SETTLEMENT EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON BEHALF OF SACRED HEART MEDICAL CENTER AND CHILDREN'S HOSPITAL PROPOSING TWO SEPARATE PROJECTS:
1) ADDITION OF 75 ACUTE CARE BEDS; AND
2) RECONCILIATION IN THE USE OF 21 LEVEL II INTERMEDIATE CARE BASSINETTES

PROJECT DESCRIPTION

Sacred Heart Medical Center and Children's Hospital (Sacred Heart) is a 623 bed acute care, not for profit hospital located in the city of Spokane within Spokane County. Sacred Heart is part of Providence Health & Services that includes 26 hospitals, more than 35 non-acute facilities, and related clinics and educational locations throughout Alaska, Washington, Montana, and Oregon. Sacred Heart provides Medicare/Medicaid acute care services to the residents of Spokane County and surrounding areas, and currently holds an accreditation from the Joint Commission. [Providence website; Application, Exhibit 2; Joint Commission website]

On October 23, 2008, Sacred Heart submitted a Certificate of Need application proposing two separate, but interrelated, projects at the hospital. One project proposed the addition of 152 acute care beds to the hospital's existing 623 licensed beds. The 152 beds would be added in five phases beginning in 2011 and extending through 2015.

The second project involved a 21 bed intermediate care nursery - level II (ICN-level II) bassinettes that are currently in use, but not licensed as part of the hospital's bed capacity. This part of the project proposed to correct this flaw. It also included the relocation of the ICN level II bassinettes with the Neonatal Intensive Care (NICU) level III unit. The first phase is the immediate relocation of five bassinettes from their current location into space within the NICU level III unit. The second phase would be completed in 2011 when the NICU level III bassinettes and the remaining 16 ICN level II bassinettes are modeled and consolidated in one location. [Application, p13]

BACKGROUND INFORMATION ON THE PROJECT

On June 19, 2009, the Program denied Sacred Heart's acute care bed addition portion of the application based on its failure to meet the criteria related to numeric need. On July 17, 2009, Sacred Heart submitted its "Request for Reconsideration" in response to the Department's denial of its 152 bed addition. On July 28, 2009, Certificate of Need #1400 was issued for the neonatal expansion only. At project completion, Sacred Heart would have 21 ICN-level II and 40 NICU level III bassinettes. Sacred Heart's licensed bed capacity would increase from 623 to 644 licensed beds. The Program denied Sacred Heart's 152 bed addition reconsideration request on August 14, 2009.

On September 11, 2009, Sacred Heart submitted its "Request for Adjudicative Proceeding" to the Department's Adjudicative Services Unit (ASU) in response to the denial of the acute care bed expansion. An adjudicative hearing was scheduled for March 29, 2010. However, on November 27, 2009, ASU approved a joint petition for a continuance of the adjudicative proceedings because of settlement discussions between the Department and the applicant.

On March 17, 2010, a proposed settlement was reached between the parties regarding Sacred Heart's 152 bed addition proposal. This document is the Department's evaluation based on the proposed Settlement details. Within this document, the Department will reference sources submitted by the

applicant or affected persons during either the initial review or the proposed settlement documents. The uncontested ICN level II decision will not be included further in this document.

PROJECT DESCRIPTION

As a result of proposed settlement, Sacred Heart has agreed to accept a reduction in the number of beds requested in the acute care bed expansion project.

According to the proposed settlement terms, Sacred Heart has accepted a reduction in the bed request to a total of 75 acute care beds. The 75 beds would come through two separate sources: CN approval of 50 new beds to the Spokane planning area and a transfer of 25 licensed acute care beds from the applicant's Holy Family facility[1].

The phased implementation of the beds will be completed by 2013, when the applicant had previously reported that it would have completed the expansion to allow up to 89 of the requested beds. Table 1 depicts the approximate timeline for the addition of the proposed 75 beds and the previously approved ICN level II bassinettes.

Table 1
Description of Sacred Heart's Phased Implementation

Year	Additional Acute Care Beds	ICN-level II Bassinettes	Total Licensed Beds
2009		5	628
2010			628
2011	21	16	665
2012	36		701
2013	18 [2]		719

At project completion, Sacred Heart's licensed acute care beds would increase to 719 (623 + 75 acute care + 21 ICN level II). The approximate schedule for construction of the new space for the additional beds is detailed in Table 2. [February 20, 2009 Supplemental Information, p3]

Table 2
Sacred Heart Hospital's Construction Schedule

Floor	Project	Construction Contract Awarded	Construction Complete	Licensure Approval	Occupancy or Offering of Service
4 West	Acute Care	June, 2010	June, 2011	July, 2011	August, 2011
6 West	Acute Care	October, 2010	June, 2012	July, 2012	August, 2012
7 West	Acute Care	October, 2010	June, 2012	July, 2012	August, 2012
8 West	Acute Care	October, 2011	June, 2013	July, 2013	August, 2013

The 75 acute care beds are projected to be implemented in multiple phases. The initial 21 beds would become available in the Fall of 2011. The remaining beds would become operational at project

[1] Holy family currently has 272 licensed acute care beds. At project completion these would be reduced to 247.
[2] Originally, 32 acute care beds were proposed to be added in 2013. Of the 75 new beds discussed in this evaluation, 18 represents the remaining beds after the additions scheduled for 2011 and 2012.

completion in 2013. Under that timeline, calendar year 2014 would be Sacred Heart's first full calendar year of operation with an additional 75 acute care beds, and 2016 would be a full three years.

Sacred Heart submitted this application with a total project cost (CN and non-CN reviewable) of $133,612,230. Of that amount, the applicant identified the CN reviewable costs related to the proposed expansion as $79,402,781. The original estimated capital expenditure for the acute care bed project is broken down in Table 3. [Application, p5; February 20, 2009 Supplemental Information, p19]

Table 3
Estimated Capital Costs for Proposed Projects

Item	Acute Care Beds
Building Construction	$51,241,254
Fixed Equipment	$3,352,000
Moveable Equipment	$13,494,044
Architect/Engineer Fees	$5,212,755
Consulting Fees	$160,920
Sales Tax	$5,941,808
Other Project Costs	$0
Total	**$79,402,781**

The effects of the reduction in beds awarded in the proposed settlement will be discussed during the review of Financial Feasibility. [Application, p60]

APPLICABILITY OF CERTIFICATE OF NEED LAW

Acute Care Bed Addition

The acute care bed addition portion of this application is subject to Certificate of Need review as the change in bed capacity of a health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

APPLICATION CHRONOLOGY

Initial Review

September 5, 2008	Letter of Intent Submitted
October 23, 2008	Application Submitted
October 24, 2008 through February 25, 2009	Department's Pre-Review Activities • 1st screening activities and responses
February 26, 2009	Department Begins Review of the Application • public comments accepted throughout review
April 2, 2009	Public Hearing Conducted/End of Public Comment
April 17, 2009	Rebuttal Documents Submitted to Department
June 2, 2009	Department's Anticipated Decision Date
June 19, 2009	Department's Actual Decision Date

Proposed Settlement Review

March 17, 2010	Proposed Settlement released
April 16, 2010	End of Public Comment Period
April 28, 2010	Rebuttal Comments Due
May 5, 2010	Department's Anticipated Decision Date
May 12, 2010	Department's Actual Decision Date

AFFECTED PERSONS

During the review of this application, four entities sought or received affected person status under WAC 246-310-010. The three entities are listed below.

- Deaconess Medical Center—an acute care hospital located in the city of Spokane, within Spokane County;
- Valley Hospital and Medical Center— an acute care hospital located in the city of Spokane Valley, within Spokane County;
- SEIU Healthcare 1199NW – a labor union representing approximately 1,200 members that reside in the applicants planning area.
- Premera Blue Cross – A Health Insurance carrier within eastern Washington.

SOURCE INFORMATION REVIEWED-INITIAL DECISION

- Sacred Heart Medical Center and Children's Hospital Certificate of Need application submitted October 23, 2008
- Sacred Heart Medical Center and Children's Hospital supplemental information dated February 20, 2009
- Sacred Heart Medical Center and Children's Hospital supplemental information dated March 9, 2009
- Department of Health's Office of Hospital and Patient Data Systems (HPDS) financial feasibility and cost containment analysis dated May 19, 2009
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Public comment received during the course of the review
- Documents submitted during the public hearing on April 2, 2009
- Acute care bed capacity surveys submitted by Deaconess Medical Center, Providence Holy Family, Providence Sacred Heart Medical Center and Children's Hospital, St. Luke's Rehabilitation Institute, and Valley Hospital and Medical Center
- Sacred Heart Medical Center and Children's Hospital rebuttal comments dated April 17, 2009
- Deaconess and Spokane Valley Hospital's rebuttal comments dated April 17, 2009
- SEIU Healthcare 1199NW rebuttal comments dated April 17, 2009
- Population data obtained from the Office Financial Management based on year 2000 census published November 2007
- Population estimates and forecasts obtained from the Claritas, Inc.
- Acute Care Bed Methodology extracted from the 1987 State Health Plan
- Washington State Perinatal Levels of Care Criteria adopted by the Perinatal Advisory Committee--February 2005, used as guidance

- Information cited on the Providence Health & Services website (www.providence.org)
- Mileage data obtained from Map Quest via the internet (www.mapquest.com)
- Certificate of Need Historical files
- Department of Health's Investigation and Inspection's Office (IIO) files

ADDITIONAL SOURCE INFORMATION REVIEWED—PROPOSED SETTLEMENT

- February 24, 2010 Proposed Settlement Agreement
- Re-tabulated Acute Care Bed Methodology (Exhibit A)
- Deaconess Medical Center & Valley Hospital Medical Center comment dated April 16, 2010
- Sacred Heart Medical Center and Children's Hospital rebuttal dated April 28, 2010

CRITERIA EVALUATION

To obtain Certificate of Need approval, Sacred Heart must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need) and the acute care bed methodology portion of the 1987 State Health Plan; 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).[3]

CONCLUSION

For the reasons stated in this proposed settlement evaluation, a Certificate of Need to add a total of 75 acute care beds to Sacred Heart Medical Center and Children's Hospital is consistent with the Certificate of Need review criteria, and a Certificate of Need should be approved. The sources of the beds are 50 new to planning area and 25 re-located from Holy Family Hospital to Sacred Heart.

