



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH

March 3, 2014

CERTIFIED MAIL # 7011 1570 0002 7809 5612

Nancy Tieman, Vice President  
Strategy, Innovation, and Development  
PeaceHealth St. Joseph Medical Center  
2901 Squalicum Parkway  
Bellingham, Washington 98225

RE: CN 14-08

Dear Ms. Tieman:

We have completed review of the Certificate of Need (CN) application submitted by PeaceHealth proposing to add two level I rehabilitation beds to St. Joseph Medical Center and relocate all rehabilitation services and beds to the main campus. For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided PeaceHealth agrees to the following in its entirety.

**Project Description:**

This certificate approves the addition of two level I rehabilitation beds to St. Joseph Medical Center's 12-bed rehabilitation unit. This certificate also approves the relocation of the entire rehabilitation unit and services to the hospital's main campus on Squalicum Parkway in Bellingham. At project completion, the number and type of approved beds at each campus is below.

PROPOSED CONFIGURATION – 255 TOTAL LICENSED BEDS			
SJMC-Main	# of Beds	SJMC-South	# of Beds
General Medical/Surgical	207		
Level 2 intermediate care nursery	14	No inpatient services or beds at this campus	
Psychiatric (10 PPS Exempt)	20		
Level I Rehabilitation PPS Exempt	14		
<b>Total</b>	<b>255</b>	<b>Total</b>	<b>0</b>

**Condition:**

1. Approval of the project description as stated above. PeaceHealth further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.



Nancy Tieman  
PeaceHealth St. Joseph Medical Center  
March 3, 2014  
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**Approved Costs:**

The approved capital expenditure for this project is \$5,543,923.

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 MARCH 3, 2014, OF THE CERTIFICATE OF NEED  
APPLICATION SUBMITTED BY PEACEHEALTH PROPOSING TO ADD LEVEL I  
REHABILITATION BED CAPACITY TO ST. JOSEPH MEDICAL CENTER AND  
RELOCATE ALL REHABILITATION BEDS AND SERVICES TO THE MAIN CAMPUS**

**APPLICANT DESCRIPTION**

The Sisters of St. Joseph of Peace have been providing healthcare in small communities throughout the Pacific Northwest since 1891. In 1976 they decided to consolidate the healthcare ministries of their Western Province by forming a not-for-profit system, Health and Hospital Services, which was renamed PeaceHealth in 1994. PeaceHealth now operates hospitals, medical office complexes, medical groups, chemical-dependency services, home-health services, medical laboratories, and other services in three states—Alaska, Oregon, and Washington. Below is a listing of the hospitals by state. [source: PeaceHealth website and Application, Exhibit 2]

<b>Alaska</b>	<b>Washington</b>
Ketchikan General Hospital, Ketchikan	St. John Medical Center, Longview
	<b>St. Joseph Medical Center, Bellingham</b>
<b>Oregon</b>	PeaceIsland Medical Center, Friday Harbor
Sacred Heart Medical Center, Riverbend	Southwest Washington Medical Center, Vancouver
Sacred Heart Medical Center, Eugene	United General Hospital, Sedro Woolley <sup>1</sup>
Cottage Grove Community Hospital, Cottage Grove	Ocean Beach Hospital, Ilwaco [management only]
Peace Harbor Hospital, Florence	

**PROJECT DESCRIPTION**

This project focuses on St. Joseph Medical Center (SJMC) shown in bold above at located at 2901 Squalicum Parkway in Bellingham [98225], within Whatcom County. SJMC holds a three-year accreditation with the Joint Commission<sup>2</sup> and is a Washington State designated level II adult trauma hospital and level II rehabilitation hospital. Currently, SJMC is licensed for 253 acute care beds on two separate campuses—main and south—located approximately 3 miles apart. Below is a brief description of each campus.

**SJMC-Main - 2901 Squalicum Parkway in Bellingham**

This campus houses 241 acute care beds, which includes a 14-bed level II intermediate care nursery and a 20-bed PPS exempt psychiatric unit.<sup>3</sup> The main campus provides the general medical surgical services in the county, including on-site open heart surgery.

<sup>1</sup> On June 7, 2013, PeaceHealth was issued Certificate of Need #1504 approving the establishment of a 30-year lease with Skagit County Public Hospital District #304-United General Hospital located in Skagit County. As of the writing of this evaluation, the lease has not been executed.

<sup>2</sup> 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]

<sup>3</sup> 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

SJMC-South - 809 East Chestnut in Bellingham

The south campus houses a 12-bed PPS exempt rehabilitation unit. While no other inpatient services are provided on this campus, some outpatient therapy services are located on the campus.

With this application, PeaceHealth proposes to relocate all acute rehabilitation services from the south campus to the main campus and add two additional beds for the service. If this project is approved, SJMC’s acute care license would increase from 253 to 255 and the rehabilitation unit would increase from 12 beds to 14 beds. Once all rehabilitation services are located on the main campus, there would be no inpatient programs at the south campus. Outpatient therapy services are expected to remain at the south campus for a short time. Within the next 12 to 18 months, PeaceHealth plans to relocate all patient care services currently located on the south campus. [source: Application, p14 and November 4, 2013, supplemental information, p2] Table 1 shows the current and proposed bed configurations for SJMC.

