August 13, 2018

Janis Sigman, Manager
Washington State Department of Health
Certificate of Need Program
111 Israel Road SE
Tumwater, WA 98501

Re: Kadlec Regional Medical Center, Certificate of Need Application to Construct and Operate Four Procedure Rooms

Dear Ms. Sigman:

Enclosed please find two copies of the Kadlec Regional Medical Center certificate of need application to construct and operate four (4) procedure rooms in Richland, Benton County. As required, the review and processing fee of $20,427 also is enclosed.

We look forward to working with the Department in its review of the application. If you have any questions, please contact me at (509) 897-2081 or Robert.Watilo.providence.org.

Sincerely,

Robert Watilo, Chief Strategy Officer
Kadlec Regional Medical Center
888 Swift Blvd.
Richland WA 99352

Washington State Department of Health

APPLICATION FOR CERTIFICATE OF NEED
AMBULATORY SURGERY FACILITY OR KIDNEY DISEASE TREATMENT CENTERS

Certificate of Need applications must be submitted with a fee in accordance with Washington Administrative Code (WAC) 246-310-990 and the instructions on page 2 of this form

Application is made for a Certificate of Need in accordance with provisions in Revised Code of Washington (RCW) 70.38 and WAC 246-310, rules and regulations adopted by the Washington State Department of Health. I hereby certify that the statements made in this application are correct to the best of my knowledge and belief.

Signature and Title of Responsible Officer Robert a Watilo Rob Watilo Chief Strategy Officer	**Date:** August 13, 2018 **Telephone Number** Rob Watilo (509) 897-2081
Legal Name of Applicant Kadlec Regional Medical Center **Address of Applicant** Kadlec Regional Medical Center 888 Swift Blvd. Richland WA 99352	**Type of Application:** [**x**] Ambulatory Surgical Facility [ ] Kidney Disease Treatment Center **Type of Project (check all that apply)** [**x**] New Health Care Facility [ ] Capital expenditure over expenditure minimum [ ] Increase in the number of dialysis stations in a kidney disease center
Estimated capital expenditure: $8,980,000	**Anticipated Commencement of the Project:** January 2019 **Anticipated Completion of the Project:** January 2020 **Project Summary:** Certificate of need approval to establish and operate four procedure rooms.

INSTRUCTIONS FOR SUBMISSION: DO NOT bind your application. Bindings, notebooks, and other covers are not necessary. Please number the pages and two-hole punch the application material at the top of the pages. Mail an original and one copy of the completed application, with narrative portion to:

Mailing Address:	Other than by Mail:
Department of Health	Department of Health
Certificate of Need Program	Certificate of Need Program
Mail Stop 47852	111 Israel Road SE
Olympia, WA 98504-7852	Tumwater, WA 98501

The application must be accompanied by a check, payable to: ***Department of Health*** for the application review fee as identified on the enclosed fee schedule.

2. COMPLETE THE FOLLOWING PRIOR TO SUBMISSION FOR REVIEW:

TOTAL AMOUNT OF FEE ACCOMPANYING THIS APPLICATION:

Ambulatory Surgical Facility $ 20,427.00[1]

APPLICANT NAME: Kadlec Regional Medical Center

DATE OF SUBMISSION: 8/13/18

CHECK NUMBER: 97928

[1] Please see Exhibit 1 for a copy of the check to the DOH.

Application Fee Schedule

An application for a Certificate of Need under chapter WAC 246-310-990 must include payment of a fee consisting of the following:

- A review fee based on the facility/project type. (Effective June 15, 2012)
- If more than one facility/project type applies to an application, the review fee for each type of facility/project must be included.

Facility Type	Review Fee
Ambulatory Surgical Centers/Facilities	$20,427
Amendments to Issued Certificates of Need	$12,874
Emergency Review	$8,286
Home Health Agency	$24,666
Hospice Agency	$21,968
Hospice Care Center	$12,874
Hospital (excluding Transitional Care Units (TCUs), Ambulatory Surgical Centers/Facilities, Home Health, Hospice and Kidney Disease Treatment Centers)	$40,470
Kidney Disease Treatment Centers	$25,054
Nursing Homes (including CCRCs and TCUs)	$46,253

WASHINGTON STATE CERTIFICATE OF NEED PROGRAM
RCW 70.78 AND WAC 246-310

APPLICATION INFORMATION INSTRUCTIONS

These application information requirements are to be used in preparing a Certificate of Need application. The information will be used to evaluate the conformance of the project with all applicable review criteria contained in RCW 78.38.115 and WAC 246-310-210, 220, 230, 240, 270, and 280.

- Submit a copy of the **Letter of Intent** for this project in the application
- Please make the narrative information complete and concise. Data sources are to be cited. Extensive supporting data, that tends to interrupt the narrative, should be placed in the appendix.
- Please number **ALL** pages.
- All cost projections are to be in non-inflated dollars. Use the current year dollar value for all program data and projections. **DO NOT** inflate these dollar amounts.
- Capital expenditures should not include contingencies. Certificate of Need statutes and regulation allow a 12 percent or $50,000.00 *(whichever is greater)* margin before an amendment to an approved Certificate is required.

Kadlec Regional Medical Center

Certificate of Need Application

Proposing to Construct and Operate Four (4) Procedure Rooms

August 2018

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Introduction and Rationale

Introduction

Kadlec Regional Medical Center ("Kadlec") requests certificate of need ("CN") approval to construct and operate four (4) procedure rooms[2,3] in the Benton-Franklin Secondary Health Services Planning Area ("Benton-Franklin Planning Area"). The rooms will be limited to GI/endoscopy procedures and will be open to all physicians in the community who are credentialed and privileged as members of the FACILITY.[4] The procedure rooms are expected to open in January 2020.

Rationale

The GI/endoscopy procedure rooms are an integral part of Kadlec's mission to provide local, affordable ambulatory care options to Benton-Franklin Planning Area residents. The overall cost structure to perform outpatient procedures in a freestanding location is lower than providing these same services in a hospital outpatient department, thus allowing Kadlec and its payers to pass along cost savings to consumers.

Kadlec is requesting approval of four GI/endoscopy procedure rooms. There is both quantitative and qualitative need for the proposed rooms. With respect to quantitative need, application of the Department's ambulatory surgical facility ("ASF") need methodology[5] establishes a need for more than 11 outpatient operating rooms in 2022, the third full year of operation of the four proposed rooms. However, the Department recognizes that the ASF need methodology excludes special purpose rooms, such as cystoscopy and endoscopy procedure rooms, when calculating the need for general purpose ORs.[6] Therefore, the Department's established policy is that "the numeric methodology should not be solely relied on to determine need for dedicated endoscopy ORs."[7]

Accordingly, in reviewing CN applications for the establishment of dedicated endoscopy procedure rooms, the Department, after determining the quantitative need for general

[2] The certificate of need statute (RCW Chapter 70.38) and regulations (WAC Chapter 246-310) do not require CN review for the establishment and/or operation of non-surgical dedicated procedure rooms. Kadlec does not agree with the Department's position or recent legal decisions that CN approval is required for such procedure rooms. However, Kadlec acknowledges the Department has a differing point of view, and it is electing to complete the CN process for its proposed project so as not to cause further delay in providing needed services to the Planning Area.

[3] The Department has used the term operating rooms ("ORs") in reference to procedure rooms during prior CN reviews. In this application, Kadlec uses the term "procedure room" to distinguish between the use of ORs versus procedure rooms.

[4] Following approval of the CN application, the legal name for the facility where the procedure rooms are located will be selected. For the purposes of this application, "FACILITY" is used as a placeholder name.

[5] WAC 246-310-270(9).

[6] Under WAC 246-310-270(9)(a)(iv), the Department is directed to "[e]xclude cystoscopic and other special purpose rooms" from existing general purpose OR capacity. This includes endoscopy rooms.

[7] Evaluation Dated August 18, 2016, of the Certificate of Need Application Submitted by Tri-Cities Endoscopy Center Proposing to Establish a Two OR Ambulatory Surgical Facility in Benton County, p. 13.

purpose ORs under the ASF need methodology, then evaluates the qualitative need for the dedicated endoscopy rooms. In this case, there are a number of important factors that clearly demonstrate a qualitative need for Kadlec's proposed procedure rooms:

1. **The proposed procedure rooms will create additional access to lower cost outpatient settings.**

    - There are only three CN-approved general ASFs and two CN-approved endoscopy-only facilities in the Planning Area.

    - Increased access to cost-effective ambulatory care in dedicated outpatient settings will be created for patients.

    - There is growing demand by payers and other stakeholders to move care delivery to lower cost settings, as appropriate. The requested project meets these needs.

2. **The Planning Area has a current population of 283,830[8] residents (2017) and is rapidly growing.**

    - Population is forecast to increase by approximately 50,000 residents by 2025.

    - Population growth has averaged 1.7% per year from 2010-2015 in the Planning Area as a whole, and projections indicate continuation at this rate. During the same period, population growth has averaged 5% per year for persons 65+ years old. This high rate of growth for persons 65+ years old is projected to moderate, but still remain high.

    - This high rate of growth drives greater future demand, particularly since persons 65+ years old have much greater rates of utilization for ambulatory procedures, including endoscopies.

3. **There is significant patient in-migration from outside of the Planning Area.**

    - Kadlec serves a significant number of patients outside of Benton and Franklin Counties. In total, 19.5% of Kadlec's inpatient discharges in 2017 were to zip codes outside of Benton and Franklin Counties. Further, 9.7% of Kadlec's inpatient discharges in 2017 were to Oregon-based zip codes. This demonstrates a significant portion of the patients treated at Kadlec for inpatient care travel to this facility from outside the Tri-Cities area. It is anticipated that outpatient use would follow these same patterns. Please see Exhibit 2 for the Kadlec Inpatient Discharges by State and Zip, 2017.

[8] Washington State Office of Financial Management ("OFM"), "April 1 official population estimates", 2017.

- As noted above, Kadlec has experienced, and continues to experience, significant patient in-migration, particularly from northeast Oregon. Inpatient data [9] from 2015-2017 shows approximately 60.2% of Umatilla County (northeast Oregon's largest county) patients migrated outside their county to receive desired and/or necessary services. More specifically, approximately 17.6% of inpatients from Umatilla County received services from Kadlec from 2015-2017.

- When examining Kadlec's GI outpatient cases by zip code for 2017, the data indicates 17.8% of cases originated outside the Planning Area. Approximately one in five outpatient GI cases at Kadlec originate outside the Planning Area, meaning Kadlec must continue to plan for, and provide health services to, residents who do not reside in the Planning Area. Please see Exhibit 3.

4. There is a waiting list for GI/endoscopy patients who need access to services.

- In 2017, Kadlec performed 4,484 endoscopy procedures. At any given time, there is a waiting list of approximately 600 patients who need GI/endoscopy services. [10] Kadlec has defined a waiting list patient as one who is in referral/review status and who cannot be seen for a minimum of three to four months.[11]

Summary

Approval of the four GI/endoscopy procedure rooms is an integral part of Kadlec's mission to offer locally accessible, affordable ambulatory care to Planning Area residents and the surrounding community. The overall cost to provide outpatient services in a freestanding facility is lower than providing these same services in a hospital-based procedure room, which allows Kadlec and its payers to pass along cost savings to consumers. With the proposed facility, Kadlec will be able to best fulfill its mission and provide patients access to services at a lower cost of care.

