STATE OF WASHINGTON
DEPARTMENT OF HEALTH

May 10, 2012

CERTIFIED MAIL # 7010 2780 0003 6529 7717

Kristopher Kitz, Director
Strategic Planning and Business Development
MultiCare Health System
Post Office Box 5299
Mailstop: 315-L4-SBD
Tacoma, Washington 98415

Re: CN #12-09

Dear Mr. Kitz:

We have completed review of the Certificate of Need application submitted by MultiCare Health System proposing to establish an ambulatory surgery center in Gig Harbor. For the reasons stated in this evaluation, the application submitted is consistent with applicable criteria of the Certificate of Need Program, provided MultiCare Health System agrees to the following in its entirety.

Project Description:

The ASC is currently located at 4545 Point Fosdick Drive Northwest in Gig Harbor. The ASC will continue to operate at that site with two operating rooms and two procedure rooms. Services to be provided at the ASC include, but are not limited to, orthopedics, gynecology, ENT, minimally invasive back procedures, urology, podiatry, eye surgery, plastic surgery, and some GI procedures. Additionally, the ASC would offer some pediatric surgeries within those specialties, such as tonsillectomies and adenoidectomies [ENT] and application or removal of fixation devices [orthopedic].

Conditions:

1. MultiCare Health System agrees with the project description above.
2. MultiCare Health System will limit the services to those services as described within the application.
3. MHS-Day Surgery of Gig Harbor will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. MultiCare Health System will use reasonable efforts to provide charity care at Day Surgery of Gig Harbor r in an amount comparable to or exceeding the regional average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.18% of gross revenue and 4.71% of adjusted revenue. Day Surgery of

Gig Harbor will maintain records documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

Approved Costs:

The approved capital expenditure associated with this project is $1,227,869, and is solely related to the additional equipment for the ASC.

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:	Other Than By Mail:
Department of Health	Department of Health
Certificate of Need Program	Certificate of Need Program
Mail Stop 47852	111 Israel Road SE
Olympia, WA 98504-7852	Tumwater, WA 98501

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

EVALUATION DATED MAY 10, 2012 OF THE FOLLOWING TWO CERTIFICATE OF NEED APPLICATIONS PROPOSING TO ADD OPERATING ROOM CAPACITY IN CENTRAL PIERCE COUNTY.

- **FRANCISCAN HEALTH SYSTEM**
- **MULTICARE HEALTH SYSTEM**

BRIEF PROJECT DESCRIPTIONS

Franciscan Health System

Franciscan Health System (FHS) provides healthcare services to the residents of King and Pierce counties and surrounding areas through a variety of healthcare facilities located in the two counties.

This application proposes the purchase of an existing Certificate of Need (CN) exempt ambulatory surgery center (ASC) known as Tacoma Endoscopy Center located in Tacoma in Pierce County. [source: Application, p2]

The estimated capital expenditure associated with the purchase of the ASC is $12,503,463. [source: Application, p19] If this project is approved, FHS anticipates commencement and completion within six months. Under this timeline, year 2013 would be the ASC's first full calendar year of operation under FHS ownership. [source: Application, p10]

MultiCare Health System

MultiCare Health System (MHS) provides healthcare services to the residents of King and Pierce counties and surrounding areas through a variety of healthcare facilities located in the two counties. MHS currently operates an exempt ASC within the Gig Harbor Medical Park located in Gig Harbor. As an exempt ASC, only those physicians associated with the MHS group practice have access to the facility. [source: Application, p7]

MHS submitted this application for CN approval to allow physicians not associated with MHS access to the ASC. The estimated capital expenditure for this project is $1,227,869, and is solely related to additional equipment and sales tax. [source: Application, p36]

If this project is approved, MHS anticipates commencement and completion within six months. Under this timeline, year 2013 would be the ASC's first full calendar year of operation as a CN approved ASC. [source: Application, p17]

APPLICABILITY OF CERTIFICATE OF NEED LAW

Both projects are subject to Certificate of Need review as the establishment of a new healthcare facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

CONCLUSIONS

Franciscan Health System

For the reasons stated in this evaluation, the application submitted by Franciscan Health System proposing to purchase and operate Tacoma Endoscopy Center located at 1112 Sixth Avenue, Suite #200 in Tacoma, within central Pierce County ASC planning area, is consistent with applicable criteria of the Certificate of Need Program, provided Franciscan Health System agrees to the following in its entirety.

Project Description:

Franciscan Health System will operate Tacoma Endoscopy Center in Tacoma as an outpatient department of St. Francis Hospital which is located at 34515 Ninth Avenue South in Federal Way. Currently, only endoscopy and gastroenterology services are provided at the ASC. After completion of this transaction, the facility will have five operating rooms and three procedure rooms. FHS states that there would be no changes in the following:

- the site of the ASC;
- the services currently provided at the ASC;
- physicians access to the ASC.

Conditions:

1. Franciscan Health System agrees with the project description above.
2. Franciscan Health System will limit the services to endoscopy and gastroenterology services as described within the application.
3. Tacoma Endoscopy Center will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Franciscan Health System will use reasonable efforts to provide charity care at Tacoma Endoscopy Center in an amount comparable to or exceeding the regional average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.18% of gross revenue and 4.71% of adjusted revenue. Tacoma Endoscopy Center will maintain records documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.
4. Franciscan Health System will provide a copy of the written approval from Tacoma Medical Center Associates, the landlord identified in the lease agreement, demonstrating approval of the assignment or sub-lease of the premises to the new owner of Tacoma Endoscopy Center.

Approved Costs:

The approved capital expenditure associated with this project is $12,503,463, and is broken down below.

Item	Cost
Acquisition Costs	$ 10,790,000
Construction	$ 1,338,370
Fixed/Moveable Equipment	$ 229,300
Architect/Engineering Fees	$ 145,793
Total Project Cost	**$ 12,503,463**

MultiCare Health System

For the reasons stated in this evaluation, the application submitted by MultiCare Health System proposing to establish an ambulatory surgery center in the central Pierce County ASC planning area, is consistent with applicable criteria of the Certificate of Need Program, provided MultiCare Health System agrees to the following in its entirety.

Project Description:

The ASC is currently located at 4545 Point Fosdick Drive Northwest in Gig Harbor. The ASC will continue to operate at that site with two operating rooms and two procedure rooms. Services to be provided at the ASC include, but are not limited to, orthopedics, gynecology, ENT, minimally invasive back procedures, urology, podiatry, eye surgery, plastic surgery, and some GI procedures. Additionally, the ASC would offer some pediatric surgeries within those specialties, such as tonsillectomies and adenoidectomies [ENT] and application or removal of fixation devices [orthopedic].

Conditions:

1. MultiCare Health System agrees with the project description above.
2. MultiCare Health System will limit the services to those services as described within the application.
3. MHS-Day Surgery of Gig Harbor will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. MultiCare Health System will use reasonable efforts to provide charity care at Day Surgery of Gig Harbor r in an amount comparable to or exceeding the regional average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.18% of gross revenue and 4.71% of adjusted revenue. Day Surgery of Gig Harbor will maintain records documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

Approved Costs:

The approved capital expenditure associated with this project is $1,227,869, and is solely related to the additional equipment for the ASC.

EVALUATION DATED MAY 10, 2012 OF THE FOLLOWING TWO CERTIFICATE OF NEED APPLICATIONS PROPOSING TO ADD OPERATING ROOM CAPACITY IN CENTRAL PIERCE COUNTY.

- **FRANCISCAN HEALTH SYSTEM**
- **MULTICARE HEALTH SYSTEM**

APPLICANT DESCRIPTIONS

Franciscan Health System

Franciscan Health System (FHS) is part of Catholic Health Initiatives, one of the largest not-for-profit health care systems in the United States. Catholic Health Initiatives does not have direct ownership or management of any FHS facilities. Through one of its subsidiaries, Catholic Health Initiatives operates 118 health care facilities in 22 states.

For Washington State, FHS is the subsidiary that owns or operates twelve health care facilities—five hospitals, three dialysis centers, a skilled nursing facility, an ambulatory surgery center, a Medicare certified hospice agency, and a hospice care center. Only the FHS licensed hospitals are listed below. [source: CN historical files and Application, Appendix 1]

St. Elizabeth Hospital, Enumclaw
St. Anthony Hospital, Gig Harbor
St. Joseph Medical Center, Tacoma
St. Clare Hospital, Lakewood
St. Francis Hospital, Federal Way

MultiCare Health System

MultiCare Health System is a not-for-profit health system serving the residents of southwestern Washington State. MultiCare Health System (MHS) includes four hospitals, nearly 20 physician clinics, six urgent care facilities, and a variety of health care services, including home health, hospice, and specialty clinics in Pierce and King counties. Below is a list of the three separately-licensed hospitals owned and/or operated by MHS. The other health care facilities are not listed below [source: CN historical files, MultiCare Health System website]

Tacoma General / Allenmore, Tacoma[1]
Mary Bridge Children's Hospital, Tacoma[2]
Good Samaritan Hospital, Puyallup

In addition to the hospitals listed above, on January 7, 2011, MHS received Certificate of Need approval to establish a new hospital in Covington, within King County. The hospital, to be known as Covington Medical Center, is not yet operational.

