



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

January 13, 2016

CERTIFIED MAIL # 7015 1640 0000 6441 5775

Gregg A. Davidson, FACHE
Public Hospital District #1-Skagit Regional Health
Post Office Box 1376
Mount Vernon, Washington 98273

RE: Certificate of Need Application #16-12

Dear Mr. Davidson:

We have completed review of the Certificate of Need application submitted by Skagit County Public Hospital District #1 proposing a long-term lease arrangement with Snohomish County Public Hospital District #3. 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 Skagit County Public Hospital District #1 agrees to the following in its entirety.

Project Description

This Certificate of Need approves Skagit County PHD #1 to lease and enter into service commitments with Snohomish County PHD #3 for Cascade Valley Hospital and its related clinics. Skagit County PHD #1 will operate both Skagit Valley Hospital and Cascade Valley Hospital. The two hospitals will remain separately licensed. Currently Cascade Valley Hospital is licensed for 48 acute care beds. The beds are broken down in the table below.

Type of Service	# of Beds
General Medical/Surgical	48
Total	48

Conditions

1. Skagit County Public Hospital District #1 agrees with the project description stated above. Skagit County Public Hospital District #1 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. Within 30 days of finalizing the Affiliation Agreement, Skagit County Public Hospital District #1 will provide a copy of the executed Affiliation Agreement. The executed agreement must include all exhibits associated with the affiliation, including the final Lease Agreement between the two districts.
3. Prior to providing services, Skagit County Public Hospital District #1 will provide the approved versions of the adopted policies listed below for the department's review and approval. Copies of the adopted policies must include a reference to Cascade Valley Hospital.
 - Admission Policy
 - Non-Discrimination Policy
 - Charity Care Policy
 - End of Life Policy
 - Reproductive Health Policy
4. Cascade Valley Hospital will provide charity care in compliance with the charity care policy referenced above, or any subsequent policies reviewed and approved by the Department of Health. Skagit County Public Hospital District #1 will use reasonable efforts to ensure charity care is provided at the amount identified in the application or comparable to the average amount of charity care provided by the hospitals in the Puget Sound Region. Currently, this amount is 2.88% for gross revenue and 6.42% for adjusted revenue. Cascade Valley Hospital will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

Approved Capital Costs:

There is no capital expenditure associated with this project.

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

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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,



Steven M. Saxe, FACHE
Director, Community Health Systems

Enclosure

**EVALUATION DATED JANUARY 13, 2016, FOR THE CERTIFICATE OF NEED
APPLICATION SUBMITTED BY SKAGIT COUNTY PUBLIC HOSPITAL DISTRICT #1 DBA
SKAGIT REGIONAL HEALTH PROPOSING TO LEASE SNOHOMISH COUNTY PUBLIC
HOSPITAL DISTRICT #3 DBA CASCADE VALLEY HOSPITAL AND CLINICS**

LESSEE DESCRIPTION

Public hospital districts (PHD) are community-created, governmental entities authorized by state law to deliver health services, including but not limited to acute hospital care. The services are provided to district residents and others in the districts' service areas. Owned and governed by local citizens, hospital districts generally tailor their services to meet the needs of their individual communities. [source: Associate of Washington Public Hospital Districts website]

Skagit County PHD #1 dba Skagit Regional Health owns, operates, or manages one hospital and a variety of health care clinics located in Skagit, Snohomish, and Island counties. The health care facilities are listed below. [source: Application, p4 and Skagit Regional Health website]

Hospital

Skagit Valley Hospital

Health Centers/Urgent Care Centers/Medical Clinics

Skagit Valley Regional Cancer Care Center-Arlington
Skagit Valley Regional Cancer Care Center-Mount Vernon
Skagit Valley Wound Care Center

Hospice Agency

Skagit Hospice Services, LLC¹

Three Urgent Care Centers located in

- Arlington, Mount Vernon, and Riverbend

Dialysis Centers

Skagit Valley Kidney Center

Ten Regional Clinics located in

- Anacortes (2), Camano Island, Mount Vernon (4), Oak Harbor, Sedro Woolley, and Stanwood

Cascade Skagit Health Alliance²

LESSOR DESCRIPTION

Snohomish County PHD #3 dba Cascade Valley Hospital and Clinics owns, operates, or manages one hospital and a variety of health care clinics in Snohomish County. The health care facilities are listed below. [source: Application, p4 and Cascade Valley Hospital website]

Hospital

Cascade Valley Hospital

Medical Clinics

Cascade Valley Medical Clinic-Darrington
Cascade Valley Medical Clinic-Granite Falls
Cascade Valley Orthopedic Clinic
Cascade Valley Pediatrics Clinic
Cascade Valley Women's Health Clinic
Cascade Skagit Health Alliance⁴

ASC

Cascade Valley Arlington Surgery Center³

¹ Skagit Hospice Services is jointly operated with United General Hospital located in Sedro Woolley, within Skagit County.

² Cascade Skagit Health Alliance is jointly operated by Skagit Valley Hospital in Mount Vernon [Skagit County] and Cascade Valley Hospital in Arlington [Snohomish County]. The Medical Clinic is located in Arlington.

³ On July 8, 1993, CN #1092 was issued to Whitehorse Surgical Center Associates approving the establishment of an ambulatory surgery center in Arlington. In 2009, the facility's name was changed to Cascade Valley Arlington Surgery Center.

