



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH  
*Olympia, Washington 98504*

August 2, 2017

CERTIFIED MAIL # 7014 2120 0002 7631 1762

Robert Watilo, CSO  
Kadlec Regional Medical Center  
888 Swift Boulevard  
Richland, WA 99352

RE: CN Application #17-19

Dear Mr. Watilo:

We have completed review of the Certificate of Need application submitted by Kadlec Regional Medical Center proposing to establish a three operating room ambulatory surgery center in Richland, within Benton 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 Kadlec Regional Medical Center agrees to the following in its entirety.

**Project Description**

This certificate approves the establishment of a three-operating room ambulatory surgery center in Richland, within Benton County. The surgery center will serve patients of all ages, providing the following surgical types: ENT, gastroenterology, gynecology, general surgery, neurology, orthopedics, ophthalmology, plastics, podiatry, urology, and vascular surgery.

**Conditions**

1. Kadlec Regional Medical Center dba NEWCO agrees with the project description as stated above. Kadlec Regional Medical Center dba NEWCO 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. Kadlec Regional Medical Center dba NEWCO will submit to the department for review and approval the adopted admission, non-discrimination, and charity care policies prior to

opening the surgery center. Each of these policies must be consistent with the drafts provided in the application.

3. Kadlec Regional Medical Center dba NEWCO will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. Kadlec Regional Medical Center dba NEWCO will use reasonable efforts to provide charity care in the amount identified in the application. These amounts are 2.5% of gross revenue and 7.02% of adjusted revenue. Kadlec Regional Medical Center dba NEWCO will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires that these records be available upon request.
4. Kadlec Regional Medical Center dba NEWCO will finance the project using cash reserves as stated in the application
5. Kadlec Regional Medical Center dba NEWCO agrees that the ASC will maintain Medicare and Medicaid certification, regardless of facility ownership.
6. Kadlec Regional Medical Center dba NEWCO will provide the department with a listing of key staff for the ASC prior to offering services. Key staff includes all credentialed or licensed management staff, including the director of nursing and the medical director.
7. Kadlec Regional Medical Center dba NEWCO will submit a copy of the final executed medical director agreement prior to offering services. The agreement must be consistent with the draft provided to the department within the application.
8. Kadlec Regional Medical Center dba NEWCO will license the facility as an ASF under WAC 246-330, and maintain this license type regardless of facility ownership.
9. Percutaneous Coronary Interventions (PCI) as defined in WAC 246-310-705 will not be performed at the Kadlec Regional Medical Center dba NEWCO ASF.

**Approved Costs**

The approved capital expenditure for this project is \$5,468,471.

Robert Watilo, Kadlec Regional Medical Center  
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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

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,



Nancy Tyson, Executive Director  
Health Facilities and Certificate of Need

Enclosure

# **EVALUATION DATED AUGUST 2 2017 OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY KADLEC MEDICAL CENTER PROPOSING TO ESTABLISH AN AMBULATORY SURGERY CENTER IN BENTON COUNTY**

## **APPLICANT DESCRIPTION**

Kadlec Regional Medical Center (Kadlec) was established in 1944 as an army medical facility associated with the Hanford Site in Richland, Washington. It has been located at its current location at 888 Swift Boulevard in Richland [99352] since 1971. The hospital is licensed for 270 beds, which includes 12 NICU Level II Bassinets, 15 NICU Level III Bassinets, and 12 acute rehabilitation beds. [source: Kadlec website, ILRS]

In 2014, Kadlec entered into an affiliation with Providence Health & Services. As a part of this affiliation, Western HealthConnect (as subsidiary of Providence) became the sole corporate member of Kadlec. In 2016, Providence Health & Services and St Joseph Health – a California-based non-profit hospital system – entered into an affiliation and formed a new “super-parent” company called Providence St Joseph Health. Providence St Joseph Health, Providence Health & Services, Western HealthConnect, and Kadlec are all registered with the Washington State Department of Revenue and the Office of the Secretary of State. [source: Application pp6-7, DOR and SOS websites]

Kadlec offers a number of healthcare services in Benton and Franklin counties and the surrounding areas. This includes the 270-bed acute care hospital, primary care offices, urgent care, and specialty care services. Kadlec is also invested in several joint ventures throughout the area, including Tri-Cities Home Health, Tri-Cities Cancer Center, and Tri-Cities Laboratory. [source: Application pp7-15, Exhibit 16]

Kadlec is Medicare and Medicaid certified, and is accredited by The Joint Commission. [source: Application p11]

## **PROJECT DESCRIPTION**

With this application, Kadlec dba NEWCO proposes to establish a new, three-operating room ambulatory surgery center (ASC) located in Richland, within the Benton-Franklin secondary service planning area. While owned by Kadlec Regional Medical Center, the ASC would be separately licensed as an ambulatory surgical facility (ASF). It would be located in an existing medical office building located at 1351 Fowler Street in Richland [99352]. [source: Application p6, March 28, 2017 screening response p2]

The facility would occupy approximately 12,688 gross square feet of the 30,529 square foot building. Along with the three operating rooms, the facility includes recovery areas, offices, consultation rooms, clean and dirty storage, staff areas, and reception. [source: Application pp15-16, Exhibit 7]

The ASC would serve patients that can be served appropriately in an outpatient setting. Surgical services to be provided at the ASC would be available to all ages. Surgical types include ENT, gastroenterology, gynecology, general surgery, neurology, orthopedics, ophthalmology, plastics, podiatry, urology, and vascular surgery. [source: Application p13]

The estimated capital expenditure for the proposed ASC is \$5,468,471. Of that amount, approximately 91% is associated with moveable equipment, 8% is associated with tax, and less than 1% is associated with construction costs. Construction is limited to minor tenant improvements, as it is an existing medical office building. [source: Application p1, p34]

Kadlec has begun the plan review process with Construction Review Services, and expects to commence the project immediately upon Certificate of Need approval. Under this timeline, year 2018 would be the ASCs first full year of operation and 2020 would be year three. [source: Application p16]

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

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

### **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 that 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:

*(b) “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 experience 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). 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**

<b>Action</b>	<b>Date</b>
Letter of Intent Submitted	December 22, 2016
Application Submitted	January 23, 2017
Department’s pre-review activities <ul style="list-style-type: none"> <li>• DOH 1st Screening Letter</li> <li>• Applicant’s Responses Received</li> <li>• DOH 2nd Screening Letter</li> <li>• Applicant’s Responses Received</li> </ul>	February 13, 2017 February 24, 2017 March 17, 2017 March 28, 2017
Beginning of Review	April 4, 2017
Public Hearing Conducted	N/A <sup>1</sup>
Public Comments accepted through end of public comment	May 9, 2017
Rebuttal Comments Due	N/A <sup>2</sup>
Department’s Anticipated Decision Date	July 10, 2017
Department’s Revised Decision Date – 30-day extension	August 9, 2017
Department’s Actual Decision Date	August 2, 2017

**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;

<sup>1</sup> No public hearing was requested or conducted

<sup>2</sup> There were no public comments submitted for this application. As a result, no rebuttal comments could be accepted.

- (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 course of review, two people requested interested person status, shown below:

Joy Borkholder, SEIU Healthcare 1199NW

Joy Bokholder requested interested person status on behalf of SEIU Healthcare 1199NW and to be informed of the department’s decision. SEIU 1199NW is a statewide union of nurses and healthcare workers. Neither Joy nor any other representatives of SEIU 1199NW provided written comments, so it is unclear whether the union represents employees of Kadlec Regional Medical Center. SEIU Healthcare 1199NW does not meet any of the other elements under the definition of “interested person,” Regardless of whether the department recognized SEIU 199NW as an interested person, the department did not receive any comments. Therefore, SEIU 1199NW cannot meet the definition of “affected person.”

Dotty Johnson, Bouten Construction Company

Dotty Johnson requested interested person status on behalf of Bouten Construction Company and to be informed of the department’s decision. Bouten Construction Company has offices in Spokane and the Tri-Cities. Neither Dotty nor any other representatives of Bouten Construction Company provided written comments. Bouten Construction Company meets the definition of “interested person” under WAC 246-310-020(34)(f), as their offices are located within the Benton-Franklin secondary health services planning area. Because they did not provide comments, Bouten Construction Company could not meet the definition of “affected person.”

**SOURCE INFORMATION REVIEWED**

- Kadlec’s Certificate of Need application submitted January 23, 2017
- Kadlec’s screening responses received February 24, 2017
- Kadlec’s screening responses received March 28, 2017
- Compliance history for credentialed or licensed staff from the Medical Quality Assurance Commission and Nursing Quality Assurance Commission
- Compliance history for Kadlec and Providence facilities and services from the Washington State Department of Health – Office of Investigation and Inspection
- DOH Provider Credential Search website: <http://www.doh.wa.gov/pcs>
- Historical charity care data for years 2013, 2014, and 2015 obtained from the Department of Hospital/Finance and Charity Care (HFCC) Financial Review
- Year 2016 Annual Ambulatory Surgery Provider Survey for Surgical Procedures Performed During Calendar Year 2015 for hospitals, ambulatory surgery centers, or ambulatory surgical facilities located in Benton and Franklin Counties
- Year 2012 OFM population estimates, medium series

- Department of Health internal database – Integrated Licensing & Regulatory Systems (ILRS)
- Joint Commission website: <http://www.qualitycheck.org>
- Kadlec website: <https://www.kadlec.org/>
- Washington State Department of Revenue website: <http://www.dor.wa.gov>
- Center for Medicare and Medicaid Services website: <https://www.cms.gov>
- Certificate of Need historical files

## **CONCLUSIONS**

For the reasons stated in this evaluation, the application submitted by Kadlec Regional Medical Center proposing to establish a three-operating room ambulatory surgery center in Richland, within Benton-Franklin secondary service planning area is consistent with the applicable criteria of the Certificate of Need Program, provided Kadlec agrees to the following in its entirety.

