

**EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY
PEACEHEALTH PROPOSING TWO SEPARATE PROJECTS:**

**1) ESTABLISH A 20-BED DEDICATED PSYCHIATRIC UNIT AT THE MAIN
CAMPUS; AND**

**2) RELOCATE 10 PSYCHIATRIC BEDS FROM THE SOUTH CAMPUS TO THE
MAIN CAMPUS FOR MEDICAL SURGICAL USE**

APPLICANT DESCRIPTION

On August 3, 1890, two members of the fledgling Sisters of St. Joseph of Peace left their convent in Newark, New Jersey bound for Fairhaven, Washington, a remote logging community in the country's far northwest corner. Their charge: to build a hospital to care for loggers, mill workers, fishermen and their families. The Sisters of St. Joseph of Peace have been providing healthcare in small communities throughout the Pacific Northwest since 1891. In 1976 they decided to consolidate the healthcare ministries of their Western Province by forming a not-for-profit system, Health and Hospital Services, which was renamed PeaceHealth in 1994. PeaceHealth now operates eight hospitals, medical office complexes, chemical-dependency services, home-health services, medical laboratories, and other services in three states—Alaska, Oregon, and Washington. Below is a listing of the hospitals by state. [source: PeaceHealth website]

Alaska

Ketchikan General Hospital, Ketchikan

Washington

St. Joseph Hospital, Bellingham

St. John Medical Center, Longview

PeaceIsland Medical Center, Friday Harbor¹

Oregon

Sacred Heart Medical Center, Riverbend

Sacred Heart Medical Center, Eugene

Cottage Grove Community Hospital, Cottage Grove

Peace Harbor Hospital, Florence

PROJECT DESCRIPTION

PeaceHealth proposes to add bed capacity to St. Joseph Hospital located in Bellingham, within Whatcom County. PeaceHealth's St. Joseph Hospital (SJH) has two campuses—main and south—located approximately 3 miles apart. Below is a brief description of each campus.

SJH-Main - 2901 Squalicum Parkway in Bellingham

This campus houses 211 acute care beds, which includes a 14-bed intermediate care nursery and level 2 obstetric service. The main campus provides the general medical surgical services in the county and provides on-site open heart surgery services.

SJH-South - 809 East Chestnut in Bellingham

The south campus houses 42 acute care beds—12 dedicated rehab beds and 30 beds dedicated to psychiatric services. SJH-south's 12 rehab beds are PPS exempt.² The south

¹ On February 11, 2010, PeaceHealth was issued an "Intent to Issue a Certificate of Need" approving the establishment of PeaceIsland Medical Center in Friday Harbor, within San Juan County. The new hospital is expected to become operational in 2012.

campus's psychiatric services include an Intensive/Geri-Psychiatric program in a 10-bed locked unit. This unit treats adults (voluntary and involuntary) who present with either an acute psychiatric illness requiring hospitalization or an age-related psychiatric illness. These 10 beds are currently PPS exempt. The campus also has a 20-bed Multi Track Psychiatric program. This program provides medical detoxification and psychiatric and co-occurring services to voluntary adult patients. These 20 beds are not PPS exempt.

This application proposes two separate projects:

- 1) Establish a 20-bed dedicated inpatient psychiatric unit at SJH-main. This would be accomplished by adding 20 new acute care beds to the hospital's total licensed beds. This would increase the total number of beds at the main campus from 211 to 231. The number of beds at the south campus would remain at 42. This project increases the total number of licensed beds at SJH from 253 to 273.
- 2) Relocate 10 dedicated psychiatric beds from the south campus to the main campus and convert the beds to general medical surgical use. The 10 bed relocation would decrease SJH-south to 32 acute care beds and increase SJH-main by 10 beds to 241; however the total number of licensed beds for SJH hospital would not change.

If both projects are approved, SJH-main would house 241 total acute care beds and SJH-south would house 32 total acute care beds, for a license total of 273. Table 1 below shows the before and after bed configurations of the two projects. [source: Application, p7; November 24, 2009, supplemental information, pp2-3; and CN #738 issued May 17, 1983]

Table 1
St. Joseph Hospital's Main & South Campuses Before/After Bed Configuration

CURRENT CONFIGURATION – 253 TOTAL LICENSED BEDS			
SJH-Main	# of Beds	SJH-South	# of Beds
General Medical/Surgical	197	Dedicated Rehab PPS Exempt	12
Level 2 intermediate care nursery	14	Level 2 intermediate care nursery	0
Psychiatric	0	Psychiatric (10 are PPS Exempt)	30
Total	211	Total	42

² Prospective Payment System (PPS) is a method of reimbursement in which Medicare payment is made based on a predetermined, fixed amount. The payment amount for a particular service is derived based on the classification system of that service (for example, diagnosis-related groups [DRGs] for inpatient hospital services). CMS uses separate PPSs for reimbursement to acute inpatient hospitals, home health agencies, hospice, hospital outpatient, inpatient psychiatric facilities, inpatient rehabilitation facilities, long-term care hospitals, and skilled nursing facilities. Since October 1, 1983, most hospitals have been paid under the hospital inpatient PPS. However, certain types of specialty hospitals and units were excluded from PPS because the PPS diagnosis related groups do not accurately account for the resource costs for the types of patients treated in those facilities. Facilities originally excluded from PPS included rehabilitation, psychiatric, children's, cancer, and long term care hospitals, rehabilitation and psychiatric hospital distinct part units, and hospitals located outside the 50 states and Puerto Rico. These providers continued to be paid according to Section 1886(b) of the Social Security Act, as amended by Section 101 of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982. They are frequently referred to as TEFRA facilities or PPS exempt. These facilities are paid on the basis of Medicare reasonable costs per case, limited by a hospital specific target amount per discharge. Each hospital has a separate payment limit or target amount which was calculated based on the hospital's cost per discharge in a base year. The base year target amount is adjusted annually by an update factor. [source: CMS website]

PROPOSED CONFIGURATION – 273 TOTAL LICENSED BEDS			
SJH-Main	# of Beds	SJH-South	# of Beds
General Medical/Surgical	207	Dedicated Rehab PPS Exempt	12
Level 2 intermediate care nursery	14	Level 2 intermediate care nursery	0
Psychiatric (10 PPS Exempt)	20	Psychiatric (undetermined use)	20
Total	241	Total	32

PeaceHealth stated that this project will consolidate all psychiatric services to the main campus and the Behavioral Health unit located at the south campus will no longer be providing psychiatric services. PeaceHealth also stated it is evaluating other uses for the 20 remaining beds at the south campus that were formerly dedicated to psychiatric care.³

The estimated capital expenditure associated with the establishment of the 20-bed dedicated inpatient psychiatric unit at SJH-main is \$5,623,962. PeaceHealth proposes that the project would be funded through its Whatcom Region reserves. [source: November 24, 2009, supplemental information, p7] There are no costs associated with the relocation of the 10 dedicated psychiatric beds from the south campus to the main campus and converting the beds to general medical surgical use. [source: Application, p36]

If this project is approved, PeaceHealth anticipates the 20 dedicated psychiatric beds would become operational on the main campus in July 2010, and the 10 general medical surgical beds would be operational in September 2010. Under this timeline, year 2011 would be the hospital's first full calendar year of operation with 273 licensed beds and 2013 would be year three. [source: Application, p17]

APPLICABILITY OF CERTIFICATE OF NEED LAW

The application proposes two separate projects. One project is the relocation of existing psychiatric services from one campus to another. This would be accomplished by adding 20 dedicated psychiatric beds (acute care beds) to SJH-main, which is an increase in acute care bed capacity to SJH as a whole and the planning area of Whatcom County. As a result, the relocation of existing psychiatric services within a new 20-bed psychiatric unit is subject to Certificate of Need review as the change in bed capacity of a healthcare facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

The second project proposes relocation of 10 acute care beds from SJH's south campus to its main campus. The 10 acute care beds are currently used at the south campus as dedicated psychiatric beds. The 10 beds would be relocated to the main campus and added to SJH's general medical/surgical bed capacity. While this project does not propose to add bed capacity to SJH as a whole, it proposes to increase the medical/surgical bed capacity at one of SJH's campuses by 10 beds. As a result, this project is also subject to review as the change in bed capacity of a healthcare facility under the provisions of RCW 70.38.105(4)(e) and WAC 246-310-020(1)(c).

³ The application does not address the 12-bed dedicated rehab unit at the south campus.

For these projects, PeaceHealth is the applicant and SJH is the facility where the proposed additional general medical surgical and/or psychiatric beds would be located. To avoid confusion in this evaluation, the two projects will be evaluated separately. The 20-beds dedicated to psychiatric care is evaluated on pages 7 through 22. The 10-bed addition is addressed on pages 23 through 40, plus Appendix A.

CRITERIA EVALUATION

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

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

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

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

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

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

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

To obtain Certificate of Need approval, PeaceHealth must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).⁴ Additionally,

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

WAC 246-310 does not contain service or facility specific criteria for hospital projects. For the psychiatric portion of this project, the department evaluates the applicant's methodology; for the general medical surgical portion of the project, the department uses the acute care bed forecasting method from the 1987 State Health Plan as part of its need assessment.

