



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

August 28, 2020

Theresa Boyle, Senior Vice President, Strategy, Marketing and Communication
MultiCare Health System
315 Martin Luther King Way
Tacoma, Washington 98405

Sent via email: tmboyle@multicare.org

RE: Certificate of Need Application #20-29 - CORRECTED

Dear Ms. Boyle:

We have completed review of the Certificate of Need application submitted by MultiCare Health System. The application proposes to convert two procedure rooms to operating rooms and expand services offered at MultiCare Day Surgery Center of Gig Harbor, for a facility total of four operating rooms. MultiCare Day Surgery Center of Gig Harbor is located in the Central Pierce Secondary Health Services Planning Area. 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 MultiCare Health System agrees to the following in its entirety.

Project Description

This certificate approves the addition of two operating rooms for a facility total of four operating rooms at MultiCare Day Surgery Center of Gig Harbor. The surgical facility will provide plastic, otolaryngology (ENT), podiatry, orthopedic, urologic, gynecological, gastroenterology, maxillofacial, ophthalmologic, and general surgical services as described in the application and can be appropriately performed in an outpatient setting. MultiCare Day Surgery Center of Gig Harbor will remain at its current site located in Gig Harbor, within the Central Pierce Secondary Health Services Planning Area.

Conditions

1. MultiCare Health System agrees with the project description as stated above. MultiCare Health System further agrees that any change to the project as described in the project description above is a new project that requires a new Certificate of Need.

2. MultiCare Health System shall finance this project using existing corporate reserves, as described in the application.
3. MultiCare Day Surgery Center of Gig Harbor will maintain Medicare and Medicaid certification, regardless of facility ownership.
4. MultiCare Day Surgery Center of Gig Harbor will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health. MultiCare Day Surgery Center of Gig Harbor will use reasonable efforts to provide charity care in the amount identified in the application, or the Central Pierce Secondary Health Services Planning Area, whichever is greater. Currently Central Pierce hospitals contribute is 1.13% of gross revenue and 3.24% of adjusted revenue.
5. MultiCare Day Surgery Center of Gig Harbor will maintain records of charity care applications received and the dollar amount of charity care discounts granted at MultiCare Day Surgery Center of Gig Harbor. The records must be available upon request ~~on site at MultiCare Day Surgery Center.~~
6. MultiCare Day Surgery Center of Gig Harbor shall submit its updated and effective Admission Criteria Policy which should match the draft policy submitted to the department on May 11, 2020 in response to screening.

Approved Costs

The capital expenditure associated with this addition at MultiCare Day Surgery Center of Gig Harbor is \$4,571,805.39. This amount represents costs of construction, fees, equipment, and applicable sales tax. All costs will be paid by MultiCare Health System from corporate reserves.

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 response to the Certificate of Need Program, at Jennifer.Kido@doh.wa.gov or one of the following addresses.

Mailing Address:

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

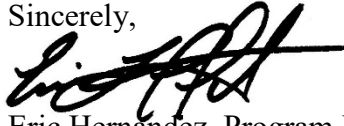
Physical Address:

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eric Hernández", written over a horizontal line.

Eric Hernández, Program Manager
Certificate of Need
Office of Community Health Systems

Enclosure

CC: Frank Fox, PhD, frankgfox@comcast.net
Jennifer Burk, jb Burk@multicare.org

CORRECTED EVALUATION DATED AUGUST 28, 2020 FOR THE CERTIFICATE OF NEED APPLICATION FROM MULTICARE HEALTH SYSTEM DBA MULTICARE DAY SURGERY CENTER OF GIG HARBOR, PROPOSING TO ADD TWO OPERATING ROOMS AND EXPAND SERVICES AT ITS AMBULATORY SURGICAL FACILITY LOCATED IN GIG HARBOR, WITHIN PIERCE COUNTY

APPLICANT DESCRIPTION

MultiCare Health System

MultiCare Health System is a Washington State nonprofit corporation.¹ The corporation is governed by five persons: John Wiborg, William Robertson, Sally Leighton, Deedra Walkey, and John Hall. [Source: Application, p5 and Washington State Secretary of State website]

MultiCare Health System operates several facilities all in Washington State, including several hospitals, clinics, labs, research centers, in-home services' agencies, and behavioral health facilities. One of the hospitals Tacoma General/Allenmore Hospital has an outpatient department, which is separately Certificate of Need (CN) approved as an ambulatory surgical facility (ASF), known as MultiCare Day Surgery Center of Gig Harbor. This ASF is licensed as part of the hospital.² For this project, MultiCare Health System is the applicant and will be referenced in this document as "MHS." The focus of this review is the outpatient department and surgical facility which will be referenced as "MHS – Gig Harbor." [Source: Application, p11, Exhibit 1, and DOH Provider Credential Search website]

PROJECT DESCRIPTION

MultiCare Health System

On May 23, 2012, MHS was issued CN #1473 approving a two operating room (OR) and two procedure room surgical facility; known at the time as MultiCare Gig Harbor Ambulatory Surgery Center. The ASF was then and is still located at 4545 Point Fosdick Drive Northwest, Gig Harbor [98335] within the Central Pierce Secondary Health Services Planning Area. Services currently provided at the surgical facility include: orthopedics, gynecology, ENT, minimally invasive back procedures, urology, podiatry, eye surgery, plastic surgery, some GI procedures, and some pediatric procedures. [Source: Application, p7 and CN #1473]

MHS submitted this project proposing to expand services to include maxillofacial procedures and to convert two of its existing procedure rooms to operating rooms, for a facility total of four operating rooms. [Source: Application, p7]

Given that MHS – Gig Harbor is currently CN-approved and that the ASF is an outpatient department of a CN-approved hospital, much of the operational infrastructure is in place to support the project through and once completed. MHS identified a project completion date of July 2021, for the purpose of this evaluation the department will consider year 2022 as year one and 2024 as year three for this project. [Source: Application, p8]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This application proposes to increase the number of operating rooms and expand services at a Certificate of Need approved surgical facility. This action is subject to review as the construction, development, or

¹ UBI #601 100 682

² HAC.FS.00000176

other establishment of new health care facility under Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1)(a)(iii).

EVALUATION CRITERIA

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

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

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

TYPE OF REVIEW

This application was reviewed under the regular review timeline outlined in WAC 246-310-160, which is summarized in the table below.

APPLICATION CHRONOLOGY

| Action | MHS |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| Letter of Intent Received | December 9, 2019 |
| Application Received | January 8, 2020 |
| Department's Pre-review Activities including <ul style="list-style-type: none">• DOH First Screening Letter• Applicant's First Screening Responses Received• DOH Second Screening Letter• Applicant's Second Screening Responses Received | January 30, 2020 March 16, 2020 April 6, 2020 May 11, 2020 |
| Beginning of Review | May 18, 2020 |
| End of Public Comment Public comments accepted through the end of public comment No public hearing requested or conducted | June 22, 2020 |
| Rebuttal Comments Deadline | July 7, 2020 |
| Department's Adjusted Decision Date ³ | August 31, 2020 |
| Department's Actual Decision | August 28, 2020 |

AFFECTED PERSONS

Affected persons are defined under WAC 246-310-010(2). In order to qualify as an affected person, someone must first qualify as an "interested person," defined under WAC 246-310-010(34). For this project, no entities sought affected person status.

³ The decision date was adjusted to account for mandatory furlough days in which the Department of Health was closed.

SOURCE INFORMATION REVIEWED

- MultiCare Health System’s certificate of need application received January 8, 2020
- MultiCare Health System’s first screening responses received March 16, 2020
- MultiCare Health System’s second screening responses received May 11, 2020
- Compliance history for credentialed or licensed staff from the Medical Quality Assurance Commission and Nursing Quality Assurance Commission
- DOH Provider Credential Search website: <http://www.doh.wa.gov/pcs>
- Compliance history for facilities and services from the Washington State Department of Health – Office of Health Systems Oversight
- CMS QCOR Compliance website: https://qcor.cms.gov/index_new.jsp
- Years 2018 and 2019 Annual Ambulatory Surgery Provider Surveys for surgical procedures performed during calendar years 2017 and 2018 for hospitals, ambulatory surgery centers, or ambulatory surgical facilities located in Central Pierce⁴
- Year 2020 Claritas population data and forecasts
- Department of Health internal database – Integrated Licensing and Regulatory Systems (ILRS)
- Washington State Secretary of State website: <https://sos.wa.gov>
- Washington State’s 1980 State Health Plan

CONCLUSION

MultiCare Health System

For the reasons stated in this evaluation, the application submitted by MultiCare Health System proposing to add two operating rooms to its existing ambulatory surgical facility, MultiCare Day Surgery Center of Gig Harbor, located in Gig Harbor, within the Central Pierce Secondary Health Services Planning Area is consistent with applicable criteria of the Certificate of Need Program, provided that the applicant agrees to the following in its entirety.

Project Description

This certificate approves the addition of two operating rooms for a facility total of four operating rooms at MultiCare Day Surgery Center of Gig Harbor. The surgical facility will provide plastic, otolaryngology (ENT), podiatry, orthopedic, urologic, gynecological, gastroenterology, maxillofacial, ophthalmologic, and general surgical services as described in the application and can be appropriately performed in an outpatient setting. MultiCare Day Surgery Center of Gig Harbor will remain at its current site located in Gig Harbor, within the Central Pierce Secondary Health Services Planning Area.

Conditions

1. MultiCare Health System agrees with the project description as stated above. MultiCare Health System further agrees that any change to the project as described in the project description above is a new project that requires a new Certificate of Need.
2. MultiCare Health System shall finance this project using existing corporate reserves, as described in the application.
3. MultiCare Day Surgery Center of Gig Harbor will maintain Medicare and Medicaid certification, regardless of facility ownership.

⁴ For Certificate of Need purposes, “Ambulatory Surgery Centers” (ASCs) and “Ambulatory Surgical Facilities” (ASFs) are often used interchangeably – ASCs are Medicare-certified surgery centers, whereas ASFs are licensed facilities in the state of Washington. With limited exceptions, all CN-approved ASFs are also ASCs.

4. MultiCare Day Surgery Center of Gig Harbor will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health. MultiCare Day Surgery Center of Gig Harbor will use reasonable efforts to provide charity care in the amount identified in the application, or the Central Pierce Secondary Health Services Planning Area, whichever is greater. Currently Central Pierce hospitals contribute is 1.13% of gross revenue and 3.24% of adjusted revenue.
5. MultiCare Day Surgery Center of Gig Harbor will maintain records of charity care applications received and the dollar amount of charity care discounts granted at MultiCare Day Surgery Center of Gig Harbor. The records must be available upon request ~~on site at MultiCare Day Surgery Center.~~
6. MultiCare Day Surgery Center of Gig Harbor shall submit its updated and effective Admission Criteria Policy which should match the draft policy submitted to the department on May 11, 2020 in response to screening.

Approved Costs

The capital expenditure associated with this addition at MultiCare Day Surgery Center of Gig Harbor is \$4,571,805.39. This amount represents costs of construction, fees, equipment, and applicable sales tax. All costs will be paid by MultiCare Health System from corporate reserves.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

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

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

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

The Department of Health's Certificate of Need Program uses the numeric methodology outlined in WAC 246-310-270 for determining the need for additional ASFs in Washington State. The numeric methodology provides a basis of comparison of existing operating room (OR) capacity for both outpatient and inpatient ORs in a planning area using the current utilization of existing providers. The methodology separates Washington State into 54 secondary health services planning areas. MHS – Gig Harbor is located in Gig Harbor, within the Central Pierce Secondary Health Service Planning Area (Central Pierce).

The methodology estimates OR need in a planning area using multiple steps as defined in WAC 246-310-270(9). This methodology relies on a variety of assumptions and initially determines existing capacity of dedicated outpatient and mixed-use operating room in the planning area, subtracts this capacity from the forecast number of surgeries expected in the planning area in the target year, and examines the difference to determine:

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

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

MultiCare Health Services' Application of the Numeric Methodology

For this project, MHS completed its own numeric need methodology. The numeric methodology calculated a need for 5.63 ORs in year 2023. See the department's following summary.

Department's Table 1
MHS' Central Pierce Secondary Health Services Planning Area
Methodology Assumptions and Data

| Assumption | Data Used |
|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| Planning area | Central Pierce County |
| Population estimates and forecasts | Age Group: 0-85+ Claritas population data released in year 2019: Year 2018 – 339,760 Year 2023 – 358,271 |
| Planning area's total number of surgical cases | 40,587 – Inpatient or mixed-use; 19,588 – Outpatient 60,175 – Total cases |
| Use rate | Divide calculated surgical cases by 2018 population results in the service area use rate of 177.11/1,000 population |
| Percent of surgery: ambulatory vs. inpatient | Based on DOH surveys: 32.55% ambulatory (outpatient); 67.45% inpatient |
| Average minutes per case | Based on DOH surveys: Outpatient cases: 48.75 minutes Inpatient cases: 119.08 minutes |
| OR Annual capacity in minutes | 68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes (per methodology in rule) |
| Existing providers/ORs | Based on listing of Central Pierce Providers: 9 dedicated outpatient ORs 54 mixed use ORs |
| MHS' methodology results | Shortage of 5.63 outpatient ORs |

[Source: Application, pp 14-15 and Exhibit 5]

Public Comment

Following is a representative sample of the comments received related to this sub-criterion.

