



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

*PO Box 47890 • Olympia, Washington 98504-7890
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February 6, 2019

CERTIFIED MAIL # 7016 3010 0001 0575 1164

David E. Smith, Esq. General Counsel
Valley Medical Center
400 South 43rd Street
Renton, WA 98058

RE: CN 18-18

Dear Mr. Smith:

We have completed review of the Certificate of Need application submitted by Public Hospital District No. 1 of King County dba Valley Medical Center to establish a three operating room ambulatory surgery center within the City of Renton in southeast King County secondary health services planning area.

For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Public Hospital District No. 1 of King County dba Valley Medical Center agrees to the following in its entirety.

Project Description:

This certificate approves Public Hospital District No.1 of King County d/b/a Valley Medical Center to establish a three operating room ambulatory surgery center to be known as Valley MAC ASC within the City of Renton in southeast King County secondary health services planning area. Valley MAC ASC will provide surgeries to patients 18 years and older who are not expected to require hospitalization and can be served in an outpatient surgery setting. Surgeries to be provided at Valley MAC ASC are Gynecology, otolaryngology, ophthalmology, dermatology/plastic, vascular surgery; and general surgeries such as hernia repair, breast biopsy, breast reconstruction, mastectomy, laparoscopy, laparoscopic cholecystectomy, excision and destruction of lesions and tumor, colorectal surgery, hemorrhoidectomy, anal fistulas, insertion and removal of catheter placement for renal dialysis and chemotherapy; and gastric neurostimulators. Some surgical services provided at the Valley MAC ASC require anesthesia services.

Conditions:

1. Public Hospital District No.1 of King County d/b/a Valley Medical Center agrees with the project description as stated above. Public Hospital District No.1 of King County d/b/a Valley Medical Center 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. Valley MAC ASC will maintain licensure as an ambulatory surgery facility under WAC 246-330, regardless of ownership.

3. Prior to commencement Valley MAC ASC will provide an executed copy of the lease agreement for the department's review and approval. The executed lease agreement must be consistent with the draft provided in the application.
4. Prior to providing services, Public Hospital District No.1 of King County d/b/a Valley Medical Center will provide the adopted job description, the name and credentialed number of the medical director for Valley MAC ASC for department's review and approval. The adopted medical director job description must be consistent with the draft provided in the application.
5. Valley MAC ASC must maintain its Medicare and Medicaid certification throughout the life of the facility regardless of ownership.
6. Valley MAC ASC will provide charity care in compliance with the charity care policy provided in the application, or any subsequent policies. Valley MAC ASC will use reasonable efforts to provide charity care at 0.93% for gross revenue and 2.18% for adjusted revenue as identified in the application or the regional average, whichever is greater. Valley MAC ASC will maintain records of the charity care amount provided by documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.
7. Prior to providing services, Valley MAC ASC will provide an executed copy of the patient transfer agreement for the department's review and approval. The executed patient transfer agreement must be consistent with the draft agreement provided in the application.

Approved Cost:

The approved capital expenditure for this project is \$3,989,579.

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 entirety, your application will be approved and a Certificate of Need sent to you.

If you reject any of the above provision, your application will be denied. The department will send you a letter denying your application and provide you information regarding your appeal rights. Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

Mailing Address:

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

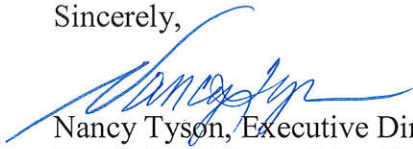
Physical Address:

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

David E. Smith, Esq. General Counsel
Valley Medical Center
Certificate of Need App #18-18
February 6, 2019
P a g e 3

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

Sincerely,



Nancy Tyson, Executive Director
Health Facilities and Certificate of Need
Community Health Systems

Enclosure

EVALUATION DATED FEBRUARY 6, 2019 FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY PUBLIC HOSPITAL DISTRICT No. 1 OF KING COUNTY d/b/a VALLEY MEDICAL CENTER PROPOSING TO ESTABLISH AN AMBULATORY SURGERY CENTER¹ IN SOUTHEAST KING COUNTY SECONDARY HEALTH SERVICES PLANNING AREA

APPLICANT DESCRIPTION

Public Hospital District No.1 of King County d/b/a Valley Medical Center is a 321 bed nonprofit acute care provider located in Renton within southeast King County. Public Hospital District No.1 of King County d/b/a Valley Medical Center is a level III trauma center and is reimbursed for providing healthcare services under Titles V, XVII, and XIX of the Medicare and Medicaid programs. Public Hospital District No.1 of King County d/b/a Valley Medical Center operates a network of primary care clinics, urgent care clinics and specialty clinics that are located within southeast King County. Public Hospital District No.1 of King County d/b/a Valley Medical Center is accredited by the Joint Commission and its most recent accreditation survey was in December 2016. [Source: CN Historical files, application and <http://www.valleymed.org>]

PROJECT DESCRIPTION

Public Hospital District No.1 of King County d/b/a Valley Medical Center is proposing to establish a free-standing multispecialty three operating room (OR) ambulatory surgery center (ASC). The 3-OR surgery facility will be located at 4033 Talbot Road South, Suite 270 in Renton [98055]. The ASC will be known as Valley MAC ASC² and it will provide surgeries to patients 18 years and older who are not expected to require hospitalization and can be served in an outpatient surgery setting. Surgeries to be provided at Valley MAC ASC are Gynecology, otolaryngology, ophthalmology, dermatology/plastic, vascular surgery; and general surgeries such as hernia repair, breast biopsy, breast reconstruction, mastectomy, laparoscopy, laparoscopic cholecystectomy, excision and destruction of lesions and tumor, colorectal surgery, hemorrhoidectomy, anal fistulas, insertion and removal of catheter placement for renal dialysis and chemotherapy; and gastric neurostimulators. Some surgical services provided at Valley MAC ASC require anesthesia services. [Source: Application page 2 and April 2, 2018, screening response, page 2]

On August 16, 2016, Public Hospital District No.1 of King County d/b/a Valley Medical Center and Proliance Orthopedic Associates Ambulatory Surgery Center received a determination of reviewability (DOR #16-23) to form a joint venture ASC. According to DOR #16-23 when the joint venture ASC construction is completed and it becomes operational, Proliance Orthopedic Associate Ambulatory Surgery Center's three operating room CN exempt ASC was to close. The ASC is located at 4033 Talbot Road South #270 in Renton [98055]. Within this application, Public Hospital District No.1 of King County d/b/a Valley Medical Center is proposing not to close the CN exempt ASC, but instead convert the ASC to a multispecialty CN approved surgery center to be known as Valley MAC ASC. [Source: Application page 7 and April 2, 2018, screening response, page 2]

¹ For Certificate of Need purposes, ambulatory surgery facility (ASF) and ambulatory surgery center (ASC) have the same meaning. For ease of reading, the term "ASC" will be used throughout this analysis.

² On April 2, 2018, Valley states in its screening response that it has changed the ASC name from Valley Talbot ASC to Valley MAC ASC.

The project approved by DOR#16-23 must be completed as approved or DOR#16-23³ is no longer valid and the resulting ASF would be required to obtain a Certificate of Need before becoming operational.

With this application, Public Hospital District No.1 of King County d/b/a Valley Medical Center is requesting to establish a three operating room ASC as a CN approved and licensed as a Washington free standing ambulatory surgery center. The CN approved ASC to be known as Valley MAC ASC will seek accreditation from the Accreditation Association of Ambulatory Health Care, Inc.⁴ (AAAHC). For ease of reference in this application, Public Hospital District No.1 of King County d/b/a Valley Medical Center will be referred to as 'Valley' and the surgery facility known as Valley MAC ASC will be referred to as 'Valley MAC ASC'

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review as the construction, development, or other establishment of a new health care facility under RCW 70.38.105(4)(a) and WAC 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:

“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;*

³ The CN approved ASC owned by the joint venture between Valley Medical and Proliance Surgeons, Inc. PS that was the subject of DOR #16-23 is expected to open in September 2019. [source: June 2018 progress report]

⁴ The Accreditation Association for Ambulatory Health Care (AAAHC) is a private, non-profit organization formed in 1979. AAAHC currently accredits more than 6,000 organizations in a wide variety of ambulatory health care settings including ambulatory surgery centers, community health centers, medical and dental group practices, medical home practices, and managed care organizations, as well as Indian and student health centers, among others. AAAHC accreditation for ASCs holds Medicare deemed status from the Centers for Medicare and Medicaid Services (CMS). [Source: AAAHC website]

- (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

The department received three applications from Valley and all three applications were submitted for ASC projects in southeast King County planning area. One application proposes to establish a 3-OR CN approved ASC in Renton. A second application proposes to construct 6-ORs ASC in Covington. The third application proposes to establish a 3-OR CN approved ASC in Renton. The 3-OR CN approved ASC will be known as Valley MAC ASC and it will be located in Renton.

These three applications were scheduled to be reviewed concurrently under the regular review timeline outlined in WAC 246-310-160. However, during the course of writing the decision for the projects, it became apparent that significant information was missing from the application submitted to convert the CN exempt ASC to a CN approved ASC. As a result, the department decided to declare a Pivotal Unresolved Issue (PUI) on the Valley MAC ASC application and separated the review of the application from the two applications review. The PUI process allows the department to issue a decision on the other two applications with no significant issue. For these reasons, the applications submitted by Public Hospital District No.1 of King County d/b/a Valley Medical Center to establish a 3-OR CN approved ASC in Renton, and to construct a 6-OR ASC in Covington will not be discussed any further in this evaluation. The only application that will be discussed in this evaluation, is Valley MAC ASC. The review timeline for Valley MAC ASC is summarized below.

APPLICATION CHRONOLOGY

Action	Valley MAC ASC
Letter of Intent Submitted ⁵	
Application Submitted	December 21, 2017 ⁶
Department’s pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • Applicant's Responses Received 	February 12, 2018 April 2, 2018 ⁷
Beginning of Review	April 9, 2018
Public Hearing Conducted	None Requested or Conducted

⁵ Valley did not submit any letters of intent as required under WAC 246-310-080, but submitted three applications instead. As a result, the department held the applications for 30 days as the letters of intent for 30 days.

