



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

July 1, 2016

CERTIFIED MAIL # 7009 0960 0000 5564 6485

Richard Petrich, Vice President
Planning and Business Development
CHI-Franciscan Health
1145 Broadway, #1000
Tacoma, Washington 98402

RE: Certificate of Need Application #16-11A

Dear Mr. Petrich:

We have completed review of the Certificate of Need application submitted on behalf of St. Francis Hospital proposing to establish an ambulatory surgery center in Federal Way, within King County. Enclosed is a written evaluation of the application.

For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided CHI-Franciscan Health agrees to the following in its entirety.

Project Description

This certificate approves the establishment of a two-operating room endoscopy ambulatory surgery center in Federal Way, within southeast King County. The primary endoscopy services provided include colonoscopy, feeding tube replacement, flexible sigmoidoscopy, esophageal dilation, upper endoscopy, esophageal banding, and colonic dilation. Additional services to be provided at the surgery center include GIVEN capsule endoscopy, liver biopsy, and hemorrhoid banding. The endoscopy services will be provided to patients age 18 and older.

Conditions

1. CHI-Franciscan Health agrees with the project description as stated above. CHI-Franciscan Health 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.
2. Before commencement of the project, CHI-Franciscan Health must provide to the department for review and approval, an executed copy of the lease agreement for the

surgical center site. The executed agreement must be consistent with the draft agreement provided in the application.

3. Before commencement of the project, CHI-Franciscan Health must provide to the department for review and approval, an executed Letter of Understanding for the Medical Director Agreement. The executed Letter of Understanding must be consistent with the draft document provided in the application.
4. CHI-Franciscan Health will finance this project using reserves as described in the application.
5. The ambulatory surgery center will provide charity care in compliance with the charity care policy provided in the application, or any subsequent policies reviewed and approved by the Department of Health. CHI-Franciscan Health will use reasonable efforts to provide charity care at the ambulatory surgery center in an amount comparable to or exceeding the average amount of charity care provided by the four hospitals in King County Region. Currently, this amount is 2.03% for gross revenue and 3.84% for adjusted revenue. CHI-Franciscan Health will maintain records at the St. Francis Hospital documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.
6. If the ambulatory surgery center is separately licensed or is sold in the future, the ambulatory surgery center must obtain and maintain Medicare and Medicaid certification.

Approved Capital Costs:

The approved capital expenditure associated with this project is \$2,857,713.

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

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

Send your written response to the Certificate of Need Program, at one of the following addresses.

Mailing Address:

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

Physical Address:

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

Richard Petrich, CHI-Franciscan Health
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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,

A handwritten signature in blue ink, appearing to read "B. Eggen".

Bart Eggen, Acting Director
Community Health Systems

Enclosure

**EVALUATION DATED JULY 1, 2016, OF THE CERTIFICATE OF NEED APPLICATION
SUBMITTED BY CHI-FRANCISCAN HEALTH PROPOSING TO ESTABLISH AN
AMBULATORY SURGERY CENTER IN KING COUNTY**

APPLICANT DESCRIPTION

Catholic Health Initiatives (CHI) is a not-for-profit entity and the parent company of Franciscan Health System. In Washington State, CHI operates owns or operates a variety of healthcare facilities under the 'CHI-Franciscan Health' name. Below is a listing of the eight hospitals, six dialysis centers, hospice care center, hospice agency, and ambulatory surgery center owned or operated by CHI-Franciscan Health. [source: Application, p2, CHI-Franciscan Health website, and CN historical files]

Hospitals

Harrison Medical Center, Bremerton
Highline Medical Center, Burien
Regional Hospital, Tukwila
St. Anthony, Gig Harbor
St. Clare Hospital, Lakewood
St. Elizabeth Hospital, Enumclaw
St. Francis Hospital, Federal Way
St. Joseph Medical Center, Tacoma

Ambulatory Surgery Center

Gig Harbor Ambulatory Surgery Center

Dialysis Centers

Franciscan Bonney Lake Dialysis Center¹
Franciscan Eastside Dialysis Center
Franciscan South Tacoma Dialysis Center
Greater Puyallup Dialysis Center
St. Joseph Medical Center
St. Joseph Dialysis Center Gig Harbor

Hospice Care Center

FHS Hospice Care Center

Hospice Agency

Franciscan Hospice, Tacoma

For this project, CHI-Franciscan Health is the applicant. The site for the project is St. Francis Hospital in Federal Way identified in italics above. [source: Application, p1]

PROJECT DESCRIPTION

St. Francis Hospital (SFH) is located at 34515 - 9th Avenue South in Federal Way [98003] and is licensed for 124 acute care beds, which includes a six-bed level II intermediate care nursery. [source: SFH 2015 license application update and CN historical files] SFH provides a variety of inpatient and outpatient services, including endoscopy services. [source: Application, p7]

This project requests relocation of the hospital's outpatient endoscopy program to a building on the hospital campus, but not physically connected to the hospital. The endoscopy services will be in the same building as the gastroenterology clinic at 34503 - 9th Avenue, #300 in Federal Way [98003]. The endoscopy program will continue to be operated as a hospital outpatient department of SFH and will be licensed under SFH's acute care hospital license. [Application, p7 and February 8, 2016, supplemental information, p4]

Currently, SFH's outpatient endoscopy space includes two operating rooms (ORs), recovery space and associated support space. The primary endoscopy services provided include colonoscopy, feeding tube replacement, flexible sigmoidoscopy, esophageal dilation, upper endoscopy, esophageal banding, and colonic dilation. The endoscopy services are provided to patients age 18 and older, with the majority of patients age 45 and older. The newly-relocated endoscopy center, to be named Franciscan

¹ Franciscan Bonney Lake Dialysis Center is recently approved and not yet operational.

Endoscopy Center (FEC), will continue to have two ORs, recovery and support space. CHI-Franciscan Health intends to expand endoscopic services to include GIVEN capsule endoscopy, liver biopsy, and hemorrhoid banding. [source: Application, pp7-8 and February 8, 2016, supplemental information, p2]

The capital expenditure associated with this project is \$2,857,713. These costs include relocation of the endoscopy services to an existing building, construction costs to bring the ASC portion of the building up to hospital construction code, and all costs associated with moveable equipment. The capital costs also include architect/engineering fees, permits and associated state sales tax. On April 26, 2016, CHI-Franciscan Health submitted its facility plans for review by the department's Construction Review Services office.² [source: February 8, 2016, supplemental information, Attachment 1]

If this project is approved, CHI-Franciscan Health anticipates the relocation will be complete and FEC will be operational in the new site by January 1, 2017. [source: February 8, 2016, supplemental information, p4] Under this timeline, year 2017 is FEC's first full calendar year of operation and year 2019 is year three.

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to review as the construction, development, or other establishment of a new healthcare facility under Revised Code of Washington 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1).

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 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;*

² CRS #60648184.

- (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).³ Additionally, WAC 246-310-270 (ambulatory surgery) contains service or facility specific criteria for ASC projects and must be used to make the required determinations for applicable criteria in WAC 246-310-210.

TYPE OF REVIEW

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

APPLICATION CHRONOLOGY

Action	CHI-Franciscan Health
Letter of Intent Submitted	March 31, 2015
Initial Application Submitted	September 30, 2015
Department’s pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • Applicant Responses Received 	October 21, 2015 February 8, 2016 ⁴
Amendment Application Submitted ⁵	February 8, 2016
Department’s pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • Applicant Responses Received 	March 1, 2016 March 30, 2016
Beginning of Review	April 6, 2016
Public Hearing Conducted	N/A ⁶
Public Comments accepted through the end of public comment	May 11, 2016
Rebuttal Comments Due	May 26, 2016 ⁷
Department's Anticipated Decision Date	July 11, 2016
Department's Actual Decision Date	July 1, 2016

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

⁴ On December 7, 2015, the program granted CHI-Franciscan Health's request for a 60-day extension to respond to the October 21, 2015, request for supplemental information.

⁵ Once an amendment application is received, the initial application is no longer considered in a review. As a result, the initial application will not be discussed in this evaluation.

⁶ No public hearing was requested or conducted.

⁷ There were no public comments submitted for this application. As a result, no rebuttal comments could be accepted.

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.”*

As noted above, WAC 246-310-010(2) requires an affected person to first meet the definition of an 'interested person.' WAC 246-310-010(34) defines 'interested person' as:

- (a) *The applicant;*
- (b) *Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;*
- (c) *Third-party payers reimbursing health care facilities in the health service area;*
- (d) *Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;*
- (e) *Health care facilities and health maintenance organizations which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;*
- (f) *Any person residing within the geographic area to be served by the applicant; and*
- (g) *Any person regularly using health care facilities within the geographic area to be served by the applicant.*

During the review of this project, no entities requested to receive interested or affected person status.