[1] While Tacoma General Hospital and Allenmore Hospital are located at two separate sites, they are operated under the same hospital license of "Tacoma General/Allenmore Hospital."
[2] Mary Bridge Children's Hospital is located within Tacoma General Hospital; each facility is licensed separately.

PROJECT DESCRIPTIONS

Franciscan Health System

Tacoma Endoscopy Center (TEC) is a Certificate of Need exempt ASC owned and operated by a group of 11 board-certified physicians known as Tacoma Digestive Disease Center (TDDC). Currently, TDDC owns and operates two ASCs in central Pierce County—TEC and Harbor Endoscopy Center located in Gig Harbor. On December 23, 2004, TDDC was issued CN #1296 for the establishment of Harbor Endoscopy Center. FHS proposes to purchase TDDC, which includes both ASCs. Since Harbor Endoscopy Center is already Certificate of Need approved, it will undergo a change of ownership. This project focuses on TEC, the CN exempt ASC located at 1112 Sixth Avenue in Tacoma.

Franciscan Health System will operate Tacoma Endoscopy Center in Tacoma as an outpatient department of St. Francis Hospital which is located at 34515 Ninth Avenue South in Federal Way. Currently, only endoscopy and gastroenterology services are provided at the ASC. After completion of this transaction, the facility will have five operating rooms and three procedure rooms. FHS states that there would be no changes in the following:

- the site of the ASC;
- the services currently provided at the ASC;
- physicians access to the ASC.

The capital expenditure associated with this project is $12,503,463. The majority of the costs are related to the purchase of TEC, plus some construction and remodeling proposed by FHS. Specific to the construction/remodel, FHS intends to add a second entrance to the procedure area, remove and replace cabinetry, modify the existing one-hour firewall to be consistent with DOH construction standards, and add recovery bays to comply with facility guidelines. [source: Application, p19; December 7, 2011, supplemental information, p1]

If this project is approved, FHS anticipates commencement and completion within six months. Under this timeline, the ASC would be operating under the management of FHS in year 2012. Year 2013 would be the ASC's first full calendar year of operation under FHS. [source: Application, p10]

MultiCare Health System

On January 12, 2006, the CN Program issued an exemption to MHS for the establishment of an ASC in Gig Harbor, known as MultiCare Day Surgery Center of Gig Harbor. Based on that exemption, only the physicians associated with the MultiCare Medical Associates practice could have access to the ASC. [source: CN historical files]

MHS submitted this application for CN approval to allow physicians not associated with the MHS group practice access to the ASC currently located at 4545 Point Fosdick Drive Northwest in Gig Harbor. The ASC will continue to operate at that site with two operating rooms and two procedure rooms. Services currently provided at the exempt ASC include orthopedics, gynecology, ENT, minimally invasive back procedures, urology, podiatry, and some pediatric surgeries within those specialties, such as tonsillectomies and adenoidectomies [ENT] and application or removal of fixation devices [orthopedic]. If this project is approved, MHS anticipates that it would include the specialties of eye surgery, plastic surgery, and some GI procedures. [source: Application, p15 and December 7, 2011, supplemental information, p3]

The estimated capital expenditure for this project is $1,227,869, and is solely related to the new equipment needed to accommodate the additional procedures and associated sales tax. [source: application, p36]

If this project is approved, MHS anticipates commencement and completion within six months. Under this timeline, year 2013 would be the ASC's first full calendar year of operation as a CN approved ASC. [source: Application, p17]

APPLICABILITY OF CERTIFICATE OF NEED LAW

Both projects are subject to Certificate of Need review as the establishment of a new healthcare facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

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."

To obtain Certificate of Need approval, each applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment)[3]. Additionally, WAC 246-310-270 (ambulatory surgery) contains service or facility specific criteria for ASC projects and must be used to make the required determinations.

APPLICATION CHRONOLOGY

Applications for ambulatory surgery centers are not submitted under a published concurrent review cycle. The first application was submitted by FHS and before the department could complete its pre-review activities on FHS's application, MHS submitted an application. Since both applications propose to add operating room capacity to central Pierce County, the department reviewed both projects simultaneously. A chronologic summary of the review for both applications is shown below.

Action	Franciscan Health System	MultiCare Health System
Letter of Intent Submitted	July 12, 2011	August 24, 2011
Application Submitted	August 26, 2011	October 3, 2011
Department's pre-review Activities including screening and responses	Beginning August 27, 2011 to January 11, 2012	Beginning October 4, 2011 to January 11, 2012
Beginning of Review	January 12, 2012	
Public Hearing /End of Public Comment	February 16, 2012	
Rebuttal Comments Received	March 12, 2012	
Department's Anticipated Decision Date	April 19, 2012	
Department's Anticipated Decision Date with 30 Day Extension	May 18, 2012	
Department's Actual Decision Date	May 10, 2012	

CONCURRENT REVIEW

While not submitted under a published concurrent review cycle, both applications were reviewed concurrently. The concurrent review process promotes the expressed public policy goal of RCW 70.38 that the development or expansion of health care services is accomplished in a planned, orderly fashion and without unnecessary duplication.

For these projects, the concurrent review allows the department to review applications proposing to serve the same planning area—central Pierce County—simultaneously to reach a decision that serves the best interests of the planning area's residents.

In the case of these projects, the department will issue one single evaluation regarding whether either or both of the projects should be issued a Certificate of Need.

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

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. No other entity sought and received affected person status.

SOURCE INFORMATION REVIEWED

- Franciscan Health System's Certificate of Need application submitted August 26, 2011
- MultiCare Health System's Certificate of Need application submitted October 3, 2011
- Franciscan Health System's supplemental information received December 8, 2011, and January 6, 2012
- MultiCare Health System's supplemental information received December 7, 2011
- Public comment received during the course of the review
- Franciscan Health System's rebuttal documents received March 12, 2012
- MultiCare Health System's rebuttal documents received March 9, 2012
- Completed utilization surveys for operating room use and capacity
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Data obtained from the DOH Integrated Licensing & Regulatory System [ILRS] database
- Data obtained from Franciscan Health Systems' webpage [www.fhshealth.org]
- Data obtained from MultiCare Health System's webpage [www.multicare.org]
- Certificate of Need historical files

CONCLUSIONS

Franciscan Health System

For the reasons stated in this evaluation, the application submitted by Franciscan Health System proposing to purchase and operate Tacoma Endoscopy Center located at 1112 Sixth Avenue in Tacoma, within central Pierce County ASC planning area, is consistent with applicable criteria of the Certificate of Need Program, provided Franciscan Health System agrees to the following in its entirety.

Project Description:

Franciscan Health System will operate Tacoma Endoscopy Center in Tacoma as an outpatient department of St. Francis Hospital which is located at 34515 Ninth Avenue South in Federal Way. After completion of this transaction, the facility will have five operating rooms and three procedure rooms. Currently, only endoscopy and gastroenterology services are provided at the ASC. After completion of this transaction, FHS states that there would be no changes in the following:

- the site of the ASC;
- the services currently provided at the ASC;
- physicians access to the ASC.

Conditions:

1. Franciscan Health System agrees with the project description above.
2. Franciscan Health System will limit the services to endoscopy and gastroenterology services as described within the application.
3. Tacoma Endoscopy Center will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Franciscan Health System will use reasonable efforts to provide charity care at Tacoma Endoscopy Center in an amount comparable to or exceeding the regional average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.18% of gross revenue and 4.71% of adjusted revenue. Tacoma Endoscopy Center will maintain records documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.
4. Franciscan Health System will provide a copy of the written approval from Tacoma Medical Center Associates, the landlord identified in the lease agreement, demonstrating approval of the assignment or sub-lease of the premises to the new owner of Tacoma Endoscopy Center.

Approved Costs:

The approved capital expenditure associated with this project is $12,503,463, and is broken down below.

Item	Cost
Acquisition Costs	$ 10,790,000
Construction	$ 1,338,370
Fixed/Moveable Equipment	$ 229,300
Architect/Engineering Fees	$ 145,793
Total Project Cost	**$ 12,503,463**

MultiCare Health System

For the reasons stated in this evaluation, the application submitted by MultiCare Health System proposing to establish an ambulatory surgery center in the central Pierce County ASC planning area, is consistent with applicable criteria of the Certificate of Need Program, provided MultiCare Health System agrees to the following in its entirety.

Project Description:

The ASC is currently located at 4545 Point Fosdick Drive Northwest in Gig Harbor. The ASC will continue to operate at that site with two operating rooms and two procedure rooms. Services to be provided at the ASC include, but are not limited to, orthopedics, gynecology, ENT, minimally invasive back procedures, urology, podiatry, eye surgery, plastic surgery, and some GI procedures. Additionally, the ASC would offer some pediatric surgeries within those specialties, such as tonsillectomies and adenoidectomies [ENT] and application or removal of fixation devices [orthopedic].