⁶ Because the applicant did not submit any letters of intent the first working day the department can officially accept all three applications is January 22, 2018, therefore the applications were official accepted on this date.

⁷ The applicant requested the department commence formal review of the application upon receipt of screening responses.

Action	Valley MAC ASC
Public Comments accepted through the end of public comment	May 14, 2018
Rebuttal Comments Submitted	May 30, 2018
Department's Anticipated Decision Date	July 16, 2018
Department Bifurcates Applications	July 24, 2018
Department's Declares Pivotal Unresolved Issue ⁸	November 2, 2018
End Public Comments on PUI Documents ⁹	November 30, 2018
Rebuttal Comments Submitted for PUI Documents	NA
Department Anticipated Decision Date	January 25, 2019
Department's Actual Decision Date	February 6, 2019

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(34) defines "interested person" as:

- (a) *The applicant;*
- (b) *Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;*
- (c) *Third-party payers reimbursing health care facilities in the health service area;*
- (d) *Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;*
- (e) *Health care facilities and health maintenance organizations, which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;*
- (f) *Any person¹⁰ 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.*

For this project, MultiCare Health System sought interested person status.

MultiCare Health System

MultiCare Health System, is not-for-profit healthcare organization that include seven hospitals, healthcare clinics, and a heart institute. Within southeast King County secondary health services

⁸ The department contacted the applicant representative on July 24, 2018, to inform the representative that a PUI was necessary in order for the number of ORs at the CN exempt ASC to be ascertain. The department was told the staff who will provide the PUI response document was on vacation. On November 2, 2018, the applicant agreed to provide the PUI response document to the department on November 7, 2018.

⁹ The department did not receive any PUI public comment therefore the applicant could not submit PUI rebuttal comment.

¹⁰ WAC 246-310-020(42) "Person" means an individual, a trust or estate, a partnership, any public or private corporation (including associations, joint stock companies, and insurance companies), the state, or a political subdivision or instrumentality of the state, including a municipal corporation or a hospital district.

planning area, MultiCare Auburn Medical Center an acute care hospital provides services to the residents of King County. MultiCare Health System requested interested person status and to be informed of the department's decision. MultiCare Health System meet the definition of an "interested person" under WAC 246-310-010(34)(f).

However, MultiCare Health System did not provide written or oral comment on this application. Therefore, MultiCare Health System does not meet the definition of an "affected person" under WAC 246-310-010(2).

SOURCE INFORMATION REVIEWED

- Public Hospital District No.1 of King County d/b/a Valley Medical Center Certificate of Need application received on January 22, 2018
- Public Hospital District No.1 of King County d/b/a Valley Medical Center screening responses received on April 2, 2018
- UW Medicine Valley Medical Center Letters of Support received May14, 2018
- Pivotal Unresolved Issue (PUI) response received by 5:00 p.m. on November 7, 2018
- Year 2017 Annual Ambulatory Surgery Provider Survey for Surgical Procedures Performed During Calendar Year 2016 for hospitals, ambulatory surgery centers, or ambulatory surgical facilities located in Southeast King County secondary health services planning area
- Historical charity care data obtained from the Department of Health's Hospital and Patient Data Systems (2014, 2015, and 2016 summaries)
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Charity Care and Hospital Financial Data received June 14, 2018
- Department of Health's Integrated Licensing and Regulatory System [ILRS] data obtained for ambulatory surgery centers located in Southeast King County secondary health services planning area
- Office of Financial Management population data for Southeast King County secondary health services planning area.
- Licensing data provided by the Medical Quality Assurance Commission
- Accreditation Association of Ambulatory Health Care website at www.aaahc.org
- Women and Family Health Services www.wfhsmc.com

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Public Hospital District No.1 of King County d/b/a Valley Medical Center to establish an ambulatory surgery center to be known as Valley MAC ASC in Renton within southeast King County secondary health services planning area is consistent with applicable criteria of the Certificate of Need Program provided Public Hospital District No.1 of King County d/b/a Valley Medical Center agrees to the following in its entirety.

Project Description:

This certificate approves Public Hospital District No.1 of King County d/b/a Valley Medical Center to establish a three operating room ambulatory surgery center to be known as Valley MAC ASC within the City of Renton in southeast King County secondary health services planning area. Valley MAC ASC will provide surgeries to patients 18 years and older who are not expected to require hospitalization and can be served in an outpatient surgery setting. Surgeries to be provided at Valley MAC ASC are Gynecology, otolaryngology, ophthalmology, dermatology/plastic, vascular surgery; and general surgeries such as hernia repair, breast biopsy, breast reconstruction, mastectomy, laparoscopy, laparoscopic cholecystectomy, excision and destruction of lesions and tumor, colorectal surgery, hemorrhoidectomy, anal fistulas, insertion and removal of catheter placement for renal dialysis and chemotherapy; and gastric neurostimulators. Some surgical services provided at the Valley MAC ASC require anesthesia services.

Conditions:

1. Public Hospital District No.1 of King County d/b/a Valley Medical Center agrees with the project description as stated above. Public Hospital District No.1 of King County d/b/a Valley Medical Center 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. Valley MAC ASC will maintain licensure as an ambulatory surgery facility under WAC 246-330, regardless of ownership.
3. Prior to commencement Valley MAC ASC will provide an executed copy of the lease agreement for the department's review and approval. The executed lease agreement must be consistent with the draft provided in the application.
4. Prior to providing services, Public Hospital District No.1 of King County d/b/a Valley Medical Center will provide the adopted job description, the name and credentialed number of the medical director for Valley MAC ASC for department's review and approval. The adopted medical director job description must be consistent with the draft provided in the application.
5. Valley MAC ASC must maintain its Medicare and Medicaid certification throughout the life of the facility regardless of ownership.
6. Valley MAC ASC will provide charity care in compliance with the charity care policy provided in the application, or any subsequent policies. Valley MAC ASC will use reasonable efforts to provide charity care at 0.93% for gross revenue and 2.18% for adjusted revenue as identified in the application or the regional average, whichever is greater. Valley MAC ASC will maintain records of the charity care amount provided by documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

7. Prior to providing services, Valley MAC ASC will provide an executed copy of the patient transfer agreement for the department's review and approval. The executed patient transfer agreement must be consistent with the draft agreement provided in the application.

Approved Cost:

The approved capital expenditure for this project is \$3,989,579.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed, and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Valley Medical Center's Valley MAC ASC application has met the applicable need criteria in WAC 246-310-210 and WAC 246-310-270

- (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.*
To evaluate this sub-criterion, the department uses facility specific criteria found in WAC 246-310-270.

WAC 246-310-270(9) – Ambulatory Surgery Numeric Methodology

The methodology in WAC 246-310-270(9) divides Washington State into 54 secondary health services planning areas. The proposed ASC would be located in southeast King County secondary health services planning area. The numeric methodology provides a basis of comparison for existing operating room (OR) capacity for both outpatient and inpatient ORs in a planning area using the current utilization of existing providers.

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 rooms in the planning area, it subtracts this capacity from the forecasted number of surgeries expected in the planning area in the target year, and it 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 operating rooms and procedures.

Valley MAC ASC's Application of the Numeric Methodology

“Valley estimated both capacity and future utilization in Southeast King using the following data sources:

- *The Department's past ASC surveys in Southeast King,*
- *The Department's Hospital and Patient Data System's (HPDS) Quarterly Reports,*
- *Past CN application for facilities not yet open, and*
- *Information provided to Valley by CN Program staff in August of 2017 from its facility licensing database (ILRS-Integrated Licensing and Regulatory System).*

In terms of capacity, and with the recent closure of the South Lake Clinic CN exempt ASC, Valley identified 22 OR facilities including four existing and one planned hospital provider. The total OR capacity of these 22 providers is 33 mixed use rooms and 9 dedicated outpatient rooms”.

“Application of the methodology using available data sources identifies the need for 10.6 additional dedicated outpatient operating rooms in the Southeast King Secondary Health Services Planning Area. A copy of the methodology is included in Exhibit 7.

“In the very unlikely scenario that the Program does not find numeric need, WAC 246-310-270 (4) allows an applicant, absent numeric need, to demonstrate that a circumstance outside of the ordinary exists in the market that would warrant the granting of a CN. Valley cannot accommodate its current outpatient surgery volumes without retaining many of the cases in the higher cost in-hospital location. Without approval of this CN, this free-standing capacity will close, and Valley will need to renovate and expand its hospital ORs (which are not subject to CN review) to add the required capacity. This is costly from a capital perspective, and will result in higher charges for care”. [Source: Application, page 13]

“Table 5 depicts the Southeast King Population. Today, the population of Southeast King is in excess of 600,000 and will by 2021 increase another 7.4% to more than 650,000 residents. The 65+, the highest utilizers of day surgery services, will grow by nearly 29% to 93,000 residents by 202”. [Source: Application, page 14]

Southeast King Health Planning Area Population-Reproduced Valley MAC ASC Table 5

	2010	Pct of Tot Pop	2016 Est	Pct of Tot Pop	Pct Chg 2010-2016	2021 Proj.	Pct of Tot Pop	Pct Chg 2016-2021
Total Pop.	552,226	100.0%	606,892	100.0%	9.9%	652,104	100.0%	7.4%
Pop. By Age								
0-17	140,097	25.4%	147,563	24.3%	5.3%	156,291	24.0%	5.9%
18-44	208,015	37.7%	224,281	37.0%	7.8%	229,742	35.2%	2.4%
45-64	149,443	27.1%	162,700	26.3%	8.9%	172,950	26.5%	6.3%
65-74	31,637	5.7%	45,113	7.4%	42.6%	59,276	9.1%	31.4%
75-84	16,260	2.9%	19,668	3.2%	21.0%	25,905	4.0%	31.7%
85+	6,774	1.2%	7,567	1.2%	11.7%	7,940	1.2%	4.9%
Tot. 0-64	497,555	90.1%	534,544	88.1%	7.4%	558,983	85.7%	4.6%
Tot. 65+	54,671	9.9%	72,348	11.9%	32.3%	93,121	14.3%	28.7%
Fem. 15-44	115,862	21.0%	122,923	20.3%	6.1%	126,095	19.3%	2.6%

[Source: Application page 14]

“Table 6 details the assumptions used to estimate utilization projections:

Utilization Assumptions- Reproduced Valley MAC ASC Table 6

	Assumption
<i>Baseline Volumes</i>	<i>Valley outpatient 2016 actual cases by services line were evaluated for appropriateness at an ASC. Actual 2016 volumes were grown 2% annually until (2020).</i>
<i>Surgical Specialties</i>	<i>Valley Talbot will provide the following surgical specialties: general surgery, gynecology, otolaryngology, ophthalmology, dermatology/plastic surgery, and vascular surgery. It was assumed 45% of existing Valley outpatient baseline volumes would be relocated to Valley Talbot.</i>
<i>In-migration</i>	<i>It was assumed that 80% of volumes are generated by planning area residents and another 20% from in-migration.</i>

	<i>Assumption</i>
	<i>This is conservative as 2016 Valley actual data indicates that 26% of patients lived outside of Southeast King.</i>
<i>Growth Rates Beyond 2020</i>	<i>3% per year due to population growth and aging and payer/patient preference to free standing ASC.</i>

[Source: Application page 15]

“Table 7 provides the estimated volumes by year.