Mason J. Platt, DO, FAAOS, Orthopedic Surgery & Sports Medicine

As a physician in Gig Harbor, I am writing to ask you to support MultiCare's application to convert two existing procedure rooms into operating rooms at Multicare Day surgery of Gig Harbor.

As an orthopedic surgeon who practices in Gig Harbor I have seen the value of having expanded day surgery capacity nearby. I have patients who live in Gig Harbor and the Key Peninsula who refuse to cross the bridge for their orthopedic care and I know from experience we have had to delay surgeries because we didn't have the operating room capacity at the Gig Harbor ASC. The additional ORs would meet an existing need for this growing community. Their 2 ORs are often booked and some of my patients have had to travel to Tacoma for day surgeries that could easily have been performed closer to home if there been sufficient capacity in Gig Harbor. There is a definite need for additional ORs.

As a surgeon working and living in Gig Harbor, I am grateful to work with MultiCare's state-of-the art surgical technology in our operating rooms and can personally attest to the difference it would make to our community to have two additional operating rooms. As day surgery volumes continue to grow,

MultiCare Day Surgery of Gig Harbor has become an increasingly important option for surgeons. The population growth in our planning area and the related increased demands for outpatient surgery clearly demonstrate the need for additional operating rooms. MultiCare Day Surgery of Gig Harbor receives high ratings from my patients in Gig Harbor and the surrounding Key Peninsula communities who have had the opportunity to have surgery there. By expanding the number of operating rooms available at MultiCare Day Surgery of Gig Harbor, the Washington State Department of Health will help ensure that our communities in Gig Harbor and the Key Peninsula will have convenient access to quality surgical care close to home.

Kit Kuhn, Mayor of Gig Harbor

I am writing today on behalf of the City of Gig Harbor in my official capacity as Mayor supporting MultiCare's application to expand our ability to offer our community surgical care close to home at MultiCare Day Surgery Center of Gig Harbor.

I hear first-hand from our citizens about the hardship it presents for them to travel to Tacoma when they need surgical care. Having 2 additional operating rooms in Gig Harbor means additional day surgery options closer to home for our Gig Harbor and Key Peninsula community members.

In Gig Harbor, MultiCare is not only trusted for the quality of health care they provide, but I've also seen how they care for our community. They often partner with the City to support local events and outreach programs. They are committed to the well-being of our city and we would love to see them grow along with us to meet the needs of our residents.

By expanding the number of operating rooms available at MultiCare Day Surgery Center of Gig Harbor, the Washington State Department of Health will help ensure that our communities in Gig Harbor and the Key Peninsula will have convenient access to quality surgical care close to home. We urge you to approve MultiCare's application to add more operating rooms to the MultiCare Day Surgery Center of Gig Harbor, providing more access, close to home, for the region's increasing number of residents.

Emily Randall, State Senator, 26th Legislative District

As the state senator representing Gig Harbor and the Key Peninsula, I am writing today to advocate for the approval of MultiCare Health System's application to increase our surgical capacity and convert two existing procedure rooms into operating rooms at MultiCare Day Surgery Center of Gig Harbor.

Expanding accessible and affordable healthcare is at the forefront of my work in the Senate. I hear countless stories from our neighbors who are experiencing barriers to care – from our neighbors who rely on public transit or community help to get to their doctors, to neighbors who often must take their family members to Tacoma for minor day surgeries that could easily have been done closer to home if there had been sufficient capacity in Gig Harbor. The county transit system does not

provide service out on the Key Peninsula, a rural part of my district, which means that an already lengthened trip across the bridge for care can turn into an insurmountable obstacle.

In Pierce County, MultiCare is not only trusted for the quality of health care they provide, but I've seen how they also care for our community through projects such as Nurse Camp, where they invite local students to get an up-close look at nursing. As chair of the Senate Higher Education and Workforce Development committee, I strive to support programs that help prepare our students for their future, and Nurse Camp is an excellent way for students to get inspired to pursue nursing or allied health professions. We are fortunate to have MultiCare Day Surgery Center of Gig Harbor in our community – it offers state-of-the-art surgical care and receives extremely high ratings from patients in Gig Harbor and the surrounding Key Peninsula communities.

By expanding the number of operating rooms available at MultiCare Day Surgery Center of Gig Harbor, the Washington State Department of Health will help ensure that our communities in Gig Harbor and the Key Peninsula will have convenient access to quality surgical care close to home. We urge you to approve MultiCare's application to add more operating rooms to the MultiCare Day Surgery Center of Gig Harbor, providing more access closer to home for the region's increasing number of residents.

Michael Cohen, M.D., Diplomate of the American Board of Plastic Surgery, Founder and Managing Member, Bayview Plastic Surgery, PLLC

As the President and Managing Member of Bayview Plastic Surgery (a Gig Harbor-based private practice), I am writing this letter in support of MultiCare's application to add more operating rooms to the MultiCare Day Surgery of Gig Harbor, the approval of which would offer our community the much-needed expanded surgical care close to home. As a plastic surgeon based in this community, I have been operating at MultiCare Day Surgery in Gig Harbor for a year and a half, and my patients universally give stellar reviews of this facility. Unfortunately, this facility's 2 operating rooms are often booked, and some of my patients have had to travel to Tacoma for day surgeries that could have been performed closer to home if there had been sufficient capacity here in Gig Harbor. Some of my patients have even had to have their outpatient surgery done at Tacoma General Hospital due to this insufficient capacity. It is my strong belief that there is a definite need for additional OR's [sic] at this facility, particularly considering both the projected population growth in our community and the resultant increased demand for outpatient surgery. I urge you to approve MultiCare's application to add more operating rooms to the MultiCare Day Surgery of Gig Harbor. This approval will provide more access to high-quality outpatient surgical care, close to home, for this community's increasing number of residents.

Nathan Frost, MD, Pediatric Orthopaedic Surgeon

My name is Nathan Frost and I am a Pediatric Orthopaedic Surgeon working for MultiCare and Mary Bridge Children's Hospital. I am writing to express my support of MultiCare's application to increase our surgical capacity in Gig Harbor.

As a practicing physician in both Pierce and Thurston Counties, I find it very challenging to meet the surgical needs of my patients due to the limited availability of operative time within the existing facilities. Allowing MultiCare to double the existing operative space in Gig Harbor would provide a significant increase in the available operative time thus helping us meet the needs of our patients more easily.

One of my goals is to provide care as close to home as possible for our patients. As a significant number of my patients live in Gig Harbor and on the Key Peninsula, [sic] increasing the OR availability at the current surgery center will help me to meet this goal more easily. Many families prefer to avoid crossing the Tacoma Narrows bridge to receive their medical care. Adding operative time and space in Gig Harbor will allow us to meet the needs and desires of our patients more readily.

Another reason I support the above expansion is that my patients consistently rate their experience at the surgery center much higher than that at our main campus. The smaller size of the facility, easier access, and faster times associated all play a role in the higher patient satisfaction. It is my belief that expanding the current OR space will only increase the satisfaction of a higher number of our patients.

By allowing the expansion of the MultiCare Day Surgery of Gig Harbor, the Washington State Department of Health will help ensure that the communities of Gig Harbor and the Key Peninsula will have access to high quality surgical care as close to home as possible. As such, I urge you to approve MultiCare's application for expansion of the current Day Surgery of Gig Harbor.

Rebuttal Comment

None

Department's Numeric Methodology and Evaluation

The numeric portion of the methodology requires a calculation of the annual capacity of the existing providers' inpatient and outpatient ORs in a planning area. MHS – Gig Harbor is located in Central Pierce. To determine the zip codes associated with Central Pierce, the department relied on the map and breakdown of zip codes identified in the 1980 State Health Plan for Central Pierce. While the State Health Plan was sunset in 1989, for some projects, it continues to be a reliable tool. The department continues to use the zip codes listed by planning area as a starting point for determining ASF planning area zip codes.

For ASF planning areas, the state health plan identifies 25 Central Pierce zip codes. When the 25 zip codes are charted on a Pierce County zip code map, inclusion of another three zip codes appears reasonable based on the geographic location of the zip codes.

The following table shows the zip codes and associated cities that the department has determined will be associated with Central Pierce for this review. [Source: State Health Plan and Washington State geographic map of Pierce County]

Department's Table 2
Central Pierce Secondary Health Services Planning Area
Zip Codes

| Zip Code | City by Zip Code | Source |
|-----------------|-------------------------|--------------------------|
| 98303 | Anderson Island | State Health Plan |
| 98329 | Gig Harbor | Added Based on Geography |
| 98332 | Gig Harbor | Added Based on Geography |
| 98333 | Fox Island | State Health Plan |
| 98335 | Gig Harbor | State Health Plan |
| 98349 | Lakebay | State Health Plan |
| 98351 | Longbranch | State Health Plan |
| 98394 | Vaughn | State Health Plan |
| 98395 | Wauna | State Health Plan |
| 98401 | Tacoma | State Health Plan |
| 98402 | Tacoma | State Health Plan |
| 98403 | Tacoma | State Health Plan |
| 98404 | Tacoma | State Health Plan |
| 98405 | Tacoma | State Health Plan |
| 98406 | Tacoma | State Health Plan |
| 98407 | Tacoma | State Health Plan |
| 98408 | Tacoma | State Health Plan |
| 98409 | Tacoma | State Health Plan |
| 98411 | Tacoma | State Health Plan |
| 98416 | Tacoma | State Health Plan |
| 98418 | Tacoma | Added Based on Geography |
| 98421 | Tacoma | State Health Plan |
| 98422 | Tacoma | State Health Plan |
| 98424 | Tacoma | State Health Plan |
| 98443 | Tacoma | State Health Plan |
| 98465 | Tacoma | State Health Plan |
| 98466 | Tacoma | State Health Plan |
| 98467 | Tacoma | State Health Plan |

According to the department's historical records, there are 22 planning area providers including the applicant – with OR capacity. Of the 22 providers, five are hospitals and 17 are ASFs. The following table shows a listing of the five hospitals. [Source: ILRS database]

Department's Table 3
Central Pierce Secondary Health Services Planning Area
Hospitals

| Hospitals | City | Zip Code |
|--------------------------------------------------|-------------|-----------------|
| CHI Franciscan Rehabilitation Hospital | Tacoma | 98465 |
| Mary Bridge Childrens Hospital and Health Center | Tacoma | 98405 |
| St Anthony Hospital | Gig Harbor | 98332 |
| St Joseph Medical Center | Tacoma | 98405 |
| Tacoma General/Allenmore Hospital | Tacoma | 98405 |

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

There is no mandatory reporting requirement for utilization of ASFs or hospital ORs, the department sends an annual utilization survey to all hospitals and known ASFs in the state. When this application was submitted in January 2020, the most recent utilization survey was soliciting data for year 2018. Not all providers submitted responses. The data provided in the utilization survey is used, if available. Otherwise the department uses the previous year's utilization survey information. If the provider did not respond with 2017's data, the department relies on its internal database with information the provider updates for licensure.

Of the five hospitals located in the planning area, only CHI Franciscan's Rehabilitation Hospital did not respond. This is a new facility, and is exclusively dedicated to rehabilitation services. It is highly unlikely that surgical services are available. Lack of reported volumes from this facility should not impact the calculation of the numeric need methodology.

The following table contains a listing of the 17 ASFs in Central Pierce. [Source: ILRS database]

Department's Table 4
Central Pierce Secondary Health Services Planning Area
Ambulatory Surgical Facilities

| Ambulatory Surgery Centers | City | Zip Code |
|----------------------------------------------------|-------------|-----------------|
| Aesthetica Clinique LLC | Tacoma | 98402 |
| Artistic Plastic Surgery Center | Tacoma | 98405 |
| Baker Day Surgery of Tacoma | Tacoma | 98405 |
| Cedar Laser and Surgery Center | Tacoma | 98405 |
| Evergreen Eye Center | Tacoma | 98405 |
| Gig Harbor Same Day Surgery | Gig Harbor | 98335 |
| Harbor Plastic Surgery Center | Gig Harbor | 98332 |
| Kaiser Permanente Tacoma Ambulatory Surgery Center | Tacoma | 98405 |
| MultiCare Day Surgery Center of Gig Harbor | Gig Harbor | 98335 |
| Narrows Eye Surgery Center | Tacoma | 98405 |
| Pacific Cataract and Laser Institute | Tacoma | 98409 |
| Pacific Northwest Eye Surgery Center | Tacoma | 98405 |
| Peninsula Endoscopy Center | Gig Harbor | 98335 |
| Sono Bello | Tacoma | 98405 |
| Soundview Ambulatory Surgery Center | Gig Harbor | 98335 |
| Waldron Endoscopy Center | Tacoma | 98405 |
| Walters Day Surgery | Tacoma | 98405 |

Based on the services provided at a facility, the numeric methodology deliberately excludes the OR capacity and procedures of certain facilities from the calculations. Facilities that only provide endoscopy services will be excluded.⁵ Additionally facilities with services that are limited to a special population will be excluded.⁶ Of the 17 ASFs shown in the preceding table, three facility's OR capacity and procedures will be excluded from the numeric methodology see the following table.

