospital, all known OR capacity and inpatient/mixed-use procedures are included in the methodology calculations for the planning area.

Because there is no mandatory reporting requirement for utilization of ASCs or hospital ORs, the department sends an annual utilization survey to all hospitals and known ASCs in the state. When this application was submitted in October 2015, the most recent utilization survey was mailed in May 2015 and collected data for year 2014, however not all providers had submitted responses. The data provided in the utilization survey is used, if available. Both TSMH and The Laser and Surgery Center provided responses to the 2015 survey.

The Laser and Surgery Center is located within a solo or group practice that has received an exemption (considered a Certificate of Need-exempt ASC) and the use of this ASC is restricted to physicians that are employees or members of the clinical practices that operate the facility. Therefore, this facility does not meet the ASC definition in WAC 246-310-010. For Certificate of Need-exempt ASCs, the number of surgeries, but not ORs, is included in the methodology for the planning area. In summary, data will be used for one Certificate of Need-exempt ASC and one hospital.

The data points used in the department's numeric methodology are identified in Table 2 on the following page. The methodology and supporting data used by the department is provided in Appendix A attached to this evaluation.

**Table 2
Department's Methodology Assumptions and Data**

Assumption	Data Used
Planning Area	Asotin County
Population Estimates and Forecasts	Age Group: 0-85+ OFM Population Data released year 2012, medium series: Year 2014 – 21,779 Year 2019 – 21,996
Use Rate	Divide calculated surgical cases by 2014 population results in the service area use rate of 111.667/1,000 population
Year 2014 Total Number of Surgical Cases	556 – Inpatient or Mixed-Use; 1,876 – Outpatient 2,432 – Total Cases
Percent of surgery: ambulatory vs. inpatient	Based on DOH survey: 77.14% ambulatory (outpatient); 22.86% inpatient
Average minutes per case	Based on DOH survey: Outpatient cases: 57.67 minutes Inpatient cases: 108.44 minutes
OR Annual capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes (per methodology in rule)
Existing providers/ORs	Based on listing of Asotin County Providers: 0 dedicated outpatient ORs 4 mixed use ORs
Department's Methodology Results	Surplus of 2.19 mixed-use ORs

Based on the assumptions described in Table 2 above, the department's application of the numeric methodology indicates a surplus of 2.19 mixed-use ORs in year 2019.

When comparing the applicant's and department's methodology, the only difference is the projection year, and resulting surplus of mixed-use ORs. The department uses a five year projection from the base year. TSMH used a four-year projection from the base year. The resulting difference is negligible at 0.01 ORs.

As previously stated, special purpose rooms including those dedicated to interventional pain management are specifically excluded from the numeric need methodology. Therefore, even though the numeric methodology shows a surplus of 2.19 mixed use ORs, that surplus would not be a basis to deny this application.

TSMH made the following statement related to this sub-criterion:

“TSMH believes that this application should be treated like all other recent requests for specialty types of cases that are not part of the need calculation. Specifically, and, consistent

with WAC 246-310-270(9)(a)(iv), the need for the TSMH IPC should not be evaluated based solely on the methodology.

“The IPC Clinic is already planning to relocate to the TSMH campus for a number of reasons, including the opportunity to locate on a medical campus in state-of-the art space and to be part of a larger group practice (and hence enjoy access to an electronic health record and other support and back-office services that help rural practices realize efficiencies and improve patient satisfaction). For purposes of CN, we have not assumed increases in volume associated with the relocation beyond population growth. That said, we have assumed that some of the pain volume currently occurring in the main hospital will relocate to the TSMH IPC.” [source: application p14]

“TSMH is not requesting approval under the ‘not ordinarily’ criteria contained in WAC 246-310-270(4)...Because pain procedures and pain procedure rooms are not included in the methodology contained in WAC 246-310-270(9) (either in terms of capacity or utilization), the absence of numeric need under the formula is not relevant.... For CN purposes, this project proposed the establishment of a new facility but the utilization is based upon existing volumes for a highly utilized and highly needed community service.” [source: February 26, 2016 screening response p7]

Tri-State stated these ORs will be built as Class B operating rooms, and will not appropriate for general surgical services beyond interventional pain management surgical services (requiring general anesthesia). The program confirmed with Construction Review Services that the proposed ORs would be designed for pain management procedures.¹⁸

Based on the source information evaluated the department concludes, **this sub-criterion is met.**

WAC 246-310-270(6)

WAC 246-310-270(6) requires a minimum of two ORs in an ASC.

Tri-State Memorial Hospital

Tri-State Memorial Hospital has proposed that TSMH IPC will have two ORs. [source: application p33]

Public Comment

None

Department Evaluation

WAC 246-310-270(6) requires a minimum of two ORs in an ASC. As TSMH has proposed that TSMH IPC will have two ORs, this standard is met.

In summary, based on the department’s numeric methodology, numeric need for additional OR capacity in the Asotin County planning area is not demonstrated. However the type of OR proposed by the applicant is deliberately excluded from the numeric need methodology.