**Table 1  
St. Joseph Medical Center’s Main & South Campuses  
Current and Proposed Bed Configuration**

<b>CURRENT CONFIGURATION – 253 TOTAL LICENSED BEDS</b>			
<b>SJMC-Main</b>	<b># of Beds</b>	<b>SJMC-South</b>	<b># of Beds</b>
General Medical/Surgical	207	Level I Rehabilitation PPS Exempt	12
Level 2 intermediate care nursery	14		
Psychiatric – PPS Exempt	20		
<b>Total</b>	<b>241</b>	<b>Total</b>	<b>12</b>

<b>PROPOSED CONFIGURATION – 255 TOTAL LICENSED BEDS</b>			
<b>SJMC-Main</b>	<b># of Beds</b>	<b>SJMC-South</b>	<b># of Beds</b>
General Medical/Surgical	207		
Level 2 intermediate care nursery	14	No inpatient services or beds at this campus	
Psychiatric (10 PPS Exempt)	20		
Level I Rehabilitation PPS Exempt	14		
<b>Total</b>	<b>255</b>	<b>Total</b>	<b>0</b>

The capital expenditure associated with the addition of two rehabilitation beds and the relocation of all rehabilitation services to the main campus is \$5,543,923. Of that amount 60.9% is related to construction costs and fixed equipment; 18.2% for moveable equipment; and the remaining 20.9% is related to site preparation, fees, permits, and state taxes. [source: November 4, 2013, supplemental information, pp3-4]

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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]

PeaceHealth anticipates the bed addition and relocation would be complete by the end of June 2014. Under this timeline, fiscal year (FY) 2015 is the first year of operation with 255 acute care beds and FY 2017 is year three. [source: Application, pp21-22]

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

The application proposes to increase the bed capacity for SJMC and is subject to Certificate of Need review as the change in bed capacity of a healthcare facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

### **EVALUATION CRITERIA**

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

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

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

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

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

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

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

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment); and applicable portions of the 1987 Washington State Health Plan.<sup>4</sup>

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<sup>4</sup> 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).

## **TYPE OF REVIEW**

This application was reviewed under the regular review timeline outlined in WAC 246-310-160, which is summarized below.

## **APPLICATION CHRONOLOGY**

<b>Action</b>	<b>PeaceHealth</b>
Letter of Intent Submitted	August 1, 2013
Application Submitted	September 13, 2013
Department's pre-review activities including screening and responses	September 14, 2013 through November 25, 2013
Beginning of Review	November 26, 2013
End of Public Comment <ul style="list-style-type: none"><li>• public comments accepted through the end of public comment</li><li>• No public hearing requested or conducted</li></ul>	December 31, 2013
Rebuttal Comments <sup>5</sup>	January 16, 2014
Department's Anticipated Decision Date	March 3, 2014
Department's Actual Decision Date	March 3, 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."*

For this application no entities sought or received affected person status.

## **SOURCE INFORMATION REVIEWED**

- PeaceHealth St. Joseph Medical Center's Certificate of Need application received September 13, 2013
- PeaceHealth St. Joseph Medical Center's supplemental information received November 4, 2013
- Public comments received by December 31, 2013
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Department of Health's Hospital and Patient Data Systems financial feasibility and cost containment analysis received February 7, 2014
- Historical charity care data for years 2009, 2010, and 2011 obtained from the Department of Health Hospital and Patient Data Systems office

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<sup>5</sup> The department received six letters of support and no letters of opposition for this project. PeaceHealth did not provide rebuttal comments to the letters of support.

**SOURCE INFORMATION REVIEWED (continued)**

- Department of Health internal database-Integrated Licensing & Regulatory System (ILRS)
- Joint Commission quality check website at [www.qualitycheck.org](http://www.qualitycheck.org)
- PeaceHealth website at [www.peacehealth.org](http://www.peacehealth.org)
- Washington State Secretary of State website at [www.sos.wa.gov](http://www.sos.wa.gov)
- Washington State Department of Revenue website at [www.dor.wa.gov](http://www.dor.wa.gov)
- Joint Commission website at [www.jointcommission.org](http://www.jointcommission.org)
- The Daily News Online website at [www.tdn.com](http://www.tdn.com)
- Certificate of Need historical files

**CONCLUSION**

For the reasons stated in this evaluation, the application submitted by PeaceHealth proposing to add two level I rehabilitation beds to St. Joseph Medical Center's 12-bed rehabilitation unit and relocate the entire unit and services to the main campus is consistent with applicable criteria of the Certificate of Need Program, provided the applicant agrees to the following in its entirety.

**Project Description:**

This certificate approves the addition of two level I rehabilitation beds to St. Joseph Medical Center's 12-bed rehabilitation unit. This certificate also approves the relocation of the entire rehabilitation unit and services to the hospital's main campus on Squalicum Parkway in Bellingham. At project completion, the number and type of approved beds at each campus is below.