⁵ WAC 246-310-270(9)(iv)

⁶ WAC 246-310-210(2)

Department's Table 5
Central Pierce Secondary Health Services Planning Area
Ambulatory Surgical Facilities Excluded Based on Services and Access

| Ambulatory Surgery Centers | Exclusion Rationale |
|----------------------------------------------------|---------------------------------------------------------------------------------------------|
| Kaiser Permanente Tacoma Ambulatory Surgery Center | HMO members only [Source: wa.kaiserpermanente.org, About Us] |
| Peninsula Endoscopy Center | Endoscopy only [Source: 2018 CN utilization survey and washgi.com, Locations/Contact Us] |
| Waldron Endoscopy Center | Endoscopy only [Source: 2018 CN utilization survey and washgi.com, Locations/Contact Us] |

For the remaining 14 ASFs, ten are exempt from Certificate of Need review. This means they are located within a solo or group practice, the use of these surgery center is restricted to physicians that are employees or members of the clinical practices that operate the facilities, and that surgeries are not the primary purpose of the facility. Therefore, these ten facilities do not meet the ASF definition.⁷ For these facilities, the number of cases but not ORs, is included in the methodology for the planning area.

Department's Table 6
Central Pierce Secondary Health Services Planning Area
CN-Exempt Ambulatory Surgical Facilities

| Ambulatory Surgery Centers | City | Zip Code | DOR# |
|--------------------------------------|-------------|-----------------|-------------|
| Aesthetica Clinique LLC | Tacoma | 98402 | 16-02 |
| Artistic Plastic Surgery Center | Tacoma | 98405 | 15-21 |
| Cedar Laser and Surgery Center | Tacoma | 98405 | 14-32 |
| Evergreen Eye Center | Tacoma | 98405 | 17-19 |
| Harbor Plastic Surgery Center | Gig Harbor | 98332 | 09-22A |
| Narrows Eye Surgery Center | Tacoma | 98405 | 03-01 |
| Pacific Cataract and Laser Institute | Tacoma | 98409 | 06-28 |
| Pacific Northwest Eye Surgery Center | Tacoma | 98405 | 12-02 |
| Sono Bello | Tacoma | 98405 | 14-13 |
| Soundview Ambulatory Surgery Center | Gig Harbor | 98335 | 17-16 |

The remaining four ASFs are licensed under a hospital and are Certificate of Need-approved facilities. For these ASFs, both the ORs and the number of cases are counted in the numeric methodology.

Department's Table 7
Central Pierce Secondary Health Services Planning Area
CN-Approved Outpatient Facilities

| Ambulatory Surgery Centers | City | Zip Code |
|--------------------------------------------|-------------|-----------------|
| Baker Day Surgery of Tacoma | Tacoma | 98405 |
| Gig Harbor Same Day Surgery | Gig Harbor | 98335 |
| MultiCare Day Surgery Center of Gig Harbor | Gig Harbor | 98335 |
| Walters Day Surgery | Tacoma | 98405 |

⁷ WAC 246-310-010(5) and WAC 246-330-010(5)

Again, if a facility did not complete and return a utilization survey in the last few years, then another data source is used, the department's internal database known as the Integrated Licensing and Regulatory System (ILRS). Consistent with WAC 246-330-100(2), licensed ambulatory surgical facilities must submit to the department an annual update form. The data provided in the annual update includes the number of ORs and the approximate number of procedures performed at the facility during the year. This data is updated in ILRS as it is received. The department uses the listed number of surgical procedures and multiplies that number by 50 minutes to calculate the total number of surgical minutes at the facility.⁸

Also, the department recognizes the numeric methodology deliberately excludes special purpose rooms, such as endoscopy ORs. The corresponding volumes within these excluded ORs would also be excluded. The annual survey distributed by the department does not ask for the volumes associated with these ORs in order to avoid confusion on the topic.

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

Department's Table 8
The Department's Central Pierce Secondary Health Services Planning Area
Methodology Assumptions and Data

| Assumption | Data Used |
|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Planning area | Central Pierce |
| Population estimates and forecasts | Age Group: 0-85+ Claritas population data released in year 2019: Year 2018 – 337,848 Year 2023 – 356,086 |
| Planning area's total number of surgical cases | 40,587 – Inpatient or mixed-use; 21,103– Outpatient 61,690 – Total cases |
| Use rate | Divide calculated surgical cases by 2023 population results in the service area use rate of 182.60/1,000 persons |
| Percent of surgery: ambulatory vs. inpatient | Based on DOH surveys: 34.21% ambulatory (outpatient); 65.79% inpatient |
| Average minutes per case | Based on DOH surveys: Outpatient cases: 47.83 minutes Inpatient cases: 119.08 minutes |
| OR Annual capacity in minutes | 68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes (per methodology in rule) |
| Existing providers/ORs | Based on listing of Central Pierce Providers: 9 dedicated outpatient ORs 54 mixed use ORs |
| DOH's methodology results | Shortage of 6.45 outpatient ORs |

⁸ If unknown, WAC 246-310-270(9)(a)(ii) identifies a default of 50 minutes per surgery.

As noted in the table above, the department’s numeric methodology calculates a shortage of ORs in the Central Pierce Secondary Health Services Planning Area. When comparing the applicant’s and department’s methodology, there are some slight differences in the population forecast and outpatient volumes.

Population Forecasts

The source of MHS’ projected population (Claritas) is the same to that used by the department. It is unclear why the slight discrepancy exists between the applicant’s and the department’s projected population estimates, see the following table.

| Department’s Table 9 Central Pierce County Population | |
|----------------------------------------------------------|---------|
| MHS | DOH |
| 339,760 | 337,848 |

[Source: Application p14 and Claritas population data released in 2019]

However, the department tested the numeric methodology using MHS’ population assumption and with all else the same, the methodology also showed an OR shortage in Central Pierce.

Outpatient Volumes

The department calculation tallied 21,103 outpatient procedures using CN utilization surveys and when no survey was submitted, the DOH’s internal licensing database. MHS’ methodology calculated 19,588 outpatient procedures using survey data. It is unclear why this discrepancy exists, but it does have clear cascading impact starting with the use-rate and surgery minutes.

The data points used in this numeric need methodology are tightly connected. MHS’ population forecast and outpatient procedures are different from the department’s, however, in comparing the outcome of the two methodologies both demonstrate there is sufficient numeric need for the two operating rooms proposed by MHS. In the case that the department did not find numeric need for additional ORs in Central Pierce, MHS also provided a rationale for approval of both operating rooms.

The department received no letters of opposition regarding this proposed OR addition and received letters of support from physicians that currently use the ASF, and from community representatives of the planning area. Though there is capacity in Tacoma, providers and community representatives identified that Gig Harbor is geographically isolated enough to warrant additional capacity across the Narrows Bridge.

Based on the assumptions described in the earlier table, the department’s numeric methodology by itself, projects a shortage of 6.44 outpatient ORs in Central Pierce for projection year 2023. The department concludes that this project is needed, assuming agreement to the conditions in the conclusion section of this evaluation.

WAC 246-310-270(4)

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

Department Evaluation

WAC 246-310-270(4) does not apply to this project under review since numeric need is demonstrated for Central Pierce.

WAC 246-310-270(6)

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

MultiCare Health System

MHS-Gig Harbor currently operates two ORs. This project proposes to increase the number of ORs by two for a total of four ORs. [Source: Application p7]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

WAC 246-310-270(6) requires a minimum of two ORs in an ASF. MHS-Gig Harbor is currently operating with two ORs. **This standard is met.**

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

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

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

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

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

Charity care shows a willingness of a provider to provide services to individuals who do not have private insurance, do not qualify for Medicare, do not qualify for Medicaid, or are under insured. With the passage of the Affordable Care Act in 2010, the amount of charity care decreased over time. However, with recent federal legislative changes affecting the ACA, it is uncertain whether this trend will continue. Specific to ASFs, WAC 246-310-270(7) requires that ASFs shall implement policies to provide access to individuals unable to pay consistent with charity care levels reported by the hospitals affected by the proposed project.

MultiCare Health System

MHS provided the following statement and table related to this sub-criterion. [Source: Application, p27]

“MHS-Gig Harbor is committed to meeting community and regional health needs and provides charity care consistent with the MultiCare Charity Care Policy, included as Exhibit 7.

Our financial pro forma forecast provided in Exhibit 11B-11C explicitly allocates 2.04% of revenues to be provided for charity care, a figure above the Planning Area Hospital and Puget Sound Regional charity care average, less King County, between 2016 to [sic] 2018.”

MHS provided copies of the following policies.

- Financial Assistance Policy [Source: Application, Exhibit 7]
- Draft Admission Policy [Source: May 11, 2020 screening response, Exhibit 22]
- Patient Rights and Responsibilities Policy [Source: Application, Exhibit 9]
- Non-Discrimination Policy [Source: Application, Exhibit 10]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

MHS provided three policies currently in use at the surgical facility as well as one draft policy that, once approved, will be updated and effective. The three policies currently in use are: the Financial Assistance Policy, the Patient Rights and Responsibilities Policy, and the Non-Discrimination Policy.

Medicare and Medicaid Programs

MHS – Gig Harbor is currently and will continue to be Medicare and Medicaid-certified and is licensed under its affiliated hospital, which holds an active Washington State hospital license. The Medicare and Medicaid provider number and Washington State license number are below:

| | |
|----------------------------------|-----------------|
| Medicare Provider Number: | 50-0129 |
| Medicaid Provider Number: | 3300332 |
| Washington State License Number: | HAC.FS.00000176 |

MHS also included tables showing the current (January to October 2019 actuals) and projected sources of revenues at the surgical facility as well as at Tacoma General Hospital. Projected amounts

are based on current (January to October 2019 actuals) amounts. Thus, current and projected amounts are the same, shown in the following table. [Source: Application, p35]

Department's Table 10
Current and Projected Payer Mixes

| Payer Source | MHS – Gig Harbor | | Tacoma General Hospital | |
|------------------|------------------|---------------|-------------------------|---------------|
| | Procedures | Charges | Procedures | Charges |
| Medicare | 17.1% | 14.0% | 30.1% | 39.5% |
| Medicaid | 16.2% | 14.9% | 23.5% | 26.0% |
| Commercial / HCC | 46.7% | 44.2% | 40.1% | 28.7% |
| Other Gov / L&I | 7.3% | 7.3% | 3.3% | 3.4% |
| Self-Pay | 12.7% | 19.6% | 3.0% | 2.3% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

The Medicaid and Medicaid payer mixes are in range of what is typically seen in CN applications for ASFs. Based on this information, the department concludes that approval of this project has the potential to increase the availability and accessibility of outpatient surgical services to the Medicare and Medicaid populations of the Central Pierce Secondary Health Services Planning Area.

WAC 246-310-270(7)

WAC 246-310-270(7) requires that ASFs shall implement policies to provide access to individuals who are unable to pay, which are consistent with charity care levels reported by the hospitals affected by the proposed ASF. For charity care reporting purposes, Washington State is divided into five regions: King County, Puget Sound, Southwest, Central, and Eastern. MHS –Gig Harbor is located in Gig Harbor within the Puget Sound Region. Currently, there are 24 hospitals operating in the region. Of those, five are located within the Central Pierce Secondary Health Services Planning Area. The five hospitals are: CHI Franciscan Rehabilitation Hospital, CHI Saint Anthony Hospital, CHI Saint Joseph Medical Center – Tacoma, MultiCare Mary Bridge Children’s Hospital, and MultiCare Tacoma General – Allenmore.

To demonstrate compliance with this sub-criterion, MHS provided the following statement and table. [Source: Application, p27]

“Our financial pro forma forecast provided in Exhibit 11B-11C explicitly allocates 2.04% of revenues to be provided for charity care, a figure above the Planning Area Hospital and Puget Sound Regional charity care average, less King County, between 2016 to 2018 [sic]. Please see Table 12 below.”

Applicant's Table 12

| Table 12: Puget Sound Region (Less King County) Charity Care Statistics, 2016-2018 | | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------|--------------|--------------|-----------------------|
| Lic. No | Region/Hospital | % of Total Revenue | | | |
| | | 2016 | 2017 | 2018 | 3 Year Average |
| 209 | Saint Anthony Hospital | 0.48% | 0.78% | 0.89% | 0.72% |
| 32 | Saint Joseph Medical Center - Tacoma | 0.53% | 1.05% | 1.15% | 0.91% |
| 176 | Tacoma General Allenmore Hospital | 1.71% | 1.89% | 2.32% | 1.97% |
| 175 | Mary Bridge Children's Health Center | 0.74% | 0.93% | 1.06% | 0.91% |
| | Central Pierce Hospital Average | 0.87% | 1.16% | 1.35% | 1.13% |
| | MultiCare Central Pierce Average | 1.23% | 1.41% | 1.69% | 1.44% |
| | PUGET SOUND REGION TOTALS | 0.91% | 1.23% | 1.44% | 1.19% |
| *Central Pierce and 3-Year averages are calculated based on unweighted average. If a weighted average were used, then MultiCare's average would significantly increase compared to the Planning Area and Regional average. Source: DOH Charity Care Reports, 2016-2018 | | | | | |

Within the application, MHS projected that the surgical facility will provide charity care at 2.04% of total revenue. For this project, the department reviewed the most recent three years of charity care data for the 24 hospitals operating within the Puget Sound Charity Care Region and focused on the five potentially affected acute care hospitals located in Central Pierce Secondary Health Services Planning Area. The three years reviewed are 2016, 2017, and 2018.