Approval of this CN application will not only address an unmet need in the community for additional GI/endoscopy procedure rooms, thus improving access, but it also will contribute to increased quality of care, decreased costs, and improved patient satisfaction.

[9] CHARS, 2017.

[10] The waiting list is subject to variation over time due to seasonality or other factors.

[11] Calculating the waiting list of patients needing GI/endoscopy care is a manual process that contains patient identifiable information, so specific details of the cases or individual patients cannot be supplied. Please see Exhibit 4 for a signed attestation confirming that the data submitted is correct.

I. APPLICANT DESCRIPTION

A. Legal name(s) of applicant(s).

The applicant's legal name is Kadlec Regional Medical Center.

B. Name and address of the proposed/existing facility.

Kadlec Regional Medical Center has identified the following location as the primary site for the proposed GI/endoscopy procedure rooms:

FACILITY
1270 Lee Blvd.
Richland, WA 99352

C. Type of ownership (public/private/corporation, etc.).

Kadlec Regional Medical Center is a private, non-profit (501(c)(3)) organization.

D. Name and address of owning entity at completion of project (unless same as applicant).

The owning entity is the same as the applicant.

E. Name, title, address, and telephone number of the person to whom questions regarding this application should be directed.

Robert A. Watilo
Chief Strategy Officer
Kadlec Regional Medical Center
888 Swift Blvd.
Richland, WA 99352
509-897-2081

F. Corporate structure and related parties. Attach chart showing organizational relationship to related parties.

Kadlec has 22 facilities located in the southeast region of Washington. The facilities are listed in Table 1. Exhibit 5 of this application details the legal structure of the related parties, and Exhibit 6 provides the organizational structure of Kadlec. Kadlec is a 501(c)(3) corporation, and its sole corporate member is Western HealthConnect, a Washington non-profit corporation.

On July 1, 2016, Western HealthConnect and St. Joseph Health System, a California non-profit corporation, became affiliated. The new affiliation creates a new "super-parent," Providence St. Joseph Health, a Washington non-profit corporation, which is the sole corporate member of Western HealthConnect. It is

important to note that Western HealthConnect remains a viable corporation, as do the subsidiaries and D/B/As that fall under that corporate umbrella. This new affiliation does not change the name or corporate structure of Western HealthConnect or Kadlec.

G. Name and address of operating entity at completion of project (unless same as applicant)

The name and address of the operating facility is:

FACILITY
1270 Lee Blvd.
Richland, WA 99352

H. General description and address of each facility owned and/or operated by applicant

A list of all health care facilities that are related to Kadlec Regional Medical Center is provided below.

Table 1. Kadlec Owned and/or Operated Facilities

Kadlec Clinic Nephrology – Hermiston
1050 W Elm Ave, Hermiston, OR 97838
Description – Kadlec Clinic Nephrology is dedicated to serving patients with a broad spectrum of kidney (renal) and urinary tract disease, as well as the conditions these diseases can produce, such as hypertension.
Kadlec Clinic Obstetrics and Gynecology
336 Chardonnay Avenue, Building B, Prosser, WA 99350
Description – Our medical team specializes in obstetrics and gynecology and promotes women's health and wellness in every stage of life. We provide routine well-woman care, including yearly visits, pregnancy, delivery, and birth control. We also treat infertility, abnormal bleeding, menopause, endometriosis and many other conditions.
Kadlec Clinic Kennewick Primary Care
3900 S Zintel Way, Kennewick, WA 99337
Description – At Kadlec Clinic Kennewick Primary Care, our team, made up of physicians and advance registered nurse practitioners, cares for patients of all ages -- newborn to seniors.

Kadlec Clinic Tri-City Ear Nose & Throat
911 S Washington St # A, Kennewick, WA 99336
Description – The team at Tri-City Ear, Nose and Throat welcomes patients of all ages. They offer a variety of care services from consultation through surgical intervention for concerns related to the ears, sinus area, and throat, including thyroid concerns.
Kadlec Urgent Care
4804 W Clearwater Ave, Kennewick, WA 99336
Description – At Kadlec Urgent Care, we provide compassionate, prompt urgent care services.
Kadlec Clinic Hematology & Oncology
7360 West Deschutes Avenue, Kennewick, WA 99336
Description – The team at Kadlec Clinic Hematology and Oncology diagnose, evaluate and treat blood diseases (hematology) and cancer (oncology).
Kadlec Clinic Nephrology
510 N Colorado St, Kennewick, WA 99336
Description – Kadlec Clinic Nephrology is dedicated to serving patients with a broad spectrum of kidney (renal) and urinary tract disease, as well as the conditions these diseases can produce, such as hypertension.
Kadlec Clinic West Kennewick Primary Care
9040 W Clearwater Ave, Kennewick, WA 99336
Description – At Kadlec Clinic West Kennewick Primary Care, our team specializes in family medicine and medical acupuncture. Our providers care for patients of all ages.
Kadlec Clinic Center for Pediatrics
8108 W Grandridge Blvd, Kennewick, WA 99336
Description – At the Center for Pediatrics, our physicians provide general pediatric care for children of all ages - infants, young children, and adolescents. Additionally, this experienced team specializes in asthma and allergy care and the diagnosis and treatment of ADD (Attention Deficit Disorder) and ADHD (Attention Deficit Hyperactivity Disorder) in both children and adults.
Kadlec Clinic South Richland Primary Care
560 Gage Boulevard, Suites 101 and 206, Richland, WA 99352
Description – Kadlec Clinic South Richland Primary Care medical providers specialize in family medicine, including caring for children.

Kadlec Clinic Pasco Primary Care
9605 Sandifur Pkwy, Pasco, WA 99301
Description – Kadlec Clinic Pasco Primary Care medical providers specialize in family medicine, including caring for children.
Kadlec Clinic Plastic Surgery and Dermatology
104 Columbia Point Dr, Richland, WA 99352
Description – We offer medical services that include treatment of hand problems including Carpal Tunnel Syndrome and hand surgery, treatment of skin cancers including full-body exams, and breast reconstruction.
Kadlec Clinic Primary Care
112 Columbia Point Dr., Suite 103, Richland, WA 99352
Description – In addition to family medicine, the diverse group of medical providers offers additional emphasis on internal medicine, pediatrics, sports medicine, women’s health and also provides circumcision services.
Kadlec Clinic West Richland Primary Care
3950 Keene Rd, West Richland, WA 99353
Description – Kadlec Clinic West Richland Primary Care offers care for patients of all ages – from prenatal to end-of-life.
Kadlec Inland Cardiology
1100 Goethals Drive. Suite E, Richland, WA 99352
Description – Our team cares for patients living with congestive heart failure, heart disease, atrial fibrillation, cardiomyopathy, cholesterol and lipid disease, heart valve disease, high blood pressure, pericarditis, peripheral artery disease, small blood vessel disease, and tachycardia.
Kadlec Clinic Associated Physicians for Women
945 Goethals Dr #200, Richland, WA 99352
Description – Our medical team specializes in obstetrics and gynecology and promotes women's health and wellness in every stage of life. We provide routine well-woman care including yearly visits, pregnancy, delivery, and birth control. We also treat infertility, abnormal bleeding, menopause, endometriosis and many other conditions.

Kadlec Clinic Infectious Disease
833 Swift Blvd, Richland, WA 99352
Description – The physician specialists of Kadlec Clinic Infectious Disease provide comprehensive care for patients with acute and chronic infections due to infectious diseases.
Kadlec Clinic General, Breast and Colorectal Surgery
1100 Goethals Drive, Suite D, Richland, WA 99352
Description – The board-certified physicians at Kadlec Clinic General, Breast and Colorectal Surgery specialize in diagnostic and interventional surgical procedures for breast disease and cancers, stomach, intestine and colorectal disease, hernias, gallstones and gall bladder dysfunction, colon and rectal disorders, diverticular disease, skin disease, and reflux.
Kadlec Clinic Cardiothoracic Surgery, Pulmonology, Interventional Radiology & Vascular Surgery
1100 Goethals Drive, Suite F, Richland., WA 99352
Description – The Kadlec Clinic Cardiothoracic Surgery team treats a wide spectrum of cardiothoracic and vascular disease, including disorders of the heart, lungs and aorta in the chest, including the region's only open-heart surgery program. Kadlec Clinic Pulmonology offers care to patients with acute lung disorders, as well as complex, chronic lung diseases.
Kadlec Neuroscience Center
1100 Goethals Dr, Suite B, Richland, WA 99352
Description – Kadlec Neuroscience Center brings a comprehensive team of neurosurgeons, neurologists, pain management specialists, and physiatrists to the Tri-Cities and surrounding region.
Kadlec Clinic Richland Primary Care
1135 Jadwin Ave, Richland, WA 99352
Description – In addition to family medicine, the diverse group of medical providers offers additional emphasis on internal medicine, pediatrics, sports medicine, women's health and also provides circumcision services.
Kadlec Regional Medical Center
888 Swift Blvd, Richland, WA 99352
Description – When Kadlec opened its doors in 1944, the hospital was established to care for the Hanford area workers and their families. Since then, we have grown to a regional medical center providing care for the people throughout the Mid-Columbia region. Kadlec is the home to a growing open-heart surgery and interventional cardiology program, the region's only level III Neonatal Intensive Care Unit, a world-class all digital outpatient imaging center, as well as a number of other innovative services and programs.

I. Facility licensure/accreditation status

All Kadlec facilities are licensed by the Washington State Department of Health and accredited by the Joint Commission. In addition, the facilities participate in a number of accreditation, licensure, and certification reviews by external agencies. Upon approval of the Certificate of Need, we will seek the appropriate licensure and accreditation for the proposed procedure rooms.

J. Is applicant reimbursed for services under Titles V, XVIII, and XIX of Social Security Act?

Kadlec Regional Medical Center is reimbursed for services under Titles V, XVIII and XIX of the Social Security Act.

K. Geographic identification of primary service area

For the purpose of the quantitative ASF need analysis, the Benton-Franklin Secondary Health Services Planning Area ("Planning Area") will be used as defined in WAC 246-310-270(3). Exhibit 7 includes the Planning Area zip code definition and the Planning Area map.

L. List physician specialties represented on active medical staff and indicate number of active staff per specialty.

Any qualified, credentialed and privileged physician in good standing will be able to use the proposed GI/endoscopy procedure rooms. Kadlec has 238 active physicians with admitting privileges in at least one of its medical staffs. Exhibit 8 contains the number of active physicians with admitting privileges by specialty.

M. List all other generally similar providers currently operating in the primary service area

There are four hospitals in the Benton-Franklin Planning Area:

1. Kadlec Regional Medical Center, Richland
2. Lourdes Medical Center, Pasco
3. PMH Medical Center, Prosser
4. Trios Health, Kennewick

Together, these four hospitals operate 30 inpatient/mixed use ORs. In addition, there are two CN-approved ASFs in the Planning Area: High Desert Surgery, which operates a 2-OR facility and Kadlec Ambulatory Surgery Center (Spaulding Campus), which operates a 3-OR ASF. There also are three CN-approved facilities that have GI/endoscopy procedure rooms only: Mid-Columbia Endoscopy Center, Tri-Cities Endoscopy Center, and the Northwest Ambulatory Surgery

Physicians facility. The CN-approved GI/endoscopy procedure room facilities are generally similar providers to the proposed Kadlec FACILITY. There also are six other CN-exempt[12] outpatient surgery centers located in the Planning Area.