PROJECT DESCRIPTION

This project proposes a long-term lease agreement between the two public hospital districts. Specifically, Skagit County PHD #1 will lease and enter into service commitments with Snohomish County PHD #3 for the lease of Cascade Valley Hospital and its related clinics. Skagit County PHD #1 will operate both Skagit Valley Hospital and Cascade Valley Hospital; no new board will be created for this purpose. While the two hospitals will both be operated under the Skagit County PHD #1, they will remain separately licensed hospitals.⁵ [source: Application, p3; November 16, 2015, supplemental information, pp1-2]

For ease of reference in this evaluation, each hospital district will be identified separately. Skagit Valley Hospital will be referenced as SVH and Cascade Valley Hospital will be referenced as CVH. The proposed lease agreement includes clinics associated with CVH.

Skagit Valley Hospital

SVH is located at 1415 East Kincaid Street in the city of Mount Vernon within Skagit County and is currently a provider of Medicare and Medicaid acute care services to the residents of Skagit County and surrounding areas. SVH is licensed for 137 acute care beds, and within the 137 bed license is a 3-bed level II intermediate care nursery. SVH is designated as a level III adult trauma hospital. [source: CN historical files and DOH Office of Emergency Medical and Trauma Prevention] A breakdown of the acute care beds at SVH is below.

Type of Service	# of Beds
General Medical/Surgical	134
Level II intermediate care nursery	3
Total	137

Services currently provided at SVH include general medical surgical, emergent care, critical care, diagnostic and imaging services, psychiatric/mental health, cardiac services (including percutaneous coronary interventions [PCI]), and obstetrical, which includes level II intermediate care. [source: CN historical files and 2015 Hospital License Annual Update]

Cascade Valley Hospital

CVH is located at 330 South Stillaguamish in the city of Arlington, within Snohomish County and is currently a provider of Medicare and Medicaid acute care services to the residents of Snohomish County and surrounding areas. CVH is licensed for 48 acute care beds and is designated as a level IV adult trauma hospital. [source: CN historical files and DOH Office of Emergency Medical and Trauma Prevention] A breakdown of the acute care beds at CVH is on the following page.

⁴ Cascade Skagit Health Alliance is jointly operated by Skagit Valley Hospital in Mount Vernon [Skagit County] and Cascade Valley Hospital in Arlington [Snohomish County]. The Medical Clinic is located in Arlington.

⁵ On April 6, 2015, University of Washington Medicine, Skagit County PHD #1, and Snohomish County PHD #3 entered into a three-way affiliation agreement to increase efficiency and coordination of care for patients of the three hospitals. University of Washington Medicine includes Harborview Medical Center, Northwest Hospital, Valley Medical Center, and a variety of physician groups and clinics. This project under review does not include University of Washington Medicine or any of its affiliates.

Type of Service	# of Beds
General Medical/Surgical	48
Total	48

Services currently provided at CVH include general medical surgical, emergent care, critical care, diagnostic and imaging services, and obstetrical care. [source: CN historical files and 2015 Hospital License Annual Update]

There is no capital expenditure associated with the long-term lease agreement. Additionally, since CVH is currently operating as an acute care hospital, there are no start-up or working capital costs related to this project. [source: Application, pp24-25]

Affiliation Agreement Regarding the Lease and Operation of Cascade Valley Hospital and Clinics (draft)

[source: November 16, 2015, Attachment 6]

During the review of this project, Skagit County PHD #1 provided a draft copy of proposed affiliation agreement between the two hospital districts. Under the draft agreement, SVH and CVH will remain separately licensed hospitals, even though CVH will also be licensed by Skagit County PHD #1. The lease agreement requires Skagit County PHD #1 to pay a nominal fee (\$10/annual) to Snohomish County PHD #3 for use of all facilities, equipment, and mutually agreed-upon intangible assets. The facilities and equipment associated with Snohomish County PHD #3 will be leased on a net basis, with Skagit County PHD #1 responsible for all expenses associated with the operations and management, as well as any repair or replacement of the capital assets, if necessary. [source: Application, pp10-11 and November 16, 2015, supplemental information, p2]

Section 15.15(a) Required Services provides a table showing Skagit County PHD #1’s commitment to continue to provide specific services at CVH. The table is recreated below.

Five-Year Period	<ul style="list-style-type: none"> • OB/GYN provider and related CVH facilities services • Pediatric physician and related CVH facilities services • Primary Care services provided or caused to be provided for the Darrington and Granite Falls clinics
Ten-Year Period	<ul style="list-style-type: none"> • Surgery (inpatient and outpatient) • General inpatient acute services • Orthopedic and general surgeons
Thirty-Year Period	<ul style="list-style-type: none"> • 24-hour emergency department • Observation unit • Ancillary medical services • Primary care physicians

Sections 15.15(b) through (g) Required Services provides an outline of the process Skagit County PHD #1 intends to use to maintain the required services listed in the table above. During the ten-year period, Sections 15-15(b) and (d) allow for elimination or relocation of services identified in the five-year and ten year period. The services could be relocated from CVH with specific notice and input from Snohomish County PHD #3. Certain provisions require Skagit County PHD #1 to continue to

provide these services in North Snohomish County to meet the needs of the residents of North Snohomish County. These sections allow Skagit County PHD #1 to discontinue outpatient surgery services at the current location of the CVH ambulatory surgery center; however, outpatient services must be available to the North Snohomish County residents at an alternate location.

After the ten-year period, Section 15.15(c) allows for relocation of required services identified in the ten-year period and the thirty-year period. The services could be relocated to any location within North Snohomish County that is reasonable and appropriate to meet the needs of the North Snohomish County residents.

Section 15.15(e) allows Skagit County PHD #1 to determine the appropriate level of care to be provided at CVH, which includes the appropriate number of beds and their specific breakdown, such as medical/surgical, ICU, and observation. The hospital district may also determine the appropriate number of emergency department bays, operating rooms, procedure rooms, examination and treatment rooms, and the staffing levels for the services to be provided. This section requires an evaluation and analysis of any impact a reduction in services would have on the residents of North Snohomish County.