The following table is a comparison of the historical average of charity care provided by hospitals in the Puget Sound Charity Care Region, the combined historical average of charity care provided by the five hospitals within the Central Pierce Secondary Health Services Planning Area, and the projected charity care to be provided at MHS – Gig Harbor. [Source: Community Health Systems Charity Care 2016-2018 and May 11, 2020 screening response, Revised Exhibit 11B]

Department's Table 11
Charity Care – Three Year Average

| | % of Total Revenue | % of Adjusted Revenue |
|---------------------------------|---------------------------|------------------------------|
| 3-year Puget Sound Region | 1.19% | 3.57% |
| 3-year Central Pierce Hospitals | 1.13% | 3.24% |
| MHS – Gig Harbor | 1.44% | 4.03% |

As shown above, the three-year historical average of charity care provided at MHS – Gig Harbor is greater than both the Puget Sound Charity Care Region's and the Central Pierce Secondary Health Services Planning Area's three year average, for both the percent of total and adjusted revenue. If this project is approved, the department would attach a condition requiring MHS – Gig Harbor to provide charity care consistent with the charity care percentages projected in its application or by the hospitals in Central Pierce, whichever is greater.

A second charity care condition would be attached to the approval requiring the applicant to maintain records of charity care applications received and the dollar amount of charity care discounts granted.

The department would require that charity care records be ~~available upon request kept on site at MHS—Gig Harbor~~. With the applicant's agreement to the conditions, 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.
- (4) The project will not have an adverse effect on health professional schools and training programs. The assessment of the conformance of a project with this criterion shall include consideration of:
- (a) The effect of the means proposed for the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.
 - (b) If proposed health services are to be available in a limited number of facilities, the extent to which the health professions schools serving the area will have access to the services for training purposes.
- (5) The project is needed to meet the special needs and circumstances of enrolled members or reasonably anticipated new members of a health maintenance organization or proposed health maintenance organization and the services proposed are not available from nonhealth maintenance organization providers or other health maintenance organizations in a reasonable and cost-effective manner consistent with the basic method of operation of the health maintenance organization or proposed health maintenance organization.

Department Evaluation

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

B. FINANCIAL FEASIBILITY (WAC 246-310-220)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that MHS has 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.

MultiCare Health System

For this project MHS proposes to increase the types of surgeries beyond the current surgeries of: orthopedic, gynecological, ENT, minimally invasive back procedures, urological, podiatry, eye, plastic, and gastroenterological procedures. An additional service proposed is maxillofacial procedures. The proposed utilization of the ASF is shown in the following tables. [Source: Application pp20-21, March 16, 2020 screening response, p2 and CN #1473]

Applicant's Table 5

| Table 5: MHS-Gig Harbor Case Count, 2016 to 2019 YTD | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|---------------------------------|-----------------------------|
| Specialty | 2016 | 2017 | 2018 | 2019 YTD (Jan - Nov) | CAGR (2016-2018) |
| ENT | 162 | 50 | 179 | 211 | 5.12% |
| General | 34 | 9 | 55 | 56 | 27.19% |
| OB/GYN | 47 | 31 | 109 | 111 | 52.29% |
| Orthopedics | 205 | 75 | 265 | 247 | 13.70% |
| Plastics | 7 | 0 | 20 | 102 | 69.03% |
| Podiatry | 1 | 0 | 7 | 29 | 164.58% |
| TOTAL | 456 | 165 | 635 | 756 | 18.01% |
| Source: Applicant | | | | | |
| Notes: | | | | | |
| CAGR stands for "Compound Annual Growth Rate" and equals $\left(\frac{\text{End Value}}{\text{Start Value}}\right)^{\frac{1}{\text{\#Years}}} - 1$ | | | | | |

Applicant's Table 6

| Table 6: MHS-Gig Harbor Projected Case Count, 2020 to 2024 | | | | | | |
|-------------------------------------------------------------------|----------------------------------------------------|-----------------------|--------------------------------------------------------------------|--------------|--------------|--------------|
| | Project Prior to Project Completion | | Future utilization projections given project completion | | | |
| Specialty | 2020 | 1Q-2Q 2021 | 3Q-4Q 2021 | 2022 | 2023 | 2024 |
| # of ORs | 2 | 2 | 4 | 4 | 4 | 4 |
| Gastroenterological | | | 138 | 307 | 326 | 346 |
| ENT | 475 | 240 | 250 | 555 | 589 | 626 |
| Eye/Ophthalmology | | | 134 | 298 | 316 | 336 |
| General Surgery | 123 | 62 | 47 | 104 | 110 | 117 |
| Gynecological | 140 | 71 | 78 | 173 | 184 | 195 |
| Orthopedics | 708 | 358 | 385 | 855 | 908 | 963 |
| Plastic | 230 | 116 | 140 | 310 | 329 | 350 |
| Podiatry | 7 | 4 | 13 | 29 | 30 | 32 |
| Urologic | | | 32 | 71 | 75 | 80 |
| Total | 1,683 | 850 | 1,215 | 2,702 | 2,868 | 3,044 |
| Sources: Applicant | | | | | | |

To support the projected number of procedures shown in the applicant's Table 6, MHS provided the following assumptions.

“In Table 6 we present projected surgical volumes for two years of current operations (2020 and 2021) and the first three full years of operation given project approval (2022 through 2024).” [Source: Application, p21]

“The specialty-specific case counts presented in Table 6 reflect an aggregation of procedures by ICD-9 grouping. Procedures within a certain specialty may bridge multiple ICD-9 groups, and we apply assumptions regarding the expected proportion of procedures within a given ICD-9 group to fall within each of the different specialties for MHS-Gig Harbor. These market share figures are based on the historical utilization of MHS-Gig Harbor, the existing subspecialty expertise of MHS-Gig Harbor physicians, and the number of planning area ASCs performing procedures within the different specialties. These assumptions are:

- Gastroenterological corresponds to 85% ‘Operations on the Digestive System’*
- ENT corresponds to 91% of ‘Operations on the Nose, Mouth and Pharynx’ and 7% of ‘Operations of the Intergumentary System’*
- Eye corresponds to ‘Operations on the Eye’*
- General Surgery corresponds to 9% of ‘Operations on the Nose, Mouth and Pharynx’ and 15% of ‘Operations on the Digestive System’*
- Gynecology corresponds to ‘Operations on the Female Genital Organs’*
- Orthopedics corresponds to ‘Operations on the Nervous System’ and 96% of ‘Operations on the Musculoskeletal System’*
- Plastic corresponds to 93% of ‘Operations of the Intergumentary System’*
- Podiatry corresponds to 4% of ‘Operations on the Musculoskeletal System’*
- Urology corresponds to ‘Operations on the Urinary System’ and ‘Operations on the Male Genital Organs’ [Source: Application, p20-21]*

“The forecast model uses the following assumptions and methodologies:

1. The utilization model forecasts an increase in 2020 volumes compared to annualized 2019 cases due to the following reasons: MHS-Gig Harbor has hired a new orthopedic surgeon, is expanding pediatric services, and is expanding hours of operation to now cover all day Monday through Friday.

2. Surgical use rates by ICD-9 procedure code group were derived from the latest National Center for Health Statistics (‘NCHS’) survey study, ‘Ambulatory Surgery in the United States.’ The report analyzed and presented summaries of data from the 2010 National Survey of Ambulatory Surgery (‘NSAS’).⁴ This survey is included in our application as Exhibit 6. For utilization estimates by surgical specialty please see Table 7 below.

Table 7: National Center for Health Statistics. Ambulatory Surgery Utilization Estimates

| Procedure Description (ICD-9-CM Code) | ICD9 CM Code | Utilization Rate / 10,000 |
|--------------------------------------------------------------------------------------------------------------|-------------------------------------------|---------------------------|
| All Operations | | 1560.3 |
| Operations on the Nervous System | 01-05 | 136.6 |
| Operations on the Endocrine System, operations on the hemic and lymphatic system, and obstetrical procedures | 06-07,40-41,72-75 | 11.3 |
| Operations on the Eye | 08-16 | 254.7 |
| Operations on the Ear | 18-20 | 34.1 |
| Operations on the Nose, Mouth and Pharynx | 21-29 | 77.8 |
| Operations on the Respiratory System | 30-34 | 9.1 |
| Operations on the Cardiovascular System | 35-39,00.50-00.51,00.53-00.55,00.61-00.66 | 34.7 |
| Operations on the Digestive System | 42-54 | 324.7 |
| Operations on the Urinary System | 55-59 | 43.6 |
| Operations on the Male Genital Organs | 60-64 | 17.0 |
| Operations on the Female Genital Organs | 65-71 | 57.1 |
| Operations on the Musculoskeletal System | 76-84,00.70-00.73,00.80-00.84 | 228.8 |
| Operations of the Integumentary System | 85-86 | 140.3 |
| Miscellaneous diagnostic and therapeutic procedures and new technologies | 87-99,00 | 190.5 |

Source: "Ambulatory Surgery in the United States, 2010," US Department of Health and Human Services, National Center for Health Statistics, National Health Statistics Reports, Number 102, February 28, 2017.

In this study, ambulatory surgery refers to surgical and nonsurgical procedures performed on an ambulatory basis in a hospital or freestanding center's general ORs, dedicated ambulatory surgery rooms, and other specialized rooms. This NCHS survey study is the principal source for published national data on the characteristics of visits to hospital-based and freestanding ASFs. The report was updated and revised in 2017 and contains NCHS estimates on ambulatory surgery case counts for the year 2010.⁵ Estimates of population use rates were calculating by dividing the surgery case counts by 2010 U.S. Census population counts and multiplying by 10,000. Please see Exhibit 6 for a copy of the NCHS survey study used in the forecast methodology.

3. The NCHS use rates were multiplied by 2020-2024 Central Pierce Planning Area population forecasts, and then divided by 10,000 in order to forecast Planning Area resident ambulatory surgeries by procedure type, by year. Table 8 includes these procedure estimates for the planning area.

| Table 8: Central Pierce Ambulatory Surgery Forecasts, 2020 to 2024 | | | | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------------------------------------------------------------|-------------------|-------------------|---------------|---------------|---------------|
| Procedure (ICD-9-CM Code) | 2010 Utiliz. Rate | Total Number of Procedures, Central Pierce Planning Area | | | | | |
| | | 2020 | 1Q-2Q 2021 | 3Q-4Q 2021 | 2022 | 2023 | 2024 |
| All Operations (01-86) | 1560.3 | 54,148 | 27,359 | 27,359 | 55,302 | 55,900 | 56,513 |
| Operations on the Nervous System (01-05) | 136.6 | 4,741 | 2,396 | 2,396 | 4,842 | 4,895 | 4,948 |
| Operations on the Endocrine System (06-07), operations on the hemic and lymphatic system (40-41), and obstetrical procedures (72-75) | 11.3 | 390 | 197 | 197 | 399 | 403 | 407 |
| Operations on the Eye (08-16) | 254.7 | 8,841 | 4,467 | 4,467 | 9,029 | 9,127 | 9,227 |
| Operations on the Ear (18-20) | 34.1 | 1,183 | 597 | 597 | 1,208 | 1,221 | 1,234 |
| Operations on the Nose, Mouth and Pharynx (21-29) | 77.8 | 2,701 | 1,364 | 1,364 | 2,758 | 2,788 | 2,818 |
| Operations on the Respiratory System (30-34) | 9.1 | 316 | 160 | 160 | 323 | 327 | 330 |
| Operations on the Cardiovascular System (35–39,00.50–00.51,00.53–00.55,00.61–00.66) | 34.7 | 1,203 | 608 | 608 | 1,228 | 1,242 | 1,255 |
| Operations on the Digestive System (42-54) | 324.7 | 11,270 | 5,694 | 5,694 | 11,510 | 11,634 | 11,762 |
| Operations on the Urinary System (55-59) | 43.6 | 1,514 | 765 | 765 | 1,546 | 1,562 | 1,580 |
| Operations on the Male Genital Organs (60-64) | 17.0 | 589 | 298 | 298 | 602 | 608 | 615 |
| Operations on the Female Genital Organs (65-71) | 57.1 | 1,981 | 1,001 | 1,001 | 2,024 | 2,045 | 2,068 |
| Operations on the Musculoskeletal System (76–84,00.70–00.73,00.80–00.84) | 228.8 | 7,939 | 4,011 | 4,011 | 8,108 | 8,196 | 8,285 |
| Operations of the Integumentary System (85-86) | 140.3 | 4,869 | 2,460 | 2,460 | 4,973 | 5,027 | 5,082 |
| Miscellaneous diagnostic and therapeutic procedures and new technologies (87-99, 00) | 190.5 | 6,610 | 3,340 | 3,340 | 6,751 | 6,824 | 6,899 |
| Total Planning Area Cases | 1560.3 | 54,148 | 27,358 | 27,358 | 55,302 | 55,900 | 56,513 |
| | | | | | | | |
| Service Area Population | | 2020 | 1Q-2Q 2021 | 3Q-4Q 2021 | 2022 | 2023 | 2024 |
| Central Pierce | | 347,046 | 350,698 | 350,698 | 354,438 | 358,271 | 362,199 |
| Source: Applicant | | | | | | | |

4. A market share figure was applied to each procedure code group based on current and planned surgeries. These market share figures are based on the historical utilization of the MHS-Gig Harbor, the existing subspecialty expertise of MHS-Gig Harbor physicians⁶, and the number of planning area ASCs performing procedures within the different specialties. Table 9 presents our market share assumptions. For those specialties in which MHS-Gig Harbor has not previously performed procedures, the market share figures begin with 3% of the market.