APPLICATION CHRONOLOGY

July 17, 2009	Letter of Intent Submitted
October 12, 2009	Application Submitted
October 13, 2009 through December 2, 2009	Department's Pre-Review Activities <ul style="list-style-type: none">• screening activities and responses
December 3, 2009	Department Begins Review of the Application <ul style="list-style-type: none">• public comments accepted throughout the review• no public hearing requested or conducted
January 7, 2010	End of Public Comment
January 25, 2010	Rebuttal Documents Received at Department ⁵
March 11, 2010	Department's Anticipated Decision Date
April 12, 2010	Department's Anticipated Decision Date w/ 30 Day Extension
May 19, 2010	Department's Actual Decision Date

AFFECTED PERSONS

Throughout the review of this project, no entities sought and received interested or affected person status under WAC 246-310-010.

SOURCE INFORMATION REVIEWED

- PeaceHealth's Certificate of Need application received October 12, 2009
- PeaceHealth's supplemental information received November 24, 2009
- Public comment submitted during the review of this project
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems received February 17, 2010
- Department of Health's Hospital and Patient Data Systems hospital financial database (<http://www.doh.wa.gov/EHSPHL/hospdata/Financial>)
- Comprehensive Hospital Abstract Reporting System (CHARS) data for psychiatric services
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Office of Financial Management population data released November 2007
- 1987 State Health Plan
- 1980 State Health Plan

⁵ The department received two letters of support and no letters of opposition. PeaceHealth did not provide rebuttal comments to the two letters of support.

SOURCE INFORMATION REVIEWED (continued)

- Data obtained from PeaceHealth’s webpage (peacehealth.org)
- Quality of Care information for PeaceHealth’s Alaska and Oregon healthcare facilities (jointcommission.org)
- Centers for Medicare and Medicaid Services (CMS) webpage (cms.hhs.gov/inpatientpsychfacilpps)

CONCLUSION

For the reasons stated in this evaluation, PeaceHealth’s proposal to:

- 1) Establish a 20-bed dedicated inpatient psychiatric unit at SJH-main; and
- 2) Relocate 10 dedicated psychiatric beds from the south campus to the main campus and convert the beds to general medical surgical use

is consistent with application criteria of the Certificate of Need Program, provided PeaceHealth agrees to the following condition.

CONDITION:

Rather than add 20 new acute care beds to St. Joseph Hospital’s main campus, the 20 dedicated psychiatric beds are relocated from St. Joseph Hospital’s south campus. At project completion, Peace Health’s campus configuration is as follows:

APPROVED CONFIGURATION – 253 TOTAL LICENSED BEDS			
SJH-Main	# of Beds	SJH-South	# of Beds
General Medical/Surgical	207	Dedicated Rehab PPS Exempt	12
Level 2 Intermediate Care Nursery	14	Level 2 Intermediate Care Nursery	0
Psychiatric (10 are PPS Exempt)	20	Psychiatric (0 are PPS exempt)	0
Total	241	Total	12

The total approved capital expenditure for this project is \$5,623,962.

PSYCHIATRIC BED ADDITION PROJECT

A. Need (WAC 246-310-210) Need

Based on the source information reviewed and the applicant's agreement to the condition identified in the "Conclusion" section of this evaluation, the department concludes PeaceHealth has met the need criteria in WAC 246-310-210(1) and (2).

(1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.

WAC 246-310 does not contain an acute care bed forecasting method. The determination of numeric need for acute care hospital beds is performed using the Hospital Bed Need Forecasting method contained in the 1987 Washington State Health Plan (SHP). Though the SHP was "sunset" in 1989, the department has concluded that this methodology remains a reliable tool for predicting baseline need for acute care beds. The 1987 SHP also has a numeric methodology for projecting psychiatric bed need, however the department is unable to obtain the required data to apply this methodology. As a result, the evaluation of the need criterion for psychiatric beds begins with an evaluation of the methodology provided by the applicant.

SUMMARY OF APPLICANT'S METHODOLOGY AND ASSUMPTIONS

PeaceHealth clarifies that while this project proposes the addition of 20 psychiatric beds to its main campus, it is essentially the relocation and consolidation of existing psychiatric services. Currently, SJH provides psychiatric services at its south campus. This project proposes to consolidate SJH's psychiatric beds, as well as reduce the total number of psychiatric beds from 30 to 20.⁶ As a result, PeaceHealth did not provide a need methodology to demonstrate 'need' for the 20 new psychiatric beds. Rather, PeaceHealth provided the following rationale for relocation and consolidation of the psychiatric services:

- The county's need for secure, available, and accessible inpatient psychiatric beds—both voluntary and involuntary; and
- Problems inherent in the current physical layout for the two behavioral health units on the south campus that result in delays in care, duplication of services, unnecessary transports, and other inefficiencies.

Below is a summary of PeaceHealth's discussion related to the two topics above.

County's need for secure, available and accessible inpatient psychiatric beds

PeaceHealth asserts that since SJH is the only hospital located in the Whatcom County planning area, it is also the only hospital that provides inpatient behavioral health services in the planning area. As a result, PeaceHealth asserts it is critically important to itself and the community that this service remains available locally. PeaceHealth also provided a table comparing various psychiatric beds per 100,000 population for the northwest states—

⁶ As previously stated, PeaceHealth is evaluating other uses for the 20 dedicated psychiatric beds that would remain at its south campus, but no longer be providing psychiatric services.

Alaska, Idaho, Montana, Oregon, and Washington. Table 2 below is a replica of the applicant’s comparison table.

Table 2
Psychiatric Care Beds per 100,000 Populations

Alaska	Idaho	Montana	Oregon	Avg. Other NW States	Washington
20.4	29.0	30.8	28.8	27.3	8.2

PeaceHealth also calculated the average psychiatric beds per 100,000 population for all fifty United States to be 29.9. Washington’s comparison of 8.2 is significantly below when compared to all states and the four other northwest states. [source: Application, p21]

PeaceHealth asserts that Washington State’s 8.2 psychiatric beds per 100,000 population as shown in Table 2 may be artificially low for two reasons. 1) the number is based on actual CHARS⁷ data, which only includes patients that were placed in a psychiatric bed, rather than patients who should have been placed, but no bed was available; and 2) there are only two licensed psychiatric hospitals located in the state, and CHARS does not collect data on care provided at either of them.⁸

Inherent problems with physical layout on the south campus

PeaceHealth states that the relocation and consolidation of the psychiatric services will be significantly more functional and accessible than the existing unit for several reasons, including:

- The private rooms will more than double, minimizing issues with gender, psychiatric condition, and medical needs currently experienced.
- Patients with a primary psychiatric condition in need of medical detoxification will be admitted to a medical unit rather than the behavioral health unit.
- With psychiatric services located on the main campus, patients will be closer to the emergency department, thereby avoiding an ambulance transport to the south campus and delays in treatment.
- The new unit will be designed to be both efficient and conducive to stabilization and recovery.
- The current 20-bed voluntary unit is not designed or configured to accept involuntary patients; therefore, even though beds may be available for involuntary patients, they cannot be admitted.
- The current practice of admitting a psychiatric patient, discharging, transferring, and then re-admitting the same patient at a different campus is costly and inefficient for the facility and disruptive for both the patient and their families.
- PeaceHealth also asserts that this relocation would result in shorter average lengths of stay for its psychiatric patients because patients would be admitted into the appropriate unit for treatment—i.e. either psychiatric, chemical dependency, or detoxification—much more timely. Additionally, admissions from the emergency department would also be timely and less complex.

⁷ Comprehensive Hospital Abstract Reporting System data obtained from the Department of Health’s Hospital and Patient Data Systems office.

⁸ A hospital that solely provides psychiatric care is licensed as a psychiatric hospital under RCW 71.12.

Based on the comparison table [Table 2] and the fact that the 20 beds are already in use as psychiatric beds in the Whatcom County planning area, PeaceHealth asserts that need for the beds is established. With the factors related to the physical layout of the south campus resulting in design and operational inefficiencies, PeaceHealth asserts that the relocation and consolidation of psychiatric services is necessary. [source: Application, pp20-22; p27]

THE DEPARTMENT'S DETERMINATION OF NEED

The department's need review will begin with the underlying assumptions used by PeaceHealth in its demonstration of need. The two main assumptions used by PeaceHealth are 1) planning area need for psychiatric beds; and 2) current inefficiencies at the south campus where psychiatric services are currently provided.

Planning Area Need for the Psychiatric Beds

PeaceHealth acknowledges that for this application, its planning area is Whatcom County as a whole. PeaceHealth identifies its actual service area—based on patient zip codes—to include Whatcom County and portions of the neighboring counties of Skagit, San Juan, and Island. PeaceHealth does not propose to modify the current psychiatric referral patterns or market share for the hospital.

SJH is the only hospital providing dedicated psychiatric services in Whatcom County. For Skagit County, Skagit Valley Hospital in Mount Vernon provides psychiatric services, however, on January 1, 2006, the hospital relinquished its PPS exemption status for its 15 bed psychiatric unit. Neither Island Hospital in Skagit County nor Whidbey General Hospital in Island County provides psychiatric services. Currently, there is no hospital in San Juan County.⁹ None of the three hospitals—Skagit Valley Hospital, Island Hospital, and Whidbey General Hospital—provided documentation in support or opposition to this project.

