



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

June 12, 2014

CERTIFIED MAIL # 7011 1570 0002 7809 5636
Richard Petrich, VP
Planning and Business Development
Franciscan Health System
Post Office Box 2197
Tacoma, Washington 98401

CERTIFIED MAIL # 7011 1570 0002 7809 5742
Scott Bosch, President and CEO
Harrison Medical Center
2520 Cherry Avenue
Bremerton, Washington 98310

RE: CN 14-24

Dear Mr. Petrich and Mr. Bosch:

We have completed review of the Certificate of Need (CN) application submitted by Franciscan Health System and Harrison Medical Center proposing to transfer Certificates of Need #1463 and #1463A. For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Franciscan Health System and Harrison Medical Center agrees to the following in its entirety.

Project Description:

This certificate approves the transfer of Certificates of Need #1463 and #1463A issued to Harrison Medical Center on February 4, 2012, and May 22, 2012, respectively. The certificates are transferred from Harrison Medical Center to Harrison Medical Center and Franciscan Health System. All conditions, written or implied, attached to Certificates of Need #1468 and #1463A are also transferred to Harrison Medical Center and Franciscan Health System.

Conditions:

1. Approval of the project descriptions as stated above. Co-applicants Franciscan Health System and Harrison Medical Center further agree that any change to the project as described in the project description is a new project that requires a new Certificate of Need.

2. Harrison Medical Center will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Harrison Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by the applicable hospitals in the Puget Sound Region. For combined years 2009- 2011, this amount is 2.40% of gross revenue and 5.21% of adjusted revenue. Harrison Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

Approved Cost:

The capital expenditure approved by Certificate of Need #1463A supersedes the approved capital expenditure for Certificate of Need #1463. There is no capital expenditure associated with the transfer of the Certificates of Need. The approved capital expenditure associated with Certificate of Need #1463A is \$24,963,634.

You have two options, either accept or reject the above in its entirety. If you accept the above in its entirety, your application will be approved and a Certificate of Need sent to you. If you reject any provision of the above, you must identify that provision, and your application will be denied because approval would not be consistent with applicable Certificate of Need review criteria. Please notify the Department of Health within 20 days of the date of this letter whether you accept the above in its entirety.

Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

Mailing Address:

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

Other Than By Mail:

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

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

Sincerely,



Steven M. Saxe, FACHE
Director, Community Health Systems

Enclosure

**EVALUATION DATED JUNE 12, 2014, OF THE CERTIFICATE OF NEED
APPLICATION SUBMITTED BY FRANCISCAN HEALTH SYSTEM AND HARRISON
MEDICAL CENTER PROPOSING TRANSFER OF CERTIFICATE OF NEED #1463
AND CERTIFICATE OF NEED #1463A**

BACKGROUND INFORMATION

On November 3, 2008, Harrison Medical Center (HMC) submitted a Certificate of Need application proposing to add 92 acute care beds to the hospital. The bed addition was part of a larger construction project that included completion of a new 6 story patient tower. Because of the size of the construction project, HMC was required to obtain a conditional use permit. Since the department is precluded from issuing a Certificate of Need (CN) until an applicant obtains a conditional use permit, the department issued an “Intent to Issue” a CN for the project on June 1, 2009. When HMC provided the department with a copy of its conditional use permit from the Kitsap County Department Community Development, CN #1463 was issued on February 24, 2012. [source: CN #1463 and progress report files]

On October 7, 2011, HMC submitted an application to amend CN #1463 by reducing the number of beds to be added to the hospital from 92 to 50 and reducing the capital expenditure. On May 22, 2012, CN #1463A was issued to HMC approving the addition of 50 beds to the hospital, for an estimated capital cost of \$24,963,634. [source: CN #1463A and progress report files]

PROJECT DESCRIPTION

On August 1, 2013, HMC and Franciscan Health System (FHS) affiliated as described in a determination of reviewability request submitted by FHS.¹ Under the affiliation, Franciscan Health Ventures, a corporate member of FHS, became the sole corporate member of HMC. [source: May 5, 2014, supplemental information, p1 and Attachment 1] Since CN #1463 and #1463A were issued to HMC prior to its affiliation with FHS, the CNs must be transferred as allowed under Washington Administrative Code 246-310-500(7)(a)(i).