Table 9: MHS-Gig Harbor Market Share Assumptions, 2020-2024

| MHS-Gig Harbor Market Share Calculations and Assumptions | 2020 | 1Q-2Q 2021 | 3Q-4Q 2021 | 2021 | 2022 | 2023 |
|--------------------------------------------------------------------------------------------------------------|-------------|-------------------|-------------------|-------------|-------------|-------------|
| Market Share Growth | | 1.1% | 10.0% | 10.0% | 5.0% | 5.0% |
| Operations on the Nervous System | 1.4% | 1.4% | 1.5% | 1.7% | 1.7% | 1.8% |
| Operations on the Endocrine System, operations on the hemic and lymphatic system, and obstetrical procedures | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Operations on the Eye | 0.0% | 0.0% | 3.0% | 3.3% | 3.5% | 3.6% |
| Operations on the Ear | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Operations on the Nose, Mouth and Pharynx | 16.9% | 16.9% | 18.6% | 20.5% | 21.5% | 22.6% |
| Operations on the Respiratory System | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Operations on the Cardiovascular System | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Operations on the Digestive System | 0.8% | 0.8% | 2.9% | 3.1% | 3.3% | 3.5% |
| Operations on the Urinary System | 0.0% | 0.0% | 3.0% | 3.3% | 3.5% | 3.6% |
| Operations on the Male Genital Organs | 0.0% | 0.0% | 3.0% | 3.3% | 3.5% | 3.6% |
| Operations on the Female Genital Organs | 7.1% | 7.1% | 7.8% | 8.6% | 9.0% | 9.4% |
| Operations on the Musculoskeletal System | 8.2% | 8.2% | 9.0% | 9.9% | 10.4% | 10.9% |
| Operations of the Integumentary System | 5.5% | 5.5% | 6.1% | 6.7% | 7.0% | 7.4% |
| Miscellaneous diagnostic and therapeutic procedures and new technologies | 0.2% | 0.2% | 0.2% | 0.2% | 0.3% | 0.3% |

Source: Applicant

5. Estimated planning area surgeries were then multiplied by the presumed market share figures for the ASF, yielding forecasted number of procedures, by year. These projections are included below in Table 10. Assuming project completion to occur by July 2021, Year One is then 2022, since that is the first full year of operations after project completion.

Table 10: MHS-Gig Harbor Projected Number of Ambulatory Surgeries, by Type, 2020-2024

| MHS-Gig Harbor Cases, Historical and Forecast Based on Market Share | 2020 | 1Q-2Q 2021 | 3Q-4Q 2021 | 2022 | 2023 | 2024 |
|--------------------------------------------------------------------------------------------------------------|--------------|-------------------|-------------------|--------------|--------------|--------------|
| Operations on the Nervous System | 65 | 33 | 36 | 80 | 85 | 91 |
| Operations on the Endocrine System, operations on the hemic and lymphatic system, and obstetrical procedures | 0 | 0 | - | - | - | - |
| Operations on the Eye | 0 | 0 | 134 | 298 | 316 | 336 |
| Operations on the Ear | 0 | 0 | - | - | - | - |
| Operations on the Nose, Mouth and Pharynx | 457 | 231 | 254 | 564 | 599 | 636 |
| Operations on the Respiratory System | 0 | 0 | - | - | - | - |
| Operations on the Cardiovascular System | 0 | 0 | - | - | - | - |
| Operations on the Digestive System | 88 | 44 | 163 | 362 | 384 | 408 |
| Operations on the Urinary System | 0 | 0 | 23 | 51 | 54 | 57 |
| Operations on the Male Genital Organs | 0 | 0 | 9 | 20 | 21 | 22 |
| Operations on the Female Genital Organs | 140 | 71 | 78 | 173 | 184 | 195 |
| Operations on the Musculoskeletal System | 650 | 328 | 361 | 803 | 853 | 905 |
| Operations of the Integumentary System | 270 | 137 | 150 | 334 | 354 | 376 |
| Miscellaneous diagnostic and therapeutic procedures and new technologies | 13 | 7 | 7.44 | 16.54 | 17.55 | 18.63 |
| Total Cases | 1,683 | 850 | 1,215 | 2,702 | 2,868 | 3,044 |
| Central Pierce Planning Area Cases | 54,147 | 27,358 | 27,358 | 55,301 | 55,899 | 56,511 |
| MHS-Gig Harbor Market Share, Central Pierce Planning Area | 3.1% | 3.1% | 4.4% | 4.9% | 5.1% | 5.4% |
| Average annual growth, cases | 109.6% | 22.7% | | 30.8% | 6.1% | 6.2% |

Source: Applicant

6. Based on the forecasted number of ambulatory surgeries at the ASF, estimated utilization is provided in Table 11, where cases are translated into surgery minutes using the 2019 MHS-Gig Harbor outpatient surgery case per minute figure of 81.3 minutes for surgical cases. Based on WAC 246-310-270(9)(iii), the four ORs at MHS-Gig Harbor would be efficiently utilized. Please refer to Table 11 below.

Table 11: MHS-Gig Harbor, Projected Number of Ambulatory Surgeries and Operating Room Utilization, 2020-2024

| Cases | 2020 | 1Q-2Q 2021 | 3Q-4Q 2021 | 2022 | 2023 | 2024 |
|--------------------------------------------------------------------------------------------------------------|---------|---------------|---------------|---------|---------|---------|
| Operations on the Nervous System | 65 | 33 | 36 | 80 | 85 | 91 |
| Operations on the Endocrine System, operations on the hemic and lymphatic system, and obstetrical procedures | - | - | - | - | - | - |
| Operations on the Eye | - | - | 134 | 298 | 316 | 336 |
| Operations on the Ear | - | - | - | - | - | - |
| Operations on the Nose, Mouth and Pharynx | 457 | 231 | 254 | 564 | 599 | 636 |
| Operations on the Respiratory System | - | - | - | - | - | - |
| Operations on the Cardiovascular System | - | - | - | - | - | - |
| Operations on the Digestive System | 88 | 44 | 163 | 362 | 384 | 408 |
| Operations on the Urinary System | - | - | 23 | 51 | 54 | 57 |
| Operations on the Male Genital Organs | - | - | 9 | 20 | 21 | 22 |
| Operations on the Female Genital Organs | 140 | 71 | 78 | 173 | 184 | 195 |
| Operations on the Musculoskeletal System | 650 | 328 | 361 | 803 | 853 | 905 |
| Operations of the Integumentary System | 270 | 137 | 150 | 334 | 354 | 376 |
| Miscellaneous diagnostic and therapeutic procedures and new technologies | 13 | 7 | 7 | 17 | 18 | 19 |
| Total Cases, surgeries | 1,683 | 850 | 1,215 | 2,702 | 2,868 | 3,044 |
| Cases per Day (assumes 240 days of operation) | 7.01 | 3.54 | 5.06 | 11.26 | 11.95 | 12.68 |
| Surgery minutes per year (assumes MHS-Gig Harbor outpatient minutes per case) | 136,783 | 69,121 | 98,771 | 219,614 | 233,088 | 247,425 |
| Estimated Number of Operating Rooms Needed (WAC 246-310-270 (9) (ii)) | 2.0 | 2.0 | 2.9 | 3.2 | 3.4 | 3.6 |

Source: Applicant

The NCS use rates in the utilization forecast are based on national data sets and are national estimates. It is possible that local patterns could vary from the survey figures. However, there is no better statistical approach to estimate expected future volumes with procedural specificity. It is arguably reasonable to increase the use rate over time, given population aging and higher ambulatory surgery use rates for older age cohorts. However, we assume a constant use rate over our forecast period.

Table 10 above also provides estimates of MHS-Gig Harbor's Central Pierce Planning Area market share. It is projected to equal 3.1% of all planning area ambulatory surgeries in 2020, increasing to 5.4% by 2024." [Source: Application, pp21-26]

“Surgeries expected to shift from hospital settings to the community include outpatient procedures consistent with one of the specialties listed in the application, including: orthopedic, gynecological, ENT, urological, podiatry, eye, general, plastic, and gastroenterological surgical procedures. Examples include arthroscopy, ACL repair, hip arthroscopy, laparoscopic cholecystectomy, hernia repair, laparoscopic salpingectomy, sinus surgery, tonsillectomy and adenoidectomy.

It is expected that approximately 50% of the incremental volumes from opening the two additional rooms will be cases shifted out of hospitals. We expect the shift to principally come from MultiCare Tacoma General Hospital and Allenmore Hospital.” [Source: March 16, 2020 screening response, p2]

The assumptions MHS used to project revenue, expenses, and net income for the ASF for the projection years are below. [Source: Application, pp29-32]

“The assumptions used to generate these forecasts are described below. Please note the following:

- *There are financial models for Tacoma General/Allenmore, as a whole, and MHS-GH. These are provided with and without the project.*
- *MHS-GH is a cost center within Tacoma General/Allenmore, thus its actuals are within the overall Income Statement for the combined hospital.*
- *The Tacoma General/Allenmore financial model only varies over the forecast as the MHS-GH model varies. Thus, for example, in 2020, the Tacoma General/Allenmore Income Statement will vary from 2019 Annualized by the incremental change in MHS-GH over the period 2019-2020. In 2021, with or without the project, The Tacoma General/Allenmore Income Statement will vary from 2020 to 2021 as the MHS-GH Income Statement varies from 2020 to 2021.*
- *Without the Project, the MHS-GH Income Statement is assumed to remain essentially constant at its 2020 values. There is a slight increase in MHS-GH wages and salaries, even without the project, as detailed below.*
- *With the Project, MHS-GH volumes and financial performance is forecast to grow based on projections, as detailed in Exhibit 11B-11C. This incremental growth year-over-year, drives incremental growth in Tacoma General/Allenmore’s Income Statement.*

Key Assumptions

Volume Assumptions

1. *These have been detailed above. Please see Table 10, and the explanation of the methodology and key assumptions, pages 20-26.*
2. *Either Without or With the Project, there is a relatively large upturn in projected MHS-GH volumes, thus, financial performance due to: (1) an additional recently employed orthopedist utilizing the ASF; (2) increased anesthesia coverage; and (3) opening ORs for five days/week, given increased anesthesia coverage. For example, Table 5 shows ASF volumes of 756 cases through January 1-November 30, 2019, and Table 6 shows a 2020 budgeted ASF volume of 1,683 cases.*
3. *MHS-GH case volumes, With the Project are detailed in Table 10.*
4. *MHS-GH case volumes Without the Project are also provided in Table 10, but it is assumed volume growth stops at 2020 and remains constant thereafter.*

Capital Expenditures

Tacoma General/Allenmore

5. *Routine capital expenditure estimates, for Tacoma General/Allenmore have been held constant at the 2019 Annualized figure. As noted above, however, depreciation costs over the forecast will vary based on incremental depreciation forecasted for the MHS-GH cost center.*

MHS-GH

6. *Please see the Table below. Incremental capital expenditures of \$4,689,120 are expected as part of project.*
7. *Depreciation at MHS-GH is based on 2019 Annualized figures. Without the project, it is held constant at this value over the forecast period. With the Project, incremental depreciation is added based on the \$4.69 million incremental capital expenditure at MHS-GH, depreciated over a 5-year useful life.*

Revenues

8. *Models do not include any charge inflation.*

Tacoma General/Allenmore

9. *The Income Statement reflects hospital-wide financial performance. As stated above, revenues and expenses are based on 2019 annualized figures and are held constant over the forecast period except where revenues and expenses vary as incremental MHS-GH revenues and expenses vary, year by year, over the forecast.*
10. *Overall, Deductions from Revenue, 2019 annualized, were 75% of gross revenues. This percentage has been held constant over the forecast period., [sic] With or Without the Project*
11. *Charity care, 2019 annualized, is 2.04% of gross revenues. This percentage has been held constant over the forecast period. Table 12 indicates this figure is well above the 2016-2018 average, measured as the percentage of charity care divided by total patient services revenues, for either the Puget Sound Region, 1.19%, or the Central Pierce Planning Area, measured at 1.13%. This simply means that Tacoma General/ Allenmore charity care, as a percentage of total patient service revenues, was well above other hospitals in the Planning Area.*
12. *Bad debt, 2019 annualized, was 0.78% of gross revenues. It has been held constant at this percent level, over the forecast period.*

MHS-GH

13. *The MHS-GH gross revenues are based on gross revenues divided by cases for the 2019 annualized period. This revenue per statistic has been held constant and multiplied by forecast cases, with and without the project.*
14. *Deductions from Revenues have been calculated at 75% of gross revenues. This is an allocation, given that this detail is not kept at the cost center level.*

Expenses

Tacoma General/Allenmore

- 15. Expenses reflect hospital-wide expenses. As stated above, revenues and expenses are based on 2019 annualized figures and are held constant over the forecast period except where revenues and expenses vary as incremental MHS-GH revenues and expenses vary, year by year over the forecast.*

MHS-GH

- 16. There is projected inflation of wages and salaries of 3.5% per year based on existing contractual agreements.*
- 17. There is no other expense inflation in the model.*
- 18. All expenses listed except Wages, Salaries and Benefits, explained below, and depreciation, explained above, flex with volumes, based on an expense per statistic figure calculated from 2019 annualized figures. For example, Supplies were \$1.419 million, 2019 annualized. Divided by case volumes for that period at MHS-GH, Supply expenses were \$1,720 per case. Then in 2020, with a forecast case volume of 1,683, Supplies would be \$2.895 million (\$1,720*1,683). This same methodology and calculation has been used for all expenses that flex with volume, With or Without the Project.*
- 19. All expenses, except staffing costs Without the Project, are held constant at 2020 values.*