¹⁸ Based on Construction Review Services project #60586167

In addition to this, the only existing ASC in Asotin County is CN-exempt and is exclusively dedicated to ophthalmologic surgery. The department concludes that the current services and facilities of the type proposed are not sufficiently available and accessible to provide interventional pain management procedures. Further, the applicant meets the standard under WAC 246-310-270(6). **This sub-criterion is met.**

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

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

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

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

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

A facility's charity care policy should show a willingness of a provider to provide services to patients who have exhausted any third-party sources, including Medicare, Medicaid, and other insurance, and whose income is equal to or below 200% of the federal poverty standards, adjusted for family size or is otherwise not sufficient to enable them to pay for the care or to pay deductibles or coinsurance amounts required by a third-party payer.¹⁹ With the passage of the Affordable Care Act (ACA), the amount of charity care is expected to decrease, but not disappear. The policy should also include the process one must use to access charity care at the facility.

Tri-State Memorial Hospital

TSMH provided copies of the following current policies used at TSMH.

- Admission Policy
- Non-Discrimination Policy
- Charity Care Policy

¹⁹ WAC 246-453-010(4)

TSMH IPC would be licensed as a part of the hospital, and therefore subject to these policies. [source: application Exhibits 6 &7, February 26, 2016 screening response Attachment 3]

Medicare and Medicaid Programs

TSMH is currently Medicare (50-1332) and Medicaid (1760485221) certified. TSMH provided its projected source of revenues by payer for TSMH for the hospital as a whole prior to project implementation, as a whole with the proposed surgery center, and for TSMH IPC separately, shown below in Table 3 [source: application p4]

**Table 3
TSMH and TSMH IPC Payer Mix**

Payer Group	IPC current /TSMH IPC	TSMH without project	TSMH with project
Medicare	60.0%	61.0%	61.0%
Medicaid	3.0%	10.0%	10.0%
Other Government	16.0%	2.0%	2.0%
Commercial	19.2%	26.0%	26.0%
Self-Pay/Other	1.8%	1.0%	1.0%
Total	100.0%	100.0%	100.0%

[source: application p10]

Public Comments

None

Department Evaluation

TSMH provided the hospital admission policy, non-discrimination policy, and charity care policies. None of these policies specifically reference the TSMH IPC by name or by inference. Therefore, the department considers these policies to be in draft form. Relating to admission and non-discrimination, each of the policies are consistent with approved policies reviewed by the Department of Health. Therefore, if this project is approved, the department would attach a condition requiring that TSMH provide final approved admission policy that is consistent with the policy provided with the application, but must specifically reference TSMH IPC. The admission policy must specifically address the admitting criteria and the types of patients to be served at TSMH IPC.

The financial data provided in the application shows Medicare and Medicaid revenues consistent with Table 3 above. The department concluded that TSMH IPC intends to be accessible and available to Medicare and Medicaid patients based on the information provided.

TSMH provided its current Charity Care Policy that is used for all of its healthcare facilities. It is the policy approved by the department and posted on the department’s website. TSMH stated this same policy will be used at TSMH IPC if this project is approved. The policy includes the process one must use to access charity care.

The policy provided by TSMH does not include any reference to the proposed surgery center by name or by inference, but does state that it applies to hospital-based services, including outpatient services. Therefore, the department considers this policy to be a draft. If approved, the department would attach a condition requiring TSMH to update its charity care policy to reference the TSMH IPC by name.

WAC 246-310-270(7)

WAC 246-310-270(7) requires that ASCs shall implement policies to provide access to individuals unable to pay consistent with charity care levels reported by the hospitals affected by the proposed ASC. For charity care reporting purposes, HPDS (Hospital and Patient Data Section) divides Washington State into five regions: King County, Puget Sound, Southwest, Central, and Eastern. TSMH IPC would be located in Asotin County within the Eastern Washington region. Currently, there are 21 hospitals operating in the region. Of those, only TSMH operates within Asotin County and could be affected by approval of this project.

TSMH projected that the ASC will provide charity care at 0.16% of total revenue and 0.44% of adjusted revenue. For this project, the department reviewed the most recent three years of charity care data for the 21 existing hospitals currently operating within the Eastern Washington Region and focused on the one acute care hospital located in Asotin County – Tri-State Memorial Hospital. The three years reviewed are 2012, 2013, and 2014.²⁰ Table 4 below is a comparison of the historical average charity care for the Eastern Washington Region as a whole, the historical average charity care at TSMH, and the projected charity care to be provided at TSMH as a whole as well as the TSMH IPC cost center.

Table 4
Charity Care – Three Year Average

	% of Total Revenue	% of Adjusted Revenue
3-year Eastern Washington Region ²¹	2.23%	5.87%
3-year Asotin County – TSMH	1.51%	3.46%
Projected TSMH	0.86%	2.97%
Projected TSMH IPC	0.16%	0.44%

[sources: HPDS Charity Care 2012-2014, May 2, 2016 screening response p. 13]

As shown above, the three year regional average is higher than the calculated average for Asotin County – Tri-State Memorial Hospital. Not shown separately in Table 4, is TSMH’s 2014 charity care percentages which were 1.13% of total revenue and 3.46% of adjusted revenue. These percentages are a decrease from the previous year. The projected percentage of charity care at TSMH IPC is also lower than the total and adjusted percentage of charity care for both the region and the hospital.

²⁰ As of the writing of this evaluation, year 2015 charity care data is not yet available

²¹ Dayton General Hospital in Dayton did not report data in years 2013 and 2014. East Adams Rural Hospital in Ritzville did not report data in year 2014. Ferry County Memorial Hospital in Republic did not report data in 2012, 2013, and 2014. Garfield County Memorial Hospital in Pomeroy did not report data in 2014. Newport Community Hospital in Newport did not report data in 2013. Othello Community Hospital in Othello did not report data in 2012, 2013, and 2014.