TRANSFER APPLICATION –APPLICANT DESCRIPTIONS

Franciscan Health System

Co-applicant FHS is part of Catholic Health Initiatives, one of the largest not-for-profit health care systems in the United States. Through one of its subsidiaries, Catholic Health Initiatives operates 118 health care facilities in 22 states. For Washington State, FHS is the subsidiary that owns or operates a variety of health care facilities including hospitals, dialysis centers, a skilled nursing facility, ambulatory surgery centers, a Medicare certified hospice agency, and a hospice care center. Only the seven FHS licensed hospitals are listed below. [source: CN historical files]

Highline Medical Center
Harrison Medical Center
St. Elizabeth Hospital, Enumclaw

St. Anthony Hospital, Gig Harbor
St. Joseph Medical Center, Tacoma
St. Clare Hospital, Lakewood
St. Francis Hospital, Federal Way

¹ Determination of Reviewability #13-24.

In addition to the seven hospitals above, FHS and Regional Hospital for Respiratory and Complex Care submitted an application for affiliation.² The department's evaluation on the project is scheduled for July 2014.

Harrison Medical Center

Identified in bold above, co-applicant HMC is a two-campus, not-for-profit hospital that provides Medicare/Medicaid acute care services to residents of Kitsap County and surrounding areas. Both campuses are located in Kitsap County and licensed under one hospital license. The address of the Silverdale campus is 1800 Northwest Myhre Road in Silverdale [98383] and the Bremerton campus is 2520 Cherry Avenue in Bremerton [98310]. HMC holds a three-year accreditation with the Joint Commission³ and is a Washington State designated level III adult trauma hospital. [source: CN historical files]

As of the writing of this evaluation, HMC is licensed for 297 acute care beds. The current breakdown of beds, by type and campus, is shown in the table below.

**Table 1
Harrison Medical Center
Current Acute Care Bed Breakdown**

Type of Service	Bremerton Campus Licensed Beds	Silverdale Campus Licensed Beds
General Medical Surgical	242	20
Psychiatric-PPS Exempt ⁴	11	0
Level II-Intermediate Care Nursery	0	24
Total	253	44

² CN Application #14-28 was submitted on March 19, 2014.

³ The Joint Commission accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards. [source: Joint Commission website]

⁴ 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]

CN #1463A approved the addition of 50 acute care beds to the Silverdale campus. Once completed, HMC will be licensed for 347 acute care beds at two campuses. The breakdown of 347 beds, by type and campus, is shown in the table below.

Table 2
Harrison Medical Center
CN #1463A Acute Care Bed Breakdown

Type of Service	Bremerton Campus Licensed Beds	Silverdale Campus Licensed Beds
General Medical Surgical	242	70
Psychiatric-PPS Exempt	11	0
Level II-Intermediate Care Nursery	0	24
Total	253	94

In this transfer application, the co-applicants assert that the affiliation between FHS and HMC resulted in no other changes in the project.

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need (CN) review as the transfer of an existing Certificate of Need under Washington Administrative Code (WAC) 246-310-500. Sub-section (7) requires a certificate holder to submit an application to transfer the issued CN and allows the department to review the project under the expedited timeline. Sub-section (7)(f) requires the applicant(s) to meet one of the following requirements before certificate may be transferred.

- (f) *The department shall not transfer or assign any certificate of need issued after February 1, 1988, except when:*
 - (i) *Prior to completion of the project, death or divorce of one or more persons holding a certificate renders it impossible or impractical to complete the project in the absence of a transfer or assignment; or*
 - (ii) *After commencement, a substantial portion of the project has been completed by the original holder of the certificate.*

HMC, the current certificate holder, does not meet the requirements under (f)(i) above. As a result, information provided in this transfer application must demonstrate that a substantial portion of the project approved under CNs #1463 and #1463A is complete as stated in (f)(ii) above.

CN Program rules do not define ‘substantial portion’ as referenced above. Since the projects approved under CN #1463 and #1463A require construction, the applicants relied on the definition of ‘substantial completion’ found in the American Institute of Architects⁵, which states:

⁵ The American Institute of Architects (AIA) is a professional organization for architects in the United States. Headquartered in Washington, D.C., the AIA offers education, government advocacy, community redevelopment, and public outreach to support the architecture profession and improve its public image. AIA also works with other members of the design and construction team to help coordinate the building industry. More than 83,000 licensed architects and associated professionals are members. AIA members adhere to a code of ethics and professional conduct intended to assure clients, the public, and colleagues of an architect's dedication to the highest standards in professional practice. [source: AIA website]

“Substantial completion is the stage in the progress of the work when work or designated portion thereof is sufficiently complete in accordance with the contract documents so that the owner can occupy or use the work or a portion thereof for its intended use.”