SOURCE INFORMATION REVIEWED

- CHI-Franciscan Health Certificate of Need amended application received on February 8, 2016
- CHI-Franciscan Health's supplemental information received February 8, 2016 and March 30, 2016
- Year 2015 Annual Ambulatory Surgery Provider Survey for Surgical Procedures Performed During Calendar Year 2014 for hospitals, ambulatory surgery centers, or ambulatory surgical facilities located in southeast King County
- CHI-Franciscan Health St. Francis Hospital's 2015 Hospital License Application annual update
- Department of Health's Integrated Licensing and Regulatory System [ILRS] data obtained for ambulatory surgery centers or ambulatory surgical facilities located in southeast King County.
- Claritas population data obtained in year 2015
- Licensing data provided by the Medical Quality Assurance Commission
- Dialysis Facility compliance survey data provided by Department of Health's Investigations and Inspections Office
- Hospital, ambulatory surgery center, hospice agency, and hospice care center compliance survey data provided by Integrated Licensing and Regulatory System [ILRS] data
- United States Postal Service website at www.usps.com
- Washington State Secretary of State website at www.sos.wa.gov
- Washington State Department of Revenue website at www.dor.wa.gov
- CHI-Franciscan Health's website at www.chifranciscan.org

SOURCE INFORMATION REVIEWED (continued)

- CHI-Franciscan Health-St. Francis Hospital's website at www.chifranciscan.org/st-francis-hospital
- Joint Commission website at www.qualitycheck.org
- Certificate of Need historical files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by CHI-Franciscan Health proposing to establish a Certificate of Need approved ambulatory surgery center in Federal Way, within Southeast King County is consistent with applicable criteria of the Certificate of Need Program, provided CHI-Franciscan Health agrees to the following in its entirety.

Project Description:

This certificate approves the establishment of a two-operating room endoscopy ambulatory surgery center in Federal Way, within southeast King County. The primary endoscopy services provided include colonoscopy, feeding tube replacement, flexible sigmoidoscopy, esophageal dilation, upper endoscopy, esophageal banding, and colonic dilation. Additional services to be provided at the surgery center include GIVEN capsule endoscopy, liver biopsy, and hemorrhoid banding. The endoscopy services will be provided to patients age 18 and older.

Conditions:

1. CHI-Franciscan Health agrees with the project description as stated above. CHI-Franciscan Health 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.
2. Before commencement of the project, CHI-Franciscan Health must provide to the department for review and approval, an executed copy of the lease agreement for the surgical center site. The executed agreement must be consistent with the draft agreement provided in the application.
3. Before commencement of the project, CHI-Franciscan Health must provide to the department for review and approval, an executed Letter of Understanding for the Medical Director Agreement. The executed Letter of Understanding must be consistent with the draft document provided in the application.
4. CHI-Franciscan Health will finance this project using reserves as described in the application.
5. The ambulatory surgery center will provide charity care in compliance with the charity care policy provided in the application, or any subsequent policies reviewed and approved by the Department of Health. CHI-Franciscan Health will use reasonable efforts to provide charity care at the ambulatory surgery center in an amount comparable to or exceeding the average amount of charity care provided by the four hospitals in King County Region. Currently, this amount is 2.03% for gross revenue and 3.84% for adjusted revenue. CHI-Franciscan Health will maintain records at the St. Francis Hospital documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.
6. If the ambulatory surgery center is separately licensed or is sold in the future, the ambulatory surgery center must obtain and maintain Medicare and Medicaid certification.

Approved Costs:

The approved capital expenditure associated with this project is \$2,857,713.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI-Franciscan Health met the applicable 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 246-310-270(9)-Ambulatory Surgery Numeric Methodology

The Department of Health's Certificate of Need Program uses the numeric methodology outlined in WAC 246-310-270 for determining the numeric need for additional ASCs in Washington State. The numeric methodology provides a basis of comparison of existing operating room (OR) capacity for both outpatient and inpatient ORs in a planning area using the current utilization of existing providers. The methodology separates Washington State into 54 secondary health services planning areas. SFH is currently located in the Southeast King County planning area. The endoscopy surgery center will be located in a separate building on the hospital campus.

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

- a) whether a surplus or shortage of ORs is predicted to exist in the target year; and
- b) if a shortage of ORs is predicted, the shortage of dedicated outpatient and mixed-use rooms are calculated.

Data used to make these projections specifically exclude special purpose and endoscopy rooms and procedures.

CHI-Franciscan Health Numeric Methodology

[source: February 8, 2016, supplemental information, Attachment 8]

CHI-Franciscan Health determined existing capacity in the Southeast King County planning area to be 10 dedicated outpatient ORs and 34 mixed use ORs. Based on 2014 utilization and population data, CHI-Franciscan Health's methodology identified a use rate of 87.39/1,000 population. Focusing on year 2018, the applicant projected Southeast King County's population to be 617,975. Applying the use rate to the projected population and subtracting the existing number of ORs in the planning area, CHI-Franciscan Health projected a surplus of 6.63 mixed use ORs in Southeast King County for projection year 2019.

Department's Numeric Methodology and Review

The numeric portion of the methodology requires a calculation of the annual capacity of the existing providers' inpatient and outpatient ORs in a planning area—Southeast King County. To determine the zip codes associated with Southeast King County, the department relied on the map and breakdown of zip codes identified in the 1980 State Health Plan for Southeast King County. While the State Health Plan was sunset in 1989, it continues to be a reliable tool for some projects. The department continues to use the zip codes listed by planning area as a starting point for determining ASC planning area zip codes.

For ASC planning areas, the state health plan identifies 15 Southeast King County zip codes. Of the 15 zip codes, three should not be used for the Southeast King planning area,⁸ resulting in 12 valid Southeast King County zip codes listed. Of the remaining 12 zip codes, three are specific to post office boxes and do not have any population associated with them.⁹ When the remaining 9 zip codes are charted on a zip code map, inclusion of 10 additional zip codes appears reasonable based on the geographic location the zip codes.¹⁰ Table 1 below shows the zip codes and associated cities for the 19 zip codes with associated population included in the Southeast King County planning area.

Table 1
Southeast King County Planning Area Zip Codes

Zip Code	City by Zip Code
98001	Auburn
98002	Auburn
98003	Federal Way
98010	Black Diamond
98022	Enumclaw
98023	Federal Way
98030	Kent
98031	Kent
98032	Kent
98038	Maple Valley
98042	Kent/Covington
98047	Pacific
98051	Ravensdale
98055	Renton
98056	Renton/Newcastle
98057	Renton
98058	Renton
98059	Renton/Newcastle
98092	Auburn

According to the department’s historical records, there are 22 Southeast King County planning area providers—including SFH—with OR capacity. Of the 22 providers, five are hospital campuses and seventeen are ASCs. Table 2 on the following page shows a listing of the five hospital campuses. [source: CN historic files and DOH ILRS database]

⁸ 98015 is located in Bellevue, within the east King County planning area; 98048 and 98054 are not valid zip codes according to the United States Postal Service website.

⁹ 98025 (Hobart), 98035 (Kent), and 98064 (Kent).

¹⁰ The ten additional zip codes are 98001, 98023, 98030, 98032, 98042, 98056, 98057, 98058, 98059, and 98092.

Table 2
Southeast King County Planning Area Hospitals

Hospitals	City/Zip	DOH License
CHI-Franciscan St. Elizabeth Hospital	Enumclaw/98022	HAC.FS.00000035
CHI-Franciscan St. Francis Hospital	Federal Way/98003	HAC.FS.00000201
MultiCare Health System-Auburn Medical Center	Auburn/98001	HAC.FS.60311052
MultiCare Health System-Covington Hospital	Covington/98042	Not Yet Operational
UW Medicine/Valley Medical Center	Renton/98055	HAC.FS.00000155

Of the five hospitals listed above, four are currently operating and all known OR capacity and inpatient / mixed-use and outpatient procedures are included in the methodology calculations for the planning area.

Because there is no mandatory reporting requirement for utilization of ASCs or hospital ORs, the department sends an annual utilization survey to all hospitals and known ASCs in the state. When this application was submitted in September 2015, the most recent utilization survey was mailed in 2015 and collected data for year 2014. The data provided in the utilization survey is used if available. All four operating hospitals completed and submitted the 2015 Annual Ambulatory Surgery Provider Survey.

MultiCare's Covington Hospital is currently under construction. On January 22, 2016, MultiCare submitted its 'Functional Program Narrative' to the Department of Health's Construction Review Services office. Within the functional plans, MultiCare identified three ORs for the hospital. [source: Covington Hospital Functional Plan Narrative, Revised January 22, 2016, Section 4-Surgery/Peri-Operative Services] For the numeric methodology, all three ORs will be included in the capacity count. No procedures will be counted for MultiCare's Covington Hospital since it is not yet operational.

Table 3 below is a listing of the 17 ASCs in the planning area.

Table 3
Southeast King County Planning Area Ambulatory Surgery Centers/Facilities

Ambulatory Surgery Centers	City/Zip
Auburn Surgery Center	Auburn/98002
Cascade Surgery Center	Auburn/98002
ENT Facial & Allergy	Enumclaw/98022
Evergreen Eye Center	Federal Way/98003
Fogel Endoscopy Center	Federal Way/98003
Northwest Eye Surgeons	Renton/98057
Plastic and Reconstructive Surgeons	Renton/98055
Proliance Orthopedic Associates	Renton/98055
Rainier Surgical Center	Federal Way/98003
Sound Interventional Pain Management	Auburn/98002
SouthLake Clinic	Renton/98055
Sports Medicine Day Surgery	Renton/98055

Table 3 (continued)
Southeast King County Planning Area Ambulatory Surgery Centers/Facilities

Ambulatory Surgery Centers	City/Zip
Surgery Center Enumclaw	Enumclaw/98022
Valley Eye and Laser Center, Inc.	Renton/98055
Virginia Mason surgery Center	Federal Way/98003
VP Surgery Center	Auburn/98001
Women's and Family Health Specialists	Renton/98057

Of the 17 ASCs shown above, two are dedicated to endoscopy services—Fogel Endoscopy Center and SouthLake Clinic. Even though Fogel Endoscopy Center is a CN approved facility¹¹, OR capacity and procedures are deliberately excluded from the numeric methodology.¹² As a result, the ORs and procedures for both of these ASCs will not be counted.

