



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH  
*Olympia, Washington 98504*

April 1, 2022

Jonathan Lyons, Regional Director  
Skagit Regional Health  
e-mail: [jlyons@skagitregionalhealth.org](mailto:jlyons@skagitregionalhealth.org)

RE: Certificate of Need Application #22-04 Skagit Regional Health ASC Project

Dear Mr. Lyons:

The review of the Certificate of Need application submitted by Skagit Regional Health proposing to establish an ambulatory surgery center in east Skagit County has been completed. Attached is a written evaluation of the application.

For the reasons stated in this evaluation, the project is consistent with applicable criteria of the Certificate of Need Program, provided that Skagit Regional agrees to the following in its entirety.

**Project Description:**

This certificate approves the establishment of a new surgery center in Mount Vernon within east Skagit County. The surgery center will have a total of eight operating rooms (ORs), and of those, three are dedicated endoscopy procedure rooms. The outpatient surgical services will be provided to patients age 12 months and older that can be appropriately and safely treated in an outpatient setting. Services include orthopedic/spine, ENT, endoscopy, gastroenterology, general surgery, gynecology, pain management, plastic surgery, podiatry, urology, vascular. Within the application materials, Skagit Regional Health clarified the types of services included in both general surgery and vascular surgery.

**Conditions:**

1. Skagit Regional Health agrees with the project description as stated above. Skagit Regional Health further agrees that any change to the project as described in the project description above is a new project that requires a new Certificate of Need.
2. Skagit Regional Health will obtain and maintain both Medicare and Medicaid certification at the surgery center.
3. Skagit Regional Health shall finance this project as described in the application.
4. Skagit Regional Health will provide charity care at the surgery center in compliance with its charity care policy reviewed for this project. Skagit Regional Health will use reasonable efforts to provide charity care in the amount consistent with the three-year average of charity care for gross revenue provided by the 25 hospitals operating in the Puget Sound Region. The three-year average for years 2018 – 2020 is 1.49% of gross revenues.

5. Skagit Regional Health will maintain records of charity care applications received and the dollar amount of charity care discounts granted for the new surgery center. The records must be available upon request.
6. Prior to providing services at the new surgery center, Skagit Regional Health will submit an executed Admission Policy to the Certificate of Need Program for review and approval. The executed policy will be substantially consistent with the draft policy provided in the application.
7. Prior to providing services at the new surgery center, Skagit Regional Health will submit an executed Patient Transfer Policy to the Certificate of Need Program for review and approval. The executed policy will be substantially consistent with the draft policy provided in the application.
8. Prior to providing services at the new surgery center, Skagit Regional Health will provide the name and professional license number (if applicable) for key staff.

**Approved Costs:**

Skagit Regional Health's approved capital expenditure for this project is \$23,367,584 and includes moveable equipment, technology services, signage, security, and project management. While Skagit Regional Health is not specifically constructing the medical office building that will house the surgery center, construction is required for this project.

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

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

Send your written response to the Certificate of Need Program at this e-mail address:  
[FSLCON@doh.wa.gov](mailto:FSLCON@doh.wa.gov).

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

Sincerely,



Eric Hernandez, Program Manager  
Certificate of Need  
Office of Community Health Systems

**EVALUATION DATED APRIL 1, 2022, FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY SKAGIT COUNTY PUBLIC HOSPITAL DISTRICT #1 DBA SKAGIT REGIONAL HEALTH PROPOSING TO ESTABLISH AN AMBULATORY SURGICAL FACILITY LOCATED IN EAST SKAGIT COUNTY**

**APPLICANT DESCRIPTION**

**Skagit Regional Health**

Skagit County Public Hospital District (PHD) #1 is registered with the Washington State Department of Revenue under the UBI of 297 003 456 and is the applicant for this project. [source: Application, pdf 4 and November 8, 2021 screening response, pdf 2] This application was submitted by the hospital district on behalf of Skagit Regional Health. The applicant currently owns and operates two acute care hospitals, one behavioral health facility, one surgery center, and one hospice agency.<sup>1</sup> For reader ease, the applicant will be referenced as ‘Skagit Regional Health’ or ‘SRH.’

**PROJECT DESCRIPTION**

**Skagit Regional Health**

This application proposes to establish and operate a new surgery center in Mount Vernon within east Skagit County. The surgery center will have a total of eight operating rooms (ORs), and of those, three are dedicated endoscopy procedure rooms. [source: Application, pdf 4] For Certificate of Need purposes and in this evaluation, the proposed surgery center is referenced as ‘Mount Vernon Surgery Center’

There are three main entities associated with this project. Because portions of this evaluation will reference one or more of the three main entities, they are listed below with a brief description of their respective roles.

- Skagit Regional Health (Skagit Valley Hospital) – the applicant and licensee of the existing healthcare facilities.
- Mount Vernon Surgery Center – the proposed surgery center that is the focus of this review.
- SVH Partners, LLC – this entity was formed as a development entity for the project. It is owned by a small group of investors and a project manager. Upon completion of the building, it will lease the building to Skagit Regional Health (SRH).

Mount Vernon Surgery Center will be located on the first floor of a to-be-constructed medical office building that will be contiguous to Skagit Valley Hospital and operated as an outpatient department of Skagit Valley Hospital. The address of the surgery center has not yet been assigned; however, the applicant provided the following 12 parcel numbers for the site. [source: Application pdf 6].

Lot A: Parcel #53009	Lot E: Parcel #53019	Lot I: Parcel #53023
Lot B: Parcel #53011	Lot F: Parcel #53020	Lot J: Parcel #53024
Lot C: Parcel #53012	Lot G: Parcel #53021	Lot K: Parcel #53025
Lot D: Parcel #53018	Lot H: Parcel #53022	Lot L: Parcel #53026

The applicant provided the following clarification regarding services to be provided at Mount Vernon Surgery Center. [source: Application, pdf 8]

*“SVH will transition outpatient cases currently being performed within the walls of the Hospital to the new MVSC. In addition, as Medicare is expected to continue to migrate cases from inpatient to outpatient, the new MVSC has been designed, sized, equipped and staffed to manage more complex outpatient cases.”*

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<sup>1</sup> The two acute care hospitals are Skagit Valley Hospital located in Mount Vernon (Skagit County) and Cascade Valley Hospital located in Arlington (Snohomish County). The behavioral health facility is Skagit Regional Health Behavioral Health located in Mount Vernon. The surgery center is Arlington Surgery Center located in Arlington (Snohomish County). The hospice agency is Hospice of the Northwest located in Mount Vernon.

The outpatient surgical services are proposed to be provided to patients age 12 months and older that can be appropriately and safely treated in an outpatient setting. Services proposed at Mount Vernon Surgery Center include orthopedic/spine, ENT, endoscopy, gastroenterology, general surgery, gynecology, pain management, plastic surgery, podiatry, urology, vascular. The applicant also provided the following clarifications regarding general surgery and vascular surgery. [source: Application, pdfs 8 & 9 and December 23, 2021, screening response, pdf 2]

*“The types of general surgery procedures anticipated include but are not limited to breast surgery including biopsy and mastectomy, hernia surgery, gall bladder removal, rectal surgery including hemorrhoidectomy, sphincterotomy and pilonidal cyst treatment, excision surgery including skin, lymph nodes, cysts and other tissue.*

*The types of vascular procedures anticipated to be performed at MVSC include but are not limited to creation of arteriovenous fistula for dialysis access and vein ligation and stripping for treatment of varicose veins.”*

The total projected capital expenditure associated with this project is \$23,367,584, and of that amount, \$18,647,913 is associated with movable equipment and taxes, \$1,989,064 is for project management, and the remaining \$2,730,607 is for signage, site security, and information technology/information systems (IT/IS). [source: Application, pdf 18 and November 8, 2021, screening response, pdf 4]

SRH also provided the following clarification regarding the costs. [source: Application, pdf 18]

*“A developer is constructing a medical office building (MOB) on land adjacent to, but within 250 yards of the SRH campus. The MOB includes a total of 59,949 square feet of which 21,250 is associated with the MVSC. The lease calls for the space to be provided to SRH such that only installation of equipment is needed to make it operational. The capital expenditure budget identified in Table 5 below reflects all costs borne by SRH.*

If this project is approved in early year 2022, the applicant expects Mount Vernon Surgery Center would be operational by January 2024. Based on this timeline, full calendar year one of the project is 2024 and year three is 2026. [source: Application, pdf 7]

### **APPLICABILITY OF CERTIFICATE OF NEED LAW**

This application is subject to Certificate of Need review as the construction, establishment, or other development of a 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. If 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.

To obtain Certificate of Need approval, an 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 ambulatory surgery projects and must be used to make the required determinations for applicable criteria in WAC 246-310-210.

## **TYPE OF REVIEW**

This application was reviewed under a regular review timeline. The below shows a summary of the timeline used for the project.

## **APPLICATION CHRONOLOGY**

<b>Action</b>	<b>Skagit Regional Health</b>
Letter of Intent Received <sup>2</sup>	August 2, 2021
Application Received	September 1, 2021
Department's pre-review activities: <ul style="list-style-type: none"><li>• DOH 1<sup>st</sup> Screening Letter</li><li>• Applicant's Responses Received</li><li>• DOH 2<sup>nd</sup> Screening Letter</li><li>• Applicant's Responses Received</li></ul>	September 23, 2021 November 8, 2021 December 2, 2021 December 23, 2021
Beginning of Review	December 30, 2021
End of Public Comment <ul style="list-style-type: none"><li>• Public comments accepted through the end of public comment</li><li>• No public hearing requested or conducted</li></ul>	February 3, 2022
Rebuttal Comments Deadline	February 17, 2022
Department's Anticipated Decision	April 4, 2022
Department's Actual Decision	April 1, 2022

## **AFFECTED PERSONS**

"Affected persons" are defined under WAC 246-310-010(2). In order to qualify as an affected person someone must first qualify as an "interested person" defined under WAC 246-310-010(34). For this project, no entities requested interested or affected person status.

## **PUBLIC COMMENT AND REBUTTAL**

During the review of this project, the department received three letters of support and no letters of opposition. Given that the only public comment was in support of the project, SRH did not provide rebuttal comments. This fact is stated here and will not be restated throughout this evaluation.

## **SOURCE INFORMATION REVIEWED**

- Skagit Regional Health's Certificate of Need application received on September 1, 2021
- Skagit Regional Health's first screening response received on November 8, 2021
- Skagit Regional Health's second screening response received on December 23, 2021
- Public comments received on or before February 3, 2022
- Department of Health's focused financial and cost containment review dated March 25, 2022
- Compliance history for credentialed or licensed staff from the Medical Quality Assurance Commission and Nursing Quality Assurance Commission
- Compliance history for facilities and services from the Washington State Department of Health – Office of Health Systems Oversight
- DOH Provider Credential Search website: <http://www.doh.wa.gov/pcs>
- CMS QCOR Compliance website: [https://qcor.cms.gov/index\\_new.jsp](https://qcor.cms.gov/index_new.jsp)
- Department of Health internal database – Integrated Licensing & Regulatory Systems (ILRS)

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<sup>2</sup> The application was submitted with no valid letter of intent. As a result, the application was held for the 30-day letter of intent period before deemed submitted.

## **SOURCE INFORMATION REVIEWED (continued)**

- Historical charity care data for years 2018, 2019, and 2020 obtained from the Department of Health/Finance and Charity Care.
- Washington State Secretary of State website: <https://www.sos.wa.gov>
- Skagit Regional Health website: <https://www.skagitregionalhealth.org>

## **CONCLUSION**

### **Skagit Regional Health**

For the reasons stated in this evaluation, the application submitted by Skagit Regional Health is consistent with applicable criteria of the Certificate of Need Program, provided Skagit Regional Health agrees to the following in its entirety

### **Project Description**

This certificate approves the establishment of a new surgery center in Mount Vernon within east Skagit County. The surgery center will have a total of eight operating rooms (ORs), and of those, three are dedicated endoscopy procedure rooms. The outpatient surgical services will be provided to patients age 12 months and older that can be appropriately and safely treated in an outpatient setting. Services include orthopedic/spine, ENT, endoscopy, gastroenterology, general surgery, gynecology, pain management, plastic surgery, podiatry, urology, vascular. Within the application materials, Skagit Regional Health clarified the types of services included in both general surgery and vascular surgery.

### **Conditions**

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2. Skagit Regional Health will obtain and maintain both Medicare and Medicaid certification at the surgery center.
3. Skagit Regional Health shall finance this project as described in the application.
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5. Skagit Regional Health will maintain records of charity care applications received and the dollar amount of charity care discounts granted for the new surgery center. The records must be available upon request.
6. Prior to providing services at the new surgery center, Skagit Regional Health will submit an executed Admission Policy to the Certificate of Need Program for review and approval. The executed policy will be substantially consistent with the draft policy provided in the application.
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8. Prior to providing services at the new surgery center, Skagit Regional Health will provide the name and professional license number (if applicable) for key staff.

### **Approved Costs**

Skagit Regional Health's approved capital expenditure for this project is \$23,367,584 and includes moveable equipment, technology services, signage, security, and project management. While Skagit Regional Health is not specifically constructing the medical office building that will house the surgery center, construction is required for this project.