Conditions:

1. MultiCare Health System agrees with the project description above.
2. MultiCare Health System will limit the services to those services as described within the application.
3. MHS-Day Surgery of Gig Harbor will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. MultiCare Health System will use reasonable efforts to provide charity care at Day Surgery of Gig Harbor in an amount comparable to or exceeding the regional average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.18% of gross revenue and 4.71% of adjusted revenue. Day Surgery of Gig Harbor will maintain records documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

Approved Costs:

The approved capital expenditure associated with this project is $1,227,869, and is solely related to the additional equipment for the ASC.

A. Need (WAC 246-310-210)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the 'conclusion' section of this evaluation, the department determines that: Franciscan Health System's project has met the need criteria in WAC 246-310-210(1) and (2) and the ambulatory surgery center methodology and standards outlined in the WAC 246-310-270.

Based on the source information reviewed and the applicant's agreement to the conditions identified in the 'conclusion' section of this evaluation, the department determines that MultiCare Health System's project has met the need criteria in WAC 246-310-210(1) and (2) and the ambulatory surgery center methodology and standards outlined in the WAC 246-310-270.

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

WAC 246-31-270(9)-Ambulatory Surgery Numeric Methodology

The Department of Health's Certificate of Need Program uses the numeric methodology outlined in WAC 246-310-270 for determining the need for additional ASCs in Washington State. The numeric methodology provides a basis of comparison of existing operating room (OR) capacity for both outpatient and inpatient OR's in a planning area using the current utilization of existing providers. The methodology separates Washington State into 54 separate secondary health services planning areas. Both projects are located in the central Pierce County planning area.

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

a) whether a surplus or shortage of OR's is predicted to exist in the target year, and
b) if a shortage of OR's is predicted, the shortage of dedicated outpatient and mixed-use rooms are calculated.
c) Data used to make these projections specifically exclude endoscopy rooms and procedures.[4]

Both FHS and MHS provided a numeric methodology in their respective initial applications and both revised their numeric methodology during the review. Below is a summary of each applicant's numeric methodology and revisions submitted.

Franciscan Health System

FHS provided three separate methodologies—in the initial application, in public comment, and in rebuttal responses to public comment.

- **Methodology #1** - Initial Application Methodology

  [source: Application, Exhibit 7]

  It is unclear whether this methodology is based on 2009 or 2010 historical data; however, it projects to target year 2015. FHS projected a surplus of 15.53 mixed use ORs in year 2015 in this methodology.

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

- **Methodology #2** - Public Comment Methodology
  [source: February 16, 2012, supplemental information, pp17-18]
  FHS stated that MHS's methodology contained factual errors, so FHS submitted this methodology to correct MHS's errors. The methodology is based on 2009 historical data and projects to year 2015. This methodology projects a surplus of 9.15 mixed use ORs in year 2015.
- **Methodology #3** - Rebuttal Methodology
  [source: March 12, 2012, supplemental information, pp5-6]
  After reviewing the completed utilization surveys submitted to the department, FHS provided a revised methodology during rebuttal. In this methodology, FHS corrects data in its own surveys for both St. Joseph Medical Center in Tacoma and St. Anthony Hospital in Gig Harbor. Additionally, FHS corrects errors made in its 'public comment methodology. This rebuttal methodology is also based on 2009 historical data and projects to year 2015. This methodology projects a surplus of 5.01 mixed use ORs in year 2015.

In addition to the three methodologies above, FHS provided the following statements related to the methodology.

> *"The department recognizes that dedicated endoscopy ORs are deliberately excluded for the numeric methodology outlined in WAC 246-310-270(9). ...regardless of whether the methodology in WAC shows a need for additional ORs or a surplus, [the department] focuses its remaining analysis on the specific need for the endoscopy and gastro services provided with the application."*

[source: Application, p13]

Department's Review of FHS Methodologies

After reviewing the three methodologies provided by FHS, the department concludes that Methodology #1 is the most reliable and projects to year 2015.

Methodology #2 submitted by FHS was intended to correct perceived errors in MHS's Methodology #B. For this reason, FHS's Methodology #2 will not be further discussed in this evaluation.

FHS's Methodology #3 includes corrections to FHS's own utilization; however, since it was submitted during the rebuttal phase of the review, it cannot be considered. The remainder of FHS's portion of this evaluation will focus on the calculations in Methodology #1. An outline of FHS's assumptions used in Methodology #1 is on the following page.

FHS Methodology #1 Assumptions

Assumption	Data Used
Planning Area	Central Pierce County
Population Estimates and Forecasts	2009 or 2010 data; population figures not identified Project target year 2015 projected population is 335,047
Use Rate	Divide 2009/2010 estimated current surgical cases by estimated 2009/2010 populations results in the service area use rate of 171.7/1,000 population
Percent of surgery ambulatory vs. inpatient	75.6% ambulatory (outpatient); 24.4% inpatient
Average minutes per case	Inpatient 100 minutes Outpatient 50 minutes
OR Annual capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes (per methodology in rule)
Existing providers/ORs	OR Capacity: 13 dedicated outpatient and 44 mixed use

Using the assumptions outlined above, FHS projected a surplus of 15.53 mixed-use ORs by the end of target year 2015 in Central Pierce County.

After applying the numeric methodology, FHS correctly states that the numeric methodology is not used as a measure of numeric need for endoscopy ORs because they are deliberately excluded from the count of ORs as outlined in WAC 246-310-270(9). Additionally, in past CN applications dedicated to endoscopy services, the department has concluded that since the ORs are excluded from the methodology, approval of dedicated endoscopy ORs has no impact on the need calculations or the future need for additional ORs in the planning area. [source: Application, p13]

MultiCare Health System

MHS provided four separate methodologies—in the initial application, in response to the department's screening request, and two in rebuttal responses to public comment.

- **Methodology #A** - Initial Application Methodology
  [source: Application, pp22-26 and Exhibit 9]
  This methodology is based 2009 historical data and projects to target year 2014. MHS projected a need of 42.73 ORs in year 2014 in this methodology.
- **Methodology #B** - Response to Screening Methodology
  [source: December 7, 2011, supplemental information, Exhibit 17]
  MHS provided this methodology in response to the department's request to use historical year 2010 data and project to year 2015. This methodology projects a need of 42.78 ORs in year 2015.

- **Methodologies #C & #D** - Rebuttal Methodology
  [source: March 9, 2012, supplemental information, Appendices 1 and 2]
  After reviewing the completed utilization surveys submitted to the department and FHS's Methodology #2, MHS provided two revised methodologies during rebuttal. MHS asserted that FHS used incorrect data for MHS when FHS submitted its Methodology #2. MHS corrected the errors and provided the rationale for the corrections. MHS then provided a methodology based on 2009 historical data and projected to year 2014 referenced here as Methodology #C. This methodology projected a need for 47.48 ORs in year 2014. In Methodology #D, MHS used 2010 data and projected to year 2015; this methodology projected a need for 46.32 ORs in year 2015.

In addition to providing the four methodologies above, MHS provided the following statement related to the methodology.

> *"This large demand provides strong quantitative support for approval of this Certificate of Need application."*

[source: Application, p26]

Department's Review of MHS Methodologies

After reviewing the four methodologies provided by MHS, the department concludes that Methodology #A should not be used because it projects to year 2014, rather than 2015. This methodology will not be further discussed in this evaluation.

Methodology #B submitted by MHS was in response to the department's request to project to year 2015. Since both ASCs under review are already operational and both applicants intend to implement their project by the end of year 2012, projecting to year 2015 is reasonable. Use of this methodology is appropriate.

MHS's Methodologies #C and #D use the same data. Methodology #C projects to year 2014 and #D projects to 2015. Both of these methodologies were submitted during the rebuttal phase of the review, and cannot be considered.

The remainder of MHS's portion of this evaluation will focus on the calculations in Methodology #B. An outline of MHS's assumptions used in Methodology #B is shown on the following page.

MHS Methodology #B Assumptions

Assumption	Data Used
Planning Area	Central Pierce County
Population Estimates and Forecasts	2010 population is 320,186 Project target year 2015 projected population is 336,006
Use Rate	Divide 2010 estimated current surgical cases by estimated 2010 populations results in the service area use rate of 192.20/1,000 population
Percent of surgery ambulatory vs. inpatient	78% ambulatory (outpatient); 22% inpatient
Average minutes per case	Inpatient 159.07 minutes Outpatient 70.80 minutes
OR Annual capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes (per methodology in rule)
Existing providers/ORs	OR Capacity: 9 dedicated outpatient and 50 mixed use

Using the assumptions outlined above, MHS projected a need for 42.78 outpatient ORs by the end of target year 2015 in Central Pierce County.

In summary, FHS and MHS both provided a numeric methodology and both projected to year 2015, however, the results of each are significantly different—FHS projected a surplus of 15.53 mixed used ORs and MHS projected a need of 42.78 outpatient ORs.