Relating to charity care, TSMH stated that the levels provided at the hospital and proposed for the ASC are “*slightly lower than the regional average, but reflective of the need of the community we serve.*” [source: application p20]

TSMH also provided a statement directly related to charity care and the pain cost center:

“As noted on page 19 of the application, TSMH has based the pro forma charity care (1.7% of Net Patient Revenue for the hospital pro forma) on its most recent experience (2015). The estimated charity care for the ASC Pain Center, on a percent basis, has historically been lower than the overall hospital average. ...TSMH’s charity care decreased by 38% between 2013 and 2014 (with the implementation of the Affordable Care Act); the Eastern Washington Region experienced a decrease of 35% during the same timeframe. TSMH’s charity care...decreased another 20% between 2014 and 2015.

“TSMH IPC will provide charity care consistent with our charity care policy, and basing our proforma charity care assumption on our current experience and not the lagging DOH reasonable average is reasonable.” [source: May 2, 2016 screening response p2]

The 2014 Report of Charity Care in Washington Hospitals offers the following analysis of decreased charity care across Washington State Hospitals with the introduction of the ACA:

“Implementation of the ACA is changing the landscape of charity care in Washington State. More patients have health coverage, either through Medicaid expansion or through purchase of private coverage. As a result, Washington saw the first decline in the amount of charity care reported by hospitals since the department began gathering these data...

“As hospitals begin to report all data for calendar year 2014, the ACA becomes fully effective, and the number of insured stabilizes, we will likely see a continued decline in charity care in Washington over the next few years before it levels off again.” [source: 2014 Washington State Charity Care in Washington Hospitals – January 2016]

The Certificate of Need program recognizes that charity care in Washington State is expected to continue to decline as more individuals receive healthcare coverage under the ACA, but charity care is not expected to reach zero. The application states TSMH expects to provide charity care – calculated at 0.16% of total revenue, 0.44% of adjusted revenue. In actual dollars, this represents \$16,641 out of total patient services revenue of \$10,325,286 in 2019 (year 3 of operation). TSMH assumed 3,952 procedures in 2019 with an average of \$549 net revenue expected per procedure. Only 29 complete procedures would be covered by charity care per year by following this standard. TSMH’s projected charity care level for TSMH IPC is not projected to be at a level that meets or exceeds the regional average. It is also projected to be less than the level of charity care of the hospital. [sources: application p18, May 2, 2016 screening response Attachment 2]

The department evaluated the impact on the ASC if it provided charity at both the regional average (2.23%) and at the average historical hospital level of charity care (1.51% for years 2012-2014). The results of this analysis are summarized in Table 5 on the following page.

As the cost center is projected to be profitable in each of the first three years of operation, only the charity care related to the cost center has been calculated.

Table 5
Impact of Charity Care Percentages Changes Based On Total Revenue
TSMH IPC

	Charity Care at 0.16%	Charity Care at 2.23%	Charity Care at 1.51%
2017	\$15,992	\$221,269	\$149,828
2018	\$16,477	\$227,974	\$154,368
2019	\$16,641	\$230,253	\$155,911
	Net Revenue with 0.16% charity care	Net Revenue with 2.23% charity care	Net Revenue with 1.51% charity care
2017	\$3,572,063	\$3,366,785	\$3,438,226
2018	\$3,680,300	\$3,468,802	\$3,542,408
2019	\$3,717,103	\$3,503,490	\$3,577,832

[source: May 2, 2016 screening response Attachment 2]

As shown in Table 5, the operation of TSMH IPC is still financially viable even if the charity care level is increased. Based on the above analysis, if this project is approved, the department would attach a condition requiring TSMH to make reasonable efforts to provide charity care at a level consistently with the charity care projected by the hospital for the most recent three years. Currently, for years 2012-2014 that amount is 1.51% of total revenue. This condition would require TSMH to maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department would require that these records be available upon request.

Based on the information reviewed and with TSMH’s agreement to the conditions identified above, the department concludes **this sub-criterion is met.**

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

(a) *The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both to individuals no residing in the health service areas in which the entities are located or in adjacent health service areas.*

Department Evaluation

This criterion is not applicable to this application.

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

Department Evaluation

This criterion is not applicable to this application.

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

Department Evaluation

This criterion is not applicable to this application.

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

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

Department Evaluation

This criterion is not applicable to this application.

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

Department Evaluation

This criterion is not applicable to this application.

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

Department Evaluation

This criterion is not applicable to this application.

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

Based on the source information reviewed and applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes that Tri-State Memorial Hospital 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.

Tri-State Memorial Hospital

The assumptions used by TSMH to determine utilization and the projected number of procedures for its first three full years of operation are summarized below. [source: application pp18-19]

- TSMH currently provides interventional pain management services within two operating rooms that are exclusively dedicated to endoscopy and pain management.
- Of the current volumes performed within the existing rooms, TSMH assumes that 75% would relocate to the proposed surgery center. No inflation of this volume is projected.
- Existing volumes at the IPC surgery center in Lewiston, Idaho would transfer to TSMH IPC.
- Growth of the existing volumes from IPC is assumed at 1% per year.
- Procedures would be limited to interventional pain management and include: epidural steroid injections, transforaminal epidural steroid injections, medial branch blocks, radiofrequency thermocoagulation (RFTC), vertebroplasty and vertebral augmentation, discogram, stellate, sacroiliac joint injections, and spinal cord stimulator implants.
- TSMH does not intend to expand the services provided beyond interventional pain management.
- Using published research related to utilization of pain management services in the Medicare population, TSMH assumed that pain prevalence will continue to increase, along with a commensurate demand for interventional pain management procedures within the aging population.

