

**EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON
BEHALF OF SEATTLE CHILDREN'S HOSPITAL PROPOSING TO ESTABLISH A
DENTAL AMBULATORY SURGERY CENTER IN THE NORTH KING COUNTY
SECONDARY HEALTH SERVICE PLANNING AREA**

APPLICANT DESCRIPTION

Seattle Children's Hospital and Regional Medical Center (Children's) is owned by Children's Health Care System, a Washington not-for-profit, public benefit 501(c)(3) tax exempt organization, founded in 1907 as Children's Orthopedic Hospital. Children's provides health care services through its main hospital campus in Seattle's Laurelhurst neighborhood, through local satellite clinics, via partnerships with other hospitals in Washington, Alaska, Montana and Idaho and a home care agency.

Seattle Children's Hospital is a tertiary provider of pediatric care that draws patients from throughout Washington, Alaska, Idaho and Montana for acute care, hematology/oncology, infectious disease, organ transplantation, rehabilitation, cardiology, and other specialized pediatric services. Seattle Children's Hospital also currently operates a pediatric specialty outpatient center in Bellevue on the Overlake Hospital Medical Center campus. [Source: Seattle Children's Hospital website]

PROJECT DESCRIPTION

This application proposes to establish a dental ambulatory surgery center in the North King Secondary Health Services Planning Area. The ASC will be located in a new dental facility owned and operated by the University of Washington School of Dentistry. The ASC plans to include three operating rooms with two rooms to be used upon opening and the third room to become operational in year 2. Seattle Children's Hospital intends to operate the free standing ASC under the hospital's license. The ASC will offer outpatient dental surgery exclusively to patients from 0-21 years. [Source: Application, p7]

If this project is approved, Seattle Children's Hospital anticipates commencement of the project upon CN approval and the project will be complete by September 2010 and become operational by October 2010. Under this timeframe, 2011 would be the facility's first full calendar year of operation; year 2013 would be the third full year of operation.

The capital expenditure associated with construction of the new facility is \$3,463,192. The capital expenditure will be incurred by the University Washington and Seattle Children’s Hospital will lease the ASC. The project costs are detailed in below. [Source: Application, p 29]

Breakdown Of Estimated Capital Costs	Cost	% Of Total
Building Construction	\$1,513,332	43.7%
Moveable Equipment Costs	\$860,000	24.8%
Architect/Engineer Fees	\$243,134	7.0%
Site Preparation/Development	\$234,337	6.8%
Sales Tax	\$213,600	6.2%
Other Project Costs	\$398,789	11.5%
Total Estimated Capital Cost	\$3,463,192	100%

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review as the establishment of a new healthcare facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(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 tsandards 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, Seattle Children’s Hospital 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).¹ Additionally, WAC 246-310-270 contains service or facility specific criteria for ASC projects and must be used to make the required determinations.

APPLICATION CHRONOLOGY

October 21, 2009	Letter of Intent Submitted
March 19, 2010	Application Submitted
March 20 through May 13, 2010	Department’s Pre-Review Activities <ul style="list-style-type: none"> • Screening activities and responses
May 14, 2010	Department Begins Review of the Application <ul style="list-style-type: none"> • Public comments accepted throughout the review • No public hearing requested or conducted
June 18, 2010	End of Public Comment
July 6, 2010	Rebuttal Comments Due (No Comments Received)
August 20, 2010	Department’s Anticipated Decision Date
November 18, 2010	Department’s Actual Decision Date

AFFECTED PERSONS

Washington Administrative Code 246-310-010(2) defines “affected person as:

“...an “interested person” who:

- (a) *Is located or resides in the applicant's health service area;*
- (b) *Testified at a public hearing or submitted written evidence; and*
- (c) *Requested in writing to be informed of the department's decision.”*

Throughout the review of this project, no entities sought and received affected person status under WAC 246-310-010(2).

¹ 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) and WAC 246-310-240(2).