### **Project Descriptions:**

This certificate approves the establishment of a three-operating room ambulatory surgery center in Richland, within Benton County. The surgery center will serve patients of all ages, providing the following surgical types: ENT, gastroenterology, gynecology, general surgery, neurology, orthopedics, ophthalmology, plastics, podiatry, urology, and vascular surgery.

### **Conditions:**

1. Kadlec Regional Medical Center dba NEWCO agrees with the project description as stated above. Kadlec Regional Medical Center dba NEWCO 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.
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6. Kadlec Regional Medical Center dba NEWCO will provide the department with a listing of key staff for the ASC prior to offering services. Key staff includes all credentialed or licensed management staff, including the director of nursing and the medical director.

7. Kadlec Regional Medical Center dba NEWCO will submit a copy of the final executed medical director agreement prior to offering services. The agreement must be consistent with the draft provided to the department within the application.
8. Kadlec Regional Medical Center dba NEWCO will license the facility as an ASF under WAC 246-330, and maintain this license type regardless of facility ownership.
9. Percutaneous Coronary Interventions (PCI) as defined in WAC 246-310-705 will not be performed at the Kadlec Regional Medical Center dba NEWCO ASF.

**Approved Costs:**

The approved capital expenditure for this project is \$5,468,471.

## **CRITERIA DETERMINATIONS**

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes that Kadlec Regional Medical Center has met the need criteria in WAC 246-310-210.

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

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

The Department of Health's Certificate of Need Program uses the numeric methodology outlined in WAC 246-310-270 for determining the need for additional ASCs in Washington State. The numeric methodology provides a basis of comparison of existing operating room (OR) capacity for both outpatient and inpatient ORs in a planning area using the current utilization of existing providers. The methodology separates Washington State into 54 secondary health services planning areas. Kadlec Regional Medical Center dba NEWCO would be located in Richland, within the Benton-Franklin secondary health service planning area.

The methodology estimates OR need in a planning area using multiple 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 room 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. Dedicated interventional pain management surgical services are also among the excluded rooms and procedures.

#### Kadlec Regional Medical Center

Kadlec determined the existing capacity in the Benton-Franklin secondary service planning area to be 5 dedicated outpatient ORs and 25 mixed use ORs, shown below. [source: Application p20]

**Table 1  
Kadlec OR Count**

<i>Facility Name</i>	<i>Number of ORs</i>		
	<i>Inpatient</i>	<i>Outpatient</i>	<i>Mixed Use</i>
<i>Kadlec Regional Medical Center</i>			<i>12</i>
<i>Trios Health</i>			<i>5</i>
<i>Lourdes Health Network</i>			<i>6</i>
<i>Northwest Ambulatory Surgery Physicians</i>		<i>5</i>	
<i>PMH Medical Center</i>			<i>2</i>
<b><i>Total</i></b>		<b><i>5</i></b>	<b><i>25</i></b>

Based on 2015 utilization and population data, Kadlec’s methodology identified a use rate of 129.58/1,000 population. Focusing on year 2019, Kadlec projected Benton and Franklin county populations to be 293,402. Applying the use rate to the projected population and subtracting the existing number of ORs in the planning area, Kadlec projected a need for 11.51 dedicated outpatient ORs in Benton and Franklin Counties for projection year 2019. [source: Application Exhibit 10]

Kadlec provided the following statements as well:

*“Application of WAC 246-310-270 to the Benton-Franklin County Planning Area demonstrates need for additional ambulatory surgery suites. Without the project, there will be too few freestanding outpatient surgery suites to meet projected demand, and access to affordable outpatient care will be limited.*

*As mentioned above, the ASF is an integral part of Kadlec’s long range strategic plan, which is intended to build sustainable physician relationships with community members, integrate clinical service lines, enhance local medical care delivery, and lower health care delivery costs. Further, the ASF will allow the co-location of specialty and surgical services, which will improve care coordination, quality and efficiency of care along the “Triple Aim” – improved experience of care, improved health, and lower cost. If this project is not approved, Benton-Franklin County Planning Area residents will lack access to affordable, quality care and Kadlec’s desire to lower the cost of care for the local community and provide care when and where it is needed will not be fulfilled.” [source: Application p24]*

*“Kadlec has been providing care to Benton and Franklin counties since 1944. Since that time, Kadlec has offered inpatient and outpatient care to planning area residents through its hospital, clinics and other care settings. In fact, in 2015, Kadlec Regional Medical Center provided inpatient care for about 50 percent of all planning area patients (CHARS 2015, excludes DRG 795). Thus, Kadlec has an established presence in the planning area and well-established relationships with many of its residents. It is reasonable to assume that planning area patients will look to and choose Kadlec to meet their ambulatory needs as part of their continuum of care.” [source: Application p30]*

Public Comment

None

Rebuttal

None

Department's Numeric Methodology and Evaluation

The numeric portion of the methodology requires a calculation of the annual capacity of the existing providers inpatient and outpatient OR's in a planning area – Benton and Franklin Counties.

According to the department's records, there are 16 planning area providers with OR capacity. Of these providers, four are hospitals (including the applicant) 13 are ambulatory surgical facilities.

Because there is no mandatory reporting requirement for utilization of ASFs or hospital ORs, the department sends an annual utilization survey to all hospitals and known ASFs in the state. When this application was submitted in January 2017, the most recent utilization survey data available was for year 2015. The data provided in the utilization survey is used, if available.

Below, Table 2 shows a listing of the four hospitals. [source: CN historic files and ILRS]

**Table 2**  
**Benton-Franklin Planning Area Hospitals**

<b>Facility</b>	<b>County</b>
Kadlec Regional Medical Center	Benton
Lourdes Medical Center	Franklin
PMH Medical Center	Benton
TRIOS Health	Benton

[source: ILRS]

For the hospital, all known OR capacity and procedures are included in the methodology calculations for the planning area.

Table 3, below, contains a listing of the 12 ASFs in the planning area.

**Table 3  
Benton-Franklin Planning Area ASFs**

<b>Facility</b>	<b>County</b>	<b>CN Approved or Exempt?</b>
Columbia River Eye Center	Benton	exempt
High Desert Surgery Center	Benton	approved
Hoyeol Yang MD PS*	Benton	exempt
Mid-Columbia Endoscopy Center*	Benton	approved
Northwest Ambulatory Physicians*	Benton	approved
Northwest Endovascular Surgery	Benton	exempt
Pacific Cataract and Laser Institute	Benton	exempt
Retina Laser Eye Center	Benton	exempt
The Surgery Center at Tri-City Orthopaedic	Benton	exempt
The Surgery Center at Tri-City Orthopaedic Clinic	Benton	exempt
Tri-Cities Endoscopy Center*	Benton	approved
Tri-City Regional Surgery Center	Benton	exempt
Wright Surgical Arts	Franklin	exempt

[source: ILRS]

Of the 13 ASFs shown above, four are endoscopy or pain management facilities (designated with an asterisk). The numeric methodology deliberately excludes the OR capacity and procedures from the numeric need methodology.<sup>3</sup> As a result, the ORs and procedures for these facilities will not be counted in the numeric need methodology.

Out of the remaining nine ASFs within the planning area, eight are located within the offices of private physicians, whether in a solo or group practice that have received an exemption (considered a Certificate of Need-exempt ASF). The use of these ASFs is restricted to physicians that are employees or members of the clinical practices that operate the facility. Therefore, these facilities do not meet the ASC definition in WAC 246-310-010. For Certificate of Need-exempt ASFs, the number of surgeries, but not ORs, is included in the methodology for the planning area. In summary, OR capacity will be counted for two Certificate of Need-approved ASFs and four hospitals.

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

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<sup>3</sup> WAC 246-310-270(9)(iv)

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

<b>Assumption</b>	<b>Data Used</b>
Planning Area	Benton and Franklin Counties
Population Estimates and Forecasts	Age Group: 0-85+ OFM Population Data released year 2012, medium series: Year 2015 – 272,637 Year 2020 – 298,732
Use Rate	Divide calculated surgical cases by 2015 population results in the service area use rate of 128.721/1,000 population
Year 2015 Total Number of Surgical Cases	17,740 – Inpatient or Mixed-Use; 17,354 – Outpatient 35,094 – Total Cases
Percent of surgery: outpatient vs. inpatient	Based on DOH survey and ILRS: 49.45% outpatient; 50.55% inpatient
Average minutes per case	Based on DOH survey and ILRS: Outpatient cases: 57.58 minutes Inpatient cases: 95.14 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 Benton and Franklin County Providers: 2 dedicated outpatient ORs 31 mixed use ORs
Department's Methodology Results	Need for 13.90 outpatient ORs

Based on the assumptions described in Table 4 above, the department's application of the numeric methodology indicates a need for 13.90 outpatient ORs in 2019.

When comparing the applicant's and department's methodology, there are differences in several data points identified in Table 4 above. Noted differences are shown below.

<b>Data Points</b>
Population Estimates and Forecasts
Existing Providers/ORs
Use Rate

These three data points are tightly connected. When the 2015 total number of surgical cases is divided by the year 2015 population, the result is a planning area use rate. The use rate is then applied to the projected population.

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

The source of the applicant’s projected population is the same as that used by the department (OFM 2012 Population Projections, Medium Series). The department and Kadlec both used 2015 as the base year. Kadlec and the department both used the entire population of both counties, as the surgery center proposed to serve all ages. However, Kadlec used a four-year projection horizon and forecasted to year 2019. The department used a five-year projection horizon and forecasted to year 2020. The differences by year are shown below.