Section 15.15(f) provides the process Skagit County PHD #1 must undergo if it intends to eliminate, reduce, relocate, or change any of the required services identified in the table. Section 15.15(g) states that the required services outlined in the table are recognized by both hospital districts as essential to the core purpose of the lease transaction, which is to continue high quality and continuous health care services to the residents of North Snohomish County.

Section 18 of the draft agreement identifies the initial term for 30 years, with options to renew for two 10-year consecutive terms. The renewal terms are automatic, unless one or both hospital districts provide written notice of non-renewal.

Exhibit 2-Lease Agreement between Public Hospital District #3 Snohomish County and Public Hospital District #1 Skagit County (draft)

[source: November 16, 2015, Exhibit 2 of Attachment 6]

The draft lease agreement is included as Exhibit 2 of the draft Affiliation Agreement. The lease agreement is between the two hospital districts and section 1 outlines all of the property that would be included in the lease.

Section 2 of the draft agreement identifies the initial term for 30 years, with options to renew for two 10-year consecutive terms. The renewal terms are automatic, unless one or both hospital districts provide written notice of non-renewal. The terms are consistent with the terms identified in the draft Affiliation Agreement.

Section 3 identifies the base rent at \$10/annual and is paid by Skagit County PHD #1 to Snohomish County PHD #3. There are 21 separate sections in the draft lease agreement, including specific sections for use and operation of the hospital [section 4], defaults and remedies [section 5], and terminations [section 6]. The draft lease agreement included all exhibits associated and referenced in the agreement.

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need (CN) review because it is the lease of all or part of an existing hospital under Revised Code of Washington (RCW) 70.38.105(4)(b) and Washington Administrative Code (WAC) 246-310-020(1)(b).

CRITERIA EVALUATION

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

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

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

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

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

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

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

WAC 246-310 does not contain service or facility standards for sale or lease of hospitals. To obtain Certificate of Need approval, Skagit County PHD #1 must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).⁶

⁶ Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(1),(3), (4) (5), and (6); WAC 246-310-220(2) and (3); and WAC 246-310-240(2) and (3).

TYPE OF REVIEW

As the lease of an existing hospital, this application qualified for review under the expedited review timeline outlined in WAC 246-310-150, which is summarized below.

APPLICATION CHRONOLOGY

Action	Skagit County PHD #1 dba Skagit Regional Health
Letter of Intent Submitted	August 25, 2015
Application Submitted	October 8, 2015
Department’s pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • Applicant's Responses Received • DOH 2nd Screening Letter • Applicant’s Responses Received 	October 29, 2015 November 16, 2015 November 19, 2015 December 3, 2015
Beginning of Review	November 23, 2015
Public comments accepted through end of public comment	December 14, 2015
Public hearing conducted	None
End of Public Comment	December 14, 2015
Rebuttal Comments Submitted ⁷	December 30, 2015
Department's Anticipated Decision Date	January 19, 2016
Department's Actual Decision Date	January 13, 2016

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.*

⁷ Since there were no comments submitted for this project, the applicant did not submit rebuttal comments.

For this application, Providence Health and Services requested affected person status. Providence Health and Services is a regional delivery network of organizations offering healthcare through its hospitals, extended care facilities, home health, adult day health, and assisted living facilities. Providence Health and Services operates Providence Regional Medical Center located in Everett, within Snohomish County. As a result, Providence Health and Services qualifies for 'interested person' status as defined by WAC 246-310-010(34) above.

Regarding 'affected person' status, Providence Health and Services did not provide any comments, either in support or opposition to this project. As a result, Providence Health and Services does not meet the definition of 'affected person' as defined by WAC 246-310-010(2)(b) above.

SOURCE INFORMATION REVIEWED

- Skagit County Public Hospital District #1 application received October 8, 2015, 2015
- Skagit County Public Hospital District #1 supplemental information received November 16, 2015 and December 3, 2015
- Department of Health Hospital and Patient Data Systems Analysis received December 31, 2015
- Historical charity care data for years 2011, 2012, and 2013 obtained from the Department of Health Hospital and Patient Data Systems office
- Licensing and survey data provided by the Department of Health's Investigations and Inspections Office
- Licensing and compliance history data provided by the Department of Health's Medical Quality Assurance Commission
- Department of Health internal database - Integrated Licensing and Regulatory System [ILRS]
- Year 2015 Annual Hospital License Application submitted for Skagit Valley Hospital
- Year 2015 Annual Hospital License Application submitted for Cascade Valley Hospital
- Year 2014 Annual Ambulatory Surgical Facility License Application for Cascade Valley Arlington Surgery Center
- Skagit Valley Hospital website at www.skagitregionalhealth.org
- Cascade Valley Hospital website at www.cascadevalley.org
- Association of Washington Public Hospital Districts website at www.awphd.org
- Certificate of Need historical files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Skagit County Public Hospital District #1 proposing a long-term lease agreement with Snohomish County Public Hospital District #3- Cascade Valley Hospital and Clinics is consistent with applicable criteria of the Certificate of Need Program, provided Skagit County Public Hospital District #1 agrees to the following in its entirety.

Project Description

This Certificate of Need approves Skagit County PHD #1 to lease and enter into service commitments with Snohomish County PHD #3 for Cascade Valley Hospital and its related clinics. Skagit County PHD #1 will operate both Skagit Valley Hospital and Cascade Valley Hospital. The two hospitals will remain separately licensed. Currently Cascade Valley Hospital is licensed for 48 acute care beds. The beds are broken down in the table on the following page.