SOURCE INFORMATION REVIEWED

- Seattle Children's Hospital Certificate of Need Application received March 19, 2010
- Seattle Children's Hospital supplemental information received May 7, 2010
- Public comment received throughout the review of the application
- North King County ASC operating room utilization survey responses
- Office of Financial Management population data for King, Snohomish, and Pierce Counties
- Historical charity care data obtained from the Department of Health's Hospital and Patient Data Systems (2006, 2007 and 2008 summaries)
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Claritas population data
- Office of Financial Management population data released November 2007
- HFPD Hospital Financial Data Base (2009)
- Medical Quality Assurance compliance data webpage(wa.gov/doh/providercreditalsearch)
- Washington State's Oral Health Workforce Final Report #130, November 2009
- Washington State Collaborative Oral Health improvement Plan 2009-2014
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems staff dated August 5, 2010

CONCLUSION

For the reasons stated in this evaluation, the application submitted on behalf of Seattle Children's Hospital to establish a 3 room dental ambulatory surgery center in the North King Secondary Health Services Planning Area is consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need should be issued provided that the applicant agrees to the condition stated below.

CONDITION

The Seattle Children's Dental ASC will be limited exclusively to providing dental surgery services to patients using the facility.

A. Need (WAC 246-310-210) and Ambulatory Surgery (WAC 246-310-270)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department determines that Seattle Children's Dental ASC has met the need criteria in WAC 246-310-210 and WAC 246-310-270.

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

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

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

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

- a) whether a surplus or shortage of OR's is predicted to exist in the target year, and
- b) if a shortage of OR's is predicted, the shortage of dedicated outpatient and mixed-use rooms are calculated.
- c) Data used to make these projections specifically exclude specialty purpose rooms, such as open heart surgery rooms, delivery rooms, cystoscopic rooms, and endoscopic rooms.²

Applicant's Methodology

To initially address need under WAC 246-310-270, the applicant calculated the overall need for ORs in the North King County Secondary Health Service Planning Area. The numeric portion of the methodology requires a calculation of annual capacity of existing ORs, both outpatient and inpatient. To apply the methodology, Seattle Children's Hospital obtained information from the existing providers through a telephone survey and review of CHARS data. Table 1 contains the assumptions Seattle Children's Hospital used to apply the numeric methodology. [Source: Application, pp18 & 19; Exhibit7]

² WAC 246-310-270(9)(a)(iv).

**Table 1
Applicant's Methodology Assumptions**

Assumption	Data Used
Planning Area	North King County Secondary Health Service Planning Area. –
Population Estimates and Forecasts	North King estimates and projections from Nielsen Claritas, Inc. County-level data based on current estimates and Oct. 2007 projections from WA office of Financial Management.
Use Rate	The use rate was calculated using the 2009 population for the service area and 2009 total estimated surgeries for the providers located in the service area.
Percent of surgery ambulatory vs. inpatient	63.4% ambulatory (outpatient) and 36.6% inpatient
Average minutes per case	Based on CHARS, internal and CN data Inpatient 186 minutes, Outpatient 76 minutes
OR Annual capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes (per methodology in rule)
Existing providers	OR Capacity: 4 dedicated outpatient and 43 mixed use

Using the assumptions outlined in Table 1, Seattle Children's calculated a shortage of 10 inpatient ORs and a shortage of 27 dedicated outpatient ORs by the end of target year 2014.

Department's Methodology

The department used the methodology under 246-310-270 and calculated a need for Ors based on the data supplied in the departmental survey. Children's Hospital was the only facility to respond therefore the department's calculation will only show the results for Children's Hospital. Given that the ASC would be located in the North King County Health Service Planning Area, the department will apply the methodology to that health service planning area. The department will use the patients, population, and the one survey response provide to the department. Based on this defined area, there are 4 providers in the North King County planning area, including the applicant. The 4 providers are listed in table 2.