For the remaining 15 ASCs, 14 are located within a solo or group practice and the use of these ASCs is restricted to physicians that are employees or members of the clinical practices that operate the facilities (considered an exempt ASC). Therefore, these 14 facilities do not meet the ASC definition in WAC 246-310-010. For exempt ASCs, the utilization, but not ORs, is included in the methodology for the planning area.

The remaining ASC—VP Surgery Center—was issued CN #1499 on February 21, 2013, and continues to operate as a freestanding surgery center. Both the ORs and the utilization for this facility will be counted in the numeric methodology.

In summary, of the 15 remaining ASCs, data will be used for 14 CN exempt ASCs and one CN approved ASC. If an ASC does not complete and return a utilization survey, then the other data source that can be used is the department's internal database known as Integrated Licensing and Regulatory System [ILRS].

The data points used in the department's numeric methodology are identified in Table 4 on the following page. The methodology and supporting data used by the department is provided in Appendix A attached to this evaluation.

¹¹ On February 9, 2005, CN #1302 was issued to Western Washington Endoscopy Centers, LLC approving the establishment of this endoscopy surgery center. The facility was later renamed 'Fogel Endoscopy Center.'

¹² WAC 246-310-270(9)(iv).

**Table 4
Department's Methodology Assumptions and Data**

Assumption	Data Used
Planning Area	Southeast King County
Population Estimates and Forecasts	Age group: 18 and older Claritas Population Data released May 2015 Year 2014 – 449,471 Year 2019 – 483,342
Use Rate	Divide calculated surgical cases by 2014 population results in the service area use rate of 93.590/1,000 population
Year 2014 Total Surgical Cases	Inpatient or mixed use – 20,192 Ambulatory (outpatient) – 21,874 Total = 42,066
Percent of surgery : ambulatory (outpatient) and inpatient	Based on DOH survey and ILRS data Inpatient – 48.0% Ambulatory (outpatient) – 52.0%
Average minutes per case ambulatory (outpatient) and inpatient	Based on DOH survey and ILRS data Inpatient cases – 112.11 minutes Ambulatory (outpatient) cases – 50.76 minutes;
OR Annual capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes (per methodology in rule)
Existing providers/ORs	Based on listing of Southeast King County providers. Inpatient or mixed-use – 34 Ambulatory (outpatient) – 6
Department's Methodology Results	Shortage (Need) of 11.34 dedicated outpatient ORs

When comparing the applicant's and department's methodologies, the department notes differences in almost every data point identified in Table 4 above. CHI-Franciscan Health provided a printed copy of the methodology used, however, not all data points shown in Table 4 are shown in the printed methodology. Noted differences are in the data points shown below.

Data Points
Population Estimates and Forecasts
Use Rate
2014 Surgical Cases
Percent of surgery: ambulatory vs inpatient
Average minutes per case
Existing Providers/ORs

These six data points are tightly connected. When the 2014 total number of surgical cases is divided by the year 2014 population, the result is a planning area use rate. The use rate is then applied to the projected population.

The percentage of ambulatory surgery is calculated by dividing the total number of ambulatory cases by the total number of cases in the planning area. Percentage of inpatient surgery is calculated using total number of inpatient cases. The percentages are then applied to the projected number of cases.

The average minutes per case is calculated by dividing the total number of minutes by the total number of surgical cases. Ambulatory and inpatient are calculated separately. The average minutes are applied to the projected number of cases.

Once the methodology projects the number of ORs needed in a planning area, the existing number of ORs is subtracted, resulting in the net need or surplus of ORs for a planning area.

Below is a comparison of the applicant's and department's methodologies.

Population Estimates/Forecasts

While the source of the applicant's Southeast King County population is not identified, based on the availability of data by zip codes, the department believes that the applicant used 2014 Claritas data, obtained in year 2015. This is the same data source that the department used.

CHI-Franciscan Health used 2014 historical population data and forecasted to year 2018. The department used 2014 historical population and forecasted to year 2019. Population figures are significantly different in the two methodologies. While not identified, it appears that the applicant used population for age group 0 - 85+. Since the application states that residents age 18 and older would be served, the department focused on the population for Southeast King County residents age 18 and older. This approach resulted in significant differences in the population figures used and affected the calculated use rate. Below is the projected population figures used by both applicant and the department. The applicant's current year—2014 population—is not shown in the table below because the applicant did not provide it.

	Applicant	Department
Year 2014-Current	-----	449,471
Year 2018-Projected	617,975	-----
Year 2019-Projected	-----	483,342

It is unclear why CHI-Franciscan Health projected to year 2018, rather than 2019. Generally, the department bases its projection year on two factors: 1) the available historical utilization data and 2) the third year of operation for the project. For this project, available historical utilization data is 2014, collected in 2015. The third year of operation for the surgery center is year 2019. Given that a decision on this project would be completed in mid-year 2016, projecting to year 2019 is reasonable.

Use Rate

A use rate per 1,000 residents is calculated by dividing the total number of surgeries by the current year (2014) population and then dividing by 1,000. The applicant calculated a use rate of 87.39/1,000 based on all residents, regardless of age, for Southeast King County. The department calculated a use rate of 93.590/1,000 residents of Southeast King County age 18 and older. For this project, the department's use rate is more accurate because it relies on a population base consistent with the services provided to the specific age group identified in the application.

2014 Surgical Cases and Average Minutes per Case

CHI-Franciscan Health identified the year 2014 total number of surgical cases to be 51,149. The department identified the total number of surgical cases to be 42,066. Below is a breakdown of total cases for inpatient and outpatient.

	Applicant	Department
Inpatient	19,787	20,192
Outpatient	31,362	21,874
Total	51,149	42,066

As shown above, the applicant’s and department’s inpatient calculations are similar. For outpatient cases, the difference in the two calculations is 9,488. The difference can be attributed to the following factors:

- Applicant’s inclusion of 1,421 cases associated with MultiCare’s Covington Hospital that is not yet operational.
- Applicant’s count of 2,105 surgical cases at VP Surgery Center vs the department’s count of 1,000 cases based on the 2015 survey responses.
- Applicant’s count of 7,737 endoscopy cases at Fogel Endoscopy. Since this facility is dedicated to endoscopy procedures, the cases and ORs are not counted even though the facility was issued CN #1302 in February 2005.

Both the applicant and the department divided the surgical minutes by the number of cases to calculate the average minutes per case. This is calculated for inpatient and outpatient separately. The result of the calculation is shown below.

	Applicant	Department
Inpatient	90.248	112.11
Outpatient	41.742	50.76

Percentage of Surgery: Inpatient and Outpatient

Once calculated, the percentages are applied to the 2019 projected number of cases to determine the projected number inpatient and outpatient cases. The result of the calculation is shown below.

	Applicant	Department
Percentage Inpatient	38.7%	48.0%
Percentage Outpatient	61.3%	52.0%
Total Projected Number of Cases*	54,008	45,214
Projected Number of Cases-Inpatient	20,893	21,703
Projected Number of Cases-Outpatient	33,115	23,511

*=CHI-Franciscan projected 54,008 cases in year 2018;
the department projected 45,236 cases in 2019

Number of ORs Counted

Once the methodology projects the number of ORs needed in a planning area, the existing number of ORs is subtracted, resulting in the net need or surplus of ORs for a planning area. Below is the comparison breakdown of mixed use and outpatient ORs counted for Southeast King County.

Facility	Applicant		Department	
	Mixed Use	Outpt	Mixed Use	Outpt
CHI-Franciscan St. Elizabeth Hospital	3	0	3	0
CHI-Franciscan St. Francis Hospital	8	0	8	0
MultiCare Health System-Auburn Medical Center	10	0	7	0
MultiCare Health System-Covington Hospital	0	4	3	0
UW Medicine/Valley Medical Center	13	3	13	3
VP Surgery Center	0	3	0	3
Total OR Count	34	10	34	6

As shown above, the differences in the OR counts are in MultiCare’s Auburn and Covington hospitals. For MultiCare’s Auburn Medical Center, CHI-Franciscan Health counted 10 mixed use ORs and the department counted 7. In its most recent utilization survey, MultiCare identified 7 mixed use ORs at Auburn Medical Center.¹³

For MultiCare’s Covington Hospital, CHI-Franciscan Health counted 4 dedicated outpatient ORs. As previously stated, MultiCare's Covington Hospital is currently under construction. To determine the number of ORs at the hospital, the department reviewed MultiCare’s January 22, 2016, Functional Program Narrative. The Functional Program identifies three mixed use ORs are under construction at Covington Hospital.

Based on the above explanation, the department’s OR count of 34 mixed use and 6 outpatient is the correct current capacity that should be subtracted from the projected gross need.

In summary, for the numeric methodology, the department will rely on its own methodology for this project. Based on the assumptions described above, the department’s application of the numeric methodology indicates a need of 11.34 outpatient ORs in year 2019.

CHI-Franciscan Health also provided the following statements related to the numeric methodology and the continued need for the endoscopy services to be provided at FEC. [source: Application, p14]

"...while the department will calculate need for all ASC types as part of the initial review of this application, in Step 2 it recognizes that dedicated endoscopy ORs (capacity and utilization) are excluded from the methodology in WAC, and then—regardless of whether the methodology in WAC shows a need for additional ORs or a surplus, focuses its remaining analysis on the specific need for the endoscopy and gastro services proposed within the application."

To support this project as referenced above, CHI-Franciscan Health also provided six-years of historical data showing inpatient and outpatient endoscopy procedures provided at SFH. The historical data is summarized in Table 5 on the following page. [source: Application, p6]

¹³ The most recent survey was submitted to the department on September 30, 2015, and collected 2014 data.