Exhibit 9 contains a complete list of hospitals and freestanding ambulatory surgery centers in the Benton-Franklin Planning Area.

As will be explained in subsequent sections, where the ASF need methodology for outpatient ORs is discussed, CN-exempt or "closed panel" surgery centers are not included in the count of Planning Area OR inventory, but their case volumes and surgery minutes are included in calculations of the use rate. This is consistent with the Department's practice.[13]

N. For existing facilities, provide applicant's overall utilization for the last five years, as appropriate.

1. **Home Health Agency - home visits per year;**
2. **Ambulatory Surgical Facility - surgeries per year;**
3. **Kidney Disease Treatment Center - dialyses and/or transplants per year;**
4. **Hospice - patients per year.**

This question is not applicable.

O. Describe the history of applicant entity with respect to criminal convictions related to ownership/operation of health care facility, license revocations, and other sanctions described in WAC 246-310-230 (5)(a). If there have been no such convictions or sanctions, please state.

Kadlec Regional Medical Center has had no such convictions as defined in WAC 246-310-230(5)(a).

[12] Ambulatory surgery centers that are CN-exempt are open only to the owners of, or physicians employed by owners of, the surgery center.

[13] It also should be noted that all endoscopy-only surgery centers have been excluded, whether they are or are not CN-approved. These endoscopy-only facilities' number of procedure rooms, cases, and minutes have been excluded, consistent with the Department's application of the ASF need methodology.

II. PROJECT DESCRIPTION

A. Describe the project for which Certificate of Need approval is sought.

Kadlec requests CN approval to construct and operate four GI/endoscopy procedure rooms in the Benton-Franklin Planning Area, which will be open to all physicians in the community who are credentialed and privileged as members of the FACILITY. The four procedure rooms will be functional and equipped in year one, with an estimated operational start date of January 2020. The FACILITY will be located at 1270 Lee Boulevard, Richland, Washington 99352.

The GI/endoscopy procedure rooms are an integral part of Kadlec's mission to offer local, affordable ambulatory care options to Benton-Franklin Planning Area residents. The overall cost structure to perform outpatient procedures in a freestanding location is lower than providing these same services in a hospital outpatient department, thus allowing Kadlec and its payers to pass along cost savings to consumers.

As noted in the Introduction and as discussed in Section III.A, there is a demonstrated quantitative need for more than 11 general purpose ORs in the Planning Area when the ASF methodology in WAC 246-310-270(9) is applied. However, the ASF methodology excludes special purpose rooms, such as cystoscopy and endoscopy procedure rooms, from the methodology. Accordingly, as noted in the Introduction and as discussed in Section III.A, the Department, as a matter of policy and practice, has focused on qualitative need factors when evaluating CN applications limited to dedicated special purpose rooms, including endoscopy procedure rooms. Those factors establish that there is a clear qualitative need for Kadlec's proposed GI/endoscopy rooms.

In summary, approval of the four procedure rooms is an integral part of Kadlec's mission to provide locally accessible, affordable ambulatory care options to Planning Area residents and the surrounding community. The overall cost to provide outpatient services in a freestanding facility is lower than providing these same services in a hospital procedure room, which allows Kadlec and its payers to pass along cost savings to consumers. With its proposed facility, Kadlec will be able to best fulfill its mission and provide patients access to a full continuum of quality services at a lower cost of care.

Approval of this CN application not only addresses an unmet need in the community for additional GI/endoscopy procedure rooms, thus improving access, but it also will contribute to increased quality of care, decreased costs, and improved patient satisfaction.

B. Total estimated capital expenditures.

The estimated total capital expenditure for this project is $8,980,000.

C. Total estimated operating expense for the first and second years of operation. (please show separately)

Please see Table 2.

Table 2. FACILITY Estimated Operating Expenses 2020-2021

Year	Operating Expense
2020 – Year 1	$2,698,749
2021 – Year 2	$2,896,602

D. New services/changes in services represented by this project.

This project requests CN approval to construct and operate four GI/endoscopy procedure rooms within the Benton-Franklin Planning Area.

E. General description of types of patients to be served by the project.

The four procedure rooms will provide care to patients who require GI/endoscopy procedures, are not expected to require hospitalization, and can be served appropriately in an outpatient setting. These procedures are currently being performed in the Planning Area, including at Kadlec Regional Medical Center, other local hospitals, and other locations in the Planning Area.

F. Projected utilization of service(s) for the first and second year of operation following project completion (please show separately). This should be expressed in appropriate workload unit measures.

Please see Table 3 for two years of operation post certificate of need approval.

Table 3. FACILITY Projected Volume 2020-2021

Year	Projected Volume
2020 – Year 1	6,180
2021 – Year 2	6,922

G. A copy of the letter of intent, per WAC 246-310-080.

A copy of the letter of intent is contained in Exhibit 10.

H. Sources of patient revenue (Medicare, etc.) with anticipated percentage of revenue from each source. Estimate the percentage of change for each of the courses of revenue by payer that will result from this project.

The 2017 payer mix at Kadlec for the categories of procedures planned for the proposed facility and from patients originating in the Planning Area zip codes is provided in Table 4. We expect the proposed project will have a forecast payer mix consistent with Kadlec's historical payer mix for these procedures.

Table 4. Kadlec Historical and Forecast Payer Mix

Payer	2017	Forecast
Medicare	34.2%	34.2%
Medicaid	15.2%	15.2%
Commercial	47.1%	47.1%
Other Government/L&I	1.5%	1.5%
Private Self-pay	2.0%	2.0%
Total:	100%	100%

Source: Kadlec.

I. Source(s) of financing.

This project will be financed solely through Kadlec's cash reserves via Western HealthConnect. Please see Exhibit 11 for a letter of commitment and availability of funding.

J. Equipment proposed:

1. **Description of equipment proposed.**
2. **Description of equipment to be replaced, including cost of the equipment, and salvage value (if any) or disposal, or use of the equipment to be replaced.**

Exhibit 12 contains a complete list of new equipment proposed for this project.

K. Drawings:

1. **Single line drawings, at least approximately to scale, of <u>current</u> locations which identify current department and services.**

Exhibit 13 contains single line drawings for the current facility.

2. **Single line drawings, at least approximately to scale, of <u>proposed</u> locations, which identify proposed services and departments.**

Exhibit 13 contains single line drawings for the proposed facility.

3. **Total net and gross square feet of project.**

The proposed facility includes gross square footage ("GSF") of 25,268 square feet and net square footage ("NSF") of 23,734 square feet.

4. Describe any changes in dialysis station capacity proposed as part of this project.

This question is not applicable.

L. Anticipated dates of both commencement and completion of project.

The project will commence upon CN approval. For purposes of conservatism, the operational start date is modeled as January 1, 2020 in this application.

M. Describe the relationship of this project to the applicant's long-range plan and long-range financial plan (if any).

Kadlec's desire is to transform the delivery of clinical care by shifting care from higher-cost, high acuity settings to lower-cost, lower-acuity settings. To achieve these goals, Kadlec is building a comprehensive ambulatory system that caters to the needs of the population and can be accessed locally. A CN-approved facility that is capable of performing outpatient GI/endoscopy procedures is an integral part of that desire and will contribute to Kadlec's ability to achieve its core vision of being the region's comprehensive integrated health delivery system.

In addition, the FACILITY will enable Kadlec to optimize networks of employed and community physicians who are committed to delivering coordinated care in a manner that optimizes both patient convenience and experience.

Overall, this effort to provide efficient care in an appropriate, lower cost setting is a tangible commitment by Kadlec to decreasing the cost of care in the Planning Area. It represents a commitment to consumers and payers that Kadlec is dedicated to lowering the cost of care, which also will help Kadlec transition from fee-for-service to value-based arrangements as lower-cost, high-quality care options become available. In this regard, the proposed FACILITY is an important component of Kadlec's long-range strategic and financial plans.

N. Describe any of the following which would currently restrict usage of the proposed site and/or alternate site for the proposed project: (a) mortgages; (b) liens; (c) assessments; (d) mineral or mining rights; (e) restrictive clauses in the instrument of conveyance; (f) easements and right- of-ways; (g) building restrictions; (h) water and sewer access; (i) probability of flooding; (j) special use restrictions; (k) existence of access roads; (l) access to power and/or electricity sources; (m) shoreline management/environmental impact; (n) others (please explain).

There are no such restrictions.

O. Provide documentation that the proposed site may be used for the proposed project. Include a letter from any appropriate municipal authority indicating

that: 1) the site for the proposed project is properly zoned for the anticipated use, and 2) scope of the project or a written explanation of why the proposed project is exempt.

The location is zoned appropriately for the proposed facility where the four procedure rooms will be located. A copy of a City of Richland zoning letter confirming the building and site are compliant with underlying covenants is included in Exhibit 14.

P. Provide documentation that the applicant has sufficient interest in the site or facility proposed. "Sufficient interest" shall mean any of the following:

a. clear legal title to the proposed site;
b. lease for at least five years, with options to renew for not less than a total of twenty years, in the case of a hospital, psychiatric hospital, tuberculosis hospital, or rehabilitation facility;
c. a lease for at least one year with, options to renew for not less than a total of five years, in the case of freestanding kidney dialysis units, ambulatory surgical facility, hospice, or home health agency;
d. a legally enforceable agreement to give such title or such lease in the event that a Certificate of Need is issued for the proposed project.

Kadlec Regional Medical Center owns the current facility. Please see Exhibit 15 for the Kadlec property deed showing that the facility is owned by Kadlec.

III. PROJECT RATIONALE

A. Need (WAC 246-310-210)

1. Identify and analyze the unmet health services needs and/or other problems toward which this project is directed.

1. Overview and Basis for Request

Kadlec is requesting CN approval for four dedicated GI/endoscopy procedure rooms in a freestanding facility to be located in the Benton-Franklin Secondary Health Services Planning Area ("Planning Area"). The procedure rooms are an important part of Kadlec's mission to provide local, affordable ambulatory care options to Planning Area residents. Further, freestanding GI/endoscopy procedure rooms are typically lower cost in comparison to hospital-based outpatient departments. As a result, contractual rates paid by purchasers are generally lower in a freestanding setting, which translates to cost savings for patients.

The opening of the rooms will improve Planning Area residents' access to outpatient GI/endoscopy procedures. In addition, because Kadlec serves much of southeast Washington, and also attracts significant numbers of patients from northeast Oregon, the opening of the facility will improve access for those residents as well.

Approval of the CN application is a crucial element in (1) increasing emphasis on local, cost-effective care in outpatient settings, (2) meeting Kadlec's commitment to creating access when and where people need it, (3) meeting the need for additional procedure rooms in the Benton-Franklin Planning Area and (4) addressing the needs of the surrounding community to expand capacity for endoscopic procedures performed in a freestanding setting.

