



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

May 29, 2019

CERTIFIED MAIL # 7018 2290 0001 8591 9121

Robert Watilo, Chief Strategy Officer
Providence St. Mary Medical Center
401 West Poplar
Walla Walla, Washington 99362

RE: CN Application #18-22

Dear Mr. Watilo:

We have completed review of the Certificate of Need application submitted by Providence Health & Services proposing to establish an ambulatory surgery center in Walla Walla, within Walla Walla County. Enclosed is a written evaluation of the application.

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

Project Descriptions:

This certificate approves the establishment of an ambulatory surgical facility in Walla Walla, within Walla Walla County. The surgery center will serve patients from five years and older that require surgical services that can be served appropriately in an outpatient surgery setting. The surgery center would have four operating rooms (ORs). Of the four ORs, two would be dedicated to GI/endoscopy and two would be used for all other procedures, such as ENT; eye; gastroenterology; gynecology; general surgery; neurology; orthopedics; ophthalmology; plastics; podiatry; urology; respiratory; and vascular surgery.

Conditions:

1. Providence Health & Services agrees with the project description as stated above. Providence Health & Services 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. The surgery center will provide charity care in compliance with its charity care policies. Providence Health & Services will use reasonable efforts to provide charity care consistent with the regional average or the amount identified in the application – whichever is higher. The regional charity care average from 2015-2017 was 0.81% of gross revenue and 2.54% of

adjusted revenue. The surgery center will maintain records of charity care applications received and the dollar amount of charity care discounts granted at the location of the surgery center. The records must be available upon request.

3. Prior to providing services at the surgery center, Providence Health & Services will provide a copy of the final Admission Policy for the department's review and approval. The final Admission Policy must be consistent with the draft policy provided in the application.
4. Prior to providing services at the surgery center, Providence Health & Services will provide a copy of the final Patient Rights and Responsibilities Policy for the department's review and approval. The final Patient Rights and Responsibilities Policy must be consistent with the draft policy provided in the application.
5. Prior to providing services at the surgery center, Providence must provide a copy of the final Patient Transfer Agreement for the department's review and approval. The final Patient Transfer Agreement must be consistent with the draft policy provided in the application.
6. Providence Health & Services must license the ambulatory surgery center under chapter 70.230 of the Revised Code of Washington. Providence Health & Services must agree to maintain licensure for the ambulatory surgery center under this chapter.
7. Prior to providing services at the surgery center, Providence Health & Services will submit to the department for review and approval a listing of key staff for the surgery center. Key staff includes all credentialed or licensed management staff, including the director of nursing, and medical director.
8. Providence Health & Services agrees that the surgery center will maintain Medicare and Medicaid certification, regardless of facility ownership.
9. Providence Health & Services will fund the project as described in the application.

Approved Costs:

The approved capital expenditure for this project is \$6,711,667, which includes the construction necessary to bring the building into compliance with surgery center construction standards. It also includes the purchase price costs allocated to the surgery center project.

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

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

Robert Watilo, Chief Strategy Officer
Providence St. Mary Medical Center
Certificate of Need Application #18-22
May 29, 2019
Page 3 of 3

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

Mailing Address:

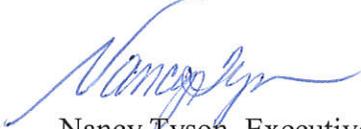
Department of Health
Certificate of Need Program
Mail Stop 47852
Olympia, WA 98504-7852

Physical Address:

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

If you have any questions, or would like to arrange for a meeting to discuss our decision, please contact the Certificate of Need Program at (360) 236-2955.

Sincerely,



Nancy Tyson, Executive Director
Health Facilities and Certificate of Need

Enclosure

EVALUATION DATED MAY 29, 2019, OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY PROVIDENCE HEALTH & SERVICES – WASHINGTON PROPOSING TO ESTABLISH AN AMBULATORY SURGICAL FACILITY IN WALLA WALLA COUNTY

APPLICANT DESCRIPTION AND HISTORICAL INFORMATION

Providence Health & Services is a not-for-profit Catholic network of hospitals, care centers, health plans, physicians, clinics, home health care, and affiliated services. The health system includes 27 hospitals in five states, more than 35 non-acute facilities and numerous other health, supportive housing and educational services in the states of Alaska, Washington, Montana, Oregon, and California. [source: Providence Health & Services website]

On July 1, 2016, Providence Health & Services and St. Joseph Health System, a California non-profit corporation, became affiliated. The new affiliation created a new “super-parent,” Providence St. Joseph Health, a Washington non-profit corporation. After the affiliation, Providence Health & Services remained a viable corporation, as well as any and all subsidiaries and d.b.a.’s of Providence Health & Services that fall under that corporate umbrella. This new affiliation does not change the name or corporate structure of Providence Health & Services. [source: Application, p8]

The applicant for this project is Providence Health & Services – Washington, who will be referenced as “Providence” in this evaluation. Since St. Mary Medical Center is the ‘face’ of Providence in Walla Walla County, during the review of this project, existing providers, community members, and even the applicant, referred to the applicant as Providence St. Mary Medical Center. As a result, while the applicant is Providence, public comments in this evaluation may suggest St. Mary Medical Center is the applicant.

PIVOTAL UNRESOLVED ISSUE (PUI) PROCESS AND CLARIFICATION

During the review of this project, the department was notified by Construction Review Services within the Department of Health that the estimated capital expenditure of \$3,681,667 identified in the application did not include the costs for all of the construction necessary for this project.

On December 14, 2018, the department notified Providence that additional information is required before proceeding with the evaluation. The additional information can only be obtained through a pivotal unresolved issue (PUI) process consistent with Washington Administrative Code (WAC) 246-310-090(1)(a)(iii).

Providence provided the following documents or revisions consistent with the PUI:

- Revised estimated capital expenditure
- Signed attestation for construction costs
- Financial commitment for revised capital expenditure
- Various revised tables and financial documents, which includes table showing the documents that have been revised and the description of the revisions.

The PUI process requires the applicant to provide the PUI documentation, and then allows for both public comment and rebuttal that focuses on the PUI information. During this review, only Walla Walla Clinic provided public comments during the PUI timeline. The majority of Walla Walla Clinic’s comments focus on the PUI process, rather than the revised financial information submitted by Providence. In its public comment, Walla Walla Clinic expressed concerns about the appropriateness of declaring a PUI

in this review, rather than denying the project. Additionally, in its PUI documents, Providence, itself, provided concerns about the appropriateness of declaring a PUI in this review.

Below is the department's evaluation of the 'appropriateness of a PUI' topic raised by both Providence and affected person, Walla Walla Clinic. The financial feasibility section of this evaluation includes a detailed discussion and evaluation of the PUI documents.

WAC 246-310-090(1)(a)(iii) discuss PUI process and is restated below.

WAC 246-310-090(1)(a)(iii)

"Except as provided in WAC [246-310-190](#), no information regarding a certificate of need application submitted by an applicant after the conclusion of the public comment period shall be considered by the department in reviewing and taking action on a certificate of need application. An exception to this rule shall be made when, during its final review period, the department finds an unresolved pivotal issue requires submission of further information by an applicant and the applicant agrees to an extension of the review period in order to resolve this issue as provided for in WAC [246-310-160](#) (2)(b), [246-310-150](#) (2)(c), and [246-310-140](#)(4). The department shall give public notice of such request for additional information through the same newspaper in which the "notification of beginning of review" for the project was published. The notice shall identify the project, the nature of the unresolved issue and the information requested of the applicant, and shall state the period of time allowed for receipt of written comments from interested persons."

WAC 246-310-090(1)(a)(iii) clearly states that new information cannot be provided, unless the department declares a PUI on a project. For this project, without the additional financial information, Providence's request for an ASC in Walla Walla County must be denied because:

- the capital expenditure of \$3,681,667 identified in the application is 82.29% less than the costs necessary to bring the building up to current construction standards;
- the additional construction work necessary affects the timeline for operation of the surgery center;
- the applicant must submit a written financial commitment for the current estimated costs of \$6,711,667; and
- the increase in capital costs affects the financial information in the projected Revenue and Expense Statement and the Balance Sheet for the surgery center.

Walla Walla Clinic argues that Providence's project should have been denied rather than allowing for the PUI process. While certainly an option during this review, this approach is inconsistent with past practice when a need for services—in this case additional operating rooms (ORs)—is shown in the planning area.

Providence argues that a PUI is inappropriate for its project because it asserts that the Department of Health's Construction Review Services (CRS) documentation related to the capital expenditure is 'new' information, and new information should not be obtained during the review. The department agrees that new information cannot be submitted and evaluated during a review. However, by its own statements provided in the PUI documentation, ongoing communication between CRS and Providence was occurring during the review of this project. It would be irresponsible for the department ignore CRS information during any review.

The department had two options for this project: 1) denial; or 2) declare a PUI and obtain the additional information. Regardless of the assertions raised by Providence, the prudent and responsible decision of declaring a PUI on this project is the process used.

PROJECT DESCRIPTION

On July 24, 2017, Walla Walla General Hospital closed. The hospital was located at 1025 South 2nd Avenue in Walla Walla. Providence purchased the former Walla Walla General Hospital building from the current owner, Adventist Health.¹ [source: Application, p18 and Walla Walla General Hospital website]

This project proposes to establish an ambulatory surgery center within the former Walla Walla General Hospital building. The address for the surgery center is 1025 South 2nd Avenue in Walla Walla [99362]. The surgery center would have four operating rooms (ORs). Of the four ORs, two would be dedicated to GI/endoscopy and two would be used for all other procedures, such as ENT; eye; gastroenterology; gynecology; general surgery; neurology; orthopedics; ophthalmology; plastics; podiatry; urology; respiratory; and vascular surgery. [source: Application, p14 & p19]

Since this project proposes the conversion of a hospital building into an ambulatory surgery center, construction is necessary for this project. The estimated capital expenditure of \$6,711,667 includes the construction necessary to bring the building into compliance with surgery center construction standards. It also includes the purchase price costs allocated to the surgery center project. [source: Application, p42 and December 21, 2018, PUI documents, p3]

If this project is approved, Providence intends to obtain licensure from the Washington State Department of Health as an ambulatory surgical facility. Providence also states it would 'seek appropriate accreditation for the facility,' but does not identify the specific accrediting body. [source: Application, p10]

If this project is approved, Providence intends to complete construction within 8-10 months from approval. With the PUI, the decision date for this project was scheduled for February 2019. Providence expects the new surgery center to be operational in January 2020. Based on that timing, calendar year three is projected to be year 2022. [source: December 21, 2018, PUI documents, p4]

APPLICABILITY OF CERTIFICATE OF NEED LAW

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

¹ Adventist Health is a faith-based healthcare organization headquartered in Roseville, California that operates hospitals in the states of California, Hawaii, and Oregon. After closure of Walla Walla General Hospital, Adventist Health does not own or operate any other healthcare facilities in Washington State. [source: Adventist Health website]

EVALUATION CRITERIA

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

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

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

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

- (b) “The department may consider any of the following in its use of criteria for making the required determinations:*
 - (i) Nationally recognized standards from professional organizations;*
 - (ii) Standards developed by professional organizations in Washington State;*
 - (iii) Federal Medicare and Medicaid certification requirements;*
 - (iv) State licensing requirements;*
 - (v) Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and*
 - (vi) The written findings and recommendations of individuals, groups, or organizations with recognized experience related to a proposed undertaking, with whom the department consults during the review of an application.”*

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment). Additionally, WAC 246-310-270 (ambulatory surgery) contains service or facility specific criteria for ASF projects and is used to make the required determinations for applicable criteria in WAC 246-310-210.

TYPE OF REVIEW

On December 12, 2017, Walla Walla Clinic, Inc. PS submitted a Certificate of Need application to establish an ambulatory surgery center in Walla Walla County. On January 19, 2018, Providence Health & Services submitted this application proposing to establish an ambulatory surgery center in Walla Walla County. Since both projects proposed to establish an ambulatory surgery center in Walla Walla County, they were reviewed concurrently under the regular timeline outlined in WAC 246-310-160.

On December 14, 2018, the department declared a pivotal unresolved issue (PUI) on the Providence project. Given that the Walla Walla Clinic project included all of the information necessary for a review,

the department bifurcated the two applications and continued with this evaluation for the Walla Walla Clinic project. As a result, the timeline below includes both applications, shows the bifurcation and completion dates for the Walla Walla Clinic project, and shows the timelines for this project, including the PUI review.

APPLICATION CHRONOLOGY

Action	Walla Walla Clinic	Providence St. Mary
Letter of Intent Submitted	July 18, 2017	October 27, 2017
Application Submitted	December 12, 2017	January 19, 2018
Department’s pre-review activities		
• DOH 1st Screening Letter	January 4, 2018	February 9, 2018
• Applicant’s Responses Received		March 26, 2018
• DOH 2nd Screening Letter		April 16, 2018
• Applicant’s Responses Received		June 7, 2018
Beginning of Review		June 27, 2018
Public Hearing Conducted and End of Public Comment		August 20, 2018
Rebuttal Comments Received		September 4, 2018
Department's Anticipated Decision Date		October 19, 2018
Bifurcation of Applications	December 14, 2018	December 14, 2018
Pivotal Unresolved Issue	None	December 14, 2018
Department's Actual Decision Date	December 31, 2018	

PIVOTAL UNRESOLVED ISSUE CHRONOLOGY

Action	Providence St. Mary
Pivotal Unresolved Issue Declared	December 14, 2018
PUI Documents Submitted by Providence	December 21, 2018
Last Day for Public to Request PUI Documents	December 21, 2018
End of Public Comment on PUI Documents	January 8, 2019
Rebuttal Comments Received	January 23, 2019
Department's Anticipated Decision Date	February 22, 2019
Department's Actual Decision Date	May 29, 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 246-310-010(34) defines “interested person” as:

- (a) The applicant;
- (b) Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;
- (c) Third-party payers reimbursing health care facilities in the health service area;

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

Under concurrent review, each applicant is an affected person for the other application(s). Even though the Walla Walla Clinic decision was released on December 31, 2018, the clinic continues to qualify as affected person for this Providence project. In addition, the following entities requested affected person status on either the Walla Walla Clinic or Providence project.

- Jim Dawson, Program Director
FUSE Washington
- Andrew Edwards, MD
Walla Walla Eye Center
- Arthur Giebel, MD
Lifestyle Eye
- Ursula Mlynarek
SEIU Healthcare 1199NW
- Chris Nelson
Walla Walla community member
- Abigail Scholar Bangs
Walla Walla community member and FUSE Washington

Below is a brief description of each entity and the affected person qualification.

Jim Dawson, Program Director FUSE Washington

Abigail Scholar Bangs, community member and member of FUSE Washington

An excerpt from the FUSE Washington website [www.fusewashington.org] is below.

“FUSE Washington is the state’s largest progressive organization-people creating change online, on the ground, and on issues that matter. Our goals at FUSE are to help progressives win more often and give ordinary people a strong voice in politics. We aim to provide organizing and communication power that helps progressives win today and tomorrow on critical issues and electoral campaigns, while strengthening the foundation for increase success over time...”