FTEs

- 20. FTEs at MHS-GH include OR and PACU staff, which have been combined together. Please see Table 16, which includes actuals for 2016-2018, YTD 2019 (January-November) and forecast FTEs With the Project. FTEs Without the Project remain constant at 2020 FTE values.*
- 21. FTE are based on MHS-GH 2019 year to date staffing, as shown in Table 16, by position. Incremental growth is based on growth of cases, and expected need for incremental staff, by position, by year.*
- 22. FTE wage and salary costs as well as benefits are based on 2019 actuals, with annual wage and salary growth, as stated above, which in turn, drives increased benefits each year.*
- 23. Overall, benefits are modeled at 29.5% of wages and salaries. This percentage is held constant over the forecast period.”*

MHS provided financial statements for several scenarios including the ASF alone, the hospital alone, and the ASF with the hospital. Based on the assumptions above the following tables show the projected revenue, expenses, and net income for MHS – Gig Harbor and Tacoma General Allenmore Hospital. [Source May 11, 2020 screening response, Revised Exhibit 11B and Revised Exhibit 11C]

**Department's Table 12
Projected Revenue and Expenses
MultiCare Day Surgery Center of Gig Harbor**

| | 2020 Intervening | 2021 Intervening | 2022 Year One | 2023 Year Two | 2024 Year Three |
|--------------------------|-----------------------------|-----------------------------|--------------------------|--------------------------|----------------------------|
| Net Revenue | \$12,626,000 | \$15,516,000 | \$20,272,000 | \$21,510,000 | \$22,843,000 |
| Total Expenses | \$9,945,000 | \$12,489,000 | \$16,401,000 | \$17,409,000 | \$18,506,000 |
| Net Profit/(Loss) | \$2,681,000 | \$3,027,000 | \$3,871,000 | \$4,101,000 | \$4,337,000 |

**Department's Table 13
Projected Revenue and Expenses
Tacoma General Allenmore Hospital**

| | 2020 Intervening | 2021 Intervening | 2022 Year One | 2023 Year Two | 2024 Year Three |
|--------------------------|-----------------------------|-----------------------------|--------------------------|--------------------------|----------------------------|
| Net Revenue | \$912,473,000 | \$912,473,000 | \$912,473,000 | \$912,473,000 | \$912,473,000 |
| Total Expenses | \$870,437,000 | \$870,437,000 | \$870,437,000 | \$870,437,000 | \$870,437,000 |
| Net Profit/(Loss) | \$42,036,000 | \$42,036,000 | \$42,036,000 | \$42,036,000 | \$42,036,000 |

**Department's Table 14
Projected Revenue and Expenses
Tacoma General Allenmore Hospital with MultiCare Day Surgery Center of Gig Harbor**

| | 2020 Intervening | 2021 Intervening | 2022 Year One | 2023 Year Two | 2024 Year Three |
|--------------------------|-----------------------------|-----------------------------|--------------------------|--------------------------|----------------------------|
| Net Revenue | \$912,473,000 | \$915,360,000 | \$920,118,000 | \$921,357,000 | \$922,691,000 |
| Total Expenses | \$870,437,000 | \$872,561,000 | \$875,806,000 | \$876,608,000 | \$877,481,000 |
| Net Profit/(Loss) | \$42,036,000 | \$42,799,000 | \$44,312,000 | \$44,749,000 | \$45,210,000 |

The “Net Revenue” line item is gross patient revenue, minus deductions from revenue for contractual allowances, bad debt, charity care, and operational revenue. The “Total Expenses” line item includes operating expenses, including salaries, wages, benefits, severance, supplies, professional fees, purchased services, lease, interest, depreciation, and corporate services’ expenses.

Public Comments

None

Rebuttal Comments

None

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by MHS to determine the projected number of procedures and utilization at MHS – Gig Harbor. The majority of the volumes are driven by operational changes to the surgical facility. Changes such as: hiring an additional physician in order to increase availability, which means the ability to offer services additional days of the week.

MHS based the expected volumes on several factors. The first being the anticipated volume of surgeries by procedure type for the planning area. To calculate this MHS did an analysis and extrapolation of a nationally recognized study of historical ambulatory surgery use. MHS took the national data and applied it to the planning area’s population forecasts. And the second factor being

MHS' expected market share. To determine its market share MHS used the historical utilization of the ASF, existing subspecialty expertise of ASF physicians, and the number of planning area ASCs performing procedures within the various specialties. Last, MHS applied its anticipated market share to the forecasted volumes. The department concludes that MHS' utilizations assumptions and projections are reasonable and practical.

MHS based its revenue and expense assumptions on actual recent historical figures and current contracts, leases, and experience of the surgical facility. This approach is both prudent and reasonable.

The historical financial statements provided in the application demonstrate the MHS – Gig Harbor and Tacoma General Allenmore Hospital's revenues have historically covered expenses. The pro forma financial statements show revenues continue to exceed expenses through full year three, 2024.

Based on the information submitted, 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.

MultiCare Health System

The applicant provided the following statement related to this sub-criterion. [Source: Application, p34]

"In general, the cost of the project would not be expected to affect costs and charges, as rates are based on fee schedules with CMS and negotiated rates with other payers not directly impacted by project-related costs."

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The capital expenditure associated with this project includes construction costs related to the conversion of spaces to operating rooms and expanding procedures, costs for equipment purchases, fees related to design and construction, and applicable sales tax. The capital expenditure for this project is \$4,571,805.39.

In order to evaluate this sub-criterion, the department performed a calculation of net revenue prior to expenses per procedure after the project to determine whether the applicant's projections were reasonable.

Department's Table 15
Department Calculation of Net Charges per Case

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|--------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net Revenue | \$12,626,000 | \$15,516,000 | \$20,272,000 | \$21,510,000 | \$22,843,000 |
| Number of Procedures | 1,683 | 2,068 | 2,702 | 2,867 | 3,045 |
| Net Revenue (charges) per Procedure | \$7,502.08 | \$7,502.90 | \$7,502.59 | \$7,502.62 | \$7,501.81 |

As shown above, although high, revenues are based on actual experience and the net charges change in favor of patient charges in the projection years. This can be attributed to efficiencies gained by operational changes that are part of the proposed project.

Additionally, MHS met with Construction Review Services (CRS) on April 8, 2020 to review the construction and building standards for the ASF. To assist in this evaluation, the department reviewed technical assistance (TA) documentation between MHS and the Department of Health's Construction Review Services (CRS) office.⁹ This documentation identifies the construction that is necessary at MHS – Gig Harbor to increase the number of ORs from two to four. It also includes any other construction necessary to accommodate the additional types of surgery. While MHS has not yet submitted its plans to CRS for review, information provided in the application demonstrates that MHS will submit plans if this project is approved.

Based on this information, the department concludes that the expansion of MHS – Gig Harbor's ORs and services would likely not have an unreasonable impact on the costs and charges for healthcare services in Central Pierce. **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.

Department Evaluation

As stated above, MHS intends to finance the capital costs using its corporate reserves. MHS provided a letter signed by MHS' Chief Financial Officer, Jim McManus dated December 12, 2019 committing corporate reserve funds to the project.

Although the capital expense is sizable, the department reviewed historical financial statements for MHS and Tacoma General Allenmore Hospital as a whole. The statements demonstrate that MHS has the funding available to finance this project. The department concludes that the finances for the estimated capital expenditure are available. **This sub-criterion is met.**

⁹ CRS#61053945

C. STRUCTURE AND PROCESS (QUALITY) OF CARE (WAC 246-310-230)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that MHS has met the applicable structure and process (quality) of care criteria in WAC 246-310-230.

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

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of FTEs [full time equivalents] 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.

MultiCare Health System

MHS provided the current and projected full time equivalents (FTEs) for MHS – Gig Harbor as shown following table. [Source: March 16, 2020 screening response, p5]

Department's Table 16
MHS – Gig Harbor Current and Projected Staffing

| FTE | 2018 | 2019 Partial Year | 2020 | 2021 | 2022 | 2023 | 2024 |
|-----------------------|-------------|-------------------------|--------------|--------------|--------------|--------------|--------------|
| GH FTEs | 6.67 | 8.83 | 16.64 | 20.04 | 25.63 | 27.08 | 28.66 |
| GH PACU FTEs | 2.61 | 4.84 | 8.60 | 10.60 | 13.85 | 14.69 | 15.56 |
| Total All FTEs | 9.28 | 13.67 | 25.24 | 30.64 | 39.48 | 41.77 | 44.22 |

MHS provided the following assumptions on which the projected staffing was based. [Source: Application, p39]

“As detailed above in Table 16, FTEs With the Project vary, in general, as case volumes vary. As stated earlier, there is a large expected upturn in case volumes over the period 2019-2020, due to: (1) an additional recently employed orthopedist utilizing the ASF; (2) increased anesthesia coverage; and (3) opening ORs for five days/week, given increased anesthesia coverage. Table 5 shows ASF volumes of 756 cases through January 1-November 30, 2019, and Table 6 shows a 2020 budgeted ASF volume of 1,683 cases. This drives productive FTEs up 10.95 FTEs in 2019, to 21.9 FTEs in 2020. Thereafter, as volumes are expected to grow, With the Project, FTEs who provide direct patient care, such as [sic] RNs and OR techs (included as “Technical” in Table 16), increase.”

MHS provided the following additional information regarding the projected staffing was based. [Source: March 16, 2020 screening response, p 4]

“Please see Table 2 below. It is a revision to the Table 16 on pp. 39 of the application. In Table 2 below, we have added FTE/case estimates. This demonstrates, based on the number of actual and projected number of cases, the FTE estimates on a per case basis are very consistent over time from 2018 forward. The forecast FTEs/case are consistent with 2018 and November 2019 YTD actuals.”

Applicant's Table

| Table 2. MHS-Gig Harbor Ambulatory Surgery Facility FTEs by Type by Year, 2016-2024 | | | | | | | | | |
|-------------------------------------------------------------------------------------|-----------|-----------------------------------------------|-----------|----------------------|-----------|-----------|-----------|-----------|-----------|
| MHS-Gig Harbor Ambulatory Surgical Facility | | | | | | | | | |
| FTE ("full-time equivalent") Analysis, Productive and Non-Productive FTEs | | | | | | | | | |
| | 2016 FTEs | 2017 FTEs (OR only operated Sep-Dec) | 2018 FTEs | Nov 2019 YTD FTEs | 2020 FTEs | 2021 FTEs | 2022 FTEs | 2023 FTEs | 2024 FTEs |
| GH OR FTEs | 3.89 | 7.74 | 6.67 | 8.09 | 16.64 | 20.04 | 25.63 | 27.08 | 28.66 |
| GH PACU FTEs | 2.38 | 1.67 | 2.61 | 4.44 | 8.60 | 10.60 | 13.85 | 14.69 | 15.56 |
| GH Total FTEs | 6.27 | 9.41 | 9.27 | 12.53 | 25.24 | 30.64 | 39.48 | 41.78 | 44.22 |
| GH Cases | 456 | 165 | 635 | 803 | 1,683 | 2,068 | 2,702 | 2,867 | 3,045 |
| FTEs/Case | 0.0137 | 0.0571 | 0.0146 | 0.0156 | 0.0150 | 0.0148 | 0.0146 | 0.0146 | 0.0145 |

MHS provided the following statements regarding recruitment and retention of staff for the ASF.

“Overview. MultiCare Health System has an excellent track record in Pierce County for recruiting and retaining qualified staff to meet the needs of their systems that includes multiple hospitals and well over 100 outpatient medical parks, clinics, surgery centers, and other sites. They have done this by partnering with local universities and colleges, supporting employee career development, and utilizing a broad range of local, regional and national recruiting strategies.

MultiCare Medical Associates employs over 490 primary and specialty physicians. Since 2003, MHS has recruited a large number of new employees each year. This recruiting success, coupled with better-than-average employee retention rates, has enabled them to staff new programs and open new facilities in both acute-care and outpatient settings.

Extensive recruitment resources. MultiCare Health System’s recruiting resources include a Talent Acquisition team and a Provider Services team, both led by recruitment professionals, each with more than twenty years of experience. The Talent Acquisition team includes full-time recruiters (including RNs), an Agency Staffing Specialist and Employment Coordinators. The Provider Services team includes full-time recruiters and support team members. Because MHS’ recruiters are trained in state-of-the-art recruitment techniques, the need for outside search firms has been greatly reduced. Referrals from these firms account for less than one percent of total new hires. Other recruitment resources include contingent staffing agencies and employment branding consultants.

Managing turnover and vacancy rates. MHS has consistently retained employees at a rate that exceeds other healthcare providers in the region and across the country. Resources devoted to monitoring and controlling turnover include frequent employee surveys that identify employee concerns, coaching and training to help front-line managers become more effective leaders. Because MHS turnover rates have been low, vacancy rates have also remained lower than industry norms.

