



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

September 21, 2011

CERTIFIED MAIL # 7009 2250 0001 8669 3246

Caitlin Hillary Moulding, Vice President
Strategy, Marketing, and Community Outreach
Overlake Hospital Medical Center
1035 – 116th Avenue Northeast
Bellevue, Washington 98004

RE: CN11-18

Dear Ms. Moulding:

Based on discussions with your attorney, Mr. Donald Black, we have revised the project description and conditions outlined in our August 12, 2011, approval of Overlake Hospital Medical Center's Certificate of Need application. We believe these changes more clearly state the approved project and results of the approval.

Enclosed with this letter are the first eight pages of the August 12 evaluation, which incorporates these revisions. The project description and conditions are restated below.

Project Description:

Subject to Overlake Hospital Medical Center's agreement to the conditions set forth below in their entirety, this project approves the addition of 12 intermediate care nursery beds to the hospital license, resulting in a license increase from 337 to 349. At project completion, the allocation of Overlake Hospital Medical Center's 349 beds for Certificate of Need purposes is as follows:

Bed Type	# of Licensed Beds
General Medical/Surgical	297
Level II ICN	12
Level III NICU	6
Dedicated Psychiatric	34
Total Number of Licensed Beds	349

Conditions:

1. Overlake Hospital Medical Center agrees with the project description stated above.
2. Overlake Hospital Medical Center will provide charity care in compliance with the charity care policies provided in this Certificate of Need application, or any subsequent policies



reviewed and approved by the Department of Health. Overlake Hospital Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the King County Region. Currently, this amount is 1.42% for gross revenue and 2.51% for adjusted revenue. Overlake Hospital Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

3. By September 30, 2011, Overlake Hospital Medical Center will provide to the department for review and approval a final and signed Medical Director Agreement. The final and signed agreement must be consistent with the draft agreement provided in the application.

Approved Costs:

There is no capital expenditure associated with this project.

You have two options, either accept or reject the above in its entirety. If you accept the above in its entirety, your application will be approved and a Certificate of Need sent to you. If you reject any provision of the above, you must identify that provision, and your application will be denied because approval would not be consistent with applicable Certificate of Need review criteria. Please notify the Department of Health within 20 days of the date of this letter whether you accept the above in its entirety.

Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

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

Other Than By Mail:
Department of Health
Certificate of Need Program
310 Israel Road SE
Tumwater, WA 98501

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

Sincerely,



Steven M. Saxe, FACHE
Director, Health Professions and Facilities

Enclosure

EXECUTIVE SUMMARY

EVALUATIONS OF THE FOLLOWING TWO CERTIFICATE OF NEED APPLICATIONS RELATED TO INTERMEDIATE CARE LEVEL II OBSTETRIC SERVICES IN KING COUNTY.

- **OVERLAKE HOSPITAL MEDICAL CENTER PROPOSING TO ADD 12 INTERMEDIATE CARE LEVEL II BEDS TO THE HOSPITAL LICENSE**
- **SWEDISH HEALTH SERVICES PROPOSING TO ESTABLISH A 14-BED INTERMEDIATE CARE NURSERY WITHIN SPACE AT ITS NOT-YET-OPERATIONAL ISSAQUAH HOSPITAL CAMPUS**

BRIEF PROJECT DESCRIPTIONS

Overlake Hospital Medical Center

Overlake Hospital Medical Center (OHMC) proposes to add 12 existing intermediate care nursery (ICN) beds to its hospital license. OHMC states that it was not aware that ICN beds must be included within the hospital license. OHMC proposes to correct this licensure oversight by adding 12 ICN beds to its total licensed bed capacity. If this project is approved, OHMC licensed beds would increase from 337 to 349. [source: Application, p7]

There is no capital expenditure associated with this project. [source: Application, pp 8 & 25]

If this project is approved, OHMC would immediately begin the process with the department's licensure office to increase its hospital license from 337 to 349. [source: Application, p14]

Swedish Health Services

Swedish Health Services (SHS) proposes the establishment of a 14-bed ICN within space at the not-yet-operational Issaquah hospital campus. The 14 ICN beds would be licensed within the total of 175 beds approved under CN #1379. [source: Application, p13]

The capital expenditure associated with the establishment of the 14-bed ICN is \$2,113,123. [source: Application, p48]