Table 5
St. Francis Hospital-Endoscopy Services
Six-Year Data

Year*	Inpatient Procedures	Outpatient Procedures	Total Procedures
2010	677	1,496	2,173
2011	637	1,376	2,013
2012	593	790	1,383
2013	586	1,443	2,029
2014	468	1,429	1,897
2015	526	1,527	2,053

* Procedures are provided in fiscal years, rather than calendar years.

As shown in Table 5 above, the majority of endoscopy procedures are provided in the outpatient setting. The decrease of outpatient procedures in year 2012 is directly related to the 2012 retirement of a well-established physician. Other than the decrease in 2012, the number of outpatient procedures has been near or above 1,400 each year. [source: February 8, 2016, supplemental information, p1] Within its application, CHI-Franciscan Health states that approximately 85%—or 1,200—of the outpatient cases currently performed at SFH would be appropriate for the new location. [source: Application, p17]

CHI-Franciscan Health also provided its year 2014 patient origin data which is summarized in Table 6 below. [source: Application, p17]

Table 6
St. Francis Hospital Endoscopy Services
Year 2014 Patient Origin

Planning Area	% of Patients
Southeast King County	64.4%
Remaining King County	7.2%
Pierce County	23.7%
Other	4.6%
Total	100.0%

Table 6 shows that the majority of patients—approximately 64%—are from the applicant’s planning area of Southeast King County. Based on its location in southern King County, SFH also draws a moderate percentage of patients from Pierce County.

CHI-Franciscan Health also states that currently endoscopy patients are integrated into the larger inpatient/outpatient surgery department at SFH. The endoscopy area cannot accommodate any significant growth of inpatient or outpatient cases. Once the outpatient cases are relocated from SFH’s inpatient area, additional outpatient cases can be accommodated. Further, more inpatient space will be available for those endoscopy patients requiring the inpatient setting. [source: Application, p15]

CHI-Franciscan Health is in the process of recruiting another gastroenterologist into the SFH community that would start providing services when FEC is operational at the new site. In mid-year 2017, CHI-Franciscan Health intends to begin recruitment of a second new gastroenterologist,

with the intent of starting services in late 2017 or early 2018. The new location of outpatient services allows for this expansion of staff and services. [source: Application, p17]

Based on its application of the numeric methodology, historical number of procedures and patient origin data, CHI-Franciscan Health concluded there is need for the dedicated endoscopy ORs in the planning area and the ASC is needed to continue to provide much needed endoscopy services in southeast King County.

There was no public comment submitted related to the numeric methodology.

WAC 246-310-270(6)

WAC 246-310-270(6) requires a minimum of two ORs in an ASC. SFH currently uses two of its ORs for endoscopy procedures. CHI-Franciscan Health intends to co-locate the endoscopy surgery center with its existing GI clinic. The clinic already has necessary support space and can easily accommodate two ORs. No increase in ORs is planned. [source: February 8, 2016, supplemental information, p1 & Attachment 1] Based on this information, this standard is met.

There was no public comment submitted related to this standard.

Based solely on the department's numeric methodology, numeric need for additional OR capacity in Southeast King County planning area is demonstrated. The department recognizes the numeric methodology deliberately excludes special purpose rooms, such as endoscopy ORs. As a result, the numeric methodology should not be solely relied on to determine need for dedicated endoscopy ORs such as those proposed in this project. If this project is not approved, more than 1,400 endoscopic procedures would need to be performed in other facilities. No existing providers indicated they could absorb these procedures.

Based on the applicant's supporting data demonstrating historical services and the ability to meet the standard under WAC 246-310-270(6), the department concludes **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.

Even though SFH has been providing healthcare services to the residents of Southeast King County for many years, for CN purposes, the relocation of the outpatient endoscopy services to the new site is considered the establishment of new healthcare facility. To demonstrate that all residents of the service area would have access to the services provided by FEC at the new location, the applicant must demonstrate availability to all residents of the service are, including low income, racial and ethnic minorities, handicapped, and other underserved groups. FEC must also participate in the Medicare and Medicaid programs and commit to providing a percentage of charity care in the planning area.

Admission Policy

To determine whether all residents of the planning area would have access to an applicant's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the service area would have access to 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.

During the review of this project, CHI-Franciscan Health clarified that since FEC would be operated by SFH as an outpatient department of the hospital and included in SFH's hospital license, no separate policies would be created for FEC. For this project, all policies would be those already used by CHI-Franciscan Health hospitals. [source: February 8, 2016, supplemental information, p13]

To demonstrate compliance with this sub-criterion, CHI-Franciscan Health provided copies of the current Patient Rights and Responsibilities on Admission Policy and the Non-Discrimination Policy use for all CHI-Franciscan Health hospitals. These are the policies that were reviewed and approved by the Department of Health and are published on the CHI-Franciscan Health website.

The Patient Rights and Responsibilities on Admission Policy provides a detailed description of each patient's rights related to any proposed treatment or procedure at any CHI-Franciscan Health hospital. This policy does not include the required non-discrimination language referenced above. [source: Application, Exhibit 9]

The Non-Discrimination Policy includes the following non-discrimination language:

Franciscan Health System does not exclude, deny benefits to, or otherwise discriminate against any person on the basis of race, color, national origin, religion, sexual orientation, physical, mental or other disability, economic status, citizenship, medical condition, or age in admission to, participation in, or receipt of the services and benefits under any of its programs and activities, whether carried out by Franciscan Health System directly or through a contractor or any other entity with which Franciscan Health System arranges to carry out its program and activities.

The Non-Discrimination Policy includes the steps taken by CHI-Franciscan Health to ensure non-discrimination for patients with hearing, eyesight, and language barriers. The policy also includes the process a patient would use to file discrimination grievances, if necessary. [source: Application, Exhibit 9] The Non-Discrimination Policy is used in conjunction with the Patient Rights and Responsibilities on Admission Policy described above.

Medicare and Medicaid Programs

The department uses Medicare certification to determine whether the elderly would have access, or continue to have access, to services. The department uses the facility's Medicaid certification to determine whether low-income residents would have access, or continue to have access, to services.

CHI-Franciscan Health stated that SFH currently provides services to Medicare and Medicaid patients and if this project is approved, the outpatient endoscopy services would continue to be accessible to these patients. To demonstrate compliance with this sub-criterion, CHI-Franciscan Health provided its current and projected percentages of payer mix, for the endoscopy surgery center and SFH as a whole. The payer mix percentages are shown in Table 7 on the following page. [source: Application, p9]

Table 7
Projected Payer Mix Percentages

Source	Endoscopy Only	St. Francis Hospital
Medicare	26.0%	37.2%
Medicaid	27.6%	22.4%
Commercial	44.2%	33.8%
Other	2.2%	6.6%
Total	100.0%	100.0%

As shown in Table 7 above, 53.6% of the endoscopy patients are expected to be Medicare or Medicaid patients; for SFH, 59.6% are expected to be Medicare or Medicaid patients. Financial documents provided in the application also demonstrate that endoscopy services will continue to be available to the Medicare and Medicaid population at the ASC. [source: Application, Exhibit 9 and March 30, 2016, supplemental information, Attachment 1]

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, CHI-Franciscan Health provided a copy of its current Charity Care Policy that has been reviewed and approved by the Department of Health and is published on the CHI-Franciscan Health website. The 18-page policy provides the process one must use to access charity care and encompasses, by reference, all healthcare facilities owned or operated by CHI-Franciscan Health. The policy states that charity care is available for emergency services, inpatient and outpatient services, and diagnostic services. The current policy does not include any of the non-discrimination language referenced above, however, the Non-Discrimination Policy is used in conjunction with the Charity Care Policy. The pro forma financial documents provided in the application also include a charity care ‘line item.’ [source: Application, Exhibit 9 and March 30, 2016, supplemental information, Attachment 1]

WAC 246-310-270(7)

WAC 246-310-270(7) requires that ASCs shall implement policies to provide access to individuals unable to pay consistent with charity care levels reported by the hospitals affected by the proposed ASC. For charity care reporting purposes, HPDS, divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. FEC is to be located in Federal Way, within King County. Currently, there are 21 hospitals operating in the King County Region, including four of the eight hospitals owned and operated by CHI-Franciscan Health. Of the 21 hospitals, four are located in Southeast King County and could be affected by approval of this project. The four Southeast King County hospitals are listed below.

- FHS-St. Elizabeth Hospital in Enumclaw
- FHS-St. Francis Hospital in Federal Way
- MultiCare Auburn Medical Center in Auburn
- UW/Valley Medical Center in Renton

For this project, the department reviewed the most recent three years of charity care data for the 21 existing hospitals currently operating within the King County Region and focused on the four general acute care hospitals located in Southeast King County. The three years reviewed are 2012, 2013, and 2014.¹⁴

Table 7 below is a comparison of the historical average charity care for the King County Region as a whole¹⁵; SFH separately; and the combined charity care percentages for the four hospitals in Southeast King County, including SFH. [source: 2012-2014 HPDS charity care summaries]

The table also shows projected charity care for FEC alone, and since FEC will be operated as an outpatient department of SFH, projected percentages of charity care for SFH with the operation of FEC. [source: March 30, 2016, supplemental information, Attachment 1]

**Table 7
Charity Care Percentage Comparisons**

	% of Total Revenue	% of Adjusted Revenue
Historical King County Region	1.73%	3.33%
Historical St. Francis Hospital	2.20%	4.30%
Historical Four Hospital's Combined	2.03%	3.84%
Projected FEC	0.64%	1.38%
Projected St. Francis Hospital w/FEC	0.95%	2.34%

As shown in the table above, the regional average is lower than the calculated average provided by the four hospitals in the planning area or SFH alone. CHI-Franciscan Health projects that the surgery center's average percentage of charity care would be lower than both the regional average and the four hospitals combined. CHI-Franciscan Health also projects that SFH's charity care percentages will decrease from historical percentages.

