



STATE OF WASHINGTON

DEPARTMENT OF HEALTH

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January 15, 2019

CERTIFIED MAIL # 7014 2120 0002 7589 9322

David E. Smith, Esq. General Counsel
Valley Medical Center
400 South 43rd Street
Renton, WA 98058

RE: CN 18-16

Dear Mr. Smith:

We have completed review of the Certificate of Need application submitted by Public Hospital District No. 1 of King County dba Valley Medical Center to establish a three operating room ambulatory surgery center within the City of Renton in southeast King County secondary health services planning area.

For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Public Hospital District No. 1 of King County dba Valley Medical Center agrees to the following in its entirety.

Project Description:

This certificate approves Valley Day Surgery Center to construct a three operating room ambulatory surgery center within the City of Renton in southeast King County secondary health services planning area. The ASC will consist of two ORs dedicated to providing endoscopy and related Gastroenterology (GI) services and one OR dedicated to providing multispecialty surgeries such as hernia repair, breast biopsy, breast reconstruction, mastectomy, laparoscopy, laparoscopic cholecystectomy, excision and destruction of lesions and tumor, colorectal surgery, hemorrhoidectomy, anal fistulas, insertion and removal of catheter placement for renal dialysis and chemotherapy; gastric neurostimulators and appendectomy to patients 18 years and older who are not expected to require hospitalization and can be served in an outpatient surgery setting.

Conditions:

1. Valley Day Surgery Center agrees with the project description as stated above. Valley Day Surgery Center 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. Valley Day Surgery Center must maintain its Medicare and Medicaid certification throughout the life of the facility regardless of ownership.

3. Valley Day Surgery Center will provide charity care in compliance with the charity care policy provided in the application, or any subsequent policies. Valley Day Surgery Center will use reasonable efforts to provide charity care at 0.93% for gross revenue and 2.51% for adjusted revenue as identified in the application or the regional average, whichever is greater. Valley Day Surgery Center will maintain records of the charity care amount provided by documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

Approved Cost:

The approved capital expenditure for this project is \$4,452,003.

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 entirety, your application will be approved and a Certificate of Need sent to you.

If you reject any of the above provision, your application will be denied. The department will send you a letter denying your application and provide you information regarding your appeal rights. Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

Mailing Address:

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

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
Community Health Systems

Enclosure

EXECUTIVE SUMMARY

EVALUATION DATED JANUARY 15, 2019, FOR TWO CERTIFICATE OF NEED APPLICATIONS SUBMITTED BY PUBLIC HOSPITAL DISTRICT No. 1 OF KING COUNTY d/b/a VALLEY MEDICAL CENTER PROPOSING TO ESTABLISH AMBULATORY SURGERY CENTERS¹ IN SOUTHEAST KING COUNTY SECONDARY HEALTH SERVICES PLANNING AREA

- **VALLEY DAY SURGERY CENTER: ESTABLISH A THREE OPERATING ROOM ASC LOCATED AT 17820 TALBOT ROAD SOUTH IN RENTON WITHIN SOUTHEAST KING COUNTY SECONDARY HEALTH PLANNING AREA.**
- **VALLEY COVINGTON ASC: CONSTRUCT A SIX OPERATING ROOM ASC TO BE KNOWN AS VALLEY COVINGTON ASC AT 27500 – 168TH PLACE SE IN CONVINGTON WITHIN SOUTHEAST KING COUNTY SECONDARY HEALTH PLANNING AREA.**

BRIEF APPLICANT AND PROJECT'S DESCRIPTIONS

Public Hospital District No.1 of King County d/b/a Valley Medical Center (Valley) is a 321 bed nonprofit acute care provider located in Renton within southeast King County. Public Hospital District No.1 of King County d/b/a Valley Medical Center is a level III trauma center and is reimbursed for providing healthcare services under Titles V, XVII, and XIX of the Medicare and Medicaid programs. Public Hospital District No.1 of King County d/b/a Valley Medical Center operates a network of primary care clinics, urgent care clinics and specialty clinics that are located within southeast King County. Public Hospital District No.1 of King County d/b/a Valley Medical Center is accredited by the Joint Commission and its most recent accreditation survey was in December 2016. [Source: CN Historical files, application and <http://www.valleymed.org>] Valley is an affiliate of UW Medicine. [Source: Application, page 1]

Valley Day Surgery Center

Valley Day Surgery Center (Valley DSC) is currently CN approved and is licensed as an outpatient department of Valley Medical Center. The facility provides endoscopy and related Gastroenterology (GI) services, gynecology, and urology to patients 18 years and older who are not expected to require hospitalization and can be served in an outpatient surgery setting. This ASC is to cease operation as part of the department's Determination of Reviewability (DOR) decision (DOR#16-23) issued August 16, 2016 which approved a change of ownership, change of location, change in license status, increase in the number of operating rooms, and increase in types of surgical procedures without a new CN review and approval. ² The project approved by DOR#16-23 must be completed as approved or DOR#16-23 is no longer valid and the resulting ASF would be required to obtain a Certificate of Need before becoming operational.

Although Valley DSC has described their project as "*Retention of a Certificate of Need Approved Ambulatory Surgery Center in the Southeast King Secondary Health Planning Area*" the department considers this project the establishment of a new health care facility. With this application, Valley is

¹ For Certificate of Need purposes, ambulatory surgery facility (ASF) and ambulatory surgery center (ASC) have the same meaning. For ease of reading, the term "ASC" will be used throughout this analysis.

² The CN approved ASC owned by the joint venture between Valley Medical and Proliance Surgeons, Inc. PS that was the subject of DOR #16-23 is expected to open in September 2019. [source: June 2018 progress report]

requesting to establish a three operating room (OR) ASC as a CN approved outpatient department under Valley Medical Center license. Within this application, Valley is requesting to establish a three OR ASC as a CN approved outpatient department under Valley Medical Center license.

Valley DSC proposes to dedicate the use of two ORs to provide only endoscopy and related Gastroenterology (GI) services. The remaining one OR will be used to provide multispecialty general surgeries such as hernia repair, breast biopsy, breast reconstruction, mastectomy, laparoscopy, laparoscopic cholecystectomy, excision and destruction of lesions and tumor, colorectal surgery, hemorrhoidectomy, anal fistulas, insertion and removal of catheter placement for renal dialysis and chemotherapy; gastric neurostimulators and appendectomy. Surgical services provided at the Valley DSC require anesthesia services. [Source: Application page 7 and April 2, 2018, screening response, page 3]

The estimated capital expenditure for the project is \$4,452,003. Of this amount \$2,938,684 or 66% or is related to moveable equipment, \$749,460 is for land and building improvement, and the remaining \$673,924 or 15% is for sales tax. If this project is approvable, the three ORs will be operational by the end of January 2020. [Source: Application page 7 and April 2, 2018, screening response, page 3] Under this timeline, year 2022 would be the ASC first full calendar year of operation and 2023 would be year three [Source: April 2, 2018, screening response, page 5 and 18]

Valley Covington ASC

Valley proposes to establish a six operating room ASC to be known as Valley Covington ASC at 27500 –168th Place SE within Covington in south east King County secondary health services planning area. [Source: Application page 1] Four of the ORs will be for multispecialty surgeries and two will be dedicated to procedures such as endoscopies. Valley Covington ASC will be licensed by Washington as an ASC and it will seek accreditation from the Accreditation Association of Ambulatory Health Care, Inc.³ (AAAHC).

Valley Covington ASC will provide surgical services to patients 18 years and older who are not expected to require hospitalization and can be served in an outpatient surgery setting. Services to be provided by the multi-specialty Valley Covington ASC includes gastroenterology, vascular surgery, gynecology, urology, orthopedics, spine, otolaryngology, ophthalmology, pain, and general surgery such as hernia repair, breast biopsy, breast reconstruction, mastectomy, laparoscopy, laparoscopic cholecystectomy, excision and destruction of lesions and tumor, colorectal surgery, hemorrhoidectomy, anal fistulas, insertion and removal of catheter placement for renal dialysis and chemotherapy; and gastric neurostimulators. Surgical services provided at the Valley Covington ASC require anesthesia services. [Source: Application page 7 and April 2, 2018, screening response, page 1]

The estimated capital expenditure for the project is \$12,715,827. Of this amount \$6,645,725 or 52% or is related land/building improvement, \$3,756,964 or 30% is for moveable equipment, and the remaining \$1,515,651 or 12% is for sales tax. [Source: Application page 23] If this project is approved, Valley proposes the new ASC would be operational by the end of January 2021. Under this timeline, year 2021 would be the ASC first full calendar year of operation and 2023 would be year three. [Source: April 2, 2018, screening response, page 2]

³ The Accreditation Association for Ambulatory Health Care (AAAHC) is a private, non-profit organization formed in 1979. AAAHC currently accredits more than 6,000 organizations in a wide variety of ambulatory health care settings including ambulatory surgery centers, community health centers, medical and dental group practices, medical home practices, and managed care organizations, as well as Indian and student health centers, among others. AAAHC accreditation for ASCs holds Medicare deemed status from the Centers for Medicare and Medicaid Services (CMS). [Source: AAAHC website]

APPLICABILITY OF CERTIFICATE OF NEED LAW

Valley Day Surgery Center (Valley DSC)

This project is subject to Certificate of Need review as the construction, development, or other establishment of a new health care facility under RCW 70.38.105(4)(a) and WAC 246-310-020(1)(a).

Valley Covington ASC

This project is subject to Certificate of Need review as the construction, development, or other establishment of a new health care facility under RCW 70.38.105(4)(a) and WAC 246-310-020(1)(a).

CONCLUSION

Valley DSC

For the reasons stated in this evaluation, the application submitted by Valley Day Surgery Center to establish an ambulatory surgery center in Renton within southeast King County secondary health services planning area is consistent with applicable criteria of the Certificate of Need Program provided Valley Day Surgery Center agrees to the following in its entirety.

Project Description:

This certificate approves Valley Day Surgery Center to establish a three operating room ASC within the City of Renton in southeast King County secondary health services planning area. The ASC will consist of two ORs dedicated to providing endoscopy and related Gastroenterology (GI) services and one OR dedicated to providing multispecialty surgeries such as hernia repair, breast biopsy, breast reconstruction, mastectomy, laparoscopy, laparoscopic cholecystectomy, excision and destruction of lesions and tumor, colorectal surgery, hemorrhoidectomy, anal fistulas, insertion and removal of catheter placement for renal dialysis and chemotherapy; gastric neurostimulators and appendectomy to patients 18 years and older who are not expected to require hospitalization and can be served in an outpatient surgery setting.

Conditions:

1. Valley Day Surgery Center agrees with the project description as stated above. Valley Day Surgery Center 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. Valley Day Surgery Center must maintain its Medicare and Medicaid certification throughout the life of the facility regardless of ownership.
3. Valley Day Surgery Center will provide charity care in compliance with the charity care policy provided in the application, or any subsequent policies. Valley Day Surgery Center will use reasonable efforts to provide charity care at 0.93% for gross revenue and 2.51% for adjusted revenue as identified in the application or the regional average, whichever is greater. Valley Day Surgery Center will maintain records of the charity care amount provided by documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

Approved Cost:

The approved capital expenditure for this project is \$4,452,003.

Valley Covington ASC

For the reasons stated in this evaluation, the application submitted by Valley Covington ASC to construct an ambulatory surgery center in Covington within southeast King County secondary health services planning area is consistent with applicable criteria of the Certificate of Need Program provided Valley Covington ASC agrees to the following in its entirety.

Project Description:

This certificate approves Valley Covington to construct a six operating room ambulatory surgery center in Covington within south east King County secondary health services planning area. Four of the ORs will be used for multispecialty surgeries and two will be dedicated to procedures such as endoscopies. Valley Covington will provide surgical services to patients 18 years and older who are not expected to require hospitalization and can be served in an outpatient surgery setting. Services to be provided by Valley Covington ASC includes gastroenterology, vascular surgery, gynecology, urology, orthopedics, spine, otolaryngology, ophthalmology, pain, and general surgery such as hernia repair, breast biopsy, breast reconstruction, mastectomy, laparoscopy, laparoscopic cholecystectomy, excision and destruction of lesions and tumor, colorectal surgery, hemorrhoidectomy, anal fistulas, insertion and removal of catheter placement for renal dialysis and chemotherapy; and gastric neurostimulators. Surgical services provided at the Valley Covington ASC would require anesthesia services

Conditions:

1. Valley Covington ASC agrees with the project description as stated above. Valley Covington ASC 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. Valley Covington ASC will maintain licensure as an ambulatory surgery facility under WAC 246-330, regardless of ownership.
3. Valley Covington will maintain Medicare and Medicaid certification regardless of ownership.
4. Prior to providing services, Valley Covington ASC will provide the adopted job description, the name and credentialed number of the medical director for the ASC for department's review and approval. The adopted medical director job description must be consistent with the draft provided in the application.
5. Prior to providing services, Valley Covington ASC will provide an executed copy of the patient transfer agreement for the department's review and approval. The executed patient transfer agreement must be consistent with the draft agreement provided in the application.
6. Valley Covington ASC will provide charity care in compliance with the charity care policy provided in the application, or any subsequent policies. Valley Covington ASC will use reasonable efforts to provide charity care at 0.93% for gross revenue and 2.51% for adjusted revenue as identified in the application or the regional average, whichever is greater. Valley Covington ASC will maintain records of the charity care amount provided by documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

Approved Cost:

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PROJECT DESCRIPTION

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APPLICABILITY OF CERTIFICATE OF NEED LAW

Valley DSC

This project is subject to Certificate of Need review as the construction, development, or other establishment of a new health care facility under RCW 70.38.105(4)(a) and WAC 246-310-020(1)(a).

Valley Covington ASC

This project is subject to Certificate of Need review as the construction, development, or other establishment of a new health care facility under RCW 70.38.105(4)(a) and WAC 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:

“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

The department received three applications from Public Hospital District No.1 of King County d/b/a Valley Medical Center. All three applications were submitted for ASC projects in southeast King County planning area. One application proposes a 3-OR CN approved ASC in Renton. The surgery center would be known as Valley Day Surgery Center and located at 17820 Talbot Road, South, Renton [98055], the second application proposes to construct a 6-ORs ASC in Covington within southeast King County planning area. That facility would be known as Valley Covington ASC. The third application proposed to convert a CN exempt 3-ORs surgery facility to CN approved facility. That 3-OR surgical facility will be known as Valley MAC.

The three applications were scheduled to be reviewed concurrently under the regular timeline outlined in WAC 246-310-160. However, during the course of the applications review, it became apparent that significant information was missing from the application submitted by Public Hospital District No.1 of King County d/b/a Valley Medical Center to convert the CN exempt Valley MAC to a CN approved ASC.