SHS anticipates the 14 ICN beds would be added in two phases. Phase one is the addition of 8 beds when the hospital becomes operational by mid-year 2012 with 80 acute care beds. Phase two is the addition of the remaining 6 ICN beds. SHS does not specifically identify the projected month or year associated with the implementation of phase two; rather, SHS plans to add the remaining 6 ICN beds once occupancy of the first 8 beds exceeds 65%. [source: Application, p13; March 28, 2011, supplemental information, pp6-7]

APPLICABILITY OF CERTIFICATE OF NEED LAW

Overlake Hospital Medical Center

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

Swedish Health Services

SHS's application is subject to Certificate of Need review as the establishment of a new tertiary service under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(f) and Washington Administrative Code (WAC) 246-310-020(1)(d)(B).

CONCLUSIONS

Overlake Hospital Medical Center

Project Description:

Subject to Overlake Hospital Medical Center's agreement to the conditions set forth below in their entirety, this project approves the addition of 12 intermediate care nursery beds to the hospital license, resulting in a license increase from 337 to 349. At project completion, the allocation of Overlake Hospital Medical Center's 349 beds for Certificate of Need purposes is as follows:

Bed Type	# of Licensed Beds
General Medical/Surgical	297
Level II ICN	12
Level III NICU	6
Dedicated Psychiatric	34
Total Number of Licensed Beds	349

Conditions:

1. Overlake Hospital Medical Center agrees with the project description stated above.
2. Overlake Hospital Medical Center will provide charity care in compliance with the charity care policies provided in this Certificate of Need application, or any subsequent policies reviewed and approved by the Department of Health. Overlake Hospital Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the King County Region. Currently, this amount is 1.42% for gross revenue and 2.51% for adjusted revenue. Overlake Hospital Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.
3. By September 30, 2011, Overlake Hospital Medical Center will provide to the department for review and approval a final and signed Medical Director Agreement. The final and signed agreement must be consistent with the draft agreement provided in the application.

Approved Costs:

There is no capital expenditure associated with this project.

Swedish Health Services

For the reasons stated in this evaluation, the application submitted on behalf of Swedish Health Services proposing to establish a 14-bed intermediate care nursery and level II obstetric services within space at its not-yet-operational Issaquah hospital campus is not consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need is denied.

EVALUATIONS OF THE FOLLOWING TWO CERTIFICATE OF NEED APPLICATIONS RELATED TO INTERMEDIATE CARE LEVEL II OBSTETRIC SERVICES IN KING COUNTY.

- **OVERLAKE HOSPITAL MEDICAL CENTER PROPOSING TO ADD 12 INTERMEDIATE CARE LEVEL II BEDS TO THE HOSPITAL LICENSE**
- **SWEDISH HEALTH SERVICES PROPOSING ESTABLISH A 14-BED INTERMEDIATE CARE NURSERY WITHIN SPACE AT ITS NOT-YET-OPERATIONAL ISSAQUAH HOSPITAL CAMPUS**

APPLICANT DESCRIPTIONS

Overlake Hospital Medical Center

Overlake Hospital Medical Center (OHMC) is a not-for-profit corporation and a 501(c)(3) exempt organization. OHMC is located at 1035 – 116th Avenue Northeast in Bellevue, within King County. OHMC provides Medicare and Medicaid healthcare services to the residents of east King County and surrounding areas through its hospital and ambulatory surgery center that are both located in Bellevue. [source: CN historical files; Application, p2]

Swedish Health Services

Swedish Health Services (SHS) is a not-for-profit corporation and a 501(c)(3) exempt organization with 100% ownership of Swedish Medical Center.¹ Swedish Medical Center is also a Washington private, not-for-profit corporation and a 501(c)(3) exempt organization. Swedish Medical Center provides Medicare and Medicaid acute care services at the following four campuses.

SHS-First Hill Campus	747 Broadway, Seattle	King County
SHS-Ballard Campus	5300 Tallman Avenue Northwest, Seattle	King County
SHS-Cherry Hill Campus	500 – 17 th Avenue, Seattle	King County
SHS Edmonds ²	21601 76th Avenue West, Edmonds	Snohomish County

In addition to the campuses above, the department issued SHS Certificate of Need (CN) #1379 on May 31, 2007, for the establishment of a new 175-bed hospital in Issaquah.³ [source: CN Program's May 31, 2007, remand evaluation] The construction of the hospital is nearing completion, and SHS anticipates the first phase—80 acute care beds—would be operational by mid-year 2012. [source: Application, p13]

¹ Swedish Health Services also has ownership percentages in a variety of other healthcare entities, such as home health, ambulatory surgery, and urgent care clinics. Since these entities are not pertinent to this project, they will not be discussed in this evaluation.