Estimated Utilization by year 2020-2024– Reproduced Valley MAC ASC Table 7

<i>Services Line</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>
<i>General Surgery</i>	<i>2,088</i>	<i>2,149</i>	<i>2,214</i>	<i>2,280</i>	<i>2,349</i>
<i>Gynecology</i>	<i>573</i>	<i>591</i>	<i>608</i>	<i>627</i>	<i>645</i>
<i>Otolaryngology</i>	<i>488</i>	<i>503</i>	<i>518</i>	<i>533</i>	<i>549</i>
<i>Ophthalmology</i>	<i>479</i>	<i>494</i>	<i>508</i>	<i>524</i>	<i>539</i>
<i>Dermatology/Plastic</i>	<i>269</i>	<i>277</i>	<i>285</i>	<i>294</i>	<i>303</i>
<i>Vascular surgery</i>	<i>303</i>	<i>312</i>	<i>322</i>	<i>331</i>	<i>341</i>
<i>Total</i>	<i>4,200</i>	<i>4,326</i>	<i>4,455</i>	<i>4,589</i>	<i>4,726</i>

[Source: application page 16]

Public Comments

None

Rebuttal Comment

None

The Department’s Application of the Numeric Methodology

The numeric portion of the methodology requires calculation of the annual capacity of the existing provider’s inpatient and outpatient ORs in a planning area. According to the department’s historical records, there are 22 providers within the Southeast King County secondary health services planning area including the applicant with OR capacity. Of the 22 providers, five are hospitals and 17 are ASCs. Shown below in Table 1 is the listing of the five hospitals. [Source: CN historic files and DOH ILRS database]

**Table 1
Southeast King County Planning Area Hospitals**

Hospitals	DOH License	Zip Code
FHS St. Elizabeth Hospital	HAC.FS.00000035	98022
FHS St. Francis Hospital	HAC.FS.00000201	98003
MultiCare Auburn Medical Center	HAC.FS.60311052	98001
MultiCare Covington Medical Center	HAC.FS.60311052	98042
Valley Medical Center	HAC.FS.00000155	98055

For the five hospitals listed in Table 1 above, 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 ASCs or hospital ORs utilization, the departments sends an annual utilization survey to all hospitals and known ASCs in Washington to gather their annual

utilization data. The department’s most recent annual utilization survey data available at the time Valley submitted its application was year 2016 ASCs and hospitals annual utilization data. Since the 2016 data is the most recent annual utilization survey data available, the department will use this data to determine need for Valley proposed projects. Listed in Table 2 below are the 18¹¹ ASC’s located or operational in the planning area.

Table 2
Southeast King County Planning Area
Ambulatory Surgery Centers

Ambulatory Surgery Centers	Zip Code
Auburn Surgery Center	98001
Cascade Surgery Center	98002
ENT Facial & Allergy	98022
Fogel Endoscopy*	98003
Evergreen Eye Center	98003
MultiCare Covington ASC	98042
Northwest Eye Surgeons	98057
Plastic and Reconstructive Surgeons	98055
Proliance Orthopedic Associates	98055
Rainier Surgical Center	98003
Sound International Pain Management	98001
Southlake Clinic* ¹²	98055
Sports Medicine Day Center	98001
Surgery Center Enumclaw	98022
Valley Eye and Laser Center	98055
Virginia Mason Surgery Center	98003
VP Surgery Center	98001
Women and Family Health Specialist ¹³	98057

[Source: ILRS]

Of the eighteen ASCs shown above, Sound International Pain Management is a dedicated pain management ASC. Therefore the department would not count this ASC minutes in the evaluation. Of the remaining seventeen ASC’s, two are endoscopy facilities (shown with an asterisk). The ASC numeric methodology deliberately excludes OR capacity and procedures for endoscopy facilities.¹⁴ As a result, the ORs and procedures for the two endoscopy facilities will not be counted in the numeric methodology.¹⁵

For the remaining fifteen ASCs, eleven are located within a solo or group practice (considered a CN exempt ASC) and the use of these ASCs are restricted to physicians that are employees or members of the clinical practices that operate these facilities. Therefore, these eleven facilities do not meet the ASC definition in WAC 246-310-270. For CN exempt ASCs, the number of surgeries, but not ORs are included in the methodology for the planning area. The remaining four ASC’s are CN approved

¹¹ Although there are 18 ASCs providers counted in the methodology, two ASC’s has since closed in late 2018.

¹² As at the time of writing this evaluation SouthLake Clinic no longer exist, but in 2016 this ASC was operational.

¹³ According to this facility website [<http://www.wfhsmd.com/>] the facility ceased operation at the end of April 2018.

¹⁴ WAC 246-310-270(9)(iv).

¹⁵ The two facilities are Fogel Endoscopy and Southlake Clinic.

facilities.¹⁶ For these four facilities, the OR capacity and utilization is counted in the numeric methodology. The department recently approved new ASCs in the planning area. The ASCs are owned by Valley Medical Center.

The ASCs are Valley Day Surgery Center and Valley Covington ASC. Valley Day Surgery Center has three operating rooms, but two of those ORs are dedicated to for endoscopy and GI related procedures use and Valley Covington ASC has six operating rooms, but two rooms are going to be use provide to endoscopy and GI related procedures. The dedicated rooms that will be used to provide endoscopy and GI related procedures will not be counted in this methodology. Although Valley’s newly approved ASCs are not yet operational, the department will count the ORs in the methodology. For the purpose of the methodology, there are six CN approved ASCs in the southeast King County planning area and altogether these six ASCs have 16 ORs which will be counted in the methodology.

In summary, utilization data will be used for the five acute care hospitals, eleven CN exempt ASCs, and the six CN approved ASCs. OR capacity will be counted for the five acute care hospitals and the CN approved ASCs. If a facility does not complete and return a utilization survey, the other data source that can be used is the department’s internal database known as the Integrated Licensing and Regulatory System (ILRS).

According to WAC 246-330-100(2), licensed ambulatory surgical facilities must submit to the department an annual update form. The data provided on this annual update form includes the number of ORs and the approximate number of procedures performed at the facility during the year. This data is updated in ILRS as it is received. The department uses the listed number of surgical procedures and multiplies the number by 50 minutes which is the default minutes per outpatient surgery as identified under WAC 246-310-270(9)(b)(iii). For those agencies not responding to the department’s survey, the 50 minutes is used as the default to calculate outpatient surgery minutes.

The data points used in the department's numeric methodology are identified in Table 3. The methodology and supporting data used by the department is provided in the attached Appendix A with this evaluation.

**Table 3
Department’s Methodology Assumptions and Data**

Assumption	Data Used
Planning Area	Southeast King County
Population Estimates and Forecasts	Age Group: 18+ Office of Financial Management Population: Year 2017 – 507,296 Year 2021 – 534,475
Use Rate	Divide calculated surgical cases by 2017 population results in the service area use rate of 83.190/1,000 population
Year 2015 Total Number of Surgical Cases	22,416 – Inpatient or Mixed-Use; 20,923 – Outpatient 42,202 – Total Cases

¹⁶ MultiCare Covington, Valley Medical Center, VP surgery Center and Northwest Eye Surgeons.

Assumption	Data Used
Percent of surgery: ambulatory vs. inpatient	Based on DOH survey and ILRS data: 46.88% ambulatory (outpatient); 53.12% inpatient
Average minutes per case	Based on DOH survey and ILRS Data: Outpatient cases: 58.03 minutes Inpatient cases: 105.50 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 Southeast King County Providers: 16 dedicated outpatient ORs 34 mixed use ORs
Department's Methodology Results	Shortage of 1.57outpatient ORs

Based on the assumptions described in Table 3, the department's numeric methodology projects a shortage of 1.57 outpatient ORs in southeast King County for projection year 2021.

Difference between Valley and Department Application of Need

The department noted that in Valley's application of the numeric methodology, it stated that its methodology was developed using available data sources that identified need for 10.6 additional dedicated outpatient operating rooms in the planning area. (Source: Application page 13) The number of ORs need identified by Valley is different from the department need methodology. The differences between the two methodologies are explained below.

Valley stated the population it expected to serve is 18 and older. However it also stated that for some specialties, it planned to serve population 5-85 years. However it appears that Valley's methodology relied on population 0-85 older to forecast need while the department's methodology relied on population 18 and above. The difference in the population data between the department and Valley resulted in a different use rate for the planning area. Valley identified 9 dedicated outpatient and 33 mixed use ORs in the planning area. The department recently approved two Valley ASC's applications to add seven ORs in the planning area. As stated by the department in its application of the numeric methodology, it will count the five ORs that were recently approved for Valley to use to provide general surgery. When the five ORs are counted, it resulted in 16 outpatient's operating rooms and 34 dedicated mixed use operating rooms available and accessible in southeast King County secondary health services planning area.