Members from FUSE Washington requested to be informed of the department decision on both Walla Walla ASC projects, attended the August 20 public hearing, and provided comments. FUSE Washington met the affected person qualifications identified above.

Andrew Edwards, MD, Walla Walla Eye Center

Dr. Edwards from Walla Walla Eye Center requested interested person status. Walla Walla Eye Center is an eye clinic specializing in eye health symptoms and services and located in Walla Walla County. [source: Walla Walla Eye Center website at www.wweyecenter.com] Dr. Edwards requested to receive all documents associated with the review of both projects, however, Dr. Edwards did not provide any written or oral comments. Neither Andrew Edwards, MD nor Walla Walla Eye Center meet the affected person qualifications identified above.

Arthur Giebel, MD, Lifestyle Eye

Dr. Giebel from Lifestyle Eye requested interested person status. Lifestyle Eye is an eye clinic specializing in cataract care, dry eye treatment, cornea care, and lifestyle medicine (i.e. treatment for type 2 diabetes). Lifestyle Eye has two locations: one in Walla Walla and one in Hermiston Oregon.

[source: Lifestyle Eye website at www.lifestyle.com] Dr. Giebel requested to receive all documents associated with the review of both projects, however, Dr. Giebel did not provide any written or oral comments. Neither Arthur Giebel, MD nor Lifestyle Eye meet the affected person qualifications identified above.

Ursula Mlynarek, SEIU Healthcare 1199NW

A representative from SEIU (Services Employees International Union) 1199NW requested interested person status. SEIU 1199NW is a statewide union of nurses and healthcare workers. According to its website, SEIU 1199NW represents more than 30,000 nurses and healthcare workers across Washington State. [source: SEIU 1199NW website] It is not clear whether SEIU 1199NW represents employees of either Walla Walla Clinic or Providence St. Mary Medical Center. Therefore, the department does not have sufficient information to determine whether SEIU 1199NW could qualify as an interested person. Absent public comments – which SEIU 1199NW did not provide – the department does not consider them to be an interested or affected person for this project.

Chris Nelson, Walla Walla community member

Chris Nelson is a resident of Walla Walla and a user of the health care services provided in the community. Chris Nelson requested to be informed of the department's decision on this project. Department records show that Chris Nelson did not attend the August 20 public hearing or submit written or oral comments for either project. Since Chris Nelson did not provide public comments on this project, the definition of an affected person is not met.

In summary, for this project, Walla Walla Clinic and FUSE Washington meet the affected person qualifications.

SOURCE INFORMATION REVIEWED

- Providence Health & Services' Certificate of Need application submitted January 19, 2018
- Providence Health & Services' screening responses received March 26, 2018
- Providence Health & Services' screening responses received June 4, 2018
- Public comments received in the Certificate of Need Program office or the public hearing conducted in Walla Walla on August 20, 2018
- Providence Health & Services' pivotal unresolved issue documents received on December 21, 2018
- Public comments for Providence Health & Services' pivotal unresolved issue documents received on January 8, 2019
- Rebuttal comments from Providence Health & Services for the pivotal unresolved issue public comments received on January 23, 2019
- Compliance history for credentialed or licensed staff from the Medical Quality Assurance Commission and Nursing Quality Assurance Commission
- Compliance history for Providence Health & Services obtained from the Washington State Department of Health – Office of Health Systems Oversight²
- Department of Health Provider Credential Search website: <http://www.doh.wa.gov/pcs>
- Historical charity care data for years 2015, 2016, and 2017 obtained from the Department of Health's Hospital/Finance and Charity Care (HFCC) office

² Formerly the Office of Investigations and Inspections.

SOURCE INFORMATION REVIEWED (continued)

- Year 2017 Annual Ambulatory Surgery Provider Survey for Surgical Procedures Performed During Calendar Year 2016 for hospitals, ambulatory surgical facilities, or ambulatory surgical facilities located in Walla Walla County
- Office of Financial Management population estimates released May 2018
- Department of Health internal database – Integrated Licensing & Regulatory Systems (ILRS)
- Providence Health & Services website: <https://www.providence.org>
- Walla Walla General Hospital website: <https://www.adventisthealth.org>
- Washington State Secretary of State website: <https://www.sos.wa.gov>
- Washington State Department of Revenue website: <http://www.dor.wa.gov>
- Center for Medicare and Medicaid Services websites: <https://www.cms.gov> and <https://qcor.cms.gov>
- Certificate of Need historical files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Providence Health & Services proposing to establish a four operating room ambulatory surgical facility in Walla Walla, within Walla Walla County secondary service planning area is consistent with the applicable criteria of the Certificate of Need Program, provided Providence Health & Services agrees to the following in its entirety.

Project Description:

This certificate approves the establishment of an ambulatory surgical facility in Walla Walla, within Walla Walla County. The surgery center will serve patients from five years and older that require surgical services that can be served appropriately in an outpatient surgery setting. The surgery center would have four operating rooms (ORs). Of the four ORs, two would be dedicated to GI/endoscopy and two would be used for all other procedures, such as ENT; eye; gastroenterology; gynecology; general surgery; neurology; orthopedics; ophthalmology; plastics; podiatry; urology; respiratory; and vascular surgery.

Conditions:

1. Providence Health & Services agrees with the project description as stated above. Providence Health & Services 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. The surgery center will provide charity care in compliance with its charity care policies. Providence Health & Services will use reasonable efforts to provide charity care consistent with the regional average or the amount identified in the application – whichever is higher. The regional charity care average from 2015-2017 was 0.81% of gross revenue and 2.54% of adjusted revenue. The surgery center will maintain records of charity care applications received and the dollar amount of charity care discounts granted at the location of the surgery center. The records must be available upon request.
3. Prior to providing services at the surgery center, Providence Health & Services will provide a copy of the final Admission Policy for the department's review and approval. The final Admission Policy must be consistent with the draft policy provided in the application.
4. Prior to providing services at the surgery center, Providence Health & Services will provide a copy of the final Patient Rights and Responsibilities Policy for the department's review and

approval. The final Patient Rights and Responsibilities Policy must be consistent with the draft policy provided in the application.

5. Prior to providing services at the surgery center, Providence must provide a copy of the final Patient Transfer Agreement for the department's review and approval. The final Patient Transfer Agreement must be consistent with the draft policy provided in the application.
6. Providence Health & Services must license the ambulatory surgery center under chapter 70.230 of the Revised Code of Washington. Providence Health & Services must agree to maintain licensure for the ambulatory surgery center under this chapter.
7. Prior to providing services at the surgery center, Providence Health & Services will submit to the department for review and approval a listing of key staff for the surgery center. Key staff includes all credentialed or licensed management staff, including the director of nursing, and medical director.
8. Providence Health & Services agrees that the surgery center will maintain Medicare and Medicaid certification, regardless of facility ownership.
9. Providence Health & Services will fund the project as described in the application.

Approved Costs:

The approved capital expenditure for this project is \$6,711,667, which includes the construction necessary to bring the building into compliance with surgery center construction standards. It also includes the purchase price costs allocated to the surgery center project.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

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

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

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

The Department of Health's Certificate of Need Program uses the numeric methodology outlined in WAC 246-310-270 for determining the need for additional ASFs in Washington State. The numeric methodology provides a basis of comparison of existing operating room (OR) capacity for both outpatient and inpatient ORs in a planning area using the current utilization of existing providers. The methodology separates Washington State into 54 secondary health services planning areas. The surgery center proposed by Providence would be located in the Walla Walla County secondary health service planning area.

The methodology estimates OR need in a planning area using multiple steps as defined in WAC 246-310-270(9). This methodology relies on a variety of assumptions and initially determines existing capacity of dedicated outpatient and mixed-use operating room in the planning area, subtracts this

capacity from the forecast number of surgeries expected in the planning area in the target year, and examines the difference to determine:

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

Data used to make these projections specifically exclude special purpose and endoscopy rooms and procedures. Dedicated interventional pain management surgical services are also among the excluded rooms and procedures.

Providence Health & Services

Providence determined the existing capacity in the Walla Walla County secondary health service planning area to be 0 dedicated outpatient ORs and 5 mixed use ORs. Based on a computed use rate, Providence projected a need for 0.84 dedicated outpatient ORs in the planning area for year 2020. [source: March 26, 2018, screening response, Exhibit 23]

Providence provided the following statements related to the numeric need methodology. [source: Application, p19 and p30]

“PSMMC is requesting CN approval for a two OR and two procedure room multispecialty ASF in the Walla Walla County Planning Area. The ASF will be located in the former Walla Walla General Hospital at 1025 S 2nd Ave in Walla Walla and is expected to open in January 2019. The former hospital will be utilized as a non-inpatient medical park that may include and are not limited to primary care, urgent care, imaging, and therapy services. The two ORs and two procedure rooms, to be used for endoscopy procedures, will be functional and equipped in the first year of operation.

The ASF is an integral part of Providence’s desire to offer local, affordable ambulatory care options to the Walla Walla County Planning Area residents. CN approval will open the ambulatory surgical facility to all physicians in the community who are credentialed and privileged as a member of a NEWCO medical staff and thus improve Walla Walla County Planning Area residents’ access to a full complement of ambulatory surgeries and endoscopy procedures needed by patients on an outpatient basis. It also is important to recognize that access to health care services, including outpatient surgeries, has been exacerbated by Adventist Health recently closing Walla Walla General Hospital (“WWGH”), including closure of its four ORs and one procedure room. PSMMC is now the Walla Walla County Planning Area’s only hospital. Further, in fact, PSMMC serves much of Southeastern Washington and attracts patients from Northeastern Oregon, as well.

In addition to two outpatient ORs, Providence’s requested project also seeks CN-approval of two special purpose procedure rooms—outpatient endoscopy suites. Although the Department’s need methodology explicitly excludes these special purpose procedure rooms, there is considerable evidence of the need for additional gastroenterology/endoscopy services in the Walla Walla Planning Area. In summary, the Planning Area faces provider shortages. PSMMC’s three GI/endo providers currently represent 60% of Planning Area’s GI/endo specialists. While these providers are accepting new patients, they are booked out several weeks in advance. This back-log currently leaves approximately 80 patients in a constant referral/review holding pattern for up to four weeks, before being seen. This workflow is not sustainable over the long run, given growth in demand. The

Planning Area population is growing modestly, but it is aging rapidly (Table 5). This means increased demand for digestive health services.

As demand grows, either (1) supply increases; (2) shortages continue, with very long wait times for care; and/or (3) residents who need this endoscopy care, out-migrate, which harms access. These facts are key drivers for Providence's request for two procedure suites. This shortage situation has been confirmed with a recent internal physician needs assessment, conducted by PSMMC, which demonstrates current need for two more GI specialists. Correspondingly, these physicians will need an endoscopy facility that can accommodate the increased number of procedures."

Public Comment

During the review of this project two Providence representatives provided comments related to the numeric methodology. The comments are restated below.

Scott O'Brien, Chief Operating Officer for the Providence's Washington & Montana region.

"The traditional Department of Health methodology considers just at the population needs of the Primary Service Area, Walla Walla County. However, historically approximately 23 percent of inpatients leaving Umatilla County in Oregon for care go to Providence St. Mary. Over 30 percent of Providence St. Mary inpatients were discharged to communities in Oregon. We anticipate the need for the services provided by the ASC will follow the same trends."

Kelly Casey, MD Providence Medical Group Walla Walla

"I am one of the employed general surgeons at Providence St. Mary Medical Center. It is my understanding that for the purposes of this Certificate of Need, only the population from Walla Walla County is considered in the methodology. This leads to a significant underestimation in the need for operating room space and operating room staff required to serve our patient population. For me personally, 27% of my patients come from Oregon State. 27%. The need is significant on both sides of the state line, particularly among the poor. For my low-income patients, Providence St. Mary usually is their only option for surgery because it is the only surgical facility in Walla Walla that will accept them."

Rebuttal Comment

In response to the public comments that focus on the numeric need methodology, Providence provided the following statements. [source: September 4, 2018, Providence rebuttal comment, p4]

"Based on numeric need, the Providence proposal is appropriately sized to address the community's needs and add new capacity. The ambulatory surgical facility need methodology applied to the Secondary Health Services Planning Area ("Planning Area") demonstrates quantitative need for 0.84 outpatient ORs in the Walla Walla County Planning Area in 2021. Per WAC 246-310-270(6), "[a]n ambulatory surgical facility shall have a minimum of two operating rooms". Therefore, the requested project by Providence seeks approval of two outpatient ORs, the minimum number of ORs that is permitted by WAC 246-310-270(6), which is greater than the net need forecast for outpatient ORs."

Department's Numeric Methodology and Evaluation

The numeric portion of the methodology requires a calculation of the annual capacity of the existing provider's inpatient and outpatient ORs in the Walla Walla County planning area. This application was submitted on January 19, 2018, and at that time, year 2016 utilization data was the most recent

data available for this methodology. According to department records, in 2016, there were three planning area providers with OR capacity. Of the three providers, two are hospitals and one is an ambulatory surgery center.

Because there is no mandatory reporting requirement for utilization of ASFs or hospital ORs, the department sends an annual utilization survey to all hospitals and known ASFs in the state. The data provided in the utilization survey is used, if available.

Table 1 shows a listing of the hospitals and the one ASF. [source: CN historic files and ILRS]

**Department’s Table 1
Walla Walla County Planning Area Hospitals and ASFs**

Type of Facility	Facility	Status
Hospital	Providence St. Mary Medical Center (Providence is the applicant for this project)	Operational
Hospital	Walla Walla General Hospital	Closed-07/24/17
CN Exempt ASF	Walla Walla Clinic	Operational

For the applicant’s facility—St. Mary Medical Center—all known OR capacity and procedures are included in the methodology calculations for the planning area. For Walla Walla General Hospital, since the facility closed in year 2017, all known OR procedures are included in the methodology calculations, but the ORs are not included.

As stated in the ‘Background Information’ section of this evaluation, the department will not count the recently approved two ORs at Walla Walla Clinic because during the review of this project, the use of this ASF was restricted to physicians that are employees or members of the clinical practice. Therefore, this facility did not meet the ASF definition in WAC 246-310-010 during this review. For Certificate of Need-exempt ASFs, the number of surgeries, but not ORs, is included in the methodology for the planning area.

The data points used in the department's numeric methodology are identified in Table 2. The methodology and supporting data used by the department is provided in Appendix A attached to this evaluation.

**Department’s Table 2
Department’s Methodology Assumptions and Data**

Assumption	Data Used
Planning Area	Walla Walla County
Population Estimates and Forecasts	Age Group: 0 – 85%+ Office of Financial Management Population Data released year 2017 Year 2016 – 60,930 Year 2021 – 62,378
Use Rate	Divide the calculated surgical cases by 2016 population results in the service area use rate of 133.694/1,000 population

Department's Table 2 (continued)

Year 2016 Total Number of Surgical Cases	1,134 – Outpatient 7,012 – Inpatient or Mixed-Use 8,146 – Total Cases
Percent of surgery: outpatient vs. inpatient	Based on DOH survey and ILRS: 13.92% outpatient; 86.08% inpatient
Average minutes per case	Based on DOH survey and ILRS: Outpatient cases: 49.82 minutes Inpatient cases: 160.41 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 Walla Walla County Providers: 0 dedicated outpatient ORs 5 mixed use ORs
Department's Methodology Results	Shortage of 0.84 outpatient ORs

Based on the assumptions described in Table 2 above, the department's application of the numeric methodology indicates a shortage of 0.84 outpatient ORs in year 2021.