Expanding and developing the healthcare workforce. MHS has devoted extensive resources to ensuring an adequate pipeline of new healthcare workers. Examples include partnering with local universities, community colleges, and trade schools to provide clinical experiences each year; high school outreach programs including job shadows, Medical Explorers programs at two locations, and health careers camps; a Nurse Technician employment program; and strong residency and apprenticeship programs. MHS’ workforce development efforts extend to current employees who

benefit from residency programs, apprenticeships, tuition assistance, and targeted scholarship programs. MHS also boast award-winning educational resources including state-of-the-art simulation labs, computer-based learning modules, classroom training and other educational opportunities” [Source: Application, pp 40-41]

“Recruitment of staff will be in alignment with other MultiCare sites via website listing and career events. As this is an ASC, it is a highly desirable location for perioperative staff to work as the hours do not include nights, weekends, holidays or call. Some staff from other MultiCare operating room sites will have priority for open positions. Other new staff will be recruited and participate in our Perioperative 101 Nursing Residency Program to become highly effective perioperative staff.

Retention and Employee Satisfaction is closely monitored by the Gig Harbor Leadership Team. MultiCare implements an annual Employee Satisfaction Survey and uses the findings from this survey to develop specific plans to address employee recommendations on opportunities for improving employee work life and recruitment/retention.” [Source: March 16, 2020 screening response, p5]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

MHS has shown it has already staffed one of the specialized and needed positions in order to offer services additional days of the week. It also extrapolated the number of staff necessary to meet increased projected volumes. And provided a rationale for why staffing this project should not be a challenge. Lastly, MHS detailed strategies it has successfully used in the past to recruit and retain additional staff.

Information provided in the application demonstrates that MHS and MHS – Gig Harbor are both well-established providers of healthcare services in Pierce County. And based on the information provided in the application, the department concludes that although a significant increase in staff is needed, MHS has the ability to recruit and retain the necessary staff for the surgical facility. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(2) as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what relationships, ancillary and support services should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials contained in the application.

MultiCare Health System

The applicant provided the following statements regarding this sub-criterion.

“MHS-Gig Harbor is operational and currently works with local inpatient health providers, as required. As a member of the MultiCare Health System, it holds an Inter-Facility Patient Transfer Agreement with MHS-affiliated hospitals. This includes the planning area hospital Tacoma General/Allenmore. Please see Exhibit 19 for a copy of this Inter-Facility Transfer Agreement.”
[Source: Application, p42]

“None of the existing working relationships with healthcare facilities listed above would change.”
[Source: Application, p42]

“MHS-Gig Harbor, as a member of the MultiCare Health System, cooperates with all other MHS-affiliated hospitals. This includes the largest planning area provider of inpatient care in Tacoma General/Allenmore Hospital. Please see Exhibit 19, which includes a copy of MHS-Gig Harbor’s Inter-Facility Transfer Agreement with MHS affiliated hospitals.” [Source: Application, p43]

Since MHS – Gig Harbor is an existing facility, MHS also provided a table listing its ancillary and support services already in place at the surgical facility.

Applicant’s Table

| Table 17: MHS-Gig Harbor Ambulatory Surgery Facility, Ancillary and Support Services | |
|---------------------------------------------------------------------------------------------|----------------------------------|
| Acclarent | Latera (Intellis) |
| Aesculap | LeanTaas |
| Allergan | LifeNet |
| Arthrex | Medline (Distributor) |
| BPI – (Instrument Repair) | MedSpeed (Medical Courier) |
| Burlington | Medtronic (Covidien) |
| Cardinal | Mentor |
| CBRE (Facilities Support) | Mizuho-OSI |
| Clean Harbors (Waste Disposal) | MTF (Allograft) |
| ConMed | Paragon |
| CoMedial | Praxair |
| DePuy Synthes | Skytron |
| Deru Medical | Storz |
| Ethicon | Stryker Endoscopy |
| GE HealthCare | Stryker Instruments |
| Hologic | Stryker Sustainability Solutions |
| Iron Mountain | Tacoma Anesthesia Associates |
| Johnson & Johnson | TrackCare (Tissue Tracking) |
| Laboratories Northwest | WL Gore |

[Source: Application, pp41-42]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

MHS – Gig Harbor has been located in the Central Pierce Secondary Health Services Planning Area for many years and MHS has been operating in the planning area for over eight years as a CN-approved¹⁰ facility.

MHS also provided an inter-facility transfer agreement which outlines the terms, purpose, and procedures agreed upon by participating facilities.

All necessary ancillary and support services are already in place at the ASF and MHS does not expect the existing ancillary and support agreements to change as a result of this project.

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that MHS will continue to maintain the necessary relationships with ancillary and support services for MHS – Gig Harbor if this project is approved. **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.

MultiCare Health System

MHS provided the following statement for this sub-criterion. [Source: Application, p43]

“MultiCare does not have any such convictions as defined in WAC 246-310-230 (5)(a).”

Public Comments

None

Rebuttal Comments

None

Department Evaluation

As a part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.¹¹ To accomplish this task, the department reviewed the quality of care and compliance history for MultiCare Health System, MHS – Gig Harbor, and the medical professionals currently associated with either the practice or the surgical facility.

Washington State Survey Data

As stated in the applicant description section of this evaluation, MHS is a current provider in Washington State with facilities operating throughout the state. The Department of Health's Office

¹⁰ CN #1473 issued May 23, 2012

¹¹ WAC 246-310-230(5)

of Health Systems Oversight (OHSO) conducted surveys for the facilities owned or operated by MHS. Using its own internal database, the department reviewed the historical survey data for the healthcare facilities associated with MHS. Since 2017 MHS' facilities have been surveyed 31¹² times with no significant noncompliance reported. [Source: DOH Office of Health System Oversight]

CMS Survey Data

Using the Center for Medicare and Medicaid Services Quality, Certification & Oversight Reports (QCOR) website, the department reviewed the historical survey information for all available MHS facilities. A QCOR review shows that since 2017, ten MHS facilities had surveys resulting in actions.

Department's Table 17
MultiCare Health System's Facilities and Survey History

| Facility | Times surveyed since 2017 | Citations Issued |
|-------------------------------------------|---------------------------|---------------------|
| MultiCare Auburn Medical Center | 2 | Standard |
| Multicare Cascade Surgical Center | 1 | Condition, standard |
| MultiCare Good Samaritan Hospital | 5 | Standard |
| MultiCare Mary Bridge Children's Hospital | 2 | Standard |
| Multicare Rockwood Eye Surgery Center | 1 | Standard |
| MultiCare Tacoma General Hospital | 4 | Condition, standard |
| MultiCare Valley | 2 | Standard |
| MultiCare Deaconess | 3 | Standard |
| Navos | 1 | Condition, standard |
| Wellfound Behavioral Health Hospital | 2 | Standard |

All of the hospitals and ASFs owned and operated by MHS are located in Washington State. Of the hospitals only two have received condition-level deficiencies since 2017. The citations were corrected at both facilities prior to its follow-up visit¹³. Since 2017 an ASF owned and operated by MHS received seven condition-level deficiencies in a standard survey. These citations were also corrected prior to its follow-up visit.

Of the 23 surveys since 2017, eight of them had no deficiencies. And surveys with any deficiencies, standard or condition-level were all remedied prior to a follow-up visit.

MHS provided the name and professional license number for the ASF's current medical director, Dr. Brian McCoy. Using data from the Medical Quality Assurance Commission, the department found that Dr. McCoy is compliant with state licensure and has no enforcement actions on their license.

¹² This count includes times facilities were surveyed by the Department of Social and Health Services prior to behavioral health agencies being licensed and surveyed by the Department of Health.

¹³ There are two different types of citations that CMS can issue. The more serious, known as "condition-level" mean that a healthcare facility is not in substantial compliance with Medicare's Conditions of Participation. A "standard-level" deficiency means that the healthcare facility may be out of compliance with one aspect of the regulations, but is considered less severe than condition-level.

In the application, MHS provide the names of the key staff necessary for the surgical facility, physicians who use the ASF, and its credentialed staff. [Source: Application, p40 and Exhibit 18]

Of the 65 persons listed, one has enforcement action on their Washington State Department of Health license. In August of 2018 the podiatrist with enforcement action on their license, was released from charges. There are no current restrictions on this person's license. [Source: DOH Provider Credential Search website]

Given the compliance history available for the facilities it owns and operates, the department concludes there is reasonable assurance MHS' expansion of services and ORs would be operated in conformance with applicable state and federal licensing and certification requirements. Based on the information reviewed, the department concludes **this sub criterion is met.**

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

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

MultiCare Health System

In response to this sub-criterion, MHS provided the following statement. [Source: Application, p43]

"MHS-Gig Harbor promotes continuity of care now, since it offers all elements of outpatient care across a wide range of specialties, including diagnoses, treatment and outpatient surgery, if needed. CN approval of two additional ORs will allow MHS Gig Harbor to meet the increased Planning Area demand for outpatient surgical procedures and continue to support continuity of care in its local market. Without further increases in supply, patients in search of outpatient surgical procedures will need to commute outside the Central Pierce planning area, thereby creating unwarranted fragmentation of services in the future."

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Information in the application demonstrates that MHS – Gig Harbor is a long-time provider of outpatient surgical services, and it has the infrastructure in place to add ORs in the planning area. No letters of opposition were submitted for this project.

MHS provided information within the application to demonstrate it intends to continue existing relationships, and that these relationships are adequate to support the increase in ORs and services. This includes the executed inter-facility transfer agreement with ten of its affiliates in the region.

Based on the information provided in the application, the department concludes there is reasonable assurance that approval of this project would 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.

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

D. COST CONTAINMENT (WAC 246-310-240)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that MHS has 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, in step two, the department assesses the other options considered by the applicant. If the department determines the proposed project is better or equal to other options considered by the applicant and the department has not identified any other better options this criterion is determined to be met unless there are multiple applications.

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

Step One

MHS' application met the applicable review criteria under WAC 246-310-210 through 230. The application will be evaluated further under steps two and three.

Step Two

MHS explored the following two options.

- No project, continuing as licensed
- The requested proposal, two operating room expansion of the existing facility

MHS provided the following statement regarding this sub-criterion. [Source: Application, p44]

“MHS-Gig Harbor is requesting certificate of need to operate two (2) additional operating suite in addition to its current two operating suites.

In deciding to submit this application, MHS-Gig Harbor explored the following options: (1) no project—continuing as a licensed, certificate of need approved 2-OR facility and (2) the requested project—seeking certificate approval to expand with two additional CN-approved operating rooms.

Other options, such as additional build-out of operating suites beyond those approved were determined not financially feasible.”

MHS provided the following analysis regarding this sub-criterion. [Source: Application, pp44-46]

Applicant’s Tables

| Table 18: Alternatives Analysis: Promoting Access to Healthcare Services | |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Option: | Advantages/Disadvantages: |
| No project - remain CN-approved for 2-ORs | <ul style="list-style-type: none">• There is no advantage to continuing as is in terms of improving access. (Disadvantage ("D"))• Planning Area supply constraints prevent the potential for further growth in outpatient surgical procedures, leading to reduced access to outpatient surgery services for Planning Area residents. Without the project, these constraints may require patients to out-migrate to non-Planning Area facilities, which harms access. (D) |
| CN Approval - to expand 2-OR in addition to 2-ORs (Requested project) | <ul style="list-style-type: none">• Allows two additional ORs at MHS-Gig Harbor, open to all physicians in the community who are credentialed and privileged as a member of the MHS-Gig Harbor medical staff, improving local access to orthopedic, gynecological, ENT, urological, podiatry, eye, general, plastic, and gastroenterological procedures for Planning Area residents (Advantage ("A")) |

| Table 19: Alternatives Analysis: Promoting Quality of Care | |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Option: | Advantages/Disadvantages: |
| No project - remain CN-approved for 2-ORs | <ul style="list-style-type: none"> There are no advantages from a quality of care perspective. However, there are no current quality of care issues. (Neutral ("N")) |
| CN Approval - to expand 2-OR in addition to 2-ORs (Requested project) | <ul style="list-style-type: none"> The requested project meets and promotes quality and continuity of care issues in the Planning Area, given it improves access identified above. (A) From a quality of care perspective, there are only advantages. (A) |

| Table 20: Alternatives Analysis: Promoting Cost and Operating Efficiency | |
|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Option: | Advantages/Disadvantages: |
| No project - remain CN-approved for 2-ORs | <ul style="list-style-type: none"> Under this option, there would be no impacts on costs or efficiency—the surgery center would continue as presently. (N) However, without the project, some residents in need of surgical procedures need to either out-migrate or be treated at inpatient facilities as a result of Planning Area supply constraints. (D) |
| CN Approval - to expand 2-OR in addition to 2-ORs (Requested project) | <ul style="list-style-type: none"> The incremental cost of this project will be relatively small, and MultiCare costs and charges are based on fee schedules with CMS and principal payers. Therefore, in general, the proposed project would not be expected to affect costs and charges. (N) Two additional ORs will provide greater accessibility to planning area residents for outpatient surgical services. Adding capacity to a local ASF reduces travel time and costs, patient inconvenience and anxiety, and is a cost-effective alternative to increased utilization of hospital outpatient surgery departments. (A) |

Applicant's Table

| Table 21: Alternatives Analysis: Legal Restrictions. | |
|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| Option: | Advantages/Disadvantages: |
| No project - remain CN-approved for 2-ORs | <ul style="list-style-type: none"> There are no legal restrictions to continuing operations as presently. (A) |
| CN Approval -to expand 2-OR in addition to 2-ORs (Requested project) | <ul style="list-style-type: none"> Requires certificate of need approval. This requires time and expense. (D) |

Public Comments

None

Rebuttal Comments

None

Department Evaluation

MHS provided sound rationale for foregoing the “no project” option. Focusing on the planning area, information provided in the application demonstrates that MHS’ project is the best alternative based on quality of care, as well as efficiency, and costs. Adding operating room capacity at an existing, well-established ASF also improves access to services for residents of the planning area. The department did not identify any other alternatives that that would be considered superior based on quality, efficiency, and costs that is available or practicable for MHS. **This sub-criterion is met.**

Step Three:

This step is applicable only when there are two or more approvable projects. This step does not apply.