² On February 26, 2010, SHS created a separate corporation known as Swedish Edmonds, where SHS is 100% sole member. On August 26, 2010, CN #1426 was issued to Swedish Edmonds approving a long-term lease agreement with Public Hospital District #3-Stevens Hospital located in Edmonds, within Snohomish County. The lease agreement became effective September 1, 2010, and is expected to continue for 30 years, with two 10-year options to renew.

³ Subsequent to the November 2006 approval, SHS was also issued CN #1379A approving a change in the approved site to another parcel of land in Issaquah, within King County. SHS was also issued CN #1379A2 approving a change in the financing for the hospital. These two amendments to CN #1379 are not pertinent to this project, they will not be further discussed in this evaluation.

PROJECT DESCRIPTIONS

Overlake Hospital Medical Center

On November 25, 2002, OHMC was issued CN #1251 approving the establishment of a 6-bed neonatal intensive care unit (NICU) to be co-located with its ICN. Within that approval, the department acknowledged OHMC was operating a 12-bed ICN. [source: Application, #01-03, executive summary and the department's November 25, 2002, evaluation] OHMC states that at the time of the 2002 approval for its 6-bed NICU, it was not aware that the existing 12 ICN beds must also be included within the hospital license.

With this application, OHMC proposes to correct this licensure oversight by adding 12 ICN beds to its total licensed bed capacity. If this project is approved, OHMC's licensed beds would increase from 337 to 349. [source: Application, p7]

Since OHMC has been providing ICN services since at least year 2002, there is no capital expenditure associated with this project. [source: Application, pp 8 & 25]

If this project is approved, OHMC would immediately begin the process with the department's licensure office to increase its hospital license from 337 to 349. OHMC anticipates this would occur by the end of year 2011. Under this timeline, year 2012 would be the facility's first full calendar year of operation with 349 licensed beds and 2014 would be year three. [source: Application, p14]

Swedish Health Services

On May 31, 2007, the department issued CN #1379 to SHS for the establishment of a 175-bed hospital. Subsequent to the issuance of CN #1379, the department issued CN #1379A approving the change in the site of the hospital. The new approved site is 401 Blakely Drive in Issaquah. [source: CN historical files]

This project under review proposes the establishment of a 14-bed ICN within space at its not-yet-operational Issaquah hospital campus. The 14 bassinets would be licensed within the 175 beds approved under CN #1379. [source: Application, p13]

The capital expenditure associated with the establishment of the 14-bed ICN is \$2,113,123. Of that amount 35% is related to construction costs; 47% for fixed/moveable equipment; 10% is related to fees; and the remaining 8% is related to state taxes. [source: Application, p48]

SHS anticipates the 14 bassinets would be added in two phases. Phase one is the addition of 8 bassinets when the hospital becomes operational by mid-year 2012 with 80 acute care beds. At that time, SHS's Issaquah hospital would be operating with 72 medical surgical beds and 8 ICN beds.

Phase two is the addition of the remaining 6 ICN bassinets. SHS does not specifically identify the projected month or year associated with the implementation of phase two; rather, SHS plans to add the remaining 6 ICN bassinets once occupancy of the first 8 bassinets exceeds 65%. Based on the two-phase timeline, year 2013 would be the hospital's first full calendar year of operation with an 8-bed ICN. Year three of this project is undetermined. [source: Application, p13; March 28, 2011, supplemental information, pp6-7]

APPLICABILITY OF CERTIFICATE OF NEED LAW

Overlake Hospital Medical Center

OHMC's application is subject to Certificate of Need review as the change in bed capacity at 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).

Swedish Health Services

SHS's application is subject to Certificate of Need review as the establishment of a new tertiary service under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(f) and Washington Administrative Code (WAC) 246-310-020(1)(d)(B).

CRITERIA EVALUATION

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

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

(a) In the use of criteria for making the required determinations, the department shall consider:

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

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

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

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

For these projects, WAC 246-310 does not contain service or facility standards in sufficient detail to make the required determinations. To obtain Certificate of Need approval, each applicant must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).⁴ Where applicable, meeting the September 2010 Perinatal Level of Care Guidelines established by the Washington State Perinatal Advisory Committee assists in demonstrating compliance with the criteria.