**Table 5  
Benton and Franklin County Population**

<b>Base Year</b>	<b>Kadlec Projection Year</b>	<b>DOH Projection Year</b>
2015	2019	2020
272,637	293,402	298,732

[source: 2012 OFM Population Forecast, Medium Series]

It is not clear why Kadlec used a shorter projection horizon. As stated above, the data points used in this numeric need methodology are tightly connected. Kadlec’s population forecast resulted in a numeric need for additional outpatient operating rooms. By increasing the population, the need for outpatient operating rooms also increased. The discrepancy between Kadlec and the department on this data point does not affect the numeric need significantly.

Use Rate

A use rate per 1,000 residents is calculated by dividing the total number of surgeries by the base year (2015) population and then dividing by 1,000. The applicant calculated a use rate of 129.58/1,000 based on all residents, regardless of age, for the Benton-Franklin secondary health services planning area. The department calculated a use rate of 128.721/1,000 residents of the Benton/Franklin secondary health services planning area, regardless of age. For this project, the department’s use rate is more accurate because it included more recent survey information.

Number of Existing ORs

There are three discrepancies between Kadlec’s OR count and the department’s OR count, shown below.

**Table 6  
OR Counts**

<b>Facility</b>	<b>Kadlec OR Count</b>	<b>Department OR Count</b>	<b>Difference</b>
TRIOS Health	5	8	+3
High Desert Surgery Center	0	2	+2
Northwest Ambulatory Physicians	5	0	-5

[source: Application p20, CN Historical Files, 2016 ASF, 2015 ASF survey; DOH IIO]

Kadlec assumed 5 mixed-use ORs for Trios Health. They identified their source to be 2014 department survey data. The department used the 2015 survey response from Trios Health, and counted that facility at 8 mixed-use ORs. Kadlec also excluded High Desert Surgery Center. It is unclear why the 2 ORs from this facility were excluded, as it has been CN-approved since October 7, 2002.<sup>4</sup> Kadlec included 5 ORs from Northwest Ambulatory Physicians – a CN-approved ASC. The department has not received survey responses from this facility in over 3 years. Information from the Department of Health’s Office of Investigations and Inspections indicates that this facility restricts its surgical practice to endoscopy and pain management. Therefore, these rooms and procedures have been excluded.

In some ASF applications, the differences described above can significantly affect the outcome of the methodology. The differences in this instance are not significant, as need is still shown in excess of the ORs proposed by Kadlec.

Based on the source information evaluated the department concludes, **there is numeric need for additional outpatient ORs.**

WAC 246-310-270(6)

WAC 246-310-270(6) requires a minimum of two ORs in an ASC.

Kadlec Regional Medical Center

Kadlec has proposed that the ASC will have three ORs. [source: Application p4]

Public Comment

None

Rebuttal

None

Department Evaluation

WAC 246-310-270(6) requires a minimum of two ORs in an ASC. As Kadlec has proposed that their facility will have three ORs, **this standard is met.**

In summary, based on the department’s numeric methodology, numeric need for additional OR capacity in the Benton-Franklin secondary health service planning area is demonstrated.

In addition to numeric need, the department must determine whether other services and facilities for the type proposed are not or will not be sufficiently available and accessible to meet that need.

Kadlec provided several statements related to the availability and accessibility of other providers in the planning area. Their statements largely focused on the numeric need. It is true, the numeric need does demonstrate that there is a shortage of CN-approved dedicated outpatient ORs available in the planning area. The department did not receive any public

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<sup>4</sup> CN #1249

comment to suggest that other area providers opposed the addition of outpatient surgery capacity in the planning area. To further evaluate this sub-criterion, the department identified the surgical specialties available at the existing planning area surgery centers, below. This includes those surgery centers dedicated to endoscopy that were excluded in the numeric need methodology.

**Table 7  
Surgical Specialty Comparison**

<b>ASF</b>	<b>Specialties Provided</b>
Columbia River Eye Center	Ophthalmology
<b>High Desert Surgery Center</b>	<b>Orthopedics, Podiatry</b>
Hoyeol Yang MD PS	Gastroenterology
<b>Mid-Columbia Endoscopy Center</b>	<b>Gastroenterology</b>
<b>Northwest Ambulatory Physicians</b>	<b>Gastroenterology, Pain Management</b>
Northwest Endovascular Surgery	“Other”
Pacific Cataract and Laser Institute	Ophthalmology
Retina Laser Eye Center	Ophthalmology
The Surgery Center at Tri-City Orthopaedic	Orthopedics, Pain
The Surgery Center at Tri-City Orthopaedic Clinic	Orthopedics, Pain
<b>Tri-Cities Endoscopy Center</b>	<b>Gastroenterology</b>
Tri-City Regional Surgery Center	ENT, Gastroenterology, Orthopedics, Podiatry
Wright Surgical Arts	Plastic, Other
Proposed Kadlec ASF	ENT, Gastroenterology, Gynecology, General Surgery, Neurology, Orthopedics, Ophthalmology, Plastics, Podiatry, Urology, and Vascular surgery

[source: ILRS, DOH IIO]

Of the surgery centers above, only four have Certificate of Need approval – shown in bold. Of these four, three are exclusively dedicated to endoscopy or pain management. The remaining CN-approved surgery center does not provide ENT, general surgery, ophthalmic, or vascular surgery. Though exempt surgery centers are present in the planning area, they are under no obligation to provide charity care, or to serve Medicare and Medicaid patients. Therefore, these remaining surgery centers may not be sufficiently available and accessible to all residents of the planning area.

In summary, based on the department’s numeric need methodology, numeric need for additional OR capacity in the Benton-Franklin secondary service planning area is

demonstrated. The number of ORs does not exceed the planning area need, and the existing supply may not be sufficiently available and accessible to all planning area residents. Further, Kadlec meets the standard under WAC 246-310-270(6). **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.

To evaluate this sub-criterion, the department evaluates an applicant's admission policy, willingness to serve Medicare patients, Medicaid patients, and to serve patients that cannot afford to pay for services.

The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

Medicare certification is a measure of an agency's willingness to serve the elderly. With limited exceptions, Medicare is coverage for individuals age 65 and over. It is also well recognized that women live longer than men and therefore more likely to be on Medicare longer.

Medicaid certification is a measure of an agency's willingness to serve low income persons and may include individuals with disabilities.

#### Kadlec Regional Medical Center

Kadlec provided copies of the following policies, along with the following comments.

- Admission Policy [source: February 24, 2017 screening response, Exhibit 20]
- Patient Rights and Responsibilities, Patient Nondiscrimination Policy [source: Application Exhibit 12]
- Charity Care Policy [source: Application Exhibit 13]

*"Exhibit 12 contains a copy of the Kadlec Admissions Policy and a copy of the Patients' Rights and Responsibilities Policy. These policies will be used for the proposed ASF."* [source: Application p32]

*"In accordance with its mission, Kadlec is committed to meeting community and regional health needs. Kadlec will extend its existing charity care policies and community benefit activities to include the proposed ASF. Please refer to Exhibit 13 for a copy of Kadlec Charity Care Policy. This policy will be used for the proposed ASF."* [source: Application p32]

#### Medicare and Medicaid Programs

Kadlec is currently Medicare and Medicaid certified. Kadlec provided its projected source of revenues by payer for the proposed ASF in Table 8 [source: Application pp14-15]

*“The 2015 payer mix at Kadlec Regional Medical Center for the categories of ASF-eligible procedures planned for the proposed ASF and from patients originating in the planning area zip codes is noted in Table 4. We expect the proposed ASF project will have a forecast payer mix consistent with Kadlec’s historical payer mix.”*

**Table 8  
Projected Payer Mix**

<b>Payer Group</b>	<b>Percentage</b>
<b>Medicare</b>	39.9%
<b>Medicaid</b>	24.5%
<b>Commercial</b>	30.7%
<b>Other Government/L&amp;I</b>	2.7%
<b>Self-Pay</b>	2.2%
<b>Total</b>	<b>100.0%</b>

*“Kadlec has had a significantly higher three-year charity care average, as a percent of gross and adjusted revenues, compared to the Central Washington regional average.”* [source: Application p31]

*“In accordance with its mission, Kadlec is committed to meeting community and regional health needs. Kadlec will extend its existing charity care policies and community benefit activities to include the proposed ASF...This policy will be used for the proposed ASF.”* [source: Application p32]

Public Comments

None

Rebuttal

None

Department Evaluation

Kadlec provided the hospital’s non-discrimination policy, stating that it would be used at the proposed surgery center. As it has not yet been adopted by the proposed surgery center, the department considers this policy to be in draft form. It is consistent with approved policy reviewed by the Department of Health for the hospital. Therefore, if this project is approved, the department would attach a condition requiring that Kadlec provide the final adopted policy that is consistent with the policy provided with the application.

The draft admission policy that was provided includes the required information, including the criteria for admitting patients and a description of the types of patients that would be served. If this project is approved, the department would attach a condition requiring that Kadlec provide the final adopted version of this policy, consistent with the one provide in the application.

The financial data provided in the application shows Medicare and Medicaid revenues consistent with Table 8 above. The department concluded that Kadlec intends for this proposed

surgery center to be accessible and available to Medicare and Medicaid patients based on the information provided.

Kadlec provided the hospitals current Charity Care Policy that is used for all of its healthcare facilities. It is the policy approved by the department and posted on the department’s website. Kadlec stated this same policy will be used at the proposed surgery center if this project is approved. The policy includes the process one must use to access charity care.