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

Department Evaluation

This sub-criterion was evaluated in conjunction with WAC 246-310-220 earlier in the evaluation and is considered met.

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

MultiCare Health System

MHS provided the following statement related to this sub-criterion. [Source: Application, p46]

“Any proposed changes will meet MultiCare Health System’s internal standards which have been engineered and tested to ensure that they support our high quality, efficient and patient-focused standards. Our standards also meet and or exceed all applicable state and local codes.”

Public Comments

Stephanie Acierno, MD MPH, FACS FAAP, Mary Bridge Pediatric Surgery

As a practicing pediatric general surgeon in Pierce County, I am writing today to advocate for the approval of MultiCare Health System's application to increase our surgical capacity and convert two existing procedure rooms into operating rooms at MultiCare Day Surgery of Gig Harbor. I have been using the Gig Harbor Ambulatory Surgery Center (GHAC) for the last two years for my pediatric patients. We started with patients 12 and older, but for the last year, we have started "Mary Bridge Mondays" where we operate on day surgery cases for children 2 years and older. We bring our pediatric nurses and child life specialists on these days to bring the "Mary Bridge" experience to Gig Harbor. Patients of mine from the Peninsula, Tacoma, and even from as far south as Centralia have chosen to have surgery at GHAC and have had wonderful experiences.

The benefits of GHAC for these families center around a smaller, less intimidating experience. Parking is much easier at GHAC and traffic easier to navigate. The admission process and

wayfinding are dramatically simpler as it is all in one place. Our main OR at TG has become quite crowded and emergency cases can often result in delays in start times, this is not the case at GHAC. This allows GHAC to be very efficient and provide excellent care for my patients. Parents are never far from their children throughout the process which eases their worry. Moving these straightforward cases to GHAC, leaves my team with room in our Tacoma OR block for more complex cases that require hospital care. It also gives us flexibility to add on emergent cases when needed.

Cases I perform at GHAC include inguinal hernia repairs, umbilical hernia repairs, cleft lip repairs (surgery for Pilonidal Disease), skin lump excisions, and other minor procedures that need anesthesia, but do not need a hospital experience. I schedule patients there from my Gig Harbor outreach clinic, my Tacoma clinic, and my Olympia outreach clinic. As the South Sound continues to grow, we will have more and more families who need these services. Expanding the OR availability at GHAC will help us meet this need.

I have not only experienced GHAC's excellent care as a surgeon, but also as a patient. I chose to have my surgery at GHAC with Dr. Mason Platt as I live in Gig Harbor and I knew I would be in good hands. From check in to discharge, the team there took fantastic care of me. I had to wait two months for an OR to be available for my surgery. It was worth it to me to make it easier on me and my family for our surgery day.

I thank you in advance for your consideration of MultiCare's application to add more operating rooms to Multi Care Day Surgery of Gig Harbor to provide more access to care, closer to home, for our region's quickly growing population.

Rebuttal Comments

None

Department's Evaluation

This project proposes adding ORs and services to an existing, CN-approved surgical facility. The project proposes to convert existing rooms to operating rooms. Although the cost of the project is significant, the transfer of appropriate services from an inpatient setting to an outpatient one is shown to be cost effective. And when done within a system such as MHS, which has an existing operational foundation and oversight in Pierce County, can be achieved without the risk of lost quality. Based on information provided within the application, and evaluated under WAC 246-310-210 and 230, the department is satisfied that this project is appropriate and needed. Further, this project has the potential to improve the delivery of health services in the Central Pierce Secondary Health Services Planning Area. **This sub-criterion is met.**

APPENDIX A

Ambulatory Surgery Need Methodology
WAC 246-310-270
Central Pierce

| | | | | | | | | | | | | | |
|----------------------------------------|------------------------------------------------------------------------------------------------------------|----------------------------------------------|--------|--------|-----------|------------------------------|-------------------------------|--------|----------------------|--|--|--|--|
| Service Area Population: 2023 | | 356,086 | | | | | | | | | | | |
| Use Rate | | 182.60 | | | | | | | | | | | |
| Projected Surgeries in Projection Year | | 65,020 | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| a.i. | 94,250 | minutes/year/mixed-use OR | | | | | | | | | | | |
| a.ii. | 68,850 | minutes/year/dedicated outpatient OR | | | | | | | | | | | |
| a.iii. | 9 | dedicated outpatient OR's x 68,850 minutes = | | | | 619,650 | minutes dedicated OR capacity | 12,955 | Outpatient surgeries | | | | |
| a.iv. | 54 | mixed-use OR's x 94,250 minutes = | | | | 5,089,500 | minutes mixed-use OR capacity | 42,740 | Mixed-use surgeries | | | | |
| b.i. | projected inpatient surgeries = | | 42,778 | = | 5,094,016 | minutes inpatient surgeries | | | | | | | |
| | projected outpatient surgeries = | | 22,242 | = | 1,063,831 | minutes outpatient surgeries | | | | | | | |
| b.ii. | Forecast # of outpatient surgeries - capacity of dedicated outpatient OR's | | | | | | | | | | | | |
| | | 22,242 | - | 12,955 | = | 9,287 | outpatient surgeries | | | | | | |
| b.iii. | average time of inpatient surgeries | | | = | 119.08 | minutes | | | | | | | |
| | average time of outpatient surgeries | | | = | 47.83 | minutes | | | | | | | |
| b.iv. | inpatient surgeries*average time | | | = | 5,094,016 | minutes | | | | | | | |
| | remaining outpatient surgeries(b.ii.)*avg time | | | = | 444,181 | minutes | | | | | | | |
| | | | | | 5,538,197 | minutes | | | | | | | |
| c.i. | if b.iv. < a.iv. , divide (a.iv.-b.iv.) by 94,250 to determine surplus of mixed-use ORs | | | | | | | | | | | | |
| | Not Applicable - Go to c.ii. and ignore any value here. | | | | | | | | | | | | |
| | | 5,089,500 | | | | | | | | | | | |
| | - | 5,538,197 | | | | | | | | | | | |
| | | -448,697 | / | 94,250 | = | -4.76 | | | | | | | |
| c.ii. | if b.iv. > a.iv., divide (inpatient part of b.iv - a.iv.) by 94,250 to determine shortage of inpatient ORs | | | | | | | | | | | | |
| | USE THESE VALUES | | | | | | | | | | | | |
| | | 5,094,016 | | | | | | | | | | | |
| | - | 5,089,500 | | | | | | | | | | | |
| | | 4,516 | / | 94,250 | = | 0.05 | | | | | | | |
| | divide outpatient part of b.iv. By 68,850 to determine shortage of dedicated outpatient ORs | | | | | | | | | | | | |
| | | 444,181 | / | 68,850 | = | 6.45 | | | | | | | |

| Facility | License Number | CN Approved? | ZIP Code | Special Procedure Rooms | Dedicated Inpatient ORs | Dedicated Outpatient ORs | Mixed Use ORs | Inpatient min/case | Cases in Mixed Use ORs | Minutes In Mixed Use ORs | Outpatient Min/Case | Outpatient Cases | Minutes in Outpatient ORs | Data Source |
|----------------------------------------------------|------------------|-----------------|------------|----------------------------------------------------|----------------------------|-----------------------------|---------------|-----------------------|---------------------------|-----------------------------|------------------------|------------------|------------------------------|----------------------------|
| CHI Franciscan Rehabilitation Hospital | HAC.FS.60833232 | CN-approved | 98465-2008 | | | | | | | 0 | | | 0 | New hospital |
| Mary Bridge Childrens Hospital and Health Services | HAC.FS.00000175 | CN-approved | 98405-4234 | 0 | 0 | 2 | 4 | 78.65 | 4,440 | 349,211 | 12.14 | 5,279 | 64,090 | DOH CN Program Survey 2019 |
| St Anthony Hospital | HAC.FS.60075769 | CN-approved | 98332 | 2 | 0 | 0 | 6 | 101.42 | 4,752 | 481,964 | 0.00 | 0 | 0 | DOH CN Program Survey 2018 |
| St Joseph Medical Center | HAC.FS.00000032 | CN-approved | 98405-4933 | 0 | 0 | 0 | 10 | 145.20 | 7,506 | 1,089,876 | 0.00 | 0 | 0 | DOH CN Program Survey 2018 |
| Tacoma General | HAC.FS.00000176 | CN-approved | 98405-4234 | 0 | 0 | 0 | 17 | 113.06 | 11,413 | 1,290,354 | 0.00 | 0 | 0 | DOH CN Program Survey 2019 |
| Allenmore Hospital | HAC.FS.000000176 | CN-approved | 98405-4234 | 0 | 0 | 0 | 8 | 145.78 | 6,758 | 985,150 | 0.00 | 0 | 0 | DOH CN Program Survey 2019 |
| Baker Day Surgery of Tacoma | HAC.FS.00000176 | CN-approved | 98405 | | | 3 | | | | | 77.04 | 1,413 | 108,856 | DOH CN Program Survey 2019 |
| Day Surgery Center of Gig Harbor | HAC.FS.00000176 | CN-approved | 98335 | | 2 | 109.57 | | | | | 635 | 69,580 | DOH CN Program Survey 2019 | |
| Gig Harbor Same Day Surgery | HAC.FS.00000032 | CN-approved | 98405-4933 | | 2 | 87.50 | | | | | 838 | 73,329 | DOH CN Program Survey 2018 | |
| Walters Day Surgery | HAC.FS.00000032 | CN-approved | 98405-4933 | | 0 | 9 | | | | | 111.32 | 5,718 | 636,556 | |
| Aesthetica Clinique LLC | ASF.FS.60629909 | DOR16-02 | 98402-5209 | | | 1 | | | | | 154.55 | 231 | 35,700 | DOH CN Program Survey 2018 |
| Artistic Plastic Surgery Center | ASF.FS.60099774 | DOR15-21 | 98405-1955 | | 1 | 50.00 | | | | | 220 | 11,000 | ILRS | |
| Evergreen Eye Center | ASF.FS.61026553 | DOR17-19 | 98405-3728 | | 2 | 50.00 | | | | | 1,500 | 75,000 | ILRS | |
| Harbor Plastic Surgery Center | ASF.FS.60278673 | DOR09-22A | 98332-5820 | | 2 | 0.75 | | | | | 435 | 325 | DOH CN Program Survey 2018 | |
| Kaiser Permanente Tacoma Ambulatory | ASF.FS.60100949 | | 98405-4265 | Exclude - HMO WAC 246-310-210(2) | | | | | | | | | 0 | DOH CN Program Survey 2019 |
| Narrows Eye Surgery Center | ASF.FS.61002680 | DOR03-01 | 98405 | | | 1 | | | | | 50.00 | 500 | 25,000 | ILRS |
| Pacific Cataract and Laser Institute | ASF.FS.60101100 | DOR06-28 | 98409-4803 | | 2 | 50.00 | | | | | 4,036 | 201,800 | DOH CN Program Survey 2018 | |
| Pacific Northwest Eye Surgery Center | ASF.FS.60262678 | DOR12-02 | 98405-1919 | | 3 | 30.89 | | | | | 2,888 | 89,203 | DOH CN Program Survey 2019 | |
| Peninsula Endoscopy Center | ASF.FS.60100194 | | 98335-1312 | Exclude - endoscopy only WAC 246-310-270(9)(a)(iv) | | | | | | | | | 0 | DOH CN Program Survey 2018 |
| Cedar Laser and Surgery Center | ASF.FS.60252056 | DOR14-32 | 98405-2321 | | | 2 | | | | | 51.69 | 2,084 | 107,732 | DOH CN Program Survey 2018 |
| Sono Bello | ASF.FS.60386753 | DOR14-13 | 98405-1621 | | 3 | 141.97 | | | | | 1,038 | 147,369 | DOH CN Program Survey 2018 | |
| Soundview Ambulatory Surgery Center | ASF.FS.60738149 | DOR17-16 | 98335-2215 | | 1 | 60.00 | | | | | 6 | 360 | DOH CN Program Survey 2019 | |
| The Eye Surgeons Group Ambulatory Surgery | ASF.FS.60779058 | | 98405-3728 | Duplicate, CHOW to Evergreen Eye Center | | | | | | | | | 0 | ILRS |
| Waldron Endoscopy Center | ASF.FS.60100195 | | 98405-1602 | Exclude - endoscopy only WAC 246-310-270(9)(a)(iv) | | | | | | | | | 0 | DOH CN Program Survey 2018 |
| Totals | | | | 2 | 0 | 9 | 54 | | 40,587 | 4,833,111 | | 21,103 | 1,009,344 | |

| | |
|-------------------------------------------------------|---------|
| Total Surgeries | 61,690 |
| Total Planning Area Population (2018) (Claritas 2019) | 337,848 |
| Use Rate | 182.60 |
| Total Planning Area Population (2023) (Claritas 2019) | 356,086 |