## **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 concludes that Skagit Regional Health met the applicable need criteria in WAC 246-310-210 and the applicable ambulatory surgery facility criteria in 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(6)**

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

### **Skagit Regional Health**

SRH proposes that Mount Vernon Surgery Center will have a total of eight ORs, and of those, three will be dedicated to endoscopy services. The applicant provided the proposed line drawings for the facility. [source: Application, Exhibit 2]

### **Department Evaluation**

The applicant provided documentation and statements to demonstrate the surgical facility will have a total of eight ORs. **This sub-criterion is met.**

### **Numeric Need Methodology and Department Evaluation**

The Department of Health's Certificate of Need Program uses the numeric methodology outlined in WAC 246-310-270 for determining the need for additional ASFs in Washington State. The numeric methodology provides a basis of comparison of existing OR capacity for both outpatient and inpatient ORs in a planning area using the current utilization of existing providers. The methodology separates Washington State into 54 secondary health services planning areas. Mount Vernon Surgery Center would be located in Mount Vernon in the ZIP code of 98274 within the east Skagit County secondary health service planning area. [source: WAC 246-310-270(3)]

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, subtracts this capacity from the forecast number of surgeries expected in the planning area in the target year, and examines the difference to determine:

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

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

### **Skagit Regional Health**

The applicant provided the following information related to a numeric methodology for this project. [source: Application, pdf 12]

*"The methodology is included in Exhibit 3. While the facility will not be dedicated to endoscopy, there are three rooms that will be dedicated to endoscopy. We understand that these three rooms are not part of the need calculation.*

*The methodology does not identify need for the five dedicated general outpatient operating rooms being requested by 2024. It does, however, show a need for additional inpatient and mixed-use rooms. It is important to note that this is a reflection of the fact that the majority of outpatient procedures in the planning area are currently being performed in mixed-use rooms (largely Skagit’s existing program).”*

**Department Numeric Need Methodology and Evaluation**

Skagit Valley Hospital is located in Mount Vernon within ZIP code 98274. Mount Vernon Surgery Center will be located on the first floor of a to-be-constructed medical office building that will be contiguous to Skagit Valley Hospital. The surgery center will be located in east Skagit County.

The numeric portion of the methodology requires a calculation of the annual capacity of the existing providers’ inpatient and outpatient ORs in a planning area. The 1987 State Health Plan (SHP) defines east Skagit County with the 15 ZIP codes below.

**Department’s Table 1  
Department’s ZIP Code Table for East Skagit County Planning Area**

ZIP	City	ZIP	City	ZIP	City
98231	Blaine	98238	Conway	98267	Marblemount
98232	Bow	98246	Invalid	98273	Mount Vernon
98233	Burlington	98255	Hamilton	98283	Rockport
98235	Clearlake	98257	La Conner	98284	Sedro Woolley
98237	Concrete	98263	Lyman	98296	Snohomish

After reviewing the 15 ZIP codes above, three will not be included in the planning area.

- 98231 – Blaine. This city is located in Whatcom County and should be included in that planning area.
- 98246 – According to the United State Post Office, this is an invalid ZIP code.
- 98296 – Snohomish. This city is located in Snohomish County and should be included in one of the four planning areas of that county.

Since the publication of the 1987 State Health Plan, the ZIP code of 98274 associated with Mount Vernon has been added within the geography of the east Skagit planning area.

The table below shows the 13 ZIP codes that will be used in this evaluation for east Skagit County planning area. [source: Skagit County Washington ZIP codes <https://www.zip-codes.com/county/wa-skagit.asp>]

**Department’s Table 2  
Department’s ZIP Code Table for East Skagit County Planning Area**

ZIP	City	ZIP	City	ZIP	City
98232	Bow	98255	Hamilton	98273	Mount Vernon
98233	Burlington	98257	La Conner	98274	Mount Vernon
98235	Clearlake	98263	Lyman	98283	Rockport
98237	Concrete	98267	Marblemount	98284	Sedro Woolley
98238	Conway				

According to the department’s historical records, there is a total of six facilities in the planning area with OR capacity. Of the six, two are hospitals and four are ASFs. Focusing on the two hospitals, both hospitals have OR capacity that is counted in the methodology. For the ASFs, three are CN approved and one is CN exempt. For the three CN approved facilities, both cases and ORs are counted in the



numeric methodology. For the CN exempt surgery center, the cases, but not the ORs, are counted in the methodology. Further, the numeric methodology deliberately excludes the OR capacity and procedures of hospitals and surgery centers if the services are provided in a dedicated specialty room, such as, pain management, endoscopy, dedicated cesarean, and open heart surgery.

There is no mandatory reporting requirement for utilization of ASF or hospital ORs, so the department sends an annual utilization survey to all hospitals and known ASFs in the state. When this application was submitted in September 2021, the most recent utilization survey was soliciting data for year 2020. Not all providers submitted responses. The data provided in the utilization survey is used, if available. Otherwise the department uses utilization survey information from the previous year (2019). If the provider did not respond with any survey data, the department relies on its internal database—Integrated Licensing & Regulatory System (ILRS)—with information each provider updates for licensure.

The following table shows a listing of the six facilities, the type and number of ORs, and notes specific to the methodology.

**Department’s Table 3**  
**East Skagit County Planning Area Operating Room Capacity for ASFs and Hospitals**

Facility	Facility Type	Total ORs	Type of OR	Department Notes
PeaceHealth United General Hospital	Hospital	4	Outpatient & Inpatient	2 dedicated outpatient ORs; 2 dedicated inpatient ORs; All 4 are counted in methodology
Skagit Valley Hospital	Hospital	11	Mixed Use	6 mixed use ORs 5 dedicated endoscopy/pain management ORs 6 ORs counted in the methodology
Cascadia Surgical CN #1423	ASF	2	Outpatient	CN approved surgery center All ORs are counted
Proliance-Skagit Northwest Orthopedic-Continental site	ASF	2	Outpatient	CN exempt surgery center 1 OR used for orthopedic; 1 OR dedicated to pain management Cases, but not ORs, are counted in methodology
Proliance-Skagit Northwest Orthopedic-LaVenture site CN #1335	ASF	4	Outpatient	CN approved surgery center 3 ORs used for orthopedic; 1 OR dedicated to pain management 3 ORs counted in methodology
Sight Partners – Mount Vernon site - CN #1748	ASF	3	Outpatient	CN approved surgery center 3 ORs counted in methodology

In summary, the OR count for the numeric methodology is:

- dedicated Inpatient/Mixed Use – 8 ORs; and
- dedicated Outpatient: 10 ORs.

The data points used in the department’s numeric methodology are identified in the table on the following page. The methodology and supporting data used by the department is provided in the attached Appendix A with this evaluation.

**Department’s Table 4**  
**The Department’s East Skagit County Methodology Assumptions and Data**

<b>Assumption</b>	<b>Data Used</b>	
Planning area	East Skagit County	
Population estimates and forecasts	Age Group: All ages Claritas Population Data – Released 2021 Year 2020 – 112,116 / Year 2024 – 117,234	
Use rate	129.928 /1,000 population	
Year 2020 total number of surgical cases in the planning area	<b>Inpatient or mixed use</b>	<b>Outpatient</b>
	5,776 cases	8,791 cases
	Total cases 14,567	
Percent of surgeries: outpatient vs. inpatient (based on survey)	39.65%	60.35%
Average minutes per case (based on survey)	159.45 minutes	33.77 minutes
OR annual capacity in minutes (per methodology in rule)	94,250 surgery minutes	68,850 surgery minutes
Existing providers/ORs (using DOH survey and ILRS database)	8 inpatient and mixed-use ORs	10 dedicated outpatient ORs
<b>Department’s Methodology Results</b>	<b>Surplus of 1.79 mixed used ORs in the east Skagit County planning area</b>	

As noted in the table, the department’s numeric methodology calculates a surplus of at least one mixed use OR and no need for additional dedicated outpatient ORs in the east Skagit County planning area.

Regarding its calculation of the numeric methodology, SRH states “*The methodology does not identify need for the five dedicated general outpatient operating rooms being requested by 2024.*”

When comparing the results of the applicant’s and department’s methodology, it is unclear what data points were used in the applicant’s methodology. Given the results of its own methodology, the department concludes that numeric need for this project has not been demonstrated.

**WAC 246-310-270(4)**

If numeric need for additional ORs in a planning area is not demonstrated, the department reviews the project under WAC 246-310-270(4) which allows for approval of a project absent numeric need. It states:

*“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.”*

**Skagit Regional Health**

In response to this sub-criterion, SRH provided the following information. [source: Application, pdf 13] “SRH is confident that this project qualifies for consideration under extraordinary circumstances for the following reasons:

- *Decanting these rooms and establishing a dedicated outpatient area at SVH will mitigate the need for more expensive and more disruptive expansion of the existing mixed-use OR surgery department. It will also reduce delays and patient bumping, while enhancing patient experience.*
- *It will free-up capacity in the mixed use ORs to allow SRH and SVH to recruit select needed surgical specialty providers. At this time, we are limited in our ability to recruit new surgical specialties because there is no time or location for these providers to practice within.*

- *There are three CN approved ASCs in the Planning Area, however all three are limited specialty, including two that perform eye cases only and one that is primarily, if not exclusively, Orthopedics. By virtue of the limited specialties, they are not truly comparable.*
- *In addition, as a public hospital district, SRH is committed to access for all, regardless of payer, income, race, ethnicity, sexual orientation, etc. The existing ASCs do limit Medicaid and other underinsured populations; the MVSC will not.”*

### **Department’s Evaluation of WAC 246-310-270(4)**

SRH proposes to establish a surgery center with eight ORs, and of those, three are dedicated endoscopy procedure rooms. Since endoscopy procedures are not counted in the numeric methodology, SRH’s project proposes to add five ORs to the east Skagit County planning area. SRH provided information to support approval of its five ORs despite the lack of numeric need for outpatient ORs. Information includes an expected reduction in delays for surgery use by both physicians and patients; added capacity for additional surgeons and patients, and appropriately serve low risk patients in an outpatient setting.

The department also takes into consideration the lack of opposition for this project. None of the hospitals or ASFs with OR capacity in the east Skagit County planning area submitted comments opposing this project.

Based on the department’s methodology assumptions described in the earlier table, the department’s numeric methodology by itself, projects a surplus of almost two dedicated outpatient OR in the planning area. However, given current availability of dedicated, multi-service outpatient ORs in the planning area, the department concludes that numeric need for this project is demonstrated.

### **WAC 246-310-210**

Under this sub-criterion, SRH must also demonstrate that existing services are not sufficiently available and accessible to meet that need.

### **Skagit Regional Health**

The information provided by SRH under WAC 246-310-270(4) above meets this sub-criterion and is considered under this review, but is not restated. Additionally, SRH provided the following information to be considered under this sub-criterion. [source: Application, pdf 12]

*“As noted earlier, this project is first and foremost about decanting the mixed-use operating rooms at SVH. WAC 246-310-270(9)(a) reads:*

- (i) *Assume the annual capacity of one operating room located in a hospital and not dedicated to outpatient surgery is ninety-four thousand two hundred fifty minutes. This is derived from scheduling forty-four hours per week, fifty-one weeks per year (allowing for five weekday holidays), a fifteen percent loss for preparation and clean-up time, and fifteen percent time loss to allow schedule flexibility. The resulting seventy percent productive time is comparable to the previously operating hospital commission's last definition of "billing minutes" which is the time lapse from administration of anesthesia until surgery is completed.*

*Under this standard, and with almost 572,000 minutes in 2019, the current six mixed use rooms at SVH operated at 108% capacity based on the 94,250-minute standard. Operating room volumes at SRH are now back to pre-COVID levels, and in Q2 2021, the ORs averaged in excess of 109%.*

*The high occupancy results in scheduling delays and bumped cases and can and does impact the patient and family experience. It also leads to provider inefficiencies, in that surgeons often have to cancel clinic time because of the backlog in the ORs. Further, the high occupancy in the ORs has constrained SRH from recruiting a number of surgical providers that data suggests the region needs to assure adequate access.*

*Further, no other provider in the Planning Area operates a multi-specialty dedicated outpatient facility. For these reasons, this project does not represent an unnecessary duplication.”*

#### Public Comment

During the review of this project, the department received two letters of support that focus on this sub-criterion. Excerpts from the letters of support are below.