When comparing the applicant's and department's methodology, there are no differences in the main data points, except that Providence's numeric methodology identifies the projection year to be 2020, rather than 2021. This may be a typographical error, because in the body of its screening responses, Providence references the projection year to be 2021.

The department's rationale for projecting to year 2021, rather than 2020, even though this application was submitted in early year 2018, is based on two factors.

- The utilization data used in the methodology is for year 2016 and the department used 2016 population.
- Year 2021 is the projected third year of operation for the Providence project.

The department's numeric methodology calculates a need for less than one additional OR in Walla Walla County. Providence is requesting approval of four ORs at its surgery center. Two of the ORs would be dedicated to gastroenterology procedures and two would be used for all other types of surgical procedures. WAC 246-310-270(4) allows the department to approve a project in a planning area when no numeric need is calculated.

WAC 246-310-270(4)

“Outpatient operating rooms should ordinarily not be approved in planning areas where the total number of operating rooms available for both inpatient and outpatient surgery exceeds the area need.”

Providence provided additional information for consideration of this project.

Providence Health & Services

While St. Mary Medical Center provides inpatient and outpatient services to residents of Walla Walla and surrounding areas, Providence does not currently provide outpatient surgical services in a

freestanding surgery center in Walla Walla. As a result, Providence does not have an historical utilization to use as a base-line for its project. Rather Providence provided the following information to support need for its project in the county. [source: Application, pp20-23 and March 26, 2018, screening response, p5-9]

“Basis for Approval of the Two Outpatient Surgery Suites

*The Department’s ambulatory surgical facility methodology, as defined in WAC 246-310-270(9), and demonstrated below, shows there is quantitative need for 0.84 outpatient ORs in the Walla Walla County Planning Area in 2021 and need for an additional 1.24 mixed use ORs (please see Exhibit 13 for the ambulatory surgical facility methodology and the forecast model). Per WAC 246-310-270(6), “An ambulatory surgical facility shall have a **minimum** of two operating rooms” [emphasis added]. Therefore, the requested project seeks approval of two outpatient ORs – the minimum number of ORs that is permitted by WAC 246-310-270(6), which is greater than the net need forecast for outpatient ORs. In addition, WAC 246-310-270(4) allows the Department to exercise discretion in in terms of additional qualitative rationale that may be considered in order to approve a CN. That provision states: “Outpatient operating rooms should **ordinarily** not be approved in planning areas where the total number of operating rooms available for both inpatient and outpatient surgery exceeds the area need” [emphasis added]. In other words, there may be circumstances that could warrant approval even when net need has not been met in the forecast model.*

In this situation, (1) there is net need for 1.24 mixed use ORs and net need for 0.84 outpatient ORs, which total 2.1 ORs; (2) PSMMC is requesting two outpatient ORs, a request that exceeds the net need but is consistent with the minimum number of ORs that can be requested for an ASF; and (3) there is additional qualitative rationale that warrants approval of our requested two outpatient ORs.

Qualitative Rationale for Two Outpatient Surgery Suites

Beyond the quantitative numeric need that has been demonstrated for additional outpatient ORs in the Planning Area, the following qualitative rationale also supports the request to establish a CN-approved ASF with two ORs:

- 1. With Department approval, access will be created to the only CN-approved ambulatory surgical facility in the Planning Area. There are no such facilities in the planning area currently.*
- 2. Department approval will provide access to all physicians who are properly credentialed, and as a result, access will be created for their patients to local, lower-cost, cost-effective care in dedicated outpatient settings, which both physicians and patients prefer.*
- 3. The lack of healthcare services and access has been exacerbated by Adventist Health recently closing WWGH, including closure of its four ORs and one procedure room. PSMMC is now Walla Walla County Planning Area’s only hospital.*
- 4. PSMMC serves a broader catchment area than just the Walla Walla Planning Area. The larger catchment area, with a correspondingly larger resident population than only the planning area, is very important since the need methodology in WAC 246-310-270(9) only partially adjusts for this fact, since it only accounts for the projected number of Planning Area residents. To the extent PSMMC draws from a larger population base, the ambulatory surgery suite estimating methodology will underestimate demand for outpatient surgeries and outpatient ORs.*
- 5. The project will productively use currently idle WWGH OR facilities, which improves efficient, cost-effective resource use.*

Basis for Approval of the Two Procedure Rooms

In this CN application, we have requested two procedure rooms, which will not add to the OR supply in the planning area. With a growing aging population and corresponding increased need for digestive health services, access problems for GI and pain management services will continue if additional capacity is not added to the community, something not reflected in the Department's need methodology because it specifically excludes special-purpose procedure rooms and utilization. While procedure rooms can be approved in absence of numeric need, there are numerous qualitative arguments that contribute to the urgency with which the Certificate of Need should be granted.

Qualitative Rationale for Two Procedure Rooms

The following qualitative rationale also supports the request to establish a CN-approved ASF with two procedure rooms:

- 1. The lack of healthcare services and access has been exacerbated by Adventist Health recently closing WWGH, including closure of its four ORs and one procedure room. PSMMC is now Walla Walla County Planning Area's only hospital.*
- 2. Through examination of PSMMC's discharges in the combined PSA and SSA, PSMMC serves a significant level of patients not captured in the DOH need methodology for Walla Walla. The SSA assessment indicates that 31.6% of PSMMC discharges in 2016 were to Oregon based zip codes. This demonstrates that a significant portion of the patients treated in Walla Walla County are outside the more restrictive Planning Area definition, and further it suggests a far greater need for services in the community beyond the results produced by the DOH need methodology. Please see Exhibit 2 for details of PSMMC discharges by zip code including a map of the SSA.*
- 3. Specifically in the case of gastroenterology/endoscopy ("GI/endo") cases –the services that will be offered in the two procedure rooms in the ASF, there also is patient in-migration into the Planning Area due to a shortage of GI providers in Northeastern Oregon.*
- 4. Within the Planning Area, there is a back-log of approximately 80 patients at any given time who need GI / endoscopy care and access to a procedure room.*

Overall: Patient In-Migration Affecting Need for Both Outpatient Operating and Procedure Rooms

The Planning Area in which Providence St. Mary Medical Center is located lies along the Oregon border; thus, PSMMC has, and continues to see, patient in-migration, particularly from Northeastern Oregon. The demand for physician services in some specialties is broader geographically than the Planning Area. Consequently, PSMMC serves a much larger patient catchment area than just the Walla Walla Planning Area. Inpatient data illustrates that between 2015 and 2017 approximately 40% (per year) of Umatilla County (Northeastern Oregon's largest county) patients migrate outside their county to receive desired and/or necessary services. More specifically, each year (2015-2017) approximately 23% of inpatients coming from Umatilla County receive services from PSMMC in Walla Walla. It is likely outpatient care follows these same trends, i.e., significant in-migration to PSMMC from Oregon residents. This fact is important since the need methodology only accounts for the Planning Area resident population.

Specific to the need for additional endoscopy services, the Planning Area and PSMMC are experiencing a similar in-migration pattern regarding GI/endo cases. Our request includes two endoscopy, or procedure rooms in the ASF. Patients migrating into the Planning Area are likely driven by (1) the shortage of GI providers in Northeastern Oregon, (2) PSMMC's open access for colonoscopies, and (3) insurance restrictions by other providers. At the same time, demand for GI-related services has seen a steady increase. As detailed below, the aging population (65+) has

ambulatory surgery use rates (including endoscopy procedures) that are two-and-a-half times the average for the population as a whole. Further, as detailed above, insurers are increasingly demanding these types of procedures be conducted in lower cost outpatient settings, which is one of the drivers of our requested project.

Overall: Demand for Services Outpaces Supply for Both Outpatient Operating Suites and Procedure Rooms

PSMMC's three GI/endo providers currently represent 60% of Planning Area's GI/endo specialists. While these providers are accepting new patients, they are booked out several weeks in advance. This back-log currently leaves approximately 80 patients in a constant referral/review holding pattern for up to four weeks, before being seen. This situation is not sustainable as the demand for services continues to increase. With a growing, aging population, as described below, and a corresponding increased need for digestive health services, demand for access to services will continue to grow. Finally, PSMMC recently conducted an internal physician needs assessment, which indicates a current need for two more GI specialists. While such types of cases can be performed in outpatient surgery suites, it is more efficient and lower cost to perform endoscopy cases in dedicated endoscopy suites. This is another basis for our request for two ambulatory surgery ORs and two procedure rooms, used only for endoscopy cases.

Summary

There is an increasing need for outpatient surgery in the Walla Walla community and surrounding areas. There continues to be significant shifting of surgeries to outpatient settings, which reduces costs and improves patient satisfaction due to patients' preference for outpatient-based care. Having a local, CN-approved ambulatory surgical facility not only reduces travel time and costs, it reduces inconvenience and anxiety when patients are able to obtain both office care and surgical care in the same facility. PSMMC's intent to operate a CN-approved, freestanding ASF is validated by local market trends and responds to projected net planning area demand for outpatient ORs and procedure suites."

Public Comment

As previously stated, the department initially reviewed this project under a concurrent review with the application submitted by Walla Walla Clinic. A combined public hearing was conducted in Walla Walla on August 20, 2018, and comments in support and opposition were provided for both projects. Since the department bifurcated the review of the two projects, the focus of the public comment in this evaluation is the Providence project.

The majority of the public comment submitted for this project focused on access to healthcare services in Walla Walla County. Given that Providence is a faith-based provider and the surgery center would be operating under any faith-based directives, concerns were raised about access to reproductive health, elective sterilization, and other healthcare services not generally offered by a faith-based provider. Excerpts from some of those comments are below.

Sandra Cannon, resident of Walla Walla County

"I am writing to express my concern over Providence's expansion in the Walla Walla area. Before Providence was the sole hospital provider, we had access to vasectomies, post-partum tubal ligations, and valuing the life of the mother as well as the baby. Because Providence St. Mary

Medical Center is owned by the Catholic Church, Providence is being required to follow church policy based on their beliefs.

Medical care should not be stipulated for the residents of the Walla Walla area based on one church's doctrine. I urge you to require, as a condition of Providence's expansion in the Walla Walla area that Providence not be allowed to insert their personal religious beliefs on the entire community's health care."

Nadine Baldrige, resident of Walla Walla County

"I support Providence St. Mary Medical Center's certificate of need application to transform the old Walla Walla General Hospital facility into a multiuse outpatient facility, including primary care, ambulatory surgery center, urgent care and other services.

I have grave concerns about Walla Walla Clinic's ambitions to become a hospital-like health care provider. Providence has the experience that is needed to properly repair the gap in Walla Walla's health care services."

Catherine Field, Humana (health insurance company)

"On behalf of Humana, I encourage the Department of Health to approve the Providence St. Mary Medical Center Certificate of Need Application for a freestanding ambulatory surgery center (ASC) in Walla Walla, WA.

Humana is always seeking ways to make health care more affordable, while maintaining high quality. The Providence ASC will accomplish this goal. The overall cost structure for a freestanding ambulatory surgery center is less than for a hospital based outpatient surgery center, allowing the contractual rates for purchasers to be lower.

For our customers in the Walla Walla area, this translates into greater cost savings for needed care. It also will expand their health care choices for outpatient surgery. Health care, and care coverage, is particularly challenging in rural areas. We welcome Providence St. Mary Medical Center's efforts to make care more affordable and expand choices for care settings for our customers."

Stephen Sinclair, Department of Corrections

"As the Secretary of the Washington State Department of Corrections, I am writing this letter in full support and commitment of the Providence St. Mary Medical Center Certificate of Need Application for a freestanding ambulatory surgery center (ASC). I would respectfully request the Department of Health to approve.

The Washington State Penitentiary (WSP) in Walla Walla has a population of 2,500 incarcerated individuals and have responsibility to provide timely access to care and treatment for each of them. This has been a challenge since July of 2017, given the fact that there is only one hospital in the community. Providers who have left the area further complicates the availability of providers in this area.

Every attempt is made to schedule diagnostics/surgeries/procedures locally and we do transport from WSP to appointments in Walla Walla in 10 minutes. However, the local providers are often booked out weeks or not accepting new patients. Additionally, there are many local providers that

will not accept our patients. When we have to transport patients to the Tri-Cities, it adds two or more hours of transportation time to the appointment. This impacts our labor costs by removing correctional officers from WSP for longer periods of time and is less ideal for public safety. Our current provider needs are access to specialists in gastroenterology, urology, neurosurgery, orthopedic, rheumatology, allergist and pulmonology.

The Washington Department of Corrections supports the efforts of Providence St. Mary Medical Center to pursue the Certificate of Need Application for a freestanding ambulatory surgery center (ASC). A Providence ASC would increase access in the Walla Walla area for people incarcerated at the WSP and improve the timeliness of treatments, ease labor costs and public safety and health in the local community as well as for members of the community who compete for the same limited availability. Thank you for your consideration.”

Maureen Walsh, Washington State Senator, 16th District

“As a State Senator, one of my priority issues is making health care more affordable while ensuring access to needed services in my community and throughout the state. The closure of Walla Walla General Hospital meant a loss of services in my district.

The proposed Providence Ambulatory Surgery Center (ASC) will help ensure patients can still get needed surgeries in the community while reducing costs to all by having those services in an ASC instead of a hospital.

Providence St. Mary is planning to build this ASC to address the loss of operating rooms in the community, and to reduce the overall cost of care for patients. These additional ORs, along with the other components of primary care, Urgent Care and lab services, will be centrally located on the Walla Walla General campus. It will create additional capacity in the community and alleviate the strain on the existing operating rooms in the area, allowing for more timely access for patient care.

For more than 135 years, Providence St. Mary has had a proven track record of commitment to the region, and to serving patients on Medicaid and Medicare. They are one of only seven hospitals in the state with a 5-star quality rating from the Centers for Medicare and Medicaid Services.

I am in full support of their Certificate of Need application for the additional ASC operating rooms and the proposed services in our community.”

Kirk Willard, MD, physician in Walla Walla County

“I have been practicing orthopedic surgery in Walla Walla for almost 19 years, and until this year we have had 2 hospitals in town. As you know, with the recent closure of Walla Walla General Hospital we now have 4 fewer operating rooms which has had a significant impact on our community. At the same time we have more surgeons and more patients vying for the few operating rooms at Providence St. Mary. It has-created a significant burden on the hospital and on my own practice as I am currently backlogged for surgical cases and any extra cases from the ER frequently get added on at night or on the weekends as the operating room schedule is fully booked every single day. They have even routinely scheduled weekend elective cases and added shifts at night in order to meet the increased demand. None of this is sustainable in the long run.