In response to the department's inquiry regarding the project charity care percentages, CHI-Franciscan provided the following explanation. [source: March 30, 2016, supplemental information, pp3-4]

“As the CN Program is well aware, beginning in late 2014 and through 2015, charity care dollars at all hospitals declined significantly due to the expansion of health insurance coverage under the Affordable Care Act for which enrollment commenced in October of 2013. A September 2014 article published by the Seattle Times reported a 30% decrease in the amount of charity care provided statewide in the first six months of 2014. SFH experienced a 40% decrease in charity care dollars between 2013 and 2014. Charity care decreased another 34% in 2015, to an overall average of 0.96% as a percent of total revenue. Specific to outpatient endoscopy, for the procedures performed at SFH in 2015, 1.94% of net patient revenue or 0.5% of total patient services revenue were charity care. For this project, for years 2017-2020, charity care is assumed to be 1.94% of net patient service revenue or about 0.6% of total patient service revenue. The overall percentage of

¹⁴ As of the writing of this evaluation, year 2015 charity care data is not available.

¹⁵ Harborview Medical Center is subsidized by the state legislature to provide charity care services. Charity care percentages for Harborview make up almost 50% of the total percentages provided in the King County Region. Therefore, for comparison purposes, the department excludes Harborview Medical Center's percentages

charity care at SFH for 2015 was 0.96% of total patient service revenue and about 3.88% of net patient service revenue.”

Related to the endoscopy ASC, CHI-Franciscan Health states that it is confident that SFH’s charity care percentages will not be below the regional average once 2015 data for all hospitals is available. [source: February 8, 2016, supplemental information, p3]

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

The department acknowledges that the Affordable Care Act will likely have a long-term impact on the amount of charity care provided by facilities. The regional average that is used to measure an applicant’s compliance with the charity care standard is a self-correcting three year rolling average. The department expects an applicant to make documented reasonable efforts to meet that level of charity care. CHI-Franciscan asserts that SFH’s charity care percentages will be in-line with the regional average once 2015 data is available.

Given that FEC will be operated under SFH, FEC will use the CHI-Franciscan Health charity care policy posted on CHI-Franciscan Health website. This policy has been reviewed and approved by the department’s Hospital and Patient Data Systems office. To ensure that SFH would continue to provide charity care at the regional averages with the inclusion of FEC, if this project is approved, the department would attach a condition related to the percentage of charity care to be provided at SFH. With the condition described above, the department concludes CHI-Franciscan Health demonstrated that all residents of the service area would have access to FEC. **This sub-criterion is met.**

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI-Franciscan Health met the applicable financial feasibility criteria in WAC 246-310-220.

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

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

To evaluate this sub-criterion, the department first reviewed the assumptions used by CHI-Franciscan Health to determine the projected number of surgical cases for FEC. The assumptions used are summarized below. [source: February 8, 2016, supplemental information, p3, pp5-6, and p14]

- SFH’s endoscopy program is highly utilized for both inpatient and outpatient services. Focusing on outpatient services, CHI-Franciscan Health reviewed the historical number of procedures for years 2010 through 2015 and determined that approximately 85% of the outpatient procedures could appropriately relocate to the new site.

- Current procedures/services include colonoscopy, feeding tube replacement, flexible sigmoidoscopy, esophageal dilation, upper endoscopy, esophageal banding, and colonic dilation. Additional services include GIVEN capsule endoscopy, liver biopsy, and hemorrhoid banding.
- Currently, four gastroenterologists provide outpatient services in the program. In the current location, physicians providing outpatient services are limited to half-days. With the relocation, these physicians could almost double their number of procedures.
- Two new gastroenterologists will be added after the relocation. One new gastroenterologist will be added in year 2016 and a second in year 2017. Each new physician is expected to perform 1,300 procedures in the first year of employment.
- Because of space/volume constraints of the existing program, many Southeast King County patients must obtain services in a CHI-Franciscan Health facility in Tacoma. With the relocation of outpatient services, the majority of these patients could be accommodated at the new site in Federal Way.

Using the assumptions stated above, CHI-Franciscan Health projected the number of procedures for FEC. Table 8 below shows the projections through year 2019. [source: February 8, 2016, supplemental information, p6]

Table 8
Projected Number of Procedures

Assumption	Year 2017	Year 2018	Year 2019
85% of Existing Volume	1,300	1,300	1,300
Existing Physician Volume, including SE King Patients from Tacoma	1,196	1,196	1,196
2016 New Physician [begin January]	1,327	1,460	1,606
2017 New Physician [begin July]	460	1,327	1,460
Total	4,283	5,283	5,562

Based on the assumptions provided by the applicant, the number of procedures projected in Table 8 above appears to be reasonable when compared to the historical volumes and patient origin data shown in Tables 5 and 6 of this evaluation.

CHI-Franciscan Health also provided their assumptions used to project revenue, expenses, and net income for full calendar years 2017 through 2019. The assumptions are summarized below. [source: Application, p9 and February 8, 2016, supplemental information, p14]

- Outpatient revenues was calculated using the payer mix percentages for SFH, with FEC included, as shown in Table 7 of the evaluation.
- No inflation was assumed for gross revenues.
- Deductions were calculated based on actual reimbursement rates negotiated for SFH and their payers (Medicare, Medicaid, Commercial, HMO, etc.).
- Charity care is estimated at 1.94% of net revenue.¹⁶
- Bad debt is estimated at 0.8% of gross revenue consistent with actual.

¹⁶ The department's calculated the gross and adjusted charity care percentages identified in the application are provided in Table 7 of this evaluation. Adjusted revenue calculates to 2.34% rather than the 1.95% identified by CHI-Franciscan.

- Wages and salaries are calculated based on current staffing rates; benefits are assumed at 30.9% of salaries.
- All costs associated with physician staffing, including the medical director, are included. Medical director fees are based on the current contract and identified at \$5,250/annual for SFH.
- Allocated costs for the surgery center are included in the expense category and assumed at the standard rate based on total expenses. These costs include allocations for both FHS and SFH.

Using the assumptions stated above, CHI-Franciscan Health projected revenue, expenses, and net income for FEC. It is noted that all financial statements assumed the ASC would begin operations at the new site in January 2017. As a result, year 2017 is the first full calendar year of operation and year 2019 is year three. The projections are shown in Table 9 below. [source: March 30, 2016, supplemental information, Attachment 1]

Table 9
Franciscan Endoscopy Center
Projected Years 2016 through 2018

	Year 2017	Year 2018	Year 2019
Net Revenue	\$ 6,375,149	\$ 7,864,414	\$ 8,278,252
Total Expenses	\$ 2,982,492	\$ 3,369,473	\$ 3,497,379
Net Profit / (Loss)	\$ 3,392,657	\$ 4,494,941	\$ 4,780,873

The ‘Net Revenue’ line item is gross outpatient revenue, minus any deductions from revenue for contractual allowances, bad debt, and charity care. The ‘Total Expenses’ line item includes salaries and wages and all costs associated with operations of FEC. The ‘Total Expense’ line item also includes allocated costs for both SFH and FHS, leases, depreciation of building and equipment, repair and maintenance, and medical director costs. As shown in Table 9 above, CHI-Franciscan Health projects the endoscopy center will be operating at a profit beginning in the first year of operation.

CHI-Franciscan Health provided a copy of the draft lease agreement between WSC MedPav, LLC [landlord] and Franciscan Health System [tenant]. Currently, a portion of the premises is leased for the gastroenterology clinic. While FEC will be co-located with the clinic, it will be in space separate from the clinic. The draft agreement is for the space to be used for FEC only, rather than the entire endoscopy clinic. The lease identifies the space for FEC and references the specific suite number [300] for the surgery center and associated support space. Terms of the agreement show 10-years with two 5-year extensions, for a total of 20 years. All costs are identified in the agreement and substantiated in the pro forma revenue and expense statement provided in the application. [source: February 8, 2016, supplemental information, Attachment 1 and March 30, 2016, supplemental information, Attachments 1 and 2]

Since the lease agreement is a draft, if this project is approved the department would attach a condition requiring CHI-Franciscan Health to provide a copy of the executed agreement for department review and approval. The executed agreement must be consistent with the draft agreement provided in the application.

CHI-Franciscan Health identified the current medical director for endoscopy services, which includes both inpatient and outpatient services, to be Kyung Noh, MD and provided a copy of the current 'Medical Director Agreement' executed on July 1, 2010. The agreement is between Franciscan Health System and Tacoma Digestive Disease Center, PC. The agreement specifically references four CHI-Franciscan Health hospitals, including SFH. The medical director agreement identifies roles and responsibilities for both entities and identifies all compensation for services. The agreement is for two years from the date of execution with automatic one year renewals and no end date for the automatic renewals. [source: February 8, 2016, supplemental information, Attachment 6]

CHI-Franciscan Health also provided a copy of a Letter of Understanding attached to the medical director agreement. The Letter of Understanding also references SFH by name and identifies compensation specific to medical director services provided for SFH's endoscopy center to be \$5,250/annual. The costs identified in the medical director agreement are substantiated in the pro forma revenue and expense statement provided in the application. [source: February 8, 2016, supplemental information, Attachment 6 and March 30, 2016, supplemental information, Attachment 1 and 2]

The Letter of Understanding is dated January 27, 2016, and requires signature by the medical director to be valid. Since it is not signed, for Certificate of Need purposes, the Letter of Understanding is considered a draft. Since the medical director agreement is executed and the Letter of Understanding is a draft, if this project is approved the department would attach a condition requiring CHI-Franciscan Health to provide a copy of the executed Letter of Understanding for department review and approval. The executed Letter of Understanding must be consistent with the draft document provided in the application.