The policy provided by Kadlec does not include any reference to the proposed surgery center by name or by inference, but does allude to a list of facilities and providers available through Kadlec. This proposed surgery center is not yet included on this list. Therefore, the department considers this policy to be a draft. If approved, the department would attach a condition requiring Kadlec to update this list to include the proposed surgery center by name.

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 Washington State is divided into five regions: King County, Puget Sound, Southwest, Central, and Eastern. Kadlec dba NEWCO would be located in Benton County within the Central Washington region. Currently, there are 21 hospitals operating in the region. Of those, four hospitals<sup>5</sup> are within the planning area and could be affected by approval of this project.

Kadlec projected that the ASC will provide charity care at 2.5% of total revenue and 7.02% of adjusted revenue. For this project, the department reviewed the most recent three years of charity care data for the 21 existing hospitals currently operating within the Central Washington Region and focused on the four acute care hospital located in the planning area. The three years reviewed are 2013, 2014, and 2015.<sup>6</sup> Table 9 below is a comparison of the historical average charity care for the Central Washington Region as a whole, the historical average charity care at Kadlec, and the projected charity care to be provided at the proposed ASF.

**Table 9  
Charity Care – Three Year Average**

	<b>% of Total Revenue</b>	<b>% of Adjusted Revenue</b>
3-year Central Washington Region <sup>7</sup>	1.50%	3.68%
3-year Benton-Franklin	1.82%	4.47%
3-year Kadlec Hospital	1.84%	4.63%
Projected Kadlec dba NEWCO	2.50%	7.02%

[sources: Community Health Systems Charity Care 2013-2015, Application p15, Exhibit 15]

<sup>5</sup> Kadlec Regional Medical Center, TRIOS Health, Lourdes Medical Center, and PMH Medical Center

<sup>6</sup> As of the writing of this evaluation, year 2016 charity care data is not yet available

<sup>7</sup> Confluence/Wenatchee Valley Hospital, Quincy Valley Hospital, and Sunnyside Community Hospital did not report timely in 2015 or 2014. Quincy Valley Hospital also did not report timely in 2013

As shown above, the three year regional average proposed by Kadlec is higher than the regional average, and higher than the average for the Benton-Franklin secondary service planning area. That being said, it has decreased consistently year by year.

The 2014 Report of Charity Care in Washington Hospitals offers the following analysis of decreased charity care across Washington State Hospitals with the introduction of the Affordable Care Act (ACA):

*“Implementation of the ACA is changing the landscape of charity care in Washington State. More patients have health coverage, either through Medicaid expansion or through purchase of private coverage. As a result, Washington saw the first decline in the amount of charity care reported by hospitals since the department began gathering these data...”*

*“As hospitals begin to report all data for calendar year 2014, the ACA becomes fully effective, and the number of insured stabilizes, we will likely see a continued decline in charity care in Washington over the next few years before it levels off again.”* [source: 2014 Washington State Charity Care in Washington Hospitals – January 2016]

The Certificate of Need program recognizes that charity care in Washington State is expected to continue to decline as more individuals receive healthcare coverage under the ACA, but charity care is not expected to reach zero. Though the application shows that Kadlec intends to provide charity care above the regional average and local average, the department would still attach a condition related to this sub-criterion if this project is approved. The condition would require Kadlec to make reasonable efforts to provide charity care at the levels stated in the application, or the regional average – whichever is higher. This condition would also require Kadlec to maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department would require that these records be available upon request.

Based on the information reviewed and with Kadlec’s agreement to the conditions identified above, the department concludes **this sub-criterion is met.**

(3) *The applicant has substantiated any of the following needs and circumstances the proposed project is to serve.*

(a) *The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both to individuals no residing in the health service areas in which the entities are located or in adjacent health service areas.*

Department Evaluation

This criterion is not applicable to this application.

(b) *The special needs and circumstances of biomedical and behavioral research projects designed to meet a national need and for which local conditions offer special advantages.*

Department Evaluation

This criterion is not applicable to this application.

(c) *The special needs and circumstances of osteopathic hospitals and non-allopathic services.*

Department Evaluation

This criterion is not applicable to this application.

(4) *The project will not have an adverse effect on health professional schools and training programs. The assessment of the conformance of a project with this criterion shall include consideration of:*

(a) *The effect of the means proposed for the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.*

Department Evaluation

This criterion is not applicable to this application.

(b) *If proposed health services are to be available in a limited number of facilities, the extent to which the health professions schools serving the area will have access to the services for training purposes.*

Department Evaluation

This criterion is not applicable to this application.

(5) *The project is needed to meet the special needs and circumstances of enrolled members or reasonably anticipated new members of a health maintenance organization or proposed health maintenance organization and the services proposed are not available from nonhealth maintenance organization providers or other health maintenance organizations in a reasonable and cost-effective manner consistent with the basic method of operation of the health maintenance organization or proposed health maintenance organization.*

Department Evaluation

This criterion is not applicable to this application.

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

Based on the source information reviewed and applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes that Kadlec Regional Medical Center has met the financial feasibility criteria in WAC 246-310-220.

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

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

Kadlec Regional Medical Center

The assumptions used by Kadlec to determine utilization and the projected number of procedures for its first three full years of operation are summarized below. [source: Application pp25-29]

The forecast model uses the following assumptions and methodologies:

1. Surgical use rates by ICD-9 procedure code group were derived from the latest National Center for Health Statistics (“NCHS”) survey study, “Ambulatory Surgery in the United States.” The report analyzed and presented summaries of data from the 2006 National Survey of Ambulatory Surgery (“NSAS”). In this study, ambulatory surgery refers to surgical and nonsurgical procedures performed on an ambulatory basis in a hospital or freestanding center’s general ORs, dedicated ambulatory surgery rooms, and other specialized rooms. This NCHS survey study is the principal source for published national data on the characteristics of visits to hospital based and freestanding ambulatory surgery centers. The report was updated and revised in 2009 and contains the latest NCHS estimates on ambulatory surgery use rates. Please see Table 9 for the NCHS utilization rates used in the forecast methodology.

**National Center for Health Statistics  
Ambulatory Surgery Utilization Estimates**

<b>Procedure Description (ICD9-CM Code)</b>	<b>ICD9-CM Code</b>	<b>Utilization Rate / 10,000</b>
All Operations		1,788.3
Operations on the Nervous System	01-05	107.2
Operations on the Endocrine System	06-07, 40-41, 72-75	11.5
Operations on the Eye	08-16	237.6
Operations on the Ear	18-20	37.3
Operations on the Nose, Mouth, and Pharynx	21-29	96.0
Operations on the Respiratory System	30-34	14.9
Operations on the Cardiovascular System	35-39, 00.50-00.51, 00.53-00.55, 00.61- 00.66	46.1
Operations on the Digestive System	42-54	483.3
Operations on the Urinary System	55-59	59.6
Operations on the Male Genital Organs	60-64	21.2
Operations on the Female Genital Organs	65-71	83.7
Operations on the Musculoskeletal System	76-84, 00.70-00.73, 00.80-00.84	266.4
Operations on the Integumentary System	85-86	120.1
Miscellaneous diagnostic and therapeutic procedures and new technologies	87-99, 00	203.2

2. The NCHS use rates were multiplied by the 2017-2022 planning area population (see Table 5), and then divided by 10,000 to forecast Planning Area resident ambulatory surgeries by procedure type, by year. Table 10 includes these procedure estimates for the planning area.

**Application Table 10**

**Benton-Franklin County Planning Area Ambulatory Surgery Forecasts**

<b>Procedure Description (ICD9-CM Code)</b>	<b>Utilization Rate</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<i>Operations on the Nervous System</i>	107.2	3,120	3,169	3,221
<i>Operations on the Endocrine System</i>	11.5	335	340	345
<i>Operations on the Eye</i>	237.6	6,915	7,024	7,138
<i>Operations on the Ear</i>	37.3	1,086	1,103	1,121
<i>Operations on the Nose, Mouth, and Pharynx</i>	96.0	2,794	2,839	2,884
<i>Operations on the Respiratory System</i>	14.9	434	440	448
<i>Operations on the Cardiovascular System</i>	46.1	1,342	1,363	1,385
<i>Operations on the Digestive System</i>	483.3	14,067	14,287	14,520
<i>Operations on the Urinary System</i>	59.6	1,735	1,762	1,791
<i>Operations on the Male Genital Organs</i>	21.2	313	318	323
<i>Operations on the Female Genital Organs</i>	83.7	1,200	1,219	1,239
<i>Operations on the Musculoskeletal System</i>	266.4	7,754	7,875	8,003
<i>Operations on the Integumentary System</i>	120.1	3,496	3,550	3,608
<i>Miscellaneous diagnostic and therapeutic procedures and new technologies</i>	203.2	5,914	6,007	6,105
<b>Total Planning Area Cases</b>		<b>50,503</b>	<b>51,295</b>	<b>52,130</b>

3. A market share figure was applied to each procedure code group based on current and planned surgeries. These market share figures are based on physician recruitment actions and the expressed interest from other area physicians who would utilize the ASF if available. As mentioned earlier, the ASF will be equipped to offer a wide-range of surgical service capabilities including, but not limited to, ear, nose, and throat (ENT); gastroenterology; gynecology; general surgery; neurology; orthopedics; ophthalmology; plastics; podiatry; urology; and vascular surgery. Table 11 provides these market share figures. As noted in Table 11, in some cases the ASF would not perform ambulatory surgery in the procedure code groups listed in the NCHS analysis, such as operations on the endocrine system, respiratory system and integumentary system. Table 11 indicates that in all procedure code groups, the market share figures begin with very small values, such as 5.0 percent for operations of the digestive system and cardiovascular system. Table 11 also indicates that growth of the ASC market share figures is very modest over time.