Department's Methodology and Review

The numeric portion of the methodology requires a calculation of the annual capacity of the existing providers inpatient and outpatient OR's in a planning area. Both projects involved OR capacity in central Pierce County so the department applied the methodology to determine need for the planning area. According to the department's historical records, there are 20 planning area providers with OR capacity. The 20 providers include MHS's exempt ASC in Gig Harbor—the topic of its application—and the exempt endoscopy ASC that FHS proposes to purchase in its application. The 20 providers are listed below. [source: CN historic files and DOH ILRS database]

Central Pierce County Planning Area Providers

Hospitals/City	ASC/City
MHS-Tacoma General Hospital/Tacoma	Artistic Plastic Surgery/Tacoma
MHS-Allenmore Hospital/Tacoma	Cedar Laser &Surgery Center/Tacoma
MHS-Mary Bridge Children's Hospital/Tacoma	Franciscan Medical Group/Tacoma
FHS-St. Joseph Medical Center/Tacoma	Harbor Endoscopy Center/Gig Harbor
FHS-St. Anthony Hospital/Gig Harbor	Harbor Plastic Surgery/Gig Harbor
	MHS-Day Surgery of Gig Harbor [MHS project]
	Narrows Eye Surgery/Tacoma
	Pacific Cataract & Laser Institute/Tacoma
	Pacific NW Eye Surgery Center/Tacoma
	Peninsula Endoscopy Center/Gig Harbor
	TASC/Tacoma
	Tacoma ASC/Tacoma
	Tacoma Endoscopy Center/Tacoma [FHS project]
	Waldron Endoscopy Center/Tacoma
	West Tacoma Surgery Center/Tacoma

As shown above, the 20 facilities include 5 hospitals and 15 ASCs. For the hospitals, all appropriate OR capacity is included in the capacity calculations of available ORs for the planning area.

Of the 15 ASCs shown above, four are endoscopy facilities and consistent with WAC 246-310-270(9)(a)(iv),[5] ORs and utilization at endoscopy ASCs are not counted in the numeric methodology. As a result, Harbor Endoscopy Center, Peninsula Endoscopy Center, Tacoma Endoscopy Center [FHS project], and Waldron Endoscopy Center are excluded from the methodology.

Of the remaining 11 ASCs shown above, 10—including the MHS ASC known as MHS-Day Surgery of Gig Harbor—are located within a solo or group practice (considered an exempt ASC) and the use of these ASCs is restricted to physicians that are employees or members of the clinical practices that operate the facilities. Therefore, these 10 facilities do not meet the ASC definition found in WAC 246-310-010. For exempt ASCs, the utilization, but not ORs, is included in the methodology for the planning area.

The remaining ASC, TASC, is a CN approved facility and both the 4 ORs and the utilization are counted in the methodology.[6]

To assist in its application of the numeric methodology for these two projects, on September 6, 2011, the department requested utilization information from each of the facilities identified above. While both MHS and FHS completed the utilization survey, both also provided corrections to their

[5] WAC 246-310-270(9)(a)(iv). "…*Exclude cystoscopic and other special purpose rooms (e.g., open heart surgery) and delivery rooms."*

[6] TASC was issued CN #726 on March 14, 1983.

respective utilization data during the rebuttal phase of this review. Outside of the two applicants, only Artistic Plastic Surgery in Tacoma provided utilization data.

To apply the numeric methodology, the department relied on its survey results and data obtained from the Department of Health internal database.[7] For the applicant facilities, the department relied on the data provided in each applicant's methodology. For the FHS project, the data was provided in Methodology #1; for the MHS project, the data was provided in Methodology #B. The assumptions used by the department in the methodology are shown below.

Department's Methodology Assumptions and Data

Assumption	Data Used
Planning Area	Central Pierce
Population Estimates and Forecasts	Claritas population data: Year 2010 – 293,231 Year 2015 – 307,446
Use Rate	Divide calculated surgical cases by 2010 populations results in the service area use rate of 193.64/1,000 population
Percent of surgery ambulatory vs. inpatient	Based on DOH survey and ILRS data, 76.7% ambulatory (outpatient) and 23.3% inpatient
Average minutes per case	Based on DOH survey and ILRS data Outpatient cases = 66.01 minutes; inpatient cases 153.82 minutes
OR Annual capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes (per methodology in rule)
Existing providers/ORs	Based on listing of Central Pierce County providers. 7 dedicated outpatient ORs and 50 mixed use ORs

The department's application of the numeric methodology based on the assumptions described above indicates a surplus of 0.49—or less than one—mixed use OR in year 2015. The department's methodology is Appendix A attached to this evaluation.

A review of both applicants' methodologies and the department's methodology reveals significant differences in three areas: 2010 and 2015 populations, use rate, and existing OR count. The differences are shown in the Table 1 and explained below the table.

Table 1
Methodology Comparison

Assumption	FHS	MHS	Department
2010 Population	Unstated	320,186	293,231
2015 Population	335,047	336,006	307,446
Use Rate	171.0/1,000	192.2/1,000	193.64/1,000
Existing ORs -Outpatient	13 outpatient	9 outpatient	7 outpatient
Existing ORs –Inpatient/Mixed Use	44 mixed-use	50 mixed-use	50 mixed use

[7] The Department of Health's internal data base is Integrated Licensing &Regulatory System, known as ILRS.

Population 2010 and 2015

The department obtained 2010 Claritas population data for the planning area by zip. It is unclear why MHS's population for both years is significantly higher. FHS's 2010 population was not stated in its methodology, however, its 2010 population figures are similar to MHS's data. The department will rely on the data it obtained from the Claritas data source.

Use Rate

The use rate is determined by dividing the total number of surgeries in 2010 by the total population in 2010. This computation resulted in similar use rates for MHS and the department; FHS's use rate is significantly lower. Since FHS's 2010 population is not identified in its methodology, the department is unable to determine why there is a significant different in the resulting use rate calculation.

The total number of surgeries is the sum of both inpatient and outpatient surgeries in 2010. The table below shows the inpatient and outpatient numbers used.

Table 2
Inpatient and Outpatient Comparison

Assumption	FHS	MHS	Department
Inpatient	13,411	13,559	13,232
Outpatient	41,499	47,982	43,549
Total	54,910	61,541	56,781

As shown above, the total number of surgeries identified by FHS and the department is similar. A review of the inpatient and outpatient numbers for all three show they are within 200 cases of each other. Outpatient numbers have a greater variation. MHS's outpatient numbers are higher than both the department and FHS. These differences account for the variation in use rate calculated by the applicants and the department. After reviewing the backup data provided by both applicants' in their respective methodologies, the department concludes that its calculated use rate of 193.64/1,000 is accurate.

Existing Providers/ORs

Table 1 shows that MHS and the department counted 50 mixed-use ORs; FHS counted 44. The table below is a breakdown by facility of mixed use, or inpatient, ORs.

Table 3
Mixed Use OR Count Comparison

Facility	FHS	MHS	Department
MHS-Tacoma General Hospital/Allenmore	20	26	26
FHS-St. Joseph Medical Center	19	19	19
FHS-St. Anthony Hospital	5	5	5
Total	**44**	**50**	**50**

As shown above, FHS counted 6 less mixed-use ORs at Tacoma General/Allenmore. A review of the documents within the application reveals that FHS did not count the 6 ORs at Allenmore Hospital. As a result, the correct number of mixed-use ORs is 50.

The count of dedicated outpatient ORs also account for a difference in OR capacity. FHS counted 13; MHS counted 9; and the department counted 7. Below is a breakdown by facility of the outpatient ORs.

Table 4
Outpatient OR Count Comparison

Facility	FHS	MHS	Department
Tacoma General Hospital	7	5	3
TASC	4	4	4
West Tacoma Surgery Center	2	0	0
Total	**13**	**9**	**7**

As shown above, FHS, MHS, and the department counted 4 ORs at TASC. This number is verified through the department's internal database. FHS counted Tacoma General Hospital for 7 dedicated outpatient ORs; while MHS counted 5 dedicated outpatient. The department reviewed MHS's methodology and noted that the 5 OR count includes 2 ORs located at MHS-Day Surgery of Gig Harbor. Since this ASC is an exempt facility and is not located within the hospital, the utilization (surgeries) related to the ORs are counted but the ORs are not. As a result, the department subtracted the 2 ORs from Tacoma General Hospital's dedicated outpatient supply, resulting in 3 ORs.

In FHS's methodology, they also counted 2 ORs at 'West Tacoma Surgery Center. This ASC is located on South Mildred Street in Tacoma, provides only pain management procedures at the ASC on Tuesdays and Fridays. This is an exempt ASC, and the utilization (surgeries) related to the ORs are counted but the ORs are not. It is unclear why FHS included the two ORs in its methodology. Based on the information above, the department concludes that its methodology count of 7 dedicated outpatient ORs in the planning area is accurate. As previously stated, the department's application of the numeric indicates a surplus of 0.49—or less than one—mixed use ORs in year 2015.

Only FHS and MHS submitted public comments related to this sub-criterion and those comments were addressed in the numeric methodology discussion above.

WAC 246-310-270(4)
WAC 246-310-270(4) states that outpatient ORs should ordinarily not be approved in planning areas where the total number of ORs available for both inpatient and outpatient surgery exceeds the area need. A review of the central Pierce planning area providers reveals that only two providers offer a broad range of services—TASC in Tacoma and MHS's Day Surgery of Gig Harbor. The remaining ASCs offer only specialty services and are not readily available during the week.