Within this transfer application, the applicants provided information and documentation intended to demonstrate the project was substantially complete prior to the effective date of the affiliation between FHS and HMC—August 1, 2013. [source: Application, pp9-12] A summary of the information and documentation is below.

Year 2013 quarterly progress report – June 2013

The progress report was received in the CN program office on August 2, 2013. The report covered all progress on the project through July 2013. The report states a final project walk-through with Construction Review Services (CRS) is scheduled for August 13. The Certificate of Occupancy is expected to be issued by Kitsap County approximately August 26; the building would be open for patients on September 16.

Department’s Review

Documentation obtained by the CN program confirms that the final walk through by CRS was conducted on August 13 and declared complete by them on August 26.⁶ CRS documentation also demonstrated that the Certificate of Occupancy was issued by Kitsap County Department of Community Development on August 26, 2013.⁷

CN program requires demonstration that a substantial portion of the project is completed by the original certificate holder before a certificate can be transferred. Since the program’s rules do not clarify what is meant by a ‘substantial portion of the project,’ common definitions were reviewed for the word ‘substantial.’ They are summarized below.

Definition	Source
Ample or considerable amount, quantity, size, etc.	dictionary .com
Considerable; ample; larger	New World Dictionary
Large in amount, size, or number	Merriam-Webster dictionary

In conclusion, using the AIA definition, the applicants did not demonstrate substantial completion of the project by August 1, 2013. However, based on the common definition of substantial, the applicants did demonstrate that a substantial portion of the project was complete by August 1, 2013—the effective date of the affiliation between FHS and HMC.

EVALUATION CRITERIA

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

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

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

⁶ CRs #60212408 and CRS #60329223.

⁷ Building permit #12 105207.

- (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.”*

WAC 246-310-500(7)(c) identifies the criteria that must be reviewed for the transfer of a Certificate of Need. It states:

- (i) *The demonstrated ability of the person wishing to acquire the certificate of need to undertake, complete, and operate the project in accordance with the following review criteria:*
 - (A) *WAC 246-310-220 (1) and (3), and*
 - (B) *WAC 246-310-230 (1), (3), and (5).*
- (ii) *The continuing conformance of the project with all other applicable review criteria.*

To obtain Certificate of Need approval, the co-applicants 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); 246-310-240 (cost containment).⁸

TYPE OF REVIEW

This transfer application qualifies for review under the expedited review timeline outlined in WAC 246-310-150. The transfer application review timeline is summarized on the following page.

⁸ Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this transfer review: WAC 246-310-210(1), (3), (4), (5), & (6).

APPLICATION CHRONOLOGY

Letter of Intent Submitted	October 10, 2013
Application Submitted	February 20, 2014
Department's pre-review activities including screening and responses	February 21, 2014 through May 8, 2014
Beginning of Review	May 9, 2014
End of Public Comment <ul style="list-style-type: none">public comments accepted throughout the reviewno public hearing conducted for expedited reviews	May 29, 2014
Rebuttal Comments ⁹	June 13, 2014
Department's Anticipated Decision Date	July 3, 2014
Department's Actual Decision Date	June 12, 2014

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."*

During the review of this project, one entity sought and received affected person status. A description of the affected person is below.

MultiCare Health System

MultiCare Health System (MHS) is a not-for-profit health care organization that provides healthcare services to the residents of Washington State through a variety of healthcare facilities. Currently, MHS operates five acute care hospitals in King and Pierce counties, 19 primary care clinics in King, Kitsap, Pierce, and Thurston counties, and provides home health and hospice services to Medicare and Medicaid populations through its home health and hospice agencies. [source: MultiCare website] The list below focuses on the five operational acute care hospitals.¹⁰

Name	County
MultiCare Allenmore Hospital	Pierce
MultiCare Auburn Medical Center	King
MultiCare Good Samaritan Hospital	Pierce
MultiCare Mary Bridge Children's Hospital	Pierce
MultiCare Tacoma General Hospital	Pierce

⁹ There were no public comments received for this project. Therefore, the applicant did not provide rebuttal comments.

¹⁰ On January 19, 2011, CN #1437 was issued to MHS approving the establishment of a 58-bed acute care hospital to be located in Covington, within King County. As of the writing of this evaluation, the project is not yet complete.