For operational purposes, while FEC will be located separately from SFH, it will be operated under the hospital's license. To further demonstrate that the project is financially viable, CHI-Franciscan Health provided projected revenue and expense statements for SFH showing the impact of this project on the financial viability of SFH. The projections are shown in Table 10 below. [source: March 30, 2016, supplemental information, Attachment 1]

Table 10
St. Francis Hospital with Endoscopy Center
Historical Year 2015 and Projected Years 2016 through 2018

	Year 2015	Year 2017	Year 2018	Year 2019
Net Revenue	\$ 239,283,754	\$ 245,658,903	\$ 247,148,168	\$ 247,562,006
Total Expenses	\$ 186,382,043	\$ 188,266,765	\$ 188,493,860	\$ 188,577,337
Net Profit / (Loss)	\$ 52,901,711	\$ 57,392,138	\$ 58,654,308	\$ 58,984,669

The 'Net Revenue' line item is gross inpatient, outpatient, and other operating revenue, minus any deductions from revenue for contractual allowances, bad debt, and charity care. The 'Total Expenses' line item includes salaries and wages and all costs associated with operations of the hospital, including FEC. The 'Total Expense' line item also includes allocated costs for FHS, leases, depreciation of building and equipment, repair and maintenance, and medical director costs. As shown in Table 10, currently CHI-Franciscan Health operates SFH at a profit. Beginning in 2017 with the addition of FEC, SFH will continue operating at a profit.

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

Based on the source documents evaluated, the department concludes that the projected revenues and expenses at the proposed ASC are reasonable and can be substantiated for this application. This conclusion is based on CHI-Franciscan Health's agreement to the conditions referenced above related to the draft lease agreement and medical director Letter of Understanding. 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 relocation of SFH's outpatient endoscopy services to the building that houses the gastroenterology clinic is \$2,857,713. To demonstrate that the costs would not have an unreasonable impact on costs and charges for health services, CHI-Franciscan stated that even with the relocation of outpatient endoscopy services, no changes in costs or charges for the services is anticipated. The relocation of outpatient services will allow the program to grow and better meet the community need. Similarly, the inpatient endoscopy services would also have room for growth, and would also better meet the community need. [source: Application, p22]

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

Based on the above information, the department concludes that this relocation project would probably not have an unreasonable impact on the costs and charges for healthcare services in Southeast King County. **This sub-criterion is met.**

- (3) The project can be appropriately financed.

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

The capital expenditure associated with the relocation of SFH's outpatient endoscopy services to the gastroenterology clinic is \$2,857,713. A breakdown of the capital expenditure is shown in Table 11 on the following page.

Table 11
Estimated Capital Expenditure

Item	Cost
Building Construction/Fixed Equipment	\$ 1,295,603
Moveable Equipment	\$ 842,648
Architect/Engineering Fees	\$ 152,945
City/State Fees and Permits	\$ 39,839
Other Project Costs	\$ 295,474
Sales Tax	\$ 231,204
Total	\$ 2,857,713

Since FEC will be included in the SFH hospital license, CHI-Franciscan included the construction costs necessary to bring the ASC portion of the building up to hospital construction code. Other project costs include installation of the electronic health record software [EPIC]. [source: February 8, 2016, supplemental information, Attachment 1]

CHI-Franciscan Health intends to fund the project using SFH reserves and provided a letter of financial commitment from CHI-Franciscan Health's chief financial officer. Included with the financial commitment letter was an unaudited 2015 balance sheet for SFH to demonstrate that sufficient reserves to finance the project. [source: February 8, 2016, supplemental information, Attachment 4] If this project is approved, the department would attach a condition related to the source of financing for the project.

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

Based on the above information and provided CHI-Franciscan Health agrees to the condition related to the source of financing, the department concludes that this relocation 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 agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI-Franciscan Health met the applicable 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.

CHI-Franciscan Health states that since SFH currently provides both inpatient and outpatient endoscopy services, the relocation of outpatient services will include transfer of some existing core staff to the new site. Some additional staff must be recruited; however, since the surgery center will focus on the lower risk patients, the staffing model for FEC will be different than the staffing

model for the inpatient services that will remain in the hospital. [source: Application, p25 and February 8, 2016, supplemental information, p1]

To demonstrate compliance with this sub-criterion, CHI-Franciscan Health provided a breakdown of the current and projected number of FTEs. Current FTEs are existing staff that would likely transfer to FEC once it becomes operational. Projected FTEs represent additional staff or, in some cases, increased hours for existing staff. The breakdown of is shown is Table 12 below. [source: February 8, 2016, supplemental information, p8]

Table 12
Franciscan Endoscopy Center
Current Year 2015 and Projected Years 2017-2019 FTEs

Staff/FTEs	2015 Current	2017 Projected Increase	2018 Projected Increase	2019 Projected Increase	Total
Manager	0.25	0.75	0.00	0.00	1.00
RNs	5.00	(0.50)	0.00	0.75	5.25
LPNs	0.00	3.00	0.00	0.50	3.50
CNA/MA	0.00	1.50	0.00	0.25	1.75
Endoscopy Tech	1.00	0.50	0.00	0.25	1.75
Receptionist	0.50	1.00	0.00	0.25	1.75
Administrative Asst.	0.25	0.00	0.00	0.00	0.25
Total FTE's	7.00	6.25	0.00	2.00	15.25

As shown in Table 12 above, with the relocation of outpatient endoscopy services, staff is expected to increase in the first year and then slightly increase in year three. The first year increase is anticipated because of the increase in procedures to be provided at FEC. Any increase in staff after year one is based on the increase in procedures at the surgery center. [source: February 8, 2016, supplemental information, p8]

Since some existing staff is already in place for the endoscopy services, CHI-Franciscan Health also provided a listing of current licensed or credentialed staff, which includes gastroenterologists and nursing staff. [source: February 8, 2016, supplemental information, Attachment 5]

CHI-Franciscan Health states that it does not anticipate any difficulty in recruiting staff necessary to accommodate the additional endoscopy patients for a variety of reasons. Below is a summary of the information provided related to recruitment and retention efforts by SFH and CHI-Franciscan Health. [source: Application, pp25-26]

- CHI-Franciscan Health offers competitive wage and benefit packages to staff.
- CHI-Franciscan Health posts all open positions on its own website and contracts with several job boards for posting positions.
- CHI-Franciscan Health also advertises in The Seattle Times and the Tacoma News Tribune, two of the largest newspapers in the South Sound area.
- CHI-Franciscan Health contracts with more than 40 technical colleges, community colleges, and four-year universities throughout the United States to offer either training or job opportunities.
- SFH has been operating in Federal Way for many years and is known in the community as a well-respected employer.

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

Based on the source documents evaluated, the department concludes adequate and qualified staffing for the surgery center 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 no 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 and Medicaid certified. 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.

SFH has been providing inpatient and outpatient endoscopy services within its hospital for many years. Currently the services are co-located in existing hospital space; as a result, all ancillary and support services are already in place for the services. This project requests relocation of the outpatient endoscopy services to a site on the hospital campus, but not physically attached to the hospital. Give the location of the new site, ancillary and support services already in place are not expected to change. [source: February 8, 2016, supplemental information, p10]

The most common ancillary and support services used for endoscopy services are pathology, pharmacy, medical gases, linen, medical waste, janitorial, billing, medical and office supplies, translator services, technology support, Biomed services, and medical equipment maintenance. All of these services are already in place at SFH and will continue to be used by FEC after the relocation. [source: February 8, 2016, supplemental information, p10]

Since FEC will be operated as a hospital outpatient department of SFH and will be located on the hospital's campus, a patient transfer agreement between FEC and SFH is not necessary.

As stated in the financial feasibility section of this evaluation, CHI-Franciscan Health provided a copy of the draft lease agreement between WSC MedPav, LLC [landlord] and Franciscan Health System [tenant]. Currently, a portion of the premises is leased for the gastroenterology clinic. While FEC will be co-located with the clinic, it will be in space separate from the clinic. The department's review in the financial feasibility section concludes that a condition related to this draft agreement is necessary.

Also in the financial feasibility section of this evaluation is a review of the executed medical director agreement and a draft Letter of Understanding attached to agreement between Franciscan Health System and Tacoma Digestive Disease Center, PC. The department's review of the Letter of Understanding and conclusion that a condition related to the Letter of Understanding is addressed in this evaluation.

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

The department concludes that adequate ancillary and support services are available for the ASC. **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 no 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.

CHI-Franciscan Health has been a healthcare provider in Washington State for many years and operates a variety of urgent and primary care facilities in King and Pierce counties. As part of this review, the department must conclude that the proposed services provided at FEC would be provided in a manner that ensures safe and adequate care to the public.¹⁷ To accomplish this task, the department reviewed the quality of care compliance history for all healthcare facilities owned, operated, or managed by CHI-Franciscan Health.