[Source: CN historical files and Children's application]

**Table 2
North King Planning Area Providers**

Three Hospitals/City	One ASC/City
Seattle Children's Hospital/Seattle	North Seattle Surgery Center/Seattle
University of Washington MC/Seattle	
Northwest Hospital/Seattle	

As shown in table 2, the four facilities include three hospitals and one ASC. The University of Washington School of Dentistry is participating in this project with Seattle Children's Hospital. Northwest Hospital did not respond to the survey sent out by the department. Northwest Hospital has 3 new OR's under construction which will not be counted in this

methodology since they are projected to begin operation in December 2010.³ North Seattle Surgery Center is a CN approved ASC, and reported in the survey that the proposed ASC will not have an impact on their facility and did not provide any data. There are no exempt facilities included in the methodology for the planning area.

To assist in its application of the numeric methodology for this project, on December 21, 2009, the department requested utilization information from each of the facilities identified above. To apply the numeric methodology, the department relied on its own survey results. Table 3 contains the assumptions used by the department to apply the methodology.

**Table 3
Department Methodology Assumptions**

Assumption	Data Used
Planning Area	North King County Secondary Health Service Planning Area. –
Population Estimates and Forecasts	Claritas data for sub-County populations. Target year is 2014.
Use Rate	Divide estimated current surgical cases by estimated 2009 service area population results in the service area use rate of 18.22/1,000
Percent of surgery ambulatory vs. inpatient	Based applicant’s survey results, 63.4% ambulatory setting; 36.6% inpatient setting
Average minutes per case	Based on Applicant’s actual from survey: Outpatient cases = 76.0 minutes; inpatient cases 186.0 minutes
OR Annual capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes
Existing providers	Based on 2010 listing of North King County Secondary Health Service Planning Area providers 12 mixed use ORs for the one survey respondent.

The department’s application of the numeric methodology based on the assumptions described above indicates a surplus of 7.74 mixed use ORs for the planning area and a need for 4.12 dedicated outpatient ORs in 2014. The department’s methodology is in Appendix A attached to this evaluation.

In summary, based solely on the numeric methodology contained in WAC 246-310-270, a need for additional outpatient OR capacity in the North King planning area is demonstrated. [Source: department’s methodology and utilization surveys]

³ Northwest Hospital was issued a Plan Review Approval by the DOH Construction Review Services on Sept. 1, 2009.

The department had concerns regarding the applicant’s projections increasing from a 2009 level of 778 to a projected 2800 surgeries in the first year of operation. The applicant provided supporting material detailing where they anticipated these additional cases would come from. Table 4 provides a summary of the source and amount of additional referrals anticipated by the applicant.

Table 4
Seattle Children’s Dental ASC
Utilization Projection Assumptions

Assumptions	Cases
Actual 2008/09 volume	800
Elimination of backlog	+500
ED diversion	+52
Private practice pediatric dentists securing privileges and utilizing the facility for cases	+466
Private practice pediatric dentists begin referring cases to the ASC	+200
Referrals from AAPD’s Head Start Dental Home Initiative:	+234
Commencement of third molar program	+234
Sub Total	2,486
Adjustment for population growth in the 0-20 population in King County 2008-2011 @2.6% [Source: OFM]	65
Referrals from outside of King, Snohomish and Pierce (estimated at 10%)	250
Total	2,800

Source: Applicant

The following is discussion provided by the applicant is in response to the department’s screening question requesting the applicant to provide further documentation as to how the applicant will triple the number of procedures in one year.

1. Elimination of backlog: Our current backlog of cases that are scheduled more than one month out and cases waiting scheduling is in excess of 500 cases. With the expanded capacity, we anticipate eliminating scheduling of cases more than 1 month out. Net case addition: 500 cases

2. Diversion of ED cases: Our goal is to divert one ED case per week to the Clinic and ASC.

3. Private practice pediatric dentists securing privileges and utilizing the facility for cases: Based on the 2008 survey conducted by Seattle Children’s of private pediatric dentists in King, Snohomish, and Pierce, we estimate that at least 18 dentists will seek privileges at the ASC and directly perform 466 cases. We have conservatively assumed no growth in this volume. Net case addition: 466

