



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

April 2, 2019

CERTIFIED MAIL # 7017 3380 0000 0863 8697

Chris Johnston, Chief Administrative Officer
PeaceHealth United General Medical Center
2000 Hospital Drive
Sedro Woolley, Washington 98284

RE: Certificate of Need Application #19-13

Dear Mr. Johnston:

We have completed review of the Certificate of Need application submitted by PeaceHealth. The application proposes to establish a ten-bed level II rehabilitation unit at United General Hospital in Sedro Woolley, within east Skagit 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 Peace Health agrees to the following in its entirety.

Project Description

This certificate approves the addition of ten level II rehabilitation beds to the 25-bed critical access hospital known as United General Medical Center. A breakdown of the beds at project completion is below.

Type	Total # of Beds
Medical Surgical	25
Level II Rehabilitation	10
Total	35

Conditions

1. Approval of the project description as stated above. PeaceHealth 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. PeaceHealth shall finance the project as described in the application.
3. PeaceHealth must maintain Medicare and Medicaid certification for all ten rehabilitation beds.
4. PeaceHealth must obtain and maintain accreditation through the Commission on Accreditation of Rehabilitation Facilities (CARF) for the rehabilitation beds as described in the application.

5. PeaceHealth will provide charity care in compliance with its charity care policy. PeaceHealth 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 1.00% of gross revenue and 2.97% of adjusted revenue. PeaceHealth will maintain records of charity care applications received and the dollar amount of charity care discounts granted United General Medical Center. The records must be available upon request.
6. Prior to providing services within the ten-bed rehabilitation unit, PeaceHealth will provide the executed Admission Policy that includes the language specific to this rehabilitation project.
7. Prior to providing services within the ten-bed rehabilitation unit, PeaceHealth will provide the name and credential number for the staff identified in the application.

Approved Costs:

The approved capital expenditure for the ten level II rehabilitation beds is \$570,001.

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

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

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

Mailing Address:

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

Physical Address:

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

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

Sincerely,



Nancy Tyson, Executive Director
Health Facilities and Certificate of Need

Enclosure

EVALUATION DATED APRIL 2, 2019, FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY PEACEHEALTH PROPOSING TO ADD TEN REHABILITATION BEDS TO UNITED GENERAL HOSPITAL LOCATED IN EAST SKAGIT COUNTY

APPLICANT DESCRIPTION

PeaceHealth

The applicant is PeaceHealth, a Vancouver Washington based not-for-profit Catholic health system offering care to communities in Washington, Oregon, and Alaska. PeaceHealth operates, either under ownership or a lease, 10 hospitals in the three states. [source: Application, p1] A listing of the 10 hospitals is shown below. [source: Application, Exhibit 1]

**Department’s Table 1
PeaceHealth Hospitals**

Hospital	City / State Location	Owned/Operated/Leased
Cottage Grove Community Hospital	Cottage Grove/Oregon	Owned/Operated
Ketchikan Medical Center	Ketchikan/Alaska	Leased/Operated
Peace Harbor Hospital	Florence/Oregon	Owned/Operated
Sacred Heart Medical Center at Riverbend	Springfield/Oregon	Owned/Operated
Sacred Heart Medical Center University District	Eugene/Oregon	Owned/Operated
Peace Island Medical Center	Friday Harbor/Washington	Owned/Operated
Southwest Washington Medical Center	Vancouver/Washington	Owned/Operated
St. John Medical Center	Longview/Washington	Owned/Operated
St. Joseph Medical Center	Bellingham/Washington	Owned/Operated
United General Medical Center	Sedro Woolley/Washington	Leased/Operated

PROJECT DESCRIPTION

PeaceHealth

This project focuses on United General Medical Center (UGMC) located in Skagit County and shown in bold in the table above. UGMC is a critical access hospital¹ located at 2000 Hospital Drive in Sedro Woolley [98284], within east Skagit County. [source: Application, p3]

Under the critical access hospital designation, hospitals can have no more than 25 acute care beds in operation. A critical access hospital may also operate a distinct part rehabilitation and/or psychiatric unit, each with up to 10 beds. [source: Department of Health and Human Services Centers for Medicare and Medicaid Services] UGMC holds a four year accreditation from DNV GL through April 30, 2021.² [source: DNV GL website and Application, p1] UGMC also holds a level IV adult trauma designation with

¹ A Critical Access Hospital (CAH) is a federal designation under the Rural Hospital Flexibility Program that is administered by the federal Office of Rural Health Policy. A CAH is a small hospital located in rural areas of the state. CAHs are often the central hub of health services in their communities, providing primary care, long-term care, physical and occupational therapy, cardiac rehabilitation and other services in addition to emergency and acute care. Hospital staff provides these services either directly or in partnership with other community providers.

² “DNV GL Healthcare is a part of DNV GL - Business Assurance, all of which is a part of the global DNV GL Group. Our mission in Business Assurance is to help complex organizations achieve sustainable business performance. Our services help simplify organizational processes and validate your commitment to excellence. Within healthcare, we help our customers achieve excellence by improving quality and patient safety through hospital accreditation, managing infection risk, management system certification, and training.” [source: DNV GL website]

the Washington State Department of Health. [source: Washington State Emergency Medical Systems Trauma Designation website]

This project proposes to add 10 level II rehabilitation beds to UGMC.³ The 10 rehabilitation beds would be located in the ‘north wing’ of the hospital. At project completion, UGMC would be licensed and operating a total of 35 acute care beds, and of those, 10 would be dedicated level II rehabilitation beds.

Within the application, PeaceHealth provided the following description of the project and the proposed operations for the 10-bed level II rehabilitation unit. [source: Application, p6]

“The proposed 10 bed unit will be operated by and under the license of PHUGMC. PHUGMC will provide all of the nursing management and nursing staff as well as provide all necessary clinical ancillary and hospital support services as it does to all patients served by PHUGMC. The proposed 10 bed unit will be managed by RehabCare Group Management Services, LLC d/b/a Kindred Hospital Rehabilitation Services (Kindred). Kindred will be responsible for the day-to-day operations and implementation of the program. In addition, Kindred will be responsible for hiring all program management staff including the program director, as well the providing the physician to serve as medical director. Additional information is provided in the executed Inpatient Rehabilitation Management Agreement (Management Agreement) in Exhibit 2. In addition, PHUGMC will receive support from the PHSJMC [PeaceHealth St. Joseph Medical Center located in Bellingham, within Whatcom County] Medical Staff particularly in the areas of Physical Medicine and Rehabilitation, Neurology, and Neurosurgery in the form of medical consultation.”

If this project is approved, PeaceHealth intends that the 10 level II rehabilitation beds would be added to UGMC by the end of June 2019. At that time, the licensed bed capacity at UGMC would increase from 25 to 35. [source: Application, p13] Table 1 is a breakdown, by type, of UGMC’s currently licensed 25 acute care beds and the proposed addition of 10 level II rehabilitation beds associated with this project.

**Department’s Table 2
United General Medical Center
Current and Proposed Licensed Beds**

Type	Current # of Beds	Proposed Addition	Total # of Beds
Medical Surgical	25	0	25
Level II Rehabilitation	0	10	10
Total	25	10	35

Additionally, PeaceHealth provided the following information related to its timeline to add the 10 additional beds. [source: November 27, 2018, screening response, p10 and Attachment 2]

“PHUGMC has only one opportunity every year to add a PPS exempt unit. CMS requires that the acute rehabilitation unit be opened on the first day of a hospital’s fiscal year, which for PHUGMC is July 1. A decision by late March is the latest possible window for the construction to be completed and the unit operational by July 1. As CN Program staff requested during a November 8, 2018 phone call, included in Attachment 2 is documentation from CMS noting that these changes can be made at the start of the fiscal year.”

³ Level II rehabilitation services do not require prior Certificate of Need review because it is not a tertiary service listed in WAC 246-310-020(1)(d)(i). For this project, the requirement for Certificate of Need review focuses on the bed addition to the hospital.

This project includes construction and also requires a review by the Department of Health's Construction Review Services (CRS) office. The CRS project number is CRS60915790. The estimated capital expenditure associated with this project is \$570,001. Of that amount, approximately 57% is related to construction and fixed equipment; 16% is related to moveable equipment; and the remaining 27% is for associated fees, inspections, and sales tax. [source: Application, p25]

APPLICABILITY OF CERTIFICATE OF NEED LAW

PeaceHealth's application is subject to review as the change in bed capacity of a health care facility which increases the total number of licensed beds under Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

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

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

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

To obtain Certificate of Need approval, an 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).

TYPE OF REVIEW

This project was reviewed under the regular review timeline outlined in Washington Administrative Code 246-310-160. A chronologic summary of this project is below.

APPLICATION CHRONOLOGY

Action	PeaceHealth
Letter of Intent Submitted	July 9, 2018
Application Submitted	September 19, 2018
Department’s pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • Applicant’s Responses Received • DOH 2nd Screening Letter • Applicant’s Responses Received 	October 17, 2018 November 27, 2018 N/A N/A
Beginning of Review	December 4, 2018
End of Public Comment; No Public Hearing Conducted	January 8, 2019
Rebuttal Comments Due ⁴	January 23, 2019
Department’s Anticipated Decision Date	March 11, 2019
Department’s Anticipated Decision Date with a 30-day Extension	April 10, 2019
Department’s Actual Decision Date	April 2, 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.*

During the review of this project, one entity – SEIU 1199NW – submitted a request for interested person status. Below is a brief description of SEIU 1199NW and a determination of its status regarding this application.

SEIU 1199NW

Two representatives from SEIU (Services Employees International Union) 1199NW requested interested person status. SEIU 1199NW is a statewide union of nurses and healthcare workers.

⁴ Only letters of support for the project were received; as a result, PeaceHealth did not submit rebuttal comments.

According to its website, SEIU 1199NW represents more than 30,000 nurses and healthcare workers across Washington State. [source: SEIU 1199NW website] Though SEIU 1199NW may represent employees at United General Medical Center in Sedro Woolley, it is not located within the applicant’s health service area. SEIU 1199NW meets the definition of an ‘interested person,’ but does not qualify as an “affected person.” As an interested person, SEIU 1199NW could provide public comments on the application. Since SEIU 1199NW does not meet the definition of an affected person, it could not provide rebuttal comments. SEIU 1199NW did not submit either public comments or rebuttal comments for this project.

In summary, no entities qualify for affected person status for PeaceHealth’s project in east Skagit County.