SOURCE INFORMATION REVIEWED

- Franciscan Health System and Harrison Medical Center Certificate of Need application submitted February 20, 2014
- Franciscan Health System and Harrison Medical Center supplemental information received May 2, 2014
- The Department of Health's June 1, 2009, evaluation supporting the "Intent to Issue a Certificate of Need"
- Quarterly progress reports related to the "Intent to Issue a Certificate of Need"
- Certificate of Need #1463 issued on March 5, 2012
- Quarterly progress reports related to Certificate of Need #1463
- The Department of Health's May 1, 2012, evaluation supporting the issuance of Certificate of Need #1463A
- Certificate of Need #1463A issued on May 22, 2012
- Quarterly progress reports related to Certificate of Need #1463A
- The Department of Health's August 6, 2013, Determination of Reviewability related to the affiliation between Franciscan Health System and Harrison Medical Center
- Financial feasibility and cost containment analysis prepared by the Department of Health's Hospital and Patient Data Systems (HPDS) received June 9, 2014
- Department of Health's Investigation and Inspection's Office (IIO) files
- Franciscan Health System website (www.fhshealth.org)
- Harrison Medical Center website (www.harrisonmedical.org)
- MultiCare Health Systems' website (www.multicare.org)
- Joint Commission website (www.jointcommission.org)
- American Institute of Architects website (www.aia.org)
- Certificate of Need historical files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by co-applicants Franciscan Health System and Harrison Medical Center proposing to transfer Certificates of Need #1463 and #1463A is consistent with applicable criteria of the Certificate of Need Program, provided the co-applicants agree to the following in its entirety.

Project Description:

This certificate approves the transfer of Certificates of Need #1463 and #1463A issued to Harrison Medical Center on February 4, 2012, and May 22, 2012, respectively. The certificates are transferred from Harrison Medical Center to Harrison Medical Center and Franciscan Health System. All conditions, written or implied, attached to Certificates of Need #1468 and #1463A are also transferred to Harrison Medical Center and Franciscan Health System.

Conditions

1. Approval of the project descriptions as stated above. Co-applicants Franciscan Health System and Harrison Medical Center further agree that any change to the project as described in the project description is a new project that requires a new Certificate of Need.

2. Harrison Medical Center will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Harrison Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by the applicable hospitals in the Puget Sound Region. For combined years 2009- 2011, this amount is 2.40% of gross revenue and 5.21% of adjusted revenue. Harrison Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

Approved Cost

The capital expenditure approved by Certificate of Need #1463A supersedes the approved capital expenditure for Certificate of Need #1463. There is no capital expenditure associated with the transfer of the Certificates of Need. The approved capital expenditure associated with Certificate of Need #1463A is \$24,963,634.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and the co-applicants' agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Franciscan Health System and Harrison Medical Center's project continues to meet the need criterion in WAC 246-310-210(2).

- (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.

Amendment Evaluation Summary

In its May 1, 2012, amendment evaluation the department concluded that the application met this sub-criterion. This conclusion was reached based on the following factors:

- HMC's intent to maintain its current Medicare and Medicaid eligibility;
- a review of a HMC's Admission Policy;
- a review of the HMC's Charity Care Policy; and
- HMC's agreement to a charity care condition based on historical charity care provided in the Puget Sound Region.

[source: May 1, 2012, amendment evaluation, pp6-7]

Transfer Application Review

Within the transfer application, the co-applicants provided documentation to ensure that the transfer of the Certificates of Need would not affect HMC's intent to be available to all residents of the service area. This assurance is also demonstrated in the current policies used at HMC under the organization of FHS. The following policies were provided in transfer application. [source: Application, Exhibit 4 and May 2, 2014, supplemental information, Attachments 2 and 3]

Plan for Provision of Patient Care/Admission and Placement Policy

This is the policy used by the hospital to ensure that each patient is correctly registered before admission and then placed in the most appropriate level of care necessary when admitted. The policy was last reviewed on September 27, 2013, and is effective through August 31, 2016.

Patient Admission Policy

This policy outlines the process/criteria that HMC uses to admit patients for acute care services. The policy also includes the necessary language to ensure all residents of the service area would have access to services at hospital. The policy was last reviewed on July 11, 2013, and is effective through July 11, 2016. The policy is also posted on the Department of Health website.

Patient Rights and Responsibilities Policies

This policy ensures that HMC honors and protects the rights of all patients in every setting, beginning with registration. The policy also includes non-discrimination language to ensure the hospital respects all cultural and personal values, beliefs, and preferences. The policy was last reviewed on October 3, 2012, and is effective through September 30, 2014.

Non-Discrimination Policy

This policy is used by the hospital, staff, and any contracted staff to ensure HMC or its staff/affiliates does not exclude, deny benefits to, or otherwise discriminate against, any person on the basis of race, color, national origin, disability, age, sex, religion, health care provider conscience protections, or other protected status. The policy was last reviewed on October 25, 2012, and is effective through October 25, 2015.