Type of Service	# of Beds
General Medical/Surgical	48
Total	48

Conditions

1. Skagit County Public Hospital District #1 agrees with the project description stated above. Skagit County Public Hospital District #1 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. Within 30 days of finalizing the Affiliation Agreement, Skagit County Public Hospital District #1 will provide a copy of the executed Affiliation Agreement. The executed agreement must include all exhibits associated with the affiliation, including the final Lease Agreement between the two districts.
3. Prior to providing services, Skagit County Public Hospital District #1 will provide the approved versions of the adopted policies listed below for the department’s review and approval. Copies of the adopted policies must include a reference to Cascade Valley Hospital.
 - Admission Policy
 - Non-Discrimination Policy
 - Charity Care Policy
 - End of Life Policy
 - Reproductive Health Policy
4. Cascade Valley Hospital will provide charity care in compliance with the charity care policy referenced above, or any subsequent policies reviewed and approved by the Department of Health. Skagit County Public Hospital District #1 will use reasonable efforts to ensure charity care is provided at the amount identified in the application or comparable to the average amount of charity care provided by the hospitals in the Puget Sound Region. Currently, this amount is 2.88% for gross revenue and 6.42% for adjusted revenue. Cascade Valley Hospital will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

Approved Capital Costs:

There is no capital expenditure associated with this project.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and provided the applicant agrees to the conditions identified in the 'conclusion' section of this evaluation, the department determines that Skagit County Public Hospital District #1 dba Skagit Regional Health's application meets the applicable need criteria in WAC 246-310-210(2).

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

CVH has been providing healthcare services to the residents of Snohomish County and surrounding communities since 1996 through its hospital and medical clinics. Healthcare services have been available to low-income, racial and ethnic minorities, handicapped and other underserved groups. CVH currently participates in the Medicare and Medicaid programs. For this project, Skagit County PHD #1 must demonstrate a commitment that CVH would continue to be available to the residents of the community, maintain its Medicare and Medicaid participation, and provide a percentage of charity care in the planning area.

To demonstrate compliance with this sub-criterion, Skagit County PHD #1 provided copies of the current policies used at CVH and the proposed policies to be used at CVH if this project is approved. A listing of the current policies is below. [source: Application, Exhibit 2]

- Admission Policy-Direct Admission to Inpatient Unit-Approved March 2014
- Admission Priority-Approved December 2010
- Admission of Patients-Approved December 2010
- Inter facility Transfer for Admission-Approved April 2013
- Unstable Direct Admissions-Approved December 2013
- Bariatric Hospital Admission and continuing Care Guidelines-Approved November 2013
- Criteria for Transfer or Diversion of Trauma Patients-Approved October 2013
- Charity Care-Approved December 2013
- Tobacco Free Environment-Approved January 2014
- Patient Non-Discrimination Policy-Approved March 2014
- Patient Rights-Approved March 2014
- Charity Care-Approved September 2014
- Washington Death with Dignity-Approved March 214
- Withholding or Withdrawing of Life Sustaining Treatment and Advanced Directives-Approved November 2013
- Do Not Resuscitate Orders-Approved November 2013
- Reproductive Health Services, Including Maternity and Pregnancy Termination Services at this Public Hospital District-Approved March 2014

If this project is approved, CVH will be operated and managed by Skagit County PHD #1. Current policies used as CVH will be replaced with Skagit County PHD #1 policies. To further demonstrate compliance with this sub-criterion, the applicant provided a copy of the proposed policies to be used at CVH. [source: Application, Exhibit 3]

Admission Policy

To determine whether all residents of the community would continue to have access to the applicant's 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.

The proposed Admission Policy provided by the applicant provides the process used to admit patients at SVH. The policy includes the non-discrimination language referenced above, however, it does not reference Cascade Valley Hospital or its clinics in any way.

The Nondiscrimination Policy includes the required non-discrimination language and is used to ensure “*all patients and visitors of Skagit Regional Health are treated with equality, in a welcoming, non-discriminatory manner, consistent with Skagit Regional Health’s Values and Services Standards.*” This policy does not reference Cascade Valley Hospital or its clinics in any way.

While the policies are consistent with Certificate of Need requirements under this sub-criterion, since they do not reference Cascade Valley Hospital or its clinics, both policies must be considered draft. If this project is approved, the department would attach conditions requiring Skagit County PHD #1 to provide the approved versions of the policies with reference to CVH.

Medicare and Medicaid Programs

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

To demonstrate compliance with this sub-criterion Skagit County PHD #1 provided the current and projected source of revenues by payer at CVH. The information is summarized in Table 1 below. [source: Application, p11]

**Table 1
Revenue Sources**

Payer Source	Percentages	
	Current	Projected
Medicare	32.6%	32.6%
Medicaid	22.1%	22.1%
Workers Compensation	2.3%	2.3%
Insurance-Other	33.3%	33.3%
Private (no insurance)	4.6%	4.6%
Other	5.1%	5.1%
Total	100.0%	100.0%

As shown above in Table 1, the proposed change in operator of CVH is not expected to change the revenue sources for the hospital. The financial data provided in the application shows Medicare and Medicaid revenues. [source: Application, Exhibit 4, p133]

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.

CVH has historically provided charity care to community residents for many years. To demonstrate compliance with this sub-criterion Skagit County PHD #1 provided a copy of the proposed Charity Care Policy to be used at CVH. The policy includes the process and eligibility criteria one must use to access charity care and includes the non-discrimination language referenced above. The policy does not reference Cascade Valley Hospital or its clinics in any way.