As a result, the department elected to separate the review of Valley MAC in order to declare a Pivotal Unresolved Issue (PUI). The PUI process allows the department to issue a decision on the other two applications with no significant issue, and to declare a PUI on Valley MAC. For these reasons, Public Hospital District No.1 of King County d/b/a Valley Medical Center application to convert the CN exempt Valley MAC to CN approved ASC will not be discussed any further throughout this evaluation. The review timeline for Valley Day Surgery Center and Valley Covington ASC is summarized below.

APPLICATION CHRONOLOGY

Action	Valley DSC ASC	Valley Covington ASC
Letter of Intent Submitted ⁷		
Application Submitted	December 21, 2017 ⁸	
Department's pre-review activities <ul style="list-style-type: none">• DOH 1st Screening Letter• Applicant's Responses Received	February 12, 2018 April 2, 2018 ⁹	
Beginning of Review	April 9, 2018	
Public Hearing Conducted	None Requested or Conducted	
Public Comments accepted through the end of public comment	May 14, 2018	
Rebuttal Comments Submitted	May 30, 2018	
Department's Anticipated Decision Date	July 16, 2018	
Department Bifurcates Applications	July 24, 2018	
Department's Anticipated Decision Date with 30-day extension	August 15, 2018	
Department's Anticipated Decision Date with 60-day extension	October 15, 2018	

⁷ Valley did not submit any letters of intent as required under WAC 246-310-080, but submitted three applications instead. As a result, the department held the applications for 30 days as the letters of intent for 30 days.

⁸ Because the applicant did not submit any letters of intent the first working day the department can officially accept all three applications is January 22, 2018, therefore the applications were official accepted on this date.

⁹ The applicant requested the department commence formal review of the application upon receipt of applicant screening responses.

Action	Valley DSC ASC	Valley Covington ASC
Department's Anticipated Decision Date with 90-day extension	December 3, 2018	
Department's Actual Decision Date	January 15, 2019	

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(34) defines “interested person” as:

- (a) *The applicant;*
- (b) *Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;*
- (c) *Third-party payers reimbursing health care facilities in the health service area;*
- (d) *Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;*
- (e) *Health care facilities and health maintenance organizations, which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;*
- (f) *Any person¹⁰ 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.*

For this project, MultiCare Health System sought interested person status.

MultiCare Health System

MultiCare Health System, is not-for-profit healthcare organization that include seven hospitals, healthcare clinics, and a heart institute. Within southeast King County secondary health services planning area, MultiCare Auburn Medical Center an acute care hospital provides services to the residents of King County. MultiCare Health System requested interested person status and to be informed of the department’s decision. MultiCare Health System meet the definition of an “interested person” under WAC 246-310-010(34)(f).

However, MultiCare Health System did not provide written or oral comment on this application. Therefore, MultiCare Health System does not meet the definition of an “affected person” under WAC 246-310-010(2).

¹⁰ WAC 246-310-020(42) "Person" means an individual, a trust or estate, a partnership, any public or private corporation (including associations, joint stock companies, and insurance companies), the state, or a political subdivision or instrumentality of the state, including a municipal corporation or a hospital district.

SOURCE INFORMATION REVIEWED

- Public Hospital District No.1 of King County d/b/a Valley Medical Center Certificate of Need application received on January 22, 2018
- Public Hospital District No.1 of King County d/b/a Valley Medical Center screening responses received on April 2, 2018
- UW Medicine Valley Medical Center Letters of Support received May14, 2018
- Year 2017 Annual Ambulatory Surgery Provider Survey for Surgical Procedures Performed During Calendar Year 2016 for hospitals, ambulatory surgery centers, or ambulatory surgical facilities located in Southeast King County secondary health services planning area
- Historical charity care data obtained from the Department of Health's Hospital and Patient Data Systems (2014, 2015, and 2016 summaries)
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Charity Care and Hospital Financial Data received June 14, 2018
- Department of Health's Integrated Licensing and Regulatory System [ILRS] data obtained for ambulatory surgery centers located in Southeast King County secondary health services planning area
- Office of Financial Management population data for Southeast King County secondary health services planning area.
- Licensing data provided by the Medical Quality Assurance Commission
- Accreditation Association of Ambulatory Health Care website at www.aaahc.org
- Women and Family Health Services www.wfhsmc.com

CONCLUSION

Valley DSC

For the reasons stated in this evaluation, the application submitted by Valley Day Surgery Center to establish an ambulatory surgery center in Renton within southeast King County secondary health services planning area is consistent with applicable criteria of the Certificate of Need Program provided Valley Day Surgery Center agrees to the following in its entirety.

Project Description:

This certificate approves Valley Day Surgery Center to establish a three operating room ambulatory surgery center within the City of Renton in southeast King County secondary health services planning area. The ASC will consist of two ORs dedicated to providing endoscopy and related Gastroenterology (GI) services and one OR dedicated to providing multispecialty surgeries such as hernia repair, breast biopsy, breast reconstruction, mastectomy, laparoscopy, laparoscopic cholecystectomy, excision and destruction of lesions and tumor, colorectal surgery, hemorrhoidectomy, anal fistulas, insertion and removal of catheter placement for renal dialysis and chemotherapy; gastric neurostimulators, and appendectomy to patients 18 years and older who are not expected to require hospitalization and can be served in an outpatient surgery setting.

Conditions:

1. Valley Day Surgery Center agrees with the project description as stated above. Valley Day Surgery Center 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. Valley Day Surgery Center must maintain its Medicare and Medicaid certification throughout the life of the facility regardless of ownership.

3. Valley Day Surgery Center will provide charity care in compliance with the charity care policy provided in the application, or any subsequent policies. Valley Day Surgery Center will use reasonable efforts to provide charity care at 0.93% for gross revenue and 2.51% for adjusted revenue as identified in the application or the regional average, whichever is greater. Valley Day Surgery Center will maintain records of the charity care amount provided by documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

Approved Cost:

The approved capital expenditure for this project is \$4,452,003.

Valley Covington ASC

For the reasons stated in this evaluation, the application submitted by Valley Covington ASC to construct an ambulatory surgery center in Covington within southeast King County secondary health services planning area is consistent with applicable criteria of the Certificate of Need Program provided Valley Covington ASC agrees to the following in its entirety.

Project Description:

This certificate approves Valley Covington to construct a six operating room ambulatory surgery center in Covington within south east King County secondary health services planning area. Four of the ORs will be for multispecialty surgeries and two will be dedicated to procedures such as endoscopies. Valley Covington will provide surgical services to patients 18 years and older who are not expected to require hospitalization and can be served in an outpatient surgery setting. Services to be provided by Valley Covington ASC includes gastroenterology, vascular surgery, gynecology, urology, orthopedics, spine, otolaryngology, ophthalmology, pain, and general surgery such as hernia repair, breast biopsy, breast reconstruction, mastectomy, laparoscopy, laparoscopic cholecystectomy, excision and destruction of lesions and tumor, colorectal surgery, hemorrhoidectomy, anal fistulas, insertion and removal of catheter placement for renal dialysis and chemotherapy; and gastric neurostimulators. Surgical services provided at the Valley Covington ASC would require anesthesia services

Conditions:

1. Valley Covington ASC agrees with the project description as stated above. Valley Covington ASC 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. Valley Covington ASC will maintain licensure as an ambulatory surgery facility under WAC 246-330, regardless of ownership.
3. Valley Covington ASC will maintain Medicare and Medicaid certification, regardless of ownership.
4. Prior to providing services, Valley Covington ASC will provide the adopted job description, the name and credentialed number of the medical director for the ASC for department's review and approval. The adopted medical director job description must be consistent with the draft provided in the application.

5. Prior to providing services, Valley Covington ASC will provide an executed copy of the patient transfer agreement for the department's review and approval. The executed patient transfer agreement must be consistent with the draft agreement provided in the application.
6. Valley Covington ASC will provide charity care in compliance with the charity care policy provided in the application, or any subsequent policies. Valley Covington ASC will use reasonable efforts to provide charity care at 0.93% for gross revenue and 2.51% for adjusted revenue as identified in the application or the regional average, whichever is greater. Valley Covington ASC will maintain records of the charity care amount provided by documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

Approved Cost:

The approved capital expenditure for this project is \$12,715,827.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed, and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Valley Medical Center applications has met the applicable need criteria in WAC 246-310-210 and WAC 246- 310- 270

(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.

To evaluate this sub-criterion, the department uses facility specific criteria found in WAC 246-310-270.

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

The methodology in WAC 246-310-270(9) divides Washington State into 54 secondary health services planning areas. The proposed ASC would be located in southeast King County secondary health services planning area. The numeric methodology provides a basis of comparison for existing operating room (OR) capacity for both outpatient and inpatient ORs in a planning area using the current utilization of existing providers.

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 rooms in the planning area, it subtracts this capacity from the forecasted number of surgeries expected in the planning area in the target year, and it 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 operating rooms and procedures.

Valley Application of the Numeric Methodology

Valley DSC

“...the correct description of patients to be served is endoscopy and related GI, general surgery¹¹, gynecology and urology” [Source: April 2, 2018 screening responses, page 3]

“Valley estimated both capacity and future utilization in Southeast King using the following data sources:

- *The Department’s past ASC surveys in Southeast King,*
- *The Department’s Hospital and Patient Data System’s (HPDS) Quarterly Reports,*
- *Past CN application for facilities not yet open, and*
- *Information provided to Valley by CN Program staff in August of 2017 from its facility licensing database (ILRS-Integrated Licensing and Regulatory System).*

¹¹ General surgery to be provided at Valley DSC will include: hernia repair, breast biopsy, breast reconstruction, mastectomy, laparoscopy, laparoscopic cholecystectomy, excision and destruction of lesions and tumors, colorectal surgery, hemorrhoidectomy, anal Fistulas, insertion and removal of catheter placements for renal dialysis and chemotherapy; gastric neurostimulators and appendectomy. [Source: April 2, 2018 screening responses, page 3]

In terms of capacity, and with the recent closure of the South Lake Clinic CN exempt ASC, Valley identified 21 OR facilities including four existing and one planned hospital provider. The total OR capacity of these 21 providers is 33 mixed use rooms and 9 dedicated outpatient rooms”.

“Application of the methodology using available data sources identifies the need for 10.6 additional dedicated outpatient operating rooms in the Southeast King Secondary Health Services Planning Area. A copy of the methodology is included in Exhibit 6.

“This is an application first and foremost for a general ASC for which there is documented numeric need. However, if the Program determines that there is no need for a general surgery ASC, Valley reminds the Program that this ASC now provides predominately endoscopy and GI related surgeries. In recent endoscopy ASC decisions, the Program acknowledges that its ASC projection methodology excludes endoscopic rooms:

The Department recognizes that dedicated endoscopy ORs are deliberately excluded from the numeric methodology outlines in WAC 246-310-270(9)¹²

As a result, regardless of whether the WAC methodology shows a need for additional ORs, at a minimum a need exists for the endoscopy and gastroenterology services proposed within the application”. [Source: Application, page 12]

“Valley anticipates that two of the operating rooms will be dedicated to endoscopy and related GI surgeries and the third operating room will be used for other types of outpatient surgeries. In the very unlikely scenario that the Program does not find generic need or even the need for a dedicated endoscopy, WAC 246-310-270(4) allows an applicant, absent numeric need, to demonstrate that a circumstance outside of the ordinary exists in the market that would warrant the granting of a CN”. [Source: Application, page 13]

“Table 6 depicts the Southeast King Population. Today, the population of Southeast King is in excess of 600,000 and will by 2021 increase another 7.4% to more than 650,000 residents. The 65+, the highest utilizers of day surgery services, will grow by nearly 29% to 93,000 residents by 2021. Of note, the vast majority of the net population gain will occur in the age 45+ cohorts (i.e.—utilizers of endoscopy services)”. [Source: Application, page 13]

Southeast King Health Planning Area Population-Reproduced Valley DSC Table 6

	2010	Pct of Tot Pop	2016 Est	Pct of Tot Pop	Pct Chg 2010-2016	2021 Proj.	Pct of Tot Pop	Pct Chg 2016-2021
Total Pop.	552,226	100.0%	606,892	100.0%	9.9%	652,104	100.0%	7.4%
Pop. By Age								
0-17	140,097	25.4%	147,563	24.3%	5.3%	156,291	24.0%	5.95%
18-44	208,015	37.7%	224,281	37.0%	7.8%	229,742	35.2%	2.4%
45-64	149,443	27.1%	162,700	26.38%	8.9%	172,950	26.5%	6.3%
65-74	31,637	5.7%	45,113	7.4%	42.6%	59,276	9.1%	31.4%
75-84	16,260	2.9%	19,668	3.2%	21.0%	25,905	4.0%	31.7%
85+	6,774	1.2%	7,567	1.2%	11.7%	7,940	1.2%	4.9%”
Tot. 0-64	497,555	90.1%	534,544	88.1%	7.4%	558,983	85.7%	4.6%

¹² Evaluation dated August 1, 2017, for the Certificate of Need application submitted Eastside Endoscopy, LLC proposing to remove a condition at Eastside Endoscopy Center in Bellevue within East King County Secondary Health Services Planning Area, p. 16.

	2010	Pct of Tot Pop	2016 Est	Pct of Tot Pop	Pct Chg 2010-2016	2021 Proj.	Pct of Tot Pop	Pct Chg 2016-2021
Tot. 65+	54,671	9.9%	72,348	11.9%	32.3%	93,121	14.3%	28.7%
Fem. 15-44	115,862	21.0%	122,923	20.3%	6.1%	126,095	19.3%	2.6%

[Source: Application page 14]

“Table 8 details the assumptions used to estimate utilization:

Utilization Assumptions- Reproduced Valley-DSC Table 8

Metric	Assumption
<i>Baseline Volumes</i>	<p>Valley outpatient 2016 actual cases by services line were evaluated for appropriateness at an ASC. Actual 2016 volumes were grown 2% annually and the opening of the ASC (2020).</p> <p>In addition, with the acquisition and subsequent closure of the Southlake Clinic; based on patient origin, 72% of the historic Gastroenterology volumes were assumed to transfer to the Valley DSC.</p>
<i>Surgical Specialties</i>	<p>Valley DSC will provide Gastroenterology (in 2 rooms) with the 3rd room dedicated to outpatient surgery services. Specific surgical services to be offered at Valley DSC will be: general surgery, gynecology, and urology.</p>
<i>In-migration</i>	<p>It was assumed that 80% of volumes are generated by planning area residents and another 20% from in-migration. This is conservative as 2016 Valley actual data indicates that 26% of patients lived outside of Southeast King.</p>
<i>Growth Rates Beyond 2020</i>	<p>3% per year due to population growth and aging.</p>

“Table 9 provides the estimated volumes by year.