The approved capital expenditure for this project is $54,013,224.

[3] Each criterion contains certain sub-criteria. The following sub-criteria are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6).

A. Need (WAC 246-310-210)

Based on the source information reviewed, the Department determines that the application is consistent with the applicable need criteria in WAC 246-310-210.

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

The Department uses the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan to assist in its determination of need for acute care capacity. This forecasting method is designed to evaluate need for additional capacity in general, rather than identify need for a specific project. The Department prepared bed need forecasts to determine baseline need for acute care capacity. This set of projections is completed prior to determining whether the applicant should be approved to meet any projected need.

Summary of Sacred Heart's Numeric Methodology

The method submitted as part of Sacred Heart' application based its projections on planning area resident hospital discharges for years 1998-2007. This resulted in a projected total of 280,863 patient days for planning are hospitals in 2008; increasing through 2014. Year 2014 projections show 325,582 patient days at planning area hospitals. Sacred Heart determined a surplus of beds in the planning area through 2011, with a need for 12 beds arising in 2012. Continuing the forecast through 2014, the applicant calculates a need for approximately 76 beds. A complete summary of the applicant's projections are shown in Table 4. [Application, Exhibit 15]

Table 4
Summary of Sacred Heart Application Need Methodology for Spokane Planning Area

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Planning Area Beds	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168
Adjusted Gross Need	1,096	1,119	1,150	1,180	1,212	1,244	1,279	1,314	1,351	1,388
Adjusted Net Need	-72	-49	-18	12	44	76	111	146	183	220

* Negative number indicates a surplus of beds. All numbers are rounded.

The Department's Determination of Numeric Need:

The Department uses the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan (SHP) to assist in its determination of need for acute care capacity. This forecasting method is designed to evaluate need for additional capacity in general, rather than identify need for a specific project. Though the SHP was "sunset" in 1989, the Department has concluded that this methodology remains a reliable tool for predicting the baseline need for acute care beds.

The completed methodology is presented as a series of appendices to this evaluation. The methodology presented here incorporates all adjustments that were made under the proposed settlement terms. Where necessary, both adjusted and un-adjusted computations are provided.

The Spokane planning area is described in State Health Coordinating Council documents from 1987 as all of the zip codes within Spokane County and select zip codes from neighboring Stevens, Lincoln, and Whitman counties[4]. Zip codes are assigned by the US Postal Service for mail delivery purposes and do not necessarily correspond to fixed areas over long periods of time. Zip codes may also be added or deleted in an area as necessary. Because some zip codes have been added in Spokane County in the intervening years and some zip code boundaries have changed, the 1987 list of zip codes no longer corresponds with the geographic area intended to be considered the Spokane planning area. Changes and updates were considered in the compilation of the patient day and population totals and a population correction for zip code 98026 was updated in this proposed settlement evaluation.

When preparing acute care bed need projections, the Department relies upon population forecasts published by the Washington State Office of Financial Management (OFM). OFM publishes a set of forecasts known as the "intermediate-series" county population projections, based on the 2000 census, updated November 2007[5]. However, OFM figures are not available for any area smaller than an entire county. Because OFM does not provide population estimates at the level necessary for inclusion of the necessary parts of Spokane's neighboring counties, the Department relied upon estimates and projections developed by Claritas, Inc. for the applicable zip code populations in Stevens, Lincoln, and Whitman counties. [Exhibit A of this evaluation, Population appendix]

This portion of the evaluation will describe, in summary, the calculations made at each step and the assumptions and adjustments made in that process. It will also include a review of any deviations related to the assumptions or adjustments made by Sacred Heart in its application of the methodology. The titles for each step are excerpted from the 1987 SHP.

Step 1: Compile state historical utilization data (i.e., patient days within major service categories) for at least ten years proceeding the base year.

For this step, attached as Appendix 1, the Department obtained planning area resident utilization data for 1998 through 2007 from the Department of Health Office of Hospital and Patient Data Systems' CHARS (Comprehensive Hospital Abstract Reporting System) database. Total resident patient days for this proposed settlement evaluation were identified for HSA 4 and the State of Washington as a whole, excluding psychiatric patient days (Major Diagnostic Category (MDC) 19) and normal newborns and other neonates (Major Diagnostic Category (MDC) 15) according to the zip code of the residents.

For the proposed settlement methodology, the Department corrected errors uncovered in the totals reported in the initial evaluation. First, the patient days recorded for residents receiving rehabilitation care from St. Luke's Rehabilitation Institute were removed. Second, zip code 98026 was shown to cross-over between Spokane and Stevens counties. The initial analysis omitted the patient days attributed to the Stevens County portion of zip code 98026. The methodology attached corrects this error by adding the appropriate values into the patient day totals.

[4] Described in 1981 Eastern Washington Health Systems Agency documents as all zip codes for Spokane County and select zip codes from neighboring counties including—99008, 99013, 99017, 99029, 99032, 99033, 99040, 99110, 99148, and 99170.

[5] The November 2007 series was the most current data set available during the production of the state acute care methodology following the release of the 2007 CHARS data and can be found at http://www.ofm.wa.gov/pop/estimates.asp and compiled internally by DOH

Sacred Heart followed this step as described above, though patient day totals are higher than the Department's due to the inclusion of some of the patient days omitted by the Department.

Step 2: Subtract psychiatric patient days from each year's historical data.
In its initial evaluation, the Department produced this step as prescribed. No items outlined in the proposed settlement agreement changed the psychiatric patient day results as previously reported.

Step 3: For each year, compute the statewide and HSA average use rates.
The average use rate (defined as the number of patient days per 1,000 population) was derived by dividing the total number of resident patient days in each HSA by that HSA's population and multiplied by 1,000. Using the same process, the average use rate was also determined for the State planning area and is attached as Appendix 3. Historical and projected population figures for this analysis were derived using the process discussed above.

For the proposed settlement methodology, the Department corrected an error uncovered in the population totals reported in the initial evaluation. The initial analysis omitted the population totals attributed to the Stevens County portion of zip code 98026. The methodology attached to this evaluation corrects this error by adding the appropriate values into the population totals.

Sacred Heart followed this step as described above with no deviations.

Step 4: Using the ten-year history of use rates, compute the use rate trend line, and its slope, for each HSA and for the state as a whole.
In its initial evaluation, the Department produced this step as prescribed. No items outlined in the proposed settlement agreement changed the process used to establish the use rate trend lines.

Step 5: Using the latest statewide patient origin study, allocate non-psychiatric patient days reported in hospitals back to the hospital planning areas where the patients live. (The psychiatric patient day data are used separately in the short-stay psychiatric hospital bed need forecasts.)
The previous four steps of the methodology utilizes data particular to the residents of the Spokane planning area. In order to forecast the availability of services for the residents of a given region, patient days must also be identified for the facilities available within the planning area. Step 5, included as Appendix 5, identifies referral patterns in and out of the Spokane planning area and illustrates where residents of the planning area currently receive care.

As previously stated in step 1, the patient days recorded for residents receiving rehabilitation care from St. Luke's Rehabilitation Institute were not included in the planning area facility totals used to establish the migration totals in this evaluation's version of the numeric need methodology.

Sacred Heart followed this step as described above, except the patient days for the facilities appear to include data recorded for St. Luke's Rehabilitation Institute. This will effect comparable computations in the methodology results.

Step 6: Compute each hospital planning area's use rate (excluding psychiatric services) for each of the age groups considered (at a minimum, ages 0-64 and 65+).
In its initial evaluation, the Department produced this step as prescribed. No items outlined in the proposed settlement agreement changed the process used to establish the planning area's use rates.

Step 7A: Forecast each hospital planning area's use rates for the target year by "trend-adjusting" each age-specific use rate. The use rates are adjusted upward or downward in proportion to the slope of either the statewide ten-year use rate trend or the appropriate health planning region's ten-year use rate trend, whichever trend would result in the smaller adjustment.
In its initial evaluation, the Department produced this step as prescribed. No items outlined in the proposed settlement agreement changed the process used to establish the use rate forecasts.

Step 8: Forecast non-psychiatric patient days for each hospital planning area by multiplying the area's trend-adjusted use rates for the age groups by the area's forecasted population (in thousands) in each age group at the target year. Add patient days in each age group to determine total forecasted patient days.
The target year for this settlement evaluation was set at 2017. This represents a seven-year period from the release of this decision, eight years from the date of the public hearing, and 10 years from the last available CHARS data for the Spokane planning area.