In Washington State, CHI-Franciscan Health owns and operates eight hospitals, including SFH. According to the Joint Commission website, all eight hold current accreditation¹⁸ and each has received at least one award or special recognition through the Joint Commission.¹⁹ [source: Joint Commission website]

Using its own internal database, the department reviewed survey data for the eight hospitals, hospice agency, and hospice care center.²⁰ Since 2011, 24 surveys have been conducted and completed by Washington State surveyors. All surveys resulted in no significant non-compliance issues.²¹ [source: ILRS survey data]

FHS owns and operates six dialysis centers in Washington State. One of the six—Franciscan Bonney Lake Dialysis Center—is recently approved and not operational. For the remaining five dialysis centers, DOH surveyors have recently completed compliance surveys for each facility. All surveys resulted in no significant non-compliance issues.²² [source: Department of Health Investigations and Inspections Office]

¹⁷ WAC 246-310-230(5).

¹⁸ 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. Joint Commission accreditation is awarded to a health care organization that is in compliance with all standards at the time of the onsite survey or has successfully addressed requirements for improvement in an Evidence of Standards Compliance within 45 or 60 days following the posting of the Accreditation Summary Findings Report. [source: Joint Commission website]

¹⁹ Examples of special recognition include cardiac services, primary stroke center, organ donation, metabolic and bariatric surgery accreditation and quality improvement program.

²⁰ Gig Harbor ASC is operated under the St. Joseph Medical Center hospital license.

²¹ Two surveys each for Harrison Medical Center, St. Elizabeth Hospital, and St. Joseph Medical Center. Three surveys each for FHS Hospice, FHS Hospice Care Center, St. Clare Hospital, St. Francis Hospital, Highline Medical Center, Regional Hospital for Respiratory and Complex Care, and St. Anthony Hospital.

²² Franciscan Eastside Dialysis Center surveyed December 2012, November 2013, and October 2015; Franciscan South Tacoma Dialysis Center surveyed June 2015; Greater Puyallup Dialysis Center surveyed August 2014; St. Joseph Medical Center Dialysis Center surveyed August 2014; and St. Joseph Gig Harbor Dialysis Center surveyed March 2011, August 2014, and June 2015.

In addition to the facilities owned and operated by CHI-Franciscan Health, the department also reviewed the compliance history for all endoscopy staff currently associated with SFH, including the medical director. Below is a summary of each licensed/credential staff and current status. [source: February 8, 2016, supplemental information, p11 & Attachment 5 and Medical Quality Assurance Commission website]

**Table 13
Ambulatory Endoscopy Center - Current and Projected Staff**

Name	Credential Status	Notes
Haroon Anwar	Active	
Jennifer Aquino	Active	
Ella Bosaya	Active	
Kimberlee Boyle	Active	
Francis Catindig	Active	
Charney Chambers	Active	
George Chastain	Active	
Lesley Dionne	Active	
Catherine Dodson	Active	Nurse Manager
Michele Fanich	Active	
Breda Gatpatan	Active	
Barbara Gibson	Active	
Sarah Gonzalea	Active	
Richard Gould	Active	Physician
Sharon Holbrook	Active	
Tara Hopgood	Active	
Troy Houseworth	Active	Physician
Jane Kashoka	Active	
Christi Kocher	Active	
Tracey Kuizon	Active	
Marina Kurkov	Active	
Carol Langham	Active	
Laurinda Mendoza	Active	
Carolyn Morgan	Active	
Kyung Noh	Active	Physician/Medical Director
Singik Oh	Active	Physician
Jody Patterson	Active	
Tatyana Prokhor	Active	
Aimee Reeves	Active	
Annie Rice	Active	
Melanie Russum	Active	
Mary Schofield	Active	
Olga Shanygina	Active	
Chelse Shoemaker	Active	

Table 13 (continued)
Ambulatory Endoscopy Center - Current and Projected Staff

Name	Credential Status	Notes
Kyong Sigler	Active	
Megan Vietzke	Active	
Edward Vizcaino	Active	
Christie Watkins	Active	
Kathleen Wise Willmore	Active	
Etsuko Yamada	Active	

Given the compliance history of the health care facilities owned and operated by CHI-Franciscan Health and the current outpatient endoscopy staff, including the medical director, there is reasonable assurance that the FEC would be operated and managed in conformance with applicable state and federal licensing and certification requirements.

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

Based on the above information, the department concludes that CHI-Franciscan Health demonstrated reasonable assurance that the surgery center would continue to be operated in compliance with state and federal 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.

In response to this criterion, CHI-Franciscan Health asserts the project promotes continuity of care because it maintains necessary endoscopy services in the planning area and allows for expansion of both inpatient and outpatient services. [source: Application, p27]

Throughout the application, CHI-Franciscan Health states that the existing endoscopy services are in space within the hospital that does not allow for growth for inpatient or outpatient procedures. Moving the outpatient services to a location on the hospital campus allows for increased procedures in both inpatient and outpatient services. Specific to outpatient endoscopy services, the new location allows for scheduling of procedures, with no 'bumping' for emergent patients. Physicians are supportive of the relocation of outpatient procedures because it increases the amount of time and procedures that can be performed in the outpatient setting, rather than limiting outpatient services to half-day. [source: February 8, 2016, supplemental information, p1]

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

Based on this information, the department concludes that approval of this project would promote continuity in the provision of health care for the planning area, and would not result in an unwarranted fragmentation of services. Further, CHI-Franciscan Health demonstrated the ASC would continue its appropriate relationships with the service area's existing health care system within the planning area. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(5) 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 and Medicaid certified. 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. The department's review of this sub-criterion includes historical quality of care of the applicant to assess whether the applicant's history could be a positive indicator of the future.

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

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI-Franciscan Health met the applicable cost containment criteria in WAC 246-310-240.

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

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

If the project has met the applicable criteria in WAC 246-310-210 through 230 criteria, the department then assesses the other options considered by the applicant. If the department determines the proposed project is better or equal to other options considered by the applicant and the department has not identified any other better options this criterion is determined to be met unless there are multiple applications.

If there are multiple applications, the department's assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type. The superiority 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 type superiority criteria as directed by WAC 246-310-200(2) (a)(i), then the department would use 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.

This application is not competing with any other applications. For this project, CHI-Franciscan Health met the applicable review criteria under WAC 246-310-210, 220, and 230.

Before submitting this application, CHI-Franciscan Health considered and rejected the following four options. [source: Application, pp28-29 and February 8, 2016, supplemental information, p11]

- Do nothing or status quo

This option was not considered a viable option for the community. The current endoscopy space within the hospital does not allow for needed growth in procedures experienced by SFH. Many Southeast King County patients are forced to travel outside of the service area to receive endoscopy services. This option was rejected.

- Refer patients to an existing provider in, or adjacent to, the service area

CHI-Franciscan Health states that endoscopic referrals between providers already occurs in the Southeast King County planning area. Since SFH's endoscopy program has been limited for some time, many Southeast King County patients are receiving endoscopy services in other settings.

For example, CHI-Franciscan Health provides inpatient and outpatient endoscopy services at St. Joseph Medical Center located in Tacoma and many patients elected to receive the services in Tacoma. Fogel Endoscopy Center located in Federal Way has also accepted some SFH referrals; however, since CHI-Franciscan Health physicians do not have privileges at the endoscopy center, the patient must change from a CHI-Franciscan Health provider to a Fogel Endoscopy Center provider. Many patients are unwilling to change from the CHI-Franciscan Health system. Utilization data obtained in 2015 indicates that Fogel Endoscopy Center already performs approximately 8,000 procedures annually in their two ORs.

- Relocate the endoscopy services to another location within SFH

This option was explored by CHI-Franciscan Health in depth before rejecting it. Planning, Design, and Construction staff could not identify any contiguous square footage in SFH that would be large enough to support the minimum of 5,000 sf that the inpatient and outpatient endoscopy service required. This option could only work if several other hospital departments relocated to free up the space, which added to the initial capital costs for the endoscopy program.

- Relocate the endoscopy services to a freestanding location and operate under an ASF license rather than the hospital license

Once CHI-Franciscan Health chose the option of relocating the outpatient endoscopy services outside of the main hospital, the next decision to be made is whether the center should be separately licensed from the hospital or licensed as an outpatient hospital department. Internal analysis of the payer mix and reimbursement revealed that the outpatient endoscopy services would not be financially viable without hospital outpatient status.

More than 20% of the endoscopy patients are expected to have Medicaid payer source. Typically, endoscopy only surgery centers have less than 10% Medicaid patients. CHI-Franciscan Health is committed to continue the much needed services in the Southeast King

County planning area. With 20% Medicaid payer, but operated under the hospital license, endoscopy services will continue to be available in the planning area. CHI-Franciscan Health concluded that the continued access to services, especially for Medicaid patients, offset the higher healthcare costs realized by operating the services under the hospital license.

Department's Review

No public comments were submitted for this sub-criterion.

The department notes that the first three options considered by CHI-Franciscan Health would not require CN review and approval. However, the first option of status quo was appropriately rejected by CHI-Franciscan Health based on the historical number of procedures and the limited space within SFH.

The second option of referring patients to other providers or other CHI-Franciscan Health sites worked for a time, but even that option is not a long term solution for patients when they are required to leave the planning area to receive services or transfer to a new provider. This option was no longer viable and appropriately rejected.

Facility constraints make the third option of relocating the entire endoscopy services within SFH unworkable. Additionally, construction costs for relocation of other services to accommodate the endoscopy service space can significantly increase the costs for the project. This option was also appropriately rejected.

For the fourth option, once CHI-Franciscan Health chose to relocate the outpatient endoscopy services in a facility not connected to the hospital campus, its options were limited. Certificate of Need review and approval is required. The decision of whether to operate the service as a hospital outpatient department or obtain an ASC license for the facility is based on a variety of factors. For CHI-Franciscan Health, continued availability of endoscopy services is an important consideration, and the services would continue in the planning area under hospital outpatient reimbursement.