Based on the information within the application and data reviewed, the department concludes that approval of this project is reasonable, even though the numeric methodology alone does not justify the addition of outpatient ORs within the planning area.

WAC 246-310-270(6)
WAC 246-310-270(6) requires a minimum of two ORs in an ASC. For FHS, the exempt, endoscopic ASC currently operates with five ORs. FHS does not propose to increase or decrease

the number of ORs if this project is approved. [source: Application, p28 and Exhibit 5] This standard is met for FHS.

For MHS, the exempt ASC currently operates with two ORs and MHS does not propose to increase or decrease the number of ORs if this project is approved. [source: December 7, 2011, supplemental information, Revised Exhibit 8] This standard is met for MHS.

Based on the above information, the department's conclusion regarding this sub-criterion follows.

Department's Evaluation

Franciscan Health System

FHS provided a numeric methodology and then asserted that since endoscopy ORs are not counted in the numeric methodology and do not affect current OR supply or projected need. For its project, FHS demonstrated need for the dedicated endoscopic ORs in the central Pierce planning area. The department concurs with FHS's assertions above, provided that FHS agrees to limit the types of procedures provided at the ASC to endoscopy and gastroenterology, as described in the application. If FHS agrees with the condition stated in the 'conclusion' section of this evaluation, the department would conclude that **this sub-criterion is met.**

MultiCare Health System

MHS provided a numeric methodology that resulted in a need for more than 47 outpatient ORs in the planning area. The department's methodology resulted in a surplus of less than one OR in 2015. MHS has been operating its exempt ASC in Gig Harbor since 2009 and any impact on existing providers—hospital or ASC—has already occurred. Based on the department's numeric methodology, taking into consideration the projected population growth in the central Pierce planning area, and provided MHS agrees to limit the types of procedures to those identified in the application, the department would conclude that need for MHS's project that been demonstrated. **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.

Both applicants currently provide healthcare services to residents of Washington State through their licensed hospitals and other healthcare facilities. For these two projects, the department must determine whether all residents of the planning area of central Pierce County would have access to the outpatient services proposed by each applicant.

To determine whether all residents of the service area would have access to the proposed outpatient services, the department requires each applicant to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment.

To determine whether the elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination.

To determine whether low-income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination.

A facility's charity care policy should confirm that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to healthcare services of the applicant. The policy should also include the process one must use to access charity care at the facility.

Below is a review of each applicant's documents submitted to demonstrate compliance with this sub-criterion.

Franciscan Health System

Admission Policy [source: Application, Exhibit 8]
FHS provided a copy of its FHS Admission Policy that is used at all FHS facilities, including this ASC. The policy includes the necessary language to demonstrate that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to FHS's services. The policy also provides FHS's admission criteria and outlines the process to be used for admission of patients appropriate for outpatient care.

Medicare certification
FHS currently provides services to Medicare eligible patients through its nursing home, hospitals, dialysis centers, hospice care center, and hospice agency. For this project, a review of the policies and data provided in the application identifies the facility's financial pro forma includes Medicare revenues. Additionally, FHS provided the expected sources of revenue for the ASC, which includes approximately 21% Medicare. [source: Application, p9 and December 8, 2011, supplemental information, Attachment 7]

Medicaid eligibility or contracting with Medicaid
FHS currently provides services to Medicaid eligible patients through its nursing home, hospitals, dialysis centers, hospice care center, and hospice agency. For this project, a review of the policies and data provided in the application identifies the facility's financial pro forma includes Medicaid revenues. Additionally, FHS provided the expected sources of revenue for the ASC, which includes approximately 5% Medicaid. [source: Application, p9 and December 8, 2011, supplemental information, Attachment 7]

Charity Care Policy [source: December 8, 2011, supplemental information, Attachments 3 and 7]
FHS provided a copy of its Department of Health approved charity care policy that outlines the process a patient uses to access charity care by FHS for all healthcare settings. The policy includes the necessary language to demonstrate that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to FHS's charity care. The policy outlines the process a patient must use to access charity care. Additionally, FHS included charity care as a deduction from revenue within its pro forma financial statements.

MultiCare Health System

Admission Policy [source: Application, Exhibit 13]

MHS provided a copy of its MHS Admission Policy that is used at all MHS facilities, including this exempt ASC. The policy includes the necessary language to demonstrate that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to MHS's services. The policy also provides MHS's admission criteria and outlines the process to be used for admission of patients appropriate for outpatient care.

Medicare certification

MHS currently provides services to Medicare eligible patients through its hospitals and other healthcare facilities in King and Pierce counties. For this project, a review of the policies and data provided in the application identifies the facility's financial pro forma includes Medicare revenues. Additionally, MHS provided the expected sources of revenue for the ASC, which includes approximately 17% Medicare. [source: Application, p6 and Exhibit 15]

Medicaid eligibility or contracting with Medicaid

MHS currently provides services to Medicaid eligible patients through its hospitals and other healthcare facilities in King and Pierce counties. For this project, a review of the policies and data provided in the application identifies the facility's financial pro forma includes Medicaid revenues. Additionally, MHS provided the expected sources of revenue for the ASC, which includes approximately 18% Medicaid. [source: Application, p6 and Exhibit 15]

Charity Care Policy [source: Application, Exhibits 12 and 15]

MHS provided a copy of its Department of Health approved charity care policy that outlines the process a patient uses to access charity care by MHS for all healthcare settings. The policy includes the necessary language to demonstrate that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to MHS's charity care. The policy outlines the process a patient must use to access charity care. Additionally, MHS included charity care as a deduction from revenue within its pro forma financial statements.

WAC 246-310-270(7)

WAC 246-310-270(7) requires that ASCs shall implement policies to provide access to individuals unable to pay consistent with charity care levels reported by the hospitals affected by the proposed ASC. For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems (HPDS), divides Washington State into five regions: King County, Puget Sound, Southwest, Central, and Eastern. Pierce County is included in the Puget Sound Region. There are six hospitals in Pierce County and all six are owned by either FHS or MHS.[8]

For these two projects, the department reviewed the most recent three years of charity care data for the 18 existing hospitals currently operating within the Puget Sound region and the six hospitals

[8] FHS hospitals are St. Anthony Hospital in Gig Harbor, St. Joseph Medical Center in Tacoma, and St. Clare Hospital in Lakewood. MHS hospitals are Tacoma General/Allenmore in Tacoma (operated under one hospital license), Mary Bridge Children's Hospital in Tacoma, and Good Samaritan Hospital in Puyallup.

operating in Pierce County. The three years reviewed are 2008, 2009, and 2010.[9] Below is a comparison of the average charity care for the Puget Sound Region, the six hospitals in Pierce County combined, FHS projected, and MHS projected. [source: 2008-2010 HPDS charity care summaries]

Table 5
Charity Care Percentage Comparisons

	% of Total Revenue	% of Adjusted Revenue
Puget Sound Region	2.18%	4.71%
Six Hospitals Combined	1.87%	3.83%
FHS ASC	12.2%	16.5%[10]
MHS ASC	2.12%	3.34%[11]

As shown in Table 5 above, the regional average is higher than the combination of the six hospitals.

FHS proposes to provide charity care at a significantly higher percentage than both the regional average and the six hospital's combined. Since TEC is an exempt ASC, it did not undergo any review of its charity care policies, procedures, or percentages. To ensure that appropriate charity care percentages would be provided by TEC under the FHS ownership and management, if this project is approved, the department would attach a condition requiring TEC to provide charity care at certain percentages.

MHS proposes to provide charity care at a higher percentage than the six hospitals combined, but lower than the regional average. This exempt ASC also did not undergo any charity care review. To ensure that appropriate charity care percentages would be provided by the MHS Day Surgery of Gig Harbor, if this project is approved, the department would attach a condition requiring the ASC to provide charity care at certain percentages.

No public comments were submitted for this sub-criterion for either of the applications. Based on the above information, the department's conclusion regarding this sub-criterion follows.

Department's Evaluation

Franciscan Health System

Provided that FHS would agree to the charity care condition identified in the 'conclusion' section of this evaluation, the department concludes that all residents of the service area would have access to the proposed ASC. **This sub-criterion is met**.

MultiCare Health System

Provided that MHS would agree to the charity care condition identified in the 'conclusion' section of this evaluation, the department concludes that all residents of the service area would have access to the proposed ASC. **This sub-criterion is met**.

[9] 2011 charity care data was not available as of the writing of this evaluation.
[10] The department calculated the Medicare and Medicaid revenue using the percentages identified by the applicant. The calculated amounts were subtracted from the gross revenue, resulting in adjusted revenue dollars.
[11] Ibid

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

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

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

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

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

Franciscan Health System

To evaluate this sub-criterion, the department first reviewed the assumptions used by FHS to determine the projected number of endoscopic procedures for the ASC. The assumptions used by FHS are summarized below. [source: Application, p5, pp7-8 & p16]

- This project focuses on the purchase of an existing endoscopic ASC that has been in operation since the early 1990s. FHS intends to purchase the ASC from the existing owners. If approved, the ASC would be managed by FHS's St. Francis Hospital located in Federal Way. The ASC would remain at it current location in Tacoma and continue to solely provide endoscopic procedures.
- To project the number of procedures at the ASC, FHS reviewed the historical number of procedures for years 2006 through 2010. In these most recent five years, the growth in procedures averaged 2.5%. FHS assumed the 2.5% growth would continue for years 2012 through 2016.