Based on the rationale provided by PeaceHealth, the planning area of Whatcom County is reasonable, with the recognition that SJH also provides psychiatric services to residents of portions of the adjacent counties of Skagit, San Juan, and Island.

Once the planning area was established, the department considered PeaceHealth's approach of relying on the basic concept that the beds are needed if they are: 1) already located in the planning area; 2) already providing psychiatric services; and 3) none of the existing psychiatric hospitals provided documentation in opposition to this project.

The department recognizes that PeaceHealth's application does not request additional psychiatric bed capacity to the planning area. Rather, the application requests a relocation of existing psychiatric beds within the planning area. In addition, the department also recognizes that ultimately, the number of psychiatric beds in the planning area will be reduced by 10, for a facility total of 20 at the main campus.

⁹ While PeaceHealth recently received CN approval for the establishment of a 10-bed hospital in San Juan County, the hospital will not be providing psychiatric services.

As a result, PeaceHealth's approach to its demonstration of need is sound when coupled with the comparison information provided by PeaceHealth summarized in Table 2.

Current Inefficiencies at the South Campus

PeaceHealth focuses this discussion on the relocation of the current psychiatric services from south campus to main campus, and the resulting efficiencies that would occur. The rationale provided by PeaceHealth for the relocation of its psychiatric services is reasonable, provided that PeaceHealth does not duplicate these psychiatric services at its main and south campuses. To ensure that PeaceHealth does not duplicate its psychiatric services at both campuses, if this project is approved, the department would require PeaceHealth to relocate 20 of its 30 psychiatric beds located on the south campus to its main campus. The remaining 10 psychiatric beds are discussed in the "Acute Care Bed Addition Project" portion of this evaluation.

During the review of this application, the department received two letters of support and no letters of opposition related to the psychiatric bed addition project. One letter was submitted by PeaceHealth's vice president of patient care services and emphasized that SJH is the only provider of acute care services, and specifically psychiatric services, in the county. The letter also emphasized that Washington State has one of the lowest mental health inpatient bed to population ratios in the nation, and the relocation of these beds from the south campus to the main campus would assist SJH with its ability to place mental health patients more timely and efficiently. The second letter of support was submitted by a child and adolescent psychiatrist with PeaceHealth Medical Group located in Oregon. This letter states, "*...psychiatric patients benefit by having inpatient and outpatient treatment consolidated in the same geographic area. This precept is all the more important with involuntary patients, where care providers attempt to build therapeutic alliances with less than enthusiastic clientele.*"

The support provided above underscores the continued need for psychiatric services in the planning area and supports PeaceHealth's proposal to relocate those services on its main campus. 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.

PeaceHealth is currently a provider of health care services to residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. As an acute care hospital, SJH participates in the Medicare and Medicaid programs. To determine whether all residents of the service area would have access to an applicant's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment.

To demonstrate compliance with this sub-criterion, PeaceHealth provided a copy of its current Admission Policy used at SJH. The policy outlines the process/criteria that

PeaceHealth uses to admit patients for treatment or care at the hospital. The applicant states that any patient requiring care will be accepted for treatment SJH regardless of race, color, creed, sex, national origin, or disability. [source: Application, Exhibit 5]

To determine whether low-income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination.

For its Washington State and out-of-state healthcare facilities, PeaceHealth currently provides services to Medicaid eligible patients. Information provided in the application demonstrates that PeaceHealth intends to maintain this status for its existing facilities. [source: Application, Exhibit 8 and Appendix 2]

To determine whether the elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination.

For its Washington State and out-of-state healthcare facilities, PeaceHealth currently provides services to Medicare eligible patients. Information provided in the application demonstrates that PeaceHealth intends to maintain this status for its existing facilities. [source: Application, Exhibit 8 and Appendix 2]

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

To demonstrate compliance with this sub-criterion, PeaceHealth submitted its current charity care policy that outlines the process one would use to access this service. Further, PeaceHealth included a 'charity care' line item as a deduction from revenue within the pro forma financial documents. [source: Application, Exhibits 6 and 8]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. SJH is located in Whatcom County within the Puget Sound Region. Currently there are 18 hospitals located within the region, including the applicant's hospital. According to 2005-2007 charity care data obtained from HPDS, SJH has historically provided better than the average charity care provided in the region. SJH's most recent three-year (2005-2007) percentages of charity care for gross and adjusted revenues are 2.51% and 6.38%, respectively. The 2005-2007 average for the Puget Sound Region is 1.93% for gross revenue and 4.20% for adjusted revenue. [source: HPDS 2005-2007 charity care summaries]

SJH's pro forma revenue and expense statements indicate that the hospital will provide charity care at approximately 2.27% of gross revenue and 6.65% of adjusted revenue. RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. Since the amount of charity care calculated from the forecasted financials provided in

the application and the three-year historical average is above that for the region, the department concludes PeaceHealth intends to meet this requirement and a condition related to charity care is not necessary.

Based on the information above, the department concludes the applicant demonstrated all residents of the service area are likely to have adequate access to the proposed health service. This sub-criterion is met.

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

Based on the source information reviewed and the applicant’s agreement to the condition identified in the “Conclusion” section of this evaluation, the department concludes PeaceHealth has met the financial feasibility criteria in WAC 246-310-220.

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

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

If this project is approved, PeaceHealth anticipates the 20-bed dedicated psychiatric unit would become operational in late year 2010, and 2011 would be the unit’s first full calendar year of operation. To demonstrate compliance with this sub-criterion, PeaceHealth provided its Statement of Operations for the 20-bed dedicated psychiatric unit for years 2011 through 2013. Using the financial information provided in the application, Table 3 illustrates the projected revenue, expenses, and net income for the psychiatric unit only. [source: Application, Exhibit 8, p92]

**Table 3
St. Joseph Hospital’s 20-bed Dedicated Psychiatric Unit
Projected Revenue and Expenses for Fiscal Years 2011 – 2013**

	Year 1 - 2011	Year 2 - 2012	Year 3 - 2013
# of set up/licensed beds	20	20	20
# of admissions	631	631	631
# of patient days	6,205	6,205	6,205
Average Length of Stay	9.8	9.8	9.8
Occupancy of set up/licensed beds	85.0%	85.0%	85.0%
Total Operating Revenue	\$ 5,087,415	\$ 5,087,415	\$ 5,087,415
Total Expenses	\$ 4,799,769	\$ 4,791,378	\$ 4,782,536
Net Profit or (Loss)	\$ 287,646	\$ 296,037	\$ 304,879

The 'total operating revenue' line item in Table 3 is the result of gross revenue minus any deductions for contractual allowances and charity care directly related to the psychiatric services. The 'total expenses' line item includes staff salaries/wages, bad debt, and all hospital cost allocations (overhead) from SJH for the psychiatric unit. As shown in Table 3, SJH anticipates it will relocate its psychiatric services, and based on the historical patients and patient days at south campus, the unit's average occupancy will be 85%. Since, the 85% occupancy does not allow for much growth in both admissions and patient days, PeaceHealth projected zero growth through 2013. As shown in Table 3, PeaceHealth expects the psychiatric unit would operate at a profit from the beginning of its relocation in year one. It is noted that the application does not address whether PeaceHealth intends to maintain its PPS exemption for a number of its psychiatric beds. Since the PPS exemption allows reimbursement based on actual costs for care, if PeaceHealth chooses to maintain this exemption, the department concludes the revenues would cover expenses for the psychiatric unit.

To determine whether SJH would meet its immediate and long range capital costs, HPDS reviewed its current and projected balance sheets for the hospital as a whole. Table 4 below shows the current balance sheet (2008) and projected balance sheet for year three (2013). [source: HPDS analysis, p2 and Application, Exhibit 8]

Table 4
St. Joseph Hospital Current Balance Sheet Year 2008

Assets		Liabilities	
Current Assets	\$439,273,379	Current Liabilities	\$ 261,035,553
Fixed Assets	\$ 1,071,892,880	Long Term Debt	\$ 635,326,160
Board Designated Assets	\$ 404,405,878	Other Liabilities	\$ 73,324,287
Other Assets	\$ 43,812,655	Equity	\$ 989,698,792
Total Assets	\$ 1,959,384,792	Total Liabilities and Equity	\$ 1,959,384,792

St. Joseph Hospital Balance Sheet for Projected Year 3 - 2013

Assets		Liabilities	
Current Assets	\$ 79,811,000	Current Liabilities	\$ 36,957,000
Fixed Assets	\$ 182,373,000	Long Term Debt	\$ 56,857,000
Board Designated Assets	\$ 160,847,000	Other Liabilities	\$ 3,600,000
Other Assets	\$ 19,474,000	Equity	\$ 345,091,000
Total Assets	\$ 442,505,000	Total Liabilities and Equity	\$ 442,505,000

To assist the department in its evaluation of this sub-criterion, the HPDS provided a summary of the short and long-term financial feasibility of the project, which includes a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are 1) long-term debt to equity; 2) current assets to current liabilities; 3) assets financed by liabilities; 4) total operating expense to total operating revenue; and 5) debt service coverage. If a project's ratios are within the expected value range, the project can be expected to be financially feasible.