Valley's stated its application of the methodology that using available data sources it identified need for 10.6 additional dedicated outpatient operating rooms in the Southeast King Secondary Health Services Planning Area. (Source: Application page 13) Additionally, Valleys methodology did not count Northwest Eye Surgeons two ORs. In 2017 the department issued CN#1631 to Northwest Eye Surgeons to establish 2 dedicated outpatients ORs in the southeast King planning area. CN#1631 approved Northwest Eye Surgeons to establish 2 dedicated outpatients ORs primarily dedicated to providing optometric eye surgery procedures, ophthalmic procedures and pain management procedures (non-implants). Because Valley MAC ASC is proposing to provide ophthalmic and dermatology/plastic, the department will count the 2 ORs approve by CN#1631. When these two

ORs and the ORs from the two recently approved Valley ASC applications are counted in the methodology, the department need methodology show need for 1.57 ORs. The 1.57 ORs available in the planning area is less than the number of ORs requested by Valley. In its application, Valley is requesting approval to establish a 3 ORs facility. Although, the number of ORs requested by Valley is more than the number projected in the need methodology, statements provided by Valley in the application, and public comments received by the department support the approval of this support. Valley's statements and the public comments are discussed within this evaluation.

WAC 246-310-270(4)

Outpatient operating rooms should ordinarily not be approved in planning areas where the total number of operating rooms available for both inpatient and outpatient surgery exceeds the area need.

In the project description portion of this application Valley states, "*The proposed Valley Talbot ASC is currently a Washington State licensed CN exempt ASC, known as Proliance Orthopedic Associates Ambulatory Surgery Center. Upon CN approval and opening, Valley will assume ownership and retain it as a freestanding licensed ASC*". [Source: Application page 2]

Within the application Valley also states that, "*In the very unlikely scenario that the Program does not find numeric need, WAC 246-310-270(4) allows an applicant, absent numeric need, to demonstrate that a circumstance outside of the ordinary exists in the market that would warrant the granting of a CN. Valley accommodate its current outpatient surgery volumes without retaining many of the cases in the higher cost in-hospital location. Without approval of this CN, this free-standing capacity will close, and Valley will need to renovate and expand its hospital ORs (which are not subject to CN review) to add the required capacity. This is costly from a capital perspective, and will result in higher charges for care. The establishment of a freestanding ASC will provide both patients and payers with a lower cost alternative*". [Source: Application, page 13]

Public Comments

The department received letters of support from senior employees of UW Medicine/Valley Medical Center in support of this project. Excerpts from the support letters are below.

"...The addition of ASCs to the Valley network of services indisputably translates to better, quicker access for patients closer to their homes, and generally at costs lower than is possible in hospital operating rooms. In the realm of value-based medicine, the need for accessible alternatives to the hospital is an absolute must- patients, employers and payors all have made it abundantly clear that non-hospital outpatient facilities are the preferred site and structure for many procedures, and Valley is ahead of the curve in attempting to fill that need in a cost-effective, responsible manner. Moreover, as the primary Medicaid provider in Southeast King County, these facilities will also make sure that there is fundamentally fair access to needed services from the most vulnerable populations living and working in the area.

Given the significant growth in population projected for Southeast King County, there is little debate as to whether additional, alternative facilities are needed, and Valley has committed to filling this need in a fiscally responsible, and innovative manner: by repurposing existing facilities to better meet the demand for freestanding services and by adding new ORs only where access and cost are

concerns...”. [Source: May 14, 2018, Lisa Brandenburg, Chief Health System Officer, Vice President for Medical Affairs UW Medicine]

“...I am a Family Physician in Maple Valley where I have had the pleasure of treating patients for 15 years. Our Maple Valley Clinic, which includes six primary care providers, provides care for patients from infancy through senior years. Additionally, this clinic offers an Urgent Care that is open 7 days a week. Also located in Maple Valley is our Lake Sawyer Clinic with another five primary care providers. Last year, we provided nearly 50,000 primary care and urgent care visits. Daily, our eleven primary care providers make specialty referrals to providers located predominantly in Covington and Renton. The population of Maple Valley has increased by more than 30% since 2000, and similarly, traffic congestion has increased greatly on the major roads traversing Southeast King. According to the State Department of Transportation, these roads are now among the most congested in the State. During normal commute times, travel from Maple Valley to Renton regularly exceeds 35-40 minutes.

...The providers at VMC Maple Valley and Lake Sawyer Clinics lend their wholehearted endorsement and support for this project because of the benefit we know it will bring to many of our patients”. [Source: May 14, 2018, Shannon Markegard, DO Associate Medical Director]

“Valley is committed to high quality, patient-centered and low-cost care, and the CN applications we are requesting approval for will mean that we can add sufficient ambulatory surgery space on or adjacent to the main campus to assure that patients receive the appropriate level of care in an accessible and lower cost setting. Adding capacity in Covington will also ‘free up’ capacity at DSC and provide choice and a lower cost, more accessible location for residents in the southeastern most portions of our District.

Valley has been deliberate, thoughtful and intentional in its proposals, and I strongly encourage the Program’s approval”. [Source: May 14, 2018, John L. Wagner RN-BNS, MHA, FACHE, Vice President Perioperative, Imaging & Ancillary Services]

“Valley is choosing to be proactive in developing lower cost, high quality access points that meet or exceed patient, employer and payor expectations. Valley currently performs more than 13,000 surgeries annually. Our sole existing ambulatory surgery center is operating at or above of 100% capacity daily. Valley has submitted three certificate of need applications in an effort to address demand... In 2016, Valley agreed to close the DSC upon opening of a new joint venture ASC with Proliance. Because of high volume, Valley elected to file a CN application to retain it, and have it serve as our primary GI facility. If approved, the second (Valley MAC ASC) will allow Valley to have an outpatient ASC that can serve patients that need non-GI services. This will be accomplished by repurposing ORs that are slated to be vacated and closed by Proliance in 2019”. [Source: May 14, 2018, Richard Roodman, Chief Executive Officer]

Rebuttal Comment

None

Department Evaluation

The department agrees with Valley comments that the surgery volumes of the CN exempt ASC are part of the capacity counted for the planning area. Valley states that if the department did not find numeric need for the three operating rooms its requesting, the department call still approve this project because WAC 246-310-270(4) gives the department discretion to approve a project such as this. Valley also states that if this project is not approved, it will have to close the CN exempt ASC and instead renovate and expand its hospital based ORs. Valley states that renovating and expanding hospital based ORs is costly and will result in higher charges for care in the planning area. Given these statements, the department agrees with Valley assertions that closing the CN exempt ASC and expanding hospital based inpatients surgery centers can be costly.

Additionally, the letters of support received by the department supports Valley's effort to establish a non-hospital based outpatient ambulatory surgery center in southeast King County. One support letter states that there is need for the project because Valley's primary and urgent care providers currently refer patients to specialty providers located predominantly in Covington and Renton. This statement seems to suggest that Valley's primary and urgent care providers will instead refers patients to this ASC if it's approved.

Another support letter states that need for accessible outpatient ASC is a better alternative to hospital based ASC and this statement appears to support Valley assertion. The proposed Valley MAC ASC will be located in Renton, as suggested by a letter of support, Valley's primary and urgent care networks will refer patients to the surgery center if approved. The letter from Valley's chief executive officer states that Valley currently performs more than 13,000 surgeries annually and its sole existing ambulatory surgery center is operating at or above of 100% capacity daily. Given that Valley's sole ASC is at capacity, the department approval of this project may increase access to ambulatory surgery in the southeast King County planning area.

As stated in the project description portion of this evaluation, Proliance Orthopedic Associates Ambulatory Surgery Center is a CN exempt facility and the surgery volumes at the ASC are part of the capacity counted in planning area. There is no information to suggest that existing facilities in the planning area have the capacity to absorb the volumes anticipated by Valley MAC ASC nor did any area providers provide public comment indicating that their facilities can do so. Based on the source documentation reviewed the department concludes the current services and the type proposed are not sufficiently available and accessible to meet the current need in the planning area. 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.

Valley MAC ASC

"Drawing of the current configuration (Proliance) are included Exhibit 4." [Source: Application page 9]

"There is no change to the current configuration proposed. Drawings are included in Exhibit 4".
[Source Application page 9]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

WAC 246-310-270(6) requires a minimum of two ORs in an ASC because single line drawings submitted by Valley in application was not clear about the number of ORs at the existing CN exempt facility. On February 12, 2018, a department screening question states, "Page 9 states drawings of the current configuration (Proliance) are included in exhibit 4 and no change to the current configuration is proposed. The document provided has solid black dotted lines and it is not legible. Provide an updated single line drawing for Valley Talbot ASC showing all the spaces to be use by the ASC". In response to the question, on April 2, 2018, Valley submitted an updated single drawing and states, "The requested drawings are included in Attachment 8". During the review of the application, the department discovered that the updated single line drawing was missing the required information showing how many operating rooms are the facility. Therefore, on November 2, 2018, department declared a PUI. The PUI was declared so that Valley can provide another revised single line drawing showing the number of operating rooms at the CN exempt ASC. On November 7, 2018, Valley provided a revised single line drawing and the following statements.

"The PUI requested clarification on the number of operating rooms in the existing space. According to the Program's PUI, it was unable to verify the number of ORs requested based on the single line drawings contained within the application. Valley apologizes for any confusion contained in the application and supplemental materials, and has attached an updated drawing depicting two full operating rooms and one procedure room, for a total of three rooms. The drawings submitted with the application, labeled the two ORs correctly, but the existing procedure room was incorrectly labelled "exam room". This room (labeled as T2001) on the original drawings is currently a procedure room, and no change in the room configuration is proposed with this project. In the CN narrative, and because Valley understood that the CN Program 'counts' all rooms (ORs and procedure rooms) as operating rooms, our letter of intent and subsequent application proposed the establishment of a 3 OR ASC". [Source: November 7, 2018, PUI response, Page 1]

Based on the information, the department review of the updated ASC floor plans submitted by Valley with its PUI response, shows it will have three ORs at Valley MAC ASC. **This sub-criterion is met.**

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

To evaluate this sub-criterion, the department evaluates an applicant's admission policies, willingness to serve Medicare and Medicaid patients, and to serve patients that cannot afford to pay for services. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

Medicare certification is a measure of an 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 do 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.