SOURCE INFORMATION REVIEWED

- PeaceHealth’s Certificate of Need application received September 19, 2018
- PeaceHealth’s screening response received November 27, 2018
- Public comments accepted through January 8, 2019
- Hospital/Finance and Charity Care (HFCC) Financial Review dated March 25, 2019
- Licensing and/or survey data provided by the Department of Health’s Office of Health Systems Oversight
- Licensing data provided by the Medical Quality Assurance Commission, Nursing Quality Assurance Commission, and Health Systems Quality Assurance Office of Customer Service
- PeaceHealth’s website at www.peacehealth.org
- Kindred website at www.kindredhealthcare.com
- RehabCare Group Management Services, LLC’s website at www.rehabcare.com
- DNV GL Healthcare website at www.dnvglhealthcare.com
- Joint Commission website at www.qualitycheck.org
- Commission on Accreditation of Rehabilitation Facilities (CARF) website at www.carf.org
- Health Guide USA website for online license review website at https://www.healthguideusa.org/hospital_license_lookup.htm
- Certificate of Need historical files

CONCLUSION

PeaceHealth

For the reasons stated in this evaluation, the application submitted by PeaceHealth proposing to add ten level II rehabilitation beds to the critical access hospital known as United General Medical Center located in east Skagit County is consistent with applicable criteria of the Certificate of Need Program, provided PeaceHealth agrees to the following in its entirety.

Project Description:

This certificate approves the addition of ten level II rehabilitation beds to the 25-bed critical access hospital known as United General Medical Center. A breakdown of the beds at project completion is below.

Type	Total # of Beds
Medical Surgical	25
Level II Rehabilitation	10
Total	35

Conditions:

1. Approval of the project description as stated above. PeaceHealth 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. PeaceHealth shall finance the project as described in the application.
3. PeaceHealth must maintain Medicare and Medicaid certification for all ten rehabilitation beds.
4. PeaceHealth must obtain and maintain accreditation through the Commission on Accreditation of Rehabilitation Facilities (CARF) for the rehabilitation beds as described in the application.
5. PeaceHealth will provide charity care in compliance with its charity care policy. PeaceHealth 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 1.00% of gross revenue and 2.97% of adjusted revenue. PeaceHealth will maintain records of charity care applications received and the dollar amount of charity care discounts granted United Genera Medical Center. The records must be available upon request.
6. Prior to providing services within the ten-bed rehabilitation unit, PeaceHealth will provide the executed Admission Policy that includes the language specific to this rehabilitation project.
7. Prior to providing services within the ten-bed rehabilitation unit, PeaceHealth will provide the name and credential number for the staff identified in the application.

Approved Costs:

The approved capital expenditure for the ten level II rehabilitation beds is \$570,001.

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 determines that PeaceHealth met the applicable need criteria in WAC 246-310-210.

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

WAC 246-310 does not contain a rehabilitation bed need forecasting method. The 1987 Washington State Health Plan (SHP) that was "sunset" has a numeric methodology for projecting non-psychiatric bed need. Rehabilitation beds are included in the list of non-psychiatric beds in the state health plan. As a result, the department uses the Hospital Bed Need Forecasting Method contained in the SHP to assist in its determination of need for acute care capacity. The acute care bed methodology is used because the rehabilitation beds are licensed acute care beds that are dedicated to a specific use.⁵

The 1987 methodology is a twelve-step process of information gathering and mathematical computation. This forecasting method is designed to evaluate need for additional capacity in general, rather than identify need for a specific project.

Since the department does not have a specific methodology for rehabilitation beds, PeaceHealth provided a modified version of the acute care bed methodology that focuses on rehabilitation patients and patient days. The applicant proposes to add level II rehabilitation bed capacity to east Skagit County. Below is the assumptions and factors used in PeaceHealth's methodology.

PeaceHealth

[source: Application, pp20-23 & Exhibit 9 and November 27, 2018, screening response, p11 and p23 & Attachment 9]

PeaceHealth proposes to add 10 level II rehabilitation beds to UGMC located in east Skagit County. For its project, PeaceHealth identified its assumptions and factors used in its numeric methodology:

- Rehabilitation Planning Area – Skagit and Whatcom counties
- Historical Rehabilitation Data – CHARS⁶ data years 2008 through 2017
- Patient Age Range – Age range of patients to be services is generally 18 and over. Consistent with past acute rehabilitation methodologies applied by the CN Program, the specific age cohort included in the methodology is age 15+
- Historical Population Data – Population data based on Office of Financial Management medium series data released May 2018. Historical population data 2008 through 2017; projected population data 2018 – 2024; intercensal and postcensal estimates are calculated.
- Rehabilitation DRGs⁷
 - DRG 945 and 946 – Rehabilitation with complication/co-morbidity and major complication/co-morbidity for historical years 2008 through 2017.
- Psychiatric Data and DRGS – patients, patient day, and DRGs related to psychiatric services were excluded.

⁵ The acute care bed methodology in the 1987 SHP divides Washington State into four separate HSAs that are established by geographic regions appropriate for effective health planning. Skagit and Whatcom counties is located in HSA #1, which includes the following 10 counties: Clallam, Island, Jefferson, King, Kitsap, Pierce, San Juan, Skagit, Snohomish, and Whatcom.

⁶ Comprehensive Hospital Abstract Reporting System.

⁷ DRG=Diagnosis Related Group

- Existing Rehabilitation Bed Capacity
 - No existing rehabilitation beds are located in Skagit County.
 - From 2007 through October 31, 2018, PeaceHealth’s St. Joseph Medical Center operated a level I rehabilitation unit in Bellingham, within Whatcom County. The rehabilitation unit closed near the end of October 2018.

PeaceHealth’s numeric methodology shows years 2017 through 2024 based on a weighted occupancy standard of 50%. Table 3 below shows the results of the numeric methodology beginning with year 2019 through year 2024

**Department’s Table 3
PeaceHealth Rehabilitation Methodology
Projection Years 2019 through 2024 for Skagit and Whatcom Counties**

	2019	2020	2021	2022	2023	2024
Gross Number of Beds Needed	21.0	22.0	22.0	18.0	23.0	23.0
Minus Existing Capacity	0.0	0.0	0.0	0.0	0.0	0.0
Net Bed Need or (Surplus)	21.0	22.0	22.0	18.0	23.0	23.0

Public Comments

None

Rebuttal Comments

None

Department Evaluation

As shown in Table 3 above, PeaceHealth’s methodology shows need for 21 rehabilitation beds in current year 2019, which increases to 23 beds by the end of year 2024. It is noted, however, that PeaceHealth used a 50% occupancy standard, when 55% would have been the accurate standard to use. As a result, PeaceHealth’s methodology could be slightly overstated. The resulting difference, though, would be negligible, though because PeaceHealth is requesting only 10 of the 21 beds needed in 2019. The department concludes that the applicant provided a methodology with reasonable assumptions. Based on the need methodology alone, PeaceHealth demonstrated numeric need for the project.

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

PeaceHealth

Focusing on the availability and accessibility of existing providers for level II rehabilitation services, PeaceHealth provided the following information. [source: Application, p5]

“There are no providers of acute inpatient rehabilitation services in Skagit County. In Whatcom County, while PeaceHealth St. Joseph Medical Center (PHSJMC) currently operates a 14 bed Level I rehabilitation program, PeaceHealth announced on September 7, 2018. This closure will allow PHSJMC to close the 14-bed unit to new patients on September 29, 2018 to focus on the need to meet the increased demand for hospital services in the service area due to the growing and aging population. Once the last patient is discharged, which is expected to occur by late fall 2018,

PHSJMC will no longer operate an acute inpatient rehabilitation program, leaving no remaining acute inpatient rehabilitation programs operating in Skagit and Whatcom counties.”

In its screening response, PeaceHealth clarified that the rehabilitation unit at St. Joseph Medical Center close at the end of October 2018. [source: November 27, 2018, screening response, p1]

PeaceHealth provided additional information related to this sub-criterion below. [source: Application, pp15-16]

“PHUGMC proposes to establish a 10 bed Level II acute rehabilitation program. The proposed service area is Skagit and Whatcom Counties. This program will be managed by Kindred; an organization with specialized expertise in post-acute care services including acute rehabilitation.

Research suggests that patients treated in inpatient rehabilitation facilities had better long-term clinical outcomes, lower mortality, reduced emergency visits, fewer readmissions back to the acute level of care and more days at home than did those with similar medical conditions that did not receive acute rehabilitation.^{5,6} Research also supports that effective coordination of care between acute and post-acute settings has benefits for patients and providers and has also resulted in reduced hospital readmissions – thereby reducing spending and improving the patient care experience.

A review of acute rehabilitation discharges for the past five years within Skagit and Whatcom Counties demonstrates that, on average, approximately 275-300 residents of the combined counties age 15+ are admitted to an acute rehabilitation unit annually. Table 7 provides additional detail:

Applicant’s Table

Table 7

Skagit and Whatcom County Residents Acute Rehabilitation Discharges by Year

County	2013	2014	2015	2016	2017
Skagit	86	82	98	87	82
Whatcom	208	181	186	199	187
Total	294	263	284	286	269

Source: WA CHARS 2013-2017, age 15+, Rehabilitation is defined as DRG codes 945/946 prior to 9/30/2015 and implementation of ICD-10. Beginning 10/1/2016, Rehabilitation is defined by the hospital unit of rehab and includes St. Luke’s Rehabilitation.

Health care reform has placed an enhanced focus and demand for quality post-acute care services coupled with increased coordination between acute care and post-acute providers as a means to improve outcomes, reduce hospital readmissions, reduce costs and increase patient satisfaction.

Rehabilitation services are a key component of post-acute care, and it is critical to ensure that all levels of rehabilitation services, including acute, are available in the community. An acute, inpatient rehabilitation unit offers many characteristics that differentiate it from other venues of rehabilitation services. Most importantly, an acute rehabilitation program provides stabilizing medical and nursing care and progressive rehabilitation therapy for cognitive and functional recovery. Patients must require more than one form of therapy, one of which must be Physical Therapy or Occupational Therapy, at least 3 hours per day, five days a week, or at least 15 hours in a 7 consecutive day period.

PHUGMC’s program will assure 24-hour, 7-day-a-week availability of physicians and nurses with specialized training or experience in medical rehabilitation. Available therapists will include practitioners in physical therapy, occupational therapy, and speech/language pathology.

Rehabilitation physicians, nurses, therapists and other professional staff members will meet weekly to discuss each patient’s progress and establish goals and time frames, conduct discharge planning, and function daily as an onsite interdisciplinary team of rehabilitation specialists.”