Estimated Utilization by year – Reproduced Valley DSC Table 9

Services Line	2020	2021	2022	2023	2024
<i>Gastroenterology</i>	5,040	5,191	5,347	5,507	5,673
<i>General Surgery</i>	696	716	738	760	783
<i>Gynecology</i>	191	197	203	209	215

Services Line	2020	2021	2022	2023	2024
<i>Urology</i>	497	512	528	543	560
Total	6,464	6,616	6,683	6,883	7,090

[Source: application page 16]

“Valley has submitted two other CN applications proposing the establishment of two additional ASCs; both located in Southeast King. One of these ASCs will be located in Covington. Valley has assumed that the Covington ASC will be approved, and with its opening, the majority of the endoscopy and GI related volumes currently being performed at Valley DSC on patients that live in or around Covington will transfer to the Covington ASC (approximately 28% of total volumes today). Once this volume transfers, Valley has assumed that one of the ORs will be returned to use for general surgery, gynecology and urology surgeries. [Source: April 2, 2018 screening responses, page 2]

Valley Covington ASC

“Valley estimated both capacity and future utilization in Southeast King using the following data sources:

- *The Department’s past ASC surveys in Southeast King,*
- *The Department’s Hospital and Patient Data System’s (HPDS) Quarterly Reports,*
- *Past CN application for facilities not yet open, and*
- *Information provided to Valley by CN Program staff in August of 2017 from its facility licensing database (ILRS-Integrated Licensing and Regulatory System).*

In terms of capacity, and with the recent closure of the South Lake Clinic CN exempt ASC, Valley identified 22 OR facilities including four existing and one planned hospital provider. The total OR capacity of these 22 providers is 33 mixed use rooms and 9 dedicated outpatient rooms”.

“Application of the methodology using available data sources identifies the need for 10.6 additional dedicated outpatient operating rooms in the Southeast King Secondary Health Services Planning Area. A copy of the methodology is included in Exhibit 6.

“In addition, there are real growing access issues in Covington, Maple Valley and Black Diamond due to increasing traffic congestion across the principle corridors used for travel, as has been documented by the State Department of Transportation. [Source: Application page 13]

“In addition to traffic considerations, access to care was identified as a top need in Valley’s most recent Community Health Needs Assessment (CHNA).”¹³ [Source: Application page 15]

“Table 6 depicts the primary services area population of the cities of Covington, Maple Valley and Black Diamond. The population is both rapidly growing and rapidly aging. Overall, population grew by nearly 12% between 2010-2016 and is projected to grow another 8.5% between 2016-2021; a rate of 1.7% per year. In 2016 an estimated 11.4% of the population is age 65+.

Between 2016 and 2021, the 65+ will grow seven times faster than the under 65 population and will increase to more than 14% of the total population. As can be seen in Table 6 and 7, when compared to the larger Southeast King population, the primary service area population is growing faster, in particular residents age 65+.

¹³ UW Medicine Valley Medical Center, 2017 Community Health Needs Assessment; a copy is included in Exhibit 7.

**Primary Service Area Population
Covington (98042), Maple Valley (98038) and Black Diamond (98010) – Reproduced Valley
Covington ASC Table 6**

	2010	Pct of Tot Pop	2016 Est	Pct of Tot Pop	Pct Chg 2010-2016	2021 Proj.	Pct of Tot Pop	Pct Chg 2016-2021
Total Pop.	79,647	100.0%	89,124	100.0%	11.9%	96,674	100.0%	8.5%
Pop. By Age								
0-17	21,727	27.3%	21,817	24.5%	0.4%	22,555	23.3%	3.4%
18-44	27,267	34.2%	30,629	34.4%	12.3%	32,028	33.1%	4.6%
45-64	23,560	29.6%	26,560	29.8%	12.7%	28,388	29.4%	6.9%
65-74	4,384	5.5%	6,676	7.5%	52.3%	9,138	9.5%	36.9%
75-84	1,998	0.9%	2,594	2.9%	29.8%	3,618	3.7%	39.5%
85+	711	1.2%	848	1.0%	19.3%	947	1.0%	11.7%”
Tot. 0-64	72,554	91.1%	79,006	88.6%	8.9%	82,971	85.8%	5.0%
Tot. 65+	7,093	8.9%	10,118	11.4%	42.6%	13,703	14.2%	35.4%
Fem. 15-44	15,828	19.9%	17,134	19.2%	8.3%	17,778	18.4%	3.8%”

Today, the population of Southeast King is in excess of 600,000 and will, by 2021 increase another 7.4% to more than 650,000 residents. The 65+, the highest utilizers of day surgery of day surgery services will grow by nearly 29% to 93,000 residents by 2021. Table 7 provides additional data. [Source: Application page 16]

**Southeast king Secondary Health Planning Area population –Reproduced
Valley Covington ASC Table 7**

	2010	Pct of Tot Pop	2016 Est	Pct of Tot Pop	Pct Chg 2010-2016	2021 Proj.	Pct of Tot Pop	Pct Chg 2016-2021
Total Pop.	552,226	100.0%	606,892	100.0%	9.9%	652,104	100.0%	7.4%
Pop. By Age								
0-17	140,097	25.4%	147,563	24.3%	5.3%	156,291	24.0%	5.95%
18-44	208,015	37.7%	224,281	37.0%	7.8%	229,742	35.2%	2.4%
45-64	149,443	27.1%	162,700	26.38%	8.9%	172,950	26.5%	6.3%
65-74	31,637	5.7%	45,113	7.4%	42.6%	59,276	9.1%	31.4%
75-84	16,260	2.9%	19,668	3.2%	21.0%	25,905	4.0%	31.7%
85+	6,774	1.2%	7,567	1.2%	11.7%	7,940	1.2%	4.9%”
Tot. 0-64	497,555	90.1%	534,544	88.1%	7.4%	558,983	857.9%	4.6%
Tot. 65+	54,671	9.9%	72,348	11.9%	32.3%	93,121	14.3%	28.7%
Fem. 15-44	115,862	21.0%	122,923	20.3%	6.1%	126,095	19.3%	2.6%”

[Source: Application page 16 and 17]

“Tables 8 details the assumptions used to estimate utilization:

Utilization Assumption- Reproduced Valley Covington ASC Table 8

<i>Baseline Volumes</i>	<i>Valley outpatient 2016 actual cases by services line were evaluated for appropriateness at an ASC. Actual 2016 volumes were grown 2% annually until 2020. In addition, with the acquisition and subsequent closure of the Southlake Clinic; based on patient origin, 28% of the historic endoscopy volumes were assumed to transfer to the Covington ASC.</i>
<i>Surgical Specialties</i>	<i>Valley Covington ASC will provide the following surgical specialties: general surgery, gynecology, urology, orthopedics, podiatry, total joints, spine, dermatology/plastic surgery, otolaryngology, ophthalmology. Based on patient origin of current Valley outpatients cases, it was assumed 25% of existing Valley ASC baseline volumes would be relocated to Valley Covington. In addition, the following specialties will be provided in the procedure rooms: Gastroenterology and pain management.</i>
<i>In-migration</i>	<i>It was assumed that 80% of volumes are generated by planning area residents and another 20% from in-migration. This is conservative as 2016 Valley actual data indicates that 26% of patients lived outside of Southeast King.</i>
<i>New volumes</i>	<i>New volumes to Covington were assumed for pain (300 procedures in 2021) and podiatry (300 cases in 2021) due to the addition of new specialist. In addition, total joint cases were assumed based on expected shift from inpatient to outpatient.</i>
<i>Growth Rates Beyond 2021</i>	<i>The following rates were assumed 2021-2022: 5% 2022-2025: 3%”.</i>

[Source: application page 18]

“Table 9 provides the estimated volumes by year.

Estimated Utilization by year- Reproduced Valley Covington ASC Table 9

Services Line	2021	2022	2023	2024	2025
<i>General Surgery</i>	<i>1,275</i>	<i>1,339</i>	<i>1,379</i>	<i>1,421</i>	<i>1,463</i>
<i>Gynecology</i>	<i>350</i>	<i>368</i>	<i>379</i>	<i>390</i>	<i>402</i>
<i>Urology</i>	<i>228</i>	<i>239</i>	<i>246</i>	<i>254</i>	<i>261</i>
<i>Orthopedics</i>	<i>282</i>	<i>296</i>	<i>305</i>	<i>314</i>	<i>323</i>
<i>Podiatry</i>	<i>330</i>	<i>347</i>	<i>357</i>	<i>368</i>	<i>379</i>
<i>Total Joints</i>	<i>169</i>	<i>178</i>	<i>183</i>	<i>189</i>	<i>194</i>
<i>Spine</i>	<i>142</i>	<i>149</i>	<i>153</i>	<i>158</i>	<i>163</i>
<i>Derm/Plastic</i>	<i>164</i>	<i>173</i>	<i>178</i>	<i>183</i>	<i>189</i>
<i>Otolaryngology</i>	<i>298</i>	<i>313</i>	<i>323</i>	<i>332</i>	<i>342</i>
<i>Ophthalmology</i>	<i>293</i>	<i>308</i>	<i>317</i>	<i>326</i>	<i>336</i>
<i>Vascular Surgery</i>	<i>185</i>	<i>195</i>	<i>200</i>	<i>206</i>	<i>213</i>

Services Line	2021	2022	2023	2024	2025
<i>Valley Subtotal ORS</i>	3,716	3,905	4,020	4,141	4,265
<i>Pain</i>	392	423	444	467	490
<i>Southlake Clinic Endo Volume/Other GI</i>	2,525	2,727	2,863	3,007	3,157
<i>Valley Subtotal Procedures</i>	2,917	3,150	3,307	3,473	3,647
Total	6,634	7,055	7,327	7,614	7,912”

[Source: application page 19]

The department received letters of support from senior employees of UW Medicine/Valley Medical Center in support of the two projects. Excerpts from the support letters are below.

Public Comments

“Public Hospital District No. 1 of King County, Valle Medical Center, has served Southeast King County for more than 50 years. Today Valley is the largest nonprofit healthcare provider between Seattle and Tacoma and is a regional resource with recognized medical specialties in joint replacement and orthopedics, neuroscience, stroke and spine, sleep medicine, and childbirth and neonatal care, and provides specialized heart and vascular and cancer treatment in addition to the hospital, Valley operates a network of more than two dozen primary care, urgent care and specialty clinics throughout Southeast King County.

Valley is choosing to be proactive in developing lower cost, high quality access points that meet or exceed patient, employer and payor expectations. Valley currently performs more than 13,000 surgeries annually. Our sole existing ambulatory surgery center is operating at or above of 100% capacity daily. Valley has submitted three certificate of need applications in an effort to address demand. The first, Day Surgery Center (DSC) simply seeks to continue operating this ASC.

In 2016, Valley agreed to close the DSC upon opening of a new joint venture ASC with Proliance. Because of high volume, Valley elected to file a CN application to retain it, and have it serve as our primary GI facility. ...The capital cost is exceptionally low, and the timeline means that it will be able to address the need for outpatient surgery capacity that has been reduced because of the high utilization of DSC and the need to move cases to the hospital. This will reduce patient wait times and costs.

The third CN application proposes to establish a new ASC in Covington. Covington is within the legal boundaries of PHD# 1, and Valley has operated a clinic in that community for more than a decade. We also operate clinics in Lake Sawyer and Maple Valley and increasingly these clinics are reporting patients uncomfortable with travel for services given the high congestion on the main arterials in the southeastern most part of the Planning Area. Patients are also actively voicing their desire for a lower cost choice for ambulatory surgery in Covington”. [Source: May 14, 2018, Richard Roodman, Chief Executive Officer, UW Medicine Valley Medical Center]

“...It is for this reason that UW Medicine lends it full support to the three Valley Medical Center (Valley) certificate of need applications, currently under review, proposing additional ambulatory surgical capacity in Southeast King County. The addition of ASCs to the Valley network of services indisputably translates to better, quicker access for patients closer to their homes, and generally at costs lower than is possible in hospital operating rooms. In the realm of value-based medicine, the need for accessible alternatives to the hospital is an absolute must- patients, employers and payors all have made it abundantly clear that non-hospital outpatient facilities are the preferred site and

structure for many procedures, and Valley is ahead of the curve in attempting to fill that need in a cost-effective, responsible manner. Moreover, as the primary Medicaid provider in Southeast King County, these facilities will also make sure that there is fundamentally fair access to needed services from the most vulnerable populations living and working in the area.

Given the significant growth in population projected for Southeast King County, there is little debate as to whether additional, alternative facilities are needed, and Valley has committed to filling this need in a fiscally responsible, and innovative manner: by repurposing existing facilities to better meet the demand for freestanding services and by adding new ORs only where access and cost are concerns... ”. [Source: May 14, 2018, Lisa Brandenburg, Chief Health System Officer, Vice President for Medical Affairs UW Medicine]

“...I am a Family Physician in Maple Valley where I have had the pleasure of treating patients for 15 years. Our Maple Valley Clinic, which includes six primary care providers, provides care for patients from infancy through senior years. Additionally, this clinic offers an Urgent Care that is open 7 days a week. Also located in Maple Valley is our Lake Sawyer Clinic with another five primary care providers. Last year, we provided nearly 50,000 primary care and urgent care visits. Daily, our eleven primary care providers make specialty referrals to providers located predominantly in Covington and Renton.