End of Life Policy

This policy is entitled “*Patient Rights and Responsibilities/Withholding/Withdrawing Life Support or Resuscitation.*” The policy ensures that a patient’s specific wishes are followed related to end of life treatments to ensure the patient lives the remainder of life with as much dignity, control, and comfort as possible. The policy defines and discusses life sustaining treatments and provides the processes to be followed for all patients considered to be competent, incompetent with an advance director, or incapacitated. The policy was reviewed July 27, 2010, and is currently scheduled for review. The policy is posted on the Department of Health website.

Charity Care Policy

The Charity Care Policy was most recently updated on September 27, 2012 and posted on the Department of Health website. It confirms 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 at HMC. The policy also includes the process one must use to access charity care at the facility.

CNs #1463 and #1463A include a condition related to the percentage of charity care to be provided at HMC. The percentage identified in the condition was based on the most recent three-year average of charity care provided in the region and available at the time of each review. The initial review and subsequent charity care condition was based on years 2005, 2006, and 2007. The amendment review that led to the issuance of CN #1463A was based on years 2008, 2009, and 2010. For this transfer review, updated historical charity care data is available for year 2011.¹¹ Therefore, an updated condition is necessary for this transfer application review.

For charity care reporting purposes, the Department of Health’s Hospital and Patient Data Systems (HPDS), divides Washington State into five regions: King County (less Harborview), Puget Sound (less King County), Southwest, Central, and Eastern. HMC is located in Bremerton/Silverdale within Kitsap County. It is one of 19 hospitals located in the Puget Sound region. According to 2009–2011 charity care data obtained collected by the department, HMC has provided less than the average charity care provided in the region.

The table on the following page is a comparison of the average charity care for the Puget Sound Region as a whole, HMC’s historical charity care percentages, and the hospital’s projected charity care percentages. [source: 2009-2011 HPDS charity care summaries and Application, Exhibit 4]

¹¹ As of the writing of this evaluation, year 2012 charity care data is not available.

Table 3
Charity Care Percentage Comparisons

	% of Total Revenue	% of Adjusted Revenue
Puget Sound Region	2.40%	5.21%
Harrison Medical Center Historical	1.89%	5.00%
Harrison Medical Center Projected	2.41%	5.74%

As shown in the table above, HMC’s three-year average historical percentages continue to be less than the regional average. Yet, for years 2010 and 2011, the hospital’s charity care dollars and percentages have increased each year. For projected years 2014 through 2016, HMC’s charity care is projected to be at or above the regional average for both total and adjusted revenues.

There was no public comment submitted related to this sub-criterion.

To ensure that appropriate charity care percentages would be provided by HMC, if this transfer application is approved, the department would attach a condition requiring HMC to provide charity care at certain percentages.

With the charity care condition described above, the department concludes that all residents of the service area would have access to the hospital. **This sub-criterion is met.**

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

Based on the source information reviewed and the co-applicants’ agreement to the conditions identified in the conclusion section of this evaluation, the department determines that the Franciscan Health System and Harrison Medical Center’s transfer application has met the financial feasibility criteria in WAC 246-310-220.

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

WAC 246-310 does not contain specific WAC 246-310-220(1) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what the operating revenues and expenses should be for a project of this type and size. Therefore, using its experience and expertise the department evaluates if the applicant’s pro forma 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.

Amendment Evaluation Summary

In its May 1, 2012, amendment evaluation the department concluded that the application met this sub-criterion. This conclusion was reached based on the following factors:

- a reasonableness review of the reduction in its projected number of patients, patient days, and percentage of occupancy based on the reduction in beds from 92 to 50;
- a review of HMC’s historical Balance Sheet for year 2010 and projected Balance Sheet for the third year of operation with the additional 50 beds (year 2018);
- a review of HMC’s projected Revenue and Expense Statements covering years 2013 through 2018 with the additional 50 beds; and

- the department’s Hospital and Patient Data Systems’ analysis focusing on current (2010) and projected (2016-2018) debt ratios of HMC.

[source: May 1, 2012, amendment evaluation, pp8-12]

Transfer Application Review

This application requests transfer of the approval from HMC to co-applicant’s FHS and HMC. No other changes in the project are expected. To demonstrate compliance with this sub-criterion, the applicants provided the following documents:

- Projected number of admissions, patient days, and average daily census of the hospital for years 2013 through 2018; and
- Projected Revenue and Expense statements for years 2013 through 2018.