Charity care shows a willingness of a provider to provide services to individuals who do not have private insurance, do not qualify for Medicare, do not qualify for Medicaid, or are under insured. With the passage of the Affordable Care Act in 2010, the amount of charity care decreased over time. However, with recent federal legislative changes affecting the ACA, it is uncertain whether this trend will continue.

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 project.

Valley MAC ASC

In compliance with this sub-criterion, Valley provided the following statements.

“The ASC will be both Medicare and Medicaid certified. Admission to Valley Talbot ASC (Valley MAC ASC) will be same as admission to any other Valley facility or program; it will be based upon clinical need and services will be made available to all persons regardless of race, color, creed, sex, national origin, or disability”.

“A copy of Valley’s Department approved Admission and Non-Discrimination Policies are included as Exhibit 9. A copy of Valley’s Department approved charity care policy is included in Exhibit 10”. [Source: Application page 17]

“Valley Talbot ASC will also operate with same charity care policy as Valley.”

“A copy of Valley’s Department approved charity care policy is included in Exhibit 9. A copy of Valley’s Department approved admission and non-discrimination policies are included as Exhibit 10”. [Source: Application page 18]

“Table 4 includes the estimated sources of revenue for the Valley Talbot” (Valley MAC ASC).

Proposed Source of Revenue by Payer—Reproduced Valley MAC ASC Table 4

<i>Payer</i>	<i>Percent of Total</i>
<i>Medicare</i>	<i>27.4%</i>
<i>Medicaid</i>	<i>19.1%</i>
<i>Commercial/Exchange</i>	<i>51.9%</i>
<i>Other</i>	<i>1.7%</i>
<i>Total</i>	<i>100.0%</i>

[Source: Application, page 8]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

The copy of the admission and nondiscrimination policies provided by Valley in the application are the same policies used at the hospital and approved by the department of health. These policies will be used to admit patients for treatment and ensures that patients receive appropriate care. Valley is licensed by the state and certified by the Centers for Medicare and Medicaid Services. A review of the information provided by Valley in the application shows that Valley MAC ASC expects reimbursement from Medicare and Medicaid. [Sources: Application page 8]

If this project is approved, the department would attach a condition requiring Valley MAC ASC to maintain Medicare and Medicaid certification throughout the life of the facility regardless of ownership. Similarly, the department would also attach a condition requiring, Valley MAC ASC to maintain licensure under WAC 246-330 throughout the life of the facility regardless of ownership.

The department acknowledges that Valley demonstrated its intent to provide charity care to patients receiving treatments at the Valley MAC ASC by submitting a copy of Valley's department approved charity care that will be used at the ASC. The policy outlined the process patients would use to access charity care services when they do not have the financial resources to pay for required treatments. [Source: Application, page 18 and Exhibit 9]

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, Washington State is divided into five regions: King County, Puget Sound, Southwest, Central, and Eastern. Valley MAC ASC will be located in King County Region currently there are 22 hospitals operating in the King County region.

In southeast King County where the proposed Valley MAC ASC will be located, there are five acute care hospitals¹⁷ including Valley Medical Center. The approval of Valley MAC ASC may affect the other four hospitals. For this project, the department reviewed the most recent three years charity care data for the 22 hospitals currently operating within the King County Region, but mainly focused on the five general acute care hospitals within southeast King County secondary health services planning area.

For this evaluation, the charity data reviewed is historical years 2014, 2015, and 2016. Shown in Table 4 is a comparison of the three years average charity care for King County Region as a whole,

¹⁷The five hospitals are FHS St. Elizabeth Hospital, FHS St. Francis Hospital; MultiCare Auburn Medical Center; MultiCare Covington Medical Center; and Valley Medical Center.

the combine five hospitals charity care averages, includes Valley’s projected charity care for this project.¹⁸ [Sources: CCHFD Charity Care 2014-2016, and April 2, 2018 screening responses, Attachment 2]

Further in compliance with this sub-criterion, Valley provided the following statement:

“...According to 2014-2016 charity care data produced by the Department (the latest data currently available), the three-year charity care average for King County, excluding Harborview, is 0.93% of gross revenue and 1.98% of adjusted revenue. During this same time period, the three year percentage of charity care for Valley was 0.84% of total revenue and 1.92% of adjusted revenue. As the Program is aware, beginning in 2014, with Medicaid expansion and the Healthcare Exchange, the percentage of charity care in the State has declined and our pro forma assumes the actual King County charity care rate in 2016 as opposed to the average of the past three years (0.83%)”. [Source: Application page 18]

“The most recent three-year charity care data (2014-2016) for King County, less Harborview Medical Center as a percentage of total revenue was 0.93%; which is close to Valleys actual experience. Valley revised its pro forma financial to include the 0.93% rate. The revised pro formas are included in Attachment 2”. [Source: April 2, 2018 screening response Page 5]

As shown in Table 4 below, the proposed charity care levels represented in Valley MAC ASC application exceed the regional average but are lower than the five hospitals combined average located in southeast King County secondary health services planning area.

Table 4
Valley MAC ASC Charity Care Comparison

	% of Total Revenue	% of Adjusted Revenue
King County Region	0.91%	1.93%
Five Hospitals Combined ¹⁹	1.04%	2.54%
Valley MAC ASC	0.93%	2.18%

The pro forma financial statement submitted for Valley MAC ASC includes ‘charity care’ line items as deduction from revenues. [Sources: April 2, 2018 screening responses Attachment 2] The charity care document provided in the application is the same document reviewed and approved by the Department of Health. Therefore, if this project is approve the department would attach a condition requiring that Valley MAC ASC provide charity care in the amount identified in the application or at the regional average whichever is greater.

Based on the source documentation reviewed and Valley MAC ASC agreement to the charity care condition, the department concludes that all residents of the service area, including low income, racial and ethnic minorities, handicapped, and other under-served groups would have access to the services provided at Valley MAC ASC. **This sub-criterion is met.**

¹⁸ Harborview Medical Center is subsidized by the state legislature to provide charity care services. Charity care percentages for Harborview make up almost 50% of the total percentages provided in the King County Region. Therefore, for comparison purposes, the department excludes Harborview Medical Center’s percentages.

¹⁹ The five hospitals combined includes the applicant. Year 2014 charity care data was not reported for CHI/Regional Hospital. Years 2014, 2015 and 2016 charity care data was not reported for Kindred Hospital Seattle.

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

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

Department Evaluation

This sub-criterion is not applicable to the 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 sub-criterion is not applicable to the application.

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

Department Evaluation

This sub-criterion is not applicable to the application.

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

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

Department Evaluation

This sub-criterion is not applicable to the application.

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

Department Evaluation

This sub-criterion is not applicable to the application.

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

Department Evaluation

This sub-criterion is not applicable to the application.

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Valley Medical Center’s Valley MAC ASC application 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 operating 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.

Valley MAC ASC

In compliance with this sub-criterion, Valley provided the following statements.

“The Requested financials are included in Exhibit 11”. [Source: Application page 21]

“The revised pro formas are included in Attachment 2”. [Source: April 2, 2018 screening response Page 5]

“Financial Assumptions –Reproduced Valley MAC ASC Exhibit 11

<i>Revenue</i>	<i>Valley’s current revenue by payer and consultant’s experience in modelling net revenue for ASC’s</i>
<i>Payer Mix</i>	<i>Actual experience of Valley’s surgery program for cases performed between August 1, 2016 and July 31, 2017, by specialty</i>
<i>Charity Care</i>	<i>0.93% of Gross Charges (King County less Harborview 2016 regional average</i>
<i>Bad Debt</i>	<i>2.00% of Net Revenue</i>
<i>Salaries and Wages</i>	<i>National consultant provided based on ASC operations expertise, with sensitivity to case mix and adjusted by the wage index for King County. Staffing based on per room type, volume, etc. ratios using ASC Consultant experience</i>
<i>Staffing</i>	<i>All FTE levels generated based on specific ratios using best practices from National Consultant. (FTEs detailed in Table 10)</i>
<i>Benefits</i>	<i>Benefits are projected at 25% of Salaries and Wages and include payroll taxes, health insurance, etc.</i>
<i>Drugs and Medical Supplies</i>	<i>Projected by specialty and procedure types for ASC operations. Includes, as applicable, implant expenses. Includes Valley actual and adjustments by National Consultant</i>
<i>Utilities</i>	<i>Utilities forecast based on a per square foot rate for the actual space.</i>
<i>Business Taxes</i>	<i>Forecasted based upon on an average of 1.5% of revenue attributed to Washington B&O tax.</i>

<i>Other Operating Expenses</i>	<i>Expenses not directly associated or impacted by patient care or otherwise adjusted and reflected in the assumptions. Includes Valley actual and adjustments by National Consultant.</i>
<i>Purchased Services</i>	<i>Includes laundry, linen, biomed, equipment maintenance based on Valley actual and adjustments by National Consultant</i>
<i>Depreciation and Amortization</i>	<i>Building and equipment capital costs and current depreciation.</i>
<i>Allocated Expenses</i>	<i>Costs associated with centralized support services (billing/collection, financial counselling) provided by Valley”.</i>

[Source: Application page 155, Exhibit 11]

“Table 4 includes the estimated sources of revenue for the Valley Talbot ASC (Valley MAC ASC).

Proposed Source of Revenue by Payer –Reproduced Valley MAC ASC Table 4

“Payer	Percent of Total
<i>Medicare</i>	<i>27.4%</i>
<i>Medicaid</i>	<i>19.1%</i>
<i>Commercial/Exchange</i>	<i>51.9%</i>
<i>Other</i>	<i>1.7%</i>
Total	100%

[Source: Application, page 8]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

To evaluation this sub-criterion, the department first reviewed the assumptions used by Valley to determine the projected number of procedures for Valley MAC ASC. Valley assumed that 80% of volumes will be generated by planning area residents and 20% from in-migration of patients and projected population growth rate between 3%. Relying on this projected growth, Valley is assuming that its market share of the growth will be more than enough to sustain its projected volumes. Based on these assumptions, it appears that Valley MAC ASC projections are reasonable. If this project is approve, the three ORs will be operational by the end of January 2020. [Source: Application page 7 and April 2, 2018, screening response, page 2] Under this timeline, year 2021 would be the ASC first full calendar year of operation and 2022 would be year three.