*4. **Private practice pediatric dentists begin referring cases to the ASC:** Based on the same 2008 survey conducted by Seattle Children's of private pediatric dentists in King, Snohomish, and Pierce noted above, we estimate that approximately 16 dentists who currently do not refer to Seattle Children's dental program will start referring when the new facility is operational. These pediatric dentists estimated referring 200 cases annually. We have conservatively assumed no growth in this volume.
Net case addition: 200*

*5. **Referrals from AAPD's Head Start Dental Home Initiative:** This program, which supports Head Start in accessing oral health services for its children, is expected to increase identification and referral. We have conservatively estimated 4.5 new cases per week (that would otherwise not be identified, and therefore not referred) from his program.
Net case addition: 234*

*6. **Commencement of third molar program:** despite very high demand, historically Seattle Children's has not offered this service because of our lack of space and waiting list. We will accept select adolescents in need of third molar (wisdom teeth) in the new facility. We have conservatively estimated 4.5 new cases per week from this program.
Net case addition: 234"*

Department Response

The department would not identify the elimination of backlog as potential new cases for the applicant. However, we do accept the other identified sources of potential new patients. Therefore, the department believes that 2300 cases would be a more reasonable projection for the first year of operation of the Dental ASC.

The Washington State Collaborative Oral Health Improvement plan 2009-2014 and the Washington State Oral Health Workforce final Report #130 confirm the applicant's statements regarding lack of providers to provide dental services, declining numbers of dentists accepting Medicaid patients and problems accessing dental services for Medicaid patients.

In summary, based solely on the numeric methodology contained in WAC 246-310-270, a numeric need for at least 4.12 outpatient dedicated ORs has been documented for the service area. Based on the applicant's projected utilization a need for at least 3 ORs dedicated for pediatric dental surgeries has been documented. [Source: department's methodology and utilization survey]

Based on the information provided above, the following conclusions can be reached to support the need for this project.

1. Dental surgery is primarily performed on an outpatient basis and Seattle Children's Hospital is performing a substantial portion of these surgeries in the planning area.
2. The North Seattle Surgery Center reported in the ASC survey that this project will not have any impact on their facility.
3. Based on the information provided in the application, Seattle Children's Hospital intends to provide only dental procedures at the ASC.

4. This project will move a primarily outpatient service away from the Laural Hurst campus and locate it in a University of Washington Dental School dental clinic where many of its referrals will be generated.

The department concludes that need for this project has been demonstrated. To ensure that Seattle Children's Hospital will operate the ASC in accordance with information provided in the application, approval of this project would be contingent upon Seattle Children's Hospital agreeing to provide only dental surgeries as described within the application and relied upon by the department in this evaluation. Provided that Seattle Children's Hospital would agree to limit the procedures, the department concludes that 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.

Seattle Children's Hospital is currently a provider of dental services to residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. As a Certificate of Need approved ASC, Seattle Children's Hospital must participate 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, Seattle Children's Hospital provided a copy of its Admission Policy that will be used at the proposed dental ASC. The policy outlines the process/criteria that Seattle Children's Hospital uses to admit patients for treatment. The applicant states that all services provided by the facility are available without discrimination to all patients regardless of race, creed, color, ethnic origin, nationality, sex, handicap, or affiliation with fraternal or religious organization. Seattle Children's Hospital complies with the Emergency Medical Treatment and Active Labor Act (EMTALA) and all patients regardless of age are medically screened and stabilized before being transferred to the appropriate facility for their treatment. [Source: Application, Exhibit 9]

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. 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.

Seattle Children's Hospital currently provides services to Medicare and Medicaid eligible patients. Information provided in the application demonstrates that Seattle Children's Hospital intends to maintain this status if this project is approved. A review of the policies and data provided for Seattle Children's Hospital reveals the facility's financial pro forma includes Medicaid revenues. [Source: Application, Appendix 1, & May 7, 2010 Response to Screening Questions: p48&49]

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.