Table 6, below, shows projected volumes of pain management procedures, by source, to be provided at TSMH IPC:

Table 6
TSMH IPC Pain Management Services
Projected Utilization

Year	Existing IPC Pain Procedures	Volumes from TSMH to TSMH IPC	Total Projected Procedures
2015	3,530	279	3,809
2016	3,565	279	3,844
2017	3,601	279	3,880
2018	3,637	279	3,916
2019	3,673	279	3,952

[source: application p. 18]

The assumptions TSMH used to project revenue, expenses, and net income for the proposed TSMH IPC for projection years 2017-2019 are summarized below and on the following page. [source: application p4, 10, 23, February 26, 2016 screening response p3, 5]

- TSMH would operate the proposed surgery center as a cost center of the hospital. The cost center only includes outpatient revenues.

- Payer mix is based on current actuals at the hospital and at the existing surgery center in Lewiston, Idaho. Payer mix percentages are not expected to change. Projected hospital-wide and ASC-only payer mixes are shown below in Table 7

**Table 7
Hospital and ASC Payer Mix**

Source	TSMH	TSMH IPC
Medicare	61.0%	60.0%
Medicaid	10.0%	3.0%
Other Government	2.0%	16.0%
Commercial	26.0%	19.2%
Self-Pay/Other	1.0%	1.8%
Total	100.0%	100.0%

- Revenues and expenses are based on actual performance at TSMH, with reimbursement as an outpatient department of the hospital. With the relocation of services, services continue to be billed as an outpatient department of the hospital.
- Contractual adjustments are consistent with actual performance at TSMH.
- Expenses include salaries and wages for FTEs directly associated with the proposed ASC.
- Physician salaries – including medical director fees – are not included, as they will be employees of the hospital.

TSMH’s projected revenue, expenses, and net income for the TSMH IPC cost center are shown in Table 8 below. [source: May 2, 2016 screening response Attachment 2]

**Table 8
TSMH IPC
Projected Revenue and Expenses Years 2017 through 2019**

	CY2017	CY2018	CY2019
Net Revenue	\$3,572,063	\$3,680,300	\$3,717,103
Total Expenses	\$1,429,726	\$1,508,798	\$1,545,771
Net Profit/(Loss)	\$2,142,337	\$2,171,502	\$2,171,332
Net Profit/(Loss) per Procedure	\$552.15	\$554.52	\$549.43

The “Net Revenue” line item is gross patient revenue, minus any deductions from revenue for contractual allowances, bad debt, and charity care. The “Total Expenses” line item includes operating expenses, including salaries and wages, benefits, insurance, rentals and leases, and depreciation.

For operational purposes, the outpatient interventional pain management surgical services will be a cost center of TSMH. To further demonstrate that the project is financially viable, TSMH provided the projected revenue and expense statements for TSMH showing the impact of this project on the financial viability of the hospital. The projections are shown in Table 9 on the following page.

Table 9
Tri-State Memorial Hospital
Projected Revenue and Expenses Years 2017 through 2019

	CY2017	CY2018	CY2019
Net Revenue	\$69,512,897	\$69,676,091	\$69,720,752
Total Expenses	\$65,950,927	\$66,044,009	\$66,091,553
Net Profit/(Loss)	\$3,561,970	\$3,632,081	\$3,629,199

[source: May 2, 2016 screening response Attachment 2]

The ‘Net Revenue’ line item is gross hospital inpatient, outpatient, and other operating revenue, minus any deductions from revenue for contractual allowances, bad debt, and charity care. The ‘Total Expenses’ line item includes salaries and wages and all costs associated with operations of the hospital, including the interventional pain management cost center. The ‘Total Expense’ line item also includes allocated costs for TSMH, leases, depreciation of building and equipment, repair and maintenance, and physician salary costs, including the medical director.

Public Comment

None

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by TSMH to determine the projected number of admissions patient days, and occupancy of the proposed ASC. TSMH stated that utilization projections are based on actual performance, with a 1% increase per year. When compared to historical data (years 2010-2014) provided in the application, the department notes that this projection is consistent with historical growth. Further, the department recognizes that these estimates may be conservative, as TSMH provided information that supports their assertion that need for interventional pain management services will continue to grow as the population ages. After reviewing TSMH’s utilization assumptions, the department concludes they are reasonable.

TSMH based its revenue and expense assumptions for the cost center and for the hospital on the assumptions listed above. Though the TSMH IPC ASC will be a new facility, the services already exist within the hospital. As the services will continue to be reimbursed as at the hospital rates, the assumptions above related to the costs of services after relocation are reasonable.

To assist the department in its evaluation of this sub-criterion, the Hospital and Patient Data Systems (HPDS)²² also provided a financial analysis. To determine whether TSMH would meet its immediate and long-range capital costs, HPDS reviewed 2014 historical balance sheets for TSMH as a whole.