The addition of however many existing operating rooms at the General that we could get to use as an ambulatory surgery center would go a long way to help meet this need. Not only are there many elective outpatient surgeries that are currently clogging up our main operating rooms at St. Mary's,

but the trend in orthopedic surgery currently is shorter hospital stays with total hip and total knee replacement surgeries and even outpatient surgery in selected individuals. We definitely could keep an ambulatory surgery center busy right away with the current outpatient surgery caseload that exists at St. Mary's and I expect that it would continue to grow.

The truth is, in my opinion, that Providence St. Mary Medical Center is already too small for the needs of the community. If you factor in the number of surgeons we have, the number of cases that get done, the number of ER visits, the size of our catchment area, the number of operating rooms and number of beds, our needs are greater than our capacity right now. Opening an ambulatory surgery center is a necessary measure to address this. Please grant approval to Providence St. Mary's application”

Barbara Clark, resident of Walla Walla County

“I urge you to grant the certificate of need to Walla Walla Clinic, or else to condition any certificate of St. Mary on their providing medical care based on medical rather than religious standards. ... only the proposal by Walla Walla Clinic would at least partially maintain the level of service that was available while Walla Walla General Hospital was open. The Clinic facility would allow patients and physicians of all faiths to receive and provide appropriate medical care based on medical needs and standards.

Either of the ambulatory centers would increase local capacity to provide surgical care at lower cost. However, only the proposal by Walla Walla Clinic would at least partially maintain the level of service that was available while Walla Walla General was operating. The Clinic facility would allow patients and physicians of all faiths to receive and provide appropriate medical care based on medical needs and standards. Providence St. Mary, on the other hand, has publicly stated that it will continue to deny use of any of its facilities for an array of procedures on the basis of religious rather than medical criteria.”

Robert Smith, MD, Chief of Staff, Providence St. Mary Medical Center

“It is my professional opinion that BOTH certificate of need applications for Walla Walla should be accepted. The primary reason, as I stated in the hearing, is that we are unable to have a single emergency surgical operating room available. What this means is that we usually have nowhere to bring a trauma or emergency surgical patient for care because the operating room is being used for elective cases.

You might ask: "So why not just leave an operating room open for emergencies then?" Well, it's because we don't have enough capacity for elective cases from the community. We know we lack the capacity because, when benchmarked against the other 52 Providence hospitals, we operate at 200% of the average for our OR space. Here's some other facts you may find helpful.

- The majority of our general surgery cases are performed after hours due to a lack of OR space for urgent and emergent surgery during the daytime. Many studies have demonstrated worse patient outcomes for after-hours cases.*
- Most anesthesia providers in Walla Walla work at 95-99%ile when benchmarked nationally due to inability to recruit new providers to work after hours. Again, this is due to lack of OR space.*
- We have one of the highest turnover rates of surgical techs and OR nurses in the system primarily due to burnout from working after hours.*

- *Cases, and staff, are scheduled in all 5 of the Saint Mary operating rooms from 7:30am-7:30pm five days a week and 8 hours on weekends for elective cases. Three rooms regularly run past 7:30 PM weekdays. With this, we still do not have enough capacity for elective cases.*
- *Finding staff to run ORs through the night and longer on weekends has proven impossible in Walla Walla. Many staff members are only staying contingent on a successful CON application. If the process fails, we won't have staff to run ORs during regular hours or surgical emergencies.*
- *32% of our surgical and procedural patients come from Oregon. Many patients travel 2-2.5 hours to get to Walla Walla. The reasons are that they have Medicare/Medicaid or the services are not available in their areas. Despite the insistence that the CON process in Washington does not take in to account patients from out-of-state, we are not going to build a wall of medical refusal at the border 7 miles to the south of the hospital or clinic. If we do not get significantly more OR space in Walla Walla we will continue to care for these patients and continue to lack open operating room space for urgent and emergent cases.*
- *100% of the OR space at the hospital, 7:30am-7:30pm, is blocked out to current providers. Many of the surgeons have no operating room block time because we have none to give. If these providers leave then we will no longer be able to provide 24/7 coverage for General Surgery, Orthopedic Surgery, ENT, Ophthalmology, and Gastroenterology. For clarification, there is no hospital in Tri-Cities, Yakima, or most of Eastern Oregon that provides 24/7 coverage in ALL of these specialties. We regularly accept patients from 2 hours away (Washington and Oregon) for emergent gastroenterology cases, especially ERCP. There is not a hospital in Tri-Cities that has emergency ophthalmologic coverage.*

The long story short is: The surgical and GI space capacity at Saint Mary was stretched before the Walla Walla General Hospital closed. Staff are burned out, overworked, and only willing to stay until an ASC comes online to decompress space problems. Often, we have no space for urgent or emergent surgery. Several hundred patients have been transferred out or diverted for this reason.

As one of the primary architects of the system to ensure safe patient care in Walla Walla it is my opinion that BOTH the certificate of need requests should be granted. Basically, the Clinic will add one additional OR and Providence will add two. We need at least this many. Either the ASC for the Walla Walla Clinic or Providence will be inadequate for the practitioners to provide elective and emergent surgical services. The only reasonable alternative is to approve them both.

This has the added benefit of ensuring local reproductive health services as well as reasonable market competition in the area. If the DOH cannot approve both CON requests, then we (the medical community) will need some help from the Department of Health to build an acceptable system of care for the community that doesn't burn out every provider.”

Margaret Ann Ryan, resident of Walla Walla County

“I resonated with Dr. Robert Smith's statement that BOTH Facilities be issued a Certificate of Need. WW Clinic will be able to offer reproductive surgeries that Providence St. Mary Medical Center cannot because of the Hospital's association with the Roman Catholic Church.

Barbara Clark was clear in her statement that ALL patients be able to secure medical services based on 'Medical rather than Religious needs'. I agree with Barbara's statement.

I write on behalf of BOTH Medical Organizations and request that each be granted a Certificate of Need.”

Carlan Bradshaw, resident of Walla Walla County

“Sitting through the whole public comment hearing this morning, it would be my hope that both Providence and WW Clinic are approved. We don't want a Providence monopoly nor do we want to leave this city without full women's reproductive services. I know I would feel better served with both facilities operating with everything they need for the public good. Approve them both. Thank you for your efforts and oversight.”

Kathryn Barron, resident of Walla Walla

“I and my family live in Walla Walla and I have been active in several not for profits in this community. I have served on the board of our local United Way, our school based health center, and I have been a Court Appointed Special Advocate for children in foster care. I have seen how many of our community members struggle with mental illness, poverty and the challenges of living in a society with a strained social services safety net.

I believed that these activities gave me a very clear perspective on the variety of unmet needs we have locally. However, as a member of the Community Ministry Board of Providence St. Mary Medical Center, I have had the opportunity to see how much health needs intersect with social needs. I know how much our hospital is committed to meeting the needs of the poor and the vulnerable and this motivates the policy and strategic choices that we make.

It is for that reason that I am writing to support this application for Certificate of Need. Walla Walla is straining under the burden of need without capacity to meet it. As a one hospital town, miles from the next nearest health care facility capable of treating people on an outpatient basis, our need for low cost, quality, and locally provided health care is a real one. We see how tangible is the reality that health care costs are a significant barrier for many people in our community and it's a mounting challenge for all institutions attempting to navigate the marketplace today. The Ambulatory Surgery Center will allow us to hold down the cost of outpatient care - which so many more people require than they do inpatient care - for all the patients we serve. This cost savings can be passed on to consumers and ensure a more stable health care system for our very special rural community.

As I indicate, because we are a rural community, we live nearly an hour from the next closest health care facility with capacity to do most of the needed services. The burden of travel is borne by the most vulnerable, many of whom do not have reliable transportation. Thus, having a local ambulatory surgery center relieves this burden for the most vulnerable in our community.

St. Mary's has a long standing and well-regarded commitment to care for the poor and this center will be part of that tradition. Care at our ambulatory care center will not be restricted based on means or method of payment. Medicaid patients are currently about 18% of our overall patient caseload. That will not change with this ambulatory center. Indeed, the reality of a St. Mary ambulatory center is a guarantee for those vulnerable patients that they can receive care they need in our community. A commitment to coverage for all regardless of method of payment, or indeed ability to pay at all, should be a consideration in this application.

As a member of the Community Ministry Board, I bear the fiduciary duty to ensure quality care for our patients. This is a duty that we all take very seriously, and we are regularly made proud by our loyal, capable and highly qualified caregivers from top to bottom of our institution. We consistently receive high marks for patient safety and as you may know we are one of only seven hospitals in the state of Washington to receive a 5-Star rating from the Center for Medicare and Medicaid for safety in 2017. We have received top 10 in the nation for patient safety by Healthgrades and we are top performer for reduction of surgical site infection. Safety and quality of care is a serious business for us. I have the chance to talk to and learn from our leaders about their laser focus on quality and this kind of excellence should add merit to this application. We treat the poor and vulnerable without regard to their ability to pay and we bring this high standard for quality of care to every patient we serve. Having an ambulatory care center as an additional service offering in our community will allow us to continue our mission.

We appreciate your work to understand the needs of our community while assessing this application. Be assured that the needs of the good people of Walla Walla, most importantly those whom the founders of our institution insist we keep foremost in our minds - the poor and the vulnerable - are our greatest concern. I believe that for my family, my friends, and the people our community must care for, a St. Mary's Ambulatory Surgery Center is the answer to our care access problems.”

Pamela Ray, resident of Walla Walla and former County Commissioner

“It is my understanding the Walla Walla Clinic's Certificate of Need application will not increase outpatient surgical beds in our community, only permit other physicians outside of the Walla Walla Clinic's physician group to utilize the clinic's ambulatory outpatient surgery center -- also a valid need. If only the Walla Walla Clinic prevails in receiving a certificate of need, the community will still be facing a shortage of operating rooms. The clinic would be able to open its 3-room surgery center to all surgeons in the community; however, the former operating rooms and equipment at WWGH would continue to sit unused, and patients would continue to be on waiting lists potentially compromising their health.

As a former county commissioner and an individual who has been deeply involved in our community for over 50 years, I urge the approval of Providence St. Mary Medical Center's application for a Certificate of Need; however, our community would be BEST served by the approval of both applications since they are clearly different in scope and both have merit.”

Additionally, before the public hearing was conducted in August 2018, members of FUSE Washington³ coordinated a postcard mailing to the Certificate of Need Program. Approximately 400 postcards were during this review that focused on the Providence project. While the postcards included a pre-printed message, each card appears to be signed by a different individual. An example of the postcard is shown on the following page.

³ For more information on FUSE Washington, see the ‘Affected Person’ discussion in this evaluation.

Everyone deserves access to quality healthcare. Our community deserves the freedom to choose our reproductive healthcare options.

Walla Walla General Hospital was the only hospital in the area that offered tubal ligations and vasectomy's. These are vital healthcare services in our community and they should continue to be offered if Providence takes over operations of the hospital. I request that the Department of Health make the ongoing offering of these reproductive health services a condition for approval of this Certificate of Need.

FUSE Washington was also active in generating a signed petition that was submitted at the August 20 public hearing. The petition, with more than 220 signatures, focused on the Providence project and the access to healthcare services referenced above. An example of the petition is not included in the evaluation.

Rebuttal Comment

Since this project was initially reviewed concurrently with the Walla Walla Clinic project, much of Providence's rebuttal comments focus on comparing the two projects. Once the two projects have been bifurcated, a comparison is not necessary. Below is Providence's rebuttal comments, which may include comparison-type statements. [source: Providence, September 4, 2018, rebuttal comments, pp9-28]

"Access to Care by Low Income and Underserved Members of the Community

To obtain CN approval, an applicant must demonstrate "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. While both Providence and WWC have indicated in their respective applications that they will participate in the Medicare and Medicaid programs and commit to providing a percentage of charity care in the Planning Area, stakeholders noted the superiority of the Providence proposal for its proven commitment to providing charity care and its clear and long-established mission to care for the poor, underserved, and vulnerable.

A consistent theme through many letters of support for the Providence proposal echoed the need for CN approval to be granted to the organization that will provide access for all and that will not restrict care due to the ability to pay. Providence stands apart as the superior solution due to its demonstrated commitment to serve all, especially the poor and vulnerable.

Providence does not discriminate on the Basis of Religious Beliefs

Providence St. Mary Medical Center is part of Providence Health & Services-Washington, a Catholic health care system. Accordingly, the services that Providence provides are governed by the Ethical and Religious Directives for Catholic Health Care Services. Under the Directives, there is a very small subset of reproductive health procedures that Providence does not provide in its facilities, except in circumstances when they are medically necessary. As always, patient safety is our number one priority.

A number of commenters have objected to the approval of Providence's project on the grounds, specifically, that tubal ligations and vasectomies will not be performed at the Providence ASF. As part of their objection, some asserted that, by not performing those two procedures, Providence will be "discriminating" on the basis of religion. This assertion is not true. Simply put: the provision of health care services by a religiously-affiliated health care facility like Providence in accordance with the religious principles that govern its operations does not constitute "religious discrimination."

The Department has recognized this fundamental principle in prior evaluations. In 2013, the Department reviewed a CN application by PeaceHealth, a Catholic health care organization, to lease and operate United General Hospital ("UGH"), a facility that had no religious affiliation. Several individuals and organizations objected to the approval of the application on the grounds that PeaceHealth's religious affiliation would preclude the provision of certain services at UGH, and that certain Catholic principles were "discriminatory." ... Providence does not discriminate against any person on the basis of religion, or on any other basis. This is a governing principle of Providence and all Catholic health care organizations and facilities. This principle is embodied in the Providence Nondiscrimination Policy that we submitted with our CN Application. Accordingly, there is no factual or legal basis for the assertion by some commenters that Providence "discriminates" on the basis of religion. Such an assertion is untrue and misleading.

Reproductive Health Procedures Are, And Will Continue To Be, Available In The Community If Providence's Ambulatory Surgical Facility Is Approved.

As noted in Section B.6 above, some community members have objected to approval of Providence's CN application due to concerns that tubal ligations and vasectomies will not be performed in our proposed ASF; those who provided comments also expressed their personal perspectives that access to tubal ligations (both post-partum and elective) and vasectomies will be insufficient for the Planning Area if Providence receives CN approval. As discussed below, those concerns are unfounded: the procedures are, and will continue to be, available in the community if Providence's ASF is approved. Neither the CN application of Providence nor that of WWC will increase or change access to reproductive health services in the Planning Area.

The public comments received by the Department focus on access and availability of three procedures: post-partum tubal ligations, elective tubal ligations, and vasectomies. Each of these reproductive health procedures is extremely limited, both in scope and volume, especially when the appropriate location for each procedure is taken into consideration. First, a post-partum tubal ligation is performed following the delivery of a baby. Given that births will not take place at the Providence ASF, there will be no clinical occasion for a post-partum tubal ligation to be performed at the facility. Therefore, as a practical matter, the concerns raised by commenters about Providence not performing post-partum tubal ligations in the proposed ASF are not germane.

Similarly, vasectomies are generally not performed in ambulatory surgical facilities, but are instead performed in medical offices or in clinics. Approval of the Providence ASF will not change access to vasectomies in the Planning Area, as these elective procedures are provided elsewhere in the community.