Using the assumptions stated above, FHS's projected number of procedures by year is shown below.

Table 6
FHS Projected Number of Procedures

2012	2013	2014	2015	2016
9,779	10,023	10,274	10,531	10,794

FHS also provided a breakdown of surgeries by type using the five most common procedures at the ASC. When combined, endoscopy and colonoscopy procedures make up 98% of the procedures to be provided at the ASC. [source: December 8, 2011, supplemental information, p2]

After reviewing FHS's assumptions and projections above, the department concludes they are reasonable.

If approved, FHS anticipates commencement and completion within six months of approval. Under this timeline, year 2012 would be a partial year of operation, and 2013 would be the ASC's first full calendar year of operation under ownership of FHS and management by St. Francis Hospital. FHS's projected revenue, expenses, and net income using calendar years is shown below. [source: December 11, 2011, supplemental information, Attachment 7]

Table 7
Calendar Years 2012 through 2015 Projected Revenue and Expense Statements

	CY 2012 Partial Year	CY 2013 Full Year 1	CY 2014 Full Year 2	CY 2015 Full Year 3
Net Revenue	$ 7,888,256	$ 8,820,503	$ 9,041,016	$ 9,267,042
Total Expenses	$ 5,241,050	$ 5,842,734	$ 5,971,340	$ 6,103,274
Net Profit /(Loss)	$ 2,647,206	$ 2,977,769	$ 3,069,676	$ 3,163,768

The 'Net Revenue' line item is gross revenue minus any deductions for charity care and bad debt. The 'Total Expenses' line item includes salaries and wages, amortization, depreciation, and allocated costs from FHS and St. Francis Hospital. As shown above, FHS projected net profits in all projected years.

The ASC would remain at its current location at 1112 Sixth Avenue, Suite #200 in Tacoma. Historical CN files demonstrate that the ASC has been at this same site since at least 2003. FHS provided a copy of the current lease agreement between Tacoma Medical Center (landlord) and Tacoma Endoscopy Center (tenant). [source: Application, Exhibit 6] The lease agreement is for ten years beginning October 1, 2007, identifies a 3% annual cost increases, and outlines roles/responsibilities of both entities. Page 5 of the lease agreement provides the following language regarding assignment and sub-lease.

> *"Tenant may not assign this lease or sublet the premises to another party without the express written approval of landlord, such consent shall not be unreasonable withheld and landlord must reply within 30 days after receiving written request to assign or sublease space by tenant. Any sublease or assignment permitted by landlord shall not release tenant or the guarantors of any of tenant's duties or obligations hereunder."*

Approval of this project would result in the ownership change for the ASC, which in turn, would require assignment of the lease. If this project is approved, the department would attach a condition requiring the applicant to provide a copy of the written approval from the landlord as referenced in the lease agreement.

The pro forma Revenue and Expense Statements summarized in Table 5 above include a 'rent' line item and annual cost increases for the ASC.

St. Francis Hospital's active medical staff includes approximately 300 physicians, and of those, 12 are gastroenterologists. FHS's Chief Medical Officer, Greg Semerdjian, MD, has agreed to provide medical directorship for the ASC, but since he is on the active medical staff, no medical director agreement would be established. [source: Application, p4]

In addition to the projected Revenue and Expense Statements shown above, FHS provided the projected Balance Sheets using the same calendar years. Full year one, (2013) and three (2015) are shown below.[12] [source: December 8, 2011, supplemental information, Attachment 7]

Tables 8
Tacoma Endoscopy Center Forecasted Balance Sheets
Calendar Year One - 2013

Assets		Liabilities	
Current Assets	$ 6,269,360	Current Liabilities	$ 219,558
Accumulated Depreciation	($ 2,693,737)	Long Term Debt	$ 0
Goodwill	$ 9,805,145		
Fixed Assets	$ 4,535,614	**Equity**	**$ 17,696,824**
Board Designated Assets	$ 0		
Total Assets	**$ 17,916,382**	**Total Liabilities and Equity**	**$ 17,916,382**

Calendar Year Three – 2015

Assets		Liabilities	
Current Assets	$ 13,099,692	Current Liabilities	$ 228,583
Accumulated Depreciation	($ 3,281,600)	Long Term Debt	$ 0
Goodwill	$ 9,805,145		
Fixed Assets	$ 4,535,614	**Equity**	**$ 23,930,268**
Board Designated Assets	$ 0		
Total Assets	**$ 24,158,851**	**Total Liabilities and Equity**	**$ 24,158,851**

Because the ASC has been operational since the early 1990s, it has had many years to become financially solvent. The balance sheets above show that the ASC would remain financially stable through full calendar year 2015.

MultiCare Health System

To evaluate this sub-criterion, the department first reviewed the assumptions used by MHS to determine the projected number of procedures for the ASC. The assumptions used by MHS are summarized below. [source: Application, pp27-31]

- Surgical use rates by ICD-9 procedure code group were derived from the latest National Center for Health Statistics (NCHS) survey study, Ambulatory Surgery in the United States-2006.
- NCHS use rates were multiplied by the 2012-2016 planning area population and then divided by 10,000 to forecast central Pierce planning area resident ambulatory surgeries by procedure type, by year.
- A market share figure was then applied to each procedure code group based on current and planned surgeries at the ASC. The market share figures are based on MultiCare physician recruitment actions and the expressed interest from other area physicians who would like to use the ASC if available.
- The estimated planning area procedures were then multiplied by the presumed market share figures, yielding a forecasted number of procedures by year.

[12] FHS noted that the balance sheets were created specifically for this Certificate of Need application.

- The use rates used in the utilization forecast are based on national data sets and are national estimates. It is possible that local patterns, specifically in central Pierce, could vary from the survey figures. MHS states that there is no better statistical approach to estimate expected future volumes with procedural specificity.
- As noted in Table 13 [of the application], there is a very modest market share growth assumed over time, starting at about 1%-2% and then averaging about 1.5% increase over the five-year forecast period.

Using the assumptions stated above, MHS's projected number of procedures by year is shown below.

Table 9
MHS Projected Number of Procedures

2012	2013	2014	2015	2016
662	1,135	1,510	1,571	1,635

MHS also provided a breakdown by the following types of procedures: eye surgery, ENT surgery, GI procedures, general surgery, GYN, orthopedic, plastic, and urology. [source: December 7, 2011, supplemental information, p4]

During the review of this project, FHS provided comments related to MHS's projected number of procedures shown above. The comments are summarized below.

Franciscan Health System public comments
[source: FHS comments received February 16, 2012, pp4-5]
FHS stated that MHS's current volumes at the exempt ASC are 'astonishingly low' at approximately 150 procedures annually, and the projections above represent a 1,000% increase in volumes by the end of year 2016. FHS also compared the projections in this application with an application submitted by MHS in year 2005 for the establishment of this ASC.[13] The comparison showed significant differences in projected volumes and the resulting revenues/expenses for the ASC. As a result, FHS states that the projections are unreliable.

In response to the comments provided by FHS above, MHS provided the statements summarized below.

MultiCare Health System rebuttal comments
[source: MHS rebuttal comments received March 9, 2012, pp5-6]
MHS states that the projections in this application are driven by three factors: **1)** planning area net need forecasts; **2)** a statistically reliable mode that MHS used to forecast expected ambulatory surgery volumes in the planning area; and **3)** reasonable market share assumptions for the Gig Harbor ASC. MHS asserts that the use of these factors to project potential volume is sound. MHS acknowledges low volumes at the exempt ASC and states that this project is intended to address the low volumes by allowing additional non-MHS physicians use of the ASC. The additional physicians are part of the plan to improve the ASCs performance. Finally, MHS states that a

[13] On May 17, 2005, MHS submitted an application to establish an ASC in Gig Harbor. On November 1, 2005, the department denied MHS's project primarily because MHS was unable to demonstrate need for additional outpatient ORs in the central Pierce planning area.

comparison of projected utilization in this application with an application submitted in 2005 is not sound.

Department's Review of the Comments

If this project is approved, MHS anticipates an expansion in the types of procedures provided at the ASC and increased access by non-MHS physicians. Since the ASC is currently operating with the limitations of an exemption, MHS used the approach described above to determine the number of procedures by type that would be provided at the ASC. Since new, non-MHS physicians would also have access to the ASC, it is reasonable to assume a utilization that is higher than the current utilization.

FHS's assertion that the exempt ASC only performed 150 procedures annually understates other reports. Historical data provided in the MHS application indicates that the ASC performed 196 procedures in year 2009 and 166 procedures in year 2010. The increase from 2010 to 2012 is approximately 300%--or almost 500 procedures. While MHS's projected increase is ambitious, it is not unreasonable for this project. As stated above, MHS intends to increase physician use of the ASC and expand the types of procedures at the ASC. When these two factors are considered, an increase in procedures is expected.