Using the forecasted use rate for the target year 2017, and the corrected population projections addressed above, forecasted patient days for Spokane planning area residents are illustrated in Appendix 8. As noted in Step 7, forecasts have been prepared for a series of years and are presented in summary in Appendix 10 as "Total Spokane Res Days."

Sacred Heart applied this step with projections for 2010, 2015, and 2020.

Step 9: Allocate the forecasted non-psychiatric patient days to the planning areas where services are expected to be provided in accordance with (a) the hospital market shares and (b) the percent of out-of-state use of Washington hospitals, both derived from the latest statewide patient origin study.
In its initial evaluation, the Department produced this step as prescribed. No items outlined in the proposed settlement agreement changed the process used to establish the use rate forecasts. The corrected results of these calculations are presented in Appendix 10 as "Total Days in Spokane Hospitals."

Sacred Heart applied this step with no deviations and produced slightly different in-migration percentages. [Exhibit A, Appendix 9]

Step 10: Applying weighted average occupancy standards, determine each planning area's non-psychiatric bed need. Calculate the weighted average occupancy standard as described in Hospital Forecasting Standard 11.f. This should be based on the total number of beds in each hospital (Standard 11.b), including any short-stay psychiatric beds in general acute-care hospitals. Psychiatric hospitals with no other services should be excluded from the occupancy calculation.
The number of available beds in the planning area was identified in accordance with the SHP standard 12.a., which identifies:

1. Beds which are currently licensed and physically could be set up without significant capital expenditure requiring new state approval;
2. Beds which do not physically exist but are authorized unless for some reason it seems certain those beds will never be built;

3. Beds which are currently in the license but physically could not be set up (e.g., beds which have been converted to other uses with no realistic chance they could be converted back to eds); and
4. Beds which will be eliminated.

SHP determines the number of available beds by including only those beds that meet the definition of #1 and #2 above, plus any CN approved beds. This information was gathered through a capacity survey of the state hospitals, inclusive of the Spokane County hospitals.

For this project, there are six hospitals considered in the Spokane planning area. Below is a summary of these facilities and the determination of the capacity values used in the production of the acute care bed methodology as cited in the proposed settlement. Each of the hospitals currently operating in the Spokane planning area has completed and returned a survey for use in the establishment of the available bed capacity.

Deaconess Medical Center

Deaconess Medical Center (Deaconess) is located at 800 West Fifth Avenue in Spokane. Deaconess is licensed for 388 acute care beds. Of the 388 beds, Deaconess reports 283 set up and available and 11 additional beds assignable for a total of 294. Deaconess also reports 40 NICU/ICN-level II bassinettes which are considered part of their acute care bed compliment. Since the MDC 15 patient days were excluded from the need methodology, these 40 bassinettes will not be considered in the acute care bed capacity totals. Deaconess will be recorded to have a total available capacity of 294 beds. [Deaconess Utilization Survey, March 31, 2009 Survey Correction]

Deer Park Hospital

This community hospital was located at 1015 East 'D' Street in Deer Park and was licensed for 25 acute care beds. Effective March 4, 2008, Deer Park Hospital chose to close and remove all 25 beds from service in the planning area. Therefore, 2007 will be the last year these 25 beds will be counted in the acute care bed supply. [CN Facility Records]

Providence Holy Family

This facility is located at 5633 North Lidgerwood Street in Spokane and is licensed for 272 acute care beds. Holy Family reports that 182 acute care beds are set up and assignable. Survey responses also report 9 of the 182 are ICN-level II bassinettes. Since the MDC 15 patient days were excluded from the need methodology, these 9 bassinettes will not be considered in the acute care bed capacity totals. Holy Family will be recorded to have a total capacity of 173 beds. [Holy Family Utilization Survey]

Providence Sacred Heart Medical Center and Children's Hospital

The applicant facility is located at 101 West Eighth Avenue in Spokane and is licensed for 623 acute care beds. Of the 623 acute care beds set up and available, there are 40 level III bassinettes and 72 beds that are dedicated to psychiatric patients that will not be considered in the acute care bed capacity totals. The recently approved 21 ICN level II bassinettes will also not be considered. Sacred Heart will be recorded to have a total capacity of 511 beds. [Sacred Heart Utilization Survey]

St. Luke's Rehabilitation Institute

This facility is located at 711 South Cowley Street in Spokane. St. Luke's reports 72 set up and available and 24 additional beds assignable for a total capacity of 102 licensed beds. This facility

is an acute care hospital whose services are limited to rehabilitation rather than general acute care services No capacity or patient days attributable to St. Luke's will be included in the production of the need methodology [St Luke's Utilization Survey]

Valley Hospital and Medical Center

This facility is located at 12606 East Mission Avenue in Spokane Valley and is licensed for 123 acute care beds. Of the 123 beds, Valley reports 94 are currently set-up available and the remaining 29 are assignable. Valley will be recorded to have a total capacity of 123 beds. [Valley Hospital Utilization Survey]

While the methodology states that short-stay psychiatric beds should be included in the above totals, the fact that all psychiatric patient days were excluded from the patient days analyzed elsewhere in the methodology makes their inclusion inconsistent with the patient days used to determine need. There are no psychiatric hospitals located in the Spokane planning area. However, dedicated psychiatric beds within Sacred Heart's facility were excluded. In summary, among the four hospitals which remain open in the Spokane planning area, the Department has determined that there are 1,101 available licensed beds.

In contrast, Sacred Heart counted a total of 1,168 available licensed beds in the Spokane planning area. Sacred Heart provided the following statements regarding the current bed supply. [Sacred Heart Rebuttal, p5]

1) Use the bed counts supplied by Community Health Systems (CHS) in the 2008 Certificate of Need applications reviewed as part of the acquisition of Deaconess and Valley hospitals rather than the subsequent acute care bed surveys. The applicant believes the survey totals are inaccurate and misleading, and are submitted in an effort to increase the bed count for the region and eliminate any projected need in a acute care bed forecast;
2) Adjust the bed need model to recognize Sacred Heart's position as a regional tertiary provider of services unavailable in community hospitals such as Valley;
3) Use the occupancy adjustments[6] that resulted from work performed at Sacred Heart by a nationally recognized bed need planning expert, and;
4) Use a planning horizon of project completion of plus three years, or 2018, for the bed need methodology to reflect the relatively long timeline for bringing the Sacred Heart beds into service.

A comparison of the bed tallies by Sacred Heart and the Department is shown in Table 5. [Application, Exhibit 15, Appendix 10a; Sacred Heart Rebuttal, p6 & 91]

[6] Sacred Heart applied an Adjusted Average Daily Census to both the acute care bed expansion and the NICU expansion described in more detail later in this evaluation.

Table 5
Spokane Planning Area Acute Care Bed Capacity Totals

Hospital	Sacred Heart Total	Department Total
Deaconess Medical Center	270	294
Providence Holy Family	182	173
Providence Sacred Heart Medical Center	551	511
Valley Hospital and Medical Center	93	123
Applicable Hospital Capacity	**1,096**	**1,101**
St. Luke's Rehabilitation Institute	72	0
Applied Methodology Capacity	**1,168**	**1,101**

The disparity between applied capacities in the methodologies is notable. However, when St. Luke's is excluded, the applicant calculates a planning area capacity that is nearly equal to the Department's total.

The weighted occupancy standard for a planning area is defined by the SHP as the sum, across all hospitals in the planning area, of each hospital's expected occupancy rate times that hospital's percentage of total beds in the area. In previous evaluations, the Department determined that the occupancy standards reflected in the 1987 SHP are higher than can be maintained by hospitals under the current models for provision of care. As a result, the Department adjusted the occupancy standards presented in the SHP downward by 5% for all but the smallest hospitals (1 through 49 beds). The Department considered the request of Sacred Heart to alter these standards further. After this consideration, the standards were not altered further.

The Spokane planning area's weighted occupancy, after removing Deer Park, has been determined to be 70.98%. The weighted occupancy standard assumptions detailed above, is reflected in the line "Wtd Occ Std" in Appendix 10a and 10b.

Step 11: To obtain a bed need forecast for all hospital services, including psychiatric, add the non-psychiatric bed need from step 10 above to the psychiatric inpatient bed need from step 11 of the short-stay psychiatric hospital bed need forecasting method.
The applicant is not proposing to add psychiatric services at the facility. In step 10, the Department excluded the short stay psychiatric beds from the bed count total. For these reasons, the Department concluded that psychiatric services should not be forecast in evaluating this project.

Sacred Heart also did not provide psychiatric forecasts in its methodology.

Step 12: Determine and carry out any necessary adjustments in population, use rates, market shares, out-of-area use and occupancy rates, following the guidelines in section IV of this Guide.
Within the Department's application of the methodology, adjustments have been made where applicable and described above. Sacred Heart's adjustments were all described within its methodology.