#### S. Suresh Alagugurusamy, MD

*“I practice gastroenterology and hepatology at Skagit Regional Medical Center. I perform cases both in the GI lab and the main operating rooms. I am writing in support of the Hospital's proposal to add a dedicated outpatient surgical center. The hospital's operating rooms and GI procedure areas are undersized for current volumes, and delays in both scheduling and in the actual procedure rooms occur regularly. The new Center will provide three procedure rooms dedicated to endoscopy, and five new operating rooms which should reduce delays and assure that the community does not experience increased morbidity and mortality, especially in the area of colon cancer wherein early identification and removal of polyps saves lives.*

*Demand is also expected to grow even faster than the region's population for many types of gastroenterology procedures. Until recently colon cancer screening candidates included persons over 50 years of age or those individuals with a family history of colon cancer. In 2018, the American Cancer Society recommended that screening begin at age 45 rather than age 50. This has already greatly increased demand.*

*The new rooms will expand capacity, and being in a dedicated outpatient area, will be more satisfying and easier to access for my patients.*

*As a final note, the growing Skagit Valley has needed a number of additional surgical specialists, but Skagit Regional has delayed needed recruitment because there is simply no room for these providers to perform surgeries. As such, patients have to leave the area and travel to Everett or Seattle. The new outpatient surgery center will provide the capacity, allow for recruitment and better assure that our growing Valley has access to the services needed.”*

#### Christopher Sheu, MD

*“I am a board-certified orthopedic surgeon, specializing in Orthopedic Sports Medicine. I have a busy practice at Skagit Regional Health in Mount Vernon that specializes in arthroscopic and reconstructive surgery of the shoulder, hip, knee and ankle including ligament reconstruction, tendon repair, joint replacement and fracture care. For a number of reasons, Skagit Regional' s proposal to develop a surgical center that is separate from the current main hospital operating rooms is beneficial to patients and the larger community.*

*I know firsthand that Skagit Regional's existing operating rooms operate at or near capacity on a daily basis. In fact, I understand that based on the Department of Health's definition of capacity the rooms operate at or about 100% on many days. This high occupancy is inefficient; but more importantly, it results in scheduling delays and bumped cases, and impacts both the patient and their family's experience. I regularly experience patients and family members that have taken time off from work and fasted for surgery, only to be called at the last minute for a delayed or rescheduled surgical start time. This is frustrating to the patient and adds delays to the healing and recovery process.*

*The delays not only affect patients scheduled for surgery, but patients scheduled to be seen in my office are also impacted, because I am delayed in ORs, my clinic patients are cancelled or delayed. The domino is unnecessary and will be mitigated with the new dedicated outpatient capacity.*

*The Skagit Valley is a vibrant, growing community. Skagit Regional is the home for the vast majority of the region's surgical specialists. The new outpatient operating rooms are needed immediately. Please accept this letter as my strongest support. Thank you for your interest in this project."*

### Rebuttal Comments

Since the only public comments received during this review support the project, SRH did not provide rebuttal comments.

### Department Evaluation

In addition to numeric need, the department must determine whether other services and facilities for the type proposed are not or will not be sufficiently available and accessible to meet that need.

SRH provided statements related to the lack of availability and accessibility of other providers in the planning area for the multi-specialty services to be provided at Mount Vernon Surgery Center. The applicant also provided information to demonstrate approval of this project absent numeric need for ORs in the east Skagit County planning area.

Public comments suggest that the current ORs within the hospital are nearing capacity and additional ORs are needed to keep up with population growth. Further, the department did not receive any public comments to suggest that other area providers oppose the addition of ORs within the planning area.

In summary, the department previously concluded that the applicant demonstrated need for its project absent numeric need. The existing supply of ORs for multi-specialty surgical services is not sufficiently available and accessible in east Skagit County. Thus, the SRH project meets the standard under WAC 246-310-270(6). **This sub-criterion is met.**

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

To evaluate this sub-criterion, the department evaluates an applicant's admission policies, willingness to serve Medicare 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 applicant's willingness to serve the elderly. With limited exceptions, Medicare is coverage for individuals age 65 and over. Medicaid certification is a measure of an applicant's willingness to serve low income persons and may include individuals with disabilities.

Charity care shows a willingness of an applicant to provide services to individuals who do not have private insurance, do not qualify for Medicare or Medicaid, or are under insured.<sup>3</sup>

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<sup>3</sup> Washington Administrative Code 246-453-010(4).

**Skagit Regional Health**

SRH provided the following statements related to this sub-criterion. [source: Application, pdf 15]

*“Admission to all SRH facilities and programs is based upon clinical need. Services are made available to all persons regardless of race, color, creed, sex, national origin, or disability. A copy of SVH’s nondiscrimination policy is included as Exhibit 4.”*

The applicant provided copies of executed policies that are currently in use at Skagit Valley Hospital and would also be used for Mount Vernon Surgery Center. SRH also provided copies of draft policies that were created specifically for Mount Vernon Surgery Center. [source: Application, Exhibit 4 and September 1, 2021, screening response, Attachment 3]

**Hospital Policies to be used for Mount Vernon Surgery Center**

- Financial Assistance/Sliding Fee Scale [Charity Care] Policy
- Patient Rights and Responsibilities
- Patient Nondiscrimination Policy

**Policies Created Specifically for Mount Vernon Surgery Center**

- Draft Admission Policy
- Draft Patient Transfer Policy

SRH provided the following statement regarding the age range of patients to be served at Mount Vernon Surgery Center. [source: Application, pdf 9 and September 1, 2021, screening response, pdf 7]

*“The MVSC has been designed for patients, age 12 months and over, who need outpatient surgery or GI procedures and are expected to be discharged home the same day. Patients who meet the American Society of Anesthesiologists’ criteria of either ASA class I (a normal, healthy patient) or class II (a patient with mild systemic disease) are expected to be the primary patients served. The age range to be served is 12 months and over.”*

SRH provided statements and a table showing its projected sources of revenue by payer and patient for Mount Vernon Surgery Center. [source: Application, pdf 20]

*“The historical payer mix for SVH’s mixed use rooms is included in Table 8. The payer mix in Table 7 was adjusted to reflect the payer mix for those cases that will be relocated to the MVSC. As expected, and due to ASA patient selection criteria, the patients that will use the ASC will be slightly younger and healthier. As such, the payer mix will be less Medicare and Medicaid and more commercial pay. This is typical.”*

*Applicant’s Table 7*

**Projected Payer by Revenue and Patient, Projected for the Outpatient Surgery Center**

	<b>Percentage by Revenue WAC 246-310-220(1)</b>	<b>Percentage by Patient WAC 246-310-210(2)</b>
Medicare/Medicare Advantage	42.26%	40.92%
Medicaid	17.01%	23.41%
Commercial	33.86%	29.49%
Other (Tricare, VA, Workers Comp)	5.35%	4.94%
Self-Pay*	1.52%	1.24%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Applicant

\* SRH clarified that the asterisk for ‘Self-Pay’ is a typo and should be ignored.

## Department Evaluation

SRH, the applicant for this project, has been providing healthcare services to the residents of the east Skagit County planning area through its hospital and medical clinics for many years. Healthcare services are stated to be available to low-income, racial and ethnic minorities, handicapped, and other underserved groups.

Mount Vernon Surgery Center is expected to be operational in January 2024. SRH provided its existing hospital policies that would be used at the surgery center, and additional policies specific to Mount Vernon Surgery Center. Below is a review of each of the policies submitted by SRH during this review.

### Patient Rights and Responsibilities Policy

This policy is currently used at Skagit Valley Hospital and includes detailed descriptions of patient rights and responsibilities. The following purpose statement is included in the policy.

*“Skagit Regional Health (SRH) seeks to protect the rights, interests and well-being of our patients in conformity with biomedical ethics as well as state and federal laws and regulations. SRH ensures that all patients are informed of their protected rights as well as their responsibilities as patients. Patients are offered, upon registration or admission, a written statement of Patient Rights and Responsibilities. This information is also included in the "Patient Guide Handbooks" for inpatients. Notices of patient rights and responsibilities are posted in conspicuous locations throughout the hospital and clinics. Participation by patients in clinical training programs or in the gathering of data for research purposes is voluntary. The patient has a right to notice concerning the SRH Advance Directives -Acute and Ambulatory Care policy and procedure. This policy and procedure express the fundamental rights of all patients but is not all-inclusive.”*

### Patient Nondiscrimination Policy

This policy is also currently used at Skagit Valley Hospital and ensures patients will be treated with respect. The following purpose statement is included in the policy.

*“To ensure that all patients and visitors of Skagit Regional Health are treated with equality, in a welcoming, nondiscriminatory manner, consistent with Skagit Regional Health's Values and Service Standards.”*

The policy includes the following information related to non-discrimination and grievance process.

“Skagit Regional Health is dedicated to providing services to patients and welcoming visitors in a manner that respects, protects, and promotes patient rights.

- 1. “Staff will treat all patients and visitors receiving services from or participating in other programs of Skagit Regional Health and its affiliated clinics with equality in a welcoming manner that is free from discrimination based on age, race, color, culture, creed, ethnicity, religion, national origin, marital status, sex, sexual orientation, gender identity or expression, disability, veteran or military status, or any other basis prohibited by federal, state or local law.*
- 2. Staff will inform patients of the availability of and make reasonable accommodations for patients consistent with federal and state requirements. For example, language interpretation services will be made available for non-English speaking patients and sign language interpretation will be made available for hearing impaired patients.*
- 3. Staff will afford visitation rights to patients free from discrimination based on age, race, color, culture, creed, ethnicity, religion, national origin, marital status, sex, sexual orientation, gender identity or expression, disability, veteran or military status, or any other basis prohibited by federal, state, or local law and will ensure that visitors receive equal visitation privileges consistent with patient preferences.*

4. *Any person who believes that he, she, or another person has been subjected to discrimination which is not permitted by this Policy, may file a complaint using Skagit Regional Health's complaint and grievance procedure.*
5. *Staff are prohibited from retaliating against any person who opposes, complains about, or reports discrimination, files a complaint, or cooperates in an investigation of discrimination or other proceeding under federal, state, or local antidiscrimination law.”*

#### Financial Assistance/Sliding Fee Scale [Charity Care] Policy

This policy is currently in use at Skagit Valley Hospital and is posted to both the Department of Health website and the hospital’s website. The policy includes the following purpose statement.

*“Skagit Regional Health (SRH) is committed to ensuring our patients get the Appropriate Hospital-based Medical Services they need regardless of ability to pay for that care. Providing health care to those who cannot afford to pay is part of our mission, and State law requires hospitals to provide free and discounted care to eligible patients. Patients may qualify for free or discounted care based on family size and income, even if they have health insurance.”*

The policy includes the following statements regarding financial assistance.

*“Skagit Regional Health provides notice of its Financial Assistance program and will make a good faith effort to ensure information is made available to our patients regarding its availability. SRH (Inpatient and hospital based outpatient clinics/facilities) will post signs in Registration, Patient Financial Counseling and Emergency Departments of the availability of this program. Non Hospital Based Clinic locations (POS 11) are not required to post such notice. This policy is intended to ensure that Washington State residents who are at or near the federal poverty level receive appropriate Hospital Based Medical Services regardless of their ability to pay. Financial Assistance/Sliding Fee Scale will be granted to all persons regardless of race, color, sex, religion, age, sexual orientation, gender identity, gender expression or national origin. In order to protect the integrity of operations and fulfill this commitment, the following criteria for the provision of Financial Assistance/Sliding Fee Scale, consistent with the requirements of the Washington Administrative Code (WAC), Chapter 246-453, are established. These criteria will assist staff in making consistent and objective decisions regarding eligibility for Financial Assistance/Sliding Fee Scale while ensuring the maintenance of a sound financial position for the organization. All Financial Assistance/Sliding Fee Scale write offs will be approved by the Business Office Supervisor, Manager or Director.”*

The policy also includes the process one would use to obtain financial assistance and lists the services covered under the policy.

#### Draft Admission Policy

This policy was created specifically for Mount Vernon Surgery Center and identifies the admission criteria and process to be used for patient admission to the new surgery center. The policy includes the following purpose statement.

*“To establish the type of patients that are candidates for admission to the Mount Vernon Outpatient Surgery Center. Services will be offered using the CMS approved procedure list.”*

The draft policy includes extensive language regarding the admission directives related to services provided at the surgery center.

#### Draft Patient Transfer Policy

This policy was also created specifically for Mount Vernon Surgery Center. The draft policy recognizes that the majority of patients requiring transfer to a hospital will be admitted to adjacent Skagit Valley Hospital, this draft policy includes language regarding the process to be used if a patient is transferred.



The policies provided in the application, both existing and draft policies, cover the information necessary to ensure Mount Vernon Surgery Center’s intended compliance with this sub-criterion. Given that two policies are created specifically for this project, if this project is approved the department would attach two separate conditions requiring SRH to provided executed policies consistent with the draft policies.

Mount Vernon Surgery Center will be Medicare and Medicaid-certified and licensed under Skagit Valley Hospital. SRH provided its projected percentages of revenue by payer for Mount Vernon Surgery Center. The proposed payer mix is based on the historical payer mix for the services provided in the existing hospital ORs.

Based on this information, the department concludes that approval of this project has the potential to increase or maintain the availability and accessibility of outpatient services to the residents of east Skagit County.