²² Effective July 1, 2016, HPDS will no longer provide financial analysis used by the program to assist with the financial feasibility determination for hospital-related projects. In the future, this analysis will be performed by the Charity Care Program within the office of Community Health Systems. HPDS was in the process of completing the analyses for this application prior to July 1, 2016. Therefore, HPDS completed the analysis for the TSMH project.

“The financial reports of December 31, 2014 for Tri-State Memorial Hospital shows:

Tri-State 2014 FYE			
Assets		Liabilities	
Current	30,464,587	Current	10,369,409
Board Designated	93,426	Long Term Debt	10,234,331
Property/Plant/Equipment	34,267,120	Other	-
Other	4,406,969	Equity	48,628,362
Total	69,232,102	Total	69,232,102
<i>from application</i>			

“The Tri-State Memorial Hospital ambulatory surgery center in Clarkston capital expenditure is projected to be \$2,771,148. The hospital will use reserves to fund the project.

“The financial status of Tri-State Memorial Hospital is adequate to fund this project. This project will not adversely impact reserves, or total assets, total liability or the general health of Tri-State Memorial Hospital Center.” [source: HPDS analysis p2]

To further assist the department in its evaluation of this sub-criterion, HPDS provided the following ratio analysis and comments:

“The applicant did not provide a pro-forma Balance Sheet however it is not needed for this project. Important ratios used by Certificate of Need are listed below. The A means it is better if the hospital number is above the State number and B means it is better if the hospital number is below the state number.

Tri-State ASC						
Ratio Category	Trend	State14	Tri-2014	2017	2018	2019
Long Term Debt to Equity	B	0.448	0.210	n/a	n/a	n/a
Current Assets/Current Liabilities	A	2.702	2.938	n/a	n/a	n/a
Assets Funded by Liabilities	B	0.385	0.298	n/a	n/a	n/a
Operating Expense/Operating Revenue	B	0.954	0.930	0.400	0.410	0.416
Debt Service Coverage	A	4.990	5.935	n/a	n/a	n/a
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 Expense/Operating Revenue					
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp					
<i>from Application;</i>						

Tri-State Memorial Hospital ambulatory surgery center Operating Expense/Operating Income ratio is above break even as required by CON rules. Tri-State Memorial Hospital ratios for 2014 are all above average or within reasonable range.” [source: HPDS analysis p2]

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.

Tri-State Memorial Hospital

The capital expenditure associated with the establishment of TSMH IPC is \$2,771,148. A breakdown of the capital expenditure is shown in Table 10 below. [source: application p21]

**Table 10
TSMH IPC Capital Expenditure**

Item(s)	Cost
Building Construction/Remodel	\$1,846,154
Equipment/Supplies/IT/HVAC	\$393,325
Architect/Engineering/Consulting Fees	\$352,340
Supervision and Inspection/Insurance/Fees	\$37,175
Sales Tax	\$142,154
Total:	\$2,771,148

TSMH provided the following statement regarding the estimated capital expenditure:

“TSMH utilized its actual recent experiences with hospital-related construction in our local market to calculate construction costs. The costs were verified by our architectural firm which has experience and proven expertise in rural hospital construction in the Pacific Northwest.” [source: application p22]

TSMH provided the following statement regarding the impact of project cost on operating costs and charges for services:

“This project will ensure better access to outpatient pain procedures and increased overall efficiency by offering these services in an efficient outpatient setting that enjoys access to and the support of the back-office (billing, etc.) and clinical support (quality, etc.) of the larger hospital. This will allow TSMH IPC's clinical providers and staff to focus on what they do best which is caring for patients.

“TSMH is a CAH and intends to have the TSMH IPC convert to a hospital-based outpatient department, which means that will be paid allowable costs by Medicare and Medicaid. There will be no change in charges for these pain procedures. Importantly, and even with no increase in charges, we still anticipate real and measurable gains in quality and efficiency because, as noted above, the TSMH IPC will gain access to a whole spectrum of services (billing, electronic medical record, contracting, quality, CS, etc) that it does not currently have. Further, in the summer of 2015, TSMH applied for and was preliminarily approved to

participate in the National Rural ACO, this fact, along with the ability to have these services and providers under our umbrella is beneficial to both IPC and TSMH as we begin to prepare for bundled payments and other payment reforms-that in the longer term will allow us to create even more efficiencies and lower charges.

“Both IPC and TSMH are already very good providers, but collectively, the goal is that we will become even better providers able to serve the community with quality, efficient and effective services for the foreseeable future.” [source: application p22]

In addition to the statements above, TSMH provided a copy of the purchase and sale agreement related to the acquisition of the IPC practice. The cost of the acquisition of IPC can be found in the pro forma financial statements, and is consistent with the purchase and sale agreement.

Public Comment

None

Department Evaluation

Based on the above information, the department concludes that the establishment of the TSMH IPC would probably not have an unreasonable impact on the costs and charges for healthcare services in Asotin County.

(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.