The results of the Department's methodology are available in Exhibit A as Appendices 10A and 10B attached to this evaluation. Appendix 10A calculates the Spokane planning area bed need without the proposed project. Appendix 10B demonstrates the impact of adding 75 additional beds to Sacred Heart in multiple phases. A summary of those appendices is shown in Table 6. Though

the forecast period is through 2014, figures through 2015 are included to allow for comparison through the completion of the multiple phased implementations. [Exhibit A]

Table 6
Department Methodology
Appendix 10A – Without Project - Summary

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Planning Area # of beds	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101
Adjusted Gross Need	938	966	995	1,025	1,054	1,084	1,118	1,152	1,187
Need/(Surplus) – Without Project*	-163	-135	-106	-76	-47	-17	17	51	86

Appendix 10B – With Project (Phases in Bold) – Summary

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Planning Area # of beds	1,101	**1,122**	**1,158**	**1,176**	1,176	1,176	1,176	1,176	1,176
Adjusted Gross Need	938	965	993	1,021	1,050	1,080	1,114	1,148	1,182
Need/(Surplus) – Without Project*	-163	-157	-165	-155	-126	-96	-62	-28	6

* Negative numbers indicate a bed surplus

As shown in Table 6 above, in 2010, there is a planning area surplus of 163 beds. Appendix 10A shows without the addition of new acute care beds to the planning area, the surplus would decline but remain through 2015. Need materializes in 2016 and continues to grow as detailed in the attached methodology. [Exhibit A, Appendix 10a]

Appendix 10B illustrates the effect on the planning area if Sacred Heart begins to add the proposed acute care beds to the planning area. The net surplus increases to a high of 165 in year 2012, and then shows a steady decrease the total surplus even while the proposed beds are phased in. [Exhibit A, Appendix 10b]

As demonstrated by the Department's methodology, the Spokane planning area shows a need for additional acute care bed capacity in 2016. The addition of 75 beds to Sacred Heart will initially over bed the planning area, but the surplus steadily decreases through the end of the established planning horizon. Projections indicate that a need reemerges as of 2018. [Exhibit A, Appendix 10b]

In addition to the numeric methodology above, the Department must also determine whether existing providers are available and accessible in the planning area. The Applicant is not the only provider of acute care in the planning area.

In its initial evaluation, the Department addressed public comments submitted in relation to the proposed expansion of the hospital. The issues outlined in the proposed settlement agreement considered many of the issues regarding relief for reported over-crowding at Sacred Heart while avoiding the potential of adding unneeded acute care beds to the planning area. The 50 new beds

considered in this proposed settlement would equate to a 4.5% increase in the current acute care bed capacity in the planning area.

Letters from the community were received in relation to this proposed settlement, but do not meet qualifications necessary for consideration under RCW 70.38.115(10)(c). Opposing comment was submitted by Deaconess and Valley medical centers, representing two other hospital options to the planning area residents. The comment contained an analysis of the following primary points. (April 16, 2010 Deaconess/Valley comment, pp8-13)

1. There is no need for the project;
2. Changes in referral patters will mitigate the patient pressures at Sacred Heart;
3. The financial feasibility of the project cannot be established; and
4. There is an inadequate evaluation of the cost containment component of the settlement evaluation.

Discussion on the issues regarding the financial feasibility and cost containment will be addressed in the appropriate sections of this settlement evaluation. Regarding need, Deaconess and Valley contend that the original decision by the Department was correct in its denial based upon lack of numeric need in 2014. By maintaining a maximum planning horizon of 7 years, Deaconess and Valley do not believe that any addition need has been demonstrated. And, absent any additional factors, a time period beyond 2014 should not be considered. Further, Deaconess and Valley contend that the characterization that only 50 beds are being added to the service area is in error because they are currently unused and, therefore, not counted in the active bed supply. (April 16, 2010 Deaconess/Valley comment, p4)

In regards to current bed availability and Sacred Heart's capacity, Deaconess and Valley discuss their recent affiliations with Rockwood Clinic which will defer many of the referrals currently going to Sacred Heart. They contend that with these physicians modifying their practice and using Deaconess and Valley as their referral hospitals, Sacred Heart will realize a reduction in the numbers of beds regularly filled within the hospital. (April 16, 2010 Deaconess/Valley comment, p11)

The issues regarding need and capacity were also addressed in the rebuttal supplied by Sacred Heart.

In relation to the target year applied in the numeric methodology, Sacred Heart refers to the SHP which allows for the preparation of long range forecasts when considering policy questions for new or additional hospitals. Sacred Heart also contends, "the Department has consistently determined that planning horizons of 10 or more years are appropriate and that the expense of building acute care bed capacity is such that the lifecycle of the bed space should be evaluated over a time period similar to the amortization of the expense". (April 28, 2010 Sacred Heart Rebuttal, p7)

In relation to the possible effect on capacity due to the changing referral patterns of Rockwood's physician clinics, Sacred Heart contends that any decrease realized due to the new affiliations would be off-set by the increases Sacred Heart will realize as the only level II trauma in the region. Thus, Sacred Heart concludes that "any shortage of beds at Sacred Heart will jeopardize access to care for this vulnerable segment of the population". (April 28, 2010 Sacred Heart Rebuttal, p10)

In review of these comments, the Department continues to view that planning horizon applied in this settlement evaluation to be appropriate for the projected acute care capacity needs of the planning area. The total length of time between the last applied CHARS data and 2017 is 10 years, the period of time from likely project completion will be closer to 3 years. Also, the inclusion of 25 beds as part of a transfer from Holy Family, which are currently approved for the planning area, remain available to Sacred Heart through a CN process. Transferring these 25 beds to address capacity concerns at an affiliated hospital within the planning area is a responsible approach to increase access to approved beds for the residents of the region.

As shown in the corrected need projections detailed above in Table 6, the need for additional acute care bed capacity has been projected for 2016. Though the Department's projections are notably less than presented in the initial application, the Department's forecast indicates that this bed addition may be surpassed by growing need as soon as 2018. The proposed settlement is for a reduction in the requested number of beds to coincide with the need demonstrated.

In conclusion, the proposed settlement for a 75 bed addition to Sacred Heart, through an award of 50 new beds and approval to transfer 25 beds from Holy Family, is consistent with this sub-criterion of need. Based upon the details described above, this sub-criterion is met.

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

In its initial evaluation, the Department concluded Sacred Heart met this sub-criterion if they agreed to a condition related to the provision charity care. Nothing has been presented by this proposed settlement that would change this conclusion. This sub-criterion is met.

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

Based on the source information reviewed, the Department determines that the application is consistent with the applicable financial feasibility criteria in WAC 246-310-220.

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

To assist the Department in its evaluation of this sub-criterion, the Office of Hospital and Patient Data Systems (HPDS) provides a summary of the short and long-term financial feasibility of the project, which includes a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity ratio; **2)** current assets to current liabilities ratio; **3)** assets financed by liabilities ratio; **4)** total operating expense to total operating revenue ratio; and **5)** debt service coverage ratio. If a project's ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, HPDS reviews a project's three-year projected statement of operations.

The reported capital expenditure for the 152 addition is projected to be $79,402,781. Also included in this portion of the review is the reported capital expenditure for the 21 ICN-level II beds of $5,270,436. The CN reviewable total for this project is $84,673,217. HPDS provides a summary of the balance sheets from the application in Table 7.

Table 7
Sacred Heart Medical Center Historical Balance Sheets
Providence Sacred Heart Fiscal Year End 2008 in 000's

Assets		Liabilities	
Current	159,953	Current	71,857
Board Designated	222,058	Long Term Debt	186,848
Property/Plant/Equip	326,255	Other	10,552
Other	55,963	Equity	494,972
Total	764,229	Total	764,229

Above figures from CN application

Providence Sacred Heart Fiscal Year End 2018 in 000's

Assets		Liabilities	
Current	175,240	Current	77,526
Board Designated	496,146	Long Term Debt	290,894
Property/Plant/Equip	442,603	Other	10,552
Other	56,216	Equity	791,233
Total	1,170,205	Total	1,170,205

Above figures from CN application

Providence Health & Service December 2008 in 000's

Assets		Liabilities	
Current	2,136,508	Current	1,726,556
Board Designated	1,896,245	Long Term Debt	1,148,619
Property/Plant/Equip	3,666,673	Other	1,128,256
Other	214,960	Equity	3,910,955
Total	7,914,386	Total	7,914,386

Above figures from a report on the Providence Health & Services website

This project is part of a larger construction project. The overall project was budgeted at $133,612,230 million. Sacred Heart Medical Center will use long-term debt allocated from debt held by its parent corporation Providence Health and Services (PHS) and accumulated reserves. The un-audited Balance Sheet for PHS does show that the funds are available and that the cost of this project will not harm PHS or Sacred Heart. The program compiled an analysis for the cost of this entire construction project in relation to designated reserves and other Asset classes from Providence's 2008 fiscal year end. The results are summarized in Table 8. [HPDS Analysis, p2]

Table 8
Providence Health & Services Asset Ratios

	Sacred Heart – All Phases
Total Capital Expenditure	$ 133,612,230
Percent of Board Designated Assets	7.04 %
Percent of Equity	3.41 %
Percent of Total Assets	1.69 %

As mentioned above, HPDS also compared the financial health of the Sacred Heart for December 31, 2007 to the statewide year 2007 financial ratio guidelines for hospital operations. Given that the proposed project is phased to extend through 2015, HPDS compared the financial ratios for current year 2008 through 2018—or three years after project completion. Table 9 summarizes the comparison provided by HPDS. [HPDS analysis, p3]

The A means it is better if the number is above the State number and B means it is better if the number is below the state number.