2. There Is Both Quantitative and Qualitative Need for the Project

When reviewing CN applications for the establishment of dedicated endoscopy procedure rooms, the Department evaluates both the quantitative need and the qualitative need for the proposed rooms, even though quantitative need is not applicable. The Department uses this two-part approach because it recognizes that the ambulatory surgical facility ("ASF") need methodology[14] excludes special purpose rooms, such as cystoscopy and endoscopy procedure rooms, when calculating the need for general purpose outpatient operating rooms ("ORs").[15]

[14] WAC 246-310-270(9).

[15] WAC 246-310-270(9)(a)(iv). Under the provision, the Department is directed to "[e]xclude cystoscopic and other special purpose rooms" from the existing general purpose OR capacity. This exclusion includes endoscopy rooms.

Therefore, the Department's long-established policy and practice is that "the numeric methodology should not be solely relied on to determine need for dedicated endoscopy ORs."[16] Accordingly, in reviewing CN applications for the establishment of dedicated endoscopy procedure rooms, the Department, after determining whether there is a quantitative need for general purpose ORs under the ASF need methodology, then evaluates the qualitative need for the proposed dedicated endoscopy rooms.

Quantitative Need for GI/endoscopy Procedure Rooms

The Department's ASF need methodology establishes that there is a quantitative need for more than 11 general purpose outpatient ORs in the Planning Area in 2022, the third full year of operation of the proposed procedure rooms. However, the proposed project is not designed to address the need for general purpose outpatient ORs since it is, specifically, requesting approval for special purpose procedure rooms that are excluded from the quantitative need methodology. The step-by-step application of the ASF need methodology to this project is set forth in detail in Section 5 below. There is a quantitative need for new general purpose ORs in the Planning Area, which is not applicable to a request for GI/endoscopy procedure rooms.

Qualitative Need for GI/endoscopy Procedure Rooms

As discussed above, in reviewing CN applications for the establishment of dedicated endoscopy procedure rooms, the Department, after determining whether there is a quantitative need for general purpose ORs under the ASF need methodology, then evaluates the qualitative need for the proposed dedicated endoscopy rooms. In this case, there are a number of important factors that clearly demonstrate a qualitative need for Kadlec's proposed procedure rooms.

a. The proposed facility will create additional access to lower cost outpatient settings.

- There are only two CN-approved general ASFs and three CN-approved endoscopy-only facilities in the Planning Area. The proposed facility will be

[16] *Evaluation Dated August 18, 2016, of the Certificate of Need Application Submitted by Tri-Cities Endoscopy Center Proposing to Establish a Two OR Ambulatory Surgical Facility in Benton County* (August 18, 2016), p. 13. *See also, Evaluation Dated April 18, 2016 of the Certificate of Need Application Submitted by Memorial Physicians, PLLC Proposing to Establish an Ambulatory Surgery Center in Yakima County* (April 18, 2016), p. 8 and p. 12; *Evaluation of the Certificate of Need Application Submitted by Eastside Endoscopy Center, LLC Proposing to Establish an Ambulatory Surgical Facility in Issaquah* (December 14, 2011), p. 7 and p. 9; *Evaluation of the Certificate of Need Application Submitted on Behalf of Mid-Columbia Endoscopy Center, LLC Proposing to Establish an Ambulatory Surgery Center in Benton County* (November 18, 2010), p. 8 and p. 10; *Evaluation of the Certificate of Need Application Submitted on Behalf of Advance Endoscopy Center, PLLC Proposing to Establish an Ambulatory Surgery Center in Clark County* (March 9, 2010), p. 5 and p. 6.

the fourth freestanding facility limited to endoscopy cases in the Planning Area.

- Increased access to cost-effective ambulatory care in dedicated outpatient settings will be created for patients.

- There is growing demand by payers and other stakeholders to move care delivery to lower cost settings, as appropriate. The requested project meets these needs.

b. The Planning Area has a current population of 283,830[17] residents (2017) and is rapidly growing.

- Population in the Planning Area is forecasted to increase by approximately 50,000 residents by 2025.

- Population growth has averaged 1.7% per year from 2010-2015 across the Planning Area as a whole, and projections indicate continuation at this rate. During the same period, population growth has averaged 5% per year for persons 65+ years old. This high rate of growth for persons age 65+ is projected to moderate, but still remain high.

- This high rate of growth drives greater future demand, particularly since persons 65+ years old have much greater rates of utilization for ambulatory procedures, including endoscopies.

c. There is significant patient in-migration from outside of the Planning Area.

- Kadlec serves a significant number of patients outside of Benton and Franklin Counties. In total, 19.5% of Kadlec's inpatient discharges in 2017 were to zip codes outside of Benton and Franklin Counties. Further, 9.7% of Kadlec's inpatient discharges in 2017 were to Oregon-based zip codes. This demonstrates that a significant portion of the patients treated at Kadlec for inpatient care travel to this facility from outside the Tri-Cities. It is expected that outpatient use would follow these same patterns. Please see Exhibit 2 for the Kadlec Inpatient Discharges by State and Zip, 2017.

  As noted above, Kadlec has experienced, and continues to experience, substantial patient in-migration, particularly from northeast Oregon. Inpatient data[18] from 2015-2017 shows approximately 60.2% of Umatilla County (northeast Oregon's largest county) patients migrated outside their county to receive desired and/or necessary services. More specifically, from

[17] OFM April 1 Population, 2017.

[18] CHARS, 2017.

2015-2017, approximately 17.6% of inpatients from Umatilla County received services from Kadlec.

- When examining Kadlec's GI outpatient cases by zip code for 2017, the data indicates 17.8% of cases originated outside the Planning Area. Approximately one in five GI outpatient cases at Kadlec originate from outside the Planning Area, meaning Kadlec must continue to plan for, and provide health services to, residents who do not reside in the Planning Area. Please see Exhibit 3.

d. There is a waiting list for GI/endoscopy patients who need access to services.

- In 2017, Kadlec performed 4,484 endoscopy procedures.

- At any given time, there is a waiting list of approximately 600 patients who need GI/endoscopy services.[19] Kadlec has defined a waiting list patient as one who is in referral/review status and who cannot be seen for a minimum of three to four months.

Summary

There is both a quantitative and a qualitative need for Kadlec's four proposed endoscopy rooms. Based on the ASF need methodology, there is a quantitative need for more than 11 outpatient ORs in the Benton-Franklin Planning Area in 2022, although quantitative need is not applicable for approval of GI/endoscopy procedure rooms. In addition, important qualitative factors establish the need for additional endoscopy rooms in the Planning Area: (1) the proposed facility will create additional access to lower cost outpatient settings, (2) the Planning Area population is steadily growing and will continue to increase in the future, (3) there is significant patient in-migration into the Planning Area, and (4) at any given time, there is a waiting list of GI/endoscopy patients in need of procedures.

3. Population Data and Projections

As discussed above, the Planning Area's population growth is one of the key qualitative factors establishing a need for Kadlec's proposed new endoscopy procedure rooms. As shown in Table 5, the Benton-Franklin Planning Area has experienced steady population growth for the period from 2010-2015, averaging 1.7% per year. Population growth is forecasted to continue growing steadily through 2030. In particular, the number of persons in the age 65+ cohort grew 5.0% annually from 2010-2015, and the number in that cohort is forecasted to annually grow 4.2% from 2015-2020, 3.7% from 2020-2025, and 2.8% from 2025-

[19] The waiting list is subject to variation over time due to seasonality or other factors.

2030. Older residents are more frequent users of health care services, including GI/endoscopy services.

Table 5. Benton-Franklin Planning Area
Population Estimates and Projections, 2010-2030

	Year					Average Annual Growth (%)				
	2010	2015	2020	2025	2030	2010-2015	2015-2020	2020-2025	2025-2030	2030-2035
Population Ages 0-64	227,058	241,914	259,517	279,278	297,956	1.3%	1.4%	1.5%	1.3%	1.4%
Population Ages 65+	26,282	33,826	41,760	50,244	57,653	5.0%	4.2%	3.7%	2.8%	1.8%
Total Population	***253,340***	***275,740***	***301,277***	***329,522***	***355,609***	***1.7%***	***1.8%***	***1.8%***	***1.5%***	***1.5%***
Source: OFM Small Area Demographic Estimates (SADE) 2000-2017; OFM Medium Series Estimates, 2010-2040 (2017 release)										

Similarly, while not part of the Planning Area, nearby Oregon counties are experiencing steady population growth, as well. For example, Umatilla County's 65+ age cohort is expected to experience 3.3% average annual growth from 2015-2020 and 2.5% average annual growth from 2020-2025.[20]

4. Higher Use Rates for Older Residents

The methodology used to forecast demand for ambulatory surgery, by type of case, uses a comprehensive, statistically valid, survey of ambulatory surgery cases by the National Center for Health Statistics ("NCHS"), which is based on 2006 survey statistics and published in a revised report in September 2009.[21] This survey includes surgery use rate statistics by major age cohort groups (see Exhibit 16). It shows the use rates for persons 65-74 years old are 2.6 times the overall average use rate and are 2.4 times higher than the overall average use rate for persons 75 years of age and older. These use rates are presented in Table 6. Considering the much higher growth in the number of persons in the 65+ age cohort, these use rate differences mean demand for health services will be much higher in the future as populations age.

[20] Office of Economic Analysis, Department of Administrative Services, State of Oregon, "Forecasts of Oregon's County Populations and Components of Change, 2010-2050." Release date: March 28, 2013.

[21] Use of the NCHS statistical survey findings is appropriate given the facility where the GI/endoscopy procedure rooms will be located is not operational, and thus has no operating statistics for a forecast basis. Further, the NCHS survey findings can be applied at the ambulatory surgery procedure level, a level of specificity necessary for properly modeling ASF utilization and financial projections.

Table 6. National Center for Health Statistics
Ambulatory Surgery Use Rates per 10,000 Residents, By Major Age Cohort

	Overall Average	Persons <15 years	Persons 15-44 years old	Persons 45-64 years	Persons 65-74 years old	Persons >75 years old
Use Rate	1,788.3	537.5	1,019.2	2,695.9	4,584.0	4,325.3
Use Rate / Overall Average Use Rate	1	0.3	0.6	1.5	2.6	2.4

Source: "Ambulatory Surgery in the United States, 2006," U.S. Department of Health and Human Services, National Center for Health Statistics, Report Number 11, January 28, 2009, revised September 4, 2009. Table 7, p. 18.

5. ASF Need Methodology for Outpatient Operating Rooms (WAC 246-310-270)

The ASF need methodology, set forth in WAC 246-310-270(9), describes how to use current surgical capacity, ambulatory surgery utilization figures, and population estimates and forecasts to prepare a planning area need forecast for general purpose outpatient operating rooms ("ORs"). The methodology determines whether there is need for additional inpatient/mixed use and/or outpatient ORs in a Planning Area. According to the methodology, there is a need for more than 11 outpatient ORs in the Benton-Franklin Planning Area. Please see Exhibit 17 for the step-by-step application of the methodology to the Benton-Franklin Planning Area and for the supporting statistics. Table 7 identifies the current CN-approved providers of surgical services in the Planning Area.