I understand that the Department of Health has identified need for additional ASC OR capacity in Southeast King County. Valley's proposal to establish a freestanding ASC in Covington would provide a quality affordable, local choice for many of our patients. The providers at VMC Maple Valley and Lake Sawyer Clinics lend their wholehearted endorsement and support for this project because of the benefit we know it will bring to many of our patients”. [Source: May 14, 2018, Shannon Markegard, DO Associate Medical Director]

“I serve as the Vice President of Perioperative Services at Valley Medical Center (Valley) and have overall responsibility for the existing outpatient surgery services at the hospital known as the Valley Day Surgery Center (DSC). As indicated in the recent certificate of need applications submitted by Valley for additional ambulatory surgical capacity, Valley acquired South Lake Clinic, an endoscopy and gastroenterology specialty provider in late 2017. South Lake Clinic operated a high volume (7,000 cases annually) CN exempt ASC in its office, but due to some physical plant limitations, Valley chose to close the South Lake Clinic facility and instead perform the procedures at the DSC. The case volume was transferred to the DSC in late 2017. As a result, given the high level of South Lake Clinic volumes now at the DSC Valley has transferred some outpatient procedures that had previously been done at DSC back into the hospital. This has added cost for some patients and payers and increased dissatisfaction and delays for others”. [Source: May 14, 2018, John L. Wagner, Vice President Perioperative, Imaging & Ancillary Services]

“I am writing this letter of support for Valley Medical Center's three certificate of need applications proposing additional dedicated outpatient capacity in Southeast King County. ...As a local provider in Covington, I am confident that the development and operation of dedicated outpatient operating rooms will assure access to a locally-based, high quality and lower cost alternative for residents living in the Covington community. My patients often tell me how challenging and inconvenient it is to have to travel to Renton for surgery services. The Covington ASC provides my patients the option to receive care closer to where they live and work. ...Adding new capacity in Covington, coupled with the retention of existing capacity near the Main Campus will assure access to services for

Valleys patients, regardless of residence". [Source: May 14, 2018, Todd Bouchard, MD Associate Medical Director]

Rebuttal Comment

None

The Department’s Application of the Numeric Methodology

The numeric portion of the methodology requires a calculation of the annual capacity of the existing provider’s inpatient and outpatient ORs in a planning area. According to the department’s historical records, there are 22 providers within the Southeast King County secondary health services planning area including the applicant with OR capacity. Of the 22 providers, five are hospitals and 17 are ASCs. Shown below in Table 1 is the listing of the five hospitals. [Source: CN historic files and DOH ILRS database]

**Table 1
Southeast King County Planning Area Hospitals**

Hospitals	DOH License	Zip Code
FHS St. Elizabeth Hospital	HAC.FS.00000035	98022
FHS St. Francis Hospital	HAC.FS.00000201	98003
MultiCare Auburn Medical Center	HAC.FS.60311052	98001
MultiCare Covington Medical Center	HAC.FS.60311052	98042
Valley Medical Center	HAC.FS.00000155	98055

For the five hospitals listed in Table 1 above, all known OR capacity and inpatient/mixed-use procedures are included in the methodology calculations for the planning area.

Because there is no mandatory reporting requirement for ASCs or hospital ORs utilization, the departments sends an annual utilization survey to all hospitals and known ASCs in Washington to gather their annual utilization data. The department’s most recent annual utilization survey data available at the time Valley submitted it application was year 2016 ASCs and hospitals annual utilization data. Since the 2016 data is the most recent annual utilization survey data available, the department will use this data to determine need for Valley proposed projects. Listed in Table 2 below are the 18 ASC’s located within the planning area.

**Table 2
Southeast King County Planning Area
Ambulatory Surgery Centers**

Ambulatory Surgery Centers	Zip Code
Auburn Surgery Center	98001
Cascade Surgery Center	98002
ENT Facial & Allergy	98022
Fogel Endoscopy*	98003
Evergreen Eye Center	98003
MultiCare Covington ASC	98042
Northwest Eye Surgeons	98057
Plastic and Reconstructive Surgeons	98055
Proliance Orthopedic Associates	98055
Rainier Surgical Center	98003
Sound International Pain Management	98001

Ambulatory Surgery Centers	Zip Code
Southlake Clinic* ¹⁴	98055
Sports Medicine Day Center	98001
Surgery Center Enumclaw	98022
Valley Eye and Laser Center	98055
Virginia Mason Surgery Center	98003
VP Surgery Center	98001
Women and Family Health Specialist ¹⁵	98057

[Source: ILRS]

Of the eighteen ASCs shown above, Sound International Pain Management is a dedicated pain management ASC. Therefore the department would not count this ASC minutes in the evaluation. Of the remaining seventeen ASC's, two are endoscopy facilities (shown with an asterisk). The ASC numeric methodology deliberately excludes OR capacity and procedures for endoscopy facilities.¹⁶ As a result, the ORs and procedures for the two endoscopy facilities will not be counted in the numeric methodology.¹⁷

For the remaining fifteen ASCs, eleven are located within a solo or group practice (considered a CN exempt ASC) and the use of these ASCs are restricted to physicians that are employees or members of the clinical practices that operate these facilities. Therefore, these eleven facilities do not meet the ASC definition in WAC 246-310-270. For CN exempt ASCs, the number of surgeries, but not ORs are included in the methodology for the planning area. The remaining four ASC's are CN approved facilities.¹⁸ For these four facilities, the OR capacity and utilization is counted in the numeric methodology.

In summary, utilization data will be used for the five acute care hospitals, eleven CN exempt ASCs, and the four CN approved ASCs. OR capacity will be counted for the five acute care hospitals and the four CN approved ASCs. If a facility does not complete and return a utilization survey, the other data source that can be used is the department's internal database known as the Integrated Licensing and Regulatory System (ILRS).

According to WAC 246-330-100(2), licensed ambulatory surgical facilities must submit to the department an annual update form. The data provided on this annual update form includes the number of ORs and the approximate number of procedures performed at the facility during the year. This data is updated in ILRS as it is received. The department uses the listed number of surgical procedures and multiplies the number by 50 minutes which is the default minutes per outpatient surgery as identified under WAC 246-310-270(9)(b)(iii). For those agencies not responding to the department's survey, the 50 minutes is used as the default to calculate outpatient surgery minutes.

The data points used in the department's numeric methodology are identified in Table 3. The methodology and supporting data used by the department is provided in the attached Appendix A with this evaluation.

¹⁴ As at the time of writing this evaluation SouthLake Clinic no longer exist, but in 2016 this ASC was operational.

¹⁵ According to this facility website [<http://www.wfhsmc.com/>] the facility ceased operations at the end of April 2018.

¹⁶ WAC 246-310-270(9)(iv).

¹⁷ The two facilities are Fogel Endoscopy and Southlake Clinic.

¹⁸ MultiCare Covington, Valley Medical Center, VP surgery Center and Northwest Eye Surgeons.

**Table 3
Department's Methodology Assumptions and Data**

Assumption	Data Used
Planning Area	Southeast King County
Population Estimates and Forecasts	Age Group: 18+ Office of Financial Management Population: Year 2017 – 507,296 Year 2021 – 534,475
Use Rate	Divide calculated surgical cases by 2017 population results in the service area use rate of 85.431/1,000 population
Year 2015 Total Number of Surgical Cases	22,416 – Inpatient or Mixed-Use; 20,923 – Outpatient 43,339 – Total Cases
Percent of surgery: ambulatory vs. inpatient	Based on DOH survey and ILRS data: 48.28% ambulatory (outpatient); 51.72% inpatient
Average minutes per case	Based on DOH survey and ILRS Data: Outpatient cases: 57.60 minutes Inpatient cases: 105.50 minutes
OR Annual capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes (per methodology in rule)
Existing providers/ORs	Based on listing of Southeast King County Providers: 11 dedicated outpatient ORs 34 mixed use ORs
Department's Methodology Results	Shortage of 7.44 outpatient ORs

Based on the assumptions described in Table 3, the department's numeric methodology projects a shortage of 7.44 outpatient ORs in southeast King County for projection year 2021.

Public Comment

None

Rebuttal Comment

None

Department Evaluation

The letters of support received by the department supports the applicant effort to establish non hospital based outpatient ambulatory surgery centers in southeast King County. The letters show that there is need for the projects if approved. For example one letter of support states that high level endoscopy and GI related surgical services previously performed at South Lake Clinic that was transferred to Valley when that ASC closed, can now be transferred to Valley DSC if these projects are approved. Another letter suggested that a freestanding ASC in Covington would provide a quality affordable, local choice for many patients. The letter from Valley's chief executive officer states that Valley currently performs more than 13,000 surgeries annually and its sole existing ambulatory surgery center is operating at or above of 100% capacity daily. Given that Valley's sole ASC is at

capacity, the department approval of this projects may increase access to ambulatory surgery in the southeast King County planning area.

Valley DSC

The department noted some differences between its methodology and Valley DSC's methodology for the planning area. Valley DSC methodology relied on population 0-85 and above while the department's methodology relied on population 18 and above. The difference in the population data between the department and Valley DSC resulted in a different use rate for the planning area. Valley DSC identified 9 dedicated outpatient and 33 mixed use ORs in the planning area. Within the planning area, the department counted 8 dedicated outpatients and 34 dedicated mixed use ORs.

In 2017 the department issued CN#1631 to Northwest Eye Surgeons to establish 2 dedicated outpatients ORs in the southeast King planning area. While the department counts the 2 ORs approved CN#1631 in the methodology, for the purposes of the evaluation, it will discount the ORs because they are not available and accessible to provide all general type surgeries. CN#1631 approved Northwest Eye Surgeons to establish 2 dedicated outpatients ORs primarily dedicated to providing optometric eye surgery procedures, ophthalmic procedures and pain management procedures (non-implants). Because Valley DSC is not proposing to provide eye surgery, ophthalmic and optometric eye procedures, the department will not count the 2 ORs approve by CN#1631. As a result the department acknowledges that in the southeast King planning area, for the purposes of this evaluation, it will count 9.44 dedicated outpatient ORs as available and accessible to serve all residents of the planning area.

In the project description portion of its application, Valley DSC stated, *"The proposed Valley DSC is currently CN approved and operates as an outpatient department of Valley. Under DOR #16-23 Valley had proposed closing the Valley DSC. With this application, Valley is requesting that Valley DSC continue to operate as a CN approved ASC. For now, it will also continue to as a hospital outpatient department"*. [Source: Application page 2] The department historical record shows that this statement is true. Valley application is requesting approval for three ORs and the department historical records shows these ORs are already counted as part of available supply in the planning area.

Valley DSC application states, *"This is an application first and foremost for a general surgery ASC for which there is documented numeric need. However, if the Program determines that there is no need for a general surgery ASC, Valley reminds the Program that this ASC now provides predominantly endoscopy and GI related surgeries. In recent endoscopy ASC decisions, the Program acknowledged that its current ASC projection methodology excludes endoscopic rooms"*. [Source: Application, page 12]

Furthermore the applicant stated, *"Valley anticipates that two of the operating rooms will be dedicated to endoscopy and related GI and the third operating room will be used for other types of outpatient surgeries"*. [Source: Application, page 13] Given the applicant statement above, the department agree that Valley proposal to dedicate two operating rooms to endoscopy and related GI and the third operating room used for other types of outpatient surgeries is approvable. There is no information to suggest that existing facilities in the planning area have the capacity to absorb the volumes anticipated by Valley DSC, nor did any area providers provide public comment indicating that their facilities can do so.

Based on the source documentation reviewed the department concludes the current services and the type proposed are not sufficiently available and accessible to meet the current need in the planning area. The department concludes **this sub-criterion is met.**

Valley Covington ASC

As noted in Valley DSC methodology, some of the differences between the department's methodology and Valley DSC's methodology were also noted in Valley Covington ASC methodology. Valley Covington ASC methodology relied on population 0-85 and above while the department's methodology relied on population 18 and above. The difference in the population data between the department and Valley Covington ASC resulted in a different use rate for the planning area. Valley DSC identified 9 dedicated outpatient and 33 mixed use ORs in the planning area. Within the planning area, the department counted 11 dedicated outpatients and 34 dedicated mixed use ORs.

Valley Covington ASC did not count CN#1631 issued in 2017 to Northwest Eye Surgeons to establish a two room dedicated outpatients ORs in the southeast King planning area. CN#1631 approved Northwest Eye Surgeons to establish 2 dedicated outpatients ORs primarily dedicated to providing optometric eye surgery procedures, ophthalmic procedures and pain management procedures (non-implants). Within Valley Covington ASC application the applicant stated, *"The ASC will be multi-specialty. Specific specialties that will perform surgery at Valley Covington include gastroenterology, general surgery/vascular surgery, gynecology, urology, orthopedics, spine, otolaryngology, ophthalmology and pain"*. [Source: Application, page 7] Because Valley Covington ASC is proposing to provide ophthalmology and pain management that are similar types surgical services approved under CN#1631 the department will count the 2 ORs approved by CN#1631.

The department will count the 2 ORs approved by CN#1631 because they are available and accessible to use for treatments for all residents of southeast King County planning area. As a result the department acknowledges that in the southeast King planning area, for the purposes of this evaluation, it will count 11 dedicated outpatients and 34 dedicated mixed use ORs as available and accessible to serve all residents of the planning area. Within its application, Valley Covington ASC seeks approval to establish a new four ORs and 2 procedure ORs. Valley Covington identified MultiCare Hospital as provider in the planning area and stated, *"The only other provider of surgical services within the primary service area is MultiCare, which currently operates a three-room ASC in Covington. After securing CN approval in 2010, Valley understands that MultiCare is proposing to open its new Covington hospital in early 2018. A review of the CN record for the MultiCare Covington Hospital indicates that the new hospital will have three mixed use operating rooms. MultiCare also operates a three room HOPD surgery center in Covington"*. [Source: Application, page 6]

Given the applicant statements that MultiCare Hospital has three mixed used operating rooms and an additional three rooms HOPD surgery center in Covington, this seems to suggest that existing facilities in the planning area have the capacity to absorb some of the projected volumes. However, the department did not receive any comment from the public to suggest that existing facilities in the planning area have the capacity to absorb these volumes, nor did MultiCare Hospital provide public comment indicating that its facilities could do so. As stated within the project description section of this project, the applicant is seeking approval to establish an ASC facility with four ORs to be dedicated for multispecialty surgeries use and two procedure ORs.

Related to the request for approval of two procedure rooms, in previous decisions the department's ASC need methodology excludes cystoscopic and other special purpose rooms such as heart surgery and delivery rooms from the calculation of need. This is endoscopic procedures are usually performed in special purpose rooms and it has been the policy interpretation of the department that procedure rooms dedicated to providing surgeries such as endoscopies and related GI procedures are excluded from its ASC need methodology. Therefore, if this project is approvable, the department will count the four ORs at the facility and not the two procedure rooms.

Based on the source documentation reviewed, the department concludes the current services and the type proposed are not sufficiently available and accessible to meet the current need in the planning area. The department concludes **this sub-criterion is met.**

Given the applicant statement that Valley MAC ASC location will provide patients and payers lower cost alternatives suggest that approval of this project is beneficial to the residents of the planning area. The department did not receive any comment from the public to suggest that existing facilities in the planning area have the capacity to absorb these volumes, nor did any area providers provide public comment indicating that their facilities could do so. Based on the source documentation reviewed the department concludes the current services and the type proposed are not sufficiently available and accessible to meet the current need in the planning area. The department concludes **this sub-criterion is met.**

WAC 246-310-270(6)

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

Valley DSC

"Valley has operated the three OR DSC as a multi-specialty hospital-based surgery center since 2002" [Source: Application page 6]

"There is no change to the current configuration proposed. Drawings are included in Exhibit 4". [Source Application page 9]

Valley Covington ASC

"Valley seeks to establish a new four (4) operating room, two (2) procedure room ASC in Covington, located in the Southeast King County Planning Area". [Source: Application page 6]

"Drawings of the proposed configuration are included as Exhibit 4". [Source: Application page 9]

Public Comment

None

Rebuttal Comment

None

Department's Evaluation

WAC 246-310-270(6) requires a minimum of two ORs in an ASC. Review of the proposed ASC floor plans submitted by Valley shows the applicant will have three ORs at Valley DSC, and six ORs at Valley Covington. **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 policies, willingness to serve Medicare and 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 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 do 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.