In response to the department’s inquiry about where the level II rehabilitation patients are currently receiving care, PeaceHealth provided the following information. [source: November 27, 2018, screening response, pp6-7]

“According to CHARS, and as depicted in Table 5, Skagit and Whatcom County patients in need of acute rehabilitation services, used the following facilities during the period of 2015-2017:

Applicant’s Table

**Table 5
Skagit and Whatcom County Residents Acute Rehab Discharges by Hospital,
2015-2017**

Hospital Name	Skagit County				Whatcom County				Skagit and Whatcom Combined Market Share 2015-2017
	2015	2016	2017	% Market Share 2015-2017	2015	2016	2017	% Market Share 2015-2017	
PeaceHealth St. Joseph Medical Center	40	35	45	44.9%	173	178	177	92.3%	76.7%
Providence Regional Medical Center Everett	31	24	14	25.8%	4	0	2	1.0%	8.9%
UW/Harborview Medical Center	11	8	9	10.5%	3	10	3	2.8%	5.2%
Swedish Cherry Hill	9	7	7	8.6%	2	3	2	1.2%	3.6%
UW/University of Washington Medical Center	3	11	5	7.1%	3	10	3	1.7%	4.1%
EvergreenHealth Medical Center	0	1	1	0.7%	0	0	0	0.0%	0.2%
St. Luke's Rehabilitation Institute	0	1	1	0.7%	0	0	0	0.0%	0.2%
Seattle Children’s	1	0	0	0.4%	0	1	1	0.3%	0.4%
Kindred Hospital Seattle	1	0	0	0.4%	0	0	0	0.0%	0.1%
North Valley Hospital	1	0	0	0.4%	0	0	0	0.0%	0.1%
Virginia Mason Medical Center	1	0	0	0.4%	0	0	0	0.0%	0.1%
MultiCare Good Sam	0	0	0	0.0%	0	1	0	0.2%	0.1%
PeaceHealth Southwest Medical Center	0	0	0	0.0%	1	0	0	0.2%	0.1%
Providence St. Peter Hospital	0	0	0	0.0%	0	1	0	0.2%	0.1%
Total	98	87	82	100.0%	186	204	188	100.0%	100.0%

Source: WA State CHARS, Acute Rehab defined as DRGs 945-956 and discharges to acute rehabilitation units and St. Luke’s Rehabilitation Institute, patients age 15 and over, numbers may not add to 100% due to rounding

The department also asked PeaceHealth if UGMC had a history of transferring level II rehabilitation patients. PeaceHealth provided the following response. [source: November 27, 2018, screening response, p8]

“As a critical access hospital (CAH), PHUGMC does not typically admit the acuity of patients that require acute rehabilitation services (post an acute care stay), so to date, we have not historically transferred patients in need of acute rehabilitation. That said, we do accept, via our swing bed program, patients in need of lesser intensity, longer term care rehabilitation services.

By definition, these patients are not qualified for comprehensive acute rehabilitation due to inability to tolerate three or more hours of rehabilitation daily, among other factors. The establishment of an acute rehabilitation program at PHUGMC will expand services at the hospital but these patients will most likely be transferred from other acute care hospitals.”

The department asked PeaceHealth to identify the expected referral sources for the 10-bed level II rehabilitation unit at UGMC. PeaceHealth provided the following response. [source: November 27, 2018, screening response, p8]

“As noted in response to other questions, the expected referral sources are other acute care hospitals. PeaceHealth expects the primary source to be SJMC. Other referral sources are expected to include Skagit Valley Hospital, Island Hospital, PeaceHealth Peace Island and those King and Snohomish County hospitals for whom Skagit and Whatcom County residents may have received specialized acute care services.”

Public Comments

During the review of this project, the department received three letters of support. All three letters were from an affiliate of PeaceHealth and the letters focus on the need for level II rehabilitation services at UGMC. Excerpts from each of the three letters is below.

Daniel D. Kim, MD Chief of Hospitalist Program, UR Medical Director, Physician Advisor for Clinical Documentation for PeaceHealth St Joseph Medical Center and Interim Chief- PeaceHealth United General Hospital

“I am the Director of PeaceHealth St. Joseph Medical Center's (PHSJMC) Hospitalist Program as well as the Interim Director of the Hospitalist program at PHUGMC. In my roles, I am well aware of the post-acute care needs of patients and am pleased to submit this letter of support for Peace Health United General Medical Center's (PHUGMC) certificate of need application proposing to establish a 10-bed Level II acute rehabilitation program to serve Skagit and Whatcom Counties.

At PHSJMC, and in an average month, my colleagues and I experience about 10-15 patients that because of medical necessity and the need for return of functional independence that we recommend for admission to an acute rehabilitation unit following discharge. This includes patients that have undergone more than one major joint replacement during a single hospitalization or have significant comorbidities that result in functional deficits with a single joint that necessitates an acute inpatient level of rehabilitation. It also includes patients that have experienced a stroke, amputation, trauma, cardiovascular procedure (including CABG), fractures or that have advanced osteoarthritis, among other conditions.

The goal of acute rehabilitation is restoration of self-sufficiency or maximal possible functional independence. However, since the fall 2018 closure of PHSJMC's program, it has been a challenge to find a program that our patients and their families find acceptable. Currently, the closest inpatient program is in Everett, which under the best of circumstances is at least a 60-70-minute drive each way. The congestion through Everett and the Smokey Point area is a concern I hear repeatedly. I recently had a patient decline acute rehabilitation because of the impact on their family associated

with the travel time, even though they understood that their ability to ability to achieve the best outcomes was being compromised.

The proposed unit at PHUGMC will be about a 30-minute drive and undertaken on much less congested byways. I have spoken with patients and families about the proposed unit at PHUGMC and consistently have heard how much more acceptable that location would be compared with Everett. The need is documented. I urge your timely approval.”

James D. Holstine, DO with PeaceHealth Medical Group

“I am pleased to submit this letter of support for PeaceHealth United General Medical Center's (United General) proposed acute rehabilitation program. In addition to practicing orthopedic surgery, I also serve as the medical director of Peace Health St. Joseph's Joint Replacement Center and its Geriatric Fracture Program. In these roles, I am acutely aware of the need for acute rehabilitation services and support the establishment of this program at United General.

In the minds of Whatcom-based providers, the program at United General, is not considered a new program, but rather the relocation of an existing program to a new location. The closure of the acute rehabilitation program at PeaceHealth St. Joseph Medical Center was mandated due to demand for beds and space for trauma and other acute/emergency admissions. Throughout 2018, providers were increasingly canceling or postponing elective cases due to the high volume of emergent and urgent surgical cases. And, patients were staying longer in the P ACU because there were no inpatient beds available. With the closure of the rehabilitation unit, we are able to quickly expand capacity without significant construction or costs, and thereby mitigate cancelled and postponed cases.

By relocating and opening the unit at United General, PeaceHealth will be able to better serve all of our patients, including residents of Skagit County. And, based on the conversations I have had with other clinicians, patients and families, knowing that the acute rehabilitation program at United General will be another PeaceHealth program only a short distance away is an acceptable alternative. Please feel free to contact me should you have any additional questions.”

Karla Hall, RN, CCM, Director, Care Management with PeaceHealth St. Joseph Medical Center

“I am pleased to submit this letter of support related to PeaceHealth United General Medical Center's (United General) certificate of need application for the establishment of a 10-bed acute rehabilitation unit. As Director of Care Management for PeaceHealth's Lower Northwest Network (which includes United General, Peace Island Medical Center and St. Joseph Medical Center), I know firsthand about the need for accessible, quality post-acute rehabilitation options for patients within the region.

Until it closed to reduce bed access delays for trauma and other acute patients, the rehab unit at St. Joseph Medical Center averaged about 10 patients per day, with more than 95% coming from Whatcom, Skagit and San Juan Counties. Since the fall 2018 closure, finding acute rehabilitation options for our patients has been a challenge. The closest program is in Everett, a travel time of 60-70 minutes under the best of travel circumstances. As that Program has reached census, we have been referring patients to the new inpatient rehabilitation hospital in Tacoma (the programs in Seattle have also been at capacity when we have requested transfer). Travel to Tacoma exceeds 2 hours, and regularly approaches 3 hours from Bellingham, and our patients and their families are declining referral. Just over the past three months, I am aware of several instances in which patients have declined referral to an out-of-region acute rehab program (while total numbers are not available, I am aware of 8-10 patients in the last three months on just one of St. Joseph's seven units

that declined acute rehab). The Care Management Program is concerned that our patients are foregoing the most appropriate rehab options and greatest potential for recovery in terms of outcomes because of the distance to the available programs: our patients and families they tell us repeatedly that they prefer proximity over programs and have frequently opted for a skilled nursing based rehabilitation program to be closer to home.

I am confident that an acute rehabilitation option that is within 20 miles of the majority of our patients, will contribute positively to the health outcomes of our patients. The program at United General will provide an easily accessible location for our patients. There will be no need to navigate busy, congested highways, multi-story parking structures and multi-story hospital campuses. Our patients and families have indicated that a drive to Sedro-Woolley, accessible surface parking and a small, intimate hospital setting will be well used.”

Rebuttal Comments

Since all three letters were in support of the establishment of a 10-bed level II rehabilitation unit at UGMC, PeaceHealth did not provide rebuttal comments.

Department Evaluation

PeaceHealth states that St. Joseph Medical Center in Bellingham has closed the inpatient rehabilitation unit. The department concurs that once the level I rehabilitation unit at St. Joseph Medical Center close, rehabilitation services are not readily available or accessible to residents of Whatcom County and surrounding areas.

PeaceHealth provided information in the application to demonstrate that residents of the three counties are forced to travel to receive rehabilitation care. The two letters of support for the project focused on the need for rehabilitation bed capacity at UGMC.

PeaceHealth provided documentation intended to demonstrate rehabilitation beds are needed at UGMC. The letters of support assist PeaceHealth with this demonstration. Based on the information received, the department concludes the existing capacity is not available and accessible to meet the projected need. **This sub-criterion is met.**

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

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

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

Medicare certification is a measure of an agency’s willingness to serve the elderly. With limited exceptions, Medicare is coverage for individuals age 65 and over. 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 underinsured. 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.