Table 7. Benton-Franklin Planning Area, Number of Certificate of Need Approved Operating Rooms, 2017

Facility Name	Number of ORs	
	Outpatient	Mixed Use
Kadlec Regional Medical Center		12
Kadlec Ambulatory Surgery Center - Spaulding Campus	3	
Trios Health		8
Lourdes Medical Center		8
High Desert Surgery	2	
Prosser Medical Hospital		2
Northwest Ambulatory Surgery Physicians	Not applicable to methodology --- endoscopy only.	
Tri-Cities Endoscopy Center	Not applicable to methodology --- endoscopy only.	
Mid-Columbia Endoscopy Center	Not applicable to methodology --- endoscopy only.	
Total CN Approved Room Count for Methodology	5	30

Source: Tables 2 (p. 9) and 3 (p. 10) of Department's August 2, 2017 evaluation of CN Application #17-19. Certificate of Need Program's Annual Ambulatory Surgery Surveys.

After identifying the Planning Area inpatient/mixed use and outpatient surgical capacity, surgery volumes by licensed surgery center were obtained from the following two sources:

(1) When available, the Certificate of Need Program's 2018 Annual Ambulatory Surgery Survey for Surgical Procedures Performed during CY2017[22] ("2018 Survey") was utilized.

(2) If a facility did not submit 2018 Survey responses, then the previous year(s) survey responses were used if available for the facility in question.

The projection year for the purpose of the need methodology is 2022, which is consistent with the Department's policy and practice. This constitutes a 5-year

[22] The ambulatory surgery centers' volumes and minutes were obtained from the Program's survey, which is sent to all licensed ambulatory surgery facilities.

planning horizon, with 2017 being the base year and 2022 being the need projection year.[23]

WAC 246-310-270(9) — Methodology

(a) Existing Capacity

(i) Assume the annual capacity of one operating room located in a hospital and not dedicated to outpatient surgery is ninety-four thousand two hundred fifty minutes. This is derived from scheduling forty-four hours per week, fifty-one weeks per year (allowing for five weekday holidays), a fifteen percent loss for preparation and cleanup time, and fifteen percent time loss to allow schedule flexibility. The resulting seventy percent productive time is comparable to the previously operating hospital commission's last definition of "billing minutes" which is the time lapse from administration of anesthesia until surgery is completed.

(ii) Assume the annual capacity of one operating room dedicated to ambulatory surgery is sixty-eight thousand eight hundred fifty minutes. The derivation is the same as (a)(i) of this subsection except for twenty-five percent loss for prep/cleanup time and scheduling is for a thirty-seven and one-half hour week. Divide the capacity minutes by the average minutes per outpatient surgery (see (a) (vii) of this subsection). Where survey data are unavailable, assume fifty minutes per outpatient surgery, resulting in a capacity for one thousand three hundred seventy-seven outpatient surgeries per room per year.

(iii) Calculate the total annual capacity (in number of surgeries) of all dedicated outpatient operating rooms in the area.

Dedicated outpatient ORs in the planning area = 5 (Table 7)

Capacity = 68,850 minutes per year per OR

Total annual capacity in minutes: 5 x 68,850 = 344,250 minutes

Minutes per surgery = 58.62 minutes

Total annual capacity in outpatient surgeries:
344,250 / 58.62 = **5,872 annual [dedicated] outpatient surgeries**

[23] As seen in Table 5 in the Department's August 2, 2017 Evaluation of Kadlec's CN Application to establish a 3-OR ASF, the Department used a 5-year planning horizon (i.e. a base year of CY2015 and a projection year of CY2020). *Evaluation Dated August 2, 2017, of the Certificate of Need Application Submitted by Kadlec [Regional] Medical Center Proposing to Establish an Ambulatory Surgery Center in Benton County*, p. 12. Therefore, in this application, the base year is CY2017 and the projection year is CY2022.

(iv) Calculate the total annual capacity (in number of minutes) of the remaining inpatient and outpatient operating rooms in the area, including dedicated specialized rooms except for twenty-four hour dedicated emergency rooms. When dedicated emergency operating rooms are excluded, emergency OR minutes should also be excluded when calculating the need in an area. Exclude cystoscopic and other special purpose rooms (e.g., open heart surgery) and delivery rooms.

Inpatient/mixed use ORs in the planning area = 30 (Table 7)

Capacity = 94,250 minutes per year per OR

Total annual capacity in minutes: 30 x 94,250 = **2,827,500 minutes**

Minutes per surgery = 99.51 minutes

Total annual capacity in inpatient/mixed use surgeries:
2,827,500 / 99.51 = **28,414 annual inpatient / mixed use surgeries**

(b) Future need

(i) Project the number of inpatient and outpatient surgeries performed within the hospital planning area for the third year of operation. This shall be based on the current number of surgeries adjusted for forecasted growth in the population served and may be adjusted for trends in surgeries per capita.

Based on the forecast population in 2022 of 312,039 persons and the use rate of 127.67 per 1,000 residents, there is a projected total of 39,839 surgeries in the Benton-Franklin Planning Area. [(b)(i)]

An estimated 51.92% of surgeries were performed as inpatient/mixed use and 48.08% as outpatient surgeries. Thus, of the 39,839 forecasted surgeries for 2022, there would be 20,684 inpatient/mixed use surgeries and 19,155 outpatient surgeries. [(b)(i)]

(ii) Subtract the capacity of dedicated outpatient operating rooms from the forecasted number of outpatient surgeries. The difference continues into the calculation of (b)(iv) of this subsection.

Outstanding demand for outpatient surgeries:
19,155 - 5,872 = 13,282 outpatient surgeries

(iii) Determine the average time per inpatient and outpatient surgery in the planning area. Where data are unavailable, assume one hundred minutes per inpatient and fifty minutes per outpatient surgery. This excludes preparation and cleanup time and is comparable to "billing minutes."

Inpatient/mixed use surgery minutes = 1,872,172
Inpatient/mixed use cases = 18,814
Average inpatient/mixed use minutes per case = 99.51

Outpatient surgery minutes = 1,021,363
Outpatient cases = 17,423
Average outpatient minutes per case = 58.62

(iv) Calculate the sum of inpatient and remaining outpatient (from (b)(ii) of this subsection) operating room time needed in the third year of operation.

Inpatient minutes: 20,684 surgeries [(b)(i)] x 99.51 minutes/surgery [(b)(iii)] = 2,058,244 minutes, or [(b)(i) x (b)(iii)]

Remaining outpatient minutes: 13,282 surgeries x 58.62 minutes/surgery = 778,624 minutes, or [(b)(ii) x (b)(iii)]

Sum of projected inpatient operating room time needed and projected remaining outpatient operating room time needed:

2,058,244 minutes + 778,624 minutes = 2,836,868 minutes [(b)(iv)]

(c) Net Need

(i) If (b)(iv) of this subsection is less than (a)(iv) of this subsection, divide their difference by ninety-four thousand two hundred fifty minutes to obtain the area's surplus of operating rooms used for both inpatient and outpatient surgery.

(ii) If (b)(iv) of this subsection is greater than (a)(iv) of this subsection, subtract (a)(iv) of this subsection from the inpatient component of (b)(iv) of this subsection and divide by ninety-four thousand two hundred fifty minutes to obtain the area's shortage of inpatient operating rooms. Divide the outpatient component of (b)(iv) of this subsection by sixty-eight thousand eight hundred fifty to obtain the area's shortage of dedicated outpatient operating rooms.

As shown above, (b)(iv) is greater than (a)(iv):

2,836,868 > 2,827,500 minutes. This means (c)(ii) is applicable.

Net need calculation for inpatient/mixed use ORs:

2,058,244 – 2,827,500 = (769,868).

Net need = (769,256)/94,250 = (8.16),

Surplus of inpatient/mixed use ORs

Net need calculation for outpatient ORs:

778,624/68,850 = 11.31, Net need for outpatient ORs

Accordingly, the methodology shows a projected net need for 11.31 outpatient ORs in the Benton-Franklin Planning Area in 2022. However, the projected net need for outpatient ORs is not applicable to this CN application, as Kadlec is requesting approval to construct and operate four GI/endoscopy procedure rooms.

6. Qualitative Need for Dedicated Endoscopy Rooms

As discussed above, when reviewing CN applications for the establishment of dedicated GI/endoscopy procedure rooms, the Department evaluates both the quantitative need and the qualitative need for the proposed rooms. The Department uses this two-part approach because it recognizes that the ASF need methodology excludes special purpose rooms, such as cystoscopy and endoscopy procedure rooms, when calculating the need for general purpose outpatient ORs.[24]

> Therefore, the Department's long-established policy and practice is that "the numeric methodology should not be solely relied on to determine need for dedicated endoscopy ORs."[25] Accordingly, in reviewing CN applications for the establishment of dedicated endoscopy procedure rooms, the Department, after determining whether there is a quantitative need for general purpose ORs under the ASF need methodology, then evaluates the qualitative need for the proposed endoscopy rooms.

In Section 2, Kadlec set forth in detail the factors that clearly demonstrate qualitative need for the four proposed GI/endoscopy procedure rooms: (1) The four GI/endoscopy procedure rooms will provide additional access to lower cost outpatient settings. (2) The Planning Area has a current population of 283,830 residents (2017) and is rapidly growing. Population growth will contribute to an increased need for GI/endoscopy procedures and, consequently, a need for additional procedure rooms where they can be performed. (3) There is significant patient in-migration from outside the Planning Area. A significant portion of Kadlec's GI/endoscopy outpatient cases are from outside of the Planning Area. (4) At any given time, there is a waiting list of GI/endoscopy patients who need access to services.

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[24] WAC 246-310-270(9)(a)(iv).

[25] *Evaluation Dated August 18, 2016, of the Certificate of Need Application Submitted by Tri-Cities Endoscopy Center Proposing to Establish a Two OR Ambulatory Surgery facility in Benton County* (August 18, 2016), p. 13. *See also*, Department Evaluations cited in Footnote 15 above.

a. Unmet health service needs of the defined populations should be differentiated from physical plant and operating (service delivery) deficiencies that are related to present arrangements.

With a growing aging population and a corresponding increased need for digestive health services, access problems for GI services will continue if additional capacity is not added to the community, something not reflected in the Department's ASF need methodology because it specifically excludes special purpose procedure rooms and utilization. Additionally, insurance providers are requesting that procedures move from more expensive hospital-based locations to more cost-effective locations. This has increased demand for lower cost services, such as those that can be provided in the proposed procedure rooms.

Based on the discussion above, there is demonstrated quantitative and qualitative need for the requested project of four GI/endoscopy procedure rooms in the Benton-Franklin Planning Area. Improving access within Benton-Franklin Counties allows more residents from the Planning Area and surrounding region to receive care close to home in a convenient, lower cost outpatient setting, without unnecessarily travelling long distances and spending additional time and money. The four GI/endoscopy procedure rooms are an integral part of Kadlec's mission to offer local, affordable ambulatory care options that meet the current and future clinical needs of Planning Area residents.

b. The negative impact and consequences of unmet needs and deficiencies should be identified.

If this project is not approved, Benton-Franklin Planning Area residents will be denied an opportunity for improved access to affordable, quality care, and Kadlec's desire to lower the cost of care for the local community and provide care when and where it is needed will not be met. By improving access, the project will positively impact patients by avoiding delayed diagnosis and treatment.