Seattle Children's Hospital demonstrated its intent to provide charity care to residents by submitting its Charity Care/ Policy currently in use at Seattle Children's Hospital. The policy outlines the process one would use to access charity care. Further, Children's Dental ASC has a 'charity care' line item as a deduction from revenue within the pro forma financial documents. [Source: May 7, 2010 Response to Screening Questions, p49]

Further, WAC 246-310-270(7) states that ASCs shall implement policies to provide access to individuals unable to pay consistent with charity care levels reported by the hospitals affected by the proposed ASC. For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Seattle Children's Dental ASC is located in King County within the Puget Sound region. For charity care reporting purposes, the affected hospitals are the 2 hospitals operating in the North King County hospital planning area Northwest Hospital in Seattle and U of W Hospital in Seattle. For this project, the department reviewed charity care data for both North King County hospitals and the 19 existing hospitals currently operating within the King County Region. Harborview hospital was not included in the King County charity care because of the amount of charity care it provides.

According to 2006-2008⁴ charity care data obtained from HPDS, the three-year average for the King County Region is 1.36% for gross revenue and 2.42% for adjusted revenue. The combined three-year average charity care data reported by the U of W Hospital and Northwest Hospital is 1.54% of gross revenue and 3.30% of adjusted revenue. The three year average charity care data reported by Seattle Children's Hospital is 1.66% and 2.94%. [Source: HPDS 2006-2008 charity care summaries] Seattle Children's Hospital has provided charity care above the regional average for King County for both gross revenue and adjusted revenue.

The applicant's pro formas indicate that the ASC will provide charity care at approximately 3.70% of gross revenue and 6.10% of adjusted revenue. [Source: Application, Exhibit D] Table 5 on page 12 contains Seattle Children's Dental ASC projected charity care percentages compared with Puget Sound Regional average and the average of the two hospitals in the planning area.

**Table 5
Charity Care Percentage Comparisons**

	% of Total Revenue	% of Adjusted Revenue
Seattle Children's Dental ASC	3.70%	6.10%
King County Region	1.36%	2.42%
NW & U of W Combined	1.54%	3.30%

⁴ Year 2009 charity care data is not available as of the writing of this evaluation.

As shown in Table 5 on page 11, Seattle Children’s dental ASC pro formas indicate charity care percentages would be above the regional and two-hospital averages for total revenue. Seattle Children’s Dental ASC pro formas also indicate that the ASC will provide charity care above the regional average, and above the two-hospital combined average for adjusted revenue.

Based on the documents provided in the application, the department concludes that all residents, including low income, racial and ethnic minorities, handicapped, and other under-served groups would have access to the services provided by the applicant. This sub-criterion is met.

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

Based on the source information reviewed, the department concludes Seattle Children’s Dental ASC 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, Seattle Children’s Hospital anticipates opening the Dental ASC in September 2010. Under this timeline, year 2011 would be the first year of operation as a Certificate of Need approved facility. [Source: Application, p8]

To demonstrate compliance with this sub-criterion, Seattle Children’s Hospital provided its Statement of Operations for the ASC showing years 2011 through 2013. To determine whether the ASC would meet its immediate and long range operating costs, the department reviewed Seattle Children’s Hospital, projected revenue/expense statements, and projected balance sheets for years 2011 through 2013.

In addition to the projected Statement of Operations, Seattle Children’s Hospital also provided its current balance sheet for the hospital. Table 6 below shows the current balance sheet for year 2009. [Source: HPDS Analysis, p2]

Table 6
Seattle Childrens Dental ASC Associates Current Balance Sheet Year 2009

Assets		Liabilities	
Current Assets	\$178,435,000	Current Liabilities	\$96,933,000
Board Designated Assets	\$459,580,000	Long Term Debt	\$481,936,000
Fixed Assets	\$602,607,000	Other	
Other Assets	\$104,059,000	Equity	\$765,812,000
Total Assets	\$1,344,681,000	Total Liabilities and Equity	\$ 1,344,681,000

The capital expenditure for Seattle Children’s Hospital dental ASC is projected to be \$3,453,192. The capital expenditure will be funded by the landlord and specified amounts will be recouped through the term of the lease from Seattle Children’s Hospital.