Charity care shows a willingness of a provider to provide services to individuals who do not have private insurance, do not qualify for Medicare, do not qualify for Medicaid, or are under insured. With the passage of the Affordable Care Act in 2010, the amount of charity care decreased over time. However, with recent federal legislative changes affecting the ACA, it is uncertain whether this trend will continue.

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 project.

Valley DSC

"The ASC will be both Medicare and Medicaid certified. Admission to Valley DSC will be same as admission to any other Valley facility or program; it will be based upon clinical need and services will be made available to all persons regardless of race, color, creed, sex, national origin, or disability". [Source: Application page 17]

"A copy of Valley's Department approved Admission and Non-Discrimination Policies are included as Exhibit 9.

"A copy of Valley's Department approved charity care policy is included in Exhibit 8.

"As a hospital outpatient department, Valley DSC will also continue to operate with same charity care policy as Valley". [Source: Application page 18]

"Both hospital and non-hospital based medical services are covered under the existing charity care policy, and the policy includes patients who receive services from its outpatients clinic network. Valley provides charity care to eligible patients up to 300% of the Federal Poverty Guidelines". [Source: April 2, 2018 screening responses page 14]

“Table 5 has been revised to include the current net revenue payer mix for the entire Valley Medical Center operation. There is a slight difference in payer mix between the Hospital total and the DSC, as the DSC has only outpatient revenue.

Proposed Source of Revenue by Payer- Reproduced Valley DSC Table 5

Payer	Valley DSC Proposed Payer Mix	Valley Medical Center Current Payer Mix
Medicare	28.1%	28.3%
Medicaid	15.1%	15.2%
Commercial/Exchange	56.0%	55.7%
Other	0.8%	0.8%
Total	100.0%	100.0%

[Source: April 2, 2018 screening responses page 2]

Valley Covington ASC

“The ASC will be both Medicare and Medicaid certified. The Admission Policy for the ASC will be same as the Admission Policy for Valley Medical Center and any other Valley facility or program; it will be based upon clinical need and services will be made available to all persons regardless of race, color, creed, sex, national origin, or disability”. [Source: Application page 20]

“A copy of Valley’s Department approved Admission and Non-Discrimination Policies are included as Exhibit 9”. [Source: Application page 21]

“Prior to opening Valley Covington, a final policy will be adopted specific to the ASC. The policy will be modeled after the hospital policy and provide a link for patients to file complaints specific to Valley Covington approval of that final policy”. [Source: April 2, 2018 screening responses page 11]

“A copy of Valley’s Department approved Charity Care Policy is included in Exhibit 8”. [Source: Application page 20]

“Both hospital and non-hospital based medical services are covered under the existing charity care policy, and the policy includes patients who receive services from its outpatients clinic network. Valley provides charity care to eligible patients up to 300% of the Federal Poverty Guidelines”. [Source: April 2, 2018 screening responses page 11]

“Estimated sources of revenue, by payer, are included in Table 12

Proposed Source of Revenue by Payer-Reproduced Valley Covington ASC Table 12

Payer	Percent of Total
Medicare	26.6%
Medicaid	13.7%
Commercial/Exchange	57.4%
Other	2.3%
Total	100.0%

[Source: Application page 25]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

The copy of the admission and nondiscrimination policies provided by the applicant in the applications are the same policies used at the hospital and approved by the department of health. These policies will be used to admit patients for treatment and ensures that patients receive appropriate care. Valley is licensed by the state and certified by the Centers for Medicare and Medicaid Services. A review of the information provided by Valley in all two applications shows that Valley DSC and Valley Covington expect reimbursements from Medicare and Medicaid. [Sources: Application page 17 and April 2, 2018, screening responses page 2; Application page 25; and Application page 8]

If these projects are approved, the department would attach a condition requiring Valley DSC and Valley Covington to maintain Medicare and Medicaid certification throughout the life of the facility regardless of ownership. Similarly, the department would also attach a condition requiring, Valley Covington to maintain licensure under WAC 246-330 throughout the life of the facility regardless of ownership.

The department acknowledges that Valley DSC and Valley Covington demonstrated their intent to provide charity care to patients receiving treatments at the ASC's by submitting a copy of Valley's department approved charity care that will be used at both facilities. The policy outlined the process patients would use to access charity care services when they do not have the financial resources to pay for required treatments. [Source: Application page 18 and Exhibit 8, Application 20 and Exhibit 8; and April 2, 2018 screening responses page 11]

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. The three ASCs projects proposed by Valley are going to be located in King County Region currently there are 22 hospitals operating in the King County region.

In southeast King County where Valley's three proposed projects will be located, there are five acute care hospitals¹⁹ including Valley. The approval of the three projects may affect the other four hospitals. For this project, the department reviewed the most recent three years charity care data for the 22 hospitals currently operating within the King County Region, but mainly focused on the five general acute care hospitals within southeast King County secondary health services planning area.

For this evaluation, the charity data reviewed is historical years 2014, 2015, and 2016. Shown in Table 4 is a comparison of the three years average charity care for King County Region as a whole, the combine five hospitals charity care averages, includes Valley's projected charity care for this project.²⁰ [Sources: CCHFD Charity Care 2014-2016, and April 2, 2018 screening responses, Attachment 4, 3, and 2]

¹⁹The five hospitals are FHS St. Elizabeth Hospital, FHS St. Francis Hospital; MultiCare Auburn Medical Center; MultiCare Covington Medical Center; and Valley Medical Center.

²⁰ Harborview Medical Center is subsidized by the state legislature to provide charity care services. Charity care percentages for Harborview make up almost 50% of the total percentages provided in the King County Region. Therefore, for comparison purposes, the department excludes Harborview Medical Center's percentages.

Valley DSC

“...According to 2014-2016 charity care data produced by the Department (the latest data currently available), the three-year charity care average for King Count, excluding Harborview, is 0.93% of gross revenue and 1.98% of adjusted revenue. During this same time period, the three year percentage of charity care for Valley was 0.84% of total revenue and 1.92% of adjusted revenue. As the Program is aware, beginning in 2014, with Medicaid expansion and the Healthcare Exchange, the percentage of charity care in the State has declined and our pro forma assumes the actual King County charity care rate in 2016 as opposed to the average of the past three years (0.83%)”. [Source: Application page 18]

“The most recent three-year charity care data (2014-2016) for King County, less Harborview Medical Center as a percentage of total revenue was 0.93%; which is close to Valleys actual experience. Valley revised its pro forma financial to include the 0.93% rate. The revised pro formas are included in Attachment 4”. [Source: April 2, 2018 screening response Page 8]

Valley Covington ASC

“Valley Covington ASC will also operate with same charity care policy as Valley Medical Center. ...According to 2014-2016 charity care data produced by the Department (the latest data currently available), the three-year charity care average for King Count, excluding Harborview, is 0.93% of gross revenue and 1.98% of adjusted revenue. During this same time period, the three year percentage of charity care for Valley was 0.84% of total revenue and 1.92% of adjusted revenue. As the Program is aware, beginning in 2014, with Medicaid expansion and the Healthcare Exchange, the percentage of charity care in the State has declined and our pro forma assumes the actual King County charity care rate in 2016 as opposed to the average of the past three years (0.83%). [Source: Application page 20]

Department Evaluation

Tables 4 and 5 below show the proposed charity care levels represented in Valley DSC and Valley Covington ASC applications. Each exceed the regional average but are lower than the five hospitals combined average located in southeast King County secondary health services planning area.

**Table 4
Valley DSC Charity Care Comparison**

	% of Total Revenue	% of Adjusted Revenue
King County Region	0.91%	1.93%
Five Hospitals Combined ²¹	1.04%	2.54%
Valley DSC	0.93%	2.51%

²¹ The five hospitals combined includes the applicant. Year 2014 charity care data was not reported for CHI/Regional Hospital. Years 2014, 2015 and 2016 charity care data was not reported for Kindred Hospital Seattle.

Table 5
Valley Covington ASC Charity Care Comparison

	% of Total Revenue	% of Adjusted Revenue
King County Region	0.91%	1.93%
Five Hospitals Combined ²²	1.04%	2.54%
Valley Covington	0.93%	2.18%

In the pro forma financial statements submitted for Valley DSC and Valley Covington ASC the applications included ‘charity care’ line items as deduction from revenues. [Sources: April 2, 2018 screening responses Attachment 4; and 3] The charity care document provided in the applications is the same document reviewed and approved by the Department of Health. Therefore, if these projects are approved the department would condition the Certificates of Need for all the projects requiring Valley DSC and Valley Covington ASC to provide charity care in the amount identified in the applications or at the regional average whichever is greater.

Based on the source documentation reviewed and Valley DSC, and Valley Covington ASC agreement to the charity care conditions, the department concludes that all residents of the service area, including low income, racial and ethnic minorities, handicapped, and other under-served groups would have access to the services provided by the applicant. **This sub-criterion is met.**

- (3) The applicant has substantiated any of the following special 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 not residing in the health service areas in which the entities are located or in adjacent health service areas.

Department Evaluation

This sub-criterion is not applicable to the 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 sub-criterion is not applicable to the application.

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

Department Evaluation

This sub-criterion is not applicable to the 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.

²² The five hospitals combined includes the applicant. Year 2014 charity care data was not reported for CHI/Regional Hospital. Years 2014, 2015 and 2016 charity care data was not reported for Kindred Hospital Seattle.

Department Evaluation

This sub-criterion is not applicable to the 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 sub-criterion is not applicable to the 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 sub-criterion is not applicable to the application.

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Valley Medical Center applications 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 operating 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.

Valley DSC

“The Requested financials are included in Exhibit 10”. [Source: Application page 22]

“The revised pro formas are included in Attachment 4”. [Source: April 2, 2018 page 7]

“Financial Assumptions –Reproduced Valley DSC Exhibit 10

<i>Revenue</i>	<i>Valley’s current revenue by payer and consultant’s experience in modelling net revenue for ASC’s</i>
<i>Payer Mix</i>	<i>Actual experience of Valley’s surgery program for cases performed between August 1, 2016 and July 31, 2017, by specialty</i>
<i>Charity Care</i>	<i>0.83% of Gross Charges (King County less Harborview 2016 regional average</i>
<i>Bad Debt</i>	<i>2.00% of Net Revenue</i>
<i>Salaries and Wages</i>	<i>National consultant provided based on ASC operations expertise, with sensitivity to case mix and adjusted by the wage index for King County. Staffing based on per room type, volume, etc. ratios using ASC Consultant experience</i>
<i>Staffing</i>	<i>All FTE levels generated based on specific ratios using best practices from National Consultant. (FTEs detailed in Table 12)</i>
<i>Benefits</i>	<i>Benefits are projected at 25% of Salaries and Wages and include payroll taxes, health insurance, etc.</i>
<i>Drugs and Medical Supplies</i>	<i>Projected by specialty and procedure types for ASC operations. Includes, as applicable, implant expenses. Includes Valley actual and adjustments by National Consultant</i>
<i>Utilities</i>	<i>Utilities forecast based on a per square foot rate for the actual space.</i>
<i>Business Taxes</i>	<i>Forecasted based upon on an average of 1.5% of revenue attributed to Washington B&O tax.</i>
<i>Other Operating Expenses</i>	<i>Expenses not directly associated or impacted by patient care or otherwise adjusted and reflected in the assumptions. Includes Valley actual and adjustments by National Consultant.</i>
<i>Purchased Services</i>	<i>Includes laundry, linen, biomed, equipment maintenance based on Valley actual and adjustments by National Consultant</i>
<i>Depreciation and Amortization</i>	<i>Building and equipment capital costs and current depreciation.</i>
<i>Allocated Expenses</i>	<i>Costs associated with centralized support services (billing/collection, financial counselling) provided by Valley”.</i>

[Source: Application page 137, Exhibit 10]

“Table 5 has been revised to include the current net revenue payer mix for the entire Valley Medical Center operation. There is a slight difference in payer mix between the Hospital total and the DSC, as the DSC has only outpatient revenue.

Current Payer Source and Projected –Reproduced Valley DSC Table 5

<i>“Payer Source</i>	<i>% of Patients</i>	<i>% of Payer Source</i>
<i>Medicare</i>	<i>28.1%</i>	<i>28.3%</i>
<i>Medicaid</i>	<i>15.1%</i>	<i>15.2%</i>
<i>Commercial/Exchange</i>	<i>56.0%</i>	<i>57.5%</i>
<i>Other</i>	<i>0.8%</i>	<i>0.8%</i>
<i>Total</i>	<i>100%</i>	<i>100%”</i>

[Source: April 2, 2018 screening response page 2]

“Valley is a fiscal year provider and the updated pro forma, provided in Attachment 4, includes the historical financial data for the DSC for FYE June 30, 2017.

Please note that this historical does not include any volumes associated with the acquisition of the South Lake Clinic that occurred in October 2017”. [Source: April 2, 2018 screening response page 15]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

To evaluation this sub-criterion, the department first reviewed the assumptions used by Valley to determine the projected number of procedures for Valley DSC. Valley assumed that 80% of volumes will be generated by planning area residents and 20% from in-migration of patients and projected population growth rate between 3% and 5%. Relying on this projected growth, Valley is assuming that its market share of the growth will be more than enough to sustain its projected volumes. Based on this assumptions, it appears that Valley DSC projection is reasonable. If this project is approvable, the three ORs will be operational by the end of January 2020. [Source: Application page 7 and April 2, 2018, screening response, page 3] Under this timeline, year 2022 would be the ASC first full calendar year of operation and 2023 would be year three [Source: April 2, 2018, screening response, page 5 and 18]

Based on the assumptions above, Valley submitted the ASC projected revenue and expense statement for years 2020-2022 summarized in Table 6 below. [Source: April 2, 2018 screening response Attachment 4]

**Table 6
Valley DSC Financial Projections**

	Projected 2020	Projected 2021	Projected 20202
Net Revenue	\$12,047,584	\$12,228,265	\$12,395,718
Total Operating Expenses	\$9,667,731	\$9,726,562	\$9,788,089
Net Income/(Loss)	\$2,379,853	\$2,501,703	\$2,607,629

The ‘Net Revenue’ line item includes deductions for contractual allowances, bad debt and charity care. The “total operating expenses” includes line item costs associated with operation of a surgery center such as supplies, salaries and wages & benefits, rental and leases expenses, depreciation, and equipment, operating expenses and taxes. As shown the in table above, Valley DSC projects net profits for the first year of the project through year three.