2. <u>Define the population that is expected to be served by the project. The specific manner of definition is of necessity based on the specific project proposed, and may require definitions for different elements of the project.</u>

<u>In all cases</u>, *provide Office of Fiscal Management population forecasts for the next ten years, broken down into age and gender categories.*

<u>In the case of an existing facility</u>, include a patient origin analysis for at least the most recent three-month period, if such data is maintained, or provide patient origin data from the last statewide patient origin study. Patient origin is to be indicated by zip code. Zip codes are to be grouped by city and county, and include a zip code map illustrating the service area.

The population expected to be served can be defined according to specific needs and circumstances of patients (e.g., alcoholism treatment, renal dialysis), or by the number of persons who prefer to receive the services of a particular recognized school or theory of medical care.

The Department's ASF need methodology is planning area-specific. Thus, the methodology uses Benton-Franklin County population estimates. See Table 5.

3. <u>Provide utilization forecasts for each service included in the project. Include the following:</u>

a. Utilization forecasts for at least five years following project completion.

Table 8 sets forth the projected number of cases during the period 2020-2024. The operational start date for the FACILITY is anticipated to be January 1, 2020.

Table 8. FACILITY Forecast Cases, 2020-2024

	2020	2021	2022	2023	2024
Cases	6,180	6,922	7,259	7,391	7,525

b. The complete quantitative methodology used to construct each utilization forecast.

The forecast model uses the following assumptions and methodologies:

1. Surgical use rates for applicable services[26] by ICD-9 procedure code group were derived from the latest National Center for Health Statistics ("NCHS") survey study, "Ambulatory Surgery in the United States."[27] The report analyzed and presented summaries of data from the 2006 National Survey of Ambulatory Surgery ("NSAS").

   In this study, ambulatory surgery refers to surgical and nonsurgical procedures performed on an ambulatory basis in a hospital or freestanding center's general ORs, dedicated ambulatory surgery rooms, and other specialized rooms. This NCHS survey study is the principal source for published national data on the characteristics of visits to hospital-based and freestanding ambulatory centers. The report was updated and revised in

[26] Operations on the digestive system reflect GI/endoscopy procedures. See Table 10 for the specific procedures.

[27] The estimates are found in Table 5 of the report. The report was updated on September 4, 2009.

2009 and contains the latest NCHS estimates on ambulatory use rates.[28] Please see Table 9 for the NCHS utilization rates used in the forecast methodology.

Table 9. National Center for Health Statistics, Utilization Estimates

Category	Procedures	Utilization Rate / 10,000
Operations on the Digestive System	Includes: • Dilation of esophagus • Endoscopy of small intestine with or w/o biopsy • Endoscopy of large intestine with or w/o biopsy • Endoscopic polypectomy of large intestine	483.3

Source: "Ambulatory Surgery in the United States, 2006," U.S. Department of Health and Human Services, National Center for Health Statistics, National Health Statistics Reports, Number 11, January 28, 2009, revised September 4, 2009. Table 7, p. 18.

2. The NCHS use rates were multiplied by the 2020-2024 planning area population (Table 5) and then divided by 10,000 to forecast Planning Area resident procedures by type, by year. Table 10 includes these procedure estimates for the Planning Area.

Table 10. Benton-Franklin Planning Area Procedure Forecasts, 2020-2024

PROCEDURE (ICD-9-CM Code)	UTILIZATION	Total Number of Procedures, Benton Franklin Planning Area, Based on Persons 5+ Years Old						
	RATE/10,000	2018	2019	2020	2021	2022	2023	2024
All Operations (01-86)	1788.3	46,536	47,361	48,238	49,114	50,005	50,913	51,837
Operations on the Digestive System (42-54)	483.3	12,961	13,191	13,435	13,679	13,928	14,181	14,438

Source: Use rate data obtained from NCHS survey. See Table 7 of NHS Report "Ambulatory Surgery in the United States, 2006," revised on September 4, 2009.
Population Source: Claritas 2015.

3. A market share figure was applied to the digestive system procedure code group based on planned scope of services anticipated to be provided at the requested facility. These market share figures are based on physician recruitment actions and the expressed interest from other area physicians who would utilize the GI/endoscopy procedure rooms in the facility if available. Table 11 provides these market share figures.

[28] The NCHS survey covers procedures performed in ambulatory surgery facilities, both hospital-based and freestanding. Hospitals include non-institutional hospitals, exclusive of federal, military, and Department of Veterans Affairs, located in the 50 states and the District of Columbia. Only short-stay hospitals — hospitals with an average length of stay less than 30 days — or those whose specialty was general medicine or general surgery were included in the survey. Freestanding facilities included those that were regulated by CMS for Medicare participation. The NCHS sample of facilities was selected using a multistage probability design with facilities having varying selection probabilities.

Table 11. FACILITY Market Share Assumptions, 2020-2024

Benton Franklin Planning Area-Forecast Based on Persons 5+ Years Old					
	---------FORECAST--------				
FACILITY--Market Share Assumptions	**2020**	**2021**	**2022**	**2023**	**2024**
Market Share Growth, FACILITY		10.0%	3.0%	0.0%	0.0%
Operations on the Digestive System, FACILITY Market Share	46.0%	50.6%	52.1%	52.1%	52.1%

4. Estimated Planning Area cases were multiplied by the presumed market share figures for the FACILITY, yielding forecasted number of procedures, by year. These projections are included in Table 12. Please note the FACILITY begins operations in January 2020.

Table 12. FACILITY, Projected Number of Procedures, by Type, 2020-2024

Benton Franklin Planning Area-Forecast Based on Persons 5+ Years Old					
FACILITY Cases Based on Market Share	**2020**	**2021**	**2022**	**2023**	**2024**
	Year 2	Year 3	Year 4	Year 5	Year 6
Operations on the Digestive System	6,180	6,922	7,259	7,391	7,525
Total Cases	**6,180**	**6,922**	**7,259**	**7,391**	**7,525**
Planning Area Cases	48,238	49,114	50,005	50,913	51,837
FACILITY Market Share, All Ambulatory Surgery Cases, Benton Franklin Planning Area< Based on Persons 5+ Years Old	12.8%	14.1%	14.5%	14.5%	14.5%
FACILITY Market Share, Digestive Cases Only, Benton Franklin Planning Area, Based on Persons 5+ Years Old	46.0%	50.6%	52.1%	52.1%	52.1%

5. Based on the forecasted number of procedures at the FACILITY, segmented by endoscopy cases, there would be demand for 4.0 procedure rooms by the third full year of operation (2022). This assumes operation 240 days per year and operating efficiency of the ORs consistent with WAC 246-310-270(9)(ii). Please refer to Table 13.

Table 13. FACILITY, Projected Number of Procedure Rooms, 2020-2024

Years	2020	2021	2022	2023	2024
Total Cases	6,180	6,922	7,259	7,391	7,525
Cases per Day (assumes 240 days of operation)	25.75	28.84	30.25	30.79	31.35
Surgery Minutes Per Year (Assumes 38 Minutes/Case)	234,852	263,027	275,837	280,845	285,944
Estimated Number of Operating Rooms Needed (WAC 246-310-270 (9) (ii) (Assumes 37.5 hours per week, 51 weeks per year, 25% loss for prep/cean-up and 15% loss for scheduling flexibility--results in 60% capacity) Results are the same if minutes are divided by 68,850.	3.4	3.8	4.0	4.1	4.2
Assumed minutes per case-GI procedures	38				

*The figure of 38 minutes per case was obtained from Kadlec, 2018.

c. Identify and justify all assumptions related to changes in use rate, market share, intensity of service, and others.

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

d. <u>Evidence of the number of persons now using the service(s) who will continue to use the service(s).</u> Utilization experience for existing services involved in the project should be reported for up to the last ten years, as available. Such utilization should be reported in recognized units of measure appropriate to the service.

Kadlec has been providing care to Benton and Franklin Counties since 1944. Since that time, Kadlec has offered inpatient and outpatient care to Planning Area residents through its hospital, clinics, and other care settings. In 2017, Kadlec provided inpatient care for 68.8% of all Planning Area patients (CHARS 2017; excludes neonate, rehabilitation, and psychiatric DRGs). Thus, Kadlec has an established presence in the Planning Area and well-established relationships with its residents. It is reasonable to assume that Planning Area patients will look to and choose Kadlec's new freestanding facility to meet their ambulatory endoscopy needs as part of their continuum of care.

e. Evidence of the number of persons who will begin to use the services(s).

Please see Table 3 and the associated discussion of the methodology used to prepare the utilization forecasts. As discussed in the utilization forecast, it is assumed that there will be a gradual shift in market share for the procedures modeled above to the FACILITY.

4.

a. <u>Provide information on the availability and accessibility of similar existing services to the defined population expected to be served</u>. This section should concentrate on other facilities and services which "compete" with the applicant.

i. <u>Identify all existing providers of services similar</u> to those proposed and include sufficient utilization experience of those providers that demonstrates that such existing services are not available in sufficient supply to meet all or some portion of the forecaster utilization.

A list of providers who are CN-approved is included in Table 7. Together, these providers operate 30 inpatient/mixed use ORs and 5 outpatient ORs. There also are three CN-approved facilities that have GI/endoscopy procedure rooms

only: Mid-Columbia Endoscopy Center, Tri-Cities Endoscopy Center, and the Northwest Ambulatory Surgery Physicians facility. The CN-approved GI/endoscopy procedure room facilities are generally similar providers to the proposed Kadlec FACILITY. There also are six other CN-exempt outpatient surgery centers located in the Planning Area.

ii. If existing services are available to the defined population, demonstrate that such services are <u>not accessible</u> to that population. Time and distance factors, among others, are to be analyzed in this section.

There is both quantitative and qualitative need for the four proposed dedicated endoscopy rooms, although only qualitative need is necessary when requests are made for GI/endoscopy procedure rooms. That need is directly related to access-related issues, both in the Planning Area and in the surrounding region. As discussed in detail above, the qualitative need factors relating to access include:

1. At any given time, there is a waiting list of approximately 600 patients who need GI/endoscopy services.

2. There is significant patient in-migration from outside the Benton-Franklin Planning Area. Thus, there are a substantial number of patients not captured in the Department's ASF need methodology for the Planning Area. Accordingly, there is a greater need for access to freestanding, dedicated endoscopy rooms than the 11-OR need forecast produced by the Department's ASF need methodology for the Planning Area.

3. The population — both in the Planning Area and in the surrounding region — has been steadily growing and will continue to grow. This growth is highest in the 65+ age cohort, which has a greater need for GI/endoscopy services.

iii. If existing services are available and accessible to the defined population, justify why the proposed project does not constitute <u>an unnecessary duplication of services.</u>

Please see the discussion in Section 4.a.ii above.

b. In the context of the criteria contained in WAC 246-310-210 (1) (a) and (b), document the manner in which:

i. Access of low-income persons, racial and ethnic minorities, women, mentally handicapped persons, and other <u>under-served groups</u> to the services proposed is commensurate with needs for the health services.

Kadlec has a mission to provide compassionate care to all people in need. This includes a special concern for those who are poor and vulnerable. Patients are

treated and cared for regardless of gender, ethnicity, disabilities or their ability to pay. Kadlec's 73-year Mission has been and continues to be to provide high quality health care for every patient.