The financial status of Seattle Children’s Hospital is adequate to fund their participation in this project. This project will not adversely impact reserves, or total assets, total liability, or the general health of Seattle Children’s Hospital.

“HPDS staff has also reviewed various ratios that can give a picture of the financial health of the hospital and the project. These ratios are shown in Table 7. [HPDS Analysis p3] The A means it is better if the hospital number is above the State number and B means it is better if the hospital number is below the state number. Seattle Children’s Dental ASC income statement ratio is above average at the end of the third year and the ASC is better than break even as required by CON rules. Seattle Children’s Hospital ratios for 2009 are all above average or within reasonable range.

Table 7
Current and Projected Financial Ratios for Seattle Children’s Hospital

Financial Ratio	Trend⁵	State 08	SCH09	Projected Year 1 2010	Projected Year 2 2012	Projected Year 3 2013
Long Term Debt to Equity #	B	0.526	0.629	0.606	0.561	0.520
Curr. Assets/Curr. Liab #	A	1.878	1.841	1.752	1.694	1.642
Assets Funded by Liab. #	B	0.426	0.430	0.413	0.399	0.385
Oper. Exp./Oper. Rev. *	B	0.946	0.929	0.932	0.782	0.694
Debt Service Coverage	A	4694	5.304	N/A	N/A	N/A
Definitions	Formula					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liab	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities +long term Debt/Assets					
Oper. Exp./Oper. Rev	Operating Expense/Operating Revenue					
Debt Service Coverage	Net Profit+Depr. and Interest Exp. /Current Mat. LTD and Interest Exp.					

Source: Application; *=ASC only, #=Hospital

The project operating/expense/revenue is appropriate. The applicant projects an above average financial foundation for the ASC. The applicant should not have any trouble meeting the immediate needs of this project. This 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

⁵ A is better is above the ratio, and B is better if below the ratio

and expertise the department compared the proposed project's costs with those previously considered by the department.

To determine the number of patients that would be served at the proposed dental ASC, Seattle Children's Hospital and projected growth of the number of cases based on increased utilization by additional dentists and by growth from outside the service area.

Based on these assumptions, the applicant projected the number of surgical cases for the facility for the years 2011 through 2013, which was used as a basis to project revenues and expenses. These projections for the first three years of operation are shown in Table 8. [HPDS Analysis p3]

**Table 8
Seattle Children's Dental ASC Revenue and Expense Summary**

	Year 2011	Year 2012	Year 2013
Number of Procedures	2,066	2,766	2,798
Net Revenue	\$ 888,019	\$ 972,728	\$ 952,784
Total Expenses	\$ 730,266	\$ 791,630	\$ 829,648
Net Profit or (Loss)	\$ 157,753	\$ 181,098	\$ 123,136
Average Revenue per Procedure	\$ 700.33	\$ 701.32	\$ 653.94
Average Expenses per Procedure	\$ 575.92	\$ 570.75	\$ 569.42
Net Profit or (Loss) per Average Procedure	\$ 124.41	\$ 130.57	\$ 84.51

The 'net revenue' line item in Table 8 is the result of gross revenue minus any deductions for contractual allowances, bad debt, and charity care. The 'total expenses' line item includes staff salaries/wages and the ASC's portion of overhead costs based on the assumptions stated above. As shown in Table 8, Seattle Children's Dental ASC anticipates it would operate at a profit from the beginning in year 2011 which would continue through 2013. It is noted that the profit is expected to decrease in year 2012. This reduction in net profit is the result of a projected growth in expenses without a commensurate growth in revenues. This 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.

Seattle Children's Dental ASC identifies the capital expenditure to be \$3,463,192, which is solely related to construction cost and equipment needed for the ASC. The funding for the project will be provided by the University of Washington and a letter commitment for funding the project has been provided by the University of Washington. Seattle Children's Hospital has provided a copy of the lease for the Dental ASC. The lease includes all payments to be made by Seattle Children's Hospital for the space and equipment.