Valley DSC is located at 17820 Talbot Rd South in the City of Renton [98055] the land and building is owned by Public Hospital District No.1 of King County d/b/a Valley Medical Center. [Source: Application page 10 and Exhibit 5] James Park, MD an employee of Valley Medical Center was identified as the Chief Medical Director of the hospital and the ASC. Timothy Feldman and Alison McClane were both also identified as clinical manager OR and clinical manager pre/post operation. These positions do not require a contract or additional payment for services because Valley DSC operates as an outpatient departments of Valley Medical Center.

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

In its review of Valley fiscal yearend 2017 financial report, CCHFD concludes that Valley Medical Center has the financial capacity to proceed with Valley DSC and the project is financially feasible. Related to the ASC projected revenue and expense statement for years 2020-2022 summarized in the table above, CCHFD states, *“The project costs to the patient and community are similar to current providers”*. [Source: June 14, 2018, CCHFD analysis page 3] In addition, CCHFD staff also concludes that Valley financial status is adequate to fund the ASC. CCHFD further concluded that the project should not adversely impact reserves, or total assets, total liability or the general health of Valley Medical Center.

Valley did not submit an individual balance sheet for the ASC, but provided a hospital wide balance sheet. In its review of Valley Medical Center hospital wide balance sheet CCHFD states, *“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”*. [Source: June 14, 2018, CCHFD analysis page 2] Below is CCHFD review of Valley Medical Center hospital balance sheet.

Table 7
Valley Day Surgery ASC

Assets		Liabilities	
Current	\$219,752,994	Current	\$166,783,895
Board Designated	-	Long Term Debt	\$291,779,549
Property, Plant & Equipment	\$362,569,426	Other	\$5,233,273
Other Assets	\$98,873,869	Equity	\$217,399,572
Total	\$681,196,289	Total	\$681,196,289

Furthermore, CCHFD staff stated that it reviewed the various ratios that shows a picture of the financial health of Valley DSC and the review shows that Valley ambulatory surgery center income statement ratio is above average at the end of the 3rd year and the ASC is better than break even as required by CON rules. Valley debt-related ratios for 2016 are not optimal, but the total project amounts to less than two percent of total Valley assets. The ASC itself is projected to have a favorable operating expense to operating revenue ratio that shows improvement over time.

**Table 8
Valley DSC Ratios**

Category	Trend ²³	State 2016	Valley 2017	Year 1	Year 2	Year 3
Long Term Debt to Equity	B	0.495	1.342	-	-	-
Current Assets/Current Liabilities	A	2.810	1.318	-	-	-
Assets Funded by Liabilities	B	0.406	0.673	-	-	-
Operating Expense/Operating Revenue	B	0.973	1.048	0.801	0.795	0.790
Debt Service Coverage	A	4.475	1.043	-	-	-
Definitions:	Formula					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities + Long Term Debt					
Operating Expense/Operating Revenue	Operating Expenses / Operating Revenue					
Debt Service Coverage	Net Profit+Depr and Interest Expense/Current Mat. LTD and Interest Expense					

As shown in Tables 7 and 8, CCHFD’s analysis of Valley DSC operating expenses and operating revenue shows the immediate and long-range capital expenditures of the ASC can be met. Further, in its analysis CCHFD stated, “*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: June 14, 2018, CCHFD analysis, Page 2]

The department concludes Valley DSC projected surgery center revenues will cover expenses in all years of operation. Based on the information above, the department concludes the immediate and long-range operating costs of the project can be met. **This sub criterion is met.**

Valley Covington ASC

“*The Requested financials are included in Exhibit 10*”. [Source Application page 24]

“*The revised pro formas are included in Attachment 3*”. [Source: April 2, 2018 screening responses page 6]

“*The pro forma financial (now revised and included in Attachment 3), is for Covington ASC only*”. [Source: April 2, 2018 screening responses page 12]

“Financial Assumptions –Reproduced Valley Covington ASC Exhibit 10

<i>Revenue</i>	<i>Valley’s current revenue by payer and consultant’s experience in modelling net revenue for ASC’s</i>
<i>Payer Mix</i>	<i>Actual experience of Valley’s surgery program for cases performed between August 1, 2016 and July 31, 2017, by specialty</i>
<i>Charity Care</i>	<i>0.83% of Gross Charges (King County less Harborview 2016 regional average</i>
<i>Bad Debt</i>	<i>2.00% of Net Revenue</i>
<i>Salaries and Wages</i>	<i>National consultant provided based on ASC operations expertise, with sensitivity to case mix and adjusted by the wage index for King County.</i>

²³ “A” is better if the hospital number is above the State number and “B” is better if the hospital number is below the state number.

	<i>Staffing based on per room type, volume, etc. ratios using ASC Consultant experience</i>
<i>Staffing</i>	<i>All FTE levels generated based on specific ratios using best practices from National Consultant. (FTEs detailed in Table 12)</i>
<i>Benefits</i>	<i>Benefits are projected at 25% of Salaries and Wages and include payroll taxes, health insurance, etc.</i>
<i>Drugs and Medical Supplies</i>	<i>Projected by specialty and procedure types for ASC operations. Includes, as applicable, implant expenses. Includes Valley actual and adjustments by National Consultant</i>
<i>Utilities</i>	<i>Utilities forecast based on a per square foot rate for the actual space.</i>
<i>Business Taxes</i>	<i>Forecasted based upon on an average of 1.5% of revenue attributed to Washington B&O tax.</i>
<i>Other Operating Expenses</i>	<i>Expenses not directly associated or impacted by patient care or otherwise adjusted and reflected in the assumptions. Includes Valley actual and adjustments by National Consultant.</i>
<i>Purchased Services</i>	<i>Includes laundry, linen, biomed, equipment maintenance based on Valley actual and adjustments by National Consultant</i>
<i>Depreciation and Amortization</i>	<i>Building and equipment capital costs and current depreciation.</i>
<i>Allocated Expenses</i>	<i>Costs associated with centralized support services (billing/collection, financial counselling) provided by Valley”.</i>

[Source: Application page 137, Exhibit 10]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The applicant assumed that 80% of Valley Covington volumes will be generated by the planning area residents and 20% from in-migration of patients and projected population growth rate will be between 3% and 5%. Relying on this projected growth, Valley assumed that its market share of the growth will be more than enough to sustain its projected volumes. Based on this assumptions, it appears that Valley Covington projections are reasonable. If this project is approvable, the multispecialty four ORs and the two procedure will be operating by the end of January 2021. Under this timeline, year 2021 would be the ASC first full calendar year of operation and 2023 would be year three. [Source: April 2, 2018, screening response, page 2]

Valley Covington provided its comparison statement of revenue & expense unrestricted funds-Covington. Summarized in the Table 9 below is the ASC projected revenue and expense statement for years 2021-2023. [Source: April 2, 2018 screening response Attachment 4]

**Table 9
Valley Covington ASC Financial Projections**

	Projected 2021	Projected 2022	Projected 2023
Net Revenue	\$11,087,010	\$11,723,344	\$12,102,401

	Projected 2021	Projected 2022	Projected 2023
Total Operating Expenses	\$10,267,617	\$10,822,871	\$11,180,383
Net Income/(Loss)	\$819,393	\$900,473	\$922,018

The “Net Revenue” line item includes deductions for contractual allowances, bad debt and charity care. The “total operating expenses” includes line item costs associated with operation of a surgery center such as supplies, salaries and wages & benefits, rental and leases expenses, depreciation, and equipment, operating expenses and taxes. As shown the in table above, Valley Covington projects net profits for the first year of the project through year three. Related to the ASC projected revenue and expense statement CCHFD states, *“The project costs to the patient and community are similar to current providers”*. [Source: June 14, 2018, CCHFD analysis page 3]

Valley Covington will be located at 27500 –168th Place SE in Covington [98042] on the first floor of an existing medical office building owned and operated by Public Hospital District No.1 of King County d/b/a Valley Medical Center. [Source: Application page 1 and 10 and Exhibit 5] Information in the application states the medical director will be employed and no contract is needed. The applicant further states, *“Neither the medical director, the director of nursing or any other key staff have been identified at this time”*. [Source: Application page 27]

In its review of Valley Medical Center fiscal yearend 2017 financial report, CCHFD concludes that Valley Medical Center has the financial capacity to proceed with Valley Covington and the project is financially feasible. The applicant provided a hospital wide balance and CCHFD noted that, *“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”*. [Source: June 14, 2018, CCHFD analysis page 2]

**Table 10
Valley Covington ASC**

Assets		Liabilities	
Current	\$219,752,994	Current	\$166,783,895
Board Designated	-	Long Term Debt	\$291,779,549
Property, Plant & Equipment	\$362,569,426	Other	\$5,233,273
Other Assets	\$98,873,869	Equity	\$217,399,572
Total	\$681,196,289	Total	\$681,196,289

Furthermore, CCHFD staff stated that it reviewed the various ratios that shows a picture of the financial health of Valley ambulatory surgery center in Covington. CCHFD staff noted that trend showing A means the project 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. Valley ambulatory surgery center income statement ratio is above average at the end of the 3rd year and the ASC is better than break even as required by CON rules. Valley debt-related ratios for 2016 are not optimal, but the total project amounts to less than two percent of total Valley assets. The ASC itself is projected to have a favorable operating expense to operating revenue ratio that shows improvement over time.

**Table 11
Valley Covington ASC Ratios**

Category	Trend ²⁴	State 2016	Valley 2017	Year 1	Year 2	Year 3
Long Term Debt to Equity	B	0.495	1.342	-	-	-
Current Assets/Current Liabilities	A	2.810	1.318	-	-	-
Assets Funded by Liabilities	B	0.406	0.673	-	-	-
Operating Expense/Operating Revenue	B	0.973	1.048	0.926	0.923	0.924
Debt Service Coverage	A	4.475	1.043	-	-	-
Definitions:	Formula					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities + Long Term Debt					
Operating Expense/Operating Revenue	Operating Expenses / Operating Revenue					
Debt Service Coverage	Net Profit+Depr and Interest Expense/Current Mat. LTD and Interest Expense					

As shown in Tables 8 and 9, CCHFD’s analysis of Valley Covington operating expenses and operating revenue shows the immediate and long-range capital expenditures of the ASC can be met. Further, in its analysis CCHFD stated, *“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: June 14, 2018, CCHFD analysis, Page 3] Based on the information above, the department concludes 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.

Valley DSC

“The capital expenditure is \$4,452,003”. [Source: Application page 9]

“The cost of construction is based on Valley’s experience and expertise in renovating medical office buildings. The cost of the moveable equipment, is again based on our purchasing experience.

This project will ensure continued access to diagnostic and therapeutic services that are proven to greatly reduce both the number of deaths, and more costly treatments by identifying polyps in an early stage and removing them before they become cancerous. Because of this, endoscopy procedures reduce health care costs for patients, payers and the larger system”. [Source: Application page 21]

²⁴ “A” is better if the hospital number is above the State number and “B” is better if the hospital number is below the state number.

“Valley’s in-house construction project management team prepared the cost estimate provided in the application (p.23). The in-house construction management team includes a licensed architect, an individual with architectural training, a mechanical engineer and a professional engineer. As needed, the team also has access to specialty estimators. The letter from Valley’s Vice President, Facilities, a licensed professional Engineer, is included in Attachment 6”. [Source: April 2, 2018, screening response page 9]

Valley Covington ASC

“The capital expenditure is \$12,715,827”. [Source: Application page 7]

“The cost of construction is based on Valley’s experience and expertise in renovating medical office buildings. The cost of the moveable equipment, is again based on our purchasing experience.

The capital costs for this project have been detailed in response to Question #1 above. As noted on other sections of this application, the ASC will be operated as a free-standing ASC and will offer surgeries at lower costs to patients and payers”. [Source: Application page 24]

“Valley’s in-house construction project management team prepared the cost estimate provided in the application (p.23). The in-house construction management team includes a licensed architect, an individual with architectural training, a mechanical engineer and a professional engineer. As needed, the team also has access to specialty estimators. The letter from Valley’s Vice President, Facilities, a licensed professional Engineer, is included in Attachment 5”. [Source: April 2, 2018, screening response page 6]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Valley DSC

Valley did not submit a letter of intent and the capital expenditure identified on the first page of Valley DSC application did not match the amount on page 20 of the application. Supplemental information submitted by Valley states, *“The capital expenditure amount on page 20 is correct. The application face sheet contained a typographical error. A revised face sheet is included in Attachment 1”.* [Source: April 2, 2018, screening response page 1]

The total capital expenditure identified for this project on page 20 of this application is \$4,452,003 this project involves building improvements and the purchase of medical equipment necessary to provide outpatient surgical services. Consistent with application guidelines, a cost estimator letter was submitted as Attachment 6. The cost estimator letter from Valley facilities vice president stated that based on its comprehensive budgeting of previous construction based capital projects, it estimated the construction portion of the total capital expenditure as \$839,395.

Valley stated it will use its cash reserve to finance the project and a letter of financial commitment from its senior vice president and chief financial officer was submitted as Attachment 5 of its supplemental information. The impact of the project cost is included in the operating revenue and

expenses statement for the ASC. Any increase in the operating costs will be associated with increase in the number of procedures to be performed. Based on the information, the department concludes this project may not have an unreasonable impact on the costs and charges for healthcare services in southeast King County secondary health services planning area. **This sub criterion is met.**

Valley Covington ASC

Valley did not submit a letter of intent, but the capital expenditure identified in the application face sheet and on page 23 stated the total capital expenditure for Valley Covington is \$12,715,827. Consistent with application guidelines, a non-binding cost estimator letter was submitted as Attachment 5. The cost estimator letter from Valley facilities vice president stated that based on its comprehensive budgeting of previous construction based capital projects, it was able to estimate the construction portion of the total capital expenditure as \$7,443,212.

This project involves land and building improvements and the purchase of medical equipment necessary to provide outpatient surgical services. Valley stated it will use its cash reserve to finance the project and a letter of financial commitment from its senior vice president and chief financial officer was submitted as Attachment 4 of its supplemental information. The cost to establish Valley MAC ASC and the impact it will have is included in the operating revenue and expenses statement for the ASC. Any increase in the operating costs will be associated with increase in the number of procedures to be performed. Based on the information, the department concludes this project may not have an unreasonable impact on the costs and charges for healthcare services in southeast King County secondary health services 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.