Given the Mission, Kadlec provides charity care to those who are poor and vulnerable and unable to pay for care. In 2017, Kadlec provided $7.8 million in free and discounted care for those in need in the Central Washington region and the surrounding community. In addition to providing a high level of free and discounted medical care, Kadlec provided a total of $38.5 million in the unfunded cost of government-sponsored medical care; community health, grants and donations; education and research programs; and subsidized services. Overall, Kadlec's community benefits exceeded $46 million in 2017.

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

Table 14 highlights Kadlec's commitment to giving to our communities, with 2017 community benefits in excess of $46 million.

Table 14. Kadlec Regional Medical Center Community Benefit, 2017

Service	Amount
Unfunded portion of government-sponsored medical care	$36.7 Million
Free and discounted medical care	$7.8 Million
Community health, grants and donations	$0.6 Million
Education and research programs	$0.8 Million
Subsidized services	$0.4 Million
Total	**$46.3 Million**

Source: Kadlec.[29]

[29] The categories of community benefit are defined as follows:

(a) Unfunded Portion of Government-sponsored Medical Care. The 2017 payer mix at Kadlec for the categories of procedures planned for the proposed facility and from patients originating in the Planning Area

In addition, Kadlec's charity care performance has significantly exceeded the Central Washington regional averages in recent years. Table 15 provides Kadlec's charity care as a percentage of total patient service revenues and adjusted total patient service revenues for 2014-2016. It also provides these percentages for the Central Washington region. The Department of Health evaluates hospital charity care based on these percentages, and it evaluates a hospital's figures in relation to the geographic region in which it is located. Kadlec is located in the Central Washington region. Table 15 shows that Kadlec has had a significantly higher three-year (2014-2016) charity care average, as a percent of both gross and adjusted revenues, compared to the Central Washington regional averages.

Table 15. Charity Care Statistics, Kadlec and Central Washington Regional Average, 2014-2016

		% of Total Revenue				% of Adjusted Revenue			
Lic. No	Region/Hospital	2014	2015	2016	3 Year Average, 2014-2016	2014	2015	2016	3 Year Average, 2014-2016
161	Providence/Kadlec Medical Center	1.78%	1.01%	1.23%	1.31%	4.82%	2.71%	3.29%	3.53%
CENTRAL WASHINGTON REGION TOTALS		**1.48%**	**0.86%**	**0.90%**	**1.05%**	**3.68%**	**2.46%**	**2.11%**	**2.67%**

Source: Washington Department of Health, Charity Care Reports, 2014-2016.

ii. <u>In the case of the relocation of a facility or service, or the reduction or elimination of a service</u>, the present needs of the defined population for that facility or service, including the needs of under-served groups, will continue to be met by the proposed relocation by alternative arrangements.

This question is not applicable.

zip codes is provided in Table 4. We expect the proposed project will have a forecast payer mix consistent with Kadlec's historical payer mix for these procedures.

(b) Free and Discounted Medical Care. Financial assistance for those who are uninsured, underinsured, or otherwise unable to pay for their health care. This category is often termed charity care.

(c) Community Health, Grants and Donations. Free services such as patient education, health screenings, immunizations and support groups, as well as grants and donations to support community partners.

(d) Education and Research Programs. Subsidies for medical residency programs, education for nursing and other health professions, and medical research.

(e) Subsidized Services. Clinical and social services provided despite a financial loss because they meet identified needs not met elsewhere in the community.

Applicants should include the following:

- **Copy of admissions policy;**

  Exhibit 18 contains a copy of the Kadlec Admissions Policy and a copy of the Patients' Rights and Responsibilities Policy. These policies will be used for the proposed FACILITY.

- **Copy of community service policy;**

  In accordance with its mission, Kadlec is committed to meeting community and regional health needs. Kadlec will extend its existing charity care policies and community benefit activities to include the proposed FACILITY. Please refer to Exhibit 19 for a copy of Kadlec's Charity Care Policy. This policy will be used for the proposed FACILITY.

- **Reference appropriate access problems and discuss how this project addresses such problems;**

  Please see the discussions above in Section III.A (Project Rationale: Need) and in Section III.A.4.a.ii (access issues).

- **As appropriate, reference health facility related access problems of under-served groups noted in social services plan documents;**

  This question is not applicable.

5. <u>As applicable</u>, substantiate the following special needs and circumstances that the proposed project is to serve.

a. The special needs and circumstances of entities such as medical and other health professions' schools, multi-disciplinary clinics, and specialty centers that provide a substantial portion of their services, resources, or both, to individuals not residing in the health services areas in which the entities are located or in adjacent health services areas.

This question is not applicable.

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

This question is not applicable.

c. The special needs and circumstances of osteopathic hospitals and non-allopathic services with which the proposed facility/service would be affiliated.

This question is not applicable.

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

1. Proposed capital expenditures should be broken out in detail and should account for at least the following:

Capital expenditures equal $8,980,000, which includes $2,209,945 in moveable equipment.

Table 16. FACILITY Capital Expenditures

Question	Total Project
a. Land Purchase	
b. Land Improvements	
c. Building Purchase	
d. Residual Value of Assets Being Replaced	
e. Construction Costs	$5,034,893
f. Moveable Equipment	$2,209,945
g. Fixed Equipment (which are not included in construction contract)	
h. Architect and Engineering Fees	$312,706
i. Consulting Fees	$260,000
j. Site Preparation	$400,000
k. Supervision and Inspection of Site	$105,000
l. Costs associated with securing the Source(s) of financing listed under (2) below	
m. Cost of Financing to include Interim Interest during construction	
n. Washington State Sales Tax	$657,456
o. Other itemized	
p. Total Estimated Capital Cost (actual / replacement cost)	$8,980,000

Source: Kadlec, 2018.

2. The method and sources for calculating construction costs and other estimated capital expenditures should be fully explained.

Construction costs and estimated capital expenses are based on fair market value assumptions. Please see Exhibit 20 for a letter of cost reasonableness from Providence St. Joseph Health's Real Estate and Construction Services.

3. Documentation of project impact on (a) capital costs, and (b) operating costs and charges for health services.

Please see Exhibit 21 for the pro forma forecast for the proposed GI/endoscopy procedure rooms.

Utilization:

1. The methodology used to estimate the utilization projections for the four GI/endoscopy procedure rooms, grouped into the NCHS ICD-9 procedure code groups, has been defined and explained above.

FACILITY Revenues:

1. Inflation of gross and net revenues was excluded from model.
2. The gross and net revenues were based on actual revenues of endoscopy procedures at Kadlec.
3. Payer mix was based on Kadlec's historical payer mix for these procedures (2017 data).
4. Charity care is assumed constant at 1.31% of gross revenues, which is the Kadlec 3-year average (2014-2016). This is higher than the Central Washington region 3-year (2014-2016) average of 1.05% (Table 15).

FACILITY Expenses:

1. There was specific modeling of expected growth of the proposed FACILITY staffing, where FTEs by type, by year were modeled based on forecast incremental case volumes and the number of procedure rooms utilized.
2. Wages, salaries, and benefits are specific to each group of FTEs, and are calculated on an hourly basis, based on Kadlec averages. It is assumed an FTE works 2,080 hours per year.
3. Non-productive hours are found by multiplying productive hours by 1.107; the non-productive factor is thus 10.7% of productive hours.
4. Benefits as a percentage of wages and salaries is estimated at 22%.
5. Supplies were estimated on a per cases basis, based on endoscopy procedures at Kadlec.

6. Purchased Services[30] were estimated at 3% of net revenue.
7. Repair and Maintenance was estimated at 8% of equipment cost.
8. B&O taxes were calculated at 1.5% of net revenue.
9. Pharmacy/drugs were on a per case basis, based on endoscopy procedures currently performed at Kadlec.
10. Insurance for liability and property and equipment were estimated based on actuals from Kadlec.
11. Utilities were estimated based on actuals from Kadlec.
12. Depreciation was based on the construction cost (remodel) of the building and on the purchased equipment.
13. Medical Director fee is allocated at $25,000 per year and is included in "Operating Expense" under "Other Direct Expenses."

4. Source(s) of financing (loan, grant, gifts, etc.). Provide all financing costs, including reserve account, interest expense, and other financing costs. If acquisition of the asset is to be by lease, copies of any lease agreements, and/or maintenance repair contracts should be provided. The proposed lease should be capitalized with interest expense and principal separated. For debt amortization, provide a repayment schedule showing interest and principal amount for each year over which the debt will be amortized.

This project will be financed solely through Kadlec's cash reserves via Western HealthConnect. Please see Exhibit 11 for a letter of financial commitment.

5. Provide a cost comparison analysis of the following alternative financing methods: purchase, lease, board-designated reserves, and interfund loan or bank loan. Provide the rationale for choosing the financing method selected.

Kadlec evaluates each capital project in terms of its relative cost, its impact on cash reserves, and the organization's opportunity costs of capital at that time. This project will be financed solely through Kadlec's cash reserves via Western HealthConnect.

6. Provide a pro forma balance sheet and the accounting statement, statement of changes in financial position of unrestricted funds and changes in components of working capital.

[30] Purchased services includes utilities, laundry and linen services, laboratory services, and repairs and maintenance.

Please see Exhibit 22 for 2015 audited financials for Providence Health & Services and 2016-2017 audited financials for Providence St. Joseph Health. Kadlec Regional Medical Center, as a wholly-owned subsidiary, does not maintain an independent balance sheet.

7. Provide a capital expenditure budget through the project completion and for three years following completion of the project.

Please see Exhibit 21 for pro forma forecast financial statements for the proposed FACILITY, including an annual depreciation schedule. As indicated in Table 16, the capital expenditures for the project will be $8,980,000.

8. The expected sources of revenues for the applicant's total operations (e.g., Medicaid, Blue Cross, Labor and Industries, etc.) with anticipated percentage of revenue from each source.

Please see Exhibit 21 for forecast pro forma financial statements for the proposed FACILITY. Table 4 also includes a summary of the forecasted payer mix.

9. Expense and revenue statements for the last three full years.

Please see Exhibit 22 for 2015 audited financials for Providence Health & Services and 2016-2017 audited financials for Providence St. Joseph Health. Kadlec Regional Medical Center, as a wholly-owned subsidiary, does not maintain independent expense and revenue statements.

10. Cash flow statement for the last three full years.

Please see Exhibit 22 for 2015 audited financials for Providence Health & Services and 2016-2017 audited financials for Providence St. Joseph Health. Kadlec Regional Medical Center, as a wholly-owned subsidiary, does not maintain independent cash flow statements.

11. Balance sheets detailing the assets, liabilities, and net worth of facility for the last three full fiscal years.

The proposed FACILITY does not yet exist. Therefore, the question is not applicable. However, please see Exhibit 22 for 2015 audited financials for Providence Health & Services and 2016-2017 audited financials for Providence St. Joseph Health. Kadlec Regional Medical Center, as a wholly-owned subsidiary, does not maintain independent balance sheets.

12. Indicate the reduction or addition of FTE's with the salaries, wages, and employee benefits for each FTE affected.

Please see Table 17 for forecasted number of FTEs, by type, for 2020-2024.