**Application Table 11  
NEWCO Market Share Assumptions**

<b>Procedure Description (ICD9-CM Code)</b>	<b>2017 (operations start-up June 2017)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<i>Operations on the Nervous System</i>	5.0%	5.4%	5.7%	6.0%
<i>Operations on the Endocrine System</i>	0.0%	0.0%	0.0%	0.0%
<i>Operations on the Eye</i>	4.0%	4.3%	4.6%	4.8%
<i>Operations on the Ear</i>	4.0%	4.3%	4.6%	4.8%
<i>Operations on the Nose, Mouth, and Pharynx</i>	5.0%	5.4%	5.7%	6.0%
<i>Operations on the Respiratory System</i>	0.0%	0.0%	0.0%	0.0%
<i>Operations on the Cardiovascular System</i>	5.0%	5.4%	5.7%	6.0%
<i>Operations on the Digestive System</i>	5.0%	5.4%	5.7%	6.0%
<i>Operations on the Urinary System</i>	8.0%	8.6%	9.2%	9.5%
<i>Operations on the Male Genital Organs</i>	5.0%	5.4%	5.7%	6.0%
<i>Operations on the Female Genital Organs</i>	5.0%	5.4%	5.7%	6.0%
<i>Operations on the Musculoskeletal System</i>	15.0%	16.2%	17.2%	17.9%
<i>Operations on the Integumentary System</i>	0.0%	0.0%	0.0%	0.0%
<i>Miscellaneous diagnostic and therapeutic procedures and new technologies</i>	0.0%	0.0%	0.0%	0.0%

4. Estimated planning area surgeries were then multiplied by the presumed market share figures for the ASF, yielding forecasted number of procedures, by year. These projections are included in Table 12. Please note the ASF begins operations June 1, 2017, thus 2017 volumes listed in Table 12 for the ASF are for seven months, not 12. From an operations point of view, year one is 2018, since that is the first complete year. Please also note that market share figure for the ASF in 2017 has been calculated for its 7-month volumes divided by the Planning Area total for the year; this artificially depresses the market share figure for the ASF in 2017.

**Application Table 12  
NEWCO Projected Number of Ambulatory Surgeries, by Type**

<b>Procedure Description (ICD9-CM Code)</b>	<b>2017 (operations start-up June 2017)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<i>Operations on the Nervous System</i>	89.6	168.5	181.4	191.7
<i>Operations on the Endocrine System</i>	-	-	-	-
<i>Operations on the Eye</i>	158.9	298.7	321.6	339.9
<i>Operations on the Ear</i>	24.9	46.9	50.5	53.4
<i>Operations on the Nose, Mouth, and Pharynx</i>	80.2	150.9	162.4	171.7
<i>Operations on the Respiratory System</i>	-	-	-	-
<i>Operations on the Cardiovascular System</i>	38.5	72.5	78.0	82.4

<i>Procedure Description (ICD9-CM Code)</i>	<i>2017 (operations start-up June 2017)</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
<i>Operations on the Digestive System</i>	403.9	759.6	817.8	864.3
<i>Operations on the Urinary System</i>	79.7	149.9	161.4	170.5
<i>Operations on the Male Genital Organs</i>	9.0	16.9	18.2	19.2
<i>Operations on the Female Genital Organs</i>	34.4	64.8	69.8	73.8
<i>Operations on the Musculoskeletal System</i>	667.9	1,256.1	1,352.3	1,429.3
<i>Operations on the Integumentary System</i>	-	-	-	-
<i>Miscellaneous diagnostic and therapeutic procedures and new technologies</i>	-	-	-	-
<b><i>Total Cases</i></b>	<b>1,587</b>	<b>2,985</b>	<b>3,213</b>	<b>3,396</b>

5. *Based on the forecasted number of ambulatory surgeries at the ASF, there would be demand for 3.0 ORs by the third full year of operation (2020). This assumes operations of 240 days per year and operating efficiency of the ORs consistent with WAC 246-310-270(8) (ii). Please refer to Table 13 below.*

**Application Table 13  
NEWCO Projected ASF ORs**

<i>Cases</i>	<i>2017 (operations start-up June 2017)</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
<i>Total Cases</i>	1,587	2,985	3,213	3,396
<i>Cases per Day (assumes 240 days of operation)</i>	6.61	12.44	13.39	14.15
<i>Surgery Minutes Per Year (assumes 60.33 minutes/case, the 2015 average)</i>	95,760	180,070	193,865	204,903
<i>Estimated Number of ORs Needed per WAC 246-310-270(9)(ii)</i>	2.4	2.6	2.8	3.0

The assumptions Kadlec used to project revenue, expenses, and net income for the proposed surgery center for projection years 2017-2020 are summarized below. [source: Application pp35-37]

- *Inflation of gross and net revenues was excluded from the models.*
- *Revenues were calculated using five ICD-9 procedure code groups as provided in Table 17. The gross and net revenues by type of procedure code groups were based on actual revenue statistics from Kadlec. These revenue figures were based on non-hospital revenues per case (freestanding ASC rates) for each of the five procedure code groups Table 17 also includes the “crosswalk” used to “convert” or map the NCHS procedure code groups into the five procedure code groups used in our financial model.*

**Application Table 17  
Procedure Crosswalk**

<b>Procedure Codes used to compile financial statistics per case</b>	
<i>ENT</i>	
<i>Orthopedics</i>	
<i>General Surgery</i>	
<i>Urology</i>	
<i>Plastics</i>	
<b>Crosswalk to NCHS Procedure Code Group</b>	<b>Procedure Code Group Crosswalk</b>
<i>Operations on the Nervous System</i>	<i>General Surgery</i>
<i>Operations on the Endocrine System</i>	<i>General Surgery</i>
<i>Operations on the Eye</i>	<i>ENT</i>
<i>Operations on the Ear</i>	<i>ENT</i>
<i>Operations on the Nose, Mouth, and Pharynx</i>	<i>ENT</i>
<i>Operations on the Cardiovascular System</i>	<i>ENT</i>
<i>Operations on the Digestive System</i>	<i>General Surgery</i>
<i>Operations on the Urinary System</i>	<i>Urology</i>
<i>Operations on the Male Genital Organs</i>	<i>Urology</i>
<i>Operations on the Female Genital Organs</i>	<i>Urology</i>
<i>Operations on the Musculoskeletal System</i>	<i>Orthopedics</i>
<i>Operations on the Integumentary System</i>	<i>Plastics</i>

- Deductions from revenues were calculated based on Kadlec payer reimbursement figures by payer. Contractual allowances by payer were included in Exhibit 15.
- The payer percentages for both cases and gross revenues:

<b>Payer Group</b>	<b>Percentage</b>
<b>Medicare</b>	39.9%
<b>Medicaid</b>	24.5%
<b>Commercial</b>	30.7%
<b>Other Government/L&amp;I</b>	2.7%
<b>Self-Pay</b>	2.2%
<b>Total</b>	<b>100.0%</b>

- The payer percentages for each of these sample procedures were multiplied by ASF volumes (Table 12) for each of the procedure groups to estimate forecast volumes by payer.
- Bad debt is assumed constant at 2.5% of gross revenues.
- Charity care is assumed constant at 2.5% of gross revenues. It should be noted this is higher than the Central Washington regional average of 2.02% (2012-2014).
- There was specific modeling of expected growth of the proposed ASF staffing, where FTEs by type, by year, were modeled based on forecast case volumes and number of operating rooms utilized.

- *Wages, salaries, and benefits are specific to each group of FTEs, and are calculated on an hourly basis, based on Kadlec actuals. It is assumed an FTE works 2,080 hours per year.*
- *Non-productive hours are found by multiplying productive hours by 1.12 – the non-productive factors is, thus 12%*
- *Benefits as a percentage of wages and salaries is estimated at 22%.*
- *Repair & maintenance based on Kadlec historical rate.*
- *B&O taxes were calculated at 1.5% of net revenue.*
- *Lease expense was calculated from the Lease Agreement (Exhibit 9). Lease escalator is calculated at 1.0% per year.*
- *Annual depreciation expenses included approximately \$820,948 for plant and equipment (for full operational years).*
- *Supplies, were calculated on a per case basis, based on Kadlec actuals (2016). Purchased services, telephone, IT, advertising, postage, and marketing were calculated based on Kadlec historical experience*
- *Expenses for building maintenance and equipment maintenance and repair were held constant based on Kadlec actuals (2016).*
- *Expenses for leased equipment; malpractice insurance; employee development; dues, memberships and licenses; and employee relations were held constant at Kadlec actuals (2016).*

Kadlec’s projected revenue, expenses, and net income for the proposed ASF are shown in Table 10 below. [source: Application Exhibit 15]

**Table 10  
Projected Revenue and Expenses Years 2017 through 2020**

	<b>CY2017 (partial year)</b>	<b>CY2018 (year one)</b>	<b>CY2019 (year two)</b>	<b>CY2020 (year three)</b>
Net Revenue	\$4,444,461	\$8,357,691	\$8,997,788	\$9,509,642
Total Expenses	\$5,821,854	\$7,755,064	\$7,934,710	\$8,170,831
<b>Net Profit/(Loss)</b>	<b>(\$1,377,393)</b>	<b>\$602,628</b>	<b>\$1,063,079</b>	<b>\$1,338,811</b>
<b>Net Profit/(Loss) per Procedure</b>	<b>(\$867.92)</b>	<b>\$201.89</b>	<b>\$330.87</b>	<b>\$394.23</b>

The “Net Revenue” line item is gross patient revenue, minus any deductions from revenue for contractual allowances, bad debt, and charity care. The “Total Expenses” line item includes operating expenses, including salaries and wages, benefits, insurance, rentals and leases, and depreciation.