Table 9
Sacred Heart Hospital's Current and Projected Financial Ratios[7]

Ratio Category	Trend	State07	Sacred Ht 08	2009 CONy1	2010 CONy2	2011 CONy3	2012 CONy4	2013 CONy5
Long Term Debt to Equity	B	0.523	0.377	0.592	0.565	0.539	0.513	0.487
Current Assets/Current Liab.	A	2.135	2.226	2.199	2.218	2.227	2.232	2.239
Assets Funded by Liabilities	B	0.419	0.339	0.419	0.408	0.398	0.387	0.375
Operating Expense/Oper. Rev.	B	0.950	0.922	0.925	0.921	0.922	0.925	0.926
Debt Service Coverage	A	6.041	9.142	7.480	7.923	8.221	8.502	7.255

Definitions:		
Long Term Debt to Equity		Long Term Debt/Equity
Current Assets/Current Liab.		Current Assets/Current Liabilities
Assets Funded by Liabilities		Current Liabilities + Long term Debt/Assets
Operating Expense/Oper. Rev.		Operating Expense/Operating Revenue
Debt Service Coverage		Net Profit + Depr and Interest Exp/Current Mat. LTD and Interest Exp

As shown above, fiscal year end ratios for 2008 through 2013 (CON year 5) for Sacred Heart Medical Center are better than the 2007 State average in the years leading up to project completion. [HPDS analysis, p3]

In evaluating the financial feasibility for the 75 beds proposed in this settlement, the Department first examines how the original 152-bed project costs were phased in. The applicant has provided forecasts broken out to account for the additional costs and revenues for each of the proposed implementation phases.

In comment supplied by Deaconess and Valley, the concern is raised that in the determination of financial feasibility, the Department does not have adequate information to conclude that the project is feasible. Specifically, the comments state, "the fact that there is no [75 bed] scenario included in the Sacred Heart record that permits the Department to evaluate the financial feasibility of the option it is now recommending". (April 16, 2010 Deaconess/Valley comment, p11)

In rebuttal, Sacred Heart states, "the Department correctly states that the patient days and projected revenues are accurate in relation to the phased bed additions from 2011 to 2013". Sacred Heart adds that the capital and operating expenses may be lower than those projected in the financials because of the reduction in the project's capital costs. Sacred Heart restates the conclusion that the original project was able to cover the capital costs at the higher level and that reduction may make

[7] These ratios were calculated for Sacred Heart's total construction project (CN reviewable and non-CN reviewable)

it easier for Sacred Heart to finance the capital costs of the project. (April 28, 2010 Sacred Heart Rebuttal, p11)

The Department continues to conclude that the capital costs can be supported with the data that was within the original application. Because the pro forma projections are based upon incremental additions up to 89 new beds, it is reasonable to conclude that a 75 bed addition would also produce a profit. The financials cannot account for the likely reduction in total project costs that result from a smaller bed expansion, but the finances considering the original higher costs were substantiated. The Department considers the pro forma projections for the three years following project completion to provide an opportunity for a facility to produce the potential for a profit. In this instance, the profit is expected in each year through project completion and there is reason to expect these profits to continue in subsequent years.

Specifically, Sacred Heart anticipated having 89 of the 152 requested beds built-out and available by 2013. The patient days, projected revenues, and expenses are reportedly accurate for the phased bed additions from 2011 through 2013. The applicant's financial projections accounts for nearly $120,500,000 of the additional debt necessary to finance the total original construction project costs in fiscal year 2009. With nearly 90% of the original project costs of $133,612,230[8] included at the start of the project, Sacred Heart projected that it would continue to operate at a profit with beds phased in during the years leading up to 2013.

Based upon the proposed settlement need methodology and the application's pro forma projections, the Department concludes that Sacred Heart would be able to meet its short and long term costs of the project with an additional 75 acute care beds. This sub-criterion is met.

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

Sacred Heart initially proposed to add the 152 acute care beds in multiple phases, beginning in year 2011. The estimated capital expenditure for this CN reviewable portion of the project is $79,402,781, and of that amount, 64% is related to construction costs; 20% is related to equipment (both fixed and moveable); 7% is to development fees; and the remaining 7% is to state sales tax. A breakdown of the 152 bed capital costs by for each phase is detailed in Table 10. [Application, p5; February 20, 2009 Supplemental Information, p19]

Table 10
Breakout of 152 Acute Care Bed Expansion

Item	152 Bed Addition	% of Total
Building Construction	$51,241,254	64.53 %
Fixed Equipment	$3,352,000	4.22 %
Moveable Equipment	$13,494,044	16.99 %
Architect/Engineer Fees	$5,212,755	6.56 %
Consulting Fees	$160,920	0.20 %
Sales Tax	$5,941,808	7.48 %
Total	**$79,402,781**	**100** %

[8] This is the total reported for the project, including the CN reviewable portion of the application and the costs for the non-CN related construction.

To establish the estimated capital costs for the beds included in the proposed settlement, the Department referred to the estimated costs per bed that the applicant provided in the original application. According to the estimates per bed, and the breakdown of the type of care that will be provided in the proposed 75 beds, the new estimated capital costs total $54,013,224 and are calculated below in Table 11. [Application, p62]

Table 11
Estimated costs for 75 bed expansion

Cost Center	Estimated Cost per Bed	# of beds	Cost Center Total
ICU/CICU	$ 383,212	21	$ 8,047,452
Uro/Gyn/EENT	$ 851,218	25	$ 21,280,450
Surgery[9]	$ 851,218	29	$ 24,685,322
Totals		**75**	**$ 54,013,224**

To assist the Department in its complete evaluation of this sub-criterion, HPDS provides a summary of the reasonableness of building construction costs in relation to the potential impact on revenue and charges. The Table 12 contains a summary of the HPDS review. [HPDS analysis, p4; February 20, 2009 Supplemental Information, Exhibit 10]

Table 12
HPDS Analysis of Forecasted Rates at Sacred Heart Hospital

Sacred Heart	2009	2010	2011	2012	2013
Rate per Various Items	**CONyr1**	**CONyr2**	**CONyr3**	**CONyr4**	**CONyr5**
Admissions	31,611	32,376	32,866	33,430	34,966
Adjusted Admissions	42,621	43,717	44,510	45,365	47,082
Patient Days	162,257	166,182	169,532	172,645	180,814
Adjusted Patient Days	218,772	224,392	229,593	234,282	243,467
Gross Revenue (in 1,000's)	1,596,955	1,637,982	1,685,015	1,722,326	1,810,191
Deductions From Revenue	992,215	1,019,655	1,051,633	1,076,262	1,135,425
Net Patient Billing	604,740	618,327	633,382	646,064	674,766
Other Operating Revenue	52,519	52,519	52,519	52,519	52,519
Net Operating Revenue	657,259	670,846	685,901	698,583	727,285
Operating Expense	608,292	617,985	632,606	645,933	673,141
Operating Profit	48,967	52,861	53,295	52,650	54,144
Net Profit	48,967	52,861	53,295	52,650	54,144
Operating Revenue per Admission	$ 20,792	$ 20,720	$ 20,870	$ 20,897	$ 20,800
Operating Expense per Admission	$ 19,243	$ 19,088	$ 19,248	$ 19,322	$ 19,251
Net Profit per Admission	$ 1,549	$ 1,633	$ 1,622	$ 1,575	$ 1,548
Operating Revenue per Patient Day	$ 4,051	$ 4,037	$ 4,046	$ 4,046	$ 4,022
Operating Expense per Patient Day	$ 3,749	$ 3,719	$ 3,731	$ 3,741	$ 3,723
Net Profit per Patient Day	$ 302	$ 318	$ 314	$ 305	$ 299
Operating Revenue per Adj Admissions	$ 15,421	$ 15,345	$ 15,410	$ 15,399	$ 15,447
Operating Expense per Adj Admissions	$ 14,272	$ 14,136	$ 14,213	$ 14,239	$ 14,297
Net Profit per Adj Admissions	$ 1,149	$ 1,209	$ 1,197	$ 1,161	$ 1,150

[9] Includes of both general med/surg and surgery classifications of cost estimates cited

Sacred Heart	2009	2010	2011	2012	2013
Rate per Various Items	**CONyr1**	**CONyr2**	**CONyr3**	**CONyr4**	**CONyr5**
Operating Revenue per Adj Pat Days	$ 3,004	$ 2,990	$ 2,987	$ 2,982	$ 2,987
Operating Expense per Adj Pat Days	$ 2,780	$ 2,754	$ 2,755	$ 2,757	$ 2,765
Net Profit per Adj Pat Days	$ 224	$ 236	$ 232	$ 225	$ 222

As shown, in the original proposal, the net profit per adjusted patient day totals could rise and fall to a low of $222 in 2013. The proposed settlement would only involve 75 beds and a potential reduction in the total project costs for Sacred Heart Medical Center. The projected revenues are calculated according to the incremental phasing of new acute care beds and the incremental increases in patient days. The Department concludes that final costs and expenses related to adding only 75 acute care bed, instead of the originally proposed 89 beds in 2013, is unlikely to have an unreasonable impact upon the costs and charges for health services. This sub-criterion is met.

(3) The project can be appropriately financed.