For charity care reporting purposes, the Department of Health’s Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. CVH is located in Arlington and is one of 19 hospitals located in the Puget Sound Region. According to 2011 - 2013⁸ charity care data obtained from HPDS, CVH has historically provided less than the three-year average charity care provided in the region. Table 2 below is a comparison of the average charity care for the Puget Sound Region, and the historical and projected percentages of charity care for CVH. [source: Application, Exhibit 4 and HPDS 2011-2013 charity care summaries]

Table 2
Charity Care Percentage Comparisons

	% of Total Revenue	% of Adjusted Revenue
Puget Sound Region	2.88%	6.42%
Cascade Valley Hospital Historical	1.83%	4.26%
Cascade Valley Hospital Projected	0.78%	1.71%

The pro forma revenue and expense statements submitted by Skagit County PHD #1 for CVH indicate that the hospital will provide charity care at significantly less than the regional average for total revenue. [source: Application, Exhibit 4] Skagit County PHD #1 provides the following explanation for the low percentage of charity care projected to be provided. [source: Application, p16]

“The department’s charity care data [2011-2013] is pre-Medicaid expansion. Since Medicaid expansion, Skagit [Valley Hospital’s] charity care has declined by more than 68% and Cascade [Valley Hospital’s] has declined by 47%. In the most recent decision issued by the CN Program, it stated:

‘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 used to measure an applicant’s compliance with the charity care standard is a self-correcting three year average. The department expects the applicant to make documented, reasonable efforts to meet that level of charity care.’”

⁸ Charity care data for year 2014 is not available as of the writing of this evaluation.

The department continues to contend that the three year average is self-correcting and expects applicants to make well-documented, reasonable efforts to meet the level of charity care provided in their specific region. The department also concludes a charity care condition is necessary for this project.

In addition to the policies referenced above, Skagit County PHD #1 provided a copy of End of Life Policy used at SVH. The policy references the Washington Death With Dignity Act. A comparison of the current policy used at CVH and the proposed policy to be used at CVH reveals that no changes are anticipated related to end of life services. This policy also does not reference Cascade Valley Hospital or its clinics in any way.

A copy of the Skagit Valley Reproductive Health Policy was also provided in this application. When compared to the current policy used at CVH, this policy would not decrease access to reproductive services, including pregnancy termination, at CVH. However, this policy also does not reference Cascade Valley Hospital or its clinics in any way.

No public comments were submitted for this sub-criterion.

If this project is approved, the department would attach conditions requiring Skagit County PHD #1 to provide the approved versions of the following policies that have appropriate references to CVH and its clinics.

- Admission Policy
- Non-Discrimination Policy
- Charity Care Policy
- End of Life Policy
- Reproductive Health Policy

Additionally, the department would attach a condition requiring Skagit County PHD #1 to provide charity care at CVH in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region.

Based on the source documents evaluated and the applicant's agreement to the conditions referenced above, the department concludes that all residents, including low income, racial and ethnic minorities, handicapped, and other under-served groups would continue to have access to the services provided by CVH. **This sub-criterion is met.**

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

Based on the source information reviewed and provided the applicant agrees to the conditions identified in the 'conclusion' section of this evaluation, the department determines that Skagit County Public Hospital District #1 dba Skagit Regional Health's application meets the applicable need criteria in WAC 246-310-220.

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

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

the department evaluates if the applicant’s pro forma income statements reasonably project the proposed project is meeting its immediate and long-range capital and operating costs by the end of the third complete year of operation.

If this project is approved, Skagit County PHD #1 expects all 48 beds would remain in operation and current inpatient and outpatient services would continue to be provided. [source: Application, pp7-8 and p10] The lease agreement is expected to become effective on July 1, 2016. Under this timeline, CVH’s first full calendar year under the management and operation of Skagit County PHD #1 is calendar year 2017 and year three is 2019. [source: Application, p10]

To evaluate this sub-criterion, the department first reviewed the assumptions used by Skagit County PHD #1 to determine the projected number of inpatient admissions and patient days for CVH. The assumptions are summarized below. [source: November 16, 2015, supplemental information, pp6-7Application, p30 and April 13, 2015, supplemental information, pp3-4]

- The number of licensed beds remains at 48;
- The average length of stay (ALOS) is 3.2 days, consistent with the hospital’s current ALOS;
- The number of admissions and patient days excludes normal newborns;
- No change in the scope of inpatient services is assumed;
- The number of inpatient admissions and patient days is based on 2014 full year data and 2015 annualized data. To be conservative the projections for both admissions and patient days is held constant, with no projected increases; and
- No change in the scope of outpatient services is assumed.

Using the assumptions summarized above, Skagit County PHD #1 projected the number of admissions, inpatient patient days, and percentage of utilization for CVH. The data is shown in Table 3 below. [source: November 16, 2015, supplemental information, pp6-8]

**Table 3
Cascade Valley Hospital Admissions and Patient Day Projections**

	Partial Year 2016	Full Year 1 2017	Full Year 2 2018	Full Year 3 2019
# of Acute Care Beds	48	48	48	48
Admissions	799	1,598	1,598	1,598
Patient Days	2,524	5,047	5,047	5,047
Percentage of Utilization	N/A	28.8%	28.8%	28.8%

As stated above, the projections are held constant based on 2014 actual data. In response to the department’s inquiry regarding the conservative approach, the applicant provided the following rationale. [source November 16, 2015, supplemental information, p7]

“The rationale is simple: the two districts wanted to present a conservative (in fact, what we believe to be ‘worst case’) pro forma in the CN application. Even assuming no growth, the project is financially feasible. More importantly, the residents of both districts will benefit: as noted in the CN application, the lease is being undertaken to assure that the two organizations are well positioned to provide access, quality, and cost efficient care, as well as the range of health care services needed by district residents.”