Public Comment

None

Rebuttal

None

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by Kadlec to determine the projected number of procedures and occupancy of the proposed ASF. The NCHS report used by Kadlec to assume surgical use in the planning area is the most recently available utilization survey for outpatient surgery trends in the United States. Furthermore, the volumes projected using these use rates are very close to the volumes supported in the department's numeric need methodology. After reviewing Kadlec's utilization assumptions, the department concludes they are reasonable.

Kadlec based its revenue and expense assumptions for the ASF and for the hospital on the assumptions listed above. Though the proposed ASF will be a new facility, and the services will be reimbursed at the ASF rate, Kadlec based a number of its revenues and expenses on past performance of the hospital, with adjustments to reimbursement at the ASF rate. This is reasonable.

Kadlec provided a lease agreement for the site, between Kadlec Regional Medical Center and Spaulding Surgeons, LLC. The lease identifies the roles and responsibilities for each, and is effective for ten years. All costs associated with the lease are substantiated in the revenue and expense statement.

Though the medical director has not yet been identified, Kadlec also provided a draft medical director agreement that outlines the roles, responsibilities, and compensation for the medical director. These costs are consistent with those found in the revenue and expense statement.

The pro forma financial statements show a loss in the first partial year, but revenues are projected to exceed expenses within the first full year of operation and to continue doing so.

To assist the department in its evaluation of this sub-criterion, the Hospital Finance and Charity Care Program (HFCC) also provided a financial analysis. To determine whether Kadlec would meet its immediate and long-range capital costs, HFCC reviewed 2014 historical balance sheets for Kadlec as a whole.

*"I have reviewed various ratios' that can give a picture of the financial health of Kadlec ambulatory surgery center in Richland. I have also reviewed various ratios' that can give a picture of the financial health of Kadlec. The applicant did not provide pro-forma balance sheets for the ASC, however with the project funded by reserves rather than debt, the ratios that can only be calculated using balance sheet accounts are not relevant to this project.*

*Important ratios used by Certificate of Need are listed on the following page. The A means it is better if the hospital number is above the State number and B means it is better if the hospital number is below the state number. Kadlec ambulatory surgery center income statement ratio is above average at the end of the 3<sup>rd</sup> year and the ASC is better than break even as required by CON rules. Kadlec debt-related ratios for 2016 are not optimal, but the total project amounts to less than one percent of total Kadlec assets, and an even smaller percentage of Kadlec's super-parent entity, Providence St. Joseph Health. The ASC itself is projected to have a favorable operating expense to operating revenue ratio that shows improvement over time.*

Kadlec ASC				ASC Only		
Ratio Category	Trend	State 15	Kadlec 16	YR1	YR2	YR3
Long Term Debt to Equity	B	0.461	1.058	-	-	-
Current Assets/Current Liabilities	A	3.196	5.090	-	-	-
Assets Funded by Liabilities	B	0.387	0.552	-	-	-
Operating Expense/Operating Revenue	B	0.943	0.992	0.928	0.882	0.859
Debt Service Coverage	A	5.403	3.907	-	-	-
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 Expense/Operating Revenue					
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp					

*The project Operating Expense/Operating Revenue ratio is appropriate. The applicant projects an above average financial foundation for the ASC. The applicant should not have any trouble meeting the immediate and long term needs of this project. [source: HFCC analysis pp2-3]*

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

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

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

#### Kadlec Regional Medical Center

The capital expenditure associated with the establishment of NEWCO is \$5,468,471. A breakdown of the capital expenditure is shown in Table 11 below. [source: Application p34]

**Table 11  
Capital Expenditure**

Item(s)	Cost
Construction Costs	\$26,691
Moveable Equipment	\$5,010,847
Sales Tax	\$430,933
<b>Total:</b>	<b>\$5,468,471</b>

Kadlec provided the following statement regarding the estimated capital expenditure:

*“The proposed ASF will be a tenant in a larger medical office building, which is completely built out by the Landlord. The applicant, per the lease agreement, will not be doing any*

*construction, but is responsible for minor tenant improvements including cabling for phones and information technology.” [source: February 24, 2017 screening response p3]*

*“Construction costs and estimated capital expenses are based on fair market value assumptions.” [source: Application p35]*

In addition to this, Kadlec provided a letter from the project’s contractor attesting to the reasonableness of the costs. [source: Application Exhibit 14]

Public Comment

None

Rebuttal

None

Department Evaluation

As stated above, under WAC 246-310-210(2) and WAC 246-310-220(1) the proposed ASF is expected to have the same payer mix as the hospital, with 39.9% of revenue coming from Medicare, 24.5% coming from Medicaid, and 30.7% coming from commercial payers.

The department calculated gross charges per procedure (prior to contractual adjustments), below:

**Table 12**  
**Department Calculation of Gross Charges per Case**

<b>Item</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Gross Charges</b>	\$10,733,052	\$20,183,218	\$21,729,010	\$22,965,105
<b>Cases</b>	1,587	2,985	3,212	3,396
<b>Gross Charge/Case</b>	\$6,763.11	\$6,761.55	\$6,762.84	\$6,762.40

[source: Application Exhibit 15]

As shown above, the difference in gross charges year-by-year is nominal.

To assist the department in its evaluation of this sub criterion, HFCC provided the following analysis:

*“The costs of the project are the costs and charges the patients and community actually are billed.*

<b>Kadlec ASC</b>			
<b>Rate per Surgical Case</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Cases	2,985	3,212	3,396
Gross Revenue	20,183,218	21,729,010	22,965,105
Deductions From Revenue	11,825,527	12,731,222	13,455,463
Net Patient Billing	8,357,691	8,997,788	9,509,642
Other Operating Revenue	-	-	-
Net Operating Revenue	8,357,691	8,997,788	9,509,642
Operating Expense	7,755,063	7,934,708	8,170,830
Operating Profit	602,628	1,063,080	1,338,812
Other Revenue	-	-	-
Net Profit	602,628	1,063,080	1,338,812
Operating Revenue per Surgical Case	\$ 2,800	\$ 2,801	\$ 2,800
Operating Expense per Surgical Case	\$ 2,598	\$ 2,470	\$ 2,406
Net Profit per Surgical Case	\$ 202	\$ 331	\$ 394

*Kadlec ambulatory surgery center in Richland statistics for year three are appropriate.*

*The project costs to the patient and community are similar to current providers.” [source: HFCC Analysis p3]*

Based on the above information, the department concludes that the establishment of the NEWCO would probably not have an unreasonable impact on the costs and charges for healthcare services in the Benton-Franklin secondary service planning area. **This sub-criterion is met.**

*(3) The project can be appropriately financed.*

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

Kadlec

Kadlec intends to fund the project using cash reserves and provided a letter of financial commitment from Helen Andrus, Assistant Vice President of Finance Operations. In addition to the financial commitment letter, Kadlec provided its fiscal years 2012, 2013, 2014 and 2015 audited financial statements to demonstrate it has sufficient reserves to finance the project. [source: Application Exhibit 16]

Public Comments

None

Rebuttal

None

Department Evaluation

After reviewing the balance sheets for Kadlec, the HFCC Program made the following conclusion:

*“The financial reports of December 31, 2016 for Kadlec shows:*

Kadlec ASC			
from fiscal year end financial statements in submitted to DOH			
Assets		Liabilities	
Current	242,028,463	Current	47,551,736
Board Designated	76,424,441	Long Term Debt	292,341,290
Property/Plant/Equipment	259,596,359	Other	105,438
Other	38,143,659	Equity	276,194,457
<b>Total</b>	<b>616,192,922</b>	<b>Total</b>	<b>616,192,921</b>
Source: Kadlec Fiscal Year 2016 year end report			

*The Kadlec ambulatory surgery center in Richland capital expenditure is projected to be \$5,468,471. The capital expenditure will be funded by Kadlec’s reserves.*

*The financial status of Kadlec is adequate to fund their participation in this project. This project should not adversely impact reserves, or total assets, total liability or the general health of Kadlec Medical Center.” [source: HFCC Analysis p2]*

If this project is approved, the department would attach a condition requiring Providence to finance the project consistent with the financing description in the application. With the financing condition, the department concludes **this sub-criterion is met.**

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department concludes that Kadlec Regional Medical Center has met the structure and process (quality) of care criteria in WAC 246-310-230.

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

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

Kadlec Regional Medical Center

*“The proposed ASF will draw upon Kadlec Regional Medical Center’s recruitment process. The proposed ASF will offer an attractive work environment and hours, thus will easily attract local area residents who are qualified. We do not expect any staffing challenges that would disrupt Kadlec’s ability to achieve its goals and objectives relative to the proposed ASF.” [source: February 24, 2017 screening response p5]*

The projected staffing is shown below:

**Table 13**  
**Projected Staffing 2017-2020**

<b>Staff Type</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Office/Clerical	1.9	3.3	3.3	3.3
Scheduler	0.5	0.9	0.9	0.9
Billing/Collection	0.5	0.9	0.9	0.9
Room Prep/Clean	1.0	1.8	1.8	1.8
RNs	10.9	18.7	18.7	19.7
OR Technicians	4.6	7.8	7.8	7.8
Materials Management	0.5	0.9	0.9	0.9
Manager	0.5	0.9	0.9	0.9
<b>Total:</b>	<b>20.4</b>	<b>35.2</b>	<b>35.2</b>	<b>36.2</b>

Kadlec provided the following statement related to the medical director:

*“Please see exhibit 19 for a DRAFT of a Medical Director Agreement. The determination of who will serve as the Medical Director will not be determined until after the proposed ASF receives certificate of need approval.”* [source: February 24, 2017 screening response p4]

Public Comment

None

Rebuttal

None

Department Evaluation

As shown above, the ASF would use Kadlec’s recruitment methods in order to staff the proposed 3-OR ASF.