<b>PROPOSED CONFIGURATION – 255 TOTAL LICENSED BEDS</b>			
<b>SJMC-Main</b>	<b># of Beds</b>	<b>SJMC-South</b>	<b># of Beds</b>
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Level 2 intermediate care nursery	14	No inpatient services or beds at this campus	
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Level I Rehabilitation PPS Exempt	14		
<b>Total</b>	<b>255</b>	<b>Total</b>	<b>0</b>

**Conditions:**

1. Approval of the project description as stated above. PeaceHealth further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.

**Approved Costs:**

The approved capital expenditure for this project \$5,543,923.



**CRITERIA DETERMINATIONS**

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

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 PeaceHealth has met the need criteria in WAC 246-310-210.

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

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

PeaceHealth’s Numeric Need Methodology [source: Application, pp23-35and Exhibits 3, 4, 5, and 10]  
 The applicant’s numeric need methodology was based on the following factors: planning area, historical data, population estimates and forecasts, projected use rates, market shares, and current capacity. Table 2 below shows the factors used.

**Table 2  
 PeaceHealth’s Rehabilitation Methodology Assumptions and Data**

<b>Assumption</b>	<b>Data Used</b>
Planning Area	Whatcom County
Historical Data	CHARS data based on years 2003 through 2012 Patients aged 15 and older DRG 945 – Rehabilitation with complications/co-morbidities or major complications/co-morbidities. DRG 946-Rehabilitation without complications/co-morbidities or major complications/co-morbidities
Population Forecasts	Office Of Financial Management Population Data released May 2012. Age group of 15 years and older. Forecast years 2012 through 2019.
Projected Use Rates	Two separate use rates based on population. Ages 15-64 use rate is 8.73 Ages 65+ use rate is 56.05
Market Shares	Based on Year 2012 CHARS data and broken down by age groups <u>Ages 15-64</u> Percentage of Whatcom County residents that obtained rehabilitation services in Whatcom County is 77.21%. Percentage of Washington residents residing outside of Whatcom County that obtained rehabilitation services in Whatcom County 22.79%. <u>Ages 65+</u> Percentage of Whatcom County residents that obtained rehabilitation services in Whatcom County is 94.51%. Percentage of Washington residents residing outside of Whatcom County that obtained rehabilitation services in Whatcom County 5.49%.
Current Capacity	12 level I rehabilitation beds; all are located at SJMC.



Based on the assumptions and data above, PeaceHealth projected the number of rehabilitation beds needed in Whatcom County for years 2012 through 2025. Table 3 below show years 2014 through 2018.

**Table 3  
PeaceHealth’s Rehabilitation Bed Need Projections**

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Total Population	172,762	174,723	176,942	179,229	181,585
Total Patient Days	3,438	3,511	3,596	3,685	3,779
Gross Bed Need	17.12	17.49	17.91	18.36	18.82
Minus Current Supply	12.0	12.0	12.0	12.0	12.0
<b>Net Bed Need</b>	<b>5.12</b>	<b>5.49</b>	<b>5.91</b>	<b>6.36</b>	<b>6.82</b>
SJMC Bed Addition	2.0	2.0	2.0	2.0	2.0
<b>Unmet Bed Need</b>	<b>3.12</b>	<b>3.49</b>	<b>3.91</b>	<b>4.36</b>	<b>4.82</b>

The ‘net bed need’ line item shows that more than five rehabilitation beds are needed in the Whatcom County planning area in 2014, which increases to more than six in 2018. The ‘unmet bed need’ line item also shows that even with SJMC’s increase of two rehabilitation beds, there may still be unmet need in Whatcom County.

During the review of this project, no entities submitted comments directly related to the numeric methodology used by the applicant.

In summary, based on the department’s review of PeaceHealth’s numeric need methodology, need for additional rehabilitation bed capacity in Whatcom County is justified.

PeaceHealth also provided statements related to the population’s need for the additional access to rehabilitation services at SJMC. The statements are summarized below. [source: Application, pp23-24 and p29]

- From 2000 – 2012, the Whatcom County planning area population for ages 15 and older grew 1.8% annually. In 2012, there were over 169,000 residents in the planning area.
- Strongest growth is in the 65+age group. This group grew 2.6% per year in years 2000 to 2012. The age group is expected to grow an average of 3.8% per year for years 2012 through 2015.
- Older residents demand greater levels of health services. The 65+ age group has historically used inpatient rehabilitation services 6.5 times more than the 15-64 age group.
- Specific to SJMC’s rehabilitation services, patient days have grown steadily in the last 10 years [2003 – 2012] averaging 5.9% annual growth.
- In the most recent five years [2008 – 2012] rehabilitation patient days in the county grew at an average of 14.2% annually. Rehabilitation patient day growth has been as high as 14.4% in these five years.
- SJMC is the only acute care hospital in the planning area and the only provider of adult rehabilitation services north of Everett. Historically, rehabilitation patients also come from outside Whatcom County from the counties of Island, San Juan, and Skagit.
- SJMC’s 12-bed rehabilitation unit has been averaging 76% occupancy, resulting in approximately 3 available beds on average.

During the review of this project the department received letters of support from healthcare providers and residents of Whatcom County. All letters expressed strong support for expanded level I rehabilitation services at SJMC. Local physiatrists<sup>6</sup> also submitted letters of support for the project. Excerpts from a few letters of support are below.