To evaluate this sub-criterion, the department first reviewed the assumptions used by the co-applicants to determine the projected number of admissions and patient days for the hospital. The assumptions are summarized below. [source: May 2, 2014, supplemental information, p3]

- HMC will continue to be a two-campus hospital with a total of 347 licensed acute care beds; and
- Projected payer mix is not expected to change from the historical mix.

Using the assumptions stated above, the hospital’s projected number of admissions, patient days, and average daily census for years 2013 through 2016 is shown in the table below. [source: Application, Exhibit 4]

**Table 4
Projected Admissions, Patient Days, and Average Daily Census
Years 2013 through 2016**

	2013 Partial Year	2014 Full Year 1	2015 Full Year 2	2016 Full Year 3
Number of Admissions	16,084	17,511	18,881	20,327
Number of Patient Days	62,729	68,294	73,635	79,275
Average Daily Census	171.9	187.1	201.7	217.2

A comparison of the projected number of admissions, patient days, and average daily census for this transfer application and the application that resulted in the issuance of CN #1463A, shows no changes in assumptions or projections.

Based on the assumptions summarized above, the projections shown in the table above, and taking into consideration that the hospital will maintain its presence in the community by continuing to operate during construction of the bed addition, the projections shown above continue to be reasonable.

The co-applicants provided the projected revenues, expenses, and net income for HMC for years 2013 through 2018. The table on the following page summarizes a full three years of operation after project completion. [source: Application, Exhibit 4]

Table 5
Projected Revenue and Expense Statements
Years 2013 through 2016

	2013 Partial Year	2014 Full Year 1	2015 Full Year 2	2016 Full Year 3
Net Revenue	\$ 399,938,000	\$ 435,419,000	\$ 469,471,000	\$ 505,430,000
Total Expenses	\$ 389,107,000	\$ 417,545,000	\$ 442,728,000	\$ 468,738,000
Net Profit / (Loss)	\$ 10,831,000	\$ 17,874,000	\$ 26,743,000	\$ 36,692,000

The ‘Net Revenue’ line item is gross inpatient and outpatient revenues minus any deductions for charity care and contractual allowances. The ‘Total Expenses’ line item includes salaries and wages, leases, supplies, bad debt, and depreciation. As shown above, HMC is projected to operate at net profits in all years shown.

A comparison of the revenue and expense statements provided in this transfer application and the application that resulted in the issuance of CN #1463A, shows a decrease in the net revenue line item. The decrease is the direct result of an increase in charity care dollars to be provided at the hospital. The co-applicants projected an increase in charity care dollars to remain in compliance with the charity care conditions attached to CN #1463A.

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

For Certificate of Need applications, HPDS compares the projected ratios with the most recent year’s financial ratio guidelines for hospital operations. For this project, HPDS used 2011 data for comparison. The ratio comparisons are shown in the table below. [source: HPDS analysis, p3]

The A means it is better if the number is above the state number and B means it is better if the number is below the state number. Those figures outside of the preferred range are in bold.

Table 6
Current and Projected HPDS Debt Ratios for Harrison Medical Center

Category	Trend*	State 2011	HMC 2013	Projected 2014	Projected 2015	Projected 2016
Long Term Debt to Equity	B	0.564	0.485	0.403	0.347	0.291
Current Assets/Current Liabilities	A	2.029	2.176	2.115	2.143	2.135
Assets Funded by Liabilities	B	0.442	0.373	0.343	0.316	0.287
Operating Exp. to Operating Rev.	B	0.965	0.973	0.957	0.943	0.926
Debt Service Coverage	A	4.345	4.218	4.507	5.531	6.172

HPDS notes that HMC was slightly out of range in the operating expense to operating revenue ratio in historical year 2013. However, when reviewing all ratios for HMC, the hospital's financial health appears to be stable. HPDS also notes that the applicants project a strong financial health for HMC. [source: HPDS analysis, p3]

There was no public comment submitted related to this sub-criterion.

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

Amendment Evaluation Summary

In its May 1, 2012, amendment evaluation the department concluded that the application met this sub-criterion. This conclusion was reached based on the following factors:

- HMC's rationale for reducing the number of beds to be added from 92 to 50;
- the non-binding construction cost estimator letter confirming the reasonableness of the reduced construction costs; and
- a reasonableness review of the building construction costs in relation to the potential impact on costs and charges.

[source: May 1, 2012, initial evaluation, p12]

Transfer Application Review

This application requests a transfer of CNs #1463 and #1463A to co applicants FHS and HMC. It is also noted that HMC's roles and responsibilities do not change with the transfer. Additionally, there were no additional costs related to the transfer of CNs #1463 and #1463A. There was no public comment submitted related to this sub-criterion.