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

**WAC 246-310-270(7) – Charity Care Requirement**

WAC 246-310-270(7) provides the following clarification regarding charity care and ambulatory surgery centers. It states, *“Ambulatory surgical facilities shall document and provide assurances of implementation of policies to provide access to individuals unable to pay consistent with charity care levels provided by hospitals affected by the proposed ambulatory surgical facility. The amount of an ambulatory surgical facility’s annual revenue utilized to finance charity care shall be at least equal to or greater than the average percentage of total patient revenue, other than Medicare or Medicaid, that affected hospitals in the planning area utilized to provide charity care in the last available reporting year.”*

**Skagit Regional Health**

To demonstrate compliance with this sub-criterion, SRH provided the following statements regarding charity care provided by the hospital. [source: Application, pdf 15]

*“For hospital charity care reporting purposes, the Department of Health (Department) divides Washington State into five regions. SVH (Skagit Valley Hospital) is located in the Puget Sound Region. According to 2017-2019 charity care data produced by the Department (the latest data currently available), the three-year charity care average for the Puget Sound regional was 1.36% of gross revenue and 3.99% of adjusted revenue. During this same time period, the three-year percentage of charity care for SVH was .58% of gross revenue and 2.00% of adjusted revenue. For the ASC, pro formas, charity care was estimated to be consistent with the Puget Sound Regional average.”*

**Department Evaluation – WAC 246-310-270(7) – Charity Care Requirement**

For charity care reporting purposes, Washington State is divided into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Mount Vernon Surgery Center will be located in Skagit County within the Puget Sound Region. For this review, the department focused on years 2018, 2019, and 2020 charity care data reported by the hospitals in the region.<sup>4</sup>

Currently there are 25 hospitals operating within the Puget Sound Region. Of the 25 hospitals, one is a dedicated rehabilitation hospital that became operational in mid-year 2019 and four are dedicated

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<sup>4</sup> As of the writing of this evaluation, year 2021 charity care data is not yet available.

psychiatric hospitals.<sup>5</sup> Of the 20 remaining general acute care hospitals, one hospital, the applicant’s Skagit Valley Hospital, may be affected by this proposed project.

The table below compares the three-year historical average of charity care provided by all hospitals operating in the King County Region, the combined charity care percentages of the Skagit Valley Hospital, and the applicant’s projected charity care percentages for the proposed surgery center.

**Department’s Table 5  
Charity Care – Three Year Average**

	<b>% of Total Revenue</b>	<b>% of Adjusted Revenue</b>
Puget Sound Region	1.49%	4.41%
Skagit Valley Hospital	0.71%	2.34%
Mount Vernon Surgery Center Projected	1.35%	4.40%

[source: Department of Health’s charity care reports for years 2018, 2019, and 2020 and Application, Exhibit 5]

As shown in the comparison table above, the projected percentage of charity care proposed by the applicant is higher than the King County regional average, the three hospitals combined, and Skagit Valley Hospital’s own historical three-year average charity care averages.

The 2019 Report of Charity Care in Washington Hospitals offers the following analysis of charity care costs across Washington State Hospitals as impacted by the Affordable Care Act (ACA):

*“In 2013, as a result of the Affordable Care Act, Washington saw the first decline in the amount of charity care reported by hospitals since the department began gathering these data in 1989. That decline, however, has ceased and charity care has been increasing again. Charity care rates in Washington in 2019 have remained similar to levels in 2018, which includes slight increases in revenue and slight increases in charity care. Charity care charges increased 24 percent between 2017 and 2018, but only 9.3 percent between 2018 and 2019, so the rise may be slowing.”* [source: 2019 Washington State Charity Care in Washington Hospitals]

The Certificate of Need Program recognizes that charity care in Washington State is expected to increase in coming years since ACA penalties are removed for lack of insurance coverage. Current data confirms hospitals are beginning to see an increase in charity care costs.

Typically, the department attaches a charity care condition to ASF approvals, based in part, on the fluctuation of charity care percentages since the passage of the Affordable Care Act in March 2010 and to ensure compliance with WAC 246-310-270(7). For this project, the department must also consider SRH’s historical charity care percentages which are shown to be lower than the average of all hospitals operating in the Puget Sound Region. For this reason, the charity care condition for Mount Vernon Surgery Center will refer to the average for the hospitals operating in the Puget Sound Region, rather than the hospital owned by SRH—Skagit Valley Hospital.

The department recalculated the charity care dollars to be provided at Mount Vernon Surgery Center to be consistent with the total revenue average for the region. The results are shown in the table on the following page.

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<sup>5</sup> The dedicated rehabilitation hospital is CHI Franciscan Rehabilitation Hospital, and the four dedicated psychiatric hospitals are: BHC Fairfax Hospital-Monroe, BHC Fairfax Hospital-North, US HealthVest Smokey Point Behavioral Hospital, and Wellfound Behavioral Hospital.

**Department's Table 6**  
**Mount Vernon Surgery Center Recalculated Charity Care**  
**Based on Puget Sound Regional Average of 1.49% of Gross Revenue**

	MVSC Gross Revenue	MVSC Proposed = 1.35%	MVSC Recalculated = 1.49%
Year 1 - 2024	\$154,434,912	\$2,090,393	\$2,304,672
Year 2 - 2025	\$157,524,302	\$2,132,210	\$2,350,776
Year 3 - 2026	\$160,616,504	\$2,174,066	\$2,396,922

When comparing the applicant's projected charity care dollars with the regional average recalculations shown above, the increased amounts would affect the net profits of the surgery center. Taking this into account, the department will also apply the increased charity care amounts to the financial feasibility criteria in WAC 246-310-220(1) of this evaluation.

SRH acknowledged the requirement under WAC 246-310-270(7) to provide charity care. **With agreement to a charity care condition, this sub-criterion is met.** The financial implications of this will be discussed under WAC 246-310-220(1).

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

WAC 246-310-210(3), (4), and (5) above do not apply to this project under review.

## B. FINANCIAL FEASIBILITY (WAC 246-310-220)

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Skagit Regional Health meets the applicable financial feasibility criteria in WAC 246-310-220.

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

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

To evaluate this sub-criterion, the department reviews the assumptions provided by an applicant, projected revenue and expense (income) statements, and projected balance sheets. The assumptions are the foundation for the projected statements. The income statement is a financial statement that reports a company's financial performance over a specific period—either historical or projected. Projected financial performance is assessed by giving a summary of how the business expects its revenues to cover its expenses for both operating and non-operating activities. It also projects the net profit or loss incurred over a specific accounting period.<sup>6</sup>

The purpose of the balance sheet is to review the financial status of company at a specific point in time. The balance sheet shows what the company owns (assets) and how much it owes (liabilities), as well as the amount invested in the business (equity). This information is more valuable when the balance sheets for several consecutive periods are grouped together, so that trends in the different line items can be viewed.

As a part of its review, the department must determine that a project is financially feasible – not just as a stand-alone entity, but also as an addition to its own existing operations, if applicable. To complete its review, the department may request an applicant to provide projected financial information for the parent corporation if the proposed agency would be operated under the parent.

### Skagit Regional Health

This project proposes the establishment of a new surgery center to be operated under the Skagit Valley Hospital license. The surgery center would have a total of eight ORs, with three of the ORs dedicated to endoscopy procedures. [source: Application, pdf 4]

SRH provided the assumptions used to project the surgical volumes for projection years 2024 through 2026. [source: November 8, 2021, screening response, pdfs 3-4]

*“Using 2019 as a baseline, SRH’s clinical staff along with a national expert in outpatient surgery volumes and outpatient reimbursement requirements and trends, performed an analysis (by ICD-10 and CPT code) of the number of existing cases performed in the hospital ORs in 2019 that would be appropriate for transfer to MVSC. These volumes were projected to grow modestly between 2019 and 2024 when MVSC opens. Table 3 has been replicated below with the addition of 2019 baseline volumes by specialty. This additional information is the only change to Table 3.*

- *Orthopedics/Spine: assumed a baseline of 919 orthopedic/spine cases performed in 2019 would be appropriate for MVSC. These volumes were expected to grow about 2% per year due to population*

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<sup>6</sup> One purpose behind the income statement is to allow key decision makers to evaluate the company's current situation and make changes as needed. Creditors use these statements to decide on loans it might make to the company. Stock investors use these statements to determine whether the company represents a good investment.

growth and aging as well as the addition of new providers in 2021. Between 2024-2026, approximately 2% growth assumed annually.

- General Surgery: assumed a baseline of 621 general surgery cases performed in 2019 would be appropriate for MVSC. These volumes were expected to grow about 2% per year due to population growth and aging. Between 2024-2026, approximately 2% growth assumed annually.
- Gynecology: assumed a baseline of 207 gynecology cases performed in 2019 would be appropriate for MVSC. These volumes were expected to grow about 4-5 cases per year due to population growth and aging; up through 2026.
- Podiatry: assumed a baseline of 153 podiatry cases performed in 2019 would be appropriate for MVSC. These volumes were expected to grow about 3-4 cases per year due to population growth and aging; up through 2026.
- ENT: assumed a baseline of 1,000 ENT cases performed in 2019 would be appropriate for MVSC. These volumes were expected to grow about 2% per year due to population growth and aging; up through 2026.
- Urology: assumed a baseline of 439 urology cases performed in 2019 would be appropriate for MVSC. These volumes were expected to grow about 9-10 cases per year due to population growth and aging; up through 2026.
- Plastic/Reconstructive Surgery: assumed a baseline of 82 plastic/reconstructive surgery cases performed in 2019 would be appropriate for MVSC. These volumes were expected to grow about 1-2 cases per year due to population growth and aging; up through 2026.
- Pain Management: assumed a baseline of 664 pain management cases performed in 2019 would be appropriate for MVSC. These volumes were expected to grow about 2% per year due to population growth and aging; up through 2026.
- GI / Endoscopy: assumed a baseline of 3,806 cases performed in 2019 would be appropriate for MVSC. These volumes were expected to initially grow by 12% for one year due to the recommendation for colonoscopy screening to begin at age 45. Growth was then projected to be 2% per year through 2026.”

SRH also provided the following clarification regarding the types of services provided under the description of ‘vascular’ and ‘general’ listed above. [source: December 23, 2021, screening response, pdf 2]

#### Vascular

“Following Technical Assistance (TA) calls with CN Program staff on December 15 and 22, 2021, Skagit Regional Health (SRH) understand that a key intent of this question is to assure that SRH does not intend to provide elective PCI or heart surgery at MVSC. SRH confirms that these services will not be provided. The types of vascular procedures anticipated to be performed at MVSC include but are not limited to creation of arteriovenous fistula for dialysis access and vein ligation and stripping for treatment of varicose veins.”

#### General

“The types of general surgery procedures anticipated include but are not limited to breast surgery including biopsy and mastectomy, hernia surgery, gall bladder removal, rectal surgery including hemorrhoidectomy, sphincterotomy and pilonidal cyst treatment, excision surgery including skin, lymph nodes, cysts and other tissue. CN Program staff concurred that this response was acceptable during the December 15-22, 2021 TA calls.”

Based on the assumptions above, the applicant provided the following table showing the projected number of procedures at Mount Vernon Surgery Center for the first three full years of operation.

*Applicant's Table*

**Table 3 (Revised to include 2019 Baseline)  
Projected Outpatient and GI/Endoscopy Procedures by Year  
2024-2026**

Specialty	2019 Baseline	2024	2025	2026
Orthopedics/Spine	919	1,014	1,034	1,054
General Surgery	621	687	700	714
Gynecology	207	229	233	237
Podiatry	153	170	173	177
ENT	1,000	1,102	1,124	1,146
Urology	439	485	495	505
Plastic/Reconstructive Surgery	81	89	91	93
Pain Management	664	734	748	763
Vascular Surgery	48	53	54	54
<b>Subtotal Outpatient</b>	<b>4,132</b>	<b>4,563</b>	<b>4,652</b>	<b>4,743</b>
GI/Endoscopy	3,806	4,619	4,711	4,805
<b>Total</b>	<b>7,938</b>	<b>9,182</b>	<b>9,363</b>	<b>9,548</b>

*Source: Applicant*

SRH provided the projected payer mix for the surgery center and provided the following clarification of the assumptions used to determine the projected payer mix. [source: Application, pdfs 20 -20]

*Applicant's Table*

**Table 7  
Projected Payer by Revenue and Patient, Projected for the Outpatient Surgery Center**

	Percentage by Revenue WAC 246-310-220(1)	Percentage by Patient WAC 246-310-210(2)
Medicare/Medicare Advantage	42.26%	40.92%
Medicaid	17.01%	23.41%
Commercial	33.86%	29.49%
Other (Tricare, VA, Workers Comp)	5.35%	4.94%
Self-Pay*	1.52%	1.24%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

*Source: Applicant*

*“The historical payer mix for SVH’s mixed use rooms is included in Table 8. The payer mix in Table 7 was adjusted to reflect the payer mix for those cases that will be relocated to the MVSC.”*

*Applicant's Table*

**Table 8  
Current SVH Surgical Payer Mix by Revenue and Patient**

	Percentage by Revenue WAC 246-310-220(1)	Percentage by Patient WAC 246-310-210(2)
Medicare/Medicare Advantage	49.26%	46.61%
Medicaid	20.01%	26.90%
Commercial	23.86%	20.30%
Other (Tricare, VA, Workers Comp)	5.35%	4.94%
Self-Pay*	1.52%	1.24%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

*Source: Applicant*

Within the application materials, SRH provided three separate pro forma Revenue and Expense Statements. The three statements provided are:

- a) Skagit Valley Hospital and Skagit Regional Clinics combined pro forma Revenue and Expense Statement showing years 2024 through 2026, without Mount Vernon Surgery Center.
- b) Mount Vernon Surgery Center pro forma Revenue and Expense Statement showing years 2024 through 2026.
- c) Skagit Valley Hospital and Skagit Regional Clinics combined pro forma Revenue and Expense Statement showing years 2024 through 2026, with Mount Vernon Surgery Center.