*“As a physiatrist working on the current rehabilitation unit, I can attest to the need for increased capacity to appropriately serve our region.”* [Tracey Ouellette, MD]

*“Patient care needs of Whatcom, Skagit, Island, and San Juan counties are growing and there is a bed shortage for inpatient acute rehabilitation.”* [April Sakahara, MD]

*“Two reasons this project should be approved. First, there is need for additional rehabilitation beds in Whatcom County and the larger region. Second, [SJMC] is currently facing bed shortages in its rehabilitation unit. Without additional beds, SJMC will be forced to limit access to the rehabilitation unit.”* [Tim Buckley, MD]

*“Patients and families suffer an extreme hardship when [patients] are forced to travel to Everett or Seattle for necessary rehabilitation.”* [Dr. and Mrs. Frederick Mintz]

There were no letters of opposition submitted for this project.

Based on the above information, need for additional rehabilitation beds located in Whatcom County has been demonstrated. **This sub-criterion is met**

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

PeaceHealth is currently a provider of health care services to residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. As an acute care hospital, SJMC participates in the Medicare and Medicaid programs. To ensure that all residents of the service area would have access to the services provided by this applicant, PeaceHealth must provide specific documentation to demonstrate availability to all residents of the service area and a commitment to maintain its Medicare and Medicaid participation and provide a percentage of charity care in the planning area.

#### Admission Policy

To determine whether all residents of Whatcom County would have access to the proposed services, the department required PeaceHealth to provide a copy of SJMC's 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. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

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<sup>6</sup> A physiatrist is a medical doctor who specializes in physical medicine, rehabilitation, and pain medicine. [source: New World Dictionary, 2<sup>nd</sup> edition]

To demonstrate compliance with this sub-criterion, PeaceHealth provided a copy of the Admission Policy currently used at SJMC [or PeaceIsland Medical Center in San Juan County]. The policy was last reviewed on November 1, 2013, and remains effective until November 1, 2016. The policy outlines the criteria that the hospital uses to admit patients for acute care services. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, color, creed, national origin, religion, gender, age, sexual orientation, marital status, disability, or ability to pay. [source: November 4, 2013, supplemental information, Exhibit 21]

#### Medicare and Medicaid Programs

The department uses Medicare certification to determine whether the elderly would have access or continue to have access to the proposed services. To demonstrate compliance with this sub-criterion, PeaceHealth provided its projected source of revenues by payer for SJMC as a whole. Medicare revenues are projected to be 51% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: November 4, 2013, supplemental information, p2 and Revised Exhibit 16A]

The department uses the facility's Medicaid eligibility or contracting with Medicaid to determine whether low-income residents would have access to the proposed services. To demonstrate compliance with this sub-criterion, PeaceHealth also provided its projected percentage of Medicaid revenues at 13.0% for SJMC. Additionally, the financial data provided in the application shows Medicare revenues. [source: November 4, 2013, supplemental information, p2 and Revised Exhibit 16A]

#### Charity Care Policy

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

To demonstrate compliance with this sub-criterion, PeaceHealth provided a copy of its charity care policy currently used at Washington State PeaceHealth hospitals. The policy has been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. The policy outlines the process one must follow to obtain any financial assistance or charity care. The pro forma financial documents provided in the application also include a charity care 'line item' as a deduction of revenue. [source: November 4, 2013, supplemental information, Revised Exhibit 16A]

For charity care reporting purposes, HPDS divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. SJMC is located in the Puget Sound Region and is the only hospital located in Whatcom County. Currently there are 19 operating hospitals located within the region and two recently approved, yet not operational hospitals, in the region. The 19 operating hospitals are general acute care hospitals; the two recently approved are psychiatric hospitals.

Table 4 on the following page shows the three-year average of charity care provided by the 19 operational hospitals in the region and the three year average of charity care projected to be provided at SJMC. [source: November 4, 2013, supplemental information, Revised Exhibit 16A and HPDS 2009-2011 charity care summaries]

**Table 4**  
**Charity Care Percentage Comparisons**

	<b>% of Total Revenue</b>	<b>% of Adjusted Revenue</b>
Puget Sound Region	2.40%	5.21%
SJMC-Historical	2.37%	6.30%
SJMC-Projected	3.58%	9.94%

As noted in the table above, SJMC’s three year average is comparable to the regional average in both total and adjusted revenues. For this project, SJMC intends to provide charity care above the regional average. Since the amount of charity care calculated from the forecasted financials provided in the application and the three-year historical average is comparable to that for the region, the department concludes PeaceHealth intends to meet this requirement and a condition related to charity care is not necessary.

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

Based on the information provided in the application, the department concludes **this sub-criterion is met.**

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

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

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

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

PeaceHealth anticipates the bed addition and relocation would be complete by the end of June 2014. Under this timeline, fiscal year (FY) 2015 is the first year of operation with 255 acute care beds and FY 2017 is year three. [source: Application, pp21-22]

To evaluate this sub-criterion, the department first reviewed the assumptions used by PeaceHealth to determine the projected number of patients for the rehabilitation unit. The assumptions are summarized below. [source: Application, p12, p17, p24, and p41]

- Since SJMC is already operating a 12-bed rehabilitation unit, the projected utilization is based on historical utilization.
- The 12-bed rehabilitation unit will relocate from the south campus to the main campus. These two campuses are less than 3 miles apart. There is no expected change in the service area.