Tri-State Memorial Hospital

TSMH intends to fund the project using cash reserves and provided a letter of financial commitment from Donald Wee, the CEO of TSMH. In addition to the financial commitment letter, TSMH provided its fiscal years 2012, 2013, and 2014 audited financial statements to demonstrate it has sufficient reserves to finance the project. [sources: application Appendix 1, February 26, 2016 screening response Attachment 4]

Public Comments

None

Department Evaluation

The department concludes that TSMH’s pain management ASC project can be appropriately financed. HPDS confirmed that TSMH has sufficient reserves to finance the project without adversely affecting its financial position. If this project is approved, the department would attach a condition requiring TSMH to finance the project consistent with the financing description in the application. With the financing condition, the department concludes **this sub-criterion is met.**

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department concludes that Tri-State Memorial Hospital has **met** the structure and process (quality) of care criteria in WAC 246-310-230.

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

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

Tri-State Memorial Hospital

TSMH and IPC currently provide interventional pain management surgical services. At project completion, the two existing services would merge and relocate to the medical office building on the TSMH campus. Table 11 provides a breakdown of projected FTEs. [source: application p25]

**Table 11
Projected Staffing 2016-2019**

Staff Type	2016	2017	2018	2019
Administrator	1.00	1.00	1.00	1.00
Clinical Director	0.85	0.85	0.85	0.85
RNs	2.10	2.10	2.10	2.10
Techs	1.30	1.30	1.30	1.30
Receptionist	0.80	0.80	0.80	0.80
Coder/Biller	1.20	1.20	1.20	1.20
Total:	7.25	7.25	7.25	7.25

TSMH stated that this is the same as current staffing at IPC. TSMH provided the following statement regarding the staffing volumes remaining stagnant while surgical volumes increase:

“Although this project proposes the establishment of a new facility for CN purposes, the proposed 'new' services are, in actuality, already operational and simply being relocated to a new site and a new owner. As such, all staff is already in place, and even with the slight increase in projected volume, no additional staff is anticipated to be needed.” [source: application p26]

“Staffing needs for the additional 400 procedures per year would not need to be increased because it is a relatively small increase in volume, and currently IPC’s staff can accommodate additional volume. To place this into perspective, an additional 400 procedures per year over 250 working days is only an additional 1.6 procedures per day.” [source: May 2, 2016 screening response p2]

TSMH identified key staff related to the project. This includes Medical Director, Craig Flinders, MD and Clinical Coordinator, Natalie Barnes, RN.

Public Comment

None

Department Evaluation

As shown above, the current staff and projected staff needed to operate the proposed ASC are already in place. Further, TSMH does not anticipate that any new staff will need to be recruited within the first three years of operation.

Information provided in the application demonstrates that TSMH is a well-established provider of healthcare services in Asotin County. Further, the application demonstrates that TSMH will be able to increase utilization without an increase in staffing.

The medical director and clinical coordinator are existing staff members. While no medical director contract will be in place, TSMH provided a medical director job description that clearly outlines the roles and responsibilities associated with the position. Based on the above information, the department concludes that a sufficient supply of qualified staff is available for this project. **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.

Tri-State Memorial Hospital

TSMH provided the following statement relating to ancillary and support services required for the proposed project.

“Although these services will be 'new' to TSMH, TSMH's ancillary and support services are more than sufficient to meet the demands of the proposed project.” [source: application p26]

“TSMH will provide all of the needed ancillary services which typically include: laundry, lab, radiology, dietary, maintenance, etc. There will be no contracted services.” [source: February 26, 2016 screening response p5]

Public Comment

None

Department Evaluation

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that TSMH will continue to maintain the necessary relationships with

ancillary and support services to provide outpatient interventional pain management surgical services at TSMH IPC. The department concludes that relocation of these services to an adjacent medical office building would not adversely affect the existing relationships. **This sub-criterion is met.**

- (3) *There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.*

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare and Medicaid certified. 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.

Tri-State Memorial Hospital

TSMH owns and operates 3 healthcare facilities in Washington State, including a 25-bed CAH, an assisting living facility, and a 12-station dialysis facility. Interventional pain management surgical services are already provided under the existing hospital license. TSMH provided the following statement related to this sub-criterion:

"TSMH operates all existing programs in conformance with applicable federal and state laws, rules and regulations." [source: application p27]

Public Comment

None

Department Evaluation

As a part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.²³ To accomplish this task, the department reviewed the quality of care compliance history for all healthcare facilities owned and operated by TSMH.

Tri-State Memorial Hospital is Medicare certified and accredited through Det Norske Veritas. The accreditation is through 2017.

Using the department's internal database, the department reviewed survey data for the hospital and dialysis facility. Since 2013, Tri-State Dialysis has had one CMS survey. This survey did not result in any significant non-compliance issues. Since 2013, one survey of Tri-State Memorial Hospital has been completed by Washington State surveyors. This survey did not result in any significant non-compliance issues.

Assisted Living Facilities are licensed through the Department of Social and Health Services Aging and Long-Term Support Administration (DSHS AL TSA). Using information from the

²³ WAC 246-310-230(5)

DSHS ALTSA website, the department reviewed survey data for Evergreen Estates Retirement and Assisted Living Community. The facility had no listed reports of non-compliance.

Because this project involves the acquisition of an existing out-of-state service, the department also reviewed the compliance history for the former facility in Lewiston, Idaho, the physicians to be employed by TSMH related to this project, and all staff that would be employed at TSMH IPC.

According to information found on the Idaho Department of Health and Welfare website, the former IPC location was Medicare certified, and operated in substantial compliance with licensure requirements. Survey findings on the website indicated minor non-compliance issues that are typical of the type of healthcare facility being surveyed. All reports included signed plans of correction. The department did not identify that the facility was ever closed or decertified as a result of compliance issues.