For this application, HPDS compared the hospital’s current and projected ratios with the most recent year’s financial ratio guidelines for hospital operations. For this project, HPDS used 2008 data for comparison. Table 5 on the following page shows the hospital’s ratio comparison for current year (2009), year one (2011), and year three (2013). [source: February 17, 2010, HPDS analysis, p4]

**Table 5
Current and Projected HPDS Debt Ratios for St. Joseph Hospital**

Category	Trend¹⁰	State 2008	Current 2009	Projected 2011	Projected 2013
Long Term Debt to Equity	B	0.527	0.157	0.139	0.165
Current Assets/Current Liabilities	A	1.946	2.073	1.939	2.160
Assets Funded by Liabilities	B	0.432	0.243	0.216	0.212
Operating Expense/Operating Revenue	B	0.949	0.984	0.951	0.937
Debt Service Coverage	A	4.717	2.772	6.151	8.329
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				

As shown in Table 5 above, for current year 2009, SJH is considerably outside the range in its debt service coverage ratio. HPDS staff provided the following comments related to the ratios above.

“The formula for this ratio requires the use of net profits, rather than operating profits. While SJH realized approximately six million in operating profits, based on the state of the economy in 2009, SJH’s investments realized approximately seven million in losses. This “paper loss” in 2009 substantially affects the formula for this ratio. By the end of the third year of operation with the relocated psychiatric beds and the ten psychiatric beds reallocated to acute care, SJH’s ratios are all within the acceptable range.”

Based on the information above, the department concludes the immediate and long-range operating costs of the project can be met. This sub-criterion is met.

(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.

¹⁰ A is better if above the ratio, and B is better if below the ratio.

The cost to relocate PeaceHealth’s psychiatric services from its south campus to its main campus and add 20 acute care beds dedicated to psychiatric services is \$5,623,962. The costs are broken down in Table 6 below. [source: Application, p9]

**Table 6
Psychiatric Bed Project Estimated Capital Costs**

Item	Total
Construction Costs	\$ 4,784,875
Fixed & Moveable Equipment	\$ 177,000
Fees, Permits, Supervision, Inspections	\$ 230,000
Washington State Sales Tax	\$ 432,087
Total Estimated Capital Costs	\$ 5,623,962

HPDS also provided a construction cost per bed breakdown and comparison with past construction projects reviewed by that office. Table 7 below is a summary of that review. [source: HPDS analysis, p6]

**Table 7
Psychiatric Bed Project Construction Cost/Bed**

Item	Total
Construction Costs	\$ 4,784,875
Number of Psychiatric Beds Added	20
Total Construction Cost/Bed	\$ 239,244

HPDS provided the following analysis related to the construction cost comparison. [source: HPDS analysis, p6]

“Construction costs can vary quite a bit due to the type of construction, quality of material, custom vs. standard design, building site, and other factors. The costs show are within the past construction costs reviewed by this office.”

PeaceHealth provided a signed letter from its Facilities and Construction Administration Office to demonstrate that the costs identified above are accurate and reasonable for this type of project. [source: November 24, 2009, supplemental information, Attachment 3]

To further demonstrate compliance with this sub-criterion, PeaceHealth provided the sources of patient revenue shown in Table 8 on the following page for its behavioral health unit. [source: Application, p12]

Table 8
St. Joseph Hospital-Behavioral Health Unit
Sources and Percentages of Revenue

Source of Revenue	Inpatient
Medicare	34.9%
State (Medicaid)	30.2%
Commercial	26.7%
Other	8.2%
Total	100%

As shown above, for the behavioral health unit, the Medicare and State (Medicaid) are projected to equal 65% of the revenue at the facility. Although this project has approximately \$5.6 million in capital costs, the economies of scale are expected to have a favorable impact on operating costs and costs / charges at the hospital.

Based on the information provided, the department concludes the costs of this project would not result in an unreasonable impact to the costs and charges for health care services. 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.

PeaceHealth intends to finance this project through its SJH (Whatcom Region) reserves. HPDS notes that PeaceHealth does not report its financial information separately for its Whatcom Region. Ultimately, PeaceHealth, as a whole, is responsible for this portion of the funding. To demonstrate that PeaceHealth has the funds to finance this portion of the project, PeaceHealth provided its most recent (2008) audited financial statements. The financial statements demonstrate that the reserves are available. Based on the 2008 audited financial report, the \$5,623,962 capital costs is approximately 1.4% of PeaceHealth’s board designated assets. [source: Application, Appendix 2] PeaceHealth’s financial health is also verified by HPDS financial database. [source: HPDS financial data]

The department considers this information a reasonable demonstration that the funding for the project would be available and use of the reserves would not adversely affect the financial stability of PeaceHealth as a whole.

Based on the information provided, the department concludes the project can be appropriately financed. This sub-criterion is met.

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

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

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

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

This project proposes to relocate psychiatric services from SJH-south approximately three miles away to SJH-main. Because SJH currently provides behavioral health services, all core staff is expected to remain in the unit after the services relocate. SJH anticipates a slight change in staff which is attributed to the consolidation of the two separate units currently operating at the south campus. A breakdown of the proposed FTEs is shown in Table 9 below. [source: Application, pp44-45]

**Table 9
Behavioral Health Unit Current and Projected FTEs**

	Current Year (2009)	Year 2010 Increases	Total
Manager	1.00	0.00	1.00
RN	12.20	(1.00)	11.20
Behavioral Health Counselors	15.10	(0.50)	14.60
Medical Social Workers	3.00	0.00	3.00
Therapists	2.80	0.00	2.80
Unit Coordinator/	2.80	0.00	2.80
Intake Coordinator/ UR (RN)	1.50	0.50	2.00
FTE Total	38.04	(1.00)	37.40

Since this project proposes to relocate existing services from south campus to the main campus, PeaceHealth expects a smooth transition for staff and patients. Once the behavioral health unit is relocated and operational on the main campus, as shown in Table 9 above, PeaceHealth expects an overall reduction of one FTE in 2010, and then no change in the number of FTEs through 2013.

Based on this information above, the department concludes adequate staffing for the behavioral health unit is available or can be recruited. This sub criterion is met.

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

WAC 246-310 does not contain specific WAC 246-310-230(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.

Documentation provided in past PeaceHealth applications confirms that PeaceHealth maintains appropriate relationships with ancillary and support services for its existing hospitals and other health care facilities. For this project, PeaceHealth states that none of its ancillary or support relationships will change. The only difference is that the behavioral health unit would be located on the same campus as the ancillary services it uses routinely, such as laboratory, radiology, and pharmacy. [source: Application, p45]

Based on this information above, the department concludes PeaceHealth would have appropriate ancillary and support services, and 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.

As stated earlier, PeaceHealth is a provider of acute care services in the states of Alaska, Oregon, and Washington. [source: PeaceHealth website] Currently within Washington State, PeaceHealth operates two separate acute care hospitals in two separate counties. As part of its review, the department must conclude that the proposed service would be operated in a manner that ensures safe and adequate care to the public.¹¹

For the out-of-state facilities, the department reviewed credentialing by the Joint Commission. All five out-of-state facilities hold three year accreditation with the Joint Commission and are in compliance with commission requirements. [source: Joint Commission website]

For Washington State, regular surveys are conducted by the Department of Health's Investigations and Inspections Office. Records indicate that the department has completed

¹¹ WAC 246-310-230(5).

at least two compliance surveys each for PeaceHealth's two hospitals in Washington State since 2008. Each compliance survey revealed deficiencies typical for facilities of this type and PeaceHealth submitted an acceptable plan of corrections and implemented the required actions. Additionally both hospitals hold current accreditations from the Joint Commission.

PeaceHealth is co-owner of an ambulatory surgery facility located in Whatcom County.¹² Records indicate that the department completed one compliance survey for the facility which resulted in no deficiencies. PeaceHealth also owns and operates a hospice agency and hospice care center in Whatcom County. Records indicate that both facilities have been operating in compliance with no survey deficiencies since 2008. [source: facility survey data provided by the Investigations and Inspections Office]

Given the compliance history of PeaceHealth, the department concludes there is reasonable assurance that its behavioral health unit would continue to operate in compliance with state and federal regulation. This sub-criterion is met.

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

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

In response to this sub-criterion, PeaceHealth provided the following statements. [source: Application, p47]

"SJH enjoys a long and demonstrated history of working closely with the medical and provider community to ensure timely and seamless patient transitions. These working relationships will be continued under the consolidated and relocated behavioral health unit. SJH will continue to work with all existing mental health, skilled nursing, assisted living, home health, and hospice providers in Whatcom and surrounding counties to ensure smooth and efficient patient transfers."

The department acknowledges that PeaceHealth intends to consolidate its behavioral health services on one campus. The rationale provided for this project is reasonable. The department also considered PeaceHealth's history of providing care to residents in Washington State. The department concludes the applicant has been providing acute care services to the residents of Washington State for several years and has been appropriately participating in relationships with community facilities to provide a variety of medical services. Nothing in the materials reviewed by staff suggests that approval of this project would change these relationships. [source: CN historical files]

¹² PeaceHealth Medical Group Endoscopy Center.