In the initial evaluation, the Department concluded Sacred Heart met this sub-criterion for the larger 152-bed project. Nothing changes the Department's conclusion for a smaller 75-bed project. This sub-criterion is met.

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

Based on the source information reviewed, the Department determines that the application is consistent with the applicable structure and process of care criteria in WAC 246-310-230.

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

In the initial evaluation, the Department concluded Sacred Heart met is sub-criterion for the larger 152-bed project. Nothing changes the Department's conclusion for a 75-bed project. This sub-criterion is met.

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

In the initial evaluation, the Department concluded Sacred Heart met this sub-criterion for the larger 152-bed project. Nothing changes the Department's conclusion for a smaller 75-bed project. This sub-criterion is met.

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

In the initial evaluation, the Department concluded Sacred Heart met this sub-criterion for the larger 152-bed project. Nothing changes the Department's conclusion for a smaller 75-bed project. This sub-criterion is met.

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

Sacred Heart states that the additional beds would greatly assist in promoting continuity of care at hospital. Reported increases in demand for inpatient critical care currently exceed the licensed capacity. The applicant goes on to state, "The proposed modernization and expansion project will greatly assist Sacred Heart in promoting continuity of care and enhance its ability to carry out its mission of providing compassionate care to all in need, including the poor and vulnerable". [Application, p72]

Sacred Heart's assertions and impetus for adding acute care bed capacity at Sacred Heart are reasonable. Sacred Heart has been providing health care to the residents of Spokane County and surrounding communities for many years and participates in relationships with community facilities to provide a variety of post acute care services. Approval of this project will not change the relationships with the existing health care providers in the service area. [Application, p72]

The Department concludes that there is reasonable assurance that addition of the 50 new beds of the 75 as part of this proposed settlement would assist in Sacred Heart's ability to continue to promote continuity of care in the planning area. Further, Sacred Heart's relationships within existing health care system would continue and not result in an unwarranted fragmentation of services. This sub-criterion is met.

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

In the initial evaluation, the Department concluded Sacred Heart met this sub-criterion for the larger 152-bed project. Nothing changes the Department's conclusion for a smaller 75-bed project. This sub-criterion is addressed in sub-section (3) above and is determined to be met.

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

Based on the source information reviewed, the Department determines that the application is consistent with the applicable cost containment criteria in WAC 246-310-240.

(1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.

Before submitting the initial 152 bed application, Sacred Heart considered and rejected four alternatives. Those alternatives are listed below.

- Alternative #1 – Do nothing
- Alternative #2 – Modernize and expand Sacred Heart in areas beyond those proposed in this application
- Alternative #3 – Transition services from Sacred Heart to Holy Family
- Alternative #4 – Build on a new site, a women's and Children's hospital, or a new general community hospital

Sacred Heart for a variety of reasons rejected each of the above alternatives then submitted the 152-bed proposal. In its initial decision, the Department concluded that the 152-bed proposal was not the best available alternative.

As part of settlement discussions, a fifth alternative was identified and is the subject of this proposed settlement with Sacred Heart. This alternative would add 50 new beds to the licensed bed capacity of the planning area.

Based on the Department's corrected bed need methodology calculations, this 50 new bed addition is reasonable in that it addresses need that begins to emerge in the planning area. Though the 7-year planning horizon is prescribed in the sunsetted SHP, the Department maintains the ability to consider the specifics of a proposed plan and the long-term effects of its implementation. This proposed settlement also considers the current bed supply of the planning area with the inclusion of a transfer of previously-approved acute care beds. Since the remaining 25 beds are a re-location of licensed, but not set-up and assignable, beds from Holy Family Hospital to Sacred Heart, the Department is able to begin to mobilize some of the unused capacity in the planning area.

With this compromise, the combination of new and existing beds in this settlement evaluation allows Sacred Heart to approach a cost effective proposal to address a hospital expansion and planning area need. This criterion is sub-criterion is met.

(2) In the case of a project involving construction:

(a) The costs, scope, and methods of construction and energy conservation are reasonable;
In the initial evaluation, the Department concluded this sub-criterion was met for the larger 152-bed project. Nothing changes this conclusion for the 75-bed project. This sub-criterion is met.

(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.
This sub-criterion is also evaluated within the financial feasibility criterion under WAC 246-310-220(2) and has been met.

(3) The project will involve appropriate improvements or innovations in the financing and delivery of health services which foster cost containment and which promote quality assurance and cost effectiveness.
In the initial evaluation, the Department concluded this sub-criterion was met for the larger 152-bed project. Nothing changes this conclusion for the 75-bed project. This sub-criterion is met.

Exhibit A
Acute Care Bed
Proposed Settlement Need Methodology

1998-2007 HSA TOTAL NUMBER OF RESIDENT PATIENT DAYS											
	Minus all Rehab, NICU lvl I to III										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	10-YEAR TOTAL
HSA #4	198,686	206,653	213,843	230,013	224,663	225,569	224,892	232,713	241,052	242,493	**2,240,577**
Spokane											**0**
STATEWIDE TOTAL	**1,661,668**	**1,654,631**	**1,797,558**	**1,875,612**	**1,878,385**	**1,891,439**	**1,906,739**	**1,969,331**	**2,007,868**	**2,068,766**	**18,711,997**
1998-2008 CHARS wo all rehab and NICU.xls											

1998-2007 HSA TOTAL NUMBER OF RESIDENT PATIENT DAYS											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	10-YEAR TOTAL
HSA #4	198,686	206,653	213,843	230,013	224,663	225,569	224,892	232,713	241,052	242,493	**2,240,577**
Spokane	0	0	0	0	0	0	0	0	0	0	**0**
STATEWIDE TOTAL	1,661,668	1,654,631	1,797,558	1,875,612	1,878,385	1,891,439	1,906,739	1,969,331	2,007,868	2,068,766	**18,711,997**

1998-2007 HSA TOTAL NUMBER OF PSYCHIATRIC PATIENT DAYS											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	10-YEAR TOTAL
HSA #4	0	5	0	60	0	15	6	6	10	38	**140**
Spokane	0	0	0	0	0	0	0	0	0	0	**0**
STATEWIDE TOTAL	**688**	**530**	**451**	**608**	**530**	**970**	**898**	**799**	**716**	**954**	**7,144**

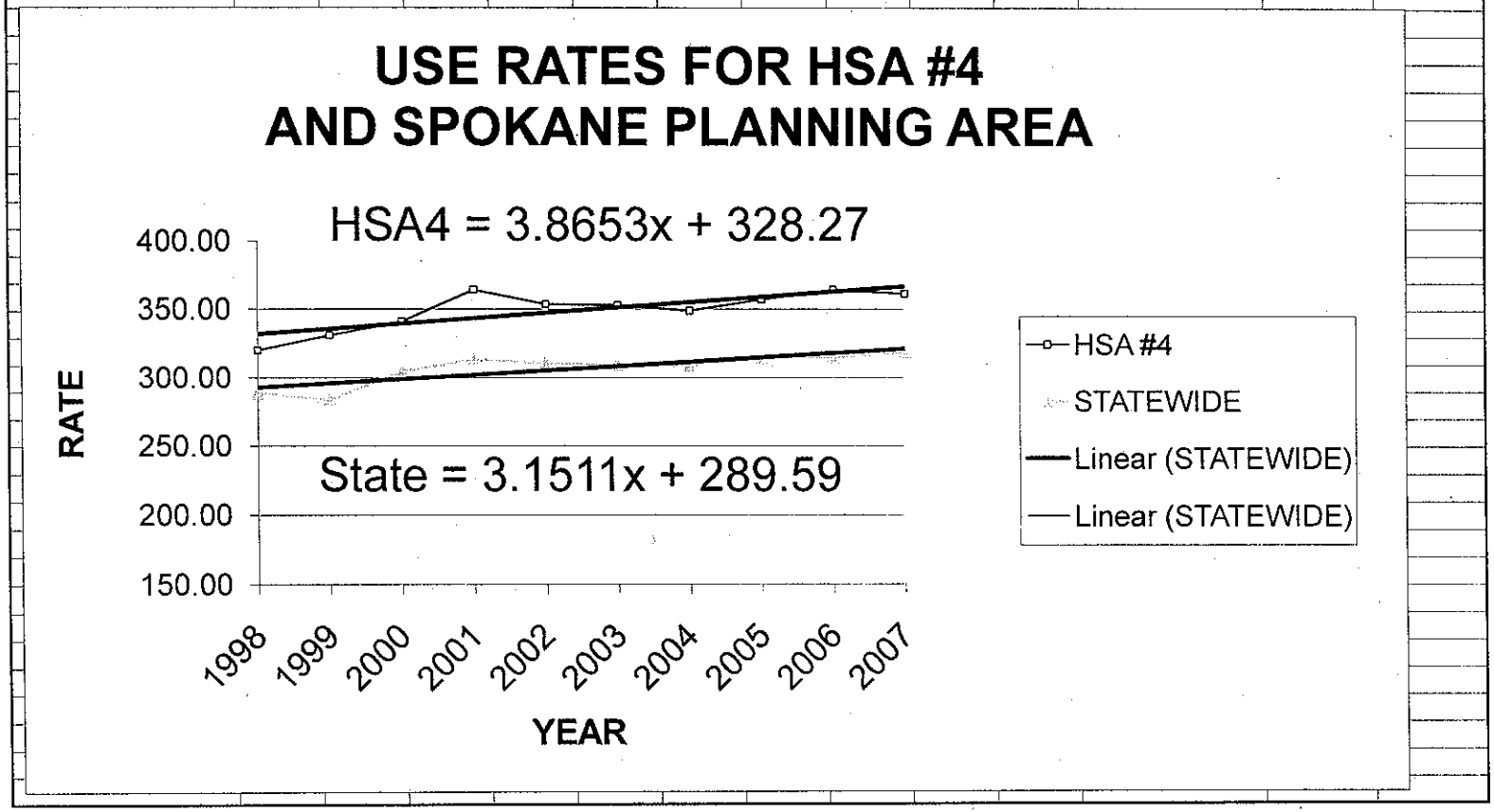
1998-2007 HSA TOTAL NUMBER OF PATIENT DAYS MINUS PSYCH DAYS											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	10-YEAR TOTAL
HSA #4	198,686	206,648	213,843	229,953	224,663	225,554	224,886	232,707	241,042	242,455	**2,240,437**
Spokane	0	0	0	0	0	0	0	0	0	0	**0**
STATEWIDE TOTAL	**1,660,980**	**1,654,101**	**1,797,107**	**1,875,004**	**1,877,855**	**1,890,469**	**1,905,841**	**1,968,532**	**2,007,152**	**2,067,812**	**18,704,853**