The physicians who will practice at the proposed ASC are listed below in Table 12 along with their compliance history. [source: February 26, 2016 screening response p126, Medical Quality Assurance Commission, Idaho Board of Medicine]

Table 12
TSMH IPC Physicians

Name	Washington License	Idaho License	Disciplinary Action?
Craig Flinders*	MD.00038361	M-6560	No
Gary Haas	OP.00002204	O-228	No
Lyndal Stoutin	MD.00046629	M-5693	No

*medical director

In addition to the physicians listed above, the department reviewed the compliance history for staff currently employed at IPC who would transfer to TSMH IPC. This included a review of Idaho and Washington licensure compliance. In this process, the Certificate of Need program used compliance data from the Nursing Quality Assurance Commission and the Idaho Board of Nursing. The review found that all staff associated with the current unit are licensed and in good standing.

Given the compliance history of the health care facilities owned and operated by TSMH and the staff currently associated with IPC, including the physicians and nurses, there is reasonable assurance that TSMH's proposed interventional pain management ASC would be operated and managed in conformance with applicable state and federal licensing and certification requirements if this project is approved. **This sub criterion is met.**

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

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

Tri-State Memorial Hospital

To demonstrate compliance with this sub-criterion, TSMH provided the following statement:

"This project is being established specifically to promote continuity in the provision of health care and ultimately, we hope that the efficiencies achieved will allow us to maintain or reduce charges for services." [source: application p26]

Further, TSMH provided a list of payer sources accepted at the existing IPC. TSMH confirmed that it will continue to accept all forms of reimbursement currently accepted at the Idaho location. [source: February 26, 2016 screening response p86, May 2, 2016 screening response p4]

Public Comment

None

Department Evaluation

As the proposed ASC represents the relocation of an existing service, TSMH assumes that all existing relationships will remain in place with existing providers and services. Further, TSMH has stated that by relocating interventional pain management surgical services to the hospital campus, services will be provided in a centralized location, with more resources available as a result of it being operated as an outpatient department of the hospital. Though the location of the surgery center will cross state lines from Lewiston, Idaho to Clarkston, Washington, this distance is only 3.2 miles.

The department concludes that this relocation will likely not result in unwarranted fragmentation of services, and should continue to have an appropriate relationship to the service area's existing health care system. **This sub-criterion is met.**

- (5) There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.

Tri-State Memorial Hospital

This sub-criterion is evaluated in sub-section (3) above, **is met.**

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes that Tri-State Memorial Hospital 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, in terms of cost, efficiency, or effectiveness, the department takes a multi-step approach. First the department determines if the application has met the other criteria of WAC 246-310-210 thru 230. If the project has failed to meet one or more of these criteria then the project cannot be considered to be the best alternative in terms of cost, efficiency, or effectiveness as a result the application would fail this sub-criterion.

If the project has met the applicable criteria in WAC 246-310-210 through 230 criteria, the department then assesses the other options considered by the applicant. If the department determines the proposed project is better or equal to other options considered by the applicant and the department has not identified any other better options this criterion is determined to be met unless there are multiple applications.

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

Department Evaluation

Step One:

The department concluded that TSMH met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two.

Step Two:

Tri-State Memorial Hospital

TSMH provided the following statements related to their consideration of alternatives prior to submitting this project.

"TSMH considered the following four options: 1) acquire the IPC practice (clinic and procedure spaces), but retain it in Lewiston; 2) merge the procedures into the hospital (provide all procedures in the current hospital procedure rooms); 3) create a free-standing ASC and 4) undertake the project described in this application.

“The benefit of option #1 was that it did not trigger any prior CN review. Option #1 was eventually ruled out because the current IPC space is in need of upgrade and expansion. Additionally, after evaluation we concluded that the benefits of co-location on the hospital campus are significant and include access to an electronic medical record, billing, quality assurance and a myriad of ancillary support services. Relocation to a new site in Lewiston would have added expense and complexity in improving access to these services, and for that reason was simply deemed inferior to a campus location.

“Once the decision was made to relocate to the hospital, we did fully vet the ability to simply “merge” the current 3,000+ pain procedures into our existing procedure area adjacent to the main ORs. A functional analysis determined that the current surgical department's support areas (pre and post care, sterilization, family waiting, etc.) would need to be expanded to accommodate the incremental volume. The existing Surgery Department is land-locked and the cost to expand the hospital space was found to be significantly more expensive. Further, our research found that patients would prefer a less “hospital” environment for these relatively minor procedures. As such, option #2 was also ruled out.

“To determine whether option #3 or 4 was superior, TSMH worked with our CPA cost report experts. If we converted the space to a freestanding ASC as opposed to a hospital based unit, various CAH specific requirements would have resulted in a negative impact to the entire hospital Medicare payment structure, and we were advised to establish the service as a HOPD.” [source: application p28-29]

Public Comment

None

Department Evaluation

As stated above, the interventional pain management surgical services proposed by the applicant do not represent a new service to the planning area. Rather, the project proposes a relocation and consolidation of existing services. TSMH provided rationale to substantiate why the acquisition and relocation would be superior to a “do nothing” approach. In addition, TSMH stated that the capital cost of an expanding the hospital shell would be far higher than the proposed on-campus ASC.