Whether a procedure is medically necessary or elective, Providence is mindful of the fact that each medical procedure is important to the individual upon whom the procedure is performed. However, the incidence of elective tubal ligations annually performed in the Walla Walla community is very

low. For example, in a newspaper article published in 2016, a WWGH spokesperson stated that, during the first six months of 2015, 18 tubal ligations were performed at WWGH, 13 of which were post-partum. Assuming that the other ligations were elective, this means that, on an annualized basis, WWGH may have performed approximately 10 elective tubal ligations per year while it was in operation. As discussed below, tubal ligations also are performed at WWC, but the Clinic's volume data is not available.

Given the low volume of elective tubal ligations performed in the community, the fact that the procedure will not be performed at Providence's ASF will not limit community access to the procedure. The procedure already is performed at WWC, which was confirmed at the public hearing by Mr. Michelson, WWC Chief Executive Officer.⁷⁵ In addition, it is our understanding that the procedure may be performed at, or through arrangements made at, Planned Parenthood, as well as other locations in Walla Walla. Therefore, availability of the procedure has not changed since the closure of WWGH.

The availability of tubal ligation and other reproductive health procedures in the community also is confirmed in letters submitted to the Department during the public comment process. For instance, Mr. Sam Tucker of the law firm of Monahan, Grove & Tucker states:

'Tubal ligations and other reproductive health services are available through other providers in Walla Walla. The granting of the Providence St. Mary request will not diminish the present availability of these services in Walla Walla.'

Similarly, Ms. Cynthia Widmer states:

'As a former executive director of Planned Parenthood Walla Walla in the 1980s, I have always been a strong advocate for women's health care and believe access to reproductive health care is important to healthy families. I further believe our access to reproductive health care in this valley is adequate.'

Accordingly, there is no validity to the contention that community access to elective tubal ligations or other reproductive health procedures will be limited or denied if those procedures are not performed at Providence's ASF. The procedures are, and will continue to be, available in the community if Providence's project is approved."

Department Evaluation

Providence provided information to support that its surgery center would allow for access to some surgical services not currently offered in the outpatient setting in the Walla Walla County planning area. Currently the planning area is served by one CN approved surgery center—Walla Walla Clinic.

During the August 20, 2018 public hearing conducted for both ASC projects, many members of the community requested approval of both Walla Walla Clinic and Providence's surgery center. The rationale for this approach is addressed in the public comment above, specifically, there are some services that would be provided at the Providence surgery center that are not, and will not be provided, at the Walla Walla Clinic surgery center. Community members recognize an overlap of services provided at each facility, but suggest the duplication should not be a reason to deny this project. The department also recognizes that some of the services overlap, but does not consider either project to be an unnecessary duplication of services.

Walla Walla Clinic was issued CN #1764 on January 9, 2019. The approval acknowledged that the clinic would be able to allow physicians to use the facility that are not part of the clinical practice. However, the approval did not increase the number of ORs (3) or the types of procedures provided at the surgery center, resulting in limited growth at the Walla Walla Clinic surgery center. Approval of Providence’s surgery center with four ORs, with dedicated to endoscopy procedures, increases the number of ORs in the county and expands patient access to outpatient surgical services.

Many community members suggested that the department condition any approval of the Providence project to require the surgery center to offer reproductive health and electives sterilization services. With the January 2019 CN approval of Walla Walla Clinic, these services continue to be available in the planning area.

Based on the source information reviewed, which includes the numeric need methodology, and provided that Providence agrees to the conditions in the conclusions section of this evaluation, the department concludes that the applicant has demonstrated need for the proposed surgery center. **This sub-criterion is met.**

WAC 246-310-270(6)

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

Providence Health & Services

The new surgery center associated with Providence would have a total of four ORs. Two would be dedicated to GI/endoscopy procedures and the two would be used for all other procedures. [source: Application, p14 & p19]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

WAC 246-310-270(6) requires a minimum of two ORs in an ASF. Providence’s anticipates the surgery center would be operational by January 2020 and it would have four ORs. **This standard is met.**

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

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

The admission policy provides the overall guiding principles of the facility for the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that

states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

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

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

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. Specific to ASFs, WAC 246-310-270(7) requires that ASFs 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.

Providence Health & Services

Providence provided copies of the following policies. As noted, some are currently used at Providence hospitals and will be used at the freestanding surgery center; others are created specific for the surgery center.

- Nondiscrimination Policy [source: Application, Exhibit 15]
- [Draft] Admission Policy [source: March 26, 2018, screening response, Exhibit 27]
- [Draft] Patient Rights and Responsibilities [source: Application, Exhibit 15]
- Charity Care Policy [source: Application, Exhibit 16]

Medicare and Medicaid Programs

Providence currently participates in both the Medicare and Medicaid programs for its hospitals. Specific to this proposed surgery center, Providence expects the surgery center will have a payer mix consistent with St. Mary Medial Center’s historical payer mix. Providence provided its current revenue sources and projected source of revenues by payer shown in the table below. [source: Application, p15]

**Department’s Table 3
Historical and Projected Payer Mix**

Payer Group	Historical	Projected
Medicare	35.2%	35.2%
Medicaid	17.7%	17.7%
Other Government/L & I	4.7 %	4.7 %
Private/Self pay	1.2%	1.2%
Commercial	41.2%	41.2%
Total	100.0%	100.0%

Charity Care

Providence provided extensive information in the applications that focuses on charity care and other types of free care provided in Walla Walla through St. Mary Medical Center. Below is information that focuses on charity care. [source: Application, pp39-40]

“Further, Table 15 demonstrates Providence has had a significantly higher three year charity care average, as a percent of gross and adjusted revenues, compared to the overall Eastern Washington regional average.

Table 15 provides PSMMC charity care as a percentage of total patient service revenues and adjusted total patient service revenues for 2013-2015. It also provides these percentage figures for the Eastern Washington Region average.

The Department of Health evaluates hospital charity care based on these percentages and it evaluates a hospital’s figures in relation to one of 5 geographic regions. PSMMC is located within the Eastern Washington Region, and as Table 15 indicates, PSMMC, and all four other Providence hospitals operating in Eastern Washington, have had significantly higher three-year (2013-2015) charity care average, as a percent of gross and adjusted revenues, compared to the Eastern Washington regional average.

Applicant’s Table 15

Table 15. Charity Care Statistics, PSMMC and Eastern Washington Regional Average, 2013-2015

Lic. No	Region/Hospital	% of Total Revenue				% of Adjusted Revenue			
		2013	2014	2015	3 Year Average, 2013-2015	2013	2014	2015	3 Year Average, 2013-2015
139	Providence Holy Family Hospital	4.85%	3.44%	1.51%	3.23%	13.50%	11.46%	5.19%	10.21%
193	Providence Mount Carmel Hospital	3.59%	2.11%	1.59%	2.37%	11.29%	7.45%	5.73%	8.13%
162	Providence Sacred Heart Medical Center	2.94%	1.77%	1.10%	1.92%	7.54%	5.26%	3.30%	5.44%
194	Providence Saint Joseph’s Hospital	3.72%	3.29%	1.42%	2.79%	14.93%	16.15%	6.99%	12.78%
50	Providence Saint Mary Medical Center	3.61%	2.04%	1.52%	2.33%	9.13%	5.99%	4.67%	6.61%
	PROVIDENCE COMBINED SUBTOTAL	3.39%	2.13%	1.24%	2.23%	8.90%	6.50%	3.87%	6.50%
	EASTERN WASH REGION TOTALS	2.85%	1.73%	0.97%	1.82%	7.41%	4.81%	3.04%	5.13%

Source: Washington Department of Health, Charity Care Reports, 2013-2015.

Providence also provided the following information related to charity care and its historical percentages provided by St. Mary Medical Center. [source: June 24, 2018, screening response, p3]

In the pro forma, charity care was assumed constant at 1.2% of gross revenues, the Providence Health & Services - Washington dba Providence St. Mary Medical Center figure for 2017 YTD. This is notably higher than the Eastern Washington regional average of 0.64% in 2016 and 0.97% for 2015. It should be noted that PSMMC charity care has been in steady decline during the past four years. Charity care has declined from 2.04% in 2014, to 1.52% in 2015, to 1.24% in 2016, and to 1.2% in 2017.

The decline in charity care at PSMMC reflects a regional and state-wide trend, as the overall charity care in Eastern Washington and hospitals in the State of Washington also has been in steady decline during the last three years. 2 Consequently, Providence believed modeling a forecast that was based

on the most recent years' experience would provide a more accurate forecast than utilizing a model that leverages a three-year average. The three-year average will most likely overstate charity care rates since rates have been in decline. For the purpose of our forecast in the application, it is anticipated that charity care percentages will remain constant at 2017 levels. Thus, we maintain the pro forma submitted as part of the 1st screening responses remains accurate with charity care modeled at 1.2%.

However, to satisfy the request made by the Department during its second screening, we have provided an updated pro forma that models charity care at the historical average of the two hospitals combined (PSMMC and the former Walla Walla General Hospital). The charity care rate in the updated pro forma is set at 1.57% of gross revenues. Please see Exhibit 32 for an updated pro forma for the proposed ASF.

The information below focuses on the other types of free care provided by Providence in the Walla Walla area. [source: Application, pp38-39]

“Providence has a mission to provide compassionate care to all people in need. This includes a special concern for those who are poor and vulnerable. PSMMC has provided a full continuum of care in the Walla Walla community for more than 137 years. Patients are treated and cared for regardless of gender, ethnicity, disabilities or their ability to pay.

Given our Mission to care for those who are poor and vulnerable, Providence provides charity care and cares for Medicaid patients. In 2016, we offered \$2.1 million in free and discounted care for those in need in Southeast Washington and the surrounding community. In addition to providing a high level of free and discounted medical care, Providence provided approximately \$10.9 million in the unfunded cost of government-sponsored medical care; community health, grants and donations; education and research programs; and subsidized services. Overall, Providence’s community benefit in 2016 was more than \$13.0 million.

With Medicaid expansion and health insurance exchanges, Providence’s charity care spending in Southeast Washington and the surrounding community reflects the success of more people gaining health insurance coverage. We are using community benefit investments to create healthier communities, beyond just the need for free and discounted care. Not only does this improve access to care, but through programs and donations, Providence’s community benefit connects families with preventive care to keep them healthy, fills gaps in community services and provides opportunities that bring hope in difficult times.”

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Providence provided its draft Admission Policy to be used at the surgery center. The policy includes the required non-discrimination language to ensure patients would be admitted for treatment regardless of age, race, color, national origin, religion, sex, sexual preference, physical disability, or

financial status. The policy also includes the criteria for admitting patients and a description of the types of patients that would be served. The Admission Policy also notes that all patients are provided with a copy of the "Patient Rights and Responsibilities" consistent with the Providence mission. If this project is approved, the department would require Providence to provide a copy of the final Admission Policy for the surgery center for department review and approval. The final policy must be consistent with the draft provided in the application.

Providence also provided a copy of its current Nondiscrimination Policy used at all Providence facilities. This policy includes the standard non-discrimination language and includes definitions of many statements, such as gender identity and limited English proficiency. This extensive policy would be used at the new surgery center in Walla Walla.

The Charity Care Policy is also used in conjunction with the "Nondiscrimination Policy" to ensure patients are provided the outpatient services regardless of ability to pay. The policy provides the process one must use to access charity care and explains the eligibility requirements for charity care. The Charity Care Policy is used at all Providence healthcare facilities in Washington State and is posted to the Department of Health website and.

Within the application, Providence provided a table showing the projected dollar amounts for charity care to be provided at the surgery center. The percentages of the charity care and dollar amounts are identified in the projected financial statements provided in the application.

Providence intends to serve both Medicare and Medicaid patients consistent with the percentages shown in the department's Table 3 above. The financial data provided in the application shows both Medicare and Medicaid revenues. The department concludes that the Providence surgery center would be accessible and available to Medicare and Medicaid patients based on the information provided.

WAC 246-310-270(7)

WAC 246-310-270(7) requires that ASFs shall implement policies to provide access to individuals unable to pay consistent with charity care levels reported by the hospitals affected by the proposed ASF. For charity care reporting purposes Washington State is divided into five regions: King County, Puget Sound, Southwest, Central, and Eastern. The surgery center proposed by Providence will be located with Walla Walla County within the Eastern Washington Region. In year 2017, Walla Walla General Hospital closed, as a result, there are 20 hospitals currently operating in the region. Of the 20 hospitals, one is located in Walla Walla County—the applicant's hospital known as Providence St. Mary. This hospital could be affected by approval of this project.

Providence stated that the surgery center will provide charity care at 1.57% for gross revenue and 3.33% for adjusted revenue. For this project, the department reviewed the most recent three years of charity care data for the 20 existing hospitals currently operating within the Eastern Washington Region and focused on Providence St. Mary because it could be affected by approval of this project. The three years reviewed are 2015, 2016, and 2017.⁴

⁴ Walla Walla General Hospital closed in July 2017. Historical year 2015 includes charity care data for the hospital as reported to the Department of Health. Walla Walla General Hospital did not report charity care data for years 2016 and 2017.

Table 4 below is a comparison of the historical average charity care for the Eastern Washington Region as a whole, the historical average charity care by Providence St. Mary, and the projected charity care to be provided at Providence surgery center. [source: Community Health Systems Charity Care 2015-2017 and June 7, 2018, screening response, Exhibit D]

**Department’s Table 4
Charity Care – Three Year Average**

	% of Total Revenue	% of Adjusted Revenue
3-year Eastern Washington Region	0.81%	2.54%
3-year Providence St. Mary	1.65%	4.74%
Projected Providence ASC	1.57%	3.33%

As shown above, the three year average proposed by Providence for the surgery center is higher than the regional average and lower than the historical average for Providence St. Mary Medical Center, the sole hospital operating in Walla Walla County planning area.

Though the application shows that Providence would provide charity care above the planning area average, the department would still attach a condition related to this sub-criterion if this project is approved. The condition would require Providence to make reasonable efforts to provide charity care at the levels stated in the application. This condition would also require Providence to maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department would require that these records be kept on site at the surgery center and be available upon request.

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

- (3) *The applicant has substantiated any of the following needs and circumstances the proposed project is to serve.*
 - (a) *The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both to individuals no residing in the health service areas in which the entities are located or in adjacent health service areas.*
 - (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.*
 - (c) *The special needs and circumstances of osteopathic hospitals and non-allopathic services.*

- (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.*
 - (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.*

(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

WAC 246-310-210(3), (4), and (5) do not apply to this project under review.