The assumptions SRH used to project revenue, expenses, and net income for Mount Vernon Surgery Center with eight ORs are below. [source: November 8, 2021, screening responses, pdfs 8-10]

*“As was discussed with CN Program staff on November 1, 2021, SRH developed the assumptions for the ‘without the project’ first. Throughout this application, this scenario is referred to as ‘baseline’. The baseline served as the starting point for the MVSC assumptions. In responding to this question, SRH provides the assumptions for the without the project and then provides the MVSC specific assumptions.*

*The following assumptions were used to create the pro forma financial statements for Skagit Regional Health (without the project), MVSC (the project), and Skagit Regional Health (with the project).*

### **Skagit Regional Health (Without the Project)**

#### General Assumptions:

- *2019 Baseline Year based on 2019 Audited Financials for Public Hospital District 1. Actual 2020 financials included as reference, but due to the effects of the COVID-19 Pandemic on our patient service volumes 2019 was utilized as the baseline year.*

#### Revenue:

- *2020 & 2021 IP Revenue reimbursement increases based on IPPS Washington State Hospital Association Estimated Change in Medicare Payment Reports. Years 2022 and beyond an average of the first two years.*
- *2020 & 2021 OP revenue reimbursement increases based on OPPS Washington State Hospital Association Estimated Change in Medicare Payment Reports. Years 2022 and beyond an average of the first two years.*
- *2020 & 2021 Physician Revenue reimbursement increases based on OPPS Washington State Hospital Association Estimated Change in Medicare Payment Reports. Years 2022 and beyond an average of the first two years (this was the assumption for clinic revenue).*
- *Other operating revenue: assumed to increase 2% per year based on historical experience.*

#### Deductions from Revenue:

- *Charity Care set at Puget Sound Regional Average and assumes to be 1.4% per year (2024-2026).*
- *Bad Debt: assumed to be 0.6% per year (2024-2026).*
- *Deductions from revenue: assumed to be 71.8% based on historical experience.*

#### Expenses:

- *As was discussed with CN Program staff on October 14, 2021, expenses were increased at 2% per year based on historical experience.*
- *Salary expense in 2020 and 2021 based on contractually obligated wage increases to various bargaining units, with 2.5% increase in all years 2022 and beyond. Providers pay driven by wRVU<sup>7</sup>*

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<sup>7</sup> RVU is an abbreviation for ‘relative value unit.’ This is currently used by Medicare to determine the amount of reimbursement to providers. RVUs are basically a way of standardizing and comparing service volumes across all

*volume or temporary pay guarantees, and no increases assumed. Non-union staff salary expenses assumed to increase 2.5% per year based on historical experience.*

- *Employee Benefits estimated at 24.08% of salary expense.*
- *Registry: Assumed to increase 2.0% per year based on historical experience.*
- *Professional Fees: Assumed to increase 2.01% per year over baseline based on historical experience and addition of medical director expense for MVSC.*
- *Supplies: Assumed to increase 2.0% per year over baseline based on historical experience.*
- *Purchased Services: Assumed to increase 2.0% per year over baseline based on historical experience.*
- *Interest, Depreciation, & Rentals and Leases: baseline was assumed to increase by 2% per year.*
- *Other operating expenses: Assumed to increase 2.0% per year over baseline based on historical experience.*
- *Allocation to PHD 3: Contractually set to not exceed 24.1% of Operating Revenue of PHD 3 operation. This amount is expensed to PHD #3 and is therefore, deducted as an expense from PHD #1. Assumed to increase 2% per year.*
- *OH (Overhead) allocation to OSC: Not applicable.*

### **Mount Vernon Surgery Center (the Project)**

#### **General Assumptions:**

- *2019 Baseline Year based on 2019 Audited Financials for Public Hospital District 1. Actual 2020 financials included as reference, but due to the effects of the COVID-19 Pandemic on our patient service volumes 2019 was utilized as the baseline year.*

#### **Revenue:**

- *Based on outpatient revenue growth assumptions in the ‘without’ scenario and then assumed to increase 2% per year (same as volume growth assumptions).*

#### **Charity Care and Bad Debt**

- *Charity care: Assumed to be 1.4% per year (2024-2026).*
- *Bad Debt: assumed to be 0.6% per year (2024-2026).*
- *Deductions from revenue: assumed to be 73.28%.*

#### **Expenses:**

- *As was discussed with CN Program staff on October 14, 2021, expenses were increased at 2% per year based on historical experience.*
- *Salaries: assumed to increase each year due to changes in staffing (see Table 10).*
- *Registry: Assumed to be about 0.33% of gross revenue based on historical experience.*
- *Employee Benefits estimated at 24.08% of salary expense.*
- *Professional Fees: Assumed to be 0.79% of revenue.*
- *Medical Director: assumed to be \$27,200 based on medical director agreement.*
- *Supplies: Assumed to 4.4% of revenue.*
- *Purchased services: Assumed to increase 1.5% per year over baseline based on historical experience.*
- *Interest, Depreciation, & Rentals and Leases:*
- *Equipment and FF&E: Assumes 3-5 years of useful life. Decrease in 2025 due to items being fully depreciated.*

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varieties. The RVU is made up of three components: physician work, the practice expense totals, and malpractice. The abbreviation wRVU is ‘work relative value units’ and focuses on the physician work RVU.



- *IT: Assumes useful life of 3 years.*
- *Other: Assumes useful life of 5 years.*
- *Lease Expense: based on lease agreement and proportionally allocated to MVSC based on square footage (36% of expense to MVSC).*
- *Other operating expenses: Assumed to be 1.35% of revenue.*
- *Overhead allocation to MVSC: Set at the 2019% of OH to accumulated cost statistic (23.25%) as reported in the 2019 Skagit Regional Health Cost Report.*

**Skagit Regional Health (With the Project)**

- *This is the combination of the ‘without’ financials and MVSC financials. In addition, the remainder of the lease expenses are assigned to SRH ‘with the project’.*”

The applicant also provided the following clarification regarding specific line items in the statements described above. [source: November 8, 2021, screening response, pdf 11]

- *“Professional Fees: This includes locum/agency fees, the medical director fee, and consulting fees. For the MVSC medical director, the fees have now been broken out separately.*
- *Supplies: This includes pharmaceuticals, chargeable and non-chargeable patient supplies, and minor equipment.*
- *Purchased Services: This includes repair/maintenance expenses, information technology services, and marketing/communication expenses.*
- *Other Operating Expenses: This includes items such as license and subscription fees, mileage, and travel.*
- *Overhead Allocation(OH) to MVSC. This is the overhead allocation for corporate and support services such as finance, IT, maintenance, engineering, risk management, etc.”*

Specific to the statement showing Skagit Valley Hospital and Skagit Regional Clinics combined with Mount Vernon Surgery Center, SRH provided the following clarification regarding specific line items. [source: November 8, 2021, screening response, pdf 14]

- *“Clinic Revenue: This represents the revenue from the clinics operated by SRH.*
- *Other Operating Revenue: This is revenue from such items as reimbursed costs (rebates), grants, and quality incentive payments.*
- *Professional Fees: This includes locum/agency fees, medical director fees, and consulting fees.*
- *Supplies: This includes items such as pharmaceuticals, chargeable and non-chargeable patient supplies, and minor equipment.*
- *Purchased Services: This includes items such as repair/maintenance expenses, information technology services, and marketing/communication expenses.*
- *Other Operating Expenses: This includes items such as license and subscription fees, mileage, and travel.*
- *Allocation to PHD #3. The negative number is the result of the allocation methodology specified in the contractual affiliation of Skagit County PHD #1 (SRH) and Snohomish County PHD #3 (Cascade Valley Hospital and Clinics, or CVH). This affiliation is essentially a management agreement. In a nutshell, PHD #1 assumes the expense of overhead services such as Finance and IT, and these costs are allocated to CVH. As part of the allocation process, these expenses are ‘deducted’ from PHD #1 (in this case, shown as ‘negative’ expense to PHD #1) and then these costs are passed on to Snohomish County PHD #3, where they are shown as an expense to Snohomish County PHD #3.”*

SRH provided a copy of the executed ‘Build to Suit Lease’ agreement between SVH Partners, LLC (Landlord) and Skagit Regional Health (tenant) and also provided a table summarizing the annual costs for the lease for partial year 2023 (two months) and full years 2024 through 2026. [source: November 8, 2021, pdf 18 and Attachment 5 ] The table is below.

*Applicant’s Table*

**Table 2  
Annual Lease Expense by Year**

<b>Year</b>	<b>Lease Expense to MVSC</b>	<b>Total Lease Expenses (SRH with the project)</b>
2023 (2 months only)	275,146	764,119
2024	1,656,381	4,599,993
2025	1,689,509	4,691,993
2026	1,723,299	4,785,833

*Source: Applicant*

SRH also clarified that while medical director is an employed physician, it is a compensated position. Medical director compensation is a separate line item in the Mount Vernon Surgery Center statement. [source: November 8, 2021, screening response, pdf 36]

Based on the assumptions and information described and clarified above, a summary of all three pro forma Revenue and Expense Statements are below.

- a) Skagit Valley Hospital and Skagit Regional Clinics combined pro forma Revenue and Expense Statement showing years 2024 through 2026, without Mount Vernon Surgery Center.
- b) Mount Vernon Surgery Center pro forma Revenue and Expense Statement showing years 2024 through 2026.
- c) Skagit Valley Hospital and Skagit Regional Clinics combined pro forma Revenue and Expense Statement showing years 2024 through 2026, with Mount Vernon Surgery Center.

**Department’s Table 7**

**Pro Forma Revenue and Expense Statement Summary**

**Skagit Valley Hospital and Skagit Regional Clinics without Mount Vernon Surgery Center**

	<b>Year 1-2024</b>	<b>Year 2-2025</b>	<b>Year 3-2026</b>
Net Patient Revenue	\$398,334,140	\$407,404,941	\$416,683,770
Non-Operating Revenue	\$6,839,725	\$6,976,519	\$7,116,050
<b>Total Revenue</b>	<b>\$405,173,865</b>	<b>\$414,381,460</b>	<b>\$423,799,820</b>
Minus Total Expenses	\$396,039,688	\$403,204,826	\$410,521,906
<b>Net Profit / (Loss)</b>	<b>\$9,134,177</b>	<b>\$11,176,634</b>	<b>\$13,277,914</b>

**Department’s Table 8**

**Pro Forma Revenue and Expense Statement Summary**

**Mount Vernon Surgery Center Only**

	<b>Year 1-2024</b>	<b>Year 2-2025</b>	<b>Year 3-2026</b>
Net Revenue*	\$41,265,886	\$42,091,389	\$42,917,643
Minus Total Expenses	\$37,348,508	\$38,033,158	\$39,049,167
<b>Net Profit / (Loss)</b>	<b>\$3,917,378</b>	<b>\$4,058,231</b>	<b>\$3,868,476</b>

\* = Net Revenue is gross patient revenue, minus deductions from revenue for contractual allowances, bad debt, and charity care.

**Department's Table 9**  
**Pro Forma Revenue and Expense Statement Summary**  
**Skagit Valley Hospital and Skagit Regional Clinics with Mount Vernon Surgery Center**

	<b>Year 1-2024</b>	<b>Year 2-2025</b>	<b>Year 3-2026</b>
Net Revenue*	\$420,250,798	\$430,621,262	\$441,218,079
Minus Total Expenses	\$414,223,347	\$422,341,995	\$430,409,340
<b>Net Profit / (Loss)</b>	<b>\$6,027,451</b>	<b>\$8,279,267</b>	<b>\$10,808,739</b>

\* = Net Revenue includes revenue for: hospital inpatient and outpatient, clinic, other non-patient care, and non-operating revenue minus deductions from revenue for contractual allowance, bad debt, and charity care.