Based on the assumptions above, Valley submitted Valley MAC ASC projected revenue and expense statement for years 2020-2022 summarized in Table 5 below. [Source: April 2, 2018 screening response Attachment 2]

**Table 5
Valley MAC ASC Financial Projections**

	Projected 2020	Projected 2021	Projected 20202
Net Revenue	\$7,145,721	\$7,364,847	\$7,590,531
Total Operating Expenses	\$6,581,694	\$6,760,171	\$6,943,016

	Projected 2020	Projected 2021	Projected 20202
Net Income/(Loss)	\$564,027	\$604,676	\$647,515

The ‘Net Revenue’ line item includes deductions for contractual allowances, bad debt and charity care. The “total operating expenses” includes line item costs associated with operation of a surgery center such as supplies, salaries and wages & benefits, rental and leases expenses, depreciation, and equipment, operating expenses and taxes. As shown the in table above, Valley MAC ASC projects net profits for the first year of the project through year three.

Valley MAC ASC will be located at 4033 Talbot Rd South, #270 in the City of Renton [98055]. This ASC office space is currently occupied by Proliance Orthopedic Associates Ambulatory Surgery Center. Valley states that when the ASC vacates the space, and Valley MAC ASC occupies the space, it will be responsible for paying the lease cost. The lease costs were identified in the pro forma financial statement. Valley provided a draft lease agreement and a draft assignment of lease agreement between Proliance Orthopedic Associates and Valley Medical Center. The cost of the lease was identified in the pro forma financial statement. In the application, Valley stated the medical director of the ASC will be an employee of Valley Medical Center. The position do not require a contract or additional payment for services because Valley MAC ASC will operate as an outpatient department of Valley Medical Center.

To analyze the short and long-term financial feasibility of hospital projects and to assess the financial impact of a project on overall facility operations, the department uses financial ratio analysis. Department’s Charity Care and Hospital Financial Data (CCHFD) assesses the financial position of an applicant both historically and prospectively. The financial ratios utilized are: **1)** long-term debt to equity ratio; **2)** current assets to current liabilities ratio; **3)** assets financed by liabilities ratio; **4)** total operating expense to total operating revenue ratio; and **5)** debt service coverage ratio. If a project’s ratios are within the expected value range, the project can be expected to be financially feasible.

In its review of Valley fiscal yearend 2017 financial report, CCHFD concludes that Valley Medical Center has the financial capacity to proceed with Valley MAC ASC and the project is financially feasible. Related to the ASC projected revenue and expense statement for years 2020-2022 summarized in the table above, CCHFD states, “*The cost of are the costs and charges the patients community actually are billed*”. [Source: June 14, 2018, CCHFD analysis page 3] In addition, CCHFD staff also concludes that Valley financial status is adequate to fund the ASC. CCHFD further concluded that the project should not adversely impact reserves, or total assets, total liability or the general health of Valley Medical Center.

Valley did not submit an individual balance sheet for the ASC, but provided a hospital wide balance sheet. In its review of Valley Medical Center hospital wide balance sheet CCHFD states, “*The applicant did not provide pro-forma balance sheets for the ASC, however with the project funded by reserves rather than debt, the ratios that can only be calculated using balance sheet accounts are not relevant to this project*”. [Source: June 14, 2018, CCHFD analysis page 2] Below is CCHFD review of Valley Medical Center hospital balance sheet.

Table 6
Valley Medical Center

Assets		Liabilities	
Current	\$219,752,994	Current	\$166,783,895
Board Designated	-	Long Term Debt	\$291,779,549
Property, Plant & Equipment	\$362,569,426	Other	\$5,233,273
Other Assets	\$98,873,869	Equity	\$217,399,572
Total	\$681,196,289	Total	\$681,196,289

Furthermore, CCHFD staff stated that it reviewed the various ratios that shows a picture of the financial health of Valley MAC ASC and the review shows that Valley Medical Center’s ambulatory surgery center income statement ratio is above average at the end of the 3rd year and the ASC is better than break even as required by CON rules. Valley debt-related ratios for 2016 are not optimal, but the total project amounts to less than two percent of total Valley assets. The ASC itself is projected to have a favorable operating expense to operating revenue ratio that shows improvement over time.

Table 7
Valley MAC ASC Ratios

Category	Trend ²⁰	State 2016	Valley 2017	Year 1	Year 2	Year 3
Long Term Debt to Equity	B	0.495	1.342	-	-	-
Current Assets/Current Liabilities	A	2.810	1.318	-	-	-
Assets Funded by Liabilities	B	0.406	0.673	-	-	-
Operating Expense/Operating Revenue	B	0.973	1.048	0.921	0.918	0.915
Debt Service Coverage	A	4.475	1.043	-	-	-
Definitions:	Formula					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities + Long Term Debt					
Operating Expense/Operating Revenue	Operating Expenses / Operating Revenue					
Debt Service Coverage	Net Profit+Depr and Interest Expense/Current Mat. LTD and Interest Expense					

As shown in Table 7 CCHFD’s analysis of Valley MAC ASC operating expenses and operating revenue shows the immediate and long-range capital expenditures of the ASC can be met. Further, in its analysis CCHFD stated, “*The applicant projects an above average financial foundation for the ASC. The applicant should not have any trouble meeting the immediate and long term needs of this project*”. [Source: June 14, 2018, CCHFD analysis, Page 3]

The department concludes that Valley MAC ASC projected surgery center revenues will cover expenses in all years of operation. Based on the information above, the department concludes the immediate and long-range operating costs of the project can be met. **This sub-criterion is met.**

²⁰ “A” is better if the hospital number is above the State number and “B” is better if the hospital number is below the state number.

- (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.

Valley MAC ASC

In compliance with this sub-criterion, Valley provided the following statements.

"The capital expenditure is \$3,989,579". [Source: Application page 7]

"The cost of construction is based on Valley's experience and expertise in renovating medical office buildings. The cost of the moveable equipment, is again based on our purchasing experience.

The capital costs for this project have been detailed in response to Question #1 above. As noted on other sections of this application, the ASC will be operated as a free-standing ASC and will offer surgeries at lower costs to patients and payers as compared to a hospital setting." [Source: Application pages 20-21]

"Valley's in-house construction project management team prepared the cost estimate provided in the application (p.20). The in-house construction management team includes a licensed architect, an individual with architectural training, a mechanical engineer and a professional engineer. As needed, the team also has access to specialty estimators. The letter from Valley's Vice President, Facilities, a licensed professional Engineer, is included in Attachment 4". [Source: April 2, 2018, screening response page 6]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Total capital expenditure identified for this project is \$3,989,579. This project involves building improvements and the purchase of medical equipment necessary to provide outpatient surgical services. Consistent with application guidelines, a cost estimator letter from Valley facilities vice president stated that based on its comprehensive budgeting of previous construction based capital projects, it estimated the cost of the project to be \$750,154. [Source: April 2, 2018, screening response, Attachment 4]

Valley stated it will use its cash reserve to finance the project and a letter of financial commitment from its senior vice president and chief financial officer was submitted as Attachment 3 of its supplemental information. The impact of the project cost is included in the operating revenue and expenses statement for the ASC. Any increase in the operating costs will be associated with increase

in the number of procedures to be performed. Based on the information, the department concludes this project may not have an unreasonable impact on the costs and charges for healthcare services in southeast King County secondary health services planning area. **This sub-criterion is met.**

(3) *The project can be appropriately financed.*

WAC 246-310 does not contain specific source of financing criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how a project of this type and size should be financed. Therefore, using its experience and expertise the department compared the proposed project's source of financing to those previously considered by the department.

Valley MAC ASC

In compliance with this sub-criterion, Valley provided the following statements.

"Valley will use reserves to fund the project" [Source: Application page 21]

"The requested financials are included in Exhibit 11". [Source: Application page 21]

"The requested letter, from Jeannine Grinnell, Senior Vice President and CFO is included in Attachment 3". [Source: April 2, 2018, screening response page 6]

"Valley's in-house construction project management team prepared the cost estimate provided in the application (p.20)". [Source: April 2, 2018 screening response page 6]

The applicant provided a letter of financial commitment signed by its senior vice president and CFO. The letter states in part, *"...As demonstrated by the June 30, 2017 year-end audited balance sheet, submitted in Appendix 1 of the application, Public Hospital District No. 1 of King County has over \$200 million in cash, cash equivalent, and investments, which is more than sufficient to fund this project"*. [Source: April 2, 2018 screening responses Attachment 3]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Within the application, Valley stated there is construction involved with this project and the total capital expenditure is dedicated to land and building improvements and the purchase of medical equipment necessary to provide outpatient surgical services. Valley intends to finance this project using its cash reserves. To demonstrate compliance with this sub-criterion, Valley provided a letter of financial commitment for this project from its senior vice president and chief financial officer. The letter stated the applicant will commit the sum of \$3,989,579 to finance the project. The letter of financial commitment demonstrates compliance with this sub-criterion. Based on the source information above, the department concludes the cost of the capital costs for the project can be appropriately financed **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 agrees to the conditions identified in the conclusion section of this evaluation, the department determines Valley Medical Center’s Valley MAC ASC application 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 full time equivalents (FTEs) that should be employed for projects of this type or size. Therefore, using its experience and expertise the department determined whether the proposed staffing would allow for the required coverage.

Valley MAC ASC

To comply with this sub-criterion, Valley provided the following statements.

“The Medical Director will be a Valley employee; therefore, there is no contract”. [Source: Application, page 24]

“Staff have not yet been hired for Valley MAC. Assuming that the construction is completed by December 2019, Valley anticipates hiring staff by November 2019 to ensure that the needed staff are in place prior to securing ASF licensure. The requested job descriptions are included in Attachment 5. Please note that Table 10 has been revised to more closely reflect Valley’s job titles. No change in FTEs has been assumed.