As a result, there was no additional information reviewed in this transfer application that would change the department's initial conclusion. **This sub-criterion remains 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.

Amendment Evaluation Summary

In its May 1, 2012, amendment evaluation the department concluded that the application met this sub-criterion based on the following factors:

- a breakdown of the reduced capital expenditure of \$24,963,634 for both phases of the project;
- financing for the project from two sources-hospital reserves and non-taxable bonds;
- and the reduced impact of the capital expenditure when compared to the initial application costs of 69,044,953.

[source: May 1, 2012, initial evaluation, pp12-14]

Transfer Application Review

This application requests to transfer CNs #1463 and #1463A from sole applicant HMC to co-applicant's FHS and HMC. In June 2012, before its affiliation with FHS, HMC secured the necessary financing in a private placement bond through the Washington Health Care Facility Authority. Then HMC completed the majority of the project. After affiliation with FHS, HMC refinanced this long term debt with Catholic Health Initiatives, the parent company of FHS. The new financing has a 19 year term with a variable interest rate, which is currently at 4.75%. The new financing is also reflected in the financial statements provided in this transfer application. [source: Application, pp31-32]

In this transfer application, the co-applicants note that the final costs of the project exceed the capital cost increases as allowed under WAC 246-310-570. Documentation in the transfer application supports the co-applicants' intent to submit an amendment application related to the cost increases. [source: Application, pp30-37]

There was no public comment submitted related to this sub-criterion.

Based on the information above, the department concludes that the project was 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 co-applicants' agreement to the conditions identified in the conclusion section of this evaluation, the department determines that the Franciscan Health System and Harrison Medical Center's transfer application has met the structure and process (quality) of care criteria in WAC 246-310-230.

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

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

Initial Evaluation Summary

In its June 1, 2009, initial evaluation the department concluded that the application met this sub-criterion based on the following factors:

- Between the Bremerton and Silverdale campuses, HMC employed approximately 607 FTEs. With the addition of 92 acute care beds at the Silverdale campus, HMC expected to add another 97 FTEs.
- HMC's long history as a reliable employer in the planning area would allow for ease of recruitment of additional staff;
- HMC's ability to recruit both nationally and locally; and
- current medical staff privileges, including physicians and specialists, would remain the same.

[source: June 1, 2009, initial evaluation, pp19-20]

This sub-criterion was not re-evaluated in the May 1, 2012, amendment application.

Transfer Application Review

As in the initial project, the co-applicants planned that HMC would continue its operations at both campuses during the construction project at the Silverdale site. No additional increases in acute care beds or changes in physician privileges are expected under this transfer application. There was no public comment submitted related to this sub-criterion.

There was no additional information reviewed in this transfer application that would change the department's initial conclusion. **This sub-criterion remains met.**

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

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

Initial Evaluation Summary

In its June 1, 2009, initial evaluation the department concluded that the application met this sub-criterion based on the following factors:

- HMC would continue to be located in Kitsap County; and
- the hospital already has long-standing, formal and informal relationships with the existing healthcare community.

[source: June 1, 2009, initial evaluation, p20]

This sub-criterion was not re-evaluated in the May 1, 2012, amendment application.

Transfer Application Review

As in the initial project, the co-applicants planned that HMC would continue its operations at both campuses during construction at the Silverdale campus. Since all ancillary and support relationships have been in place for many years and both the Bremerton and Silverdale campus will remain in operation during construction, the applicants do not expect any changes in the existing relationships. There was no public comment submitted related to this sub-criterion.

There was no additional information reviewed in this transfer application that would change the department's initial conclusion. **This sub-criterion remains 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.

Initial Evaluation Summary

In its June 1, 2009, initial evaluation the department concluded that the application met this sub-criterion based on the following factors:

- the hospital would continue to provide Medicare and Medicaid services to the residents of Kitsap County and surrounding communities; and
- historical compliance surveys for the hospital and key staff revealed no substantial non-compliance issues.

[source: June 1, 2009, initial evaluation, p21]

This sub-criterion was not re-evaluated in the May 1, 2012, amendment application.

Transfer Application Review

Within the transfer application, the co-applicants provided documentation to demonstrate that the project as approved under CN #1463A had not changed. HMC would continue to have two campuses in Kitsap County, with one in Bremerton and one in Silverdale. Financial documents provided in the transfer application also demonstrated that HMC would continue to participate in both the Medicare and Medicaid programs.