Valley DSC

"Valley will use reserves to fund the project" [Source: Application page 8]

"The requested financials are included in Appendix 1". [Source: Application page 22]

"The requested letter, from Jeannine Grinnell, Senior Vice President and CFO is included in Attachment 5". [Source: April 2, 2018, screening response page 8]

"Valley's in-house construction project management team prepared the cost estimate provided in the application (p.23)". [Source: April 2, 2018 screening response page 9]

The applicant provided a letter of financial commitment signed by its senior vice president and CFO. The letter states in part, *"...As demonstrated by the June 30, 2017 year-end audited balance sheet, submitted in Appendix 1 of the application, Public Hospital District No. 1 of King County has over \$200 million in cash, cash equivalent, and investments, which is more than sufficient to fund this project"*. [Source: April 2, 2018 screening responses Attachment 5]

Valley Covington ASC

“Valley will use reserves to fund the project” [Source: Application page 9 and 24]

“The requested financials are included in Appendix 1”. [Source: Application page 25]

“The requested letter, from Jeannine Grinnell, Senior Vice President and CFO is included in Attachment 4”. [Source: April 2, 2018, screening response page 6]

“Valley’s in-house construction project management team prepared the cost estimate provided in the application (p.23)”. [Source: April 2, 2018 screening response page 6, page 43]

The applicant provided a letter of financial commitment signed by its senior vice president and CFO. The letter states in part, *“...As demonstrated by the June 30, 2017 year-end audited balance sheet, submitted in Appendix 1 of the application, Public Hospital District No. 1 of King County has over \$200 million in cash, cash equivalent, and investments, which is more than sufficient to fund this project”*. [Source: April 2, 2018 screening responses Attachment 4, page 38]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Valley DSC

Within the application, Valley stated there is construction involved with this project and total capital expenditure is dedicated to land and building improvements and the purchase of medical equipment necessary to provide the outpatient surgical services. Valley intend to finance this project using its cash reserves. To demonstrate compliance with this sub-criterion, Valley provided a letter of financial commitment for this project from its senior vice president and chief financial officer. The letter stated the applicant will commit the sum of \$4,452,003 to finance the project. The letter of financial commitment demonstrates compliance with this sub-criterion. Based on the source information above, the department concludes the cost of the capital costs for the project can be appropriately financed **this sub criterion is met.**

Valley Covington ASC

Within the application, Valley stated there is construction involved with this project and total capital expenditure is dedicated to land and building improvements and the purchase of medical equipment necessary to provide the outpatient surgical services. Valley intend to finance this project using its cash reserves. To demonstrate compliance with this sub-criterion, Valley provided a letter of financial commitment for this project from its senior vice president and chief financial officer. The letter stated the applicant will commit the sum of \$12,715,827 to finance the project. The letter of financial commitment demonstrates compliance with this sub-criterion. Based on the source information above, the department concludes the cost of the capital costs for the project can be appropriately financed **this sub criterion is met.**

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

Based on the source information reviewed and provided the applicant agrees to the conditions identified in the conclusion section of this evaluation, the department determines Valley Medical Center applications has met the structure and process of care criteria in WAC 246-310-230.

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

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

Valley DSC

“This project requires essentially no additional FTEs; as the staff transferred from South Lake Clinic ASC on or about October 1, 2017 to the DSC.” [Source: Application page 24]

“As staffing needs arise, Valley offers a competitive wage and benefit package and has a number of specific recruitment and retention strategies that serve us well in both recruitment and retention. Valley also has strong working relationship with a number of technical colleges, and two four-year colleges that enables us to offer training and make Valley a preferred employer for students.

Given the above, Valley does not anticipate any difficulty in securing any additional staff need for the Valley DSC”. [Source: Application, page 22]

“The Medical Director, Director of Nursing and other key staff are identified in Table 13.

Names, Titles and Professional License Number for Existing Key Staff- Reproduced Valley DSC Table 13

<i>Names</i>	<i>Title</i>	<i>Professional License Number</i>
<i>James Park, MD, MHA</i>	<i>SVP, Chief Medical Officer</i>	<i>NPI 1285647925</i>
<i>Theresa Braungardt, MN, RN</i>	<i>SVP, Chief Nursing Officer</i>	<i>RN00105223</i>

“Valley DSC is operated as an outpatient department of the hospital. Medical directorship is provided directly from the hospital”. [Source: Application, page 24]

“Ms. Braungardt is the CNO for the Hospital and not the ASC. Outpatient surgical services including DSC, report to John Wagner, RN, Vice President, Perioperative Services. A copy of both description is included in Attachment 8”. [Source: April 2, 2018 screening response page 10]

“Please note that with the addition of the South Lake Clinic volumes at DSC, Valley believes that current (2018) staffing is more relevant to this application than the historical 2016 staffing. The current 2018 staffing is included in the revised Table 12.

“In preparing a response to this questions, Valley revised some of the position titles to reflect the current structure at Valley DSC. There are no changes to the number of FTEs.

**Proposed Staffing by Discipline
2018 and 2020-2022 Reproduced Valley DSC Table 12**

	Current (2018)	2020	2021	2022
Manager Surgery	1.0	1.0	1.0	1.0
Supervisor Day Surgery	1.0	1.0	1.0	1.0
Charge Nurse (Pre/PACU)	1.0	1.0	1.0	1.0
RNs	9.5	9.5	9.5	9.5
Techs	4.0	4.0	4.0	4.0
Other	8.0	8.0	8.0	8.0
Total	24.5	24.5	24.5	24.5

“As indicated in the application, Dr. Park is the Chief Medical Officer (CMO) and serve as the medical director for the hospital and the ASC. However, when the two other ASCs (proposed in two separate CN applications) are ready to be made operational, Valley will create a new position that will serve as medical director over all three ASCs (the job position will be Medical Director for Surgical Services)”. [Source: April 2, 2018 screening response page 9 - 10]

Valley Covington ASC

“The staff have not yet been hired for this position. Assuming that the construction is completed by December 2020, Valley anticipates hiring staff by November 2020 to ensure that the needed staff are in place prior to securing ASF licensure. The requested job descriptions are included in Attachment 6. Please note that Table 13 has been revised to more closely reflect Valley’s job titles. No change FTEs has been assumed.

**Current and Proposed Staffing by Discipline
2021-2023 Reproduced Valley Covington ASC Table 13**

	2021	2022	2023
Manager Surgery	1.0	1.0	1.0
Supervisor Day Surgery	1.0	1.0	1.0
Charge Nurse (Pre/PACU)	1.0	1.0	1.0
RNs	14.9	14.9	14.9
Techs	6.0	6.0	6.0
Other	7.9	8.0	8.0
Total	31.8	31.9	32.0

[Source: April 2, 2018 screening response page 6]

“Valley also has current hospital OR staff interested in transferring to an ASC. And, we also have surgical staff that currently commute from the Covington area to Renton daily, and would be interested in a closer to home option. Because we expect a decrease in outpatient cases (the majority of which is expected to be offset by increasing inpatient volumes), we should be able to accommodate a few moving either full or part time.

In addition, Valley offers a competitive wage and benefit package and has a number of specific recruitment and retention strategies that have served us well. Valley also has strong working relationships with a number of technical colleges, and two four-year colleges that enable us to offer training and make Valley a preferred employer for new graduates.

Given the above, Valley does not anticipate any difficulty in securing the quality staff need for the new ASC.

Neither the medical director, the director of nursing nor any key staff have been identified at this time. Valley can assure the Program that these key positions will be fully vetted, and any person selected will meet the licensing requirements. We understand that the Program will likely issue a condition upon awarding the CN award requiring prior to opening, Valley provide the requested licensing information for review by the Program. Valley is amenable to such a condition

The Medical Director will be Valley employee; therefore, there is no contract”. [Source: Application, page 27]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Valley DSC

Within the application Valley DSC states that it requires no additional FTEs because staff transferred from the South Lake Clinic ASC to Valley DSC. James Park, MD an employee of Valley Medical Center was identified as the Chief Medical Director of the hospital and Valley DSC. Timothy Feldman and Alison McClane were also identified as clinical manager OR and clinical manager pre/post operation for Valley DSC. Information provided by Valley DSC in response to the department screening questions states,

“As indicated in the application, Dr. Park is the Chief Medical Officer (CMO) and serves as the medical director for the hospital and the ASC. However, when the two other ASCs (proposed in two separate CN applications) are ready to be made operational, Valley will create a new position that will serve as medical director over all three ASCs (the job position will be Medical Director for Surgical Services)...Valley understands that the Program may issue a condition on the CN issuance to provide information (name and professional license number) for the new Medical Director of Surgical Services. Valley is amenable to such a condition.
[Source: April 2, 2018 screening responses 10]

Based on the statement above, if Valley’s two ASCs applications are approved, the department will attached conditions requiring Valley to submit the name, credentialed number and the finalized job description of the new medical director of surgical services for the two ASCs. With Valley’s agreement to the condition, the department concludes based on the information, that Valley DSC has the ability to recruit and retain a sufficient supply of qualified staff. **This sub criterion is met.**

Valley Covington ASC

Information in Valley Covington’s application show the ASC have 31.80 FTEs in year 2021 and this increases to 32 FTEs by the third year of operation or by year 2023. Majority of the FTEs (20 FTEs) are expected to be registered nurses and (7 FTEs) in other nursing services allied positions. Valley asserted that this is a relatively small number FTEs for an organization the size of Valley. Valley

stated that it has current hospital OR staff interested in transferring to the ASC and because the hospital have staff that currently commute from the Covington area to Renton daily, it a healthcare facility in Covington; those staff may elect to work closer to their homes. In addition, Valley stated that it offers a competitive wage and benefit package that it will uses to recruitment and retain FTEs.

Furthermore, Valley stated that the strong working relationships it has with a number of technical colleges, and two and four-year colleges will enable Valley to offer training and make Valley a preferred employer for new graduates. Given the above, department does not expect Valley to have difficulty recruiting the FTEs needed by ASC. The department notes that Valley currently operates an acute hospital and network of more than two dozen primary care, urgent care and specialty clinics throughout southeast King County. As a result, the department expects Valley to use its resources to hire staff for Valley Covington. Based on the above information, and with agreement to the condition, the department concludes that Valley has the ability to recruit and retain a sufficient supply of qualified staff for Valley Covington. **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) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant history in meeting these standards at other facilities owned or operated by the applicant.

Valley DSC

“Since 2002, the ASC has operated as an HOPD and continue to be operational as such for the foreseeable future. Valley provides all the ancillary and support services required”. [Source: Application page 25]

“This project simply proposes to retain an existing volume, high quality ASC after the opening of the JV ASC that was the subject of the August 2016 DOR. The acquisition of South Lake Clinic and the determination that the DSC’s physical plant was superior and provided a better care environment for patients led to the decision to request this CN. Continuity will be assured by virtue of the same staff, and the same policies that have been in place for decades. Valley’s existing working relationships will continue and will further assure continuity of care”. [Source: Application page 25]

“The requested information is included in Attachment 10”. [Source: April 2, 2018 screening response page 11]

“The following is a listing of ancillary and support services in use at DSC. These services are provided either directly by Valley or through Valley’s existing relationships.

<i>Radiology</i>	<i>Human Resources</i>
<i>Lab/pathology</i>	<i>Housekeeping /Janitorial</i>
<i>Laundry and linen</i>	<i>Transfer - EMS</i>
<i>Biomed</i>	<i>Maintenance</i>
<i>Physical Plant (Sprinklers, Fire Code)</i>	<i>Transcription</i>
<i>Checks, IT, Generator</i>	<i>Billing/Coding</i>
<i>Pharmacy</i>	

DSC is operated as a hospital outpatient department; therefore, it utilizes each of Valley's large existing working relationships” [Source: April 2, 2018 screening response page 12]

Valley Covington ASC

“The ASC will be freestanding and will provide or have an agreement with Valley for the ancillary and support services for licensure and certification”. [Source: Application page 27]

“The requested information is included in Attachment 7”. [Source: April 2, 2018 screening response page 8]

DoH description of ancillary and support items listed in Attachment 7 referenced above is below. The attachment referenced above is titled ‘Listing of the Colleges and other Entities with Relationship with Valley Medical Center and it is a listing of traditional land based universities, online universities, colleges, technical colleges, and local high schools located in the area. [Source: DoH summary of Attachment 7]

“The following is a listing of ancillary and support services anticipated to be used at Valley Covington. These services are provided either directly by Valley or through Valley's existing relationships.