SRH also provided projected balance sheets for full calendar years one through three under two separate scenarios. One for Skagit Valley Hospital and Regional Clinics without Mount Vernon Surgery Center and one for Skagit Valley Hospital and Regional Clinics with Mount Vernon Surgery Center. SRH did not provide a separate balance sheet for Mount Vernon Surgery Center alone, because it will be operated under Skagit Valley Hospital. The two sets of balance sheets are summarized in the tables below. [source: November 8, 2021, screening response, Attachment 4]

**Department's Table 10**  
**Projected Balance Sheets Summary for Skagit Valley Hospital and**  
**Skagit Regional Clinics without Mount Vernon Surgery Center**

<b>Assets</b>	<b>Year 1-2024</b>	<b>Year 2-2025</b>	<b>Year 3-2026</b>
Current Assets	\$12,395,523	\$12,319,287	\$12,247,814
Property & Equipment	\$170,066,779	\$161,521,618	\$162,705,555
Other Assets	\$264,740,684	\$276,587,671	\$280,263,898
<b>Total Assets</b>	<b>\$447,202,986</b>	<b>\$450,428,576</b>	<b>\$455,217,267</b>

<b>Liabilities</b>	<b>Year 1-2024</b>	<b>Year 2-2025</b>	<b>Year 3-2026</b>
Current Liabilities	\$59,332,770	\$61,294,022	\$63,241,757
Long Term Debt	\$155,183,663	\$144,268,664	\$132,853,665
Equity	\$232,686,553	\$244,865,890	\$259,121,845
<b>Total Liabilities &amp; Equity</b>	<b>\$447,202,986</b>	<b>\$450,428,576</b>	<b>\$455,217,267</b>

**Department's Table 11**  
**Projected Balance Sheets Summary for Skagit Valley Hospital and**  
**Skagit Regional Clinics with Mount Vernon Surgery Center**

<b>Assets</b>	<b>Year 1-2024</b>	<b>Year 2-2025</b>	<b>Year 3-2026</b>
Current Assets	\$12,591,807	\$12,525,520	\$12,461,741
Property & Equipment	\$177,173,284	\$174,246,831	\$173,491,377
Other Assets	\$256,057,866	\$259,781,442	\$263,360,163
<b>Total Assets</b>	<b>\$445,822,957</b>	<b>\$446,553,793</b>	<b>\$449,313,281</b>

<b>Liabilities</b>	<b>Year 1-2024</b>	<b>Year 2-2025</b>	<b>Year 3-2026</b>
Current Liabilities	\$60,803,171	\$62,865,940	\$64,904,998
Long Term Debt	\$155,183,664	\$144,268,664	\$132,853,664
Equity	\$229,836,122	\$239,419,189	\$251,554,619
<b>Total Liabilities &amp; Equity</b>	<b>\$445,822,957</b>	<b>\$446,553,793</b>	<b>\$449,313,281</b>

SRH also provided the following clarifications regarding the two sets of balance sheets summarized above. [source: November 8, 2021, screening response, pdf 2]

*“The referenced assumptions used 2019 as the baseline historical year for the revenue and expense statements. As was discussed on the December 15, 2021 TA, the balance sheet was based on more recent data, mid-year 2021 data so as to capture the current assets and liabilities.”*

**Department Evaluation**

To evaluate this sub-criterion, the department first reviewed the assumptions used by SRH to determine the projected number of procedures and utilization of the surgery center with a total of eight ORs. The utilization assumptions are based on the 2019 historical number of procedures performed in the ORs at Skagit Valley Hospital. SRH use 2019 historical data because of the restrictions experienced with elective surgeries during the pandemic in year 2020. This approach is reasonable. Further, since the procedures are currently being provided in the hospital outpatient setting, this approach is also reasonable.

SRH based its revenue and expense assumptions on 2019 historical figures or contracts currently in place. Some categories were held constant and other categories were estimated as a percent of anticipated revenue, this approach is reasonable.

The pro forma financial statements show Mount Vernon Surgery Center’s revenues would cover expenses beginning in year one (2024) and continue through full year three (2026) with its total of eight ORs.

As discussed in WAC 246-310-210(2), the department recalculated Mount Vernon Surgery Center’s projected charity care dollars to be consistent with the three-year average of the Puget Sound Region for total revenue. Those calculations increased the charity care dollars for all three projection years. The table below is a recalculation of the Revenue and Expense Statement Summary with the projected increase in charity care dollars to equal the three-year regional average.

**Department’s Table 12  
Mount Vernon Surgery Center Only  
Pro Forma Revenue and Expense Statement Summary Recalculated**

	<b>Year 1-2024</b>	<b>Year 2-2025</b>	<b>Year 3-2026</b>
Net Revenue*	\$41,051,607	\$41,872,823	\$42,694,787
Minus Total Expenses	\$37,348,508	\$38,033,158	\$39,049,167
<b>Net Profit / (Loss)</b>	<b>\$3,703,099</b>	<b>\$3,839,665</b>	<b>\$3,645,620</b>

\* = Net Revenue is gross patient revenue, minus deductions from revenue for contractual allowances, bad debt, and charity care.

With the increase of charity care for all years shown, the table above shows a smaller net profit, however, the surgery center’s revenues would continue to cover expenses.

For this sub-criterion, the department also completes a focused financial and cost containment review (WAC 246-310-220 and WAC 246-310-240, respectively) that includes pro forma financial statements submitted in the application, including screening responses and rebuttal documents, and historical data reported to the data collection office within the Department of Health.

To determine whether the applicant would meet its immediate and long-range capital costs, the historical year 2020 balance sheet for SHR is reviewed. SRH is composed of Skagit Valley Hospital in Mount

Vernon, Cascade Valley Hospital in Arlington, and associated clinics and ancillary services The information is shown in Table 13 below.<sup>8</sup> [source: March 25, 2022, focused review pdfs 2-3]

**Department’s Table 13  
Skagit Regional Health Balance Sheet for Historical Year 2020**

Assets		Liabilities	
Current Assets	\$177,522,715	Current Liabilities	\$99,128,032
Board Designated Assets	\$129,708,506	Long Term Debt	\$37,151,245
Property/Plant/Equipment	\$140,806,275	Other Liabilities	\$150,444,671
Other Assets	\$27,634,717	Equity	\$189,048,265
<b>Total Assets</b>	<b>\$475,772,213</b>	<b>Total Liabilities and Equity</b>	<b>\$475,772,213</b>

Further, for hospital projects, the department performs a financial ratio analysis that assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. Historical and projected balance sheet data is used in the analysis. SRH’s historical 2020 balance sheet shown in Table 10 above is used to review the applicable ratios and pro forma financial information.

Table 14 below compares statewide data for historical year 2020<sup>9</sup>, SRH’s 2020 data, and projection years 2024 through 2026 for SRH and its proposed Mount Vernon Surgery Center with ASF with eight ORs. [source: March 25, 2022, focused review pdf 3]

**Department’s Table 14  
Comparison of Historical and Projected Debt Ratios**

Category	Trend*	State 2020	SRH 2020	Projected 2024	Projected 2025	Projected 2026
Long Term Debt to Equity	B	0.577	0.796	0.636	0.565	0.492
Current Assets/Current Liabilities	A	2.784	1.792	1.809	1.818	1.825
Assets Funded by Liabilities	B	0.425	0.525	0.464	0.443	0.420
Operating Expense/Operating Revenue	B	1.011	1.025	1.002	0.997	0.991
Debt Service Coverage	A	3.440	2.771	1.168	1.228	1.284
Definitions:	Formula					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets					
Operating Expense/Operating Revenue	Operating expenses / operating revenue					
Debt Service Coverage	Net Profit + Depr and Interest Exp/Current Mat. LTD and Interest Exp					

\* A is better if above the ratio; and B is better if below the ratio.

After reviewing the financial ratios above, staff provided the following statements. [source: March 25, 2022, focused review pdfs 2-3]

*“I have reviewed various ratios’ that can give a snapshot of the financial health of SRH as of 2020. Also detailed are the three years following completion of the project. Statewide 2020 ratios are included as a comparison and are calculated from all community hospitals in Washington State whose fiscal year ended in that year. The data is collected by the Washington State Department of Health Community Health Systems section of the Health Systems Quality Assurance division.*

<sup>8</sup> Columns may not add due to rounding.

<sup>9</sup> Year 2021 historical data is not available as of the writing of this evaluation.

*CON year 3, (third year following the establishment of the surgery center) fiscal year end ratios for SRH are generally inside or near the preferred ranges of the 2020 State average. All ratios that are outside the preferred range demonstrate an improving trend during the projection period. Skagit Regional Health with the new surgery center are breaking even in each year of the projections.”*

A financial analysis of the revenue and expense statement for Mount Vernon Surgery Center and SRH with Mount Vernon Surgery Center was completed. The statements show revenues covering expenses in all three projection years of the project. After reviewing the revenue and expense statement, staff provided the following statements.

*“SRH’s ambulatory surgery center statistics for year three appear appropriate. The project’s costs to the patient and community are similar to current providers. This criterion is satisfied.”* [source: March 25, 2022, focused review pdf 4]

In the ‘need’ section of this evaluation, the department concluded that need for the five ORs in the planning area was demonstrated. Mount Vernon Surgery Center is projected to operate a total of eight ORs, however, only five of them are counted in the numeric methodology. The remaining three ORs are dedicated to endoscopy services. This financial feasibility section takes into consideration all eight ORs requested by SRH. The department concludes the basis for the financial projections are considered reasonable and reliable. The focused financial analysis identifies adequate financial health for SRH as a whole and Mount Vernon Surgery Center.

Based on the information submitted, the department concludes that the immediate and long-range operating costs of the project can be met. If this project is approved, the department would attach a charity care condition consistent with past surgical center projects. **This sub-criterion is met.**

- (2) *The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.*

WAC 246-310 does not contain specific WAC 246-310-220(2) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what an unreasonable impact on costs and charges would be for a project of this type and size. Therefore, using its experience and expertise the department compared the proposed project’s costs with those previously considered by the department.

### **Skagit Regional Health**

SRH provided the following statements related to this sub-criterion. [source: Application, pdf 19]

*“The capital costs for the project are necessary if SRH is to support both current and projected need in East Skagit. The current mixed-use rooms are operating at capacity and additional capacity is necessary to ensure timely access. The capital costs will not be passed on to payers in the form of higher charges.”*

### **Department Evaluation**

In the need section of this evaluation, SRH provided significant information to demonstrate that the use of this surgery center is an integral part of the delivery of healthcare services for multi-specialty services provided at Skagit Valley Hospital. To assist in evaluating this sub-criterion, the department also calculated the net revenue per case for all three projection years as shown in the table on the following page. [source: March 25, 2022, focused review pdf 3]

**Department's Table 15  
Department Calculation of Revenue per Case**

	<b>2024 Full Year 1</b>	<b>2025 Full Year 2</b>	<b>2026 Full Year 3</b>
Number of Procedures	4,563	4,652	4,743
Operating Revenue Per Procedure	9,044	9,048	9,049
Operating Expense Per Procedure	8,185	8,166	8,233
<b>Net Revenue per Procedure</b>	<b>\$859</b>	<b>\$872</b>	<b>\$816</b>

As shown above, the anticipated net revenue per procedure is substantially the same in each of the three projections years even though the number of cases increases. However, the expenses slightly increase, resulting in a slight decrease in net revenue per procedure through the projection years.

Additionally, the applicant has already met with the Department of Health's Construction Review Services (CRS), which is a necessary step prior to establishment of a new surgery center. To assist in this evaluation, the department reviewed technical assistance (TA) documentation between the applicant and the Department of Health's Construction Review Services (CRS) office.<sup>10</sup> The documentation identifies the construction that is necessary for the surgery center and support space, with a total of eight operating rooms. As a result, SRH has started the necessary steps for this project.

Based on this information, the department concludes that the establishment of Mount Vernon Surgery Center with eight ORs in east Skagit County will not likely have an unreasonable impact on the costs and charges for healthcare services in the planning area or the county. **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.

**Skagit Regional Health**

The applicant clarified that the establishment of Mount Vernon Surgery Center is part of a larger project of constructing a medical office building on land adjacent to, but within 250 yards of the Skagit Valley Hospital campus. The medical office building will be a total of 59,949 square feet, and 21,250 is associated with the surgery center. A developer is constructing the medical office building and will lease the building to SRH. [source: Application, pdf 18] Within the application, SRH clarified that its portion of the costs for the project, which is \$23,367,584 will be funded with existing reserves.

The lease agreement provided in the application states that the Mount Vernon Surgery Center space will require only the installation of moveable equipment to make it operational as a surgery center. SRH provided a breakdown of the capital expenditure for Mount Vernon Surgery Center that is shown in the table on the following page. [source: Application, pdf 18 and September 1, 2021, screening response, Attachment 5]

<sup>10</sup> CRS #61018012 Technical Assistance and CRS #61204771 Project Submission.

**Department's Table 16  
Estimated Capital Expenditure Breakdown**

<b>Item</b>	<b>Cost</b>
Moveable Equipment (includes tax)	\$18,647,913
Information Technology/Information Systems*	\$1,841,158
Signage	\$506,825
Security	\$382,624
Project Management	\$1,989,064
<b>Total</b>	<b>\$23,367,584</b>

\* Includes hardware, software, and equipment for the electronic health system for Mount Vernon Surgery Center.

SRH also provided an equipment list for the surgery center, which includes staff office furniture, medical office furniture, and moveable medical equipment. [source: Application, Exhibit 9]

Given that Mount Vernon Surgery Center is a new facility, SRH also provided a breakdown of the pre-opening expenses to be incurred prior to operations. [source: Application, pdf 19] Those costs are shown in the table below.

**Department's Table 17  
Pre-Opening Expenses Breakdown**

<b>Item</b>	<b>Cost</b>
Salaries, Wages, and Benefits	\$528,596
Medical Director Fees	\$18,600
Supplies	\$163,075
<b>Total</b>	<b>\$710,271</b>

SRH provided a letter of financial commitment for the costs identified in the two tables above. The letter is signed by SRH's Regional Vice President and Chief Financial Officer. [source: Application, Exhibit 8]

To demonstrate it has the funding for this project, SRH provided its audited historical financial statements for years 2017 through 2020. [source: Application, Appendix 1]

**Department Evaluation**

As stated above, SRH intends to finance its portion of this project with reserves. A review of the historical financial statements, including the historical year 2020 balance sheets, provided in the application demonstrates that the applicant has the financial health to provide the funding.