Based on the information provided above, the department concludes that the project can be appropriately financed, and this sub-criterion is met.

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department concludes Children’s Dental ASC 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.

Seattle Children’s Hospital is not currently operating as an ASC as the Hospital is performing the dental surgeries in the hospital operating rooms located on the Luralhurst campus. Table 9 below summarizes the projected staffing at the ASC through 2013. [Source: Application, p32]

**Table 9
Seattle Children’s Dental ASC for Years 2011 and 2013**

FTEs	2011	2012	2013
Nurse Manager	1.30	1.30	1.30
Circulating RN	2.50	2.50	2.50
Recovery RN	2.50	2.50	2.50
Dental Assistant	2.50	2.50	2.50
OR/Materials Tech.	1.30	1.30	1.30
Scheduling	1.30	1.30	1.30
Total	11.40	11.40	11.40

As shown in Table 9 above, Seattle Dental ASC anticipates starting with 11.4 FTEs and will not be adding additional staff through 2013. To demonstrate that staff would be available and accessible for this project, Seattle Children’s Hospital provided the following statements:

“Seattle Children’s is uniquely positioned to attract and retain staff in ways that are quite different from other health care providers. Seattle Children’s provides a supportive work environment for its staff. The number of FTEs required for this project is small (11.4) and most positions will be filled by existing staf transferring to the new location. Given all of the above, we do not anticipate any problems in recruitment.” [Source: Application, p33]

Based on the information provided above, the department concludes that staff is available or can be recruited and retained. 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.

To demonstrate that the ancillary and support services will be sufficient to support the proposed project Seattle Children's Hospital provided the following statements:

"The ASC that will be operated by Seattle Children's is but one component of a larger dental clinic. The larger clinic will be operated by UWSOD. As outlined in the lease agreement, the UW will provide the necessary ancillary and support services to the Dental ASC, including equipment, sterile processing, and telephone services." [Source: Application, p33]

Seattle Children's Hospital will provide a nurse manager to supervise the ASC and staff. Medical director services will be provided by Joseph Kelly, DDS, currently employed by Seattle Children's Hospital. There will be no incremental compensation for these services. [May 7, 2010 Response to Screening Questions: p11]

Based on the information provided in the application, the department concludes that the ASC would have appropriate ancillary and support relationships as required. 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.

Seattle Children's Dental ASC has not been operating therefore has not had any licensing surveys. Seattle Children's Hospital had its most recent licensing survey in November 2009. The hospital had minor compliance issues typically found in relicensing inspections and a plan of correction has been accepted by the department. Seattle Children's Hospital is licensed for 3 years and their license expires December 31, 2012.

The Department of Health's Dental Quality Assurance Commission credentials dental staff in Washington State and is used to review the compliance history for all dental staff. Review of

the ILRS data base reveals no restrictions on Dental staff that will be using the Dental ASC.
[Source: DQAC compliance history]

After reviewing the compliance history of Children's Hospital and Medical Center and the compliance history of all dental staff associated with the Dental ASC, the department concludes there is reasonable assurance that Children's Hospital Dental ASC will operate in conformance with applicable state and federal licensing and certification requirements. 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.

This project will result in the consolidation of 2 separate dental clinics operated by the University of Washington School of Dentistry and Seattle Children's Hospital. The dental ASC will also be located in this facility which will increase efficiency and improve access for patients. This will move a basically outpatient service from Seattle Children's Hospital main campus and inpatient ORs. Seattle Children's Hospital has a CN in process for expansion of the main campus and the expansion has incurred considerable community opposition. This project seems to be a logical solution to Seattle Children's Hospital space issues.

This project is an excellent collaboration between the two organizations working on improving children's dental problems, which have been identified in DOH planning documents as an increasing problem. Dental health has a substantial impact on the overall health of children and access to services by Medicaid clients has been identified as a serious problem. Increasing the efficiency of existing resources has been identified as one possible solution to improving dental health of children.