1998-2007 HSA TOTAL NUMBER OF RESIDENT PATIENT DAYS MINUS PSYCH DAYS											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	10-YEAR TOTAL
HSA #4	198,686	206,648	213,843	229,953	224,663	225,554	224,886	232,707	241,042	242,455	2,240,437
Spokane	0	0	0	0	0	0	0	0	0	0	0
STATEWIDE TOTAL	1,660,980	1,654,101	1,797,107	1,875,004	1,877,855	1,890,469	1,905,841	1,968,532	2,007,152	2,067,812	18,704,853

TOTAL POPULATIONS											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	10-YEAR TOTAL
HSA #4	620,764	624,307	626,541	631,300	635,100	638,900	644,400	651,500	661,550	671,000	6,405,362
Spokane	428,804	432,761	436,718	440,675	444,632	448,589	452,546	456,503	462,872	469,242	4,473,342
STATEWIDE TOTAL	5,750,033	5,830,835	5,894,143	5,974,910	6,041,710	6,098,300	6,167,800	6,256,400	6,376,000	6,488,000	60,878,131

USE RATE PER 1,000											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	10-YEAR TOTAL
HSA #4	320.07	331.00	341.31	364.25	353.74	353.03	348.99	357.19	364.36	361.33	3,495
Spokane	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0
STATEWIDE	288.86	283.68	304.90	313.81	310.82	310.00	309.00	314.64	314.80	318.71	3,069

RESIDENT USE RATE PER 1,000													
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	10-YEAR TOTAL		Trendline
HSA #4	320.07	331.00	341.31	364.25	353.74	353.03	348.99	357.19	364.36	361.33	3,495.28		3.8653
Spokane	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
STATEWIDE	288.86	283.68	304.90	313.81	310.82	310.00	309.00	314.64	314.80	318.71	3,069.22		3.1511



STEP #5											
2007 DATA											
	# of Pat days	Less OOS	TOTAL LESS OOS								
Spokane				%							
0-64	127,900	14,406	113,494	11.26%							
65+	95,309	9,600	85,709	10.07%							
TOTAL	223,209	24,006	199,203								
WA - Spokane											
0-64	1,121,851	49,320	1,072,531	4.40%							
65+	825,669	28,637	797,032	3.47%							
TOTAL	1,947,520	77,957	1,869,563								
	TO Spokane H	TO WA			TOTAL # OF DAYS FOR	ADD DAYS	TOTAL # OF DAYS FOR				
					RESIDENTS BY HSA	PROVIDED IN	RESIDENTS BY HSA				
FROM Spokane					(LESS PATS FROM OOS)	OREGON **					
0-64	91,221	3,708			94,929	213	95,142				
65+	70,138	3,509			73,647	70	73,717				
TOTAL	161,359	7,217			168,576	283	168,859				
FROM WA											
0-64	22,273	1,068,823			1,091,096	39,615	1,130,711				
65+	15,571	793,523			809,094	14,919	824,013				
TOTAL	37,844	1,862,346			1,900,190	54,534	1,954,724				
	199,203	1,869,563				** Patient Days as reported by 2007 HCUP data for Oregon CHARS					
MARKET SHARE											
PERCENTAGE OF PATIENT DAYS											
	TO Spokane	TO WA		TO OREGON							
% OF Spokane RESIDENTS											
0-64	95.88%	3.90%		0.22%							
65+	95.14%	4.76%		0.09%							
TOTAL											
% OF WA - Spokane RESIDENTS											
0-64	1.97%	94.53%		3.50%							
65+	1.89%	96.30%		1.81%							
TOTAL											
2007 POPULATIONS BY PLANNING AREA											
	Spokane	TO WA									
0-64	412,753	5,328,362									
65+	56,489	690,396									
TOTAL	469,242	6,018,758									
STEP #6											
USE RATE BY PLANNING AREA											
	Spokane	TO WA									
USE RATES											
0-64	230.51	212.21									
65+	1,304.97	1,193.54									

USE RATE BY PLANNING AREA FROM STEP 6							
	Spokane						
YEAR 2007 USE RATES							
0-64	230.51						
65+	1,304.97						
PROJECTED POPULATION	YEAR 2014						
	Spokane						
0-64	444,300						
65+	68,812						
TOTALS	**513,112**						
PROJECTED 2014 USE RATE							
	Spokane						
USE RATES*							
0-64 using HSA Trend	257.56						
0-64 using Statewide Trend	**252.56**						
65+ using HSA Trend	1,332.03						
65+ using Statewide Trend	**1,327.03**						
* Projected by applying either HSA trend or Statewide trend, whichever trend would result in the smaller adjustment							
Bold Print indicates use rate closest to current value							

USE RATE BY HSA FROM STEP 7A	
PROJECTED USE RATE - 2014	**Spokane**
USE RATES	
0-64	252.56
65+	1,327.03
PROJECTED POPULATION - 2014	
	Spokane
0-64	444,300
65+	68,812
TOTALS	**513,112**
PROJECTED # OF PATIENT DAYS	YEAR 2014
	Spokane
0-64	112,214
65+	91,316
TOTALS	**203,530**

PROJECTED # OF PATIENT DAYS				
YEAR 2014	**Spokane**	**WA - Spokane**	**TOTAL**	
0-64	112,214	1,453,339	1,565,553	
65+	91,316	1,092,318	1,183,634	
TOTALS	**203,530**	**2,545,657**	**2,749,187**	
MARKET SHARE % OF PATIENT DAYS FROM STEP 5				
% OF Spokane RESIDENTS	**Spokane**	**WA - Spokane**	**TO OREGON**	
0-64	95.88%	3.90%	0.22%	
65+	95.14%	4.76%	0.09%	
% OF WA - Spokane RESIDENTS	**Spokane**	**WA - Spokane**	**TO OREGON**	
0-64	1.97%	94.53%	3.50%	
65+	1.89%	96.30%	1.81%	
# OF Spokane RESIDENTS	**Spokane**	**WA - Spokane**	**TO OREGON**	**Total**
0-64	107,589	4,373	251	112,214
65+	86,883	4,347	87	91,316
				203,530
# OF WA - Spokane RESIDENTS	**Spokane**	**WA - Spokane**	**TO OREGON**	**Total**
0-64	28,628	1,373,792	50,918	1,453,339
65+	20,641	1,051,900	19,777	1,092,318
				2,545,657
# OF RESIDENT PAT DAYS PROJECTED IN Spokane				
0-64	136,218			
65+	107,524			
# OF RESIDENT PAT DAYS PROJECTED IN WA - Spokane				
0-64	1,378,166			
65+	1,056,247			
# OF WA RESIDENT PAT DAYS PROJECTED IN OREGON				
0-64	51,170			
65+	19,863			
OUT OF STATE % OF PATIENT DAYS FROM STEP 5				
Spokane	%			
0-64	12.69%			
65+	11.20%			
WA - Spokane				
0-64	4.60%			
65+	3.59%			
PROJECTED # OF PATIENT DAYS 2014				
PLUS OUT OF STATE RESIDENTS				
Spokane				
0-64	153,508	1.367992966		
65+	119,567	1.309375227		
TOTAL	**273,075**			