***Current and Proposed Staffing by Discipline
2020-2022—Reproduced Valley MAC ASC Table 10***

	2020	2021	2022
<i>Administrator</i>	1.0	1.0	1.0
<i>Supervisor Day Surgery</i>	1.0	1.0	1.0
<i>Clinic Manager (Pre/PACU)</i>	1.0	1.0	1.0
<i>RNs</i>	7.5	7.5	7.5
<i>Techs</i>	3.0	3.0	3.0
<i>Other</i>	7.2	7.2	7.2
<i>Total</i>	20.7	20.7	20.7

[Source: April 2, 2018 screening response page 7]

“This project requires... a relatively small number for an organization the size of Valley. Valley also has current hospital OR staff interested in transferring to an ASC. Because we expect a decrease in outpatient cases (the majority of which is expected to be offset by increasing inpatient volumes), we should be able to accommodate a few staff moving either full or part time to an ASC. Valley offers a competitive wage and benefit package and has a number of specific recruitment and retention strategies that have served us well. Valley also has strong working relationships with a number of technical colleges, and two and four-year colleges that enable us to offer training and make Valley a preferred employer for new graduates”. [Source: Application page 24]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Within the application Valley states that the number of FTEs required for this project is relatively small number for an organization the size of Valley. The applicant also states that current hospital OR staff are interested in transferring to its ASCs. Valley states that it expect a decrease in outpatient surgeries performed at the hospital because those surgeries will be offset by inpatient cases. Valley has not identified credentialed staff for the ASC. Information provided by Valley in the application states,

“Neither the medical director, the director of nursing or any other key staff have been identified at this time. Valley can assure the Program that these key positions will be fully vetted, and any person selected will meet or surpass licensing requirements. We understand that the Program will likely issue a condition upon awarding the CN award requiring that prior to opening, Valley provide the requested licensing information for review by the Program. Valley is amenable to such a condition”. [Source: Application, page 24]

Based on the statement above, if this project is approved, the department will attached a condition requiring Valley to submit the name, credentialed number, and the finalized job description of the new medical director of surgical services for Valley MAC ASC. With Valley’s agreement to the condition, the department concludes based on the information, that Valley has the ability to recruit and retain a sufficient supply of qualified staff. **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) 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 a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant history in meeting these standards at other facilities owned or operated by the applicant.

Valley MAC ASC

In compliance with this sub-criterion, Valley provided the following statements.

“The ASC will be freestanding and will provide directly, or have an agreement with Valley, for the ancillary and support services required for licensure and certification”. [Source: Application page 25]

“These services [are] will be provided either directly by Valley or through Valley’s existing relationships

*Radiology
Lab/pathology*

*Human Resources
Housekeeping /Janitorial*

Laundry and linen
Biomed
Physical Plant (Sprinklers, Fire Code)
Checks, IT, Generator
Pharmacy

Transfer - EMS
Maintenance
Transcription
Billing/Coding

[Source: April 2, 2018 screening response page 9]

“Valley Talbot (Valley MAC ASC) will use ancillary services available at Valley. The ASC will have a transfer agreement with Valley. A draft transfer agreement is included in Exhibit 12”. [Source: Application page 25]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Valley provided a draft patient transfer agreement the agreement is between Public Hospital District No. 1 of King County, a non-profit Washington municipal corporation d/b/a Valley Medical Center (‘Hospital’) and Clinic Name referred to as (‘Facility’). Valley has been a healthcare provider in southeast King County for many years. As an acute care hospital, the department expects that all ancillary and support services required at Valley MAC ASC will be provided by Valley directly or affiliates by using its existing relationship. Based on the information if this project is approved, the department will attached a condition requiring Valley to submit an executed patient transfer agreement for Valley MAC ASC; the department concludes **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 no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant’s history in meeting these standards at other facilities owned or operated by the applicant.

Valley MAC ASC

To comply with this sub-criterion, Valley provided the following statement.

“Valley is Joint Commission accredited hospital and fully complies with Washington State licensing standards and federal regulations. The ASC will be licensed and will seek certification from the AAAHC.” [Source: Application, Page 25]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Valley is accredited by the Joint Commission and is licensed as an acute care provider by Washington. Valley last survey by the Joint Commission was in December 2016. According to public information available at the Joint Commission website, Valley’s Advanced Palliative Care had a full on-site survey in March 2016 and Primary Stroke Center had a full on-site survey in July 2017. Valley has been a healthcare services provider in southeast King County for many decades. As a part of this review, the department must conclude that the services provided or to be provided by Valley MAC ASC will be provided in a manner that ensures safe and adequate care to the public²¹. To accomplish this task, the department reviews an applicant’s quality of care compliance history for all the healthcare facilities owned, operated, or managed by the applicant. [Source: Certificate of Need historical files]

According to the Washington State Office of Investigation and Inspection, Valley Medical Center was surveyed in February 2016. The survey revealed no substantial non-compliance issues for the hospital. [Sources: ILRS] The department conducted quality of care check for all Valley’s active medical staff and others involved in this project through the Nursing Quality Assurance Commission (NQAC) and Health Systems Quality Assurance (HSQA OCS). The department quality check shows that Valleys credentialed staff members licenses are in good standing. [Source: NQAC, HSQA OCS]

Table 8 below shows the facilities owned or operated by Valley Medical Center and the facility’s license number. [Sources: Application and Screening responses April 2, 2018, Attachment 1]

Table 8
Listing of Facilities owned/operated by Valley Medical Center

Facility Address	Licensed #	City	Zip Code
Valley Medical Center	HAC.FS.000000155	Renton	98055
Children’s Therapy	Out Patient Clinic	Renton	98057
Covington Clinic North	Out Patient Clinic	Kent	98042
Covington Clinic South	Out Patient Clinic	Covington	98042
Day Surgery Center	ASC outpatient	Renton	98055
Fairwood Primary Care	Out Patient Clinic	Renton	98058
Kent Clinic	Out Patient Clinic	Kent	98031
Lake Sawyer Primary Care	Out Patient Clinic	Maple Valley	98038
Newcastle Medical Pavilion	Out Patient Clinic	Renton	98056
North Benson Urgent Care	Urgent Care out Patient Clinic	Renton	98055
Occupational Health Services-Renton	Out Patient Clinic	Renton	98055
Renton Highlands Primary Care	Out Patient Clinic	Renton	98059
Renton Landing Urgent Care	Urgent Care out Patient Clinic	Renton	98059
Rheumatology Renton	Out Patient Clinic	Renton	98055
Valley Professional North	Out Patient Clinic	Renton	98058
Valley Women’s Healthcare	Out Patient Clinic	Auburn	98002
VMC Psychiatry Counselling Center	Behavioral Health	Renton	98055

²¹ WAC 246-310-230(5)

According to the Department of Health Office of Investigation and Inspections, all facilities owned or operated by Valley must comply with facility licensing standards. Staff review of the quality of care history of the facilities own or operated by Valley shows that those facilities are in compliance. [Sources: DOH Provider Credential Search] Given the compliance history of the healthcare facilities owned or operated by Valley, the department concludes there is reasonable assurance that Valley MAC ASC will be operated and managed in conformance with applicable state and federal licensing and certification requirements. Based on the information reviewed, the department concludes that there is reasonable assurance that Valley MAC ASC will 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 directs how to measure unwarranted fragmentation of services or what types of relationships with a services area's existing health care system should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

Valley MAC ASC

In compliance with this sub-criterion, Valley provided the following statements.

“Continuity of care will be enhanced by allowing area residents that choose to receive Valley operated outpatient surgery in a free-standing setting.

Valley Talbot (Valley MAC ASC) will use ancillary services available at Valley. The ASC will have a transfer agreement with Valley. A draft transfer agreement is included in Exhibit 12.” [Source: Application, Page 25]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Based on the information reviewed, the department concludes that Valley has ancillary and support services working relationship with existing healthcare provider in the planning area. If this project is approved, the department will require Valley to submit to the department for review and approval an executed patient transfer agreement. Based on the information reviewed the department concludes that approval of this project will promote continuity of healthcare provision in the planning area, and may not result in an unwarranted fragmentation of services. **This sub-criterion is met.**

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

This sub-criterion is addressed in sub-section (3) above **this sub-criterion is met.** .

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

Based on the source information reviewed and provided the applicant agrees to the conditions identified in the conclusion section of this evaluation, the department concludes that Valley Medical Center's Valley MAC ASC project 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 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 in Step three. The 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 use 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 determined Valley MAC ASC met the applicable review criteria under WAC 246-310-210, which includes portions of WAC 246-310-270, 220, and 230. Therefore, the department moves to step two.

Step Two

Valley MAC ASC

In compliance with this sub-criterion, Valley provided the following statements.

“Valley considered three options: 1) let the Proliance facility close as outlined in the DOR and integrate the cases into the hospital ORs, 2) let the Proliance facility close as outlined in the DOR and build a new ASC facility or 3) establish a new ASC by retaining the existing Proliance space.

In the very short term, Option 1 is the lowest capital cost option. Valley believes it could accommodate the outpatient cases scheduled to occur at Talbot for maybe 1-2 years in the hospital ORs, but then would need to remodel or expand the hospital ORs. The capital cost of a remodel or expansion at the hospital is significantly higher than building freestanding capacity. More importantly, if the cases are transferred or remain in the hospital, hospital based charges occur, and these charges are higher to payers and most typically result in higher out-of-pocket payments from patients.

Valley's facility staff reviewed the current Proliance facility, and found it to be in very good physical condition and easily able to accommodate the types of cases proposed. As such, letting it close and building a new facility was determined to be a poor use of capital resources.

For the above reason, Valley selected option #3, which requires prior CN review and approval.”
[Source: Application page 26]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Valley is the only applicant that submitted an application and the department determined that Valley's application met the review criteria in the applicable sections of WAC 246-210, WAC 246-310-220, and WAC 246-310-230. Therefore, the department reviewed the proposed alternatives considered by Valley before submitting this application. The department did not identify any other alternatives that would be equal to or superior to those alternatives considered by Valley. Within its Valley MAC ASC application, Valley stated that it selected option 3 because the current Proliance ASC structure and space, appears to be in very good physical condition and it can easily accommodate the types of cases proposed. Therefore, Valley selected Option 3. Given the options considered by Valley before selecting the option to submit application for this project, the department concludes the reasoning for moving forward with the application is reasonable. Based on the source information evaluated the department concludes **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;

Valley MAC ASC

To comply with this sub-criterion, Valley provided the following statements.