- The rehabilitation unit is currently located in 8,400 gsf at the south campus; the space at the main campus is 10,400 gsf, which will allow the unit to operate much more efficiently with no space constraints.
- The 12-bed rehabilitation unit has been operating above 70% occupancy for years 2010, 2011, and 2012. The addition of two more rehabilitation beds, from 12 to 14, will allow SJMC's rehabilitation unit to operate at 86% occupancy and still be effective and efficient.
- For years 2011 and 2012, the average length of stay [ALOS] in the rehabilitation unit was 11.83 and 11.61, respectively. For projection purposes, PeaceHealth assumed the ALOS would slightly increase to 11.9 days in FY 2015 with no further increases in subsequent years.
- The 12-bed rehabilitation unit's average daily census has been 9.30 and 9.07 in years 2011 and 2012, respectively. The addition of two more rehabilitation beds will allow the unit to accept more patients and operate with a lower average daily census.

Using the assumptions above, PeaceHealth projected the total number of rehabilitation discharges, patient days, and occupancy for the 14-bed unit. Fiscal years 2015 through 2017 are shown below. [source: Application, p12 and p17]

**Table 5**  
**St. Joseph Medical Center Rehabilitation Cost Center Projections**

	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
# of Discharges	363	369	369
Total Patient Days	4,318	4,392	4,380
Average Length of Stay	11.9	11.9	11.9
Average Daily Census	6.02	6.48	6.95
Percentage of Occupancy	85%	86%	86%

As shown in Table 5 above, with an average length of stay of approximately 12 days, PeaceHealth expects its 14-bed rehabilitation unit to operate efficiently and effectively even at an 86% occupancy.

Based on the assumptions above and taking into consideration the results of the numeric need methodology, the projections provided by PeaceHealth are considered reasonable.

PeaceHealth provided three separate pro forma revenue and expense statements.

- 1) Rehabilitation unit cost center only;
- 2) SJMC as a whole, with the proposed 14-bed level I rehabilitation unit; and
- 3) SJMC as a whole, without the additional two beds and operating the current 12-bed level I rehabilitation unit.

[source: Application, Exhibit 16A, and November 4, 2013, supplemental information, Revised Exhibit 16A]

For the rehabilitation cost center statement, PeaceHealth relied on the assumptions summarized below. [source: Application, p41]

- Gross and net revenues were calculated using FY2013 actuals for rehabilitation services.
- Payer mix is 66.5% Medicare; 6.6% Medicaid; 24.3% commercial/other; and 2.6% self-pay based on FY2013 payer mix.
- Revenues were calculated using the same reimbursement rate as FY2013 revenues.

- All operating expenses, including wages, salaries and benefits, were calculated from FY2013 actuals for the rehabilitation unit.
- The physiatrist medical director fee is included separately within the expenses.
- Expense inflations are not included.

Using the assumptions above, table 6 below illustrates the projected revenue, expenses, and net income for FY2015 through FY2017 for SJMC’s Rehabilitation cost center. [source: Application, Exhibit 16A]

**Table 6**  
**St. Joseph Medical Center Rehabilitation Cost Center Only**  
**Projected Revenue and Expenses Fiscal Years 2015 - 2017**

	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
Net Patient Revenue [1]	\$ 7,149,000	\$ 7,272,000	\$ 7,252,000
Total Operating Expense [2]	\$ 6,468,000	\$ 6,498,000	\$ 6,488,000
Net Profit or (Loss)	\$ 681,000	\$ 774,000	\$ 764,000

[1] includes deductions for bad debt, charity care and contractual allowances

[2] includes allocated costs

As shown in the table above, PeaceHealth projects the 14-bed rehabilitation cost center would be operating at a profit in all three fiscal years of operation.

For the statement of SJMC as a whole with the 14-bed rehabilitation unit, PeaceHealth relied on the assumptions summarized below. [source: Application, pp41-43]

- Aggregate gross and net revenues were based on SJMC FY2013 actuals where actual gross and net revenue figures by payer, per patient day were calculated.
- No revenue inflation is included.
- Reimbursement percentages were assumed to remain constant from FY2013. For the hospital as a whole, they are: Medicare-51.0%; Medicaid-13.0%; and All Other-36.0%
- Charity care is forecast at 3.6% of gross revenue.
- Bad debt is expected to be 2.9% of gross revenues.
- Operating expenses were estimated using SJMC's 2012 operating expenses.
- Annual depreciation expenses were estimated using the capital expenditure and included in each of the forecast years. Life assumptions are 15 years for the facility and fixed equipment and 7.5 years for moveable equipment
- Corporate allocated costs were included by type.