PeaceHealth

PeaceHealth provided copies of the following policies used at all PeaceHealth hospitals, including UGMC. [source: November 27, 2018, screening response, Attachment 7]

- Admission Policy-effective date January 28, 2015
- Non-Discrimination Policy- effective date July 26, 2016
- Charity Care Policy-2018
- Patient/Family/Community Complaint and Grievance Policy and Procedure- effective date March 26, 2018
- Patient Complaint and Grievance Policy and Procedure- effective date March 26, 2018
- End of Life Policies, which includes:
 - Advance Directive
 - Do Not Attempt Resuscitation/Allow Natural Death
 - Physician Orders for Life Sustaining Treatment,
 - Withholding/Withdrawal of Life Sustaining Treatment,
 - Definition of Death
 - Euthanasia
 - Medically Non-Beneficial Treatment
 - Physician Assisted Suicide-Governance
 - Physician Assisted Suicide-Inpatient Hospital

PeaceHealth also clarified that the following language will be added to the Admission Policy for UGMC if this rehabilitation project is approved. [source: November 27, 2018, screening response, p23]

The admission process will be identified and communicated to all referral sources. The process is intended to facilitate appropriate admissions and to provide rehabilitation services to persons in need. The admission will be coordinated with concern for the judicious use of the patient's financial resources across the life span, in compliance with the CMS criteria for inpatient rehabilitation services.

Medicare and Medicaid Programs

UGMC is currently Medicare and Medicaid certified. PeaceHealth provided its current source of revenues by payer for UGMC under the following three settings.

- UGMC current payer mix as a 25 bed critical access hospital;
- UGMC proposed payer mix for the 10-bed rehabilitation unit; and
- UGMC proposed payer mix for the 25-bed critical access hospital, with an additional 10 beds located in a rehabilitation unit.

[source: November 27, 2018, screening response, p9]

**Departments Table 4
United General Medical Center Payer Mix**

Source	Historical	Projected	
	2018 Current Hospital Only	10 Rehab Beds Only	Project Hospital with Rehab
Medicare	49.0%	75.9%	50.8%
Medicaid	19.4%	8.0%	18.6%
Commercial/Other	28.3%	15.9%	27.5%
Self-Pay	3.3%	0.2%	3.1%
Total	100.0%	100.0%	100.0%

PeaceHealth provided the following assumptions related to the projected payer mix above. [source: November 27, 2018, screening response, p9]

“Historical (now labeled: Historical Hospital Only) is based on PHUGMC’s hospital-wide August Year to Date payor mix. The projected payor mix (now labeled Projected Hospital with Rehab) adds SJMC’s Acute Rehab payer mix history (blended rate of FY2017 & FY2018) to the actual PHUGMC hospital wide experience. A new column has been added to show the 10 bed rehabilitation unit only.”

Additionally, PeaceHealth providing the following information related to patient access to appropriate rehabilitation services. [source: Application, pp34-35]

The eligibility criteria for admission to acute rehabilitation are set by Medicare and other payers and include:

- *Require active and ongoing intervention of multiple therapy disciplines (Physical Therapy [PT], Occupational Therapy [OT], Speech-Language Pathology [SLP], or prosthetics/orthotics), at least one of which must be PT or OT;*
- *Require an intensive rehabilitation therapy program, generally consisting of: 3 hours of therapy per day at least 5 days per week; or in certain well-documented cases, at least 15 hours of intensive rehabilitation therapy within a 7-consecutive day period, beginning with the date of admission;*
- *Reasonably be expected to actively participate in, and benefit significantly from, the intensive rehabilitation therapy program (the patient’s condition and functional status are such that the patient can reasonably be expected to make measurable improvement, expected to be made within a prescribed period of time and as a result of the intensive rehabilitation therapy program, that will be of practical value to improve the patient’s functional capacity or adaptation to impairments);*
- *Require physician supervision by a rehabilitation physician, with face-to-face visits at least 3 days per week to assess the patient both medically and functionally and to modify the course of treatment as needed; and*
- *Require an intensive and coordinated interdisciplinary team approach to the delivery of rehabilitative care.*

Within these criteria, PHUGMC’s proposed acute rehabilitation service will help ensure that qualifying patients have timely access to service. The provision of available and accessible local services reduces costly and often disruptive travel to more distant communities.”

Public Comments

None

Rebuttal Comments

None

Department Evaluation

PeaceHealth has been providing healthcare services to the residents of Washington and Oregon for many years. Specific to UGMC, healthcare services have been available to low-income, racial and ethnic minorities, handicapped and other underserved groups. [source: PeaceHealth website]

All policies outline the criteria that PeaceHealth uses to admit patients for treatment. The Admission and Non-Discrimination policies include language to ensure all patients would be admitted for treatment without regard to “*race, color, creed, national origin, religion, gender, age, sexual orientation, marital status, or disability.*”

Because PeaceHealth intends to add specific language to the Admission Policy for UGMC’s rehabilitation services, if this project is approved, the department would attach a condition requiring PeaceHealth to provide a copy of the Admission Policy with the added language prior to providing rehabilitation services at UG:MC.

Specific to UGMC, Medicare revenues are projected to be 50.8% of total revenues for the hospital and 75.9% for the rehabilitation unit alone. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, Exhibit 12, and November 27, 2018, screening response, p9]

PeaceHealth also provided its projected percentage of Medicaid revenues for UGMC and for the rehabilitation unit separately. For UGMC, Medicaid revenues are projected to be 18.6% of total revenues and for the rehabilitation unit, Medicaid revenues are projected to be 8.0% of total revenues. The financial data provided in the application also shows Medicaid revenues. [source: Application, Exhibit 12, and November 27, 2018, screening response, p9]

The Admission Policies and Charity Care Policy are consistent with policies reviewed and approved by the Department of Health. Further, PeaceHealth demonstrated that it would continue to be available to serve the Medicare and Medicaid populations.

The Charity Care Policy has been reviewed and approved by the Department of Health's Hospital and Patient Data Systems office. The Financial Assistance Policy outlines the process to obtain charity care and is used in conjunction with the charity care policy. The pro forma financial documents provided in the application include a charity care 'line item' as a deduction of revenue

Charity Care Percentage Requirement

For charity care reporting purposes, Hospital/Finance and Charity Care Program divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. UGMC is located in Skagit County, within the Puget Sound Region. In years 2015 and

2016, there were 21 hospitals operating in the region. In 2017, there are 23 hospitals operating in the region.⁸ Of the 23 hospitals, one did not report charity care data for all three years reviewed.⁹

Table 5 below compares the three-year historical average of charity care provided by the hospitals currently operating in the Puget Sound Region and UGMC’s historical charity care percentages for years 2015-2017.¹⁰ The table also compares the historical and projected percentages of charity care at UGMC . [source: Application, p33 and HFCC 2015-2017 charity care summaries]

**Department’s Table 5
Charity Care Percentage Comparisons**

	Percentage of Total Revenue	Percentage of Adjusted Revenue
Puget Sound Region Historical Average	1.00%	2.97%
United General Medical Center Historical Average	1.22%	4.37%
United General Medical Center Projected Average	1.81%	2.16%

The three-year historical average summarized in the table above shows UGMC has been providing charity care above the regional average. UGMC has been providing charity care for many years and intends to continue to provide charity care if this project is approved. For projected charity care, UGMC proposes to provide charity care above the average for total revenue, but below the average for adjusted revenue. For this reason, if this project is approved the department would attach a condition requiring UGMC to provide charity care at specific percentages identified in the application.

Based on the information provided in the application and with PeaceHealth’s agreement to the conditions as described above, the department concludes **this sub-criterion is met.**

- (3) The applicant has substantiated any of the following special needs and circumstances the proposed project is to serve.
 - (a) The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both, to individuals not residing in the health service areas in which the entities are located or in adjacent health service areas.
 - (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.

Department Evaluation

This sub-criterion is not applicable to this application.

- (4) The project will not have an adverse effect on health professional schools and training programs. The assessment of the conformance of a project with this criterion shall include consideration of:
 - (a) The effect of the means proposed for the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.

⁸ In year 2017, two psychiatric hospital opened and both are located in Snohomish County: Smokey Point Behavioral Hospital in Marysville and UHS/BHC Fairfax Hospital in Monroe.

⁹ UHS/BHC Fairfax Hospital North did not report data in year 2016.

¹⁰ As of the writing of this evaluation, charity care data for year 2018 is not available.

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

Department Evaluation

This sub-criterion is not applicable to this application.

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

Department Evaluation

This sub-criterion is not applicable to this application.

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

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

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

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

PeaceHealth

The assumptions used by PeaceHealth to determine the projected number of admissions, patient days, and occupancy of its rehabilitation unit are summarized below. [source: Application, Exhibit 12 and November 27, 2018, screening response, p11]

- *As noted on page 16 and in Table 7 of the application, acute rehabilitation discharges for Skagit and Whatcom residents averaged 280 per year over the past 5 years. As depicted in Table 5, the SJMC Program enjoyed a 77% market share of these discharges just over the past three years. The assumption in this application is that PHUGMC will realize approximately 65% market share in Year 1, increasing to 71% in Year 2 and approximately 79% in Year 3*
- *In addition, we also expect in-migration from at least San Juan and Island Counties and assumed 11% from in-migration. This is based on the strong support of key referring providers and organizations in both Counties and Kindred's experience managing and "designing" other rehabilitation programs in similarly sized communities.*
- *Assumed an average of 204 admissions annually in 2020; growing to 223 in 2021 and 250 in 2022.*
- *The Average Length of Stay (ALOS) is assumed to be 12.5 (this is based on Kindred's ALOS assuming an average patient acuity, Case Mix Index of 1.26.*

Using the assumptions stated above, PeaceHealth’s projected number of rehabilitation inpatient admissions, patient days, average daily census, and occupancy percentages for UGMC are shown in Table 6 below. [source: Application, p8]

**Department’s Table 6
United General Medical Center
Rehabilitation Cost Center Projections for Fiscal Years 2019 through 2021**

	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Rehabilitation Beds	10	10	10
Projected Discharges	175	219	248
Projected Patient Days	2,190	2,738	3,103
Average Daily Census	6.0	7.5	8.5
Occupancy Percentages	60.0%	75.0%	85.0%

The assumptions PeaceHealth used to project revenue, expenses, and net income for the rehabilitation cost center for fiscal years 2019 through 2021 are summarized below. [source: Application, Exhibit 12 and November 27, 2018, screening response, p24-26]

- *Inpatient Revenue: The revenue is based on the payer mix and utilization projections detailed in earlier sections of this application. Charges and reimbursement calculations were based on the experience of PeaceHealth in the operation of the existing rehabilitation unit at PeaceHealth St. Joseph Medical Center. There is no revenue inflation assumed.*
- *Provision for Bad Debt: 1% of Inpatient Revenue*
- *Charity Care : 0.95% of Inpatient Revenue (PHUGMC’s current charity care percentage)*
- *Salaries and Wages/Employee Benefits: Staffing detail, by FTE, is provided in Table 13. Salaries are based on PeaceHealth estimate of rates at PHUGMC and benefits are assumed to be 27% of salaries. Costs for Kindred staff included in Management Agreement (Exhibit 2).*
- *Kindred Management Fees: Based on Provision of Administrative Services agreement. Assumes an average care mix of 1.26 and also includes the 2.5% annual increase per the agreement. Detail provided in Table 14 (below).*