Given the historical utilization of CVH and taking into account that the proposed project does not anticipate any changes in services or number of beds, the assumptions and projections above are reasonable.

Using the projected number of admissions and patient days identified in Table 3 above, Skagit County PHD #1 provided the projected revenue and expense statement for the CVH under its management and operation. Table 4 below provides a summary of the projected revenue and expense statement for years 2016 through 2019. [source: Application, Exhibit 4 and November 16, 2015, supplemental information, p10]

**Table 4
Cascade Valley Hospital
Revenue and Expense Summary**

	Partial Year 2016	Full Year 1 2017	Full Year 2 2018	Full Year 3 2019
Net Revenue	\$ 24,739,762	\$ 49,479,525	\$ 49,479,525	\$ 49,479,525
Total Operating Expenses	\$ 22,439,676	\$ 44,879,351	\$ 44,879,351	\$ 44,879,351
Net Profit /(Loss)	2,300,086	\$ 4,600,174	\$ 4,600,174	\$ 4,600,174

The ‘Net Revenue’ line item is gross revenue for both inpatient and outpatient services, minus deductions for charity care, bad debt, and contractual allowances for both inpatient and outpatient services. ‘Net Revenue’ also includes non-patient revenue, such as medical record copy fees and cafeteria revenue.

The ‘Total Operating Expenses’ line item includes staff salaries and wages, legal fees, audit fees, and purchased services for maintenance contracts, and fees to outside agencies for staffing. Expenses also include overhead allocations to Skagit County PHD #1. The overhead allocations are comparable to the historical overhead costs paid to Snohomish County PHD #3.

As shown in Table 4 above, Skagit County PHD #1 projected CVH would operate at a \$4.6 million profit in full years 2017 through 2019.

To assist in the evaluation of this sub-criterion, the department also reviewed the historical and projected balance sheets for Snohomish County PHD #3. Table 5 below shows a summary of the 2013 historical balance sheet for the hospital district. [source: December 31, 2015, HPDS analysis, p2]

**Table 5
Snohomish County PHD #3
Historical Balance Sheet for Year 2013**

Assets		Liabilities	
Current Assets	\$ 20,652,000	Current Liabilities	\$ 5,512,000
Fixed Assets	\$ 42,243,000	Long Term Debt	\$ 53,060,000
Board Designated Assets	\$ 9,254,000	Other Liabilities	\$ 325,000
Other Assets	\$ 9,610,000	Equity	\$ 22,862,000
Total Assets	\$ 81,759,000	Total Liabilities and Equity	\$ 81,759,000

At the department’s request, the applicant provided a projected balance sheet for CVH separate from the hospital district. It is noted that the balance sheet was created specifically for this review. Table 6 below shows the first year projected (2017) balance sheet for CVH. [source: Application, Exhibit 4 and November 16, 2015, supplemental information, p9]

**Table 6
Cascade Valley Hospital
Projected Balance Sheet for Year 2017**

Assets		Liabilities	
Current Assets	\$ 10,976,528	Current Liabilities	\$ 4,616,748
Fixed Assets	\$ 0	Long Term Debt	\$ 0
Board Designated Assets	\$ 0	Other Liabilities	\$ 0
Other Assets	\$ 0	Equity	\$ 6,359,780
Total Assets	\$ 10,976,528	Total Liabilities and Equity	\$ 10,976,528

As shown in Table 6 above, under the operation and management of Skagit County PHD #1, CVH would be operating with significantly less assets, equity, and liability when compared to the Snohomish PHD #3 historical balance sheet. The applicant provided the following responses to the department’s request for an explanation of the projected balance sheet. [source: November 16, 2015, supplemental information, p9]

Snohomish County PHD #3 will transfer to Skagit County PHD #1 the following:

- *Inventory and prepaid expenses (balance sheet transfer).*
- *Cash collected from accounts receivable (to be transferred as collected).*
- *Cash to cover any liabilities (e.g. Paid Time Off accruals for staff).*
- *All cash in excess of Snohomish County PHD #3’s minimum cash balance (\$1 million) will be transferred to Skagit PHD #1 over a defined schedule during the first year.*

The following will remain with Snohomish County PHD #3:

- *Current liabilities for the period prior to closing (unless specifically otherwise identified) will remain with Snohomish County PHD #3 and will be resolved in the course of winding up and transferring operations to Skagit PHD #1.*
- *Long term liabilities (e.g. long term debt) will remain with Snohomish County PHD #3.*
- *Accounts receivables will be reflected on the Snohomish PHD #3 balance sheet until cash is collected; any receivables collected will be transferred to Skagit County PHD #1.*
- *Tax revenue collected from the Snohomish County district will remain with Snohomish PHD #3 to pay long term debt.*

The 2017 projected balance sheet for CVH shown in Table 6 reflects the specific accounting as described above.

HPDS also provided a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total

operating expense to total operating revenue; and 5) debt service coverage. If a project’s ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, HPDS reviews a project’s projected statement of operations to evaluate the applicant’s immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2014 statewide District owned hospitals and provided the following rationale for using this comparison.

“The Statewide all hospitals average ratios was not used as a comparison as these ratios are now dominated by large in-state and multi-state hospital systems. It is now more appropriate to compare District Hospitals against District Hospitals.”