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

This sub-criterion is evaluated in sub-section (3) above, and based on that evaluation; the department concludes that this sub-criterion is met.

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

Given the information submitted by the applicant and the evaluation by the department the option of a joint dental clinic/ASC proposed by the applicant is the best available alternative for the community. This sub-criterion is met.

(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, Seattle Children's Dental ASC 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, Seattle Children's Hospital identified four options and spent several years before submitting this application. The four options are as follows:

1. Expanding capacity with-in the hospital to accommodate more dental patients

Discussions involving expansion of the main campus specifically for outpatient us was determined to be costly, time consuming, and disruptive to current operations. The applicant asserts that limitations on expansion possibilities exist at the main campus, any new OR capacity should focus upon inpatient rather than outpatient services.

2. Developing a surgical capacity at our existing Hartmann clinic site.
Expansion at the Hartmann clinic site has the same problems of cost and disruption to current operations. Also this alternative does not allow access to the large referral base and benefits of the joint operation with the University of Washington School of Dentistry.

3. Partnering with others to develop and operate a comprehensive early childhood oral health program, and
This alternative was the one chosen by the applicant and is the project in this application. There combination of a large dental clinic operated by the University of Washington School of Dentistry in combination with the Dental ASC offers ease of access to services, a facility designed for outpatient dental surgery, training support, and shared facilities.

4. Do nothing or “status quo”
The applicant currently reports that dental surgeries are on a long waiting list for OR time which sometimes results in additional problems for dental patients. Seattle Children’s Hospital currently has an application for an expansion of inpatient capacity which may worsen the problem.

Step Three

For this project, only Seattle Children’s Hospital submitted an application to establish a dental ASC in the North King Secondary Health Services Planning Area. As a result, step three is not evaluated under this sub-criterion.

Given the information submitted by the applicant and the evaluation by the department the option of a joint dental clinic ASC proposed by the applicant is the best available alternative for the community. This sub-criterion is met.

APPENDIX A

CN 10-28 Children's Dental ASC
OR Methodology Calculations

Service Area Population 2014:		313,941 (per Claritas zip code data)							
Surgeries @18,22/1,000:		5,879							
a.i.	94,250	minutes/year/mixed-use OR							
a.ii.	68,850	minutes/year/dedicated outpatient OR							
a.iii.	0	dedicated outpatient OR's x 68,850 minutes =		0	minutes dedicated OR capacity		0	Outpatient s	
a.iv.	12	mixed-use OR's x 94,250 minutes =		1,131,000	minutes mixed-use OR capacity		6,081	Mixed-use s	
b.i.		projected inpatient surgeries =	2,159	=	401,574	minutes inpatient surgeries		0.0%	
		projected outpatient surgeries =	3,732	=	283,632	minutes outpatient surgeries		100.0%	
b.ii.		Forecast # of outpatient surgeries - capacity of dedicated outpatient OR's		=	3,732	outpatient surgeries			12
		average time of inpatient surgeries		=	186.00	minutes (per Applicants actual)			
		average time of outpatient surgeries		=	76.00	minutes (per Applicants actual)			
b.iv.		inpatient surgeries*average time		=	401,574	minutes			
		remaining outpatient surgeries(b.ii.)*ave time		=	283,632	minutes			
				=	685,206	minutes			
c.i.		if b.iv. < a.iv., divide (a.iv.-b.iv.) by 94,250 to determine surplus of mixed-use OR's							
		USE THIS VALUE							
		1,131,000							
		- 685,206							
		445,794	/	94,250	=	4.73			
c.ii.		if b.iv. > a.iv., divide (inpatient part of b.iv. - a.iv.) by 94250 to determine shortage of inpatient OR's							
		Not Applicable - Ignore the following values and use results of c.i.							
		401,574							
		1,131,000							
		(729,426)	/	94,250	=	-7.74			
		divide outpatient part of b.iv. By 68,850 to determine shortage of dedicated outpatient OR's							
		283,632	/	68,850	=	4.12			