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

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

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

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

Providence Health & Services

As previously stated, the department declared a PUI on this application to obtain accurate capital expenditure information consistent with the requirements from CRS. The construction requirements extend the projection years for the project. Initially, Providence anticipated this evaluation would be released in September 2018, and the surgery center would be operational near the end of December 2018. Given the increase in capital expenditure, the extensive construction required for the facility, and the PUI process, Providence appropriately revised its projection years in its PUI documents. Year one is 2020 and year three is 2022. [source: December 21, 2018, PUI documents, pp19-20]

Before the department performs its review of the financial documents provided in this application, a review of the projected number of procedures is necessary. Within the application, Providence provided the following clarification regarding the types of procedures to be provided and the assumptions used to determine the number of cases provided at the surgery center. [source: Application, pp32-36 and December 21, 2018, PUI documents,]

"The forecast model uses the following assumptions and methodologies:

Surgical use rates by ICD-9 procedure code group were derived from the latest National Center for Health Statistics ("NCHS") survey study, "Ambulatory Surgery in the United States."27 The report analyzed and presented summaries of data from the 2006 National Survey of Ambulatory Surgery ("NSAS").

Applicant's Table Recreated

	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023
<i>Nervous System</i>	197	212	226	239
<i>Endocrine System</i>	21	23	24	26
<i>Eye</i>	291	314	334	353
<i>Ear</i>	57	62	66	69
<i>Nose, Mouth, & Pharynx</i>	177	190	203	214
<i>Respiratory System</i>	10	11	11	12
<i>Cardiovascular</i>	28	30	32	34
<i>Digestive System (Endoscopy)</i>	1,333	1,435	1,530	1,615
<i>Urinary System</i>	110	118	126	133
<i>Male Genital Organs</i>	20	21	23	24
<i>Female Genital Organs</i>	50	54	58	61
<i>Musculoskeletal</i>	735	791	843	890
<i>Integumentary (skin) system</i>	294	317	338	357
Total	3,323	3,578	3,814	4,027

In this study, ambulatory surgery refers to surgical and nonsurgical procedures performed on an ambulatory basis in a hospital or freestanding center's general ORs, dedicated ambulatory surgery rooms, and other specialized rooms. This NCHS survey study is the principal source for published national data on the characteristics of visits to hospital-based and freestanding ambulatory surgery centers. The report was updated and revised in 2009 and contains the latest NCHS estimates on ambulatory surgery use rates.²⁸ Please see Table 9 for the NCHS utilization rates used in the forecast methodology.

The NCHS use rates were multiplied by the 2019-2023 planning area population (Table 5), and then divided by 10,000 to forecast Planning Area resident ambulatory surgeries by procedure type, by year. Table 10 includes these procedure estimates for the planning area.

Applicant's Table
**Table 10. Walla Walla County Planning Area
 Ambulatory Surgery Forecasts, 2019-2023**

PROCEDURE (ICD-9-CM Code)	UTILIZATION RATE/10,000	Total Number of Procedures, Walla Walla Planning Area								
		2016	2017	2018	2019	2020	2021	2022	2023	
All Operations (01-86)	1788.3	10,860	10,894	10,928	10,962	11,031	11,091	11,150	11,210	
Operations on the Nervous System (01-05)	107.2	651	653	655	657	661	665	668	672	
Operations on the Endocrine System (06-07), operations on the hemic and lymphatic system (40-41), and obstetrical procedures (72-75)	11.5	70	70	70	70	71	71	72	72	
Operations on the Eye (08-16)	237.6	1,443	1,447	1,452	1,456	1,466	1,474	1,481	1,489	
Operations on the Ear (18-20)	37.3	227	227	228	229	230	231	233	234	
Operations on the Nose, Mouth and Pharynx (21-29)	96.0	583	585	587	588	592	595	599	602	
Operations on the Respiratory System (30-34)	14.9	90	91	91	91	92	92	93	93	
Operations on the Cardiovascular System (35-39,00.50-00.51,00.53-00.55,00.61-00.66)	46.1	280	281	282	283	284	286	287	289	
Operations on the Digestive System (42-54)	483.3	2,935	2,944	2,953	2,963	2,981	2,997	3,013	3,030	
Operations on the Urinary System (55-59)	59.6	362	363	364	365	368	370	372	374	
Operations on the Male Genital Organs* (60-64)	21.2	65	65	66	66	67	67	67	68	
Operations on the Female Genital Organs** (65-71)	83.7	252	252	252	252	253	254	256	257	
Operations on the Musculoskeletal System (76-84,00.70-00.73,00.80-00.84)	266.4	1,618	1,623	1,628	1,633	1,643	1,652	1,661	1,670	
Operations of the Intergumentary System (85-86)	120.1	729	732	734	736	741	745	749	753	
Miscellaneous diagnostic and therapeutic procedures and new technologies (87-99, 00)	203.2	1,234	1,238	1,242	1,246	1,253	1,260	1,267	1,274	
Total Planning Area Cases		10,539	10,571	10,604	10,636	10,702	10,760	10,818	10,876	
Service Area Population		2016	2017	2018	2019	2020	2021	2022	2023	
Walla Walla Planning Area		60,730	60,919	61,108	61,299	61,685	62,017	62,351	62,687	
Male		30,650	30,814	30,978	31,143	31,478	31,646	31,815	31,985	
Female		30,080	30,105	30,131	30,156	30,207	30,371	30,536	30,702	

A market share figure was applied to each procedure code group based on planned scope of services anticipated to be provided at the ASF. These market share figures are based on physician recruitment actions and the expressed interest from other area physicians who would utilize the ASF if available. As mentioned earlier, the ASF will be equipped to offer a wide-range of surgical service capabilities including, but not limited to, ear, nose, and throat (ENT); eye; gastroenterology; gynecology; general surgery; neurology; orthopedics; ophthalmology; plastics; podiatry; urology; respiratory; and vascular surgery.

Table 11 provides these market share figures. Table 11 also indicates that growth of the NEWCO ASF market share figures is very modest over time.

Applicant's Table
Table 11. NEWCO Market Share Assumptions, 2020-2024 (REVISED)

NEWCO Market Share Assumptions	2020	2021	2022	2023	2024
Market Share Growth		7.0%	6.0%	5.0%	4.0%
Operations on the Nervous System	30.0%	32.1%	34.0%	35.7%	37.2%
Operations on the Endocrine System	30.0%	32.1%	34.0%	35.7%	37.2%
Operations on the Eye	20.0%	21.4%	22.7%	23.8%	24.8%
Operations on the Ear	25.0%	26.8%	28.4%	29.8%	31.0%
Operations on the Nose, Mouth and Pharynx	30.0%	32.1%	34.0%	35.7%	37.2%
Operations on the Respiratory System	10.9%	12.0%	11.9%	12.9%	13.9%
Operations on the Cardiovascular System	10.0%	10.7%	11.3%	11.9%	12.4%
Operations on the Digestive System	45.0%	48.2%	51.0%	53.6%	55.7%
Operations on the Urinary System	30.0%	32.1%	34.0%	35.7%	37.2%
Operations on the Male Genital Organs*	30.0%	32.1%	34.0%	35.7%	37.2%
Operations on the Female Genital Organs**	20.0%	21.4%	22.7%	23.8%	24.8%
Operations on the Musculoskeletal System	45.0%	48.2%	51.0%	53.6%	55.7%
Operations of the Intergumentary System	40.0%	42.8%	45.4%	47.6%	49.5%
Miscellaneous diagnostic and therapeutic procedures and new technologies	0.0%	0.0%	0.0%	0.0%	0.0%

Consistent with its assumptions identified above, Providence provided its explanation of how it determined the projected number of cases at the surgery center beginning with projection year 2020.

“Estimated planning area surgeries were then multiplied by the presumed market share figures for the ASF, yielding forecasted number of procedures, by year. These projections are included in Table 12.”

Applicant’s Table
Table 12. NEWCO Projected Number of Ambulatory Surgeries, by Type, 2020-2024 (REVISED)

NEWCO Cases Based on Market Share	2020	2021	2022	2023	2024
Operations on the Nervous System	197	212	226	239	250
Operations on the Endocrine System	21	23	24	26	27
Operations on the Eye	291	314	334	353	369
Operations on the Ear	57	62	66	69	72
Operations on the Nose, Mouth and Pharynx	177	190	203	214	224
Operations on the Respiratory System	10	11	11	12	13
Operations on the Cardiovascular System	28	30	32	34	36
Operations on the Digestive System	1,333	1,435	1,530	1,615	1,689
Operations on the Urinary System	110	118	126	133	139
Operations on the Male Genital Organs*	20	21	23	24	25
Operations on the Female Genital Organs**	50	54	58	61	64
Operations on the Musculoskeletal System	735	791	843	890	931
Operations of the Integumentary System	294	317	338	357	373
Miscellaneous diagnostic and therapeutic procedures and new technologies	-	-	-		
Total Cases	3,324	3,579	3,814	4,026	4,210
Walla Walla Planning Area Cases	10,636	10,702	10,760	10,818	10,876
NEWCO Market Share, Walla Walla Planning Area	31.2%	33.4%	35.4%	37.2%	38.7%

Based on the forecasted number of ambulatory surgeries at the ASF, segmented by endoscopy cases [to be performed in the two procedure rooms requested] and all other cases [to be performed in the two operating rooms requested], there would be demand for 1.7 ORs and 1.1 procedure rooms by the third full year of operation (2021). This assumes operations of 240 days per year and operating efficiency of the ORs consistent with WAC 246-310-270(8) (ii).

Applicant's Table

Table 13. NEWCO Projected Number of Ambulatory Surgical Facility ORs, 2020- 2024 (REVISED)

	2020	2021	2022	2023	2024
	Year 1	Year 2	Year 3	Year 4	Year 5
Total Cases	3,324	3,579	3,814	4,026	4,210
Total Cases (Excluding Endoscopy)	1,991	2,144	2,284	2,411	2,521
Cases per Day (assumes 240 days of operation)	8.30	8.93	9.52	10.05	10.50
Surgery Minutes Per Year	99,130	106,729	113,742	120,072	125,548
Estimated Number of Operating Rooms Needed (WAC 246-310-270 (9) (ii) (Assumes 37.5 hours per week, 51 weeks per year, 25% loss for prep/clean-up and 15% loss for scheduling flexibility—results in 60% capacity) Results are the same if minutes are divided by 68,850.	1.4	1.6	1.7	1.7	1.8
Endoscopy Cases	1,333	1,435	1,530	1,615	1,689
Cases per Day (assumes 240 days of operation)	5.55	5.98	6.37	6.73	7.04
Surgery Minutes Per Year	66,413	71,510	76,209	80,450	84,118
Estimated Number of Endoscopy Procedure Rooms Needed (WAC 246-310-270 (9) (ii) (Assumes 37.5 hours per week, 51 weeks per year, 25% loss for prep/clean-up and 15% loss for scheduling flexibility—results in 60% capacity) Results are the same if minutes are divided by 68,850.	1.0	1.0	1.1	1.2	1.2

The NCHS use rates in the utilization forecast are based on national data sets and are national estimates. It is possible that local patterns could vary from the survey figures. However, there is no better statistical approach to estimate expected future volumes with procedural specificity.

With the recent closure of Walla Walla General Hospital, there is significant opportunity for a new ASF to provide access to ambulatory surgical care to the Walla Walla Planning Area. As noted in Table 12, the ASF's market share is assumed to be 31.2% of planning area ambulatory surgery volumes in 2019, with modest increases in the following years over the remainder of the five-year forecast period (see Table 11 for market share growth)."

The assumptions Providence used to project revenue, expenses, and net income for the proposed surgery center for projection years 2020 through 2022 are summarized below. [source: Application, pp43-44; March 26, 2018, screening response, p18; and June 24, 2018, screening response, p4]

ASF Revenues:

1. *Inflation of gross and net revenues was excluded from model.*
2. *The gross and net revenues were based on actual revenues of an existing ASC within the Providence system.*
3. *Payer mix was based on St. Mary Medical Center outpatient surgery payer mix.*

4. *Charity care is assumed constant at 1.2% of gross revenues, the PSMMC figure for 2017 YTD. This is consistent with the Eastern Washington regional average of 0.97% for 2015. It should be noted this is less than the 3-year average for either PSMMC or the Region, and in fact, the PSMMC charity percentage fell to 1.2% in 2017 YTD from 1.52% in 2015. However, based on the Affordable Care Act increasing access to health care services, charity care has been declining during this period. In the most recent publication of "Charity Care in Washington Hospitals", the DOH noted that the WA uninsured rate has been in decline, mostly due to previously uninsured patients enrolling in Medicaid and commercial insurance (p7) For the purpose of our forecast, it is anticipated that charity care percentages will remain constant at 2017 YTD levels.*

ASF Expenses:

1. *There was specific modeling of expected growth of the proposed ASF staffing, where FTEs by type, by year were modeled based on forecast incremental case volumes.*
 2. *Wages, salaries, and benefits are specific to each group of FTEs, and are calculated on an hourly basis, based on Providence averages. It is assumed an FTE works 2,080 hours per year.*
 3. *Non-productive hours are found by multiplying productive hours by 1.12; the non-productive factor is, thus 12% of productive hours.*
 4. *Benefits as a percentage of wages and salaries is estimated at 22%.*
 5. *Supplies were estimated at 20% of revenue.*
 6. *Purchased services was estimated at 3% of net revenue.*
 7. *Repair and Maintenance was estimated at 8% of equipment cost.*
 8. *B&O taxes were calculated at 1.5% of net revenue.*
 9. *Pharmacy/drugs were calculated as 3% of net revenue*
 10. *Insurance for liability and property and equipment were estimated based on another ASC within Providence system.*
 11. *Utilities were estimated based on actuals from another ASC within Providence system.*
 12. *Depreciation was based on the purchase cost of the building, allocated based on square footage and based on additional equipment purchased.*
 13. *Medical Director fee is allocated at \$50,000 per year and is included in 'Operating Expense' under 'Other Direct Expenses'*
- *The original pro forma included an FTE for billing and collecting and another for purchasing. After further review, we concluded that these FTEs are funded directly through system allocation and, consequently, these FTEs have been removed and instead included in the management allocation of 12% of net revenue. This allocation percentage also covers costs related to IT, revenue cycle, purchasing, human resources, and other management functions.*
 - *Purchased services includes, but is not limited to, laundry, interpretation services, and waste management. Rental lease includes equipment leases, such as copiers and equipment maintenance agreements.*
 - *Along with the \$50,000 for the Medical Director, an additional \$20,000 was included for miscellaneous operating expenses*
 - *In the pro forma, charity care was assumed constant at 1.2% of gross revenues, the Providence Health & Services - Washington dba Providence St. Mary Medical Center figure for 2017 YTD. This is notably higher than the Eastern Washington regional average of 0.64% in 2016 and 0.97% for 2015. It should be noted that PSMMC charity care has been in steady decline during*

the past four years. Charity care has declined from 2.04% in 2014, to 1.52% in 2015, to 1.24% in 2016, and to 1.2% in 2017.

- The decline in charity care at PSMMC reflects a regional and state-wide trend, as the overall charity care in Eastern Washington and hospitals in the State of Washington also has been in steady decline during the last three years. 2 Consequently, Providence believed modeling a forecast that was based on the most recent year's experience would provide a more accurate forecast than utilizing a model that leverages a three-year average. The three-year average will most likely overstate charity care rates since rates have been in decline. For the purpose of our forecast in the application, it is anticipated that charity care percentages will remain constant at 2017 levels. “

Providence provided the following information related to the projected payer mix at the surgery center. [source: Application, p15]

“We expect the ASF project will have a forecast payer mix consistent with Providence St. Mary Medical Center’s historical payer mix.”