Therefore, the department concludes this project would not have the potential of fragmentation of psychiatric services within the planning area. 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 considered met.

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

Based on the source information reviewed and the applicant's agreement to the condition identified in the "Conclusion" section of this evaluation, the department concludes PeaceHealth has met the cost containment criteria in WAC 246-310-240.

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

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

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

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

Step One

For this project, PeaceHealth's project met the review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two

Within the application, PeaceHealth identified three options before submitting this application. A summary of each option and PeaceHealth's rationale for rejection is below.

[source: Application, pp50-51]

Option 1-Remodel the two psychiatric units and retain service at the south campus

This option was rejected because the south campus is the older of the two campuses and renovation would be much more expensive than on the main campus. In addition, based on the age and infrastructure needs of the south campus, PeaceHealth intends to eliminate inpatient care on this campus within the next five years. As a result, this option was rejected by PeaceHealth.

Option 2-Closing the behavioral health unit on the south campus and providing only outpatient behavioral health care

PeaceHealth states that while this may be the preferred option for many hospitals in Washington State, its commitment to provide these much needed services to the community results in ruling out this option.

Option 3-Establish a freestanding E & T model at an off-campus site

While PeaceHealth determined this option would be less expensive to construct and operate, it would require that the service be remote from the main campus. Further, it would mean that a percentage of current patients (approximately 50% or more) would be transferred out of the county for care. This option did not meet the behavioral health needs in the community, and it was rejected.

This portion of PeaceHealth's project requires the addition of 20 acute care beds to the hospital's main campus which increases the total licensed bed capacity 253 to 273. Approval of the project as presented by PeaceHealth results in 20 dedicated psychiatric beds remaining at the south campus. If this project is approved, the south campus would no longer be providing psychiatric services and the 20 dedicated psychiatric beds could not be used for any other services without prior Certificate of Need approval. Ultimately, PeaceHealth would continue to license the 20 previously dedicated psychiatric beds, yet be unable to use them without prior approval.

One option not considered by PeaceHealth was the relocation of 20 of its 30 dedicated psychiatric beds from the south campus to the main campus, rather than the addition of 20 new beds at the main campus. The relocation of the 20 dedicated psychiatric beds allows PeaceHealth to relocate its psychiatric services without increasing the total number of licensed beds. PeaceHealth would continue to be licensed for 253 beds, and all 253 acute beds would be operational.

Taking into account that SJH is the only hospital in the planning area and its dedication to provide behavioral health in the community, the department concludes the relocation of behavioral health services to the main campus is the best available alternative for the community. The department also concludes that the relocation of 20 psychiatric beds from SJH-south to SJH-main to accommodate this service is the best alternative. Provided PeaceHealth agrees to a condition to relocate the 20 psychiatric beds, rather than add 20 new beds to the hospital, this sub-criterion is met.

Step Three

For this project, only PeaceHealth submitted an application to add or establish acute care bed capacity to the Whatcom planning area. As a result, step three is not evaluated under this sub-criterion.

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

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

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

(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

This sub-criterion is also evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concludes this sub-criterion is met.

ACUTE CARE BED ADDITION PROJECT

A. Need (WAC 246-310-210) Need

Based on the source information reviewed, the department concludes PeaceHealth has met the need criteria in WAC 246-310-210(1) and (2).

- (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.

Summary of PeaceHealth’s Numeric Methodology for Whatcom County

This project proposes to relocate 10 dedicated psychiatric beds from the south campus to the main campus and convert the beds to general medical surgical use. These 10 beds would decrease the number of beds at SJH-south and increase the number of medical surgical beds at SJH-main.

PeaceHealth used the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan (SHP) to assist in its determination of numeric need. The department’s methodology uses population and healthcare use statistics on several levels: statewide, Health Service Area (HSA)¹³, and planning area. While Whatcom County is included in HSA #1, the county is one planning area. Table 10 below is a summary of PeaceHealth’s bed need projections for Whatcom County for years 2010 through 2015. [source: November 24, 2009, supplemental information, Attachment 2, p28]

**Table 10
Summary of PeaceHealth’s Whatcom County Numeric Methodology
Without the Project**

	2010	2011	2012	2013	2014	2015
Number of Beds Needed	38	47	56	65	72	81

Note: negative number indicates a surplus of beds.

As shown in Table 10 above, PeaceHealth projects a need for 38 acute care beds in year 2010, and the need increases to 81 beds six years later in 2015.

PeaceHealth also provided a table demonstrating the need for acute care beds if this bed addition is approved in year 2011. Table 11 on the following page is a summary of that information.

¹³ The state is divided into four HSA’s by geographic groupings. HSA 1 is composed of Clallam, Island, Jefferson, King, Kitsap, Pierce, San Juan, Skagit, Snohomish, and **Whatcom** Counties. HSA 2 is composed of Clark, Cowlitz, Grays Harbor, Klickitat, Lewis, Mason, Pacific, Skamania, Thurston, and Wahkiakum counties. HSA 3 is composed of Benton, Chelan, Douglas, Franklin, Grant, Kittitas, Okanogan, and Yakima Counties. HSA 4 is composed of Adams, Asotin, Columbia, Ferry, Garfield, Lincoln, Pend Oreille, Spokane, Stevens, Walla Walla, and Whitman counties.

Table 11
Summary of PeaceHealth’s Whatcom County Numeric Methodology
With the Project

	2010	2011	2012	2013	2014	2015
Number of Beds Needed	38	17	26	35	42	51

Note: negative number indicates a surplus of beds.

As shown in Table 11 above, PeaceHealth’s projections continue to show a need for acute care beds in Whatcom County with the approval of this project.

The Department’s Determination of Numeric Need

The department also uses the Hospital Bed Need Forecasting Method contained in the 1987 SHP to assist in its determination of need for acute care bed capacity. Though the SHP was “sunset” in 1989, the department has concluded that this methodology remains a reliable tool for predicting the baseline need for acute care beds.

The 1987 methodology was a revision of an earlier projection methodology prepared in 1979 and used in the development of subsequent State Health Plans. This methodology was developed as a planning tool for the State Health Coordinating Council to facilitate long-term strategic planning of health care resources. The methodology is a flexible tool, capable of delivering meaningful results for a variety of applications, dependent upon variables such as referral patterns, age-specific needs for services, and the preferences of the users of hospital services, among others.

The 1987 methodology is a twelve-step process of information gathering and mathematical computation. The first four steps develop trend information on hospital utilization. The next six steps calculate baseline non-psychiatric bed need forecasts. The final two steps are intended to determine the total baseline hospital bed need forecasts, including need for short-stay psychiatric services: step 11 projects short-stay psychiatric bed need, and step 12 is the adjustment phase, in which any necessary changes are made to the calculations in the prior steps to reflect conditions which might cause the pure application of the methodology to under- or over-state the need for acute care beds.

The completed methodology is presented as a series of appendices to this evaluation identified as ‘Appendix A.’ The methodology presented here incorporates all adjustments that were made following preparation of the methodology. Where necessary, both adjusted and un-adjusted computations are provided. The methodology uses population and healthcare use statistics on several levels: statewide, HSA, and planning area. As previously stated, the planning area for this evaluation is the Whatcom County.

The 1980 State Health Plan identifies Whatcom County as one planning area. When preparing acute care bed need projections, the department relies upon population forecasts published by the Washington State Office of Financial Management (OFM). OFM

publishes a set of forecasts known as the “intermediate-series” county population projections, based on the 2000 census, updated November 2007.¹⁴

The next portion of the evaluation will describe the calculations the department made at each step and the assumptions and adjustments made in that process. It will also include a review of any deviations related to the assumptions or adjustments made by PeaceHealth in its application of the methodology. The titles for each step are excerpted from the 1987 SHP.

Step 1: Compile state historical utilization data (i.e., patient days within major service categories) for at least ten years preceding the base year.

For this step, attached as Appendix 1, the department obtained planning area resident utilization data for 1999 through 2008 from the Department of Health’s Hospital and Patient Data Systems’ CHARS (Comprehensive Hospital Abstract Reporting System) database. Total resident patient days were identified for the Whatcom County Planning Area, HSA #1, and the state of Washington as a whole, excluding psychiatric patient days [Major Diagnostic Category (MDC) 19] and normal newborns, level 2 intermediate care, and level 3 neonatal intensive care patient days [MDC 15]. Resident patient days include patients that are residents (by zip code) of the planning area, regardless of where the patient received services.

PeaceHealth also relied on 1999 through 2008 CHARS data. PeaceHealth used provider patient days for the Whatcom planning area. Provider patient days include patients that received services in Whatcom County regardless of where the patient resides. PeaceHealth excluded psychiatric patient days [MDC 15] and normal newborn days [Diagnostic Related Group (DRG) 391]. PeaceHealth included level 2 intermediate care and level 3 neonatal intensive care patient days. These two deviations had an effect on PeaceHealth’s bed need projections.

Step 2: Subtract psychiatric patient days from each year’s historical data.