Applicant’s Table

**Table 14
Kindred Management Fee Detail**

	FY 2020	FY 2021	FY 2022
Monthly Rate for Medical Director and Clinical Liaison (assumes 2.5% annual increase per agreement)	\$18,750	\$19,219	\$19,699
Annual Medical Director/Clinical Liaison Fee	\$225,000	\$230,625	\$236,391
Mgt Fee per Discharge	\$4,265.87	\$4,372.52	\$4,481.83
Discharges	175	219	248
CMI	1.26	1.26	1.26
Mgt Fee per Discharge	\$940,624	\$1,206,552	\$1,400,482
Total Mgt Fee	\$1,165,624	\$1,437,177	\$1,636,873

- *Supplies: \$23.00 per patient day*

- *Purchased Services-Utilities: Allocation of cost per day – Water/Sewer & Trash and cost per square Feet of proposed rehab unit for Electric, Gas, Phone.*
- *Purchased Services – Other: Includes provision for PeaceHealth Corporate Support Services. Estimated to be \$407,000 per year. The cost categories allocated from the PeaceHealth Corporate Offices (Shared Services) and include Administration, Legal, Finance, Human Resources, Quality, Supply, IT, Billing and Other. All PeaceHealth Medical Centers receive an allocation and the basis for the allocation varies and includes allocations based on net revenue, paid hours or supply costs. Specific line item costs, included in the Purchased Services – Other are detailed in Table 9 (below)*

Applicant's Table

Table 9

Allocated Costs to PeaceHealth United General Medical Center, With 10 Rehab Beds

<u>Line Item</u>	<u>Amount</u>
Allocated Costs	
Administration	\$683,168
Legal	\$149,043
Finance	\$1,395,058
Human Resources	\$736,340
IT	\$2,196,386
Quality	\$511,964
Billing	\$303,101
Supply Chain	\$319,341
Other	\$298,663
Total Allocated Costs	\$6,593,064
Non-Allocated Costs	
Purchased Services (consulting fees, legal fees, security services, laboratory testing, janitorial, lease)	\$1,604,400
Total	\$8,197,464

Source: Applicant

- *Depreciation: Based on straight line method and is for the equipment (assumes 7 years for useful life) and Renovation costs (averages 14 years for useful life).*
- *Insurance: Based on PeaceHealth actual experience and assumed 50% variable costs based on cost per day.*
- *Other Direct Expenses: \$136 per patient day (unit expense, ancillary costs & direct variable overhead).*
- *Medical Director and Clinical Liaison Assumed Costs: As noted in response to question #27, these two positions are not the same. Table 8 (below) details the cost breakdown for each position.*

Applicant's Table

Table 8

Medical Director and Clinical Liaison Assumed Costs

Position	Assumed Cost (Year 1)
Medical Director	\$117,000
Clinical Liaison	\$108,000
Total	\$225,000

Source: Applicant and P. 21 of the executed management agreement in Attachment 4)

PHUGMC based the following assumptions on the existing SJMC acute rehabilitation program.

- *Bad debt at 2.0% of revenue. PHUGMC’s historical bad debt is @ 2.1%. The Rehab program is estimated to have a lower rate bad debt percentage (based on SJMC). The projected bad debt for the hospital with the Rehab program is therefore, estimated at 2.0%.*
- *Charity care at 1.8% of inpatient revenue. PHUGMC’s FY18 charity care experience was @ 1.9% of gross revenue. The Rehab program is estimated to have only a 1% Charity rate (based on SJMC Rehab experience). The projected Charity for the hospital with the Rehab program is @ 1.8%.*
- *All other expenses listed in the statement.*
 - *FY18 PHUGMC Salaries plus estimated Salaries/FTEs for the Rehab program.*
 - *Benefits – FY18 PHUGMC benefits plus estimated benefits associated with Rehab program. Benefit rate for that program was based on PHUGMC’s FY19 Budget.*
 - *Pro-fees – FY18 PHUGMC. No Professional fees were added for Project.*
 - *Supplies – FY18 PHUGMC plus Supply expense in #54 above*
 - *Utilities – FY18 PHUGMC plus an estimate of additional Rehab utilities*
 - *Electrical based on additional sq. footage (FY18 cost /sq. foot).*
 - *Natural gas based on additional sq. footage (FY18 cost/sq. foot).*
 - *Water & Sewer cost/day (FY18 assumed 25% variable)*
 - *Trash FY18 cost per day time Rehab days*
- *Purchased Services Other - FY18 PHUGMC plus see response to Question #61 below*
- *Purchased Services Kindred fee – detailed provided in Table 14 of the application (Exhibit 12)*
- *Depreciation – FY18 PHUGMC Depreciation plus the incremental capital costs of rehab program divided by components life (estimated based on experience with similar projects. Average life of total project was 11years.*
- *Property Insurance PHUGMC’s FY18 cost/day (assumed 50% variable)*
- *Other direct expense based on PHUGMC FY2018 plus estimated impact for Rehab (provided in response to Question #54). The other direct expenses assumption, however, does exclude any costs that are to be provided by Kindred (i.e., therapy costs).*
- *Payer Mix: Historical (now labeled: 2008 Current Hospital Only) is based on PHUGMC’s hospital-wide August Year to Date payor mix. The projected payor mix (now labeled Projected Hospital with Rehab) adds SJMC’s Acute Rehab payer mix history (blended rate of FY2017 & FY2018) to the actual PHUGMC hospital wide experience. A new column has been added to show the 10 bed rehabilitation unit only. The requested information is included in Table 6. (see below)*

Applicant’s Table 6

**Table 6
PeaceHealth United General Existing and Proposed Payer Mix**

	2018 Current Hospital Only	10 Rehab Beds Only	Projected Hospital with Rehab
Medicare/Medicare Managed Care	49.0%	75.9%	50.8%
Medicaid	19.4%	8.0%	18.6%
Commercial/Other	28.3%	15.9%	27.5%
Self-Pay	3.3%	0.2%	3.1%
Total	100.0%	100.0%	100.0%

Source: Applicant

PeaceHealth’s projected revenue, expenses, and net income for the rehabilitation cost center at UGMC are shown in Table 7. [source: Application, Exhibit 12]

Department’s Table 7
United General Medical Center Revenue and Expense Statement
Rehabilitation Cost Center for Fiscal Years 2020 through 2022

	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022
Net Revenue	\$3,595,683	\$4,495,425	\$5,094,706
Total Expenses	\$3,231,963	\$3,600,781	\$4,162,738
Net Profit / (Loss)	\$363,720	\$894,644	\$931,968

The ‘Net Revenue’ line item is gross inpatient rehabilitation revenue, minus deductions for contractual allowances, bad debt, and charity care. The ‘Total Expenses’ line item includes all expenses related to the rehabilitation services, including salaries/wages, benefits, and management fees for Kindred.

For operational purposes, the rehabilitation service is a cost center of UGMC. To further demonstrate that the project is financially viable, PeaceHealth provided the projected revenue and expense statements for UGMC showing the impact of this project on the financial viability of the hospital. The projections are shown in Table 8 below. [source: Application, Exhibit 12]

Department’s Table 8
United General Medical Center
Revenue and Expense Statement for Fiscal Years 2019 through 2022

	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022
Net Revenue	\$52,567,239	\$56,162,922	\$57,062,664	\$57,661,945
Total Expenses	\$42,904,071	\$46,136,034	\$46,504,852	\$47,066,809
Net Profit / (Loss)	\$9,663,168	\$10,026,888	\$10,557,812	\$10,595,136

The ‘Net Revenue’ line item is gross hospital inpatient, outpatient, and other operating revenue, minus any deductions from revenue for contractual allowances, bad debt, and charity care. The ‘Total Expenses’ line item includes salaries and wages and all costs associated with operations of the hospital, including the rehabilitation cost center. The ‘Total Expense’ line item also includes allocated costs for PeaceHealth, management fees for Kindred, leases, depreciation of building and equipment, repair and maintenance, and medical director costs.

Public Comments

None

Rebuttal Comments

None

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by PeaceHealth to determine the projected number of admissions, patient days, and occupancy of the rehabilitation unit at UGMC. PeaceHealth focused its assumptions on its experience with rehabilitation services at St. Joseph Medical Center in Whatcom County and relied on Kindred’s experience and experience

with rehabilitation services. The projected average daily census and occupancy of the ten-bed unit is reasonable based on the assumptions used.

PeaceHealth based its revenue and expenses for both UGMC as a whole and the rehabilitation unit on the assumptions referenced above. PeaceHealth used UGMC’s current operations as a base-line for the revenue and expenses shown in Table 8. Historical information shows that PeaceHealth operates UGMC at a profit. With an additional ten level II rehabilitation beds, UGMC will continue operating at a profit.

To assist the department in its evaluation of this sub-criterion, Hospital/Finance and Charity Care (HFCC) also provided a financial analysis. To determine whether UGMC would meet its immediate and long range capital costs, HFCC reviewed 2018 historical balance sheets for UGMC. The information is shown in Table 9 below. [source: HFCC analysis, p2]

**Department’s Table 9
United General Medical Center Balance Sheet for Year 2018**

Assets		Liabilities	
Current Assets	\$ 10,408,842	Current Liabilities	\$ 1,294,798
Board Designated Assets	\$ -----	Other Liabilities	\$ -----
Property/Plant/Equipment	\$ 4,103,081	Long Term Debt	\$ -----
Other Assets	\$ 9,827,917	Equity	\$ 23,045,042
Total Assets	\$ 24,339,840	Total Liabilities and Equity	\$ 24,339,840

After reviewing the balance sheet above, HFCC concluded that the capital expenditure of \$570,001 would have little financial effect UGMC. [source: HFCC analysis, p2]

For hospital projects, HFCC typically provides a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. Projected balance sheet data is used in the analysis. HFCC notes that PeaceHealth does not maintain or prepare separate balance sheets for cost centers within its hospitals. HFCC provided the following information related to the ratio analysis below. [source: HFCC analysis, p2]

“The applicant did not provide a Rehabilitation level Balance Sheet so ratios which use those numbers are not included. State 2017¹¹ ratios are included as a comparison and are calculated from all community hospitals in Washington State whose fiscal year ended in 2017. The data is collected by the Washington State Dept. of Health Hospital and Patient Data section of the Center for Health Statistics.”