Information provided in the application demonstrates that Kadlec is a well-established provider of healthcare services in the Benton-Franklin secondary service planning area. Kadlec Regional Medical Center is currently operational with 270 licensed beds. Year-end financial data shows that Kadlec has 254 of these 270 beds fully set-up and staffed. There is no information to suggest that the 16 unavailable beds are due to a shortage of staff.

Given that Kadlec Regional Medical Center already offers surgical services through the hospital campus, the department concludes that Kadlec has the ability to staff the proposed ASF.

If this project is approved, the department would attach two conditions related to this sub-criterion. The first would require Kadlec to provide the department with a listing of key staff for the ASC prior to offering services. Key staff includes all credentialed or licensed management staff, including the director of nursing and the medical director. The second

condition would require Kadlec to submit a copy of the final signed medical director agreement, consistent with the draft provided to the department within the application.

Based on the above information, the department concludes that a sufficient supply of qualified staff is available for this project. **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.

#### Kadlec Regional Medical Center

Kadlec provided the following statement relating to ancillary and support services required for the proposed project.

*“It is anticipated that other on-site ancillary and support services will include scheduling, security, housekeeping, snow removal/landscaping, parking attendants, and materials management. Kadlec will purchase some of these services from community vendors. All other ancillary and support services would be provided centrally by Kadlec.”* [source: Application p40]

#### Public Comment

None

#### Rebuttal

None

#### Department Evaluation

Kadlec has been providing healthcare services – including surgical services through the hospital – for many years. Though the ASF will be operated as a distinct entity, the ancillary required for the operation of the ASF are already in use by Kadlec, and would be available to the ASF as well..

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that Kadlec dba NEWCO will maintain the necessary relationships with ancillary and support services to provide outpatient surgical services at the proposed ASF. The department concludes that establishment of a new ASC would not adversely affect the existing relationships. **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 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.

Kadlec Regional Medical Center

Kadlec provided the following statement related to this sub-criterion:

*“Kadlec has no such convictions as defined in WAC 246-310-230 (5) (a).”* [source: Application p41]

*“The ASF will be licensed and accredited by bodies that other Kadlec facilities are reviewed under. All Kadlec facilities meet all relevant State and Federal rules and regulations. All current laws, rules and regulations will be applied to the Kadlec ASF. All physicians performing surgeries at the NEWCO ASF are required to be credentialed and privileged with NEWCO’s medical staff and be in good standing within the medical community.”* [source: Application p41]

Public Comment

None

Rebuttal

None

Department Evaluation

As a part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.<sup>8</sup> To accomplish this task, the department reviewed the quality of care compliance history for all healthcare facilities owned and operated by Kadlec, as well as its parent corporation, Providence St Joseph Health and Providence Health & Services.

Washington State Facilities

Using the department’s internal database, the department reviewed survey data for the 25 licensed facilities and agencies owned by, affiliated with, or operated by Providence – Kadlec’s parent corporation – in Washington State. This includes 13 hospitals<sup>9</sup>, one ambulatory surgery center, and eleven in-home services agencies – shown below in Table 14 [source: Department of Health Office of Investigation and Inspection]

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<sup>8</sup> WAC 246-310-230(5)

<sup>9</sup> Providence directly owns and operates eight hospitals in Washington State. The five additional hospitals listed include Kadlec Regional Medical Center and four Swedish hospitals. Swedish and Providence affiliated in 2012. Kadlec and Providence affiliated in 2014. [source: Certificate of Need historical files]

**Table 14  
Providence Facilities and License Status**

<b>Licensee</b>	<b>License Number</b>	<b>Surveys since 2014</b>	<b>Substantially Compliant?</b>
<b>Hospitals</b>			
Providence Centralia Hospital	HAC.FS.00000191	1	yes
Providence Holy Family Hospital	HAC.FS.00000139	2	yes
Providence Mount Carmel Hospital	HAC.FS.00000030	1	yes
Providence Regional Medical Center Everett	HAC.FS.00000084	1	yes
Providence Sacred Heart Medical Center and Children's Hospital	HAC.FS.00000162	0	yes
Providence St Josephs Hospital	HAC.FS.00000194	1	yes
Providence St Mary Medical Center	HAC.FS.00000050	1	yes
Providence St Peter Hospital	HAC.FS.00000159	1	yes
Kadlec Regional Medical Center	HAC.FS.00000161	2	yes
Swedish Edmonds	HAC.FS.60183546	2	yes
Swedish Medical Center - Cherry Hill	HAC.FS.60329940	1	yes
Swedish Medical Center - First Hill	HAC.FS.00000001	1	yes
Swedish Medical Center - Issaquah Campus	HAC.FS.60256001	1	yes
<b>Ambulatory Surgery Center</b>			
Providence Surgery and Procedure Center (Spokane)	ASF.FS.60475161	1	yes
<b>In-Home Service Agencies</b>			
Providence DominiCare	IHS.FS.60259664	1	yes
Providence Elder Place	IHS.FS.00000415	1	yes
Providence Home Services	IHS.FS.00000419	1	yes
Providence Hospice*	IHS.FS.60201476	2	yes
Providence Hospice and Home Care of Snohomish County*	IHS.FS.00000418	3	yes
Providence Hospice of Seattle*	IHS.FS.00000336	2	yes
Providence Infusion and Pharmacy Services	IHS.FS.00000417	1	yes
Providence Infusion and Pharmacy Services	IHS.FS.60344780	1	yes
Providence SoundHomeCare and Hospice	IHS.FS.00000420	2	yes
Providence St Mary Home Health	IHS.FS.00000446	2	yes
Providence VNA Home Health	IHS.FS.00000467	2	yes

\* indicates a Medicare/Medicaid certified hospice agency

Assisted Living Facilities and Skilled Nursing Facilities are licensed through the Department of Social and Health Services Aging and Long-Term Support Administration (DSHS AL TSA). Using information from the DSHS AL TSA website, the department reviewed survey data for

the five skilled nursing and four assisted living facilities owned by Providence in Washington State. According to the reports found on the website, all nine facilities are in substantial compliance with state regulations and have submitted applicable plans of correction to address survey deficiencies.

Providence and its affiliates operate all across the western United States. The department randomly selected Providence and Providence-affiliated facilities in Montana, California, and Texas to review for their compliance with state and federal standards, shown below:

**Table 15  
Providence and Affiliated Facilities Outside of Washington**

Facility Name	State	Joint Commission?	State Enforcement Action since 2014?
<b>Providence</b>			
St Patrick Hospital	MT	yes	no
Providence St Joseph Medical Center	MT	yes	no
St Joseph Assisted Living Center	MT	n/a <sup>10</sup>	no
Providence Holy Cross Medical Center	CA	yes	no
Providence Little Company of Mary Medical Center San Pedro	CA	yes	no
Providence Little Company of Mary Medical Center Torrance	CA	yes	no
Providence Saint John's Health Center	CA	yes	no
Providence Saint Joseph Medical Center	CA	yes	no
Providence Tarzana Medical Center	CA	yes	no
<b>Providence Affiliate – St Joseph Health</b>			
Santa Rosa Memorial Hospital	CA	yes	yes <sup>11</sup>
Queen of the Valley Medical Center	CA	yes	no
St Joseph Hospital, Eureka	CA	yes	no
Petaluma Valley Hospital	CA	yes	no
Hoag Hospital Irvine	CA	no – DNV <sup>12</sup>	no
Mission Hospital Laguna Beach	CA	yes	no
Mission Hospital Mission Viejo	CA	yes	yes <sup>13</sup>
St Joseph Hospital Orange	CA	yes	yes <sup>14</sup>
St Jude Medical Center	CA	yes	yes <sup>15</sup>
St Mary Medical Center	CA	yes	no

<sup>10</sup> The Joint Commission does not accredit or certify assisted living centers.

<sup>11</sup> Seven enforcement actions related to the facility's failure to report breach of information. Fines paid in full for all closed cases.

<sup>12</sup> "DNV" = Det Norske Veritas – an accrediting agency with CMS deeming authority, similar to the Joint Commission. [source: <http://dnvglhealthcare.com>]

<sup>13</sup> Three enforcement actions related to patient care and a "Breach to person/entity outside facility/hc system." Fines paid in full.

<sup>14</sup> Two enforcement actions related to patient care. Fines paid in full.

<sup>15</sup> One enforcement action related to "retention of a foreign object in a patient." Fine paid in full.

Facility Name	State	Joint Commission?	State Enforcement Action since 2014?
Hoag Hospital Newport Beach	CA	no – DNV	no
St Joseph Home Care	CA	yes	no
Covenant Medical Center	TX	yes	no
Covenant Children’s Hospital	TX	yes	no
Covenant Health Levelland	TX	no	no
Covenant Health Plainview	TX	no	no

As shown above, out-of-state Providence facilities have demonstrated compliance with applicable state and federal regulations. Aside from one action noted above at Saint Jude Medical Center, all citations against Providence-affiliated facilities happened prior to the affiliation of the two healthcare networks. No evidence on any of the state licensing websites indicated that any of the above facilities have ever been closed or decertified from participation in Medicare or Medicaid as a result of compliance issues.

Based on the above information, the department concludes that there is reasonable assurance that Kadlec would operate in compliance with state and federal requirements at the proposed ASF if this project is approved. **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 direct 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.