While this step was partially accomplished by limiting the data obtained for Step 1, the remaining data still included non-MDC 19 patient days spent at psychiatric hospitals. Patient days at dedicated psychiatric hospitals were identified for each year and subtracted from each year’s total patient days. The adjusted resident patient days are shown in Appendix 2.

PeaceHealth followed this step as described above, however, since Step 1 above was based on provider days at the HSA and state level, PeaceHealth subtracted psychiatric provider days in this step.

Step 3: For each year, compute the statewide and HSA average use rates.

The average use rate (defined as the number of patient days per 1,000 population) was derived by dividing the total number of patient days of the HSA by the HSA’s population and multiplied by 1,000. For the purposes of this application, the average use rate was also

¹⁴ The November 2007 series is the most current data set available during the production of the state acute care methodology following the release of the 2008 CHARS data.

determined for the state and the Whatcom planning area and is attached as Appendix 3. Actual and projected population figures for this analysis were derived from OFM county population projections as described above.

PeaceHealth followed this step with no deviations.

Step 4: Using the ten-year history of use rates, compute the use rate trend line, and its slope, for each HSA and for the state as a whole.

The department computed trend lines for the state, HSA 1, and the Whatcom planning area based upon the trends in use rates from these ten years and included them as Appendix 4. The resulting trend lines for the HSA, the planning area, and the state uniformly exhibit a mild upward slope. This mild upward slope is supported by increasing utilization reported by hospitals throughout the state in recent years. It is also indicative of the state's population growing older as the large number of "baby boomers" (those born from 1946 to 1964) age and begin to demand more health services. Utilization of hospital beds by patients aged 65 and older is significantly higher than bed utilization by younger patients, as demonstrated in subsequent calculations.

PeaceHealth followed this step with no deviations. The HSA, planning area, and statewide trend lines also resulted in a slight upward slope.

Step 5: Using the latest statewide patient origin study, allocate non-psychiatric patient days reported in hospitals back to the hospital planning areas where the patients live. (The psychiatric patient day data are used separately in the short-stay psychiatric hospital bed need forecasts.)

The previous four steps of the methodology uses data particular to the residents of the state and HSA. In order to forecast bed need for the residents of a given planning area, patient days must also be identified for planning area patients receiving services outside the planning area. Step 5, included as Appendix 5, identifies referral patterns in and out of the Whatcom planning area and illustrates where residents of the planning area currently receive care. For this calculation, the department separated patient days by age group (0-64 and 65 and older), and subtracted patient days for residents of other states. The department also used reported discharge data for Washington residents that receive health care in Oregon.

As has been noted earlier, the original purpose for this methodology was to create comprehensive, statewide resource need forecasts. Typically the state is broken into only two planning areas—the HSA under review and the state as a whole minus the planning area. Appendix 5 illustrates the age-specific patient days for residents of the HSA and for the rest of the state, identified here as "WA – HSA."

PeaceHealth followed this step with no deviations.

Step 6: Compute each hospital planning area's use rate (excluding psychiatric services) for each of the age groups considered (at a minimum, ages 0-64 and 65+).

Appendix 6 illustrates the age-specific use rates for the year 2008, as defined in Step 3, for the HSA and for the rest of the state. The use rates are broken down by ages 0-64 and 65 and older.

PeaceHealth followed this step as described above with no deviations.

Step 7A: Forecast each hospital planning area's use rates for the target year by "trend-adjusting" each age-specific use rate. The use rates are adjusted upward or downward in proportion to the slope of either the statewide ten-year use rate trend or the appropriate health planning region's ten-year use rate trend, whichever trend would result in the smaller adjustment.

As discussed in Step 4, the department used the ten-year use rate trends for 1999-2008 to reflect the use patterns of Washington residents. The 2008 use rates determined in Step 6 were multiplied by the slopes of both the HSA's ten-year use rate trend line and by the slope of the statewide ten-year use rate trend line for comparison purposes. The statewide trend has a lower projected rate (an annual increase of 2.9065) than the HSA trend rate of 3.3497. As directed in Step 7A, the department applied the statewide trend to project future use rates.

The methodology is designed to project bed need in a specified "target year." It is the practice of the department to evaluate need for a given project through at least seven years from the last full year of available CHARS data. For this application, the last full year of available CHARS data is 2008; therefore, the target year is 2015.

PeaceHealth followed this step as described above using its HSA trend rate calculated in its step 6.

Step 8: Forecast non-psychiatric patient days for each hospital planning area by multiplying the area's trend-adjusted use rates for the age groups by the area's forecasted population (in thousands) in each age group at the target year. Add patient days in each age group to determine total forecasted patient days.

Using the forecasted use rate for the target year 2015 and population projections, projected patient days for Whatcom County planning area residents are illustrated in Appendix 8. As noted in Step 7, above, forecasts have been prepared for a series of years and are presented in summary in Appendix 10 as "Total Whatcom Res Days."

PeaceHealth followed this step as described above resulting in projections through year 2015.

Step 9: Allocate the forecasted non-psychiatric patient days to the planning areas where services are expected to be provided in accordance with (a) the hospital market shares and (b) the percent of out-of-state use of Washington hospitals, both derived from the latest statewide patient origin study.

Using the patient origin study developed for Step 5, Appendix 9 illustrates how the projected patient days for the Whatcom planning area and the remainder of the state were allocated from county of residence to the area where the care is projected to be delivered in the target year 2015. The results of these calculations are presented in Appendix 10 as “Total Days in Whatcom Hospitals.”

PeaceHealth followed this step as described above with no deviations.

Step 10: Applying weighted average occupancy standards, determine each planning area’s non-psychiatric bed need. Calculate the weighted average occupancy standard as described in Hospital Forecasting Standard 11.f. This should be based on the total number of beds in each hospital (Standard 11.b), including any short-stay psychiatric beds in general acute-care hospitals. Psychiatric hospitals with no other services should be excluded from the occupancy calculation.

The number of available beds in the planning area was identified in accordance with the SHP standard 12.a., which identifies:

1. beds which are currently licensed and physically could be set up without significant capital expenditure requiring new state approval;
2. beds which do not physically exist but are authorized unless for some reason it seems certain those beds will never be built;
3. beds which are currently in the license but physically could not be set up (e.g., beds which have been converted to other uses with no realistic chance they could be converted back to beds);
4. beds which will be eliminated.

This step identifies the number of available beds in the planning area and determines a weighted occupancy standard for the planning area. Below is a discussion of each factor and both the department’s and PeaceHealth’s application of this step.

AVAILABLE BEDS IN THE PLANNING AREA

Department’s Count

SHP determines the number of available beds in each planning area, by including only those beds that meet the definition of #1 and #2 above, plus any CN approved beds. For Whatcom County, PeaceHealth’s SJH is the only hospital in the planning area. This information was gathered through a thorough review of Certificate of Need and the department’s hospital licensing facility files. Below is a summary of the number of licensed beds at SJH, by campus, and the number of beds counted for purposes of this methodology.

SJH-South Campus

This campus operates 42 acute care beds. Of those, 12 are dedicated rehab beds with a PPS exemption. The patient days associated with these beds are not included in the methodology and the 12 beds are not counted as part of the supply. The remaining 30

beds are dedicated to psychiatric care. While only 10 are identified as PPS exempt, all of the patient days and number of beds for these psychiatric services are not counted in the methodology or the bed supply. As a result, for acute care bed methodology purposes, SJH-south campus's beds are zero.

SJH-Main Campus

The main campus houses 211 acute care beds. Of those, 14 are dedicated to level 2 intermediate care nursery. The patient days and beds are not counted in the methodology or the beds supply. The remaining 197 beds provide general medical surgical care in the planning area. All 197 of these beds are counted for the acute care bed methodology.

For the department's methodology, 197 acute care beds and the patient days associated with those beds are counted as existing capacity for step 10.

PeaceHealth's Count

While PeaceHealth applied this step with no deviations, the patient days and corresponding number of beds counted is greater than the patient days and count used by the department.

PeaceHealth counts 223 acute care beds for its facility, but does not provide a breakdown of the beds counted. Comparing the applicant's information with the departments, it appears that PeaceHealth excluded only its 30 psychiatric beds at the south campus. As a result, PeaceHealth appears to count 197 general medical surgical beds, plus 14 level 2 intermediate care beds at SJH-main, plus 12 dedicated rehab beds at SJH-south, totaling 223.

PeaceHealth is correct to exclude the 30 psychiatric beds from the count. These beds are dedicated to psychiatric services and the patient days are excluded in steps one and two of the methodology.

The 14 level 2 intermediate care nursery beds and patient days associated with the beds should also be excluded. These beds are dedicated to intermediate care and are not included as available medical/surgical bed space for this methodology.

The 12 dedicated rehab beds should also be excluded. With a PPS exemption, SJH must meet specific CMS requirements and provided an attestation annually that it meets these requirements. One of the requirements is that the beds are physically separate from the hospitals other beds. PeaceHealth meets this requirement, in part, by locating its rehab services at its south campus, physically separate from the general medical surgical beds located on the main campus. PeaceHealth also meets this requirement by physically locating its rehab beds separately from its psychiatric beds at the south campus. [source: Application, Exhibit 3] As a result, these 12 dedicated rehab beds are not available as medical/surgical beds space for this methodology.