Table 10 on the following page shows projection years 20198 through 2020. [source: HFCC analysis, p3]

¹¹ Statewide FY 2018 data is not sufficiently complete to use for comparison purposes.

**Department Table 10
Current and Projected HFCC Debt Ratios for United General Medical Center**

Category	Trend *	State 2017	PeaceHealth 2017	UGMC 2020	UGMC 2021	UGMC 2022
Long Term Debt to Equity	B	0.442				
Current Assets/Current Liabilities	A	3.320				
Assets Funded by Liabilities	B	0.372				
Operating Expense/Operating Revenue	B	0.980				
Debt Service Coverage	A	4.745				
Definitions:	Formula					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets					
Operating Expense/Operating Revenue	Operating expenses / operating revenue					
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp					

* A is better is above the ratio; and B is better if below the ratio.

When comparing UGMC’s projected years total operating expense to total operating revenue ratio with the most current statewide ratio, HFCC states that UGMC would maintain its financial health with the ten-bed rehabilitation project. [source: HFCC analysis, p3]

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

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

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

PeaceHealth

The capital expenditure associated with the establishment of a 10-bed rehabilitation unit at UGMC is \$570,001. A breakdown of the capital expenditure is shown in Table 11. [source: Application, p25]

**Department Table 11
United General Medical Center
Estimated Capital Expenditure Breakdown**

Item	Cost
Building Construction (including fixed equipment)	\$324,818
Moveable Equipment	\$90,569
Architect/Engineering/Consulting Fees	\$34,175
Supervision & Inspection	\$3,248
Sales Tax: Building Construction & Equipment	\$35,307
Other Project Costs	\$81,884
Total	\$570,001

Within the application, PeaceHealth clarifies that the costs associated with sales tax are related to building construction and movable equipment. “Other Project Costs” includes signage, IT, hazardous materials fees, commissioning, testing, & balancing, fees and permits, and any site plan review fees.

PeaceHealth also identified \$100,393 for start-up costs. The estimated start-up costs of are made up of two components:

- “1) *one month of salary and benefits for nursing services FTEs to complete orientation, EMR and rehabilitation nursing training and education prior to the opening of the rehab unit (training specific to the proposed PHUGMC program); and*
- 2) *first month of necessary rehab unit supplies to be purchased prior to the opening of the rehab unit. The one month start up timeframe is based on Kindred’s experience in establishing similar programs at other hospitals.”*

[source: November 27, 2018, screening response, p12]

PeaceHealth provided a letter from its construction project manager stating that construction costs are both accurate and reasonable. [source: Application, Exhibit 10]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Based on the above information, the department concludes that this bed addition project would probably not have an unreasonable impact on the costs and charges for healthcare services in Skagit County and surrounding areas. **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.

PeaceHealth

PeaceHealth intends to fund the project using cash reserves and provided a letter of financial commitment from its Chief Financial Officer for the Northwest Region. In addition to the financial commitment letter, PeaceHealth provided its fiscal years 2014, 2015, 2016, and 2017 audited financial statements to demonstrate it has sufficient reserves to finance the project. [source: Application, Exhibit 11 and Appendix 1]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The department concludes that PeaceHealth’s ten-bed rehabilitation unit can be appropriately financed. If this project is approved, the department would attach a condition requiring PeaceHealth to finance the project consistent with the financing description in the application. With the financing condition, the department concludes **this sub-criterion is met.**

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department determines that PeaceHealth met the applicable structure and process of care criteria in WAC 246-310-230.

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

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

PeaceHealth

As a critical access hospital, UGMC currently does not provide level II rehabilitation services. PeaceHealth provided a table showing the projected number of staff necessary to provide the services at the utilization rate identified in the application.

Consistent with the Management Agreement with Kindred, certain staff will be provided by PeaceHealth and other staff provided by Kindred. Table 12 below provides a breakdown of the projected FTEs [full time equivalents] for the rehabilitation unit. It also identifies the entity providing the staff. [source: Application, p31]

**Department Table 12
United General Medical Center
Proposed FTEs for Fiscal Years 2020-2022**

FTE by Type	Staffed By	FY 2020	FY 2021 Increase	FY 2022 Increase	Total FTEs
Program Manager	Kindred	1.00	0.00	0.00	1.00
Clinical Liaison	Kindred	1.00	0.00	0.00	1.00
Therapy	Kindred	3.40	1.00	0.90	5.30
Social Worker	Kindred	1.00	0.00	0.00	1.00
Program Assistant	Kindred	1.00	0.00	0.00	1.00
Nurse Manager	PeaceHealth	1.00	0.00	0.00	1.00
RNs	PeaceHealth	4.80	0.00	2.52	7.32
LPNs	PeaceHealth	3.20	0.00	0.00	3.20
Nursing Assistants	PeaceHealth	3.20	0.00	0.00	3.20
Total FTEs		19.60	1.00	3.42	24.02

PeaceHealth provided the following clarification of the FTEs referenced in the table. [source: November 27, 2018, screening response, p13]

- *The physicians are not counted in the FTE table because they are not employees. Physicians will be required to be on the active medical staff of PHUGMC but will not be employed by the hospital.*
- *The Clinical Liaison will be responsible for development and implementation of educational and community relations activities which will support awareness and utilization of the rehabilitation program's services. The Clinical Liaison will also demonstrate accountability for and contribution to program development, quality improvement, problem solving and productivity enhancement in a flexible team fashion. As a Clinical Liaison, the individual will have the ability to use their clinical skills while working in a strategic business environment. Clinical Liaisons will educate the community about the services provided and will develop and maintain positive relationships with families, caregivers, medical professionals and the communities served by the rehab unit.*

Since the rehabilitation unit will be added to the currently operating hospital, PeaceHealth also provided a breakdown of FTEs for UGMC with the proposed 10-bed level II rehabilitation unit. Table 13 below provides a summary of the information. [source: November 27, 2018 screening response, Attachment 3]

**Department Table 13
United General Medical
Proposed FTEs for Fiscal Years 2020-2022**

FTE by Type	Actual/Current	FY 2020	FY 2021 Increase	FY 2022 Increase	Total FTEs
Nursing Staff					
Management	1.20	1.00	0.00	0.00	2.20
RN	18.60	4.80	0.00	2.50	25.90
LPN	0.00	3.20	0.00	0.00	3.20
Patient Care Asst	9.60	3.20	0.00	0.00	12.80
Tech/Professional	0.10	0.00	0.00	0.00	0.10
SVC/Support	0.00	0.00	0.00	0.00	0.00
Subtotal	29.50	12.20	0.00	2.50	44.20
Ancillary/Support					
Management	6.50	0.00	0.00	0.00	6.50
RN	27.30	0.00	0.00	0.00	27.30
LPN	1.00	0.00	0.00	0.00	1.00
Patient Care Asst	1.90	0.00	0.00	0.00	1.90
Tech/Professional	54.20	0.00	0.00	0.00	54.20
SVC/Support	63.60	0.00	0.00	0.00	63.60
Subtotal	154.50	0.00	0.00	0.00	154.50
Total FTEs	184.00	12.20	0.00	2.50	198.70

PeaceHealth states it does not expect difficulty recruiting the staff needed for the proposed rehabilitation unit at UGMC based on the following strategies for recruitment and retention. [source: Application, pp32-33]

“The establishment of an acute rehabilitation unit will require approximately 19 FTEs. System-wide, PeaceHealth currently employs nearly 16,000 employees, including 660 employed physicians

and providers across three states. PeaceHealth's vision is to provide safe, evidence-based, compassionate care, every time, every touch. Historically our strength and mission has served us well in both recruiting and retention through:

- Competitive wages and benefits.
- Ongoing continuing education.
- Employee referral program for employees for referring friends and family.
- Nationwide recruitment through website posting and local community online postings.
- Attending local job fairs to be able to reach out to potential candidates in the local area.

While recruitment of skilled staff is increasingly challenging, PHUGMC has traditionally not experienced many problems because our location in the Skagit Valley and our proximity to population centers including Mt. Vernon and Bellingham is attractive to many. The largest number of incremental FTEs are in nursing. System-wide, PeaceHealth offers a 12-month Nurse Residency Program that supports newly graduated nurses in all clinical areas and focuses on:

- *Quality outcomes: Understand safety and quality initiatives to improve patient experience and positively impact nurse-sensitive indicators.*
- *Leadership: Learn and practice strategies to communicate and work within an inter-professional team.*
- *Professional Role: Develop an evidence-based practice project, explore ethical decision making and create a professional development plan.*

This Program has been a good recruitment tool.”

Under the Management Agreement, Kindred is also responsible for recruitment and retention of specific staff for the 10-bed level II rehabilitation unit. PeaceHealth also provided information related to Kindred's recruitment and retention strategies. [source: Application, p33]

“In addition, as noted in the Management Agreement (Exhibit 2); Kindred will be responsible for recruiting several key staff. As a national leader in the provision of acute rehabilitation services, Kindred is well aware that successful employee recruitment and retention is critical to the success of its facilities, and offers the following specific recruitment/retention strategies.

- *Competitive wages and benefits.*
- *Ongoing continuing education.*
- *Employee referral program for employees for referring friends and family. Nationwide recruitment through website posting and local community online postings.*
- *Including the largest and most comprehensive therapy recruiting platform in the country.*
- *Attending local job fairs to be able to reach out to potential candidates in the local area.*

Given the above, we do not expect any significant problems recruiting and retaining needed staff.”

Public Comments

None

Rebuttal Comments

None

Department Evaluation

As shown in Table 14 above some staff for the rehabilitation unit will be the responsibility of Kindred to hire and manage and others will be PeaceHealth's responsibility. Key staff, including the medical

director, program manager, and clinical liaison, have not yet been identified for the new rehabilitation unit.

Specific to the medical director for the unit, the executed Management Agreement outlines the roles, responsibilities, and compensation for the medical director. The physician is not identified in the agreement. [source: November 27, 2018, Attachment 4]

PeaceHealth states that because of the 9-month difference between the closing of St. Joseph Medical Center's rehabilitation unit and the opening of this unit, the application does not assume that former rehabilitation staff of St. Joseph Medical Center would transfer to UGMC. As a result, other key staff have also not been identified.

If this project is approved, the department would attach two conditions related to this sub-criterion. The first would require PeaceHealth to identify the medical director prior to providing rehabilitation services. The second would require PeaceHealth to provide the department with a listing of key staff for the hospital prior to offering services.