The projected percentages of payer mix are shown below.

Applicant’s Table 4

Payer Group	Projected
Medicare	35.2%
Medicaid	17.7%
Other Government/L & I	4.7%
Private / self-Pay	1.2%
Commercial	41.2%
Total	100.0%

Based on the assumptions above, Providence provided its projected revenue, expenses, and net income for its surgery center. The projections are summarized below. [source: December 21, 2018, PUI documents, Revised Exhibit 2 and pdf26]

Department’s Table 5

Projected Revenue and Expenses for Calendar Years 2018 through 2021

	Year 1 - 2020	Year 2 - 2021	Year 3 - 2022	Year 4 - 2023
Net Revenue	\$4,473,427	\$4,816,819	\$5,132,345	\$5,418,499
Total Expenses	\$4,323,131	\$4,525,970	\$4,677,540	\$4,731,433
Net Profit / (Loss)	\$150,296	\$290,849	\$454,805	\$687,066

The “Net Revenue” line item is gross patient revenue, minus any deductions from revenue for contractual allowances, bad debt, and charity care.

The “Total Expenses” line item includes operating expenses, including salaries and wages, benefits, insurance, rentals/leases, and depreciation. It also includes \$50,000 in medical director fees and allocated management expenses as described in the assumptions above.

To demonstrate long term financial viability of the proposed surgery center, Providence provided its projected balance sheets for years 2020 through 2024.⁵ The tables below show year one (2020) and year four (2023). [source: December 21, 2018, PUI documents, Exhibit 29]

**Department Tables 6
Ambulatory Surgery Center
Projected Balance Sheet – Year One 2020**

Assets		Liabilities	
Current Assets	\$1,034,709	Current Liabilities	\$156,498
Property/Plant/Equipment	\$5,960,977	Long Term Debt	\$0
Other Assets	\$0	Equity	\$6,839,188
Total Assets	\$6,995,686	Total Liabilities and Equity	\$6,995,686

Projected Balance Sheet – Year Four 2023

Assets		Liabilities	
Current Assets	\$3,267,056	Current Liabilities	\$181,410
Property/Plant/Equipment	\$3,787,707	Long Term Debt	\$0
Other Assets	\$0	Equity	\$6,873,353
Total Assets	\$7,054,763	Total Liabilities and Equity	\$7,054,763

Public Comment

None

Rebuttal Comment

None

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by Providence to determine the projected number of procedures for the surgery center. Since Providence does not currently operate a freestanding surgery center, many of the projections are based on current outpatient volumes for St. Mary Medical Center. Other projected procedures are based on national statistics. Both projections include conservative increases in volumes. This approach is reasonable.

Providence based its market share assumption on a variety of factors, including the 2017 closure of Walla Walla General Hospital, county population growth as projected by the Office of Financial Management, and its projected ability to accommodate patients and procedures at the proposed surgery center. This approach to market share assumptions is also reasonable.

⁵ Providence provided the following clarification related to the balance sheets for the surgery center. *“Please note that PH&S does not routinely use balance sheets as part of its financial analysis when evaluating new business ventures. Instead, a business pro-forma (see Exhibit 28) are generally relied upon for evaluation of new business ventures. With that said, for purposes of this Application and to satisfy the Department's question(s) relating to balance sheets, PH&S has extrapolated information from its business pro forma to construct this balance sheet. This balance sheet was solely created for the Department's review of this Application and will not be generally used in the business and financial operations of NEWCO. While the ASF has no operating history, we have provided a balance sheet specific to the proposed ASF. Please see Exhibit 29.”* [source: March 26, 2018, screening response, p19]

As previously stated, during the review of this project, the department declared a pivotal unresolved issue (PUI) for this project related to the costs for the project and the impact of those costs on the financial projections. Providence notes in its PUI documents that while the increase in the capital costs affects the financial statements, the increased costs do not affect the assumptions used for the utilization and market share for the facility.

The pro forma Revenue and Expense Statement shows revenues exceeding expenses in the first year of operation (2020) and continuing through year four (2023). Providence clarified that the capital cost increase identified in the PUI documents does not affect the revenues or expenses for the surgery center. Providence submitted a revised Revenue and Expense Statement to take into account the change in the timeline for implementation of the project.

Providence provided a copy of the executed Purchase and Sale Agreement for the site and the building. [source: March 26, 2018, screening responses, Exhibit 26]

Based on the information above, the department concludes that the immediate and long-range operating costs of the project can be met. Based on the financial data provided above, the department concludes that approval of this project would not have a negative financial impact on Providence as a whole. **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.

Providence Health & Services

In response to this sub-criterion, Providence provided the following information. [source: December 21, 2018, PUI documents pp3-4]

“Providence has reviewed CRS TA #60855663, which identified additional construction that may need to be pursued in order to address current construction code requirements. The revised capital expenditure that is fully inclusive of all project costs, including the work identified in CRS TA #60855663, totals \$6,711,667, which is an increase of \$3,030,000.

When reviewing its capital expenditures, Providence identified that it had used an incorrect sales tax amount of 8.1 % in Table 16 of its CN application. Table 16 Capital Expenditures (REVISED) corrects the error so that the sales tax is correctly calculated at 8.9% for all capital expenses.”

**Department's Table 7
Estimated Capital Expenditure**

Item	Cost	Percentage of Total
Building Purchase	\$1,906,567	28.4%
Construction Costs	\$2,513,400	37.4%
Moveable Equipment	\$1,499,230	22.3%
Architect/Engineering Fees	\$243,950	3.6%
State Sales Tax (8.9%)	\$548,520	8.2%
Total Costs	\$6,711,667	100.0%

“The ambulatory surgical facility is estimated to include 15.7% of total building space. This was used to allocate building purchase costs.

See Exhibit B for a signed estimate from Real Estate and Construction for Providence St. Joseph Health, dated December 6, 2018. The letter provides a line item summary for additional costs totaling \$3,030,000. In addition, please see the signed contractor attestation from Jackson Contractor Group, Inc., dated December 5, 2018, which confirms the estimated construction cost of \$2,513,400 is reasonable. The construction cost is one of the line items in the Real Estate and Construction letter from Providence St. Joseph Health, so the signed contractor attestation is intended to demonstrate the due diligence that has been sought in affirming the cost.”

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Based on the PUI documents and the information provided by Providence regarding its meetings and consultations with the Department of Health’s Construction Review Services, the department accepts that Providence’s capital expenditure is both reasonable and accurate.

Providence provided its projected payer mix for the surgery center as shown below.

Applicant’s Table 4

Payer Group	Projected
Medicare	35.2%
Medicaid	17.7%
Other Government/L & I	4.7%
Private / self-Pay	1.2%
Commercial	41.2%
Total	100.0%

The payer mix identified by Providence is based on its existing payer mix for outpatient surgical services provided at St. Mary Medical Center. This approach for determining a payer mix is reasonable.

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

(3) The project can be appropriately financed.

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

Providence Health & Services

Providence states that the capital cost of \$6,711,667 associated with establishment of the surgery center will be financed through Providence Health & Services using unrestricted cash reserves. Providence provided a letter of commitment and availability of funding for the total project costs. [source: December 21, 2018, PUI documents, p4 and Exhibit C]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Providence provided documentation to demonstrate it has access to the funds necessary for this project. Further, Providence provided its audited financial statements for full calendar years 2015 through 2017.

Staff from Department of Health's Hospital/Finance and Charity Care reviewed the most recent audited financial statements for Providence St. Joseph Health and concluded that the funds are available to finance this project and the healthcare system is in sound financial health. [source: May 24, 2019, documentation from Hospital/Finance and Charity Care program]

Based on the documents provided under this review criterion, if this project is approved, a condition is necessary to ensure that the project would be financed as described in the application. With written agreement to the financing condition, Providence's project **meets this sub-criterion.**

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

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

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

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

Providence Health & Services

In response to this sub-criterion, Providence provided the following statements related to recruitment and retention of qualified staff. [source: Application, p47]

“Providence has an excellent reputation and history recruiting and retaining appropriate personnel. Providence offers a competitive wage scale, a generous benefit package, and a professionally rewarding work setting.

- *Providence has multiple resources available to assist with the identification and recruitment of appropriate and qualified personnel:*
- *Experienced system and local talent acquisition teams to recruit qualified staff.*
- *Strong success in recruiting for critical to fill positions with recruiters that offer support on a national level as well as local level.*
- *Career listings on Providence web site and job listings on multiple search engines and listing sites (e.g. Indeed, Career Builders, Monster, NW Jobs).*
- *Educational programs with local colleges and universities as well as the University of Providence Bachelor of Science Nursing Program (operated by Providence).*

Finally, Providence employs a large number of general and specialty care providers. Providence has the ability to float selected administrative, clinical, and technical staff to the ASF as needed. The ASF will offer an attractive work environment and hours, thus attracting local area residents who are qualified to work in the ASF. We do not expect staffing challenges that would disrupt Providence’s ability to achieve its goals and objectives relative to the ASF.”

Providence provided a breakdown of FTEs (full time equivalents) by type for the surgery center. The table below provides the summary for years 2020 through 2024. [source: December 21, 2018, PUI documents, Revised Table 18]

**Department's Table 8
Years 2020 through 2024
Proposed Ambulatory Surgery Center Projected Staffing**

FTE by Type	2020 Year 1	2021 Increase	2022 Increase	2023 Increase	Total Staff
Office/Clerical Employees	3.30	0.00	0.00	0.00	3.30
Scheduler	0.90	0.00	0.00	0.00	0.90
Billing & Collection Employee	0.90	0.00	0.00	0.00	0.90
Room Prep/Clean	1.80	0.00	0.00	0.00	1.80
RNs	10.70	1.00	0.60	0.50	12.80
OR Techs	5.80	0.00	0.00	0.00	5.80
Materials Management	0.90	0.00	0.00	0.00	0.90
Manager	0.90	0.00	0.00	0.00	0.90
Total FTEs	25.20	1.00	0.60	0.50	27.30

Focusing on the staffing table above, Providence clarified that none of the physicians are direct employees of the ASC and are not included in the table above. Further, the projected number of staff was based on actual staffing of other Providence ambulatory surgery centers. The staffing model is based on the following hours per surgery: 5.7 nursing hours; 3.5 OR technician hours; and 1.13 room preparation hours per surgery. [source: March 26, 2018, screening response, p12]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

As stated above, Providence intends to rely on its current reputation and standing in the planning area to recruit staff for the proposed surgery center. Providence would begin hiring staff for the surgery center before it is fully operational in year 2020. Once fully staffed, Providence does not anticipate any significant increases during the projection years.

Information provided in the application demonstrates that Providence is a well-established provider of healthcare services in Walla Walla County. Given that Providence already offers a variety of healthcare services through its existing hospital, the department concludes that Providence has the ability to staff the surgery center if this project is approved.

Based on the above information, the department concludes that a sufficient supply of qualified staff is available, or can be recruited, for this project. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(2) as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-

200(2)(a)(ii) and (b) that directs what relationships, ancillary and support services should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials contained in the application.

Providence Health & Services

Providence provided the following statements relating to ancillary and support services required for the surgery center. [source: Application, p47 and March 26, 2018, screening response, p13]

“It is anticipated that other on-site ancillary and support services will include scheduling, security, housekeeping, snow removal/landscaping, and materials management. PSMMC will purchase some of these services from community vendors through an RFP process. All other ancillary and support services would be provided centrally by Providence. The final determination regarding which ancillary and support services will be provided on-site versus centrally by Providence has not yet been made. It is Providence’s experience that such final determinations and subsequent contracts can be established well within the time frame of CN approval and subsequent opening.

Given that the CN has not been awarded, it is premature to provide a final or conclusive listing of ancillary and support service vendors. At this time, Providence anticipates possibly utilizing ancillary and support service vendors for building/facilities maintenance, cable services, imaging services, maintenance of autoclave/washers, maintenance of X-ray services, and laundry services.”

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Even though Providence does not currently operate a surgery center in Walla Walla County, it has been providing healthcare services in the county for many years through St. Mary Medical Center. The ancillary and support required for the operation of the surgery center are not yet in place, however Providence intends to provide much of the services at the surgery center site. St. Mary Medical Center would also be used for many services that can be provided at a hospital.

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that Providence will establish and maintain the necessary relationships with ancillary and support services to provide outpatient surgical services the surgery center. The department concludes that there is no indication that approval of this surgery center would adversely affect the existing relationships in the planning area. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare and Medicaid certified. Therefore, using

its experience and expertise the department assessed the applicant’s history in meeting these standards at other facilities owned or operated by the applicant.

Providence Health & Services

Providence provided the following statements related to this sub-criterion. [source: Application p48]

“Providence has no such convictions as defined in WAC 246-310-230 (5) (a) (Note: the above WAC has been re-codified as WAC 246-310-230). Patient care at the ASF will be provided in conformance with all applicable federal and state requirements.

All Providence facilities meet all relevant state and federal rules and regulations. All current laws, rules and regulations will be applied to the proposed. All physicians performing surgeries at the ASF are required to be credentialed and privileged as a member of one or more of the PSMCC medical staffs and be in good standing within the medical community. In addition, the ASF will participate in a number of accreditation, licensure, and certification reviews by external agencies.”

Public Comment

None

Rebuttal Comment

None

Department Evaluation

As part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.⁶ To accomplish this task, the department reviewed the quality of care compliance history for the healthcare facilities owned, operated, or managed by Providence or its subsidiaries.

Providence Health & Services is part of Providence St Joseph Health which is one of the largest not-for-profit healthcare systems in the United States. Providence operates several healthcare facilities and services nationwide through a number of subsidiaries. Its Washington facilities are operated under the Providence Health & Services subsidiary. [sources: Application, Exhibit 3]

Washington State Survey Data

The eight Providence hospitals currently operating include Providence Holy Family Hospital, Providence St Joseph’s Hospital, Providence Mount Carmel Hospital, Providence Centralia Hospital, Providence Sacred Heart Medical Center and Children’s Hospital, Providence St Mary Medical Center, Providence St Peter Hospital, and Providence Regional Medical Center Everett. Swedish Health Services and Western Health Connect also operate under the Providence umbrella – their Washington State hospitals include Swedish Edmonds, Swedish First Hill, Swedish Issaquah, Swedish Cherry Hill, and Kadlec Regional Medical Center.

All of the hospitals listed above are accredited. The Providence hospitals and Kadlec Regional Medical Center are accredited by the Joint Commission. The Swedish hospitals are accredited by Det Norske Veritas (DNV). [source: Joint Commission website, DNV website, ILRS]

⁶ WAC 246-310-230(5).