Related to options 3 and 4, the department asked TSMH to substantiate how CAH-specific requirements impact whether a free-standing ASC versus an outpatient department of the hospital is a superior option. TSMH provided the following statement:

“TSMH is a critical access hospital and is reimbursed from Medicare and Medicaid based on allowable costs. In evaluating how best to structure the transaction, our CPA firm reviewed our cost report and advised us that if the space became freestanding (as opposed to hospital-based) between \$250,000 - \$500,000 of currently allowable costs would be disallowed and not reimbursed.

“TSMH is a critical access hospital, and the sole provider of many health care services in Asotin County. Preserving access to pain services for our community is important to us, but

we must continually balance services and manage financial viability. A loss of up to \$500,000 annually would have likely required that another service be cut back or restricted, and as such, we made the prudent decision to operate the service as hospital-based.” [source: February 26, 2016 screening response p6]

A letter from Tri-State Memorial Hospital’s accountant confirmed this statement. [source: February 26, 2016 screening response Attachment 8]

The statements provided in relation to this sub-criterion can be substantiated, and the department did not identify any alternatives that would be superior in terms of cost, efficiency, or effectiveness.

Department Evaluation

Step Three:

This step is applicable only when there are two or more approvable projects. TSMH’s application is the only application under review to add outpatient surgical capacity in Asotin County. Therefore, this step does not apply.

Based on the information stated above, **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;*

As stated in the project description portion of this evaluation, this project involves construction. This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). **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.*

As stated in the project description portion of this evaluation, this project involves construction. This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). **This sub-criterion is met.**

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

This project will improve the delivery of health services. As of the date of this evaluation, there is only one resource for dedicated outpatient surgical services in Asotin County, it is exclusively dedicated to ophthalmology, and it is not CN-approved. As there are no existing dedicated outpatient interventional pain management surgical services in the county, the department concludes that this project will appropriately improve the delivery of health services. **This sub-criterion is met.**

APPENDIX A



**APPENDIX A
ASC Need Methodology
Asotin County**

Facility	License Number	Special Procedure Rooms	Dedicated Inpatient ORs	Dedicated Outpatient ORs	Mixed Use ORs	Inpatient min/case	Inpatient Cases in Mixed Use ORs	2011 Inpatient Mins. In Mixed Use ORs	Outpatient Min/Case	Outpatient Cases	Outpatient Mins.	Data Source
Tri-State Memorial Hospital	HAC.FS.00000108	2	0	0	4	108.4	556	60,290	72	1,306	93,937	2014 data from 2015 survey
The Laser and Surgery Center	ASF.FS.60100965	0	0	1	0				25.0	570	14,250	2014 data from 2015 survey (Exempt facility, 1996 DOR) p. 103 2 of 2
Totals		2	0	1	4	108.4	556	60,290	#DIV/0!	1,876	108,187	
						Avg min/case inpatient		108.44	Avg min/case outpatient		57.67	
ORs counted in numeric methodology				0	4							
ILRS: Integrated Licensing & Regulatory System												
Population data source: OFM Population Estimates - 2012 medium series												
Total Surgeries		2,432								2,432		
Area population 2014 [15+]		18,002								21,779		
Use Rate		135.096								111.667		
Planning Area projected 15+ population Year: 2019		18,436								21,996		
% Outpatient of total surgeries		77.14%										
% Inpatient of total surgeries		22.86%										



**APPENDIX A
ASC Need Methodology
Asotin County**

Service Area Population: 2019	21,996	OFM	Age:0-85+										
Surgeries @ 111.667/1,000:	2,456												
a.i.	94,250	minutes/year/mixed-use OR											
a.ii.	68,850	minutes/year/dedicated outpatient OR											
a.iii.	0	dedicated outpatient OR's x 68,850 minutes =			0	minutes dedicated OR capacity			0	Outpatient surgeries			
a.iv.	4	mixed-use OR's x 94,250 minutes =			377,000	minutes mixed-use OR capacity			3,477	Mixed-use surgeries			
b.i.		projected inpatient surgeries =	562	=	60,891	minutes inpatient surgeries							
		projected outpatient surgeries =	1,895	=	109,265	minutes outpatient surgeries							
b.ii.		Forecast # of outpatient surgeries - capacity of dedicated outpatient OR's											
		1,895	-	0	=	1,895	outpatient surgeries						
b.iii.		average time of inpatient surgeries		=	108.44	minutes							
		average time of outpatient surgeries		=	57.67	minutes							
b.iv.		inpatient surgeries*average time		=	60,891	minutes							
		remaining outpatient surgeries(b.ii.)*ave time		=	109,265	minutes							
					170,156	minutes							
c.i.		if b.iv. < a.iv. , divide (a.iv.-b.iv.) by 94,250 to determine surplus of mixed-use OR's											
		USE THIS VALUE											
		377,000											
		-	170,156										
		206,844	/	94,250	=	2.19							
c.ii.		if b.iv. > a.iv., divide (inpatient part of b.iv - a.iv.) by 94,250 to determine shortage of inpatient OR's											
		Not Applicable - Ignore the following values and use results of c.i.											
		60,891											
		-	377,000										
		(316,109)	/	94,250	=	-3.35							
		divide outpatient part of b.iv. By 68,850 to determine shortage of dedicated outpatient OR's											
		109,265	/	68,850	=	1.59							