During review of this transfer application, the department conducted a review of the quality of care history for HMC and healthcare facilities either owned or operated by its parent, FHS. This updated review revealed no substantial non-compliance issues for HMC or FHS facilities.¹²

¹² Compliance surveys were conducted for HMC's home health agency in January 2012 and November 2013. Compliance surveys were conducted for HMC in August 2010 and November 2012. Compliance surveys for FHS facilities include in-home services in April 2014. For specific FHS affiliated hospitals, St. Anthony was surveyed in October 2012 and April 2014. St. Clare was surveyed in April 2010, June

There was no public comment submitted related to this sub-criterion.

As a result, there was no information reviewed in this transfer application that would change the department's initial conclusion. **This sub-criterion remains 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 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.

Initial Evaluation Summary

In its June 1, 2009, initial evaluation the department concluded that the application met this sub-criterion based on the following factors:

- HMC would continue to be located in Kitsap County;
- the hospital would continue operations at its current site during the bed addition project; and
- the 92 beds would be added to the Silverdale campus which would allow both campuses to have single patient rooms, resulting in an increase in annual patient days, and outpatient procedures.

[source: June 1, 2009, initial evaluation, p21]

This sub-criterion was not re-evaluated in the May 1, 2012, amendment application.

Transfer Application Review

Within the transfer application, the co-applicants provided documentation to demonstrate that the proposed site and physical configuration of HMC had not changed. There was no public comment submitted related to this sub-criterion and there was no information reviewed in this transfer application that would change the department's initial conclusion. **This sub-criterion remains 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.*

Initial Evaluation Summary

In its June 1, 2009, initial evaluation the department concluded that the application met this sub-criterion based on its ability to meet the sub-criterion in sub-section (3) above. [source: June 1, 2009, initial evaluation, p21]

This sub-criterion was not re-evaluated in the May 1, 2012, amendment application.

2011, and January 2013. Enumclaw Regional Hospital was surveyed in February 2010 and January 2014. Highline Medical Center was surveyed in November 2010 and December 2011. St. Joseph was surveyed in August 2011 and May 2014.

Transfer Application Review

There was no public comment submitted related to this sub-criterion and there was no additional information reviewed in the transfer application that would change the department's initial conclusion. **This sub-criterion remains met.**

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

Based on the source information reviewed and the co-applicants' agreement to the conditions identified in the conclusion section of this evaluation, the department determines that the Franciscan Health System and Harrison Medical Center's transfer application 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.

WAC 246-310 does not contain specific WAC 246-310-240(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how to measure superior alternatives for a specific project. Therefore, using its experience and expertise the department assessed the materials in the application that addressed the reasonableness of choosing this project over others considered.

Amendment Evaluation Summary

In its May 1, 2012, amendment evaluation the department concluded that the application met this sub-criterion. Historical data reviewed by HMC revealed that its patient days were decreasing, so HMC considered only the option of reducing the number of beds to be added. The reduction of beds from 92 to 50, resulted in a substantial effect on the capital costs for the project. The department also acknowledged that once HMC made the decision to reduce the beds, an amendment Certificate of Need was required.

Additionally, the amendment application met this sub-criterion based on its ability to meet the review criteria in the applicable sections of WAC 246-210, WAC 246-310-220, and WAC 246-310-230. Therefore, the department would not reject the proposed project base on failing these criteria. [source: May 1, 2012, amendment evaluation, pp14-16]

Transfer Application Review

CNs #1463 and #1463A were both issued to HMC. If the affiliation between HMC and FHS had occurred after completion of the approved projects, no transfer of a CN would have been necessary. However, since the affiliation occurred before the project was complete, a transfer of the CNs is required and no other options were available for FHS and HMC to consider.

WAC 246-310-500(7) allows transfer of an issued CN under limited circumstances. Within this evaluation, the department concluded that the approved project was substantially complete by August 1, 2013—the effective date of the affiliation between FHS and HMC. As a result, the project qualified for transfer of a Certificate of Need.

There was no public comment submitted related to this sub-criterion. There was no additional information reviewed in the transfer application that would change the department's amendment evaluation conclusion. **This sub-criterion remains met.**

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

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

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). There was no public comment submitted related to this sub-criterion. Based on that evaluation, the department concludes that **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 evaluated within the financial feasibility criterion under WAC 246-310-220(2) and is met. There was no public comment submitted related to this sub-criterion. Based on that evaluation, the department concludes that **this sub-criterion is met.**

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

This project has the potential to improve delivery of acute care services to the residents of Kitsap County and surrounding communities. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**