Spokane Acute Care Bed Need - No Change
Appendix 10a

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Spokane Planning Area														
Population 0-64(1)	412,753	418,203	423,582	428,961	432,796	436,631	440,465	444,300	448,134	451,973	455,812	459,651	463,490	467,329
0-64 Use Rate	230.51	233.66	236.81	239.96	243.11	246.26	249.41	252.56	255.71	258.87	262.02	265.17	268.32	271.47
Population 65+(1)	56,489	57,408	58,364	59,320	61,693	64,066	66,439	68,812	71,186	74,184	77,183	80,181	83,180	86,179
65+ Use Rate	1,304.97	1308.13	1311.28	1314.43	1317.58	1320.73	1323.88	1327.03	1330.18	1333.33	1336.49	1339.64	1342.79	1345.94
Total Population	469,242	475,611	481,946	488,281	494,489	500,697	506,904	513,112	519,320	526,158	532,995	539,833	546,670	553,508
Total Spokane Res Days	168,859	172,814	176,839	180,905	186,502	192,139	197,815	203,530	209,285	215,913	222,584	229,299	236,057	242,857
Total Days in Spokane Hospitals (2)	226,677	232,006	237,429	242,906	250,369	257,885	265,454	273,075	280,749	289,569	298,447	307,383	316,376	325,428
Available Beds(3)														
Deaconess	294	294	294	294	294	294	294	294	294	294	294	294	294	294
Deer Park	25	0	0	0	0	0	0	0	0	0	0	0	0	0
Holy Family	173	173	173	173	173	173	173	173	173	173	173	173	173	173
Sacred Heart	511	511	511	511	511	511	511	511	511	511	511	511	511	511
St Lukes(4)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Valley	123	123	123	123	123	123	123	123	123	123	123	123	123	123
Total	**1126**	**1101**	**1101**	**1101**	**1101**	**1101**	**1101**	**1101**	**1101**	**1101**	**1101**	**1101**	**1101**	**1101**
Wtd Occ Std(5)	70.51%	70.98%	70.98%	70.98%	70.98%	70.98%	70.98%	70.98%	70.98%	70.98%	70.98%	70.98%	70.98%	70.98%
Gross Bed Need	**880.76**	**895.55**	**916.49**	**937.63**	**966.44**	**995.45**	**1,024.67**	**1,054.09**	**1,083.71**	**1,117.75**	**1,152.02**	**1,186.51**	**1,221.23**	**1,256.17**
Net Bed Need/Surplus	(245.24)	(205.45)	(184.51)	(163.37)	(134.56)	(105.55)	(76.33)	(46.91)	(17.29)	**16.75**	**51.02**	**85.51**	**120.23**	**155.17**
(1) Source: OFM Nov 2007														
(2) Adjusted to reflect referral patterns into and out of Spokane Planning Area to other planning areas and Oregon														
(3) Source: Fall 2008 Hospital Survey returns														
(4) Rehabilitaion Hopsital classification														
(5) Calculated per 1987 Washington State Health Plan as the sum , across all hospitals in the planning area,														

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Spokane Planning Area														
Population 0-64(1)	412,753	418,203	423,582	428,961	432,796	436,631	440,465	444,300	448,134	451,973	455,812	459,651	463,490	467,329
0-64 Use Rate	230.51	233.66	236.81	239.96	243.11	246.26	249.41	252.56	255.71	258.87	262.02	265.17	268.32	271.47
Population 65+(1)	56,489	57,408	58,364	59,320	61,693	64,066	66,439	68,812	71,186	74,184	77,183	80,181	83,180	86,179
65+ Use Rate	1,304.97	1308.13	1311.28	1314.43	1317.58	1320.73	1323.88	1327.03	1330.18	1333.33	1336.49	1339.64	1342.79	1345.94
Total Population	469,242	475,611	481,946	488,281	494,489	500,697	506,904	513,112	519,320	526,158	532,995	539,833	546,670	553,508
Total Spokane Res Days	168,859	172,814	176,839	180,905	186,502	192,139	197,815	203,530	209,285	215,913	222,584	229,299	236,057	242,857
Total Days in Spokane Hospitals (2)	226,677	232,006	237,429	242,906	250,369	257,885	265,454	273,075	280,749	289,569	298,447	307,383	316,376	325,428
Available Beds(3)														
Deaconess	294	294	294	294	294	294	294	294	294	294	294	294	294	294
Deer Park	25	0	0	0	0	0	0	0	0	0	0	0	0	0
Holy Family	173	173	173	173	173	173	173	173	173	173	173	173	173	173
Sacred Heart	511	511	511	511	532	568	586	586	586	586	586	586	586	586
St Lukes(4)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Valley	123	123	123	123	123	123	123	123	123	123	123	123	123	123
Total	**1126**	**1101**	**1101**	**1101**	**1122**	**1158**	**1176**	**1176**	**1176**	**1176**	**1176**	**1176**	**1176**	**1176**
Wtd Occ Std(5)	70.51%	70.98%	70.98%	70.98%	71.05%	71.17%	71.23%	71.23%	71.23%	71.23%	71.23%	71.23%	71.23%	71.23%
Gross Bed Need	**880.76**	**895.55**	**916**	**938**	**965**	**993**	**1,021**	**1,050**	**1,080**	**1,114**	**1,148**	**1,182.24**	**1,216.83**	**1,251.64**
Net Bed Need/Surplus	(245.24)	(205.45)	(185)	(163)	(157)	(165)	(155)	(126)	(96)	(62)	(28)	**6.24**	**40.83**	**75.64**
(1) Source: OFM Nov 2007														
(2) Adjusted to reflect referral patterns into and out of Spokane Planning Area to other planning areas and Oregon														
(3) Source: Fall 2008 Hospital Survey returns														
(4) Rehabilitaion Hopsital classification														
(5) Calculated per 1987 Washington State Health Plan as the sum , across all hospitals in the planning area,														

Population OFM/Nov 2007 Spokane County

	OFM							OFM							OFM							OFM			
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	410,595	414,267	417,939	421,611	425,283	428,956	432,628	436,300	442,385	448,470	454,554	460,639	466,724	472,682	478,640	484,597	490,555	496,513	503,101	509,688	516,276	522,863	529,451
0-64			2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020							
			384,121	389,374	394,627	399,880	405,133	410,386	414,094	417,803	421,511	425,220	428,928	432,641	436,354	440,066	443,779	447,492							
65+			2000	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020							
			62,179	53,011	53,843	54,674	55,506	56,338	58,587	60,837	63,086	65,336	67,585	70,460	73,335	76,209	79,084	81,959							

Population Extended Counties

Claritas

		2000			2008			2013		
		0-64	65+		0-64	65+		0-64	65+	
Stevens	99013	1137	106		1313	168		1404	214	
	99040	446	61		914	88		949	111	
	99110	1391	190		1584	261		1670	328	
	99148	1854	299		1862	364		1868	416	
	99026	7089	590		8240	959		8728	1316	
Lincoln	99008	524	75		599	99		622	121	
	99029	1077	141		1101	179		1120	213	
	99032	661	120		653	133		623	148	
Whitman	99017	219	41		216	45		199	48	
	99033	760	211		743	231		702	226	
	99170	1174	201		1058	207		1059	213	
		15744	2035	18779	18323	2734	21057	18954	3353	22307

Claritas Total Pop Worksheet

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
18,210	18,494	18,779	19,064	19,349	19,633	19,918	20,203	20,488	20,772	21,057	21,307	21,557	21,807	22,057	22,307	22,557	22,807	23,057	23,307	23,557	23,807	24,057

65+ Population Worksheet

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2,035	2,122	2,210	2,297	2,385	2,472	2,559	2,647	2,734	2,858	2,982	3,105	3,229	3,353	3,477	3,601	3,724	3,848	3,972	4,096	4,220

0-64 Population Worksheet

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
16,744	16,941	17,139	17,336	17,534	17,731	17,928	18,125	18,323	18,449	18,575	18,702	18,828	18,954	19,080	19,206	19,333	19,459	19,585	19,711	19,837

Population Combined Totals

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
428,804	432,761	436,718	440,675	444,632	448,589	452,546	456,503	462,872	469,242	475,611	481,946	488,281	494,489	500,697	506,904	513,112	519,320	526,158	532,995	539,833	546,670	553,508
0-64			2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020					
			401,852	407,302	412,753	418,203	423,582	428,961	432,796	436,631	440,465	444,300	448,134	451,973	455,812	459,651	463,490	467,329					
65+			2000	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020					
			54,651	55,570	56,489	57,408	58,364	59,320	61,693	64,066	66,439	68,812	71,186	74,154	77,153	80,151	83,150	86,178					

Additional Planning Area Resident Patient Days

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
99008	184	224	126	156	165	195	174	162	210	294
99013	294	435	431	364	527	338	429	407	408	436
99017	53	88	89	42	80	51	87	109	73	74
99025		296	174	249	234	208	238	170		223
99029	437	472	500	709	376	358	562	690	563	554
99032	236	331	290	361	319	386	376	387	358	356
99033	440	335	531	707	454	782	441	740	534	441
99040	546	637	472	649	597	417	632	661	580	808
99110	302	524	382	380	396	356	770	483	592	534
99148	1665	628	908	1103	1075	1035	928	981	1156	1292
99170	353	309	484	328	449	422	446	566	432	436
	4516	4479	4389	5029	4647	4548	5083	6356	4906	5448

2007			To Spokane			Oregon 2007	
<64	65+		<64	65+		<64	65+
119	175		194	122		0	0
324	112		291	86		0	0
50	24		35	27		0	0
141	82		113	56			
316	238		288	156		0	0
180	176		176	138		0	0
176	265		119	170		0	0
571	237		545	101		0	0
281	253		331	223		0	0
572	720		506	457		7	0
188	248		152	107		0	0
2918	2530		2660	1683		7	0

Applicant Pop growth model

Diff from OFM (spokane+other)	598					405			
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
432123	435,835	437,316	442,556	445,822	448,894	452,404	456,908	464,511	472,271

3,373

Applicant Forcast Comparison							
2008	2009	2010	2011	2012	2013	2014
478645	485106	491654	497739	503941	510163	516709