The ratio comparisons for full years 2017 through 2019 are shown in Table 7 below. [source: December 31, 2015, HPDS analysis, p3]

**Table 7
Projected Debt Ratios for Cascade Valley Hospital**

Category	Trend*	PHD 2014	Projected Year 1 2017	Projected Year 2 2018	Projected Year 3 2019
Long Term Debt to Equity	B	0.919	0.964	0.964	0.964
Current Assets/Current Liabilities	A	2.098	2.035	2.035	2.035
Assets Funded by Liabilities	B	0.543	0.552	0.552	0.552
Operating Expense/Operating Revenue	B	0.977	0.907	0.907	0.907
Debt Service Coverage	A	3.341	0.908	0.908	0.908
Definitions:	Formula				
Long Term Debt to Equity	Long Term Debt/Equity				
Current Assets/Current Liabilities	Current Assets/Current Liabilities				
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets				
Operating Expense/Operating Revenue	Operating expenses / operating revenue				
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp				

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

HPDS provided the following review of the ratios shown in Table 6 above.

- *Long Term Debt to Equity: In range as it is favorable as compared to the 2014 average.*
- *Current Assets/Current Liabilities: In range as it is favorable as compared to the 2014 average.*
- *Assets Funded by Liabilities: In range as it is favorable as compared to the 2014 average.*
- *Operating Expense/Operating Revenue: In range as it is favorable as compared to the 2014 average.*
- *Debt Service Coverage: Cascade Valley debt will be held by the Snohomish PHD No. 3 and was not reported in the pro forma Balance Sheet. This makes this ratio not reliable for this purpose. This does not negatively affect the application.*

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

Taking into consideration the assumptions used by Skagit County PHD #1 to project the number of patients and patient days, the projected revenue and expense statement for the 48-bed hospital, and the projected hospital-wide revenue and expense statement, the department concludes that the immediate and long-range operating costs of the project cannot be met. **This sub-criterion is met.**

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

Based on the source information reviewed and provided the applicant agrees to the conditions identified in the ‘conclusion’ section of this evaluation, the department concludes Skagit County Public Hospital District #1 dba Skagit Regional Health’s application meets the structure and process of care criteria in WAC 246-310-230.

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

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

As a 48-bed hospital, CVH is currently staffed to provide acute care services. Skagit County PHD #1 provided rationale to support its conservative assumptions for this project. In response to this sub-criterion, the applicant further stated that both hospital boards determined it was premature to quantify staff efficiencies resulting from the lease agreement. Therefore, with no projected increases in admissions or patient days for years 2017 through 2019, the Skagit County PHD #1 did not assume any increases in staff for CVH. Table 8 below provides a breakdown of the current/projected FTEs for CVH. [source: November 16, 2015, supplemental information, p8 and Attachment 4]

**Table 8
Cascade Valley Hospital
Current/Projected Years 2017-2019**

Category	Current Year 2015	Full Years 2017-2019
Administrative	31.15	31.15
Nursing	72.49	72.49
Physicians/PA/ARNP	13.94	13.94
Other	179.36	179.36
Total FTE's	296.94	296.94

The ‘nursing’ category shown in the table includes registered nurses, licensed nurses, and certified nursing assistants. The ‘other’ category includes department directors, engineering, laundry, and cafeteria staff. Contract staff, such as therapists and pharmacists, are not included in the FTE table because they are not direct employees of the hospital or Snohomish County PHD #3.

Since all staff identified in Table 8 above is currently employed at CVH, the department accepts that the staffing is reasonable for the 48-bed hospital.

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

Based on the source information reviewed the department concludes that sufficient staffing is available under the proposed lease agreement. **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(2) as identified in WAC 246-310-200(2) (a) (i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what relationships, ancillary and support services should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials contained in the application.

CVH has been providing acute care hospital services to north Snohomish County residents and surrounding communities for many years. The majority of CVH's patients—approximately 72%—reside in the north Snohomish areas of Arlington, Darrington, Granite Falls, Lakewood, Camano Island, Silvana, and Stanwood. CVH has long-established relationships with health care providers and facilities in the north Snohomish area. Providers include nursing homes and home care providers. Currently, SVH physicians already rotate to CVH or its clinics for specialty services, such as cancer care and urgent care. Skagit County PHD #1 does not anticipate changes to the existing formal or informal working relationships for CVH would result from this project. [source: Application, p27 and November 16, 2015, supplemental information, p8]

In May of 2015, University of Washington Medicine, SVH, and CVH entered into a three-way Affiliation Agreement to form a long-term clinical affiliation. The agreement identifies several stated purposes, including:

- increasing the level of clinical integration among the parties to improve the efficiency and coordination of care for patients of each organization;
- enhancing the delivery of healthcare in the local communities, closest to the patients' home, when possible; and
- providing safe and effective access to complex tertiary and quaternary healthcare services through University of Washington Medical Center that is not available in the SVH or CVH healthcare regions.

Section 5-General Terms and Conditions of the Affiliation Agreement identifies an anticipated change in control for CVH under a long-term lease agreement with SVH's public hospital district. The Affiliation Agreement anticipates the Skagit County HPD #1 would assume financial and operational management for CVH no later than nine months after the effective date of the agreement. [source: Application, p28 and November 16 2015, supplemental information, Attachment 2]

No public comments were submitted for this sub-criterion.

The department notes that submission of this application in October 2015 is consistent with the timeline identified in the three-way Affiliation Agreement. The draft Lease Agreement does not anticipate any changes to the three-way Affiliation Agreement. As a long-time provider of acute care services in Snohomish County, CVH has many long-standing formal and informal working agreements with community healthcare providers. Under the draft lease agreement, the hospital will remain at its same location and continue to provide the same services.

Based on documents provided in the application and CVH's historical ability to establish ancillary and support relationships, the department concludes there is reasonable assurance that CVH will

continue to have appropriate ancillary and support services for the 48-bed acute care hospital under the control and management of Skagit County PHD #1. **This sub-criterion is met.**

- (3) There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2) (a) (i). There are known recognized standards as identified in WAC 246-310-200(2) (a) (ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. As part of its review, the department must conclude that the proposed service would be operated in a manner that ensures safe and adequate care to the public. 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.