Using the assumptions above, table 7 on the following page illustrates the projected revenue, expenses, and net income for FY2015 through FY2017 for SJMC with the proposed 14-bed rehabilitation cost center. [source: November 4, 2013, supplemental information, Revised Exhibit 16A]

**Table 7**  
**St. Joseph Medical Center with the 14-Bed Rehabilitation Unit**  
**Projected Revenue and Expenses Fiscal Years 2015 - 2017**

	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
Net Patient Revenue [1]	\$ 426,903,000	\$ 430,964,000	\$ 435,653,000
Total Operating Expenses [2]	\$ 355,952,000	\$ 356,891,000	\$ 360,694,000
<b>Net Profit or (Loss)</b>	<b>\$ 70,951,000</b>	<b>\$ 74,073,000</b>	<b>\$ 74,959,000</b>
Plus Non-Operating Revenue	\$ 7,090,000	\$ 12,219,000	\$ 14,735,000
<b>Net Profit or (Loss)</b>	<b>\$ 78,041,000</b>	<b>\$ 86,292,000</b>	<b>\$ 89,694,000</b>

[1] includes deductions for bad debt, charity care and contractual allowances

[2] includes allocated costs and depreciation.

The ‘Net Revenue’ line item above includes both inpatient and outpatient revenue gross revenue, minus any deductions for bad debt, charity care, and contractual allowances. ‘Total Expenses’ include all operating expenses, corporate allocated costs, depreciation, and loan principal expenses. PeaceHealth also included non-operating revenue generated from joint ventures, leases, and other projects not directly related to healthcare provided at SJMC.

As shown in the tables above, PeaceHealth projects the rehabilitation cost center would operate at a profit in all three fiscal years. The rehabilitation services also improve the bottom line for SJMC as a whole.

To assist in the evaluation of this sub-criterion, the department’s Hospital and Patient Data Systems (HPDS) office reviewed historical balance sheets for year 2012. The information is shown in Table 8 below. [source: February 7, 2014, HPDS analysis, p2]

**Table 8**  
**St. Joseph Medical Center Historical Balance Sheet**  
**Year 2012**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$ 169,317,704	Current Liabilities	\$ 56,621,953
Fixed Assets	\$ 146,909,555	Long Term Debt	\$ 31,182,014
Board Designated Assets	\$ 72,215,884	Other Liabilities	\$ 5,839,344
Other Assets [depreciation]	\$ 17,291,931	<b>Equity</b>	<b>\$ 312,091,763</b>
<b>Total Assets</b>	<b>\$ 405,735,074</b>	<b>Total Liabilities and Equity</b>	<b>\$ 405,735,074</b>

After reviewing the historical balance sheet above, HPDS provided the following statements.

*“This project will not adversely affect the financial health of the hospital. Comparing PeaceHealth St. Joseph’s Income statements with and without the project shows the hospital [would be] maintaining its financial health with the additional [two rehabilitation] beds.”*

HPDS also provided a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. If a project’s ratios are within the expected value range, the project can be expected to be financially feasible.



Additionally, HPDS reviews a project’s projected statement of operations to evaluate the applicant’s immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2012 data for comparison with projected fiscal years 2015 through 2017. The ratio comparisons are shown in Table 9 below. [Source: February 7, 2014, HPDS analysis, p3]

**Table 9  
Current and Projected HPDS Debt Ratios for St. Joseph Medical Center**

Category	Trend*	State 2012	Current FY 2013	Projected FY 2015	Projected FY 2016	Projected FY 2017
Long Term Debt to Equity	B	0.551	0.100	N/A	N/A	N/A
Current Assets/Current Liabilities	A	1.937	2.990	N/A	N/A	N/A
Assets Funded by Liabilities	B	0.448	0.216	N/A	N/A	N/A
Operating Expense/Operating Revenue	B	0.940	0.928	0.834	0.828	0.828
Debt Service Coverage	A	5.856	6.575	N/A	N/A	N/A
<b>Definitions:</b>	<b>Formula</b>					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets					
Operating Expense/Operating Revenue	Operating expenses / operating revenue					
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp					

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

As noted above, three of the ratios are not used because no debt is associated with the project. PeaceHealth intends to fund the project using accumulated reserves from the hospital. The affected ratio of operating expenses compared to operating revenues is range in all three projected years.

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

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

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

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

The capital expenditure associated with the addition of two rehabilitation beds and relocation of all beds and services to the main campus is \$5,543,923. A breakdown of the costs is shown on the following page. [source: November 4, 2013, supplemental information, p3]

Item	Cost	% of Total
Construction Costs [includes fixed equipment]	\$ 3,375,831	60.89%
Moveable Equipment	\$ 1,010,499	18.23%
Architect/Engineering/Consulting Fees	\$ 775,982	14.00%
Sales Tax	\$ 381,611	6.88%
<b>Total</b>	<b>\$ 5,543,923</b>	<b>100.00%</b>

After reviewing the costs for the project identified above, HPDS provided the following statements.

*“The costs shown are within past construction costs reviewed by this office. Also construction cost can vary quite a bit due to type of construction, quality of material, custom vs. standard design, building site and other factors. PeaceHealth St. Joseph is adding to an existing building in a facility it currently occupies for healthcare services and will construct the new area to the latest energy and hospital standards.”*

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

Based on the information provided in the application, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health services within the service area. **This sub-criterion is met.**

(3) The project can be appropriately financed.