As stated in the "Project Description" section of this evaluation, there are three main entities associated with this project. The entities are: Skagit Regional Health, the applicant; Mount Vernon Surgery Center, the proposed surgery center; and SVH Partners, LLC, the developer and entity funding the construction of the building. Other sections of this evaluation have extensively discussed the applicant and the surgery center. This section of the evaluation will focus on SVH Partners, LLC and its role in this project.



SVH Partners, LLC – this entity was formed as a development entity for the project and is owned by a small group of investors and a project manager. Upon completion of the building, it will lease the building to the applicant, SRH. The members of SVHP Partners, LLC include:

- Brian Clark
- Chad Fisher
- FTM 1 QOF, LLC (Chris & Shaun Cammock)
- Jennifer Benson and Aldi Kliogjeri
- Mike & Maureen Fohn
- Pacific Coast Capital (QOF) LLC (Mike Fohn)
- SVH Manager, LLC
- WRL 1 QOF, LLC (Craig & Carrie Cammock)
- WRL 2 QOF, LLC (Craig & Carrie Cammock)
- Optimum Partners, LLC

SRH also provided the following clarification about two of the owning members of SVH Partners, LLC. [source: November 8, 2021, screening response]

*“Note that the member “SVH Manager, LLC” is an entity established for the project by Meriwether Partners, LLC and is owned by the principals of Meriwether Partners, LLC, an experienced development firm with the expertise and resources necessary to develop and complete this project.*

*Optimum is also a member of SVH LLC and has already contributed the land to the project and will transfer title to SVH LLC prior to construction commencing. Please see Attachment 2 for a signed letter from the from the key parties confirming the ownership information and the intent to transfer the property to SVHP. SVHP will, in turn, lease the property to SRH.”*

Attachment 2 referenced above is a letter addressed to the CN Program that outlines the process and the timeline to be used by both SVH Partners, LLC and Optimum Properties, LLC to transfer the property from Optimum Properties to SVH Partners, LLC prior to the start of construction. The letter is signed by a representative of both entities and provides the legal description of all 12 parcels of land. The letter includes references to the executed lease agreement between SVH Partners, LLC and Skagit Regional Health provided in Attachment 5 of the November 8, 2021, screening responses.

Based on this review, the department concludes that the finances for the estimated capital expenditure are available and the financing is appropriate. **This sub-criterion is met.**

### **C. STRUCTURE AND PROCESS (QUALITY) OF CARE (WAC 246-310-230)**

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Skagit Regional Health meets the applicable structure and process (quality) of care criteria in WAC 246-310-230.

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

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

### **Skagit Regional Health**

Given that Mount Vernon Surgery Center will be a new healthcare facility, SRH provide a listing of projected staff of the surgery center. The table below summarizes the staff projected for Mount Vernon Surgery Center beginning with projected year one (2024) through year three (2026).

**Department's Table 18  
Mount Vernon Surgery Center  
Projected FTEs for Years 2024 through 2026**

<b>FTE Type</b>	<b>2024 Projected</b>	<b>2026 Increase</b>	<b>2026 Increase</b>	<b>Total Projected Year 2026</b>
Charge Nurse	4.30	0.00	0.00	<b>4.30</b>
Other Registered Nurse	19.40	0.30	0.30	<b>20.00</b>
Surgical Tech	7.60	0.10	0.20	<b>7.90</b>
Support Technician	2.20	0.00	0.00	<b>2.20</b>
Certified Nursing Assistant	2.40	0.00	0.00	<b>2.40</b>
Radiology Tech	1.30	0.00	0.00	<b>1.30</b>
Anesthesia Tech	1.10	0.00	0.00	<b>1.10</b>
Sterile Processing	9.60	0.20	0.10	<b>9.90</b>
Front Desk Receptionist	6.00	0.00	0.00	<b>6.00</b>
Implant Coordinator	1.10	0.00	0.00	<b>1.10</b>
Purchasing Coordinator	1.10	0.00	0.00	<b>1.10</b>
Patient Transport	1.10	0.00	0.00	<b>1.10</b>
ASC Administrator	1.00	0.00	0.00	<b>1.00</b>
ASC Assistant Administrator	1.00	0.00	0.00	<b>1.00</b>
Business Office Staff	9.00	0.20	0.20	<b>9.40</b>
<b>Total FTEs</b>	<b>68.20</b>	<b>0.80</b>	<b>0.80</b>	<b>69.80</b>

SRH clarified that the physicians are not included in the table above because they would be employed by the hospital and not staff of the surgery center. SRH also clarified that the medical director will be an employee physician that serves as medical director for the surgery center and provided a job description for the services. [source: Application, pdf 23 and Exhibit 10]

SRH stated that projected staffing ratios are based on staffing matrices/ratios established by the professional organizations that guide surgical and gastroenterology practices including Association of Perioperative Registered Nurses (AORN), American Society for Perioperative Anesthesia Nurses (ASPAN), and Society of Gastroenterology Nurses and Associates (SGNA). Once the base staffing was established, projected patient census determined staffing in the following years. [source: September 1, 2021, screening response, pdf 5]

Focusing on recruitment and retention of staff and timing for staff recruitment, SRH provided the following information. [source: Application, pdf 24 and September 1, 2021, screening response, pdf 5]

*“SVH has a long history of being able to recruit and retain qualified healthcare personnel. SVH offers competitive wages and benefits. SVH additionally participates in a number of training programs serving as a training site for students from various health career paths. These training programs provide an ongoing pool of new health professionals and serve as a source for recruiting new personnel to SVH. ...Geographically, the Skagit Valley area is a very desirable place to live. The natural environment, outdoor opportunities as well as overall high-quality life contribute to SVH's ability to recruit and retain healthcare professionals.*

Recruitment is expected to begin about 9 months before opening. SRH anticipates that about 25% of the staffing will be from within the organization, and not new to SRH.”

**Department Evaluation**

Given that Mount Vernon Surgery Center would be a new facility in the planning area, SRH provided its projected FTEs for the surgery center and extensive information regarding its timeline and process for recruitment of staff. As noted in the table above, the majority of staff is expected to be recruited in year 2024, with small increases in years 2025 and 2026 once the surgery center’s utilization increases. The department concludes that the increase in staff and projected staffing ratios are based on reasonable assumptions.

For recruitment and retention of necessary staff, SRH intends to rely on the strategies it has successfully used in the past. This approach is also reasonable.

SRH clarified that the medical director is not included in the staff table even though she is already in place and no medical director contract is necessary.

Information provided in the application demonstrates the applicant has the ability to staff the surgery center and the staffing ratios are reasonable for the types of services to be provided. Based on the information above, the department concludes that the SRH’s project **meets this sub-criterion.**

- (2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.

WAC 246-310 does not contain specific WAC 246-310-230(2) as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what relationships, ancillary and support services should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials contained in the application.

**Skagit Regional Health**

Given that Mount Vernon Surgery Center will be a new facility, SRH provided the following listing of ancillary and support services currently in place for the hospital that could translate to the new surgery center. [source: September 1, 2021 screening response, pdf 6]

Biomedical Waste Disposal	Janitorial Services	Medical Supplies
Facilities Support	Laboratory	Pharmacy
Instrument Repair	Laundry Services	Radiology

SRH also provided a draft Patient Transfer Policy to be used for Mount Vernon Surgery Center. The policy includes the following language about its purpose and specifics of the policy. [source: Application, Exhibit 4]

“Purpose:

*To define the procedure in which patients will be transferred to the hospital should the need arise.*

Policy:

*The surgeon or anesthesiologist may order a patient to be transferred to the hospital for emergency medical care beyond the capabilities of the ASC or for patient comfort or personal safety.*

Scope:

*Physicians on Staff, Nursing Staff”*

The policy also includes extensive information regarding the procedures used by staff of the proposed surgery center to transfer a patient to Skagit Valley Hospital.

**Department Evaluation**

Since Mount Vernon Surgery Center is not yet operational, SRH provided a listing of ancillary and support services that are typically used for mixed used operating rooms within a hospital. Even though Mount Vernon Surgery Center would be located adjacent to Skagit Valley Hospital, SRH provided a draft Patient Transfer Policy to be used for this project.

If this project is approved, the department would attach a condition to the approval requiring SRH to provide a copy of the executed Patient Transfer Policy prior to providing the services at Mount Vernon Surgery Center.

Based on the information reviewed in the application and the applicant’s agreement to the condition reference above, the department concludes that there is reasonable assurance that SRH will obtain and maintain the necessary relationships with ancillary and support services for the new surgery center if this project is approved. **This sub-criterion is met.**

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

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

**Skagit Regional Health**

The applicant provided the following statements related to this sub-criterion and WAC 246-310-230(5). [source: Application, pdf 27]

*“Neither SRH, nor any of its licensed health care facilities, has any history with respect to the federal and state requirements outlined in WAC 246-310-230. Likewise, no surgeon or other licensed health care provider that is credentialed to work in the surgical services department of SRH has any history.”*

**Department Evaluation**

As a part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.<sup>11</sup> For surgery centers, the department reviews two different areas when evaluating this sub-criterion. One is a review of the Centers for Medicare and Medicaid Services (CMS) “Terminated Provider Counts Report” covering years 2018 through 2022. The department uses this report to identify surgery centers that were involuntarily terminated from participation in Medicare reimbursement.

The department also reviews an applicant’s conformance with Medicare and Medicaid standards, with a focus on Washington State facilities. The department uses the CMS ‘Survey Activity Report’ to

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<sup>11</sup> WAC 246-310-230(5)

identify Washington State facilities with a history of condition level findings. For CMS surveys, there are two levels of deficiencies: standard and condition.<sup>12</sup>

- Standard Level  
 A deficiency is at the Standard level when there is noncompliance with any single requirement (or several requirements) within a particular standard that is not of such character as to substantially limit a facility’s capacity to furnish adequate care, or which would not jeopardize or adversely affect the health or safety of patients if the deficient practice recurred.
- Condition Level  
 Deficiency at the Condition level may be due to noncompliance with requirements in a single standard that, collectively, represent a severe or critical health or safety breach, or it may be the result of noncompliance with several standards within the condition. Even a seemingly small breach in critical actions, or at critical times, can kill or severely injure a patient, and such breaches would represent a serious or severe health or safety threat.

As stated in the ‘Applicant Description’ section of this evaluation, Skagit Regional Health operates a variety of healthcare facilities in Skagit and Snohomish counties, but does not operate healthcare facilities outside of Washington State. For this review, the department will review the quality of care areas for Skagit Regional Health, which includes two acute care hospitals, one behavioral health facility, one surgery center, and one hospice agency. The facilities are identified below by name, location, and Washington State license number. [source: Application, pdf 22]

Name	Type of Facility	WA License #	City Location	County Location
Skagit Valley Hospital	Acute Care Hospital	00000207	Mount Vernon	Skagit
Cascade Valley Hospital	Acute Care Hospital	60655126	Arlington	Snohomish
Skagit Regional Health	Behavioral Health Agency	60874604	Mount Vernon	Skagit
Arlington Surgery Center	Ambulatory Surgery Center	60651816	Arlington	Snohomish
Hospice of the Northwest	Hospice Agency	00000437	Mount Vernon	Skagit

Terminated Provider Counts Report

Focusing on years 2019 through current year 2022, none of the five SRH associated facilities were involuntarily terminated from participation in Medicare reimbursement.

Conformance with Medicare and Medicaid Standards

Focusing on years 2019 through current year 2022, the following surveys were conducted for SRH associated facilities.

Skagit Valley Hospital

Skagit Valley Hospital’s most recent survey occurred in October 2019. The CMS survey noted two standard deficiencies that required one follow up visit. The deficiencies focused on patient charting. Skagit Valley Hospital is currently operating in full compliance with state and federal requirements.

Cascade Valley Hospital

Cascade Valley Hospital’s most recent survey occurred in January 2021. The CMS survey noted two standard deficiencies that required one follow up visit. The deficiencies focused on patient charting. Cascade Valley Hospital is currently operating in full compliance with state and federal requirements.

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<sup>12</sup> Definitions of standard and condition level surveys: <https://www.compass-clinical.com/deciphering-tjc-condition-level-findings/>

### Skagit Regional Health (Behavioral Health Facility)

This behavioral health facility's most recent survey occurred in April 2019. The survey noted no deficiencies. Skagit Regional Health Behavioral Health is currently operating in full compliance with state and federal requirements.

### Arlington Surgery Center

Arlington Surgery Center was not surveyed between January 2019 through February 2022. Arlington Surgery Center is currently operating in full compliance with state and federal requirements.

### Hospice of the Northwest

Hospice of the Northwest was not surveyed between January 2019 through February 2022. Hospice of the Northwest is currently operating in full compliance with state and federal requirements.

SRH provided a listing of 101 physicians, physician assistants, and registered nurses that are expected to work at Mount Vernon Surgery Center. Using data from the Medical Quality Assurance Commission, the department confirmed that all identified staff hold an active state license, have no conditions or limits on the license, and have no enforcement actions.