The department also reviewed the survey deficiency history for years 2016 through 2018 for all Providence hospitals located in Washington State. Of the eight Washington State hospitals, three had deficiencies in one of the three years. All deficiencies were corrected with no outstanding compliance issues.⁷

In addition to the hospitals above, department also reviewed the compliance history for the two ambulatory surgical facilities and 13 in-home service agency licenses, including home health, hospice and a hospice care center. All of these facilities are operational. Using its own internal database, the survey data showed that more than 40 surveys have been conducted and completed by Washington State surveyors since year 2016. All surveys resulted in no significant non-compliance issues. [source: ILRS survey data and Department of Health Investigations and Inspections Office]

Providence has not yet hired staff for this surgery center, including a medical director. Since the medical director will be an employee of Providence (not the surgery center), no medical director contract was provided. If this project is approved, the department would attach a condition requiring Providence to submit a listing of key staff for the surgery center. Key staff includes all credentialed or licensed management staff, including the director of nursing, and medical director.

Other States

In addition to a review of all Washington State facilities owned and operated by Providence, the department also examined a sample of Providence/St Joseph Health facilities nationwide. According to information in the application and its website, Providence operates healthcare facilities across the western United States. The department randomly selected Providence and Providence-affiliated facilities in Montana, California, and Texas to review for their compliance with state and federal standards, shown below:

**Department’s Table 9
Providence and Affiliated Facilities Outside of Washington**

Facility Name	State	Joint Commission?	State Enforcement Action since 2016?
Providence			
Providence Little Company of Mary Medical Center San Pedro	CA	yes	yes ⁸
Providence Little Company of Mary Medical Center Torrance	CA	yes	no
Providence Saint John's Health Center	CA	yes	yes ⁹
Providence Saint Joseph Medical Center	CA	yes	no
Providence Tarzana Medical Center	CA	yes	no
Providence Affiliate – St Joseph Health			
Petaluma Valley Hospital	CA	yes	no

⁷ The three hospitals were Holy Family Hospital in Spokane County, Providence Regional Medical Center-Everett in Snohomish County, and Providence St. Peter in Thurston County.

⁸ One administrative enforcement action related to an ulcer acquired after admission and failure to report timely. No other violations found. Fine paid in full.

⁹ One administrative enforcement action related to reporting “retention of a foreign object in a patient.” No other violations found. Fine paid in full.

Facility Name	State	Joint Commission?	State Enforcement Action since 2016?
Hoag Hospital Newport Beach	CA	no – DNV	no
Covenant Health Plainview	TX	no	no

As shown above, out-of-state Providence facilities have demonstrated compliance with applicable state and federal regulations. No evidence on any of the state licensing websites indicated that any of the above facilities have ever been closed or decertified from participation in Medicare or Medicaid as a result of compliance issues. Furthermore the penalties identified above were resolved through minor administrative fines.

Based on the above information and agreement to the conditions identified in this evaluation, the department concludes that Providence demonstrated reasonable assurance that its surgery center located in Walla Walla would be operated in compliance with state and federal requirements. **This sub criterion is met.**

- (4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area’s existing health care system.

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that direct how to measure unwarranted fragmentation of services or what types of relationships with a services area’s existing health care system should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

Providence Health & Services

Providence provided the following statements related to this sub-criterion. [source: Application, p48 and March 26, 2018, screening response, p13]

“Providence is committed to providing its patients with safe and reliable service. All Providence facilities, inclusive of acute care hospitals, clinics, and ASFs, share a common electronic medical record platform (EMR). The common EMR allows relevant patient information to be expediently shared and reliably accessed by providers throughout the patient’s continuum of care – resulting in dependable coordinated care and quality clinical outcomes. Finally, since PSMC is a local provider for in patient care, the new ASF will have full access to health service resources at PSMC.

A copy of the draft patient transfer agreement can be found in Exhibit 21.”

[Providence St. Mary Medical Center] is an existing provider of both inpatient and outpatient care in the SE Washington and NE Oregon region and, accordingly, has a wide variety of working relationships with health care facilities and providers in this region. These relationships span the care continuum from pediatrics and family medicine; to ambulatory and urgent care to tertiary care services; and post-acute services.

Public Comment

None

Rebuttal Comment

None

Department Evaluation

With the increased access the four ORs bring to the planning area, the department concludes that the establishment of this free-standing surgery center does not represent unwarranted fragmentation of services. Furthermore, the applicant provided statements identifying how the surgery center would operate in relation to the existing facilities and services in the planning area.

Given that Providence provided a draft Patient Transfer Agreement, if this project is approved, the department would require Providence to provide a copy of the final Patient Transfer agreement consistent with the draft provided in the application.

Based on this information, the department concludes that the surgery center would have an appropriate relationship to the service area's existing health care system. **This sub-criterion is met.**

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

Department Evaluation

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

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

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

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

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

If there are multiple applications, the department's assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type. The adopted superiority criteria are objective measures used to compare competing projects and make the determination between two or more approvable projects which is the best alternative. If WAC

246-310 does not contain any service or facility type superiority criteria as directed by WAC 246-310-200(2) (a)(i), then the department would look to WAC 246-310-240(2)(a)(ii) and (b) for criteria to make the assessment of the competing proposals. If there are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b), then using its experience and expertise, the department would assess the competing projects and determine which project should be approved.

Step One:

Providence Health & Services

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

Step Two:

Providence Health & Services

Providence provided the following statements related to their consideration of alternatives prior to submitting this project. [source: Application, pp49-53 and March 26, 2018, screening response, pp13-14]

“Providence is requesting a CN for its proposed ASF. This will help address net need for outpatient operating rooms and procedure rooms in the Walla Walla County Planning Area by providing all eligible physicians and their patients’ access to a freestanding ASF.

As part of its due diligence, and in deciding to submit this application, Providence explored the following alternatives: (1) status quo: “do nothing,” (2) the requested project: seek CN approval for a two operating room (“ORs”) and two procedure room facility, (3) expand PSMCC’s hospital-based OR and procedure room capacity on its main campus, and (4) construct a new, standalone ASF building.

The four alternatives are evaluated using the following decision criteria: access to health care services; quality of care; cost and operating efficiency; staffing impacts; and legal restrictions. Each alternative calls out advantages (A), disadvantages (D), and neutrality (N) in the tables below.

Based on the above decision criteria, it is clear that the requested project: seek CN approval for a two OR and two procedure room facility is the best option.

*Applicant’s Table 19
Alternative Analysis: Access to Healthcare Services*

Option	Advantages/Disadvantages
<i>Status Quo: “Do nothing”</i>	<i>There is no advantage to maintaining the status quo in terms of improving access. (D) The principle disadvantage is that the status quo does nothing to address the projected need for ORs and procedure rooms in the Walla Walla County Planning Area. (D)</i>
<i>Requested Project: CN approval – two OR and two procedure room ASF</i>	<i>The requested project best meets current and future access issues identified in the Walla Walla County Planning Area. (A) From an improved access perspective, there are no disadvantages. (A)</i>

<i>Expand hospital-based OR and procedure room capacity</i>	<i>The option provides additional OR capacity to meet current and future access needs. (A) Principal disadvantage is that it funnels ambulatory surgical services to a hospital-based OR instead of an outpatient OR. (D)</i>
<i>Construct new ASF building</i>	<i>The option provides additional OR capacity to meet current and future access issues. (A)</i>

Applicant's Table 20

Alternative Analysis: Quality of Care

Option	Advantages/Disadvantages
<i>Status Quo: "Do nothing"</i>	<i>There is no advantage from a quality of care perspective. However there are no current quality of care issues. (N) The principal disadvantage with maintaining the status quo is driven by projected shortages of outpatient ambulatory surgery suites. Over time, as access is constrained, there will be adverse impacts on quality of care if planning area physicians and their patients either have to wait for surgical capacity or travel to locations outside of the planning area. (D)</i>
<i>Requested Project: CN approval – two OR and two procedure room ASF</i>	<i>The requested project meets and promotes quality and continuity of care in the planning area. (A) From a quality of care perspective, there are no disadvantages. (A)</i>
<i>Expand hospital-based OR and procedure room capacity</i>	<i>This option meets and promotes quality and continuity of care issues in the planning area. (A)</i>
<i>Construct new ASF building</i>	<i>Constructing a new ASF building meets and promotes quality and continuity of care issues in the planning area. (A) The principle disadvantage of a standalone facility suggests that both physicians and patients will not have ease of access to ancillary services and resources that would otherwise co-exist if the ASF were located within the former Walla Walla General Hospital campus. (D)</i>

Applicant's Table 21

Alternative Analysis: Cost and Operating Efficiency

Option	Advantages/Disadvantages
<i>Status Quo: "Do nothing"</i>	<i>Under this option, there would be no impacts on costs. (N) The principle disadvantage is that by maintaining status quo, there are no improvements to cost efficiencies. (D)</i>
<i>Requested Project: CN approval – two OR and two procedure room ASF</i>	<i>This option allows PSMC to better utilize lower cost settings in an ASF. (A) In addition, this option provides patients with increased access to a lower cost ASF. (A)</i>

	<i>From a cost and operating efficiency perspective, there are \$3,681,667 in capital expenses associated with the project. (D)</i>
<i>Expand hospital-based OR and procedure room capacity</i>	<i>A new hospital-based facility would require substantially more capital expenditures when compared to the proposed project, requiring compliance with hospital licensure codes. (D) This option provides increased cost when compared to a freestanding ASF. The Department has determined in another decision that such freestanding ASFs are lower cost in relation to hospital based facilities. (D)</i>
<i>Construct new ASF building</i>	<i>Constructing a new ASF building would require more capital expenditures when compared to standing up an ASF in the now closed WWGH campus. (D) Constructing a new ASF building and not utilizing the existing WWGH campus means that the costs spent to build and maintain the WWGH facility will remain unused, idle, and will depreciate even if the facility is not utilized for healthcare purposes. (D)</i>

*Applicant's Table 22
Alternative Analysis: Staffing Impacts*

<i>Option</i>	<i>Advantages/Disadvantages</i>
<i>Status Quo: "Do nothing"</i>	<i>Principal advantage would be the avoidance of hiring/employing additional ASF staff. (A) There are no disadvantages from a staffing point of view. (N)</i>
<i>Requested Project: CN approval – two OR and two procedure room ASF</i>	<i>This option better allows the specialization of staff dedicated to efficient delivery of ambulatory surgical procedures. (A) From a staffing impacts perspectives, there are no disadvantages. (N)</i>
<i>Expand hospital-based OR and procedure room capacity</i>	<i>There are no advantages from a staffing impacts perspective. (N) Principal disadvantage would be the necessity of PSMMC to hire hospital-based staff. (D)</i>
<i>Construct new ASF building</i>	<i>This option better allows physicians to concentrate work in a single facility. (A) From a staffing impacts perspectives, there are no disadvantages. (N)</i>

*Applicant's Table 23
Alternative Analysis: Legal Restrictions*

Option	Advantages/Disadvantages
<i>Status Quo: "Do nothing"</i>	<i>There are no legal restrictions to continuing operations as presently. (A)</i>
<i>Requested Project: CN approval – two OR and two procedure room ASF</i>	<i>The principal advantage would be allowing Providence the ability to open its ASF to non-Providence physicians. This will improve access, quality, and continuity of care. (A) Principal disadvantage is it requires CN approval, which requires time and expense. (D)</i>
<i>Expand hospital-based OR and procedure room capacity</i>	<i>The principal advantage would be allowing Providence the ability to open its new OR capacity to non-Providence physicians. This will improve access, quality, and continuity of care. (A)</i>
<i>Construct new ASF building</i>	<i>The principal advantage would be allowing Providence the ability to open its ASF to non-Providence physicians. This will improve access, quality, and continuity of care. (A) Principal disadvantage is it requires CN approval, which requires time and expense. (D)</i>

The requested project will respond to a clear, demonstrated need in the Walla Walla County Planning Area. A two OR and two procedure room ASF will allow patients who require outpatient surgery or other procedures to be directed away from hospital based operating rooms, resulting in increased access and a lower-cost of care. This also will provide acute patients with increased access to hospital-based ORs for services that cannot be provided in an ASF setting. By equipping and operating an ASF within the existing WWGH, Providence physicians and patients will have ease of access to ancillary services in the same facility. This will allow for reliable and accessible coordination of care throughout a patient's entire continuum of service.

In summary, this ASF will help transform the way care is delivered in the Walla Walla County Planning Area by offering quality care that is both affordable and local.

"When considering the option 'partnering with another provider (hospital or physicians)', it remains clear that the requested project is the better option for the following reasons.

- 1. From a legal restrictions perspective, partnering with another hospital or physician group introduces a high degree of operational complexity, as under this scenario a completely new governance structure would have to be established along with obtaining agreement on operational processes and financing (Disadvantage).*
- 2. From a staffing perspective, partnering with another hospital or physician group would create less staffing flexibility from the perspective of Providence. In this scenario, Providence would have less ability to flex staff between PSMC and the ASF, would have to build and establish additional management processes and structures, and finally would have to negotiate new compensation benefit packages for physician partners (Disadvantage).*

3. *From a cost and operating efficiency perspective, partnering with another entity would likely add additional costs and increased operating complexity (as noted above). In this scenario, costs may increase due additional efforts required to establish the correct governance and ownership structure, establish new and complicated staffing structure, and accommodate partner preferences on how to deliver care (Disadvantage). From a purely capital expenditures perspective, this scenario may not add any additional expenses with the assumption that any partner would have cash reserves available to dedicate to the project (Neutral).*
4. *From an access to health care services perspective, partnering with another entity should not adversely impact access to services with the assumption that the project would remain similar in that the ASF would be located in the former WWG hospital (Neutral).*
5. *From a quality of care perspective, partnering with another entity will not likely adversely impact quality of care when compared to the proposed project (Neutral).*

Finally, no other hospitals or physicians have expressed a desire to partner with Providence in respect to operating a new ASF in Walla Walla County. For this reason, we did not consider this an alternative to the proposed project.

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Information provided within the application demonstrates that it is unlikely Providence had a better alternative than submission of this application. Specifically, since its main purpose of converting a portion of the building formerly known as Walla Walla General Hospital to a freestanding surgery center is to improve patient access to outpatient surgical services in the county. This action alone requires prior CN review and approval. Based on this alone, Providence appropriately rejected the “do nothing” option.

The other alternatives to the requested project explored by Providence would require either a partner or a Certificate of Need application with a larger capital expenditure. These alternatives were appropriately rejected.

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

Department Evaluation

Step Three:

This step is applicable only when there are two or more approvable projects. As previously stated, both Providence Health & Services and Walla Walla Clinic submitted applications to add outpatient surgical capacity in Walla Walla County. Since this evaluation focuses solely on the Providence project, this step does not apply.

Based on the information stated above, **this sub-criterion is met.**

- (2) In the case of a project involving construction:
(a) The costs, scope, and methods of construction and energy conservation are reasonable;
(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

Department Evaluation

This sub-criterion was evaluated in conjunction with WAC 246-310-220 above and is considered 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.

Department Evaluation

The construction required for this project is based on the current applicable construction standards reviewed and approved by the Department of Health's Construction Review Services office. Based on information provided within the application, and evaluated under WAC 246-310-210 and 230, the department is satisfied that this project is appropriate and needed.

This project has the potential to improve the delivery of health services. The department concludes the addition of a CN-approved ASF will appropriately improve the delivery of health services in Walla Walla County. **This sub-criterion is met.**

APPENDIX A