Key staff includes all credentialed or licensed management staff, including the director of nursing and the medical director. The second condition would require FSC to submit a copy of the final signed medical director agreement, consistent with the draft provided to the department within the application.

Based on the above information and PeaceHealth's agreements to the two conditions above, the department concludes that PeaceHealth has the ability and expertise to recruit and retain a sufficient supply of qualified staff 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(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. 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.

PeaceHealth

PeaceHealth provided the following information regarding ancillary and support services for its new 10-bed level II rehabilitation unit. [source: Application, p6 and November 27, 2018, screening response, pp14-15]

"The proposed 10 bed unit will be operated by and under the license of PHUGMC. PHUGMC will provide all of the nursing management and nursing staff as well as provide all necessary clinical ancillary and hospital support services as it does to all patients served by PHUGMC. The proposed 10 bed unit will be managed by RehabCare Group Management Services, LLC d/b/a Kindred Hospital Rehabilitation Services (Kindred). Kindred will be responsible for the day-to-day operations and implementation of the program. In addition, Kindred will be responsible for hiring all program management staff including the program director, as well the providing the physician to serve as medical director. Additional information is provided in the executed Inpatient Rehabilitation Management Agreement (Management Agreement) in Exhibit 2.

In addition, PHUGMC will receive support from the PHSJMC Medical Staff particularly in the areas of Physical Medicine and Rehabilitation, Neurology, and Neurosurgery in the form of medical consultation.

With the exception of PT, OT and ST (provided by KHRS), the ancillary and support services needed for an acute rehabilitation program are no different from the ancillary and support services needed for an acute care hospital. PHUGMC, as an existing hospital, already has the needed ancillary and support services. A listing of these services is provided in response to Question #32.

As noted in response to Question #31, the ancillary and support services needed for an acute rehabilitation program are the same as an acute care hospital and include:

- *Dietary*
- *Lab*
- *Radiology*
- *Pharmacy*
- *Housekeeping*
- *Laundry*
- *Maintenance*

As discussed with the CN Program staff on November 8, 2018, PHUGMC is confirming that all services will be available on site.

PHUGMC, in addition to the other PeaceHealth hospitals, has established relationships with at least the following healthcare providers:

<i>Prestige Care and Rehabilitative Services</i>	<i>Life Care Center of Skagit Valley</i>
<i>Smokey Point Behavioral Hospital</i>	<i>Ovenell LTC, Inc.</i>
<i>SeaMar Community Health Center</i>	<i>Island Convalescent Center</i>
<i>Skagit Valley Hospital</i>	<i>Josephine Sunset Home</i>
<i>Seattle Children’s Hospital</i>	<i>Kindred Hospital</i>
<i>San Juan Rehabilitation Care Center</i>	<i>Rural/Metro of Greater Seattle</i>
<i>Skagit Recovery Center</i>	<i>Mira Vista Care Center</i>
<i>Warm Beach Health Care Center</i>	<i>Life Care Center of Mount Vernon</i>
<i>Providence Regional Medical Center, Everett</i>	<i>University of Washington Medical Center</i>
<i>Fidalgo Care Center</i>	<i>Providence Health & Services</i>
<i>Cascade Ambulance</i>	<i>Northwest Ambulance</i>
<i>Central Valley Ambulance Authority</i>	

For this application, PeaceHealth provided a copy of the executed Inpatient Rehabilitation Management Agreement (Management Agreement) with Kindred. The agreement was executed on September 24, 2018, between PeaceHealth UHMC and RehabCare Group Management Services, LLC dba Kindred Hospital Rehabilitation Servicers. Language in the agreement states that it will commence on the date the first patient is admitted to the program and will conclude three years after the effective date. At the end of the initial three-year term, the agreement will automatically renew annually for one year periods.

The agreement identifies roles and responsibilities for both entities and includes any costs associated with the agreement. Further, while not required for level II rehabilitation services, the agreement includes the medical director and the clinical liaison and also provides costs associated with each of those services. [source: November 27, 2018, screening response, Attachment 4]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

While neither PeaceHealth nor UGMC are new providers in the planning area, the rehabilitation services at UGMC are new services not previously provided by the hospital. Specific to this sub-criterion, PeaceHealth provided documentation to demonstrate that Kindred would have management responsibilities for the rehabilitation unit, however, the rehabilitation beds would be licensed under UGMC and PeaceHealth would have the ultimate responsibility for appropriate care in the unit. This type of an arrangement is acceptable.

Information provided in the application demonstrates that much of the ancillary and support services necessary for the level II rehabilitation unit are already in place and sufficient for this project. PeaceHealth did not provide a transfer agreement for level I rehabilitation that cannot be served in UGMC's level II rehabilitation unit because PeaceHealth expects the vast majority of its patient would be referred by other acute care hospitals. As such, any patient requiring level I acute rehabilitation services would not be referred to UGMC and therefore would not be transferred from UGMC. The department concurs with this rationale. However, noting that UGMC is a critical access hospital with a limited number of acute care beds and limited services, PeaceHealth also stated that any patients requiring transfer from UGMC are sent to St. Joseph Medical Center in Bellingham.

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that PeaceHealth will continue to maintain the necessary relationships with ancillary and support services to provide level II rehabilitation services at UGMC. The department concludes that approval of the ten-bed rehabilitation unit at UGMC would not negatively affect existing healthcare relationships. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

PeaceHealth

As previously stated, the applicant—PeaceHealth—operates, either under ownership or a lease, 10 hospitals in the three states. In response to this sub-criterion, PeaceHealth provided the following statement. [source: Application, p35]

“PHUGMC operates all of its programs in conformance with applicable federal laws, rules and regulations.”

Public Comments

None

Rebuttal Comments

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.¹² To accomplish this task, the department reviewed the quality of care compliance history for all ten healthcare facilities owned, operated, or managed by PeaceHealth in the states of Alaska, Oregon, and Washington.

Washington State Hospitals

Using the department's internal database, the department reviewed survey data for each of the five hospitals listed below that are owned, operated, or managed by PeaceHealth. It is noted that none of the five hospitals hold a current accreditation from Joint Commission.

Hospital	City / State Location	Owned/Operated/Leased
United General Medical Center	Sedro Woolley/Washington	Leased/Operated
St. John Medical Center	Longview/Washington	Owned/Operated
St. Joseph Medical Center	Bellingham/Washington	Owned/Operated
Peace Island Medical Center	Friday Harbor/Washington	Owned/Operated
Southwest Medical Center	Vancouver/Washington	Owned/Operated

The department used its internal data base to re view the compliance history of each hospital identified above. Data reviewed revealed that none of the Washington State hospitals owned, operated, or managed by PeaceHealth had significant non-compliance issues.

Out of State Hospitals

As previously state, PeaceHealth owns or leases and operates five hospitals in the states of Alaska (1) and Oregon (4). The facilities are listed below.

Using data obtained from the State of Alaska, Division of Healthcare Services website, Ketchikan Medical Center is a 25 bed critical access hospital with a valid state license. The hospital does not hold a Joint Commission accreditation. There are no apparent non-compliance issues with Ketchikan Medical Center.

¹² WAC 246-310-230(5).

Hospital	City / State Location	Owned/Operated/Leased
Ketchikan Medical Center	Ketchikan/Alaska	Leased/Operated
Cottage Grove Community Hospital	Cottage Grove/Oregon	Owned/Operated
Peace Harbor Hospital	Florence/Oregon	Owned/Operated
Sacred Heart Medical Center at Riverbend	Springfield/Oregon	Owned/Operated
Sacred Heart Medical Center University District	Eugene/Oregon	Owned/Operated

Focusing on the four hospitals in Oregon, since none of the four hold Joint Commission accreditation, the department used quality of care surveys for PeaceHealth hospitals. There are no apparent non-compliance issues with the four hospitals in Oregon.

The department typically reviews the credential history of staff to be associated with a new services. For this project, PeaceHealth provided the following information related staffing of the ten-bed level II rehabilitation unit. [source: November 27, 20198, screening response, pdf15]

“For the purposes of this application, and because of the 9 month lag from the closure of the unit to the opening of the PHUGMC service, PHUGMC did not assume that staff of SJMC’s acute rehab (at the time of closure) will transfer from SJMC. As such, no names or licenses numbers are being provided. Please note that these staff were reassigned to other positions at SJMC. Hiring for the acute rehabilitation program is expected to begin in late Spring 2019. As such, none of the projected staff are known at this time.”

Based on the information above, if this project is approved the department would attach a condition requiring PeaceHealth to provide the name and credential number of each of the staff identified in the staff table.

For this project at UGMC in east Skagit County, PeaceHealth has entered into a Management Contract with a dba of Kindred, known as RehabCare Group Management Services, LLC. The contract is executed and outlines all roles and responsibilities for each entity. It is clear in the Management Contract that the proposed ten-bed level II rehabilitation unit will increase UGMC’s acute care license from 25 to 35. The proposed ten-bed unit will be managed by RehabCare Group Management Services, and will be responsible for the day-today operations and implementation of the program. In addition, Kindred will be responsible for hiring all program management staff including the program director, as well the providing the physician to serve as medical director. Additional information is provided in the executed Inpatient Rehabilitation Management Agreement (Management Agreement) in Exhibit 2. In addition, UGMC will receive support from the SJMC located in Bellingham, within Whatcom County, such as Medical Staff particularly in the areas of Physical Medicine and Rehabilitation, Neurology, and Neurosurgery in the form of medical consultation.”

Kindred operates one hospital with two campuses in Washington State – Kindred Hospital Seattle. It is Joint Commission accredited through March 2019. [source: Department of Health internal database]

The following facilities are inpatient rehabilitation facilities (IRFs) that are owned or operated by Kindred or one of its subsidiaries.

**Department's Table 14
Kindred Inpatient Rehabilitation Facilities Managed by Kindred or a Subsidiary**

Hospital Name	Location	Joint Commission Accredited?
Mercy Rehabilitation Hospital – St Louis	St. Louis, MO	yes
Methodist Rehabilitation Hospital	Dallas, TX	yes
Texas Rehabilitation Hospital	Fort Worth, TX	yes
Mercy Rehabilitation Hospital – OKC	Oklahoma City, OK	yes
Mercy Rehabilitation Hospital – Springfield	Springfield, MO	yes
Lancaster Rehabilitation Hospital	Lancaster, PA	yes
Rehabilitation Hospital of Wisconsin	Waukesha, WI	yes
University Hospitals Rehabilitation Hospital	Cleveland, OH	yes
Community Rehabilitation Hospital	Indianapolis, IN	yes
St. Mary Rehabilitation Hospital	Langhorne, PA	yes
Baptist Rehabilitation Hospital	Memphis, TN	yes
Arlington Rehabilitation Hospital	Arlington, TX	yes
University of WI Rehabilitation Hospital	Madison, WI	yes
University Hospitals Rehabilitation – West	Cleveland, OH	yes

[source: Joint Commission website]

The department reviewed information from the licensing authorities for each of the above named facilities, and concluded that all facilities are substantially compliant with state licensure and Medicare conditions of participation.