Table 17. FACILITY FTEs by Type by Year, 2020-2024

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Productive FTE Analysis	**2020**	**2021**	**2022**	**2023**	**2024**
OP Endoscopy Manager	0.90	0.90	0.90	0.90	0.90
Front Office Assistant - Check-in	2.40	2.40	2.40	2.40	2.40
Procedure Scheduler	1.20	1.20	1.20	1.20	1.20
Lead RN (Charge RN/Team Leader)	1.20	1.20	1.20	1.20	1.20
Registered Nurses	8.20	9.20	9.70	9.90	10.00
Endoscopy Techs - room turnover	1.92	1.92	1.92	1.92	1.92
Sterile Processing Techs	3.85	3.85	3.85	3.85	3.85
Materials Management Clerk	0.90	0.90	0.90	0.90	0.90
Total, Productive FTEs	***20.57***	***21.57***	***22.07***	***22.27***	***22.37***

Source: Kadlec.

Please see Exhibit 21 for tables that include detail on wages, salaries, and benefits by FTE type. Non-productive FTEs include vacation or sick time on top of productive hours.

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

1. <u>The availability of sufficient numbers of qualified health manpower and management personnel</u>. If the staff availability is a problem, describe the manner in which the problem will be addressed.

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

Kadlec has multiple resources available to assist with the identification and recruitment of appropriate and qualified personnel:

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

Kadlec employs a large number of general and specialty care providers. The proposed FACILITY will offer an attractive work environment and hours, thus attracting local area residents who are qualified to work in the GI/endoscopy procedure rooms. We do not expect staffing challenges that would disrupt Kadlec's ability to achieve its goals and objectives relative to operating the four procedure rooms.

At this point, it is premature to identify or hire staff for the four GI/endoscopy procedure rooms, without having obtained CN approval for the FACILITY. As necessary, Kadlec can provide these details, at the appropriate time, after it identifies and hires key staff. Kadlec will employ the FACILITY medical director. See Exhibit 23 for the Medical Director Job Description. Because Kadlec will be employing the medical director, no medical director contract will be contemplated.

2. <u>The relationship of ancillary and support services</u> to proposed services, and the capability of ancillary and support services to meet the service demands of the proposed project.

It is anticipated that on-site ancillary and support services will include scheduling, security, housekeeping, snow removal/landscaping, and materials management. Kadlec will purchase some of these services from community vendors through an RFP process. All other ancillary and support services would be provided centrally by Kadlec. The final determination regarding which ancillary and support services

will be provided on-site versus centrally by Kadlec has not yet been made. It is Kadlec's experience that such final determinations and subsequent contracts can be established well within the time frame of CN approval and subsequent opening.

3. The specific means by which the proposed project will promote continuity in the provision of health care to the defined population and avoid unwarranted fragmentation of services. This section should include the identification of existing and proposed formal working relationships with hospitals, nursing homes, and other health service resources serving your primary service area. This description should include recent, current, and pending cooperative planning activities, shared services agreements, and transfer agreements. Copies of relevant agreements and other documents should be included.

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

A copy of the draft patient transfer agreement can be found in Exhibit 24.

4. Fully describe any history of the applicant entity with respect to the actions noted in Certificate of Need rules and regulations WAC 246-310-230 (5) (a). If there is such history, provide clear, cogent, and convincing evidence that the proposed project will be operated in a manner that ensures safe and adequate care to the public to be served and in conformance with applicable federal and state requirements.

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

5. Services to be provided will be provided (a) in a manner that ensures safe and adequate care, and (b) in accord with applicable federal and state laws, rules, and regulations.

All Kadlec facilities meet all relevant state and federal laws, rules, and regulations. All current laws, rules, and regulations will be applied to the FACILITY. All physicians performing procedures will be required to be credentialed and privileged as a member of the FACILITY medical staff and be in good standing within the medical community. In addition, the FACILITY will participate in a number of accreditation, licensure, and certification reviews by external agencies.

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

Please document the following associated with cost containment.

1. Exploration of alternatives to the project you have chosen to pursue, including postponing action, shared service arrangements, merger, contract services, and different methods of service provision, including different spatial configurations you have evaluated and rejected. Each alternative should be analyzed by application of the following:

- **Decision making criteria (cost limits, availability, quality of care, legal restriction, etc.);**
- **Advantages and disadvantages, and whether the sum of either the advantages or the disadvantages outweigh each other by application of the decision-making criteria;**
- **Capital costs;**
- **Staffing impact.**

Kadlec is requesting CN approval to construct and operate four GI/endoscopy procedure rooms at the FACILITY. This will help address the unmet need for outpatient procedure rooms in the Benton-Franklin Planning Area by providing all eligible physicians and their patients' access to a freestanding facility.

As part of its due diligence, and in deciding to submit this application, Kadlec explored the following alternatives: (1) status quo: "do nothing," (2) the requested project: seek CN approval for four GI/endoscopy procedure rooms, (3) expand Kadlec's hospital-based OR and procedure room capacity on its main campus, or (4) partner with another local provider (hospital or physicians) to establish a facility with GI/endoscopy procedure rooms.

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

Based on the above decision criteria, it is clear that the requested project — seek CN approval for a four GI/endoscopy procedure room facility — is the best option.

Table 18. Alternative Analysis: Access to Health Care Services

Advantages/Disadvantages	
Status Quo: "Do nothing"	There is no advantage to maintaining the status quo in terms of improving access. (D) The principle disadvantage is that the status quo does nothing to address the qualitative need for procedure rooms in the Benton-Franklin County Planning Area. Consequently, it does not address access to care issues that currently exist. (D)
Requested Project: CN approval – four procedure rooms	The requested project meets current and future access issues identified in the Benton-Franklin County Planning Area. It provides access to care in a lower cost of care setting for procedures outside a hospital setting. (A) From an improved access perspective, there are no disadvantages. (A)
Expand hospital-based OR and procedure room capacity	The option provides additional OR capacity to meet current and future access needs. (A) Principal disadvantage is that it funnels ambulatory surgical services to a hospital-based OR instead of a procedure room in a freestanding facility. (D)
Partner with another provider to establish a facility with procedure rooms	This alternative project meets current and future access issues identified in the Benton-Franklin County Planning Area. (A) Partnering with another entity should not adversely impact access to services with the assumption that the project would remain similar to the proposed project. (N)

Table 19. Alternative Analysis: Quality of Care

Option	Advantages/Disadvantages
Status Quo: "Do nothing"	There is no advantage from a quality of care perspective. However, there are no current quality of care issues. (N) The principal disadvantage with maintaining the status quo is driven by shortages of outpatient procedure rooms. Over time, as access is constrained, there will be adverse impacts on quality of care if planning area physicians and their patients either have to wait for capacity or travel to locations outside of the planning area. (D)
Requested Project: CN approval – four procedure rooms	The requested project meets and promotes quality and continuity of care in the planning area. (A) From a quality of care perspective, there are no disadvantages. (A)
Expand hospital-based OR and procedure room capacity	This option meets and promotes quality and continuity of care issues in the planning area. (A)
Partner with another provider to establish a facility with procedure rooms	Partnering with another entity will not likely adversely impact quality of care when compared to the proposed project, although it adds an additional layer of operational complexity. (N)

Table 20. Alternative Analysis: Cost and Operating Efficiency

Option	Advantages/Disadvantages
Status Quo: "Do nothing"	Under this option, there would be no impacts on costs. (N) The principle disadvantage is that by maintaining status quo, there are no improvements to cost efficiencies. (D)
Requested Project: CN approval – four procedure rooms	This option allows Kadlec to better utilize lower cost settings for GI / endoscopy procedures. (A) In addition, this option provides patients with increased access to a lower cost facility. (A) From a cost and operating efficiency perspective, the project has capital expenses of $8,980,000. (D)
Expand hospital-based OR and procedure room capacity	A new hospital-based facility would require substantially more capital expenditures when compared to the proposed project, requiring compliance with hospital licensure codes. (D) This option provides increased cost when compared to a freestanding facility.(D)
Partner with another provider to establish a facility with procedure rooms	Partnering with another entity would likely decrease the overall capital investment required from Kadlec, assuming each partner in the joint venture makes a capital contribution in return for equity in the proposed facility (A). A partnership would increase operating complexity and may add other partnership-related costs. In this scenario, costs may increase due additional efforts required to establish the governance and ownership structure, establish new staffing structure, and accommodate partner preferences on how to deliver care. (D)

Table 21. Alternative Analysis: Staffing Impacts

Option	Advantages/Disadvantages
Status Quo: "Do nothing"	Principal advantage would be the avoidance of hiring/employing additional staff. (A) There are no disadvantages from a staffing point of view. (N)
Requested Project: CN approval – four procedure rooms	This option creates new jobs, which will benefit the Planning Area, and provide opportunities for the specialization of staff dedicated to efficient delivery of ambulatory procedures. (A) From a staffing impacts perspectives, there are no disadvantages. (N)
Expand hospital-based OR and procedure room capacity	There are no advantages from a staffing impacts perspective. (N) This option creates new jobs, which will benefit the Planning Area. (A)
Partner with another provider to establish a facility with procedure rooms	Partnering with another hospital or physician group would create less staffing flexibility from the perspective of Kadlec. In this scenario, Kadlec would have to build and establish additional management processes and structures, and may have to negotiate new compensation benefit packages for physician partners. (D)

Table 22. Alternative Analysis: Legal Restrictions

Option	Advantages/Disadvantages
Status Quo: "Do nothing"	There are no legal restrictions to continuing operations as presently. (A)
Requested Project: CN approval – four procedure rooms	The principal advantage would be allowing Kadlec the ability to open its FACILITY to non-Kadlec physicians. This will improve access, quality, and continuity of care. (A) Principal disadvantage is it requires CN approval, which requires time and expense. (D)
Expand hospital-based OR and procedure room capacity	The principal advantage would be allowing Kadlec the ability to open its new OR capacity to non-Kadlec physicians. This will improve access, quality, and continuity of care. (A) The option would not require CN approval. (A)
Partner with another provider to establish a facility with procedure rooms	Partnering with another hospital or physician group introduces a high degree of operational complexity, as under this scenario a completely new governance structure would have to be established along with obtaining agreement on operational processes and financing. (D) Principal disadvantage is it requires CN approval, which requires time and expense. (D)

2. The specific ways in which the project will promote staff or system efficiency or productivity.

The requested project will respond to a clear, demonstrated quantitative and qualitative need in the Benton-Franklin Planning Area. The FACILITY with four procedure rooms will allow patients who need GI/endoscopy procedures to benefit from increased access and a lower-cost of care. This also will provide acute patients with increased access to hospital-based ORs for services that cannot be provided in a freestanding setting. In summary, the proposed FACILITY will help transform the way care is delivered in the Benton-Franklin Planning Area by offering quality care that is both affordable and local.

3. In the case of construction, renovation, or expansion, capital cost reductions achieved by architectural planning and engineering methods and methods of building design and construction. Include an inventory of net and gross square feet for each service and estimated capital cost for each proposed

service. Reference appropriate recognized space-planning guidelines you have employed in your space allocation activities.

This question is not applicable.

4. **In the case of construction, renovation or expansion, an analysis of the capital and operating costs of alternative methods of energy consumption, including the rationale for choosing any method other than the least costly. For energy-related projects, document any efforts to obtain a grant under the National Energy Conservation Act.**

This question is not applicable.