Kadlec Regional Medical Center

Kadlec provided the following statement related to this sub-criterion:

*“The proposed project fosters continuity of care in a number of ways.*

*Kadlec is committed to coordinating care through its electronic health record systems. All Kadlec facilities, inclusive of acute care hospitals, clinics, and ASFs, will share a common electronic health record platform. The electronic medical record system allows for expedient communication of relevant medical information among providers, thus allowing for best-practice coordination of care and clinical outcomes.*

*Finally, since Kadlec Regional Medical Center is a local provider for inpatient care, the new ASF will have full access to health service resources at Kadlec Regional Medical Center.*

*A copy of the patient transfer agreement can be found in Exhibit 17.”* [source: Application p40]

Public Comment

None

Rebuttal

None

Department Evaluation

Information within the application demonstrates that the proposed ASF would operate as a distinct entity from Kadlec Regional Medical Center, but would have access to many of the resources available through the hospital. The calculation of the need methodology under WAC 246-310-270(9) demonstrated that there was a surplus of mixed-use ORs in the planning area, and a need for outpatient ORs.

With this numeric need for outpatient ORs, the department concludes that the establishment of this free-standing ASF does not represent unwarranted fragmentation of services. Furthermore, the applicant provided statements identifying how the ASF would operate in relation to the existing facilities and services in the planning area. Based on this information, the department concludes that the ASF would have an appropriate relationship to the service area's existing health care system. **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.*

Department Evaluation

This sub-criterion is evaluated in sub-section (3) above, **is met**

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

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

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

To determine if a proposed project is the best alternative, in terms of cost, efficiency, or effectiveness, the department takes a multi-step approach. First the department determines if the application has met the other criteria of WAC 246-310-210 thru 230. If the project has failed to meet one or more of these criteria then the project cannot be considered to be the best alternative in terms of cost, efficiency, or effectiveness as a result the application 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 adopted 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 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.

Department Evaluation

**Step One:**

The department concluded that Kadlec met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two.

**Step Two:**

Kadlec Regional Medical Center

Kadlec provided the following statements related to their consideration of alternatives prior to submitting this project.

*“As part of its due diligence and in deciding to submit this application, Kadlec explored the following options: (1) “do nothing”, (2) the requested project – seeking certificate approval for 3-OR facility, and (3) expand KRMC hospital based OR capacity on its main campus.”*

Kadlec identified the advantages and disadvantages of these three options in table form, reproduced below: [source Application pp42-44]

***Promoting Access***

<b><i>Option</i></b>	<b><i>Advantages/Disadvantages</i></b>
<i>Do nothing</i>	<i>There is no advantage to continuing as-is in terms of improving access. (Disadvantage (“D”))</i>  <i>The principle disadvantage is this option does nothing to address the projected ambulatory surgery OR shortage in the Planning Area. (D)</i>
<i>Requested Project</i>	<i>The requested project best meets current and future access issues identified in the Planning Area. (Advantage (“A”))</i>  <i>From an improved access perspective, there are no disadvantages. (A)</i>
<i>Expand Hospital OR Capacity</i>	<i>The option provides additional OR capacity to meet current and future access issues. (A)</i>

	<i>Principal disadvantage is that it forces patients to come to the hospital setting for non-acute care. (D)</i>
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**Promoting Quality of Care**

<b>Option</b>	<b>Advantages/Disadvantages</b>
<i>Do nothing</i>	<p><i>There is no advantage from a quality of care perspective. However there are no current quality of care issues. (Neutral (“N”))</i></p> <p><i>The principal disadvantage with maintaining the current situation is driven by projected shortages of outpatient ambulatory surgery suites. Over time, as access is constrained, there will be adverse impacts on quality of care if planning area physicians and their patients either have to wait for surgical capacity or travel to locations outside of the planning area. (D)</i></p>
<i>Requested Project</i>	<p><i>The requested project meets and promotes quality and continuity of care issues in the planning area (A)</i></p> <p><i>From an quality of care perspectives, there are no disadvantages (A)</i></p>
<i>Expand Hospital OR Capacity</i>	<i>The requested project meets and promotes quality and continuity of care issues in the planning area (A)</i>

**Promoting Cost and Operating Efficiency**

<b>Option</b>	<b>Advantages/Disadvantages</b>
<i>Do nothing</i>	<p><i>Under this option, there would be no impacts on costs. (N)</i></p> <p><i>The principle disadvantage is that the no project option will reduce efficiency and cost effectiveness below what it could otherwise be (D)</i></p>
<i>Requested Project</i>	<p><i>This option better allows Kadlec to better utilize lower cost settings in an ASF. (A)</i></p> <p><i>In addition, this option provides increased access to a lower cost, freestanding ASF. (A)</i></p> <p><i>From a cost and operating efficiency perspectives, there are \$5,468,471 in capital expenses associated with the project (D)</i></p>
<i>Expand Hospital OR Capacity</i>	<p><i>A new hospital based facility would require substantially more capital expenditures when compared to the ASF, requiring compliance with hospital licensure codes. (D)</i></p> <p><i>This option provides increased cost when compared to a freestanding ASF. The Department has determined in another decision that such freestanding ASFs are lower cost in relation to hospital based facilities. (D)</i></p>

**Staff Impacts**

<b>Option</b>	<b>Advantages/Disadvantages</b>
<i>Do nothing</i>	<i>Principal advantage would be the avoidance of hiring/employing additional ASF staff. (A)</i>  <i>There are no disadvantages from a staffing point of view (N)</i>
<i>Requested Project</i>	<i>This option better allows physicians to concentrate work in a single facility. (A)</i>  <i>From a staffing impacts perspectives, there are no disadvantages. (N)</i>
<i>Expand Hospital OR Capacity</i>	<i>There are no advantages from a staffing impacts perspective. (N)</i>  <i>Principal disadvantage would be the necessity of Kadlec to hire hospital based staff. (D)</i>

**Legal Restrictions**

<b>Option</b>	<b>Advantages/Disadvantages</b>
<i>Do nothing</i>	<i>There are no legal restrictions to continuing operations as presently.(A)</i>
<i>Requested Project</i>	<i>The principal advantage would be allowing Kadlec the ability to open its ASF to non-Kadlec physicians. This will improve access, quality, and continuity of care. (A)</i>  <i>Principal disadvantage is it requires CN approval, which requires time and expense. (D)</i>
<i>Expand Hospital OR Capacity</i>	<i>The principal advantage would be allowing Kadlec the ability to open its new OR capacity to non-Kadlec physicians. This will improve access, quality, and continuity of care. (A)</i>  <i>Principal disadvantage is it requires CN approval, which requires time and expense. (D)</i>

**Public Comment**

None

**Rebuttal**

None

**Department Evaluation**

Information provided within the application demonstrates that there is need for additional outpatient OR capacity in the Benton-Franklin secondary health service planning area. Based on this alone, Kadlec appropriately rejected the “do nothing” option.

The other alternative to the requested project explored by Kadlec was to expand the existing hospital. This, too, was appropriately rejected. Kadlec identified that it would require a higher

capital expenditure. Kadlec also identified that expanding the hospital may not increase access, and that it would not result in any cost-savings for patients in the planning area.

The statements provided in relation to this sub-criterion can be substantiated, and the department did not identify any alternatives that would be superior in terms of cost, efficiency, or effectiveness. The department concurs that the requested project is reasonable and is the best option of the three presented by Kadlec for the planning area and surrounding communities. **This sub-criterion is met.**

#### Department Evaluation

##### **Step Three:**

This step is applicable only when there are two or more approvable projects. Kadlec's application is the only application under review to add outpatient surgical capacity in the Benton-Franklin secondary health service planning area. Therefore, this step does not apply.

Based on the information stated above, **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;

#### Kadlec Regional Medical Center

As stated in the project description portion of this evaluation, this project involves construction. Kadlec provided the following statement:

*"The proposed ASF will be a tenant in a larger medical office building, which is completely built out by the Landlord. As previously noted, the proposed ASF, as the tenant, will not be doing any construction, but only making minor tenant improvements resulting in a modest cost up to \$26,691."* [source: February 24, 2017 screening response p4]

#### Public Comment

None

#### Rebuttal

None

#### Department Evaluation

As stated under the WAC 246-310-220(2), the costs of this project are largely attributed to equipment purchases. Construction costs, though present, represent only 0.5% of the estimated capital expenditure. When compared to past similar ASF projects, the costs identified in this application are comparable. **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.

#### Kadlec Regional Medical Center

Kadlec provided a letter from Leone and Keeble Inc., General Contractors, attesting to the reasonableness of the project costs. [source: Application Exhibit 14]

Public Comment

None

Rebuttal

None

Department Evaluation

As stated under the WAC 246-310-220(2), the costs of this project are largely attributed to equipment purchases. With need for additional outpatient ORs in the planning area, and the assumptions related to costs and charges under the Financial Feasibility section of this evaluation, the department does not anticipate this project would have an unreasonable impact on the costs and charges to the public. Therefore, the department concludes **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.*

Kadlec Regional Medical Center

*“The main objective of the proposed project is to provide needed access to a high quality, low cost ambulatory surgery facility. Patients who need outpatient surgery will have the option to have their procedure in an ASF where they can obtain the same quality surgical experience, but at a lower cost. This ASF will help transform the way care is delivered in the Benton-Franklin County Planning Area by offering care that is both affordable and local.*

*In addition, the facility will facilitate greater coordination of care between providers, while providing greater access to lower cost care. Without such access, ambulatory services may be limited to hospital-based ambulatory surgery facilities that are higher costs.”*

Public Comment

None

Rebuttal

None

Department Evaluation

Based on information provided within the application, and evaluated under WAC 246-310-210 and 230, the department is satisfied that his project is appropriate and needed. This project has the potential to improve the delivery of health services. As of the date of this evaluation, there are only two CN-approved resources for dedicated outpatient multispecialty surgical services in the planning area. The department concludes that this project will appropriately improve the delivery of health services. **This sub-criterion is met.**

# APPENDIX A