FHS also compared the projected utilization in this application with MHS's application submitted in 2005. In response, MHS provided a listing of all of the differences in each application and asserts that the comparison is flawed. The department has reviewed several applications where a project was initially denied and the applicant resubmitted a new application at a later date. There is no prescribed requirement that the resubmitted application must be the same or consistent with the initial application. In fact, there are many sound reasons why they would be different. It is unclear why FHS believes this comparison is relevant to this review. The department concludes this comparison is not relevant in this project.

In summary, after reviewing MHS's assumptions and projections, the department concludes that although ambitious, they are reasonable.

MHS anticipates commencement and completion within six months of approval. Under this timeline, year 2012 would be a partial year of operation, and 2013 would be the ASC's first full calendar year of operation as a CN approved ASC. MHS's projected revenue, expenses, and net income using calendar years is shown below. [source: Application, Exhibit 15]

Table 10
Calendar Years 2012 through 2013 Projected Revenue and Expense Statements

	CY 2012 Partial Year	CY 2013 Full Year 1	CY 2014 Full Year 2	CY 2015 Full Year 3
Net Revenue	$ 3,785,149	$ 6,583,173	$ 8,607,316	$ 8,951,512
Total Expenses	$ 3,787,170	$ 4,982,313	$ 5,868,180	$ 6,011,756
Net Profit /(Loss)	($ 2,021)	$ 1,600,860	$ 2,739,136	$ 2,939,756

The 'Net Revenue' line item is gross revenue minus any deductions for charity care and contractual allowances. The 'Total Expenses' line item includes salaries and wages, bad debt, equipment

depreciation, and allocated costs from MHS. As shown in the table above, MHS projected a net loss in partial year 2012 and net profits in full years one through three.

MHS states that the ASC would remain at its current location at 4545 Point Fosdick Drive Northwest in Gig Harbor. Historical CN files demonstrate that the ASC has been at this same site since it became an exempt ASC in 2009. MHS currently owns the site and operates the exempt ASC within a medical office building located at the same site. As a result, the pro forma Revenue and Expense Statements summarized in Table 7 above appropriately do not include a 'rent' line item or annual cost increases for the ASC.

The ASC currently functions as a department of MHS's Tacoma General Hospital. MHS's Vice President for Specialty Services, Claire Spain-Remy, MD, has agreed to provide medical directorship for the ASC and Patricia Miller, RN, would be the Clinical Director of Nursing for the ASC. Both are employees of MHS, so a medical director agreement or a director of nursing agreement would not be established. [source: Application, p42 and December 7, 2011, supplemental information, p1 and p5]

In addition to the projected Revenue and Expense Statements shown above, MHS provided the projected Balance Sheets using the same calendar years. Full year one (2013) and three (2015) are shown below.[14] [source: December 7, 2011, supplemental information, Exhibit 19]

Tables 11
MHS Gig Harbor ASC Forecasted Balance Sheets
Calendar Year One - 2013

Assets		**Liabilities**	
Current Assets	$ 1,430,000	Current Liabilities	$ 779,000
Fixed Assets	$ 1,055,000	Long Term Debt	$ 0
Board Designated Assets	$ 1,656,000	**Equity**	**$ 3,362,000**
Total Assets	**$ 4,141,000**	**Total Liabilities and Equity**	**$ 4,141,000**

Calendar Year Three – 2015

Assets		**Liabilities**	
Current Assets	$ 3,692,000	Current Liabilities	$ 1,897,000
Fixed Assets	$ 6,852,000	Long Term Debt	$ 0
Board Designated Assets	$ 438,000	**Equity**	**$ 9,085,000**
Total Assets	**$ 10,982,000**	**Total Liabilities and Equity**	**$ 10,982,000**

As shown in the balance sheets above, MHS has operated the ASC with little liabilities. This is typical of ASC operations that have been reviewed by the department. The balance sheets above also show that the ASC would remain financially stable through full calendar year 2015.

Based on the above information, the department's conclusion regarding this sub-criterion follows.

[14] MHS noted that the balance sheets were created specifically for this Certificate of Need application.

Department's Evaluation

Franciscan Health System

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

MultiCare Health System

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

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

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

Franciscan Health System

FHS identified the capital expenditure associated with this project to be $12,503,463. Of that amount, 86% is related to the acquisition of the exempt ASC and the remaining 14% is related to minor construction costs, fixed/moveable equipment, and architect and engineering fees. Approximately $1.3 million in construction costs are needed to bring the current space up to Department of Health licensing standards. The construction includes a second entrance into the procedure areas, extension/modification of the existing one-hour firewalls separating the clinic from the procedure areas, and remodel of procedure and support areas and add recovery bays to comply with the facility guidelines. [source: Application, p19 and December 9, 2011, supplemental information, p1]

Since the ASC has been operational, FHS provided its expected payer mix based on its historic payer mix. The table below shows the expected payer mix for the ASC. [source: Application, p9]

Table 12
FHS Endoscopy ASC Payer Mix

Payer Source	Percentage
Medicare	21.0%
Medicaid	5.0%
Commercial Insurance	63.0%
Other[15]	11.0%
Total	**100.0%**

[15] 'Other' payers include Department of Corrections, Molina, Northwest Physician Network, and TriCare. [source: December 8, 2011, supplemental information, p1]

As shown above, the majority of the ASC's payer source has been commercial insurance. Considering the types of procedures historically provided at the ASC, this large payer source is expected.

In response to this sub-criterion, FHS asserts that its purchase of the existing endoscopy ASC *"will ensure continued access to diagnostic and therapeutic services that are proven to reduce both the number of deaths and more costly oncology treatments by identifying polyps in the early stage and removing them before they become cancerous. Because of this, endoscopy reduces health care costs for patients, payers, and the larger system."* [source: Application, p20]

MultiCare Health System

MHS identified the capital expenditure associated with this project to be $1,227,869, which is solely related to the additional equipment needed to accommodate the additional procedures at the ASC. [source: Application, p17]

Since the ASC has been operational since 2009, MHS provided its expected payer mix based on its historic payer mix. The table below shows the expected payer mix for the ASC. [source: Application, p6]

Table 13
MHS Gig Harbor ASC Payer Mix

Payer Source	Percentage
Medicare	17.9%
Medicaid	18.6%
Commercial Insurance	48.6%
Other[16]	14.9%
Total	**100.0%**

As shown above, the majority of the ASC's payer source has been commercial insurance. Since the exempt ASC provides a variety of elective procedures, this large payer source is expected.

No public comments were submitted for this sub-criterion for either application. Based on the above information, the department's conclusion regarding this sub-criterion follows.

Department's Evaluation

Franciscan Health System

Based on the information reviewed, the department concludes that the costs of this project will probably not result in an unreasonable impact to the costs and charges for health care services within the services area. **This sub-criterion is met**.

MultiCare Health System

Based on the information reviewed, the department concludes that the costs of this project will probably not result in an unreasonable impact to the costs and charges for health care services within the services area. **This sub-criterion is met**.

[16] 'Other' payers include other government payers (i.e., Department of Corrections) and self pay. [source: Application, p16]

(3) The project can be appropriately financed.

WAC 246-310 does not contain specific source of financing criteria as identified in WAC 246-310-200(2) (a) (i). There are also no known recognized standards as identified in WAC 246-310-200(2) (a) (ii) and (b) that directs how a project of this type and size should be financed. Therefore, using its experience and expertise the department compared the proposed project's source of financing to those previously considered by the department.

Franciscan Health System

FHS provided the following capital expenditure breakdown for the proposed project. [source: Application, p25]

Table 14
FHS Projected Capital Cost

Item	Cost	% of Total
Acquisition Costs	$ 10,790,000	86.3%
Construction	$ 1,338,370	11.0%
Fixed/Moveable Equipment	$ 229,300	1.8%
Architect/Engineering Fees	$ 145,793	1.2%
Total Project Cost	**$ 12,503,463**	**100.0%**

FHS intends to finance the project through its reserves and submitted a letter of financial commitment from its chief executive officer. The letter confirms financial support for the project. FHS also provided a copy of its most recent audited financial statements (fiscal year 2010) for its parent corporation Catholic Health Initiatives' demonstrating the financial capability to fund the project. [source: Application, Appendix 2 and December 8, 2011, supplemental information, Attachment 4]

MultiCare Health System

MHS identified the capital costs of $1,227,869 that is solely related to the additional equipment for the ASC. MHS also provided a listing of the equipment to be purchased, which focuses on surgical imaging systems and associated instrumentation. [source: Application, p36]

MHS intends to finance the project through its reserves and submitted a letter of financial commitment from its chief financial officer. The letter confirms financial support for the project. MHS also provided a copy of its most recent consolidated balance sheet (fiscal year 2010) demonstrating the financial capability to fund the project. [source: Application, Exhibit 15 and December 7, 2011, supplemental information, Exhibit 18]

No public comments were submitted for this sub-criterion for either application. Based on the above information, the department's conclusion regarding this sub-criterion follows.

Department's Evaluation

Franciscan Health System

Based on the information, the department concludes the funding for this project is available. **This sub-criterion is met**.

MultiCare Health System

Based on the information, the department concludes the funding for this project is available. **This sub-criterion is met**.