CHI-Franciscan Health states that existing endoscopy surgery centers typically serve less than 10% Medicaid patients. To substantiate this claim, the department reviewed recent decisions for endoscopy ASCs. Since 2012, five endoscopy projects were issued CN approvals. The average Medicare percentage was 29.9% and the average Medicaid percentage was 5.5%. These percentages confirm CHI-Franciscan Health's assertion that FEC 20% Medicaid payer is higher than the average typically provided at endoscopy surgery centers.

The department recognizes that services obtained from separately licensed surgery centers are less costly than services obtained from a surgery center that is operated as an outpatient department of the hospital. The costs and charges for the separately licensed facility are lower; reimbursement is lower; and those lower costs are passed on to the patient. However, the department also recognizes that SFH's inpatient and outpatient endoscopy services are currently operated as an outpatient department of the hospital. For this project, relocation of the outpatient services would increase availability and accessibility for patients, but does not decrease costs to the patients. In summary, the department recognizes that the costs for the patient would not decrease; however, the same costs are not expected to increase as a result of this project.

CHI-Franciscan Health weighed continued access to services by the residents and the commitment from CHI-Franciscan Health to continue to offer the services in the planning area against the costs to the patient. Taking these factors into account, department concludes that the project as submitted is the best available alternative for the community.

In summary, CHI-Franciscan Health chose to continue to offer endoscopy services to the residents of Southeast King County. The services will be located adjacent to the hospital in a separate building. Since the surgery center will be operated as a hospital outpatient department of SFH, the costs for services would not decrease from existing costs; however, access to the services for the patients will increase.

Based on the source information reviewed and CHI-Franciscan Health's other options considered, the department concludes that this option is the best alternative for the planning area. **This sub-criterion is met.**

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

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

CHI-Franciscan Health proposes to remodel and reconfigure space on the SFH hospital campus to accommodate the outpatient endoscopy services. The applicant has had many years of experience ensuring its existing facilities are compliant with Medicare certification and the local authority construction and energy conservation codes. Based on the information, the department concludes **this sub-criterion is met.**

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

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concluded **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 outpatient surgical services to the residents of Southeast King County and surrounding communities. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**

APPENDIX A



**APPENDIX A
ASC Need Methodology
Southeast King County**

CN APP NO.:16-11A

Service Area Population: 2019	483,342	Claritas	Age: 18+																
Surgeries @ 93.590/1,000:	45,236																		
a.i.	94,250	minutes/year/mixed-use OR																	
a.ii.	68,850	minutes/year/dedicated outpatient OR																	
a.iii.	6	dedicated outpatient OR's x 68,850 minutes =			413,100	minutes dedicated OR capacity	8,139	Outpatient surgeries											
a.iv.	34	mixed-use OR's x 94,250 minutes =			3,204,500	minutes mixed-use OR capacity	28,585	Mixed-use surgeries											
b.i.	projected inpatient surgeries =		21,714	=	2,434,226	minutes inpatient surgeries													
	projected outpatient surgeries =		23,522	=	1,193,925	minutes outpatient surgeries													
b.ii.	Forecast # of outpatient surgeries - capacity of dedicated outpatient OR's																		
	23,522	-	8,139	=	15,384	outpatient surgeries													
b.iii.	average time of inpatient surgeries			=	112.11	minutes													
	average time of outpatient surgeries			=	50.76	minutes													
b.iv.	inpatient surgeries*average time			=	2,434,226	minutes													
	remaining outpatient surgeries(b.ii.)*ave time			=	780,825	minutes													
					3,215,052	minutes													
c.i.	if b.iv. < a.iv. , divide (a.iv.-b.iv.) by 94,250 to determine surplus of mixed-use OR's																		
	Not Applicable - Go to c.11. and ignore any value here.																		
	3,204,500																		
	-	3,215,052																	
	-10,552	/	94,250	=	-0.11														
c.ii.	if b.iv. > a.iv., divide (inpatient part of b.iv - a.iv.) by 94,250 to determine shortage of inpatient OR's																		
	USE THESE VALUES																		
	2,434,226																		
	-	3,204,500																	
	(770,274)	/	94,250	=	-8.17														
	divide outpatient part of b.iv. By 68,850 to determine shortage of dedicated outpatient OR's																		
	780,825	/	68,850	=	11.34														



**APPENDIX A
ASC Need Methodology
Southeast King County**

Facility	Special Procedure Rooms	Dedicated Inpatient ORs	Dedicated Outpatient ORs	Mixed Use ORs	Mixed Use min/case	Inpatient Cases in Mixed Use ORs	Inpatient Mins. In Mixed Use ORs	Outpatient Min/Case	Outpatient Cases	Outpatient Mins.	Data Source	
FHS St. Elizabeth, Enumclaw	0	0	0	3	79.2	1,571	124,355	0.0	0	0	Year 2014 data obtained from year 2015 survey. Minutes per case calculated	
FHS St. Francis, Federal Way	0	0	0	8	114.3	5,282	603,707	0.0	0	0	Year 2014 data obtained from year 2015 survey. Minutes per case calculated	
MultiCare Auburn Medical Center, Auburn	0	0	0	7	157.0	3,634	570,538	0.0	0	0	Year 2014 data obtained from year 2015 survey. Minutes per case calculated	
MultiCare Covington Hospital [CN #1437E2]	0	0	0	3	0.0	0	0	0.0	0	0	Hospital not yet operational-ORs identified in 01/22/16 functional plan CRS #60441492	
Valley Medical Center, Renton	0	0	3	13	99.4	9,705	965,044	49.6	1,774	87,978	Year 2014 data obtained from year 2015 survey for hospital. Minutes per case calculated	
Auburn Surgery Center, Auburn	0	0	1	0	0.0	0	0	50.0	400	20,000	Year 2014 data obtained from year 2015 survey. Outpatient minutes calculated using 50 x # of cases.	
Cascade Surgery Center, Auburn	0	0	2	0	0.0	0	0	55.7	1,241	69,074	Year 2014 data obtained from year 2015 survey. Outpatient minutes / case calculated.	
ENT Facial & Allergy, Enumclaw	0	0	1	0	0.0	0	0	50.0	405	20,250	Year 2014 data obtained from year 2015 survey. Outpatient minutes calculated using 50 x # of cases.	
Evergreen Eye Center, Federal Way	0	0	1	0	0.0	0	0	50.0	4,500	225,000	Per ILRS; outpatient minutes calculated using 50 x # of cases. Data for 2014	
Fogel Endoscopy Center, Federal Way [CN# 1302]	0	0	ENDOSCOPY ONLY - OPERATING ROOMS AND SURGERIES NOT COUNTED									CN #1302 issued on February 8, 2005.
Northwest Eye Surgeons, Renton	0	0	2	0	0.0	0	0	14.0	1,106	15,484	Year 2014 data obtained from year 2015 survey. Outpatient minutes / case calculated.	
Plastic and Reconstructive Surgeons, Renton	0	0	2	0	0.0	0	0	50.0	1,200	60,000	Per ILRS; outpatient minutes calculated using 50 x # of cases. Data for 2014	
Proliance Orthopedic Associates, Renton	0	0	2	0	0.0	0	0	65.2	2,645	172,459	Year 2014 data obtained from year 2015 survey. Outpatient minutes / case calculated.	
Rainier Surgical Center, Federal Way	0	0	2	0	0.0	0	0	61.7	841	51,914	Year 2014 data obtained from year 2015 survey. Outpatient minutes / case calculated.	
Sound Interventional Pain Management, Auburn	DEDICATED PAIN MANAGEMENT SERVICES ONLY - OPERATING ROOMS AND SURGERIES NOT COUNTED											
SouthLake Clinic, Renton			ENDOSCOPY ONLY - OPERATING ROOMS AND SURGERIES NOT COUNTED									
Sports Medicine Day Surgery, Renton	0	0	1	0	0.0	0	0	50.0	245	12,250	Per ILRS; outpatient minutes calculated using 50 x # of cases. Data for 2014	
Surgery Center Enumclaw, Enumclaw	0	0	1	0	0.0	0	0	50.0	700	35,000	Per ILRS; outpatient minutes calculated using 50 x # of cases. Data for 2014	
Valley Eye and Laser Center, Inc., Renton	0	0	1	0	0.0	0	0	50.0	2,100	105,000	Per ILRS; outpatient minutes calculated using 50 x # of cases. Data for 2014	
Virginia Mason Surgery Center, Federal Way	0	0	6	0	0.0	0	0	50.0	3,642	182,100	Per ILRS; outpatient minutes calculated using 50 x # of cases. Data for 2014	
VP Surgery Center, Auburn [CN #1499]	0	0	3	0	0.0	0	0	50.0	1,000	50,000	Per ILRS; outpatient minutes calculated using 50 x # of cases. Data for 2014	
Women's and Family Health Specialists, Renton	0	0	1	0	0.0	0	0	50.0	75	3,750	Per ILRS; outpatient minutes calculated using 50 x # of cases. Data for 2014	
Totals	0	0	29	34	449.9	20,192	2,263,644	746.2	21,874	1,110,259		
							Avg min/case inpatient	112.11		Avg min/case outpatient	50.76	
ORs counted in numeric methodology			6	34								
ILRS: Integrated Licensing & Regulatory System												
Population data source: Claritas 2014 data Southeast King County Zip Code												
Total Surgeries	42,066											
Area population 2014 [18+]	449,471											
Use Rate	93.590											
Planning Area projected population Year: 2019	483,342											
% Outpatient of total surgeries	52.00%											
% Inpatient of total surgeries	48.00%											