For this sub-criterion, the department considered the total compliance history of SRH, the applicant, and its associated healthcare facilities. The department also considered the compliance history of the proposed staff physicians and other employees of the hospital that would be associated with the surgery center. Based on the information reviewed, the department concludes that SRH is following applicable state and federal licensing and certification requirements. As a result, the department concludes there is reasonable assurance that the establishment of Mount Vernon Surgery Center would not have a negative effect on SRH's compliance. **This sub-criterion is met.**

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

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

### Skagit Regional Health

SRH provided the following statements in response to this sub-criterion. [source: Application, pdf 27]

*"Today, the SVH operating rooms are at capacity; and the high capacity is affecting timely access, patient experience of care and the ability to recruit additional providers to the area. In terms of ability to recruit, SRH regularly performs a physician demand analysis which shows which provider types the Service Area is short of. For a number of the needed surgical providers, SRH is limited in its ability to recruit at this time, because SVH does not have space to accommodate any significant number of additional surgeries. The MVSC will provide the "relief" valve for the mixed-use operating rooms, allowing SRH to grow to support Service Area demand. The growth will mean that patients do not have to wait unnecessarily or travel out-of-area, both of which can, and often do, fragment care."*

### Public Comments

During the review of this project, the department receive a letter of support that focuses on this sub-criterion. The letter is restated below.

Joshua Howkins, MD, FACS

*“As a general surgeon, and former Chief of Surgery at Skagit Regional Health, I am very pleased to support the Hospital’s certificate of need application to establish a five OR, three procedure room outpatient surgical center.*

*The primary purpose of this much needed project is to decant the high occupancy currently occurring within Skagit Valley Hospital’s current mixed use operating rooms, thereby improving access and avoiding a much larger, and more disruptive, capital expenditure to increase operating room capacity within the main hospital. In my role as Chief of Surgery, I was advised regularly about the impacts on outpatients whose surgeries were bumped or delayed because their surgical time had to be redeployed to accommodate an urgent surgery or a more complex surgery that was experiencing an extended surgical time.*

*Another benefit of this project is providing outpatients a care environment that excludes inpatient and emergency surgeries and is designed, staffed, and equipped for shorter stay patients being discharged home the same day. This dedicated outpatient program has been in planning for a number of years and will be well received by the community, while also ensuring an efficient and pleasant environment for patients. I estimate that more than 80% of the surgeries I perform will be appropriate for the outpatient surgery center. This will relieve the pressure on the main OR’s, and will permit the main OR facility to focus on urgent inpatient needs and complex surgery. Finally, this project will allow for growth from new specialties that we need but can’t recruit today because of a lack of OR capacity. Please approve this project.”*

**Department Evaluation**

Mount Vernon Surgery Center is a new surgical center for Certificate of Need review purposes even though the majority of the services are currently provided in outpatient ORs at Skagit Valley Hospital. As a result, SRH has an operational history to review for much of this sub-criterion.

Additionally, the department considers the conclusions reached in this evaluation regarding need for the surgery center and whether the facility would be available and accessible to residents of east Skagit County.

The department also considers the conclusions reached in the financial feasibility and structure and process of care reviews of the project. SRH’s project met the financial feasibility criteria in WAC 246-310-220(1) and the structure and process of care criteria in WAC 246-310-230(2).

Based on the information provided in the application, the department concludes there is reasonable assurance that approval of this this project would promote continuity in the provision of health care services in the community. **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 and is met.

#### **D. COST CONTAINMENT (WAC 246-310-240)**

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Skagit Regional Health meets the applicable 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, in step two, the department 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. SRH's application is the only application under review to add OR capacity in east Skagit County. Therefore, step three is not applicable to this project.

#### **Skagit Regional Health**

SRH met the applicable review criteria under WAC 246-310-210 through 230. The applicant provided the following statements regarding this sub-criterion. [source: Application, pdf 28]

*“Four options were considered: expand the surgical department's existing mixed use ORs in the hospital; create an entirely new surgical department with the hospital with approximately 15 operating rooms; establish an ASC; or construct and operate an HOPD.*

*The option of expanding mixed use operating rooms was far more expensive than the new ASC or new HOPD option. It was also most disruptive, and most staff intensive as it would be necessary to continue operation of the rooms as expansion was underway and to be hyper-diligent about infection control.*

*The option of building an entirely new surgical department at a different location within the hospital was the most expensive from a construction perspective (because of the square footage involved and the high cost per square foot of surgical space, currently in excess of \$1,200 per square foot). It would also involve reconstructing a number of other departments to maintain key adjacencies. For this reason, the two in-hospital options were ruled out.*

*Frankly, the establishment of a freestanding ASC was initially the preferred options as it positions SRH well for value-based care and would likely be the preferred option of patients and payers. However, because so much of our volume is simply being relocated from the hospital to the new location, and because the reimbursement difference is so significant, financial analysis demonstrated that SRH needs a “glidepath” to adjust to the reimbursement differentials so as not to destabilize the current overall hospital operations. We did discuss this option in depth with CN Program staff during several TAs early in 2021, and they concurred that our approach to open as an HOPD and then convert to an ASC at a later point in time is reasonable and may be deemed the best available option.”*

In addition to the information above, SRH provided the following explanation from the patient's perspective of why the option of operating the surgery center separate from the hospital was rejected. [source: September 1, 2021, screening response, pdf 6]



*“Establishing dedicated outpatient space (whether as an HOPD or free-standing) is beneficial to patients for a number of reasons. In an outpatient setting, patients most typically do not have their scheduled procedure being ‘bumped’ or delayed because of more urgent cases within the mixed-use setting. Further, because the facility is designed and used solely for outpatients, the procedures and environment are more appealing to many patients and easier to access (parking, registration, waiting, pre and post procedure, etc.). Data consistently shows that outpatient surgery programs (whether freestanding or HOPD) report higher patient satisfaction due to smaller and more personalized teams, and less delays and a less institutional environment. There are also more scheduling options for patients in dedicated outpatient programs.”*

### **Department Evaluation**

The applicant provided sound rationale for foregoing the “no project” option. Once the choice is made to establish a new, freestanding<sup>13</sup> surgery center, the only option available is to submit a Certificate of Need application for review. Once SRH determined it would create a freestanding surgery center, various options were considered and rejected. SRH correctly concluded that its only option was to submit a project for review.

The department did not identify any other alternatives that that would be considered superior based on quality, efficiency, and costs that are available or practicable for SRH. Based on the information provided in the application and restated above, the department concludes that the option selected by SRH is reasonable and prudent for the applicant. Further this option maintains the much needed outpatient services for the residents of the east Skagit planning area and surrounding communities.

This project met the review criteria under need, financial feasibility, and structure and process of care. Based on the above information, the department concludes that **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;*
  - (b) *The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.*

### **Department Evaluation**

This sub-criterion was evaluated in conjunction with WAC 246-310-220 and is considered 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.*

### **Skagit Regional Health**

SRH provided the following response related to this sub-criterion. [source: Application, pdf 29]

*“The landlord is proposing to construct the MOB to meet or exceed all applicable state and local codes and CMS conditions of coverage. We do not believe that the landlord intends to pursue LEED certification, but has designed the building to meet the requirements. In terms of the shell space for the MVSC as well as the TIs that SRH will undertake, numerous design meetings were held that focused on pre and post clinical and patient flow, clinical workflows, and support spaces and adjacencies. We are confident that these efforts have produced an efficient operation that will serve the community well.”*

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<sup>13</sup> In this context, the term ‘freestanding’ means that the surgery center will not be within the Skagit Valley Hospital footprint.

### **Department Evaluation**

This project proposes to establish a new surgery center with a total of eight ORs, including three dedicated to endoscopy procedures. Although the cost of the project is significant, the project results in the continuation of outpatient services and the availability of those services in an outpatient setting.

Based on information provided within the application and evaluated under WAC 246-310-210, 220, and 230, the department is satisfied that this project is appropriate and needed. If approved, this project has the potential to improve or maintain the delivery of health services in east Skagit County. **This sub-criterion is met.**

# APPENDIX A



**APPENDIX A  
ASC Need Methodology  
East Skagit County**

Service Area Population: 2024	117,234	OFM	Age 0 - 85+																	
Surgeries @ 129.928/1,000:	15,232																			
a.i.	94,250	minutes/year/mixed-use OR																		
a.ii.	68,850	minutes/year/dedicated outpatient OR																		
a.iii.	10	dedicated outpatient OR's x 68,850 minutes =			688,500	minutes dedicated OR capacity			20,388	Outpatient surgeries										
a.iv.	8	mixed-use OR's x 94,250 minutes =			754,000	minutes mixed-use OR capacity			4,729	Mixed-use surgeries										
b.i.		projected inpatient surgeries =	6,040	=	963,043	minutes inpatient surgeries														
		projected outpatient surgeries =	9,192	=	310,427	minutes outpatient surgeries														
b.ii.		Forecast # of outpatient surgeries - capacity of dedicated outpatient OR's																		
		9,192	-		20,388	=			-11,195	outpatient surgeries										
b.iii.		average time of inpatient surgeries		=	159.45	minutes														
		average time of outpatient surgeries		=	33.77	minutes														
b.iv.		inpatient surgeries*average time		=	963,043	minutes														
		remaining outpatient surgeries(b.ii.)*ave time		=	-378,073	minutes														
					584,970	minutes														
c.i.		if b.iv. < a.iv. , divide (a.iv.-b.iv.) by 94,250 to determine surplus of mixed-use OR's <b>USE THIS VALUE</b>																		
					754,000															
					-	584,970														
					<u>169,030</u>	/			94,250	=	1.79									
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 <b>Not Applicable - Ignore the following values and use results of c.i.</b>																		
					963,043															
					-	754,000														
					209,043	/			94,250	=	2.22									
		<b>divide outpatient part of b.iv. By 68,850 to determine shortage of dedicated outpatient OR's</b>																		
					-378,073	/			68,850	=	-5.49									



**APPENDIX A  
ASC Need Methodology  
East Skagit County**

Facility	Special Procedure Rooms	Dedicated Inpatient ORs	Dedicated Outpatient ORs	Mixed Use ORs	Inpatient min/case	Inpatient Cases in ORs	Inpatient Minutes in ORs	Outpatient Min/Case	Outpatient Cases	Outpatient Mins.	Data Source
PeaceHealth United General Hospital	2	2	2	0	68.8	49	3,370	65.2	1,087	70,882	Survey 2021 collecting 2020 data
Skagit Valley Hospital	5	0	0	6	90.7	5,727	519,306	0.0	0	0	Survey 2021 collecting 2020 data
Cascadia Surgical Center-CN Approved	0	0	2	0	0.0	0	0	13.0	2,525	32,905	Survey 2021 collecting 2020 data
Proliance-Skagit Northwest Orthopedic-Continental site CN Exempt	1	0	1	0	0.0	0	0	19.5	1,982	38,590	Survey 2021 collecting 2020 data
Proliance-Skagit Northwest Orthopedic-LaVenture site CN Approved	1	0	3	0	0.0	0	0	22.8	197	4,497	Survey 2021 collecting 2020 data
Sight Partners - Mount Vernon site CN Approved	0	0	3	0	0.0	0	0	50.0	3,000	150,000	DOH Internal Database (ILRS); total outpatient minutes calculated.
<b>Totals</b>	<b>9</b>	<b>2</b>	<b>11</b>	<b>6</b>	<b>159.5</b>	<b>5,776</b>	<b>522,676</b>	<b>170.5</b>	<b>8,791</b>	<b>296,874</b>	
					Avg min/case inpatient		<b>159.45</b>	Avg min/case outpatient		<b>33.77</b>	
<b>ORs counted in numeric methodology</b>		<b>2</b>	<b>10</b>	<b>6</b>							
Most recent survey: 2021 survey collecting 2020 data											
Population data source: Claritas											
Year 2020 Total Surgeries	14,567										
Year 2020 East Skagit Population [0 - 85+]	112,116										Using 2020 population b/c most recent survey data
Use Rate	129,928										
Planning Area projected population Year: 2024	117,234										Projecting to 2024 because of January 2024 operational date
% Outpatient of total surgeries	60.35%										
% Inpatient of total surgeries	39.65%										

East Skagit County Population

Zip	City	2020 Population	2021 Population	2022 Population	2023 Population	2024 Population	2025 Population	Increment Increase	Check Back
98232	Bow	4,067	4,107	4,147	4,187	4,227	4,267	40	4,267
98233	Burlington	16,959	17,157	17,355	17,552	17,750	17,948	198	17,948
98235	Clearlake	141	142	143	145	146	147	1	147
98237	Concrete	4,517	4,568	4,619	4,671	4,722	4,773	51	4,773
98238	Conway	0	0	0	0	0	0	0	0
98255	Hamilton	171	172	173	175	176	177	1	177
98257	LaConner	4,560	4,607	4,653	4,700	4,746	4,793	47	4,793
98263	Lyman	410	414	419	423	428	432	4	432
98267	Marblemount	430	434	438	442	446	450	4	450
98273	Mount Vernon	32,645	33,003	33,360	33,718	34,075	34,433	358	34,433
98274	Mount Vernon	19,934	20,197	20,460	20,723	20,986	21,249	263	21,249
98283	Rockport	597	603	609	616	622	628	6	628
98284	Sedro Woolley	27,685	27,991	28,298	28,604	28,911	29,217	306	29,217
	<b>TOTALS</b>	<b>112,116</b>	<b>113,396</b>	<b>114,675</b>	<b>115,955</b>	<b>117,234</b>	<b>118,514</b>	<b>1,280</b>	<b>118,514</b>