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

The capital expenditure associated with the relocation of rehabilitation services and the additional two beds is \$5,543,923. The majority of the costs are for construction and fixed/moveable equipment. PeaceHealth intends to fund the project using its accumulated reserves from SJMC. To demonstrate compliance with this sub-criterion, PeaceHealth provided a letter from its Chief Operating Office confirming the commitment. [source: Application, Exhibit 15 and November 4, 2013, supplemental information, p3]

To demonstrate SJMC has the funds to support the financing, PeaceHealth also provided the audited financial statements for years 2010, 2011, and 2012 for SJMC. [source: Application, Exhibit 17] The documents demonstrate that the funds necessary to finance the project are available.

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

Based on the above information, the department concludes that PeaceHealth’s project can be appropriately financed. **This sub-criterion is met.**

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department concludes PeaceHealth has met the structure and process of care criteria in WAC 246-310-230.

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

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of 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.

PeaceHealth intends to add two rehabilitation beds and relocate all beds, services, and staff to the main campus. Since SJMC's 12-bed rehabilitation unit has been operational for many years, it is currently staffed. The addition of two more rehabilitation beds requires a small increase in staff for fiscal year 2015. Current and projected staffing is shown in Table 10 below. [source: Application, p44]

**Table 10  
St. Joseph Medical Center 14-bed Rehabilitation Unit Staff**

	<b>FY 2014 Current</b>	<b>Incremental Increase</b>	<b>Total</b>
Program Manager	1.00	0.00	1.00
RN Manager	0.50	0.00	0.50
RNs	13.30	0.00	13.30
Nursing Assistants	3.50	4.00	7.50
Unit Coordinator	1.20	0.90	2.10
Admissions Coordinator	2.00	0.00	2.00
Recreation Therapist	0.80	0.00	0.80
<b>Total</b>	<b>22.30</b>	<b>4.90</b>	<b>27.20</b>

In addition to the table above, PeaceHealth provided the following clarifications regarding staff of the rehabilitation unit.

- The physiatrist medical director is not included in the staff table because PeaceHealth does not allocate physicians to a hospital department.
- Ancillary staff from other departments within the hospital is not included in the table; however costs for these staff are included in the 'cost allocations' line item in the financial statements.
- Current RN to patient ratio is 3-4 patients/1 nurse because of the rehabilitation unit's isolation from the main campus. Projected RN to patient ratios are 4-5 patients/1 RN.
- Nurse staff flexing will occur when census of the rehabilitation unit reaches 9 patients.
- Staff increases will occur when the census reaches 11 patients.

As noted in the table, PeaceHealth's staff increases are minimal and will increase proportionately as occupancy of the rehabilitation unit increases.

PeaceHealth does not anticipate difficulty recruiting the additional staff for the following reasons:

- many of the staff working in the rehabilitation unit have been with the program for more than 10 years;
- the current unit has a low staff turnover rate--approximately 6% in year 2013;
- PeaceHealth has strategies in place for staff recruitment for all its healthcare facilities. These include maintaining market-competitive salaries / benefits and participating in student training and internships for nursing and therapies; and
- PeaceHealth has employees whose responsibilities include staff recruitment and retention.

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

Based on the information provided in the application, the department concludes staff is available or can be recruited. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

PeaceHealth has been providing healthcare services in Washington State for many years. SJMC has been operating in Whatcom County since 1891 and has maintained appropriate relationships with ancillary and support services.

For this project, PeaceHealth provided documentation of its current relationships with medical groups, home health services, hospice services and other healthcare providers in the community. PeaceHealth states that relocating the rehabilitation services to its main campus would not change these relationships already in place. [source: Application, pp46-47]

Currently PeaceHealth contracts with Psychiatry Associates Inc. for medical director services for the rehabilitation unit and provided a copy of the current Medical Director Agreement. The agreement became effective on October 1, 2011, and was amended on June 29, 2012, to include additional professional services. The agreement identifies roles and responsibilities for both the medical director and PeaceHealth. The costs associated with the agreement were substantiated in the pro forma Revenue and Expense Statement provided in the application. [source: November 4, 2013, supplemental information, Revised Exhibit 16A and Exhibit 22]

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

Based on the above information, the department concludes that this project will have appropriate ancillary and support services and may improve continuity in the provision of health care services in the community. **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.

PeaceHealth owns and operates a variety of healthcare facilities in the states of Alaska, Oregon, and Washington. As part of its review, the department must conclude that the proposed services would be provided in a manner that ensures safe and adequate care to the public.<sup>7</sup>

Focusing on the out-of-state facilities, PeaceHealth owns one hospital in Alaska and four hospitals in Oregon. For these facilities, the department reviewed credentialing data provided by the Joint Commission. Four of the five facilities hold a three year accreditation with the Joint Commission and have been awarded the Gold Seal of Approval.<sup>8</sup> [source: Joint Commission website] The remaining hospital--Cottage Grove Community Hospital--is a smaller, critical access hospital and does not hold Joint Commission accreditation. For this facility, the department reviewed quality of care information directly from the state of Oregon. All information demonstrated that PeaceHealth has been operating in compliance with state and federal guidelines and regulations for its Alaska and Oregon hospitals.