“This project involves minor remodeling (cosmetics updates only). Because the remodeling is so minor, there were no opportunities to achieve capital cost reductions, but Valley is confident that these renovations will make the space more accommodating for patients and more efficient for staff.”
Source: Application, Page 27]

“The current energy system will not be impacted by this project”. [Source: Application, Page 27]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The information reviewed by the department is consistent with similar ambulatory surgery centers projects. In its review of this sub-criterion CCHFD states, “... *the actual construction costs of this project are limited to minor cosmetic remodeling, therefore this criterion is not applicable.*” [Source: June 14, 2018, CCHFD analysis page 4]. 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.

Valley MAC ASC

To comply with this sub-criterion, Valley provided the following statements.

“As noted in the project description, Valley is engaged—both from a population health and from a financial perspective—in strategies that support and facilitate transformation of the healthcare landscape. Valley’s surgery strategy acknowledges the shift to value-based care; reimbursement changes for ASCs; the accelerating transition to outpatient care; the enhanced efficiency that exists in a dedicated ASC setting and the potential for an enhanced patient and physician experience that ASCs are often able to provide. The decision to pursue a multispecialty freestanding ASC near the main hospital campus positions Valley well for a transformed future and provides patients and payers with a lower cost alternative for outpatient surgical services”. [Source: Application page 9]

“...The establishment of a freestanding ASC will provide both patients and payers with a lower cost alternative. Finally, as a public hospital district, governed by 70.44 RCW, Valley is responsible for assessing Districts needs and establishing and operating hospitals and other healthcare facilities and services needed by residents”. [Source: Application, Page 13]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The information reviewed by the department is consistent with similar projects. Although the number of ORs requested by Valley is more than the number of ORs projected in the methodology, the department agree with Valley’s statements above; that a freestanding facility can save costs. The department does not anticipate an unreasonable impact on the costs and charges to the public for providing these type services if this project is approved. In its review of this sub-criterion CCHFD states, “*The project will be funded from existing reserves of the hospital and will be used to provide*

services on a more cost-effective basis than the other alternatives.” [Source: June 14, 2018, CCHFD analysis page 4]. Based on the information, the department concludes **this sub-criterion is met.**

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

Valley MAC ASC

To comply with this sub-criterion, Valley provided the following statements.

“Valley will use reserve to fund the project”. [Source: Application page 9]

“The cost of construction is based on Valley’s experience and expertise in constructing or renovating medical office buildings. The cost of the moveable equipment, is again, based on our purchasing experience”. [Source: Application page 20]

“This project involves minor remodeling (cosmetics updates only). Because the remodeling is so minor, there were no opportunities to achieve capital cost reductions, but Valley is confident that these renovations will make the space more accommodating for patients and more efficient for staff”. [Source: Application page 27]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

This project has the potential to improve delivery of ambulatory surgical services within the planning area. Information within the application states Valley will use cash reserves. Valley provided a letter of financial commitment from its senior vice president, CFO. In its evaluation of the sub-criterion, CCHFD concludes that, “The project will be funded from existing reserves of the hospital and will be used to provide services on a more cost-effective basis than the other alternatives”. Based on the information, the department concludes **this sub-criterion is met.**

APPENDIX A

	Service Area Population: 2021 Surgeries @ 85,284/1,000:	534,475 44,463	Charitas	Age: 18+										
a.i.	94,250	minutes/year/mixed-use OR												
a.ii.	68,850	minutes/year/dedicated outpatient OR												
a.iii.	16	dedicated outpatient OR's x 68,850 minutes =			1,101,600	minutes dedicated OR capacity	18,982	Outpatient surgeries						
a.iv.	34	mixed-use OR's x 94,250 minutes =			3,204,500	minutes mixed-use OR capacity	30,375	Mixed-use surgeries						
b.i.		projected inpatient surgeries =	23,617	=	2,491,525	minutes inpatient surgeries								
		projected outpatient surgeries =	20,846	=	1,209,776	minutes outpatient surgeries								
b.ii.		Forecast # of outpatient surgeries - capacity of dedicated outpatient OR's												
			20,846	-	18,982	=	1,864	outpatient surgeries						
b.iii.		average time of inpatient surgeries		=	105.50	minutes								
		average time of outpatient surgeries		=	58.03	minutes								
b.iv.		inpatient surgeries*average time		=	2,491,525	minutes								
		remaining outpatient surgeries(b.ii.)*ave time		=	108,176	minutes								
					2,599,702	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												
			3,204,500											
			2,599,702											
			604,798	/	94,250	=	6.42							
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.												
			2,491,525											
			3,204,500											
			(712,975)	/	94,250	=	-7.56							
		divide outpatient part of b.iv. By 68,850 to determine shortage of dedicated outpatient OR's												
			108,176	/	68,850	=	1.57							

Facility	Credential Number	ZIP Code	Special Procedure Rooms	Dedicated Inpatient ORs	Dedicated Outpatient ORs	Mixed Use Inpatient ORs	2016 Inpatient Cases in Mixed Use ORs	2016 Inpatient Mins. In Mixed Use ORs	Outpatient Min/Case	Outpatient Cases	Outpatient t Mins.	Data Source
Multicare Auburn Medical Center	HAC.FS.60311052	98001	6	0	0	7	3,597	489,941	0.0	0	0	Year 2015 Data obtained from Year 2016 survey. Minutes/surgery calculated.
Multicare Covington Medical Center	HAC.FS.60311052	98042	1	0	3	3	1,309	132,675	98	1,359	132,675	Year 2015 Data obtained from Year 2016 survey. Minutes/surgery calculated.
FHS St. Francis Hospital	HAC.FS.00000201	98003	1	0	3	8	114.3	603,707	0	0	0	Year 2015 data obtained from year 2016 survey. Minutes/surgery calculated.
FHS St. Elizabeth Hospital	HAC.FS.00000035	98022	4	0	0	3	80.4	1,680	0	0	0	Year 2016 data obtained from year 2017 survey. Minutes/surgery calculated.
Valley Medical Center	HAC.FS.00000155	98055	2	0	3	13	95.1	10,548	48	2035	97,414	Year 2016 data obtained from year 2017 survey. Minutes/surgery calculated.
Auburn Surgery Center	ASF.FS.60220018	98001	0	2	0	0	0.0	0	50	240	12,000	Year 2016 data obtained from year 2017 survey. Outpatient minutes calculated using 50 x # of cases.
Cascade Surgery Center	ASF.FS.60099142	98002	0	2	0	0	0.0	0	51	1,211	61,560	Year 2016 data obtained from year 2017 survey. Outpatient minutes calculated.
ENT Facial & Allergy	ASF.FS.60360678	98022	0	0	1	0	0.0	0	45	450	20,250	Year 2016 data obtained from year 2017 survey. Outpatient minutes calculated.
Evergreen Eye Center	ASF.FS.60099942	98003	0	0	1	0	0.0	0	50	4,500	225,000	Outpatient minutes calculated using 50 x # of cases. Data for 2014
Fogel Endoscopy Center	ASF.FS.60100197	98003	0	0	1	0	0.0	0	50	4,500	225,000	Outpatient minutes calculated using 50 x # of cases. Data for 2014
Northwest Eye Surgeons	ASF.FS.60101742	98057	0	0	2	0	0.0	0	50	1,598	79,900	Year 2016 data obtained from year 2017 survey. Outpatient minutes/ calculated using 50 x # of cases.
Plastic and Reconstructive Surgeons	ASF.FS.60572737	98055	0	0	2	0	0.0	0	113	787	89,085	Year 2016 data obtained from year 2017 survey. Minutes/surgery calculated.
Prolance Orthopedic Associates	ASF.FS.60101083	98055	1	0	2	0	0.0	0	65	2,645	172,459	Year 2014 data obtained from year 2015 survey. Outpatient minutes/ calculated.
Rainier Surgical Center	ASF.FS.60099146	98003	0	0	2	0	0.0	0	62	841	51,914	Year 2014 data obtained from year 2015 survey. Outpatient minutes/ calculated.
Sound International Pain Management	98001	DEDICATED PAIN MANAGEMENT SERVICES - OPERATING ROOMS AND SURGERIES NOT COUNTED	0	0	1	0	0.0	0	50	245	12,250	Outpatient minutes calculated using 50 x # of cases. Data for 2014
Sports Medicine Center Day Surgery	ASF.FS.60100100	98055	0	0	1	0	0.0	0	50	700	35,000	Outpatient minutes calculated using 50 x # of cases. Data for 2014
Surgery Center Enunclaw	ASF.FS.60102746	98022	0	0	1	0	0.0	0	50	700	35,000	Outpatient minutes calculated using 50 x # of cases. Data for 2014
Southlake Clinic	ASF.FS.60293976	98055	0	0	1	0	0.0	0	50	2,100	105,000	Outpatient minutes calculated using 50 x # of cases. Data for 2014
Valley Eye and Laser Center	ASF.FS.60101656	98055	0	0	1	0	0.0	0	50	2,100	105,000	Outpatient minutes calculated using 50 x # of cases. Data for 2014
Valley Day Surgery Center	ASF.FS.60101656	98055	0	0	1	0	0.0	0	50	2,100	105,000	Outpatient minutes calculated using 50 x # of cases. Data for 2014
Valley Covington ASC	ASF.FS.60101656	98055	0	0	1	0	0.0	0	50	2,100	105,000	Outpatient minutes calculated using 50 x # of cases. Data for 2014
VP Surgery Center	ASF.FS.60604663	98001	0	0	3	0	0.0	0	50	1,000	50,000	Outpatient minutes calculated using 50 x # of cases. Data for 2014
Women's and Family Health Specialist	ASF.FS.60273439	98057	0	0	1	0	0.0	0	50	75	3,750	Outpatient minutes calculated using 50 x # of cases. Data for 2014
Totals			19	4	28	34	527.4	22,416	736	19,786	1,148,297	
ORs counted in numeric methodology					16	34	Avg min/case Inpatient	105.50	Avg min/case outpatient		58.03	
ILRS: Integrated Licensing & Regulatory System												
Population data source: Claritas 2016												
Total Surgeries			42,202									
Area population 2017 [18+]			507,296									
Use Rate			83,190									
Planning Area projected 18+ population Year: 2021			534,475									
% Outpatient of total surgeries									46.88%			
% Inpatient of total surgeries									53.12%			