<i>Radiology</i>	<i>Human Resources</i>
<i>Lab/pathology</i>	<i>Housekeeping /Janitorial</i>
<i>Laundry and linen</i>	<i>Transfer - EMS</i>
<i>Biomed</i>	<i>Maintenance</i>
<i>Physical Plant (Sprinklers, Fire Code)</i>	<i>Transcription</i>
<i>Checks, IT, Generator</i>	<i>Billing/Coding”</i>
<i>Pharmacy</i>	

[Source: April 2, 2018 screening response page 9]

“Valley Covington will be operated by King County Public Hospital District No. 1. As such, it will enjoy access to all existing ancillary and support services and/or relationships. No ancillary and support agreement are contemplated”. [Source April 2, 2018 screening response page 10]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Valley has been a healthcare provider in southeast King County for many years. As an acute care hospital, the department expects that all ancillary and support services required at the three ASCs will be provided by Valley directly or affiliates by using its existing relationship Based on the information reviewed, the department concludes **this sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Valley DSC

"Valley is Joint Commission accredited hospital and fully complies with Washington State licensing standards and federal regulations". [Source: Application, Page 25]

Valley Covington ASC

"Valley is Joint Commission accredited hospital and fully complies with Washington State licensing standards and federal regulations. The ASC will be licensed and will seek certification from the AAAHC." [Source: Application, Page 28]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Valley is accredited by the Joint Commission and is licensed as an acute care provider by Washington. Valley last survey by the Joint Commission was in December 2016. According to public information available at the Joint Commission website, Valley's Advanced Palliative Care had a full on-site survey in March 2016 and Primary Stroke Center had a full on-site survey in July 2017. Valley has been a healthcare services provider in southeast King County for many decades. As a part of this review, the department must conclude that the services provided or to be provided by Valley DSC and Valley Covington are provided in a manner that ensures safe and adequate care to the public.²⁵ To accomplish this task, the department reviews an applicant's quality of care compliance history for all the healthcare facilities owned, operated, or managed by the applicant. [Source: Certificate of Need historical files]

According to the Washington State Office of Investigation and Inspection, Valley Medical Center was surveyed in February 2016. The survey revealed no substantial non-compliance issues for the hospital. [Sources: ILRS] The department conducted quality of care check for all Valley's active medical staff and others involved in these three projects through the Nursing Quality Assurance Commission (NQAC) and Health Systems Quality Assurance (HSQA OCS). The department quality check shows that Valleys credentialed staff members licenses are in good standing, and this includes the three ASC's designated director of nursing and the supervisors. [Source: NQAC, HSQA OCS]

²⁵ WAC 246-310-230(5)

Table 12 below shows the facilities owned or operated by Valley Medical Center and the facility's license number. [Sources: Application and Screening responses April 2, 2018]

Table 12
Listing of Facilities owned/operated by Valley Medical Center

Facility Address	Licensed #	City	Zip Code
Valley Medical Center	HAC.FS.000000155	Renton	98055
Children's Therapy	Out Patient Clinic	Renton	98057
Covington Clinic North	Out Patient Clinic	Kent	98042
Covington Clinic South	Out Patient Clinic	Covington	98042
Day Surgery Center	ASC outpatient	Renton	98055
Fairwood Primary Care	Out Patient Clinic	Renton	98058
Kent Clinic	Out Patient Clinic	Kent	98031
Lake Sawyer Primary Care	Out Patient Clinic	Maple Valley	98038
Newcastle Medical Pavilion	Out Patient Clinic	Renton	98056
North Benson Urgent Care	Urgent Care out Patient Clinic	Renton	98055
Occupational Health Services-Renton	Out Patient Clinic	Renton	98055
Renton Highlands Primary Care	Out Patient Clinic	Renton	98059
Renton Landing Urgent Care	Urgent Care out Patient Clinic	Renton	98059
Rheumatology Renton	Out Patient Clinic	Renton	98055
Valley Professional North	Out Patient Clinic	Renton	98058
Valley Women's Healthcare	Out Patient Clinic	Auburn	98002
VMC Psychiatry Counselling Center	Behavioral Health	Renton	98055

According to the Department of Health Office of Investigation and Inspections, all facilities owned or operated by Valley must comply with facility licensing standards. Staff review of the quality of care history of the facilities own or operated by Valley shows that those facilities are in compliance. In addition to verifying the quality of care for all Valley facilities, the department also performed a quality of care check for the active employees identified in the applications. The results of the quality of care check for all of the active employee identified in the applications shows that none has restricted licenses with the State of Washington. [Sources: DOH Provider Credential Search and Screening responses received on April 2, 2018]

Given the compliance history of the healthcare facilities owned or operated by Valley and the identified staff involved in these projects, the department concludes there is reasonable assurance the two ASCs will continue to and or will be operated and managed in conformance with applicable state and federal licensing and certification requirements.

Based on the information reviewed, the department concludes that there is reasonable assurance that the three ASCs will be operated and managed in conformance with applicable state and federal licensing and certification requirements 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 directs how to measure unwarranted fragmentation of services or what types of relationships with a services area's existing health care system should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

Valley DSC

“Continuity of care will be enhanced by allowing area residents that choose to receive Valley operated outpatient surgery in a free-standing setting.

Valley Talbot will use ancillary services available at Valley. The ASC will have a transfer agreement with Valley. A draft transfer agreement is included in Exhibit 12.” [Source: Application, Page 25]

“Valley’s existing working relationships will continue and will further assure continuity of care”. [Source: Application page 25]

Valley Covington ASC

“Continuity of care will be enhanced by allowing area residents that choose to receive Valley operated outpatient surgery in a free-standing setting.

Valley Talbot will use ancillary services available at Valley. The ASC will have a transfer agreement with Valley. A draft transfer agreement is included in Exhibit 12.” [Source: Application, Page 25]

“While the Valley Covington ASC will be new, Valley has been providing services in the Covington PSA for many years. These services include but are not limited to: primary and specialty care and urgent care. Continuity of care will be enhanced by allowing area residents that choose Valley to enjoy the same access to locally outpatient surgical services as do those residents that choose MultiCare.

A draft transfer agreement is included in Exhibit 11”. [Source: Application page 27]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Based on the information reviewed, the department concludes that Valley has ancillary and support services working relationship with existing healthcare provider in the planning area. If these three ASCs projects are approved, the department will require Valley to submit to the department for review and approval executed patient transfer agreement. Based on the information reviewed the department concludes that approval of these projects will promote continuity of healthcare provision

in the planning area, and may not result in an unwarranted fragmentation of services. **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.

Valley DSC

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

Valley Covington ASC

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

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

Based on the source information reviewed and provided the applicant agrees to the conditions identified in the conclusion section of this evaluation, the department concludes that N.W. Eye Surgeons, PC project 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, the department takes a multi-step approach. Step one determines if the application has met the other criteria of WAC 246-310-210 thru 230. If it has failed to meet one or more of these criteria, then the project is determined not to be the best alternative, and would fail this sub-criterion.

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

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

Department Evaluation

Step One

Valley DSC

The department determined Valley DSC met the applicable review criteria under WAC 246-310-210, which includes portions of WAC 246-310-270, 220, and 230. Therefore, the department moves to step two.

Valley Covington ASC

The department determined Valley Covington met the applicable review criteria under WAC 246-310-210, which includes portions of WAC 246-310-270, 220, and 230. Therefore, the department moves to step two.

Step Two

Valley is the only applicant that submitted applications and the department determined that Valley's three applications met the review criteria in the applicable sections of WAC 246-210, WAC 246-310-220, and WAC 246-310-230. Therefore, the department reviewed the proposed alternatives considered by Valley before submitting the two applications.

Valley DSC

“Valley considered five options: 1) Close DSC and use South Lake Clinic; 2) Close both DSC and South Lake Clinic and integrate volume into the hospital; 3) Close DSC and South Lake Clinic and build a new ASC; 4) Use DSC but convert it to freestanding; or 5) Use DSC and continue to operate it as hospital-based. Option 1, closing the facility and using South Lake Clinic, was considered less than optimal as the DSC facility was deemed superior by Valley's facility staff. Option 2, closing both DSC and South Lake Clinic and integrating the volume in the hospital was not a viable option as the hospital does not have the capacity to absorb this amount of additional volume without construction and renovation. Option #3, to close both facilities and build a new ASC was more costly than simply maintaining DSC as an operating facility—especially since the DSC facility provides good access already.

Once the decision was made to retain DSC, option 4 and 5 are simply financial iterations. While Valley is fully aware that the long-term future will likely involve converting DSC to freestanding, in the interim, the case mix, and because of the large influx of Medicaid, Valley could not “pencil” a scenario that allowed for break-even without continued HOPD status. Therefore, Valley selected Option 5”. [Source: Application page 26]

Valley Covington ASC

“Valley considered two options: 1) not establish and ASC in the Covington area or 2) undertake the project in this proposal. The first option; ‘do nothing’ was quickly ruled out for the reasons cited in this application. Given the rapidly growing population, the current lack of choice, and the preferences of patients and payers for lower cost, conveniently located outpatient surgery services; Valley made the decision to establish an ASC in Covington.

First and foremost, this project is directed at meeting the need of Southeast King patients for accessible, high quality dedicated outpatient surgical services. Because this ASC will be freestanding, it will be a lower cost option for payers and patients. In addition, Valley will support the ASC from its existing organization. Therefore, duplication of systems (HR, billing, administration, purchasing, etc.) will be minimized and economic of scale realized”. [Sources: Application page 26]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The department did not identify any other alternatives that would be equal to or superior to those alternatives considered by Valley. Within its Valley DSC application, Valley stated that it selected option 5 because of financial reasons because Valley could not find a scenario that allows for break-even without continued HOPD status. Therefore, Valley selected Option 5.

For the Valley Covington project, the applicant stated given the rapidly growing population, lack of choice and the preferences of patients and payers for a lower cost, and conveniently located outpatient surgery services, locating a facility in Covington was preferable. In addition, Valley stated that if the current cases provided at the Proliance facility were to be transferred or remained at the hospital, hospital based charges will occur and these charges are higher to payers and most likely will result in higher patients out-of-pocket payments. Given the options considered by Valley for two projects, the department concludes the reasoning for moving forward with the applications are reasonable. Based on the source information evaluated the department concludes that **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:*

Valley DSC

“This project involves minor remodeling to perform some cosmetic updates. Due to the minor amount of construction not many opportunity to achieve capital cost reductions exists. However, Valley is confident that these renovations will make the space more accommodating for patients and more efficient for staff.

The current energy system will not be impacted by this project”. [Source: Application, Page 27]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The information reviewed by the department is consistent with similar ambulatory surgery centers projects. In its review of this sub criterion CCHFD states, *“The construction cost for this project is limited to HVAC upgrades, structural modifications to update the ORs, upgrades to other mechanical systems, and updates of wall finishes. No additional space is being added”.* [Source: June 14, 2018, CCHFD analysis page 3]. Based on the information, the department concludes **this sub-criterion is met**

Valley Covington ASC

“The building was initially designed to LEED standards (although LEED certification was not sought). In addition, high energy efficiency standards will be utilized.

The current energy system will not be impacted by this project”. [Source: Application, Page 30]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The information reviewed by the department is consistent with similar ambulatory surgery centers projects. In its review of this sub criterion states, CCHFD noted, *“The applicant concluded that projected need could not be addressed without establishing this ASC. The applicant cited population growth, lack of competition in the area, patient and payer preference, and convenience as factors in this decision. Staff is satisfied the applicant has chosen an appropriate option, this criterion is satisfied”*.

[Source: June 14, 2018, CCHFD analysis page 4]. Based on the information, the department concludes **this sub-criterion is met**

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

Valley DSC

“As noted in the project description, Valley is engaged—both from a population health and from a financial perspective—in strategies that support and facilitate transformation of the healthcare landscape. Valley’s surgery strategy acknowledge the shift to value-based care; reimbursement changes for ASCs; the accelerating transition to outpatient care; the enhanced efficiency that exists in dedicated ASC setting and the potential for enhanced patient and physician experience that ASCs are often able to provide”. [Source: Application page 9]

“...Finally, as a public hospital district, governed by 70.44 RCW, Valley is responsible for assessing Districts needs and establishing and operating hospitals and other healthcare facilities and services needed by residents”. [Source: Application, Page 13]

“Unlike the other two CN applications for outpatient OR capacity that Valley has simultaneously submitted, Valley is proposing to retain the DSC as a hospital outpatient department (HOPD). Valley did evaluate converting the ASC to freestanding. However, because Valley will serve a significantly greater percentage of Medicaid and other underinsured/uninsured individuals that were historically served at South Lake Clinic, our analysis indicated that based on the mix of services coupled with our commitment to increase access to Medicaid and under and non-insured patients, at least for now, the services was not viable without conversion to HOPD status. Valley proposes to have 15.1% Medicaid vs. the 0% that was provided at South Lake Clinic. For this reason, Valley concluded that the increase in health care costs is both justifiable and less than offset by the increase in patient access”. [Source: Application, Page 21]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The information reviewed by the department is consistent with similar projects. Because there is demonstrated need for additional outpatient’s operating rooms in southeast King County secondary health services planning area, the department does not anticipate an unreasonable impact on the costs and charges to the public for providing these type services. In its review of this sub criterion states,

CCHFD, “...the construction cost for this project amount to mechanical upgrades and other tenant improvements...” [Source: June 14, 2018, CCHFD analysis page 4]. Based on the information, the department concludes **this sub-criterion is met.**

Valley Covington ASC

“Given the rapidly changing healthcare landscape, valley is compelled to develop alternatives to the hospital-based ORs and more convenient access points in order to best and efficiently serve its patients. These changes include: the shift to value-based care; reimbursement changes for ASCs and HOPDs; the accelerating transition to outpatient care; the demand for increased efficiency and the enhanced patient and physician experience that ASCs are often able to provide. The decision to pursue a multispecialty ASC in the southeastern most portion of the District puts a Valley facility closer to where a proportion of our patients reside. A freestanding ASC owned and operated by Valley provides high quality outcomes with lower patient costs. Patients, employers, and payers are asking for this, and Valley is responding”. [Source: Application page 6]

“...As a public hospital district, governed by 70.44 RCW, Valley is responsible for assessing Districts needs and establishing and operating hospitals and other healthcare facilities and services needed by residents. The development and operations of this ASC will assure access to cost-effective, quality care for Districts residents living in the southern part of the District”. [Source: Application, Page 15]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The information reviewed by the department is consistent with similar projects. Because there is demonstrated need for additional outpatient’s operating rooms in southeast King County secondary health services planning area, the department does not anticipate an unreasonable impact on the costs and charges to the public for providing these type services. In its review of this sub criterion states, CCHFD, “Provision of surgical services in an ASC setting has been shown to decrease costs to patients and insurers for procedures that would otherwise be provided in a hospital setting. The result of implementing this project should have a positive impact on the costs and charges to the public”. [Source: June 14, 2018, CCHFD analysis page 4]. Based on the information, 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.

Valley DSC

“Valley will use reserve to fund the project”. [Source: Application page 9]

“The cost of construction is based on Valley’s experience and expertise in constructing or renovating medical office buildings. The cost of the moveable equipment, is again, based on our purchasing experience”. [Source: Application page 24]

“This project involves minor remodeling to perform some cosmetic updates. Due to the minor amount of construction not many opportunities to achieve capital cost reductions exists. However,

Valley is confident that these renovations will make the space more accommodating for patients and more efficient for staff". [Source: Application page 27]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

These projects have the potential to improve delivery of ambulatory surgical services within the planning area. Information within the applications states Valley will use cash reserves. Valley provided letters of financial commitment from its senior vice president, CFO. In its evaluation of the sub-criterion, CCHFD concludes that, *"The project will be funded from existing reserves of the hospital and will be used to provide services on a more cost-effective basis than the other alternatives"*. Based on the information, the department concludes **this sub criterion is met.**

Valley Covington ASC

"Valley will use reserve to fund the project". [Source: Application page 9]

"The cost of construction is based on Valley's experience and expertise in constructing or renovating medical office buildings. The cost of the moveable equipment, is again, based on our purchasing experience". [Source: Application page 24]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

These projects have the potential to improve delivery of ambulatory surgical services within the planning area. Information within the applications states Valley will use cash reserves. Valley provided letters of financial commitment from its senior vice president, CFO. In its evaluation of the sub-criterion, CCHFD concludes that, *"The project will be funded from existing reserves of the hospital and will be used to provide services on a more cost-effective basis than the other alternatives"*. Based on the information, the department concludes **this sub criterion is met.**

APPENDIX A