For Washington State, PeaceHealth owns or manages six hospitals. Compliance surveys are conducted by the Department of Health's Investigations and Inspections office. Focusing on most recent years 2011 through 2013, records indicate that the department has completed at least two compliance surveys for each of PeaceHealth's hospitals in Washington State. The compliance surveys revealed no significant deficiencies. Additionally, four of the six hospitals also hold a three year accreditation from the Joint Commission. Of the remaining two hospitals, one--United General Hospital in Sedro Woolley--is not yet part of the PeaceHealth system. PeaceHealth is expected to execute a 30 year lease and management agreement for the hospital within the next six months. While the compliance surveys revealed no significant issues, PeaceHealth would not be held responsible for its compliance history. For the remaining hospital--Ocean Beach Hospital in Ilwaco--PeaceHealth assumed management of the hospital in 2012. [source: The Dailey News Online website] Ocean Beach Hospital's most recent compliance survey in 2013 revealed no significant issues.

PeaceHealth also provided the names and professional license numbers for all staff associated with the rehabilitation unit. Currently PeaceHealth contracts with Psychiatry Associates Inc. for medical director services for the rehabilitation unit. A review of the compliance history for the staff, including the medical director, shows no recorded sanctions.

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

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<sup>7</sup> Washington Administrative Code 246-310-230(5).

<sup>8</sup> The Joint Commission's 'Gold Seal of Approval' is an internationally recognized symbol of that demonstrates a commitment to high quality patient care. [source: Joint Commission website]

Based on the source information reviewed, the department concludes there is reasonable assurance that the rehabilitation unit would continue to be operated 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.

As previously stated, SJMC currently operates a 12-bed rehabilitation unit at the south campus. This project proposes to add two more rehabilitation beds and relocate all beds and services to the main campus. PeaceHealth states that the bed addition and relocation would significantly improve care coordination and patient access to diagnostic and emergency services and support staff at SJMC. Currently, rehabilitation patients requiring inpatient services are transported to the main campus. This process is inefficient and cumbersome. Additionally, the relocation will improve communication and collaboration between the inpatient rehabilitation team and medical, social services, and ancillary staff. [source: Application, pp46-47]

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

Based on the source information reviewed, the department concludes that approval of this project is not expected to result in unwarranted fragmentation in the community. **This sub-criterion is met**

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

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

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

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

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

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

If the project met WAC 246-310-210 through 230 criteria, the department would move to step two in the process and assess the other options the applicant or applicants considered prior to submitting the application under review. If the department determines the proposed project is better or equal to other options the applicant considered before submitting their application, the

determination is either made that this criterion is met (regular or expedited reviews), or in the case of projects under concurrent review, move on to step three.

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

### **Step One**

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

### **Step Two**

Once the applicant determined there was need for additional rehabilitation beds in the planning area, two options were evaluated to meet the need. The options and PeaceHealth's evaluation of each option is discussed below. [source: Application, pp49-53]

#### Add two additional rehabilitation beds and remain at the south campus

This option would require renovation of the existing rehabilitation space at the south campus to accommodate the additional beds and to allow the unit to be all single occupancy. While the capital expenditure required for this option would be less than the current project, there would also be ongoing patient transfer costs that must be considered. Since rehabilitation patients requiring inpatient services are currently transported to the main campus, significant staff costs for these transfers must also be considered with this option.

#### Add seven additional rehabilitation beds and relocate to the main campus

The south campus could not accommodate seven additional beds, so this option also required relocation to the main campus. This option meets the projected planning area need for rehabilitation beds, however, seven additional beds could not be added to the main campus without significantly more capital expenditure for the space. Additionally, this option requires the rehabilitation unit to have some double occupancy rooms. PeaceHealth has already concluded that double occupancy rooms are inefficient for rehabilitation units.

### **Step Three**

This step is used to determine between two or more approvable projects which is the best alternative. Since no other application was reviewed with this project, this step does not apply.

### **Department's Review**

Information provided in this application and during the review demonstrate need for additional rehabilitation beds in Whatcom County. As a result, a 'do nothing' option was appropriately not evaluated by the applicant.



Since SJMC is the only hospital in the county and the only hospital that provides level I rehabilitation services north of Everett in Snohomish County, the rehabilitation unit is a critical component of the healthcare system in northern Washington State.

Once PeaceHealth chose to add rehabilitation beds to the facility, Certificate of Need approval is required. PeaceHealth considered adding all rehabilitation beds that would meet the projected need based on the methodology, however, the option was appropriately rejected based on cost and facility constraints.

The addition of two rehabilitation beds increases access to the services for Whatcom County and surrounding counties. The relocation of the unit to the main campus allows SJMC to operate the rehabilitation unit more efficiently and effectively. Since the main campus is only three miles from the south campus, relocation of the rehabilitation unit does not result in access issues for patients or families.

The department did not identify any other alternatives to those presented by the applicant. There was no public comment related to this sub-criterion.

Based on the information above, the department concludes this project continues to be the best available alternative for the residents Whatcom County and surrounding communities. **This sub-criterion is met.**