Based on the above information, the department concludes that PeaceHealth demonstrated reasonable assurance that UGMC's ten bed level II rehabilitation unit would be operated in compliance with state and federal requirements if this project is approved. **This sub criterion is met.**

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

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

PeaceHealth

PeaceHealth indicates that continuity in the provision of rehabilitation health care services will be accomplished in a variety of ways and provided the following information related to this sub-criterion. [source: Application, p34 and November 27, 2018, screening response, p16]

“Even prior to PeaceHealth operating the hospital in 2014, United General Hospital was a key part of the community, and the strong and active relationships it maintains with post-acute and long-term care providers serving the community ensures that care is provided in the least intensive and restrictive level. Relationships with home health, home care, nursing homes, assisted living, etc. have

continued. While there are no formal agreements, there is a strong and proven history of working closely in transitions of care to support patients upon discharge.

As noted above, discharge planning will begin at admission. Staff will review discharge options throughout the patient's stay to ensure that continuity of care is achieved, while also ensuring that the patient receives the most appropriate level of care.

The acute rehabilitation unit at SJMC closed in late October, and today the closest acute rehabilitation program is located in Everett, a distance of more than 60 miles from Bellingham and more than 75 miles from some outlying communities such as Lynden. As such, the new program will provide choice: patients will have the option of the PeaceHealth affiliated unit at PHUGMC or can travel to Everett or Seattle.

As the Program is well aware, the travel to Everett or Seattle from the North is impacted daily, and in fact hourly, from traffic congestion. Average daily weekday delay on freeway corridors (Interstate 5, I-405, I-90, State Route 520 and SR 167) in King and Snohomish counties grew roughly 35.7% between 2013 and 2015³. The same report noted that the average morning travel time from Everett to Seattle increased to 56 minutes in 2015, up six minutes (12%) compared to 2013.

According to a recent report from INRIX, a Kirkland-based company that specializes in analyzing traffic data, commuters around Everett, Washington "spent more time stuck in traffic than anyone else". The verdict, is based on the proportion of peak commuting time wasted in stop-and-go traffic, entering and leaving Everett. While Everett is not considered part of INRIX's major-city list, the company did find that it had a 28% peak congestion rate, the highest in the country. (INRIX 2017 Traffic Scorecard Report).

The availability of an acute rehabilitation program at PHUGMC will increase access, and reduce travel times for Whatcom and Skagit County residents choosing this program."

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The establishment of level II rehabilitation beds will allow San Juan, Skagit, and Whatcom County patients to receive services in a Skagit County facility, rather than traveling to a provider in another county.

The Management Agreement provided in the application requires Kindred to implement the rehabilitation services consistent with Commission on Accreditation of Rehabilitation Facilities (CARF). CARF requires extensive referral relationships to ensure a continuum of care necessary for rehabilitation patient recoveries to the fullest extent possible. Examples of these relationships include behavioral health, assisted living centers, skilled nursing centers, and community-based healthcare providers. Many of these relationships already exist with UGMC as an acute care hospital.

If this project is approved, the department would attach a condition requiring UGMC to obtain its CARF designation for the rehabilitation unit. Based on the information provided in the application,

and the applicant's agreement to the conditions above, the department concludes there is reasonable assurance that this project will continue to promote continuity in the provision of health care services in the community. **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.*

PeaceHealth

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 agreement to the conditions identified in the conclusion section of this evaluation, the department determines that PeaceHealth met the applicable cost containment criteria in WAC 246-310-240.

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

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

If there are multiple applications, the department's assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type. This review does not include multiple applications.

PeaceHealth

Step One

For this project, PeaceHealth met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two

Before submitting this application, PeaceHealth considered the two options discussed below.
[source: Application, p37]

Status quo or do nothing

This option means that UGMC would continue to operate as a 25-bed critical access hospital without a level II rehabilitation unit. Status quo would also mean that PeaceHealth's rehabilitation unit at St. Joseph Medical Center in Whatcom County would close and the rehabilitation patients would be required obtain rehabilitation services elsewhere. As a result, PeaceHealth states that "*doing nothing was quickly ruled out once PeaceHealth made the decision to close PHSJMC's acute rehabilitation service.*"

Develop and manage the unit (no management agreement)

“Given that the PHUGMC unit will be smaller than the existing PHSJMC unit, developing the new program with a proven operator was seen as the preferred option to ensuring that the service area has access to a high-quality acute rehabilitation program and that the program is developed and operated in the most efficient, high-quality manner possible.”

During the review of this project, the department identified three additional options that were not addressed by PeaceHealth. The options and PeaceHealth’s rationale for rejecting them is below. [source: November 27, 2018, screening response, pp17-18]

Continue operation of SJMC’s level I rehabilitation services (with any number of beds) and establish this level II rehabilitation service at UGMC.

“Of all of the options presented in this question, this is the one that was most closely considered by PeaceHealth. As noted in response to earlier questions, the continuing census pressures at SJMC resulted in the decision to close its acute rehabilitation unit; allowing the space to be converted to medical/surgical use. And, because PHUGMC has the capacity to establish a 10 bed acute rehabilitation program, access to acute rehabilitation services for residents of the planning area will continue.”

Relocate SJMC’s level I rehabilitation services back to the St. Luke’s campus and continue operation. Do not establish the level II services at UGMC; or Relocate SJMC’s level I rehabilitation services back to the St. Luke’s campus and continue operation and establish this level II rehabilitation service at UGMC.

“In 2013, PeaceHealth submitted a CN application that proposed to relocate the existing 12 bed rehabilitation unit from the St. Luke/South campus to the main campus and expand the unit by 2 beds. In that application, PeaceHealth demonstrated, and the CN Program concurred, that there are inefficiencies and higher costs associated with operating two campuses. Specific to rehabilitation patients, the following services were not available on the South Campus:

- *Diagnostic services*
- *Emergency services*
- *Support staff for issues of medical acuity*

Patients needing the above services were transported to the main campus. Additional costs were incurred for the transport and care delivery was slowed. Therefore, in 2013, PeaceHealth made the decision to consolidate all patient care services on the main campus. Relocating these services back to the South Campus would only result in higher costs and increased inefficiencies.

For these reasons, PeaceHealth did not consider relocating the acute rehabilitation program (either with or without a new PHUGMC program) a viable option. And, because the inpatient services have been closed, we understand that for CRS purposes, they would be treated as “new” construction adding potentially millions to the construction costs.”

Public Comments

None

Rebuttal Comments

None

Department Evaluation

As part of this review, the department identified other options for PeaceHealth to consider. PeaceHealth provided extensive information on all of the options reviewed before submitting this application. Based on the discussion above, PeaceHealth appropriately rejected all of the options discussed in the application and screening response. 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.*

PeaceHealth

PeaceHealth provided the following statements regarding this sub-criterion. [source: Application, p38]

“PHUGMC intends to remodel existing space for the 10-bed rehabilitation unit. Therefore, based on the relatively minor nature of the required renovations there are not many opportunities to improve energy efficiency.”

In the financial feasibility of this evaluation, PeaceHealth bases its costs and charges on the experiences of the recently closed rehabilitation unit at St. Joseph Medical Center in Bellingham. Therefore, the PeaceHealth states the project is not expected to have an unreasonable impact on costs and charges to the public. [source: Application, Exhibit 12 and November 27, 2018, screening response, p11 & pp24-26]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The office of HFCC provided the following statements regarding the construction costs, scope, and method:

“The costs shown are within past construction costs reviewed by this office. Also construction cost can vary quite a bit due to type of construction, quality of material, custom vs. standard design, building site and other factors. PeaceHealth United General is remodeling existing space in a facility it currently occupies for healthcare services and will construct the new area to the current energy and hospital standards.”

**Department’s Table 15
HFCC Analysis – UGMC Cost per Bed**

Total Capital	\$570,001
Beds/Stations/Other (Unit)	10
Total Capital per Unit	\$57,000

Based on the information provided in the application, the demonstrated need for additional rehabilitation beds at UGMC, and the analysis from HFCC, the department concludes **this sub-criterion is met.**

PeaceHealth

PeaceHealth states it is proposing to remodel existing space in UGMC to house the rehabilitation unit. Due to the limited options for locating the new unit and the relatively minor required renovation, there were not many opportunities for PHUGMC to achieve significant cost reductions or energy efficiencies. [source: Application, p38]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

This project involves minor construction. The department views this project as the best balance for UGMC and level II rehabilitation services given the recent closure of St. Joseph Medical Center’s rehabilitation unit in Whatcom County.

This project involves construction. With no rehabilitation beds in the three county planning area and PeaceHealth’s assumptions related to the costs and charges discussed under the Financial Feasibility section of this evaluation, the department does not anticipate an unreasonable impact on the costs and charges to the public for this project. Therefore, the department concludes **this sub-criterion is met.**

- (3) The project will involve appropriate improvements or innovations in the financing and delivery of health services which foster cost containment and which promote quality assurance and cost effectiveness.

PeaceHealth

PeaceHealth provided the following statements for this sub-criterion. [source: Application, pp37-38]

“PHUGMC is an existing hospital provider, and therefore the addition of a rehabilitation unit does not require the same level of new infrastructure that would be required for a standalone hospital. All of the administrative and ancillary services are in place and will not have to be re-created or expanded for the rehabilitation unit. This will result in internal efficiencies.

Even more importantly, and as the literature cited in the Need section demonstrates, there are improved outcomes, reduced hospital readmissions, increased patient satisfaction and lower costs when patients receive acute rehabilitation services.

PHUGMC is proposing to remodel existing space within which to house the rehabilitation unit. Due to the limited options for locating the new unit and the relatively minor required renovation, there were not many opportunities for PHUGMC to achieve significant cost reductions or energy efficiencies.”

Public Comments

None

Rebuttal Comments

None

Department Evaluation

This project has the potential to improve delivery of acute rehabilitation services to the residents of Pierce County and surrounding communities with the establishment of a ten-bed level II rehabilitation unit at UGMC. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**