APPLICATION CHRONOLOGY

Since both applications focus on tertiary services, the department reviewed the projects concurrently. Below is a chronologic summary of the projects.

Action	SHS	OHMC
Letter of Intent Submitted	November 19, 2010	January 18, 2011
Application Submitted	January 20, 2011	February 28, 2011
Department's Pre-review Activities including Screening and Responses	January 21, 2011 through May 16, 2011	
Beginning of Review	May 17, 2011	
End of Public Comment	June 21, 2011	
Rebuttal Comments Received ⁵	July 7, 2011	
Department's Anticipated Decision Date	August 22, 2011	
Department's Actual Decision Date	August 12, 2011	

CONCURRENT REVIEW

The purpose of the concurrent review process is to comparatively analyze and evaluate competing or similar projects to determine which of the projects may best meet the identified need. In the case of the projects submitted by OHMC and SHS, the department will issue one single evaluation regarding whether one, both, or neither of the projects should be issued a Certificate of Need.

AFFECTED PERSONS

Washington Administrative Code 246-310-010(2) defines "affected person as:

"...an "interested person" who:

- (a) Is located or resides in the applicant's health service area;*
- (b) Testified at a public hearing or submitted written evidence; and*
- (c) Requested in writing to be informed of the department's decision."*

For each application, the other applicant sought and received affected person status under WAC 246-310-010(2). Additionally, one acute care provider sought and received affected person status for these two projects.⁶

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

⁵ All public comments focused on SHS's application. Only SHS provided rebuttal comments.

- Evergreen Healthcare is an acute care hospital located at 12040 Northeast 128th Street in Kirkland, within east King County. Evergreen Healthcare provides Medicare and Medicaid services to the residents of King County and surrounding areas. Evergreen Healthcare operates a combined ICN and neonatal intensive care unit (NICU) within space at the hospital.

SOURCE INFORMATION REVIEWED

- Overlake Hospital Medical Center’s Certificate of Need application submitted February 28, 2011
- Swedish Health Service’s Certificate of Need application submitted January 20, 2011
- Overlake Hospital Medical Center’s supplemental information dated May 4, 2011
- Swedish Health Service’s supplemental information dated March 28, 2011
- Public comment received during the review
- Swedish Health Services rebuttal comments received July 7, 2011
- September 2010 Statewide Perinatal Advisory Committee Washington State Perinatal Level of Care Guidelines
- Licensing and/or survey data provided by the Department of Health’s Investigations and Inspections Office
- Licensing and/or survey data provided by out of state health care survey programs
- Certificate of Need historical files

CONCLUSIONS

Overlake Hospital Medical Center

Project Description:

Subject to Overlake Hospital Medical Center’s agreement to the conditions set forth below in their entirety, this project approves the addition of 12 intermediate care nursery beds to the hospital license, resulting in a license increase from 337 to 349. At project completion, the allocation of Overlake Hospital Medical Center’s 349 beds for Certificate of Need purposes is as follows:

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Level III NICU	6
Dedicated Psychiatric	34
Total Number of Licensed Beds	349

Conditions:

1. Overlake Hospital Medical Center agrees with the project description stated above.
2. Overlake Hospital Medical Center will provide charity care in compliance with the charity care policies provided in this Certificate of Need application, or any subsequent policies reviewed and approved by the Department of Health. Overlake Hospital Medical Center will use reasonable efforts to provide charity care in an amount comparable to or

⁶ While Providence Regional Medical Center-Everett submitted a request for affected person, it did not submit public comment for either project. As a result, Providence Regional Medical Center-Everett received ‘interested person’ status as defined in WAC 246-310-010(34).

exceeding the average amount of charity care provided by hospitals in the King County Region. Currently, this amount is 1.42% for gross revenue and 2.51% for adjusted revenue. Overlake Hospital Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

3. By September 30, 2011, Overlake Hospital Medical Center will provide to the department for review and approval a final and signed Medical Director Agreement. The final and signed agreement must be consistent with the draft agreement provided in the application.

Approved Costs:

There is no capital expenditure associated with this project.

Swedish Health Services

For the reasons stated in this evaluation, the application submitted on behalf of Swedish Health Services proposing to establish a 14-bed intermediate care nursery and level II obstetric services within space at its not-yet-operational Issaquah hospital campus is not consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need is denied.