WEIGHTED OCCUPANCY

Department's Calculation

The weighted occupancy standard for a planning area is defined by the SHP as the sum, across all hospitals in the planning area, of each hospital's expected occupancy rate times that hospital's percentage of total beds in the area. In previous evaluations, the department determined that the occupancy standards reflected in the 1987 SHP are higher than can be maintained by hospitals under the current models for provision of care. As a result, the department adjusted the occupancy standards presented in the SHP downward by 5% for all but the smallest hospitals (1 through 49 beds).

The department determined SJH's bed count to be 197 acute care beds. The previous weighted occupancy for a facility with 100 to 199 acute care beds was 70%; the department reduced this occupancy standard by 5% to 65%. This reduction in occupancy standards, along with the weighted occupancy standard assumptions detailed above, is reflected in the line "Wtd Occ Std" in Appendix 10.

PeaceHealth's Calculations

PeaceHealth determined SJH's bed count to be 223 acute care beds. The previous weighted occupancy for a facility with 200 to 299 acute care beds was 75%. Applying the 5% occupancy reduction, PeaceHealth calculated a weighted occupancy of 70%.

Step 11: To obtain a bed need forecast for all hospital services, including psychiatric, add the non-psychiatric bed need from step 10 above to the psychiatric inpatient bed need from step 11 of the short-stay psychiatric hospital bed need forecasting method.

PeaceHealth is not proposing to provide any psychiatric services in the 10 additional beds on the main campus. For that reason, the department concluded that psychiatric services should not be forecast while evaluating this project.

PeaceHealth also did not provide psychiatric forecasts within its methodology.

Step 12: Determine and carry out any necessary adjustments in population, use rates, market shares, out-of-area use and occupancy rates, following the guidelines in section IV of this Guide.

Within the department's application of the methodology, adjustments have been made where applicable and described above.

PeaceHealth's deviations and adjustments were all described within its methodology. Below is a summary of PeaceHealth's deviations in the methodology.

- Counted and calculated provider days rather than resident days (step 1).
- Included level 2 intermediate care days and level 3 neonatal intensive care days (step 1).
- Subtracted psychiatric provider days, rather than psychiatric resident days (step 2).
- Counted 223 acute care beds in the planning area, rather than 197 (step 10). The additional 26 beds appear to be dedicated rehab beds (12) and level 2 intermediate care nursery beds (14).
- Calculated a weighted occupancy of 70%, rather than 65% (step 10).

The acute care bed methodology builds upon itself, and when considered together the deviations described above would have a significant effect on the end result. A summary of the department’s methodology is shown in Table 12 below. The detailed results for years 2008 through 2015 are available in Appendix A as Appendix 10A attached to this evaluation. [source: Appendix A]

Table 12
Department Methodology
Appendix 10A – Bed Need Summary

	2009	2010	2011	2012	2013	2014	2015
Number of Beds Needed	73	80	92	103	114	126	137

Note: negative number indicates a surplus of beds.

As shown above in Table 12, for current year 2010, the planning area has a need for 80 acute care beds. With projected population growth and applicable use rates, the planning area’s need is expected to increase by another 56 beds to 136 in year 2015. [source: department’s methodology, Appendix 10A]

For comparison purposes, below is a replica of the applicant’s methodology results shown in Table 10 of this evaluation.

Summary of PeaceHealth’s Whatcom County Numeric Methodology

	2010	2011	2012	2013	2014	2015
Number of Beds Needed	38	47	56	65	72	81

Note: negative number indicates a surplus of beds.

The difference in the department’s projections shown in Table 12 and PeaceHealth’s projections shown above can be attributed to the deviations discussed in each of the 10 steps in the methodology. The most significant factors/deviations that affected PeaceHealth numeric methodology is bed count and patient days associated with those beds. Based on these factors, the department considers its own numeric methodology summarized in Table 12 above to be more appropriate than the applicant’s methodology. As a result, numeric need for ten additional acute care beds at SJH-main campus in Whatcom County has been demonstrated.

During the review of this application, the department received one letter of support and no letters of opposition related to the medical/surgical acute care bed addition. The letter was submitted by PeaceHealth’s vice president of patient care services and emphasizes that SJH is the only provider of acute care services in the county. The letter states that the additional acute care beds are needed to accommodate high census periods at the hospital.

In conclusion, the addition of ten medical/surgical acute care beds is supported by the numeric methodology, and no opposition to this project was voice by community members or existing providers in the adjacent planning areas. The number of beds requested by PeaceHealth is very conservative when compared to the results of the department’s methodology. As a result, this bed addition is warranted. 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.

PeaceHealth is currently a provider of health care services to residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. As an acute care hospital, SJH currently participates in the Medicare and Medicaid programs. To determine whether all residents of the service area would have access to an applicant's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment.

To demonstrate compliance with this sub-criterion, PeaceHealth provided a copy of its current Admission Policy used at SJH. The policy outlines the process/criteria that PeaceHealth uses to admit patients for treatment or care at the hospital. The applicant states that any patient requiring care will be accepted for treatment SJH regardless of race, color, creed, sex, national origin, or disability. [source: Application, Exhibit 5]

To determine whether low-income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination.

For its Washington State and out-of-state healthcare facilities, PeaceHealth currently provides services to Medicaid eligible patients. Information provided in the application demonstrates that PeaceHealth intends to maintain this status for its existing facilities. [source: Application, Exhibit 8 and Appendix 2]

To determine whether the elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination.

For its Washington State and out-of-state healthcare facilities, PeaceHealth currently provides services to Medicare eligible patients. Information provided in the application demonstrates that PeaceHealth intends to maintain this status for its existing facilities. [source: Application, Exhibit 8 and Appendix 2]

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

To demonstrate compliance with this sub-criterion, PeaceHealth submitted its current charity care policy that outlines the process one would use to access this service. Further, PeaceHealth included a 'charity care' line item as a deduction from revenue within the pro forma financial documents. [source: Application, Exhibits 6 and 8]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. SJH is located in Whatcom County within the Puget Sound Region. Currently there are 18 hospitals located within the region, including the applicant's hospital. According to 2005-2007 charity care data obtained from HPDS, SJH has historically provided better than the average charity care provided in the region. SJH's most recent three-year (2005-2007) percentages of charity care for gross and adjusted revenues are 2.51% and 6.38%, respectively. The 2005-2007 average for the Puget Sound Region is 1.93% for gross revenue and 4.20% for adjusted revenue. [source: HPDS 2005-2007 charity care summaries]

SJH's pro forma revenue and expense statements indicate that the hospital will provide charity care at approximately 2.27% of gross revenue and 6.65% of adjusted revenue. RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. Since the amount of charity care calculated from the forecasted financials provided in the application and the three-year historical average is above that for the region, the department concludes PeaceHealth intends to meet this requirement and a condition related to charity care is not necessary.

Based on the information above, the department concludes the applicant has demonstrated all residents of the service area are likely to have adequate access to the proposed health service. This sub-criterion is met.

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

Based on the source information reviewed, the department concludes PeaceHealth has met the financial feasibility criteria in WAC 246-310-220.

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

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

For this project, HPDS reviewed the hospital's overall three-year projected statement of operations to evaluate SJH's immediate and long term ability to sustain the service. Table 13 on the following page summarizes the projected revenue, expenses, and net income for the hospital. This table includes the psychiatric unit and the reallocation of ten beds from psychiatric care (south campus) to medical/surgical care (main campus). [source: Application, Exhibit 8, p98]

Table 13
St. Joseph Hospital Projected Revenue and Expenses for Years 2011 – 2013

	Year 1 - 2011	Year 2 - 2012	Year 3 - 2013
# of set up/licensed beds	273	273	273
# of admissions	17,573	17,693	18,011
# of patient days	64,347	64,356	65,273
Average Length of Stay	4.1	4.07	4.05
Occupancy of set up/licensed beds	64.6%	64.6%	65.5%
Total Operating / Non Operating Revenue	\$ 409,447,000	\$ 433,414,000	\$ 461,185,000
Total Expenses	\$ 385,188,000	\$ 401,380,000	\$ 424,573,000
Net Profit or (Loss)	\$ 24,259,000	\$ 32,034,000	\$ 36,612,000

The ‘total operating/non-operating revenue’ line item in Table 13 is the result of gross revenue minus any deductions for contractual allowances and charity care. The line item also includes revenue from joint ventures, rental properties, etc. [source: November 24, 2009, supplemental information, p9] The ‘total expenses’ line item includes staff salaries/wages, bad debt, and depreciation. As shown in Table 13, once SJH relocates its psychiatric services to the main campus and begins using the ten additional medical surgical beds, the hospital’s average occupancy will maintain around 65%. This occupancy allows SJH some growth in both admissions and patient days and flexibility during peak census. PeaceHealth expects the hospital would operate at a profit beginning in year one.