CVH has been a healthcare provider in north Snohomish County for many years through the hospital in Arlington and physician clinics in Snohomish County. As part of this review, the department must conclude that the acute care provided that would continue to be provided by CVH would be provided in a manner that ensures safe and adequate care to the public.⁹ To accomplish this task, the department reviewed the quality of care compliance history for all healthcare facilities owned, operated, or managed by CVH. Further, since Skagit County PHD #1 would operate and manage CVH and its clinics, the department also reviewed the quality of care compliance history for all healthcare facilities associated with SVH.

Cascade Valley Hospital and Clinics

In addition to CVH, Snohomish County PHD #3 also owns and operates a variety of medical clinics and an ambulatory surgery center. Using the department's internal database, survey data for CVH and its ambulatory surgery center was reviewed. Since 2012, two surveys have been conducted and completed by Washington State surveyors for the surgery center.¹⁰ All surveys resulted in no significant non-compliance issues. In addition, one survey was completed for CVH.¹¹ The survey resulted in no significant non-compliance issues. [source: ILRS survey data]

Skagit Valley Hospital and Clinics

Skagit County PHD #1 owns and operates a variety of medical clinics and co-owns and operates the hospice agency known as Skagit Hospice Services. Using the department's internal database, survey data for SVH and its hospice was reviewed. Since 2012, two surveys have been conducted and completed by Washington State surveyors for the hospice agency.¹² All surveys resulted in no significant non-compliance issues. In addition, two surveys were completed for SVH.¹³ The survey resulted in no significant non-compliance issues. [source: ILRS survey data]

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

⁹ WAC 246-310-230(5).

¹⁰ Surveys conducted and completed in December 2012 and January 2015.

¹¹ Survey conducted and completed in January 2012.

¹² Surveys conducted and completed in August 2013 and January 2015.

¹³ Survey conducted and completed in September 2012 and September 2014.

Given the compliance history of both CVH and SVH and their related healthcare facilities, the department concludes there is reasonable assurance the CVH would continue to be operated in conformance with state and federal regulations. **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 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.

Skagit County PHD #1 asserts that the proposed long-term lease agreement will provide significant benefits to the community because the entire premise of the agreement is to assure two strong, viable hospital and clinic systems are available and accessible to their respective communities. The applicant identified other benefits to the community, including:

- the potential for expansion of clinical services, which will be evaluated once CVH is operated and managed by Skagit County PHD #1;
- long-term stability of CVH will result from affiliation with a larger public hospital district;
- assistance with physician recruitment and retention. Potential staff would have opportunity to offer services at both or either site.
- provider choice by patients. Currently north Snohomish County has been primarily served by Providence's Everett hospital located in Everett. Providence's market has increased by nearly 20% in the last ten years. True patient choice in north Snohomish County means that CVH must be a strong and viable healthcare system.

[source: November 16, 2015, supplemental information, p3]

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

Throughout this application, Skagit County PHD #1 demonstrated that CVH is an integral component of health care services in north Snohomish County and its surrounding communities. With the three-way Affiliation Agreement, and again with this application, other healthcare providers join in the commitment to maintain the viability of CVH. Additionally, the draft lease agreement identifies the 'required services' to be maintained at CVH through at least a five year period. [source: November 16, 2015, supplemental information, Attachment 6]

Based on the source documents reviewed, the department concludes that CVH will continue to promote continuity in the provision of healthcare services to the residents of north Snohomish County and surrounding communities under this lease agreement. **This sub-criterion is met.**

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

This sub-criterion is 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 provided the applicant agree to the conditions identified in the ‘conclusion’ section of this evaluation, the department concludes Skagit County PHD #1 dba Skagit Regional Health’s application meets the cost containment criteria in WAC 246-310-240.

- (1) *Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.*
To determine if a proposed project is the best alternative, the department takes a multi-step approach. Step one determines if the application has met the other criteria of WAC 246-310-210 thru 230. If it has failed to meet one or more of these criteria then the project is determined not to be the best alternative, and would fail this sub-criterion.

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

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

Step One

For this project, Skagit County PHD #1’s project met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two

In May 2015, the three-way Affiliation Agreement with University of Washington Medicine, SVH, and CVH was completed. The agreement included a timeline for Skagit County HPD #1 to assume financial and operational management for CVH and its clinics. The hospital district considered two options.

- do nothing; and
- this project.

Once the decision was made for the affiliation and subsequent lease, the only available option is to submit this application.

Do Nothing

CVH is a relatively small community hospital that operates in a market adjacent to, and overlapping with, a larger healthcare system. In order for CVH to compete for contracts and staff, and experience positive outcomes and operating efficiencies, an affiliation is was deemed

necessary. Considering the long term interests of the residents of north Snohomish County, this option was quickly rejected and this application was submitted. [source: Application, p30]

Affiliation and Long-Term Lease

The affiliation and lease agreement were discussed in detail in the 'Project Description' section of this evaluation. In summary, the affiliation agreement ensures vital healthcare services will be available to members of the hospital district for at least five years, with some services available for ten years to 30 years. [source: November 16, 2015, supplemental information, Attachment 6]

Skagit County PHD #1 provided documentation to demonstrate its extensive review, planning, consideration, and assessment of CVH's historical and projected viability, including its financial viability. After reviewing the extensive process undertaken by both hospital districts to determine the best alternative for CVH, the department concurs that the long term lease of CVH is the best alternative for the community. This sub-criterion is met.

Step Three

This project is not competing with any other application. As a result, step three is not evaluated under this sub-criterion.