To determine whether SJH would meet its immediate and long range capital costs, HPDS reviewed its current and projected balance sheets for the hospital as a whole. Table 14 below shows the current balance sheet (2008) and projected balance sheet for year three (2013). [source: HPDS analysis, p2 and Application, Exhibit 8]

Table 14
St. Joseph Hospital Current Balance Sheet Year 2008

Assets		Liabilities	
Current Assets	\$439,273,379	Current Liabilities	\$ 261,035,553
Fixed Assets	\$ 1,071,892,880	Long Term Debt	\$ 635,326,160
Board Designated Assets	\$ 404,405,878	Other Liabilities	\$ 73,324,287
Other Assets	\$ 43,812,655	Equity	\$ 989,698,792
Total Assets	\$ 1,959,384,792	Total Liabilities and Equity	\$ 1,959,384,792

St. Joseph Hospital Balance Sheet for Projected Year 3 - 2013

Assets		Liabilities	
Current Assets	\$ 79,811,000	Current Liabilities	\$ 36,957,000
Fixed Assets	\$ 182,373,000	Long Term Debt	\$ 56,857,000
Board Designated Assets	\$ 160,847,000	Other Liabilities	\$ 3,600,000
Other Assets	\$ 19,474,000	Equity	\$ 345,091,000
Total Assets	\$ 442,505,000	Total Liabilities and Equity	\$ 442,505,000

To assist the department in its evaluation of this sub-criterion, the HPDS provided a summary of the short and long-term financial feasibility of the project, which includes a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. If a project's ratios are within the expected value range, the project can be expected to be financially feasible.

For this application, HPDS compared the hospital's current and projected ratios with the most recent year's financial ratio guidelines for hospital operations. For this project, HPDS used 2008 data for comparison. Table 15 below shows the hospital's ratio comparison for current year (2009), year one (2011) and year three (2013). [source: February 17, 2010, HPDS analysis, p4]

**Table 15
Current and Projected HPDS Debt Ratios for St. Joseph Hospital**

Category	Trend¹⁵	State 2008	Current 2009	Projected 2011	Projected 2013
Long Term Debt to Equity	B	0.527	0.157	0.139	0.165
Current Assets/Current Liabilities	A	1.946	2.073	1.939	2.160
Assets Funded by Liabilities	B	0.432	0.243	0.216	0.212
Operating Expense/Operating Revenue	B	0.949	0.984	0.951	0.937
Debt Service Coverage	A	4.717	2.772	6.151	8.329
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				

As shown in Table 15 above, for current year 2009, SJH is considerably outside the range in its debt service coverage ratio. HPDS staff provided the following comments related to the ratios above.

“The formula for this ratio requires the use of net profits, rather than operating profits. While SJH realized approximately six million in operating profits, based on the state of the economy in 2009, SJH’s investments realized approximately seven million in losses. This “paper loss” in 2009 substantially affects the formula for this ratio. By the end of the third year of operation with the relocated psychiatric beds and the ten psychiatric beds reallocated to acute care, SJH’s ratios are all within the acceptable range.”

Based on the information above, the department concludes the immediate and long-range operating costs of the project can be met. This sub-criterion is met.

¹⁵ A is better if above the ratio, and B is better if below the ratio.

(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.

There is no cost associated with relocating ten dedicated psychiatric beds from the south campus to the main campus and providing medical/surgical care in those beds. PeaceHealth states that the ten additional beds would be located in current medical/surgical space. [source: Application p9 and p36]

PeaceHealth also provided the sources of patient revenue shown in Table 16 below for SJH as a whole. [source: Application, p12]

Table 16
St. Joseph Hospital-Acute Care Hospital
Sources and Percentages of Revenue

Source of Revenue	Percentages
Medicare	51.6%
State (Medicaid)	14.2%
Commercial	28.3%
Other	5.8%
Total	100.0%

As shown above, for the acute care hospital as a whole, the Medicare and State (Medicaid) entitlements are projected to equal 66% of the revenue at the facility. Because there is no capital expenditure for this project, the department concludes this portion of the overall project is not expected to have an unreasonable impact on charges for services.

Based on the information provided, the department concludes this project would not result in an unreasonable impact to the costs and charges for health care services. 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.

There is no cost associated with relocating ten dedicated psychiatric beds from the south campus to the main campus and providing medical/surgical care in those beds. As a result, this sub-criterion does not apply to this project.

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

Based on the source information reviewed, the department concludes PeaceHealth has met the structure and process (quality) of care criteria in WAC 246-310-230.

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

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

This project proposes to relocate 10 dedicated psychiatric beds at SJH-south approximately three miles away to SJH-main, and provide medical/surgical care in the beds. With the additional ten beds, PeaceHealth expects SJH would simply operate at a lower occupancy percentage rather than experience an increase in medical/surgical patients. As a result, all staff is in place and PeaceHealth does not anticipate any increase in staff for the ten beds.

Based on this information above, the department concludes adequate staffing is available. This sub criterion is met.

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

WAC 246-310 does not contain specific WAC 246-310-230(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.

Documentation provided in past PeaceHealth applications confirms that PeaceHealth maintains appropriate relationships with ancillary and support services for its existing hospitals and other health care facilities. For this project, PeaceHealth states that none of its ancillary or support relationships will change. [source: Application, p45]

Based on this information above, the department concludes PeaceHealth would have appropriate ancillary and support services, and 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.

As stated earlier, PeaceHealth is a provider of acute care services in the states of Alaska, Oregon, and Washington. [source: PeaceHealth website] Currently within Washington State, PeaceHealth currently operates two separate acute care hospitals in two separate counties. As part of its review, the department must conclude that the proposed hospital would be operated in a manner that ensures safe and adequate care to the public.¹⁶

For the out-of-state facilities, the department reviewed credentialing by the Joint Commission. All five out-of-state facilities hold three year accreditation with the Joint Commission and are in compliance with commission requirements. [source: Joint Commission website]

For Washington State, regular surveys are conducted by the Department of Health's Investigations and Inspections Office. Records indicate that the department has completed at least two compliance surveys each for PeaceHealth's two hospitals in Washington State since 2008. Each compliance survey revealed deficiencies typical for the facility and PeaceHealth submitted an acceptable plan of corrections and implemented the required actions. Additionally both hospitals hold current accreditations from the Joint Commission.

PeaceHealth is co-owner of an ambulatory surgery facility located in Whatcom County.¹⁷ Records indicate that the department completed one compliance survey for the facility which resulted in no deficiencies. PeaceHealth also owns and operates a hospice agency and hospice care center in Whatcom County. Records indicate that both facilities have been operating in compliance with no survey deficiencies since 2008. [source: facility survey data provided by the Investigations and Inspections Office]

Given the compliance history of PeaceHealth, the department concludes there is reasonable assurance that its behavioral health unit would continue to operate in compliance with state and federal regulation. This sub-criterion is met.

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

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

¹⁶ WAC 246-310-230(5).

¹⁷ PeaceHealth Medical Group Endoscopy Center.

In response to this sub-criterion, PeaceHealth provided the following statements. [source: Application, p47]

“SJH enjoys a long and demonstrated history of working closely with the medical and provider community to ensure timely and seamless patient transitions. These working relationships will be continued with the 10 additional acute care beds. SJH will continue to work with all existing mental health, skilled nursing, assisted living, home health, and hospice providers in Whatcom and surrounding counties to ensure smooth and efficient patient transfers.”

The department acknowledges that PeaceHealth intends to increase its medical/surgical acute care bed capacity to ensure it would accommodate medical surgical patients at its main campus. The department also considered PeaceHealth’s history of providing care to residents in Washington State. The department concludes the applicant has been providing acute care services to the residents of Washington State for several years and has been appropriately participating in relationships with community facilities to provide a variety of medical services. Nothing in the materials reviewed by staff suggests that approval of this project would change these relationships. [source: CN historical files]

Therefore, the department concludes this project would not have the potential of fragmentation of psychiatric services within the planning area. 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 considered met.

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

Based on the source information reviewed, the department concludes PeaceHealth has met the cost containment criteria in WAC 246-310-240.

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

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

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

Step three of this assessment is to apply any service or facility specific criteria (tie-breaker) contained in WAC 246-310. The tiebreaker criteria are objective measures used to compare

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

Step One

For this project, PeaceHealth's project met the review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two

PeaceHealth did not consider any options before submitting this application to add medical surgical bed capacity to SJH. PeaceHealth provided the following explanation for submission of this application. [source: Application, p51]

"...once we learned that prior Certificate of Need review is required to relocate beds among the two campuses, given our high acute census and the fact that we are freeing up beds on the south campus when this project is complete, we opted to use this opportunity to relocate that number of additional acute beds that we can accommodate without construction. The ten additional beds will provide SJH with additional flexibility and capacity in order to maintain access to services."

PeaceHealth is correct that the relocation of ten dedicated psychiatric beds from its south campus to its main campus, and providing medical surgical services in those beds requires prior Certificate of Need approval as an acute care bed addition. Taking into account that SJH is the only hospital in the planning area and its dedication to provide health services in the community, the department concludes the project is the best available alternative for the community. This sub-criterion is met.

Step Three

For this project, only PeaceHealth submitted an application to add or establish acute care bed capacity to the Whatcom planning area. As a result, step three is not evaluated under this sub-criterion.

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

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

As stated in the project description portion of this evaluation, this project involves no construction. This sub-criterion does not apply.

(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concludes this sub-criterion is met.