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the 'conclusion' section of this evaluation, the department determines that Franciscan Health System's project has met the structure and process of care criteria in WAC 246-310-230.

Based on the source information reviewed and the applicant's agreement to the conditions identified in the 'conclusion' section of this evaluation, the department determines that MultiCare Health System's project has met the structure and process of care criteria in WAC 246-310-230.

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

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of FTEs that should be employed for projects of this type or size. Therefore, using its experience and expertise the department compared the proposed project's source of financing to those previously considered by the department.

Franciscan Health System

Since the exempt ASC is already operational, all key staff is in place. FHS expects a minimal increase in staff that is directly related to its projected increase in procedures for years 2012 through 2015. The table below summarizes the current FTEs and proposed FTEs for partial year 2012 and full years 2013 through 2015. [source: Application, p22]

Table 15
FHS ASC Current and Proposed FTEs Years 2012-2015

Staff	Partial Year 2012	Year 1 2013 Increases	Year 2-2014 Increases	Year 3-2015 Increases	Total
Registered Nurse	8.00	0.21	0.21	0.22	8.64
LPN/Techs	13.70	0.36	0.36	0.42	14.84
Administrative	1.00	0.00	0.00	0.00	1.00
Total FTE's	**22.70**	**0.57**	**0.57**	**0.64**	**24.48**

Since the ASC already has all key staff in place, FHS was able to provide names and professional license numbers for all key staff. [source: January 6, 2012, supplemental information, pp1-2]

MultiCare Health System

Since the exempt ASC is already operational, all key staff is in place. MHS expects a minimal increase in staff that is directly related to its projected increase in procedures for years 2012 through 2015. The table on the following page summarizes the current FTEs and proposed FTEs for partial year 2012 and full years 2013 through 2015. [source: Application, p40]

Table 16
MHS-Gig Harbor ASC Current and Proposed FTEs Years 2012-2015

Staff	Partial Year 2012	Year 1 2013 Increases	Year 2-2014 Increases	Year 3-2015 Increases	Total
Office/Clerical	1.10	0.00	0.60	0.00	1.70
Scheduler	1.10	0.00	1.10	0.00	2.20
Medical Records	1.10	0.00	0.00	0.00	1.10
Room Prep/Cleanup	3.30	0.00	0.00	0.60	3.90
RN	6.60	2.20	1.10	0.00	9.90
OR Techs	1.10	1.10	0.00	0.00	2.20
Manager	1.10	0.00	0.00	0.00	1.10
Total FTE's	**15.40**	**3.30**	**2.80**	**0.60**	**22.10**

Since the ASC already has all key staff in place, MHS was able to provide names and professional license numbers for all key staff. [source: December 7, 2011, supplemental information, p5]

No public comments were submitted for this sub-criterion for either of the applications. Based on the above information, the department's conclusion regarding this sub-criterion follows.

Department's Evaluation

Franciscan Health System

Based on the information, the department concludes that sufficient staffing is available or can be recruited. **This sub-criterion is met**.

MultiCare Health System

Based on the information, the department concludes that sufficient staffing is available or can be recruited. **This sub-criterion is met**.

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

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

Franciscan Health System

FHS is an existing provider of healthcare services in Pierce and King counties, and surrounding areas. This project proposes to purchase an existing exempt ASC dedicated to endoscopic procedures. The ASC is located, and will remain in, Pierce County. To address the sub-criterion, FHS provided the following statements. [source: Application, p23]

> *"This project does not propose the addition of any new services. St. Francis Hospital's existing ancillary and support services will support [the ASC]. …St. Francis Hospital's and FHS's existing working relations will ensure continuity of care.*

Since the ASC is operational, existing support and ancillary services have already been established. Because of the ASC's location in Tacoma, FHS anticipates patients needing emergency services would be transferred to St. Joseph Hospital in Tacoma, rather than with the managing facility —St. Francis Hospital located in Federal Way. Since both facilities are operated under the FHS parent, no transfer agreement would be created.

MultiCare Health System

MHS is an existing provider of healthcare services in King and Pierce counties and surrounding areas. This project proposes to establish an ASC in Gig Harbor by converting an existing exempt ASC. The ASC is located, and will remain in, Pierce County. To address the sub-criterion, MHS provided the following statements. [source: Application, p42]

> *"The ASC is located on the first floor of the MultiCare Gig Harbor Medical Park. As part of the larger medical complex, patients of the ambulatory care center also have immediate access to a large array of services, such as anticoagulation clinic, diabetes clinic, medical spa, laboratory services, medical imaging services, physician multi-specialty clinic, obstetric and gynecological services, pharmacy, preventative cardiology, primary care clinic, regional cancer center, sleep disorder clinic, urgent care clinic, women's' health and wellness center, and a YMCA. The medical park is already in operation and is available to provide ancillary and support services for ASC patients."*

Since the ASC is operational, existing support and ancillary services have already been established. Because of the ASC's location in Gig Harbor, MHS currently transfers its emergent patients to Tacoma General in Tacoma. Since both facilities are operated under the MHS parent, no transfer agreement would be created.

No public comments were submitted for this sub-criterion for either of the applications. Based on the above information, the department's conclusion regarding this sub-criterion follows.

Department's Evaluation

Franciscan Health System

Based on the information, the department concludes that there is reasonable assurance that the ambulatory surgery center will have appropriate ancillary and support services. **This sub-criterion is met**.

MultiCare Health System

Based on the information, the department concludes that there is reasonable assurance that the ambulatory surgery center will have appropriate ancillary and support services. **This sub-criterion is met**.

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2) (a) (i). There are known recognized standards as identified in WAC 246-310-200(2) (a) (ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. As part of its review, the department must conclude that the proposed service would be operated in a

manner that ensures safe and adequate care to the public.[17] Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Franciscan Health System

FHS is a provider of a variety of health care services in Washington State. Currently FHS owns or operates 11 healthcare facilities in Pierce and King counties. The Department of Health's Investigations and Inspections Office (IIO) conducts quality of care and compliance surveys. Records indicate that since 2007, IIO completed compliance surveys for each of FHS owned or operated healthcare facilities. Each of the compliance survey revealed deficiencies typical for the facility and FHS submitted acceptable plans of corrections and implemented the required actions. Additionally, all five FHS's hospitals currently are accredited by the Joint Commission. [source: facility survey data provided by the Investigations and Inspections Office and Joint Commission website]

FHS identified Greg Semerdjian, MD an employee of the hospital as the medical director for the ASC. A review of Dr. Semerdjian's compliance history did not show any current or past enforcement actions. Additionally, since the ASC is currently operational, FHS could provide names and professional license numbers for all 22 key staff. A compliance history review of all 22 staff did not show any current or past enforcement actions. [source: Compliance history provided by Medical Quality Assurance Commission]

MultiCare Health System

MHS is a provider of a variety of health care services in Washington State. Currently, MHS owns or operates more than 36 healthcare facilities or clinics in Pierce and King counties and surrounding areas. IIO within the Department of Health conduct the quality of care and compliance surveys for the MHS healthcare facilities. Records indicate that since 2007, IIO completed compliance surveys for each of MHS owned or operated healthcare facilities. Each of the compliance survey revealed deficiencies typical for the facility and MHS submitted acceptable plans of corrections and implemented the required actions. Additionally, all four MHS's hospitals currently are accredited by the Joint Commission. [source: facility survey data provided by the Investigations and Inspections Office and Joint Commission website]

MHS identified Claire Spain-Remy MD, an employee of the hospital as the medical director for the ASC. A review of Dr. Spain-Remy's compliance history did not show any current or past enforcement actions. Additionally, since the ASC is currently operational, MHS could provide names and professional license numbers for all 16 key staff. A compliance history review of all 16 staff did not show any current or past enforcement actions. [source: Compliance history provided by Medical Quality Assurance Commission]

No public comments were submitted for this sub-criterion for either of the applications. Based on the above information, the department's conclusion regarding this sub-criterion follows.

[17] Also WAC 246-310-230(5).

Department's Evaluation

Franciscan Health System

Given the compliance history of Franciscan Health System, its proposed medical director, and key ASC staff, the department concludes there is reasonable assurance that the endoscopic ASC would be operated in conformance with state and federal regulations. **This sub-criterion is met.**

MultiCare Health System

Given the compliance history of MultiCare Health System, its proposed medical director, and key ASC staff, the department concludes there is reasonable assurance that the ASC would be operated in conformance with state and federal regulations. **This sub-criterion is met.**

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

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

Franciscan Health System

To demonstrate compliance with this sub-criterion, FHS provided the following statements. [source: Application, p23]

> *"This project simply proposes to convert an existing high volume, high quality exempt ASC to a CN approved ASC. No change in location is anticipated as a result of this project. St. Francis Hospital's and FHS's existing working relationships will ensure continuity of care."*

Since the ASC is operational as an exempt facility, working relationships with existing healthcare facilities have already been established. Since the ASC will not relocate, the department expects these relationships to continue. Further, nothing in the documents provided by FHS and reviewed by staff suggests that approval of this project would change these relationships. [source: CN historical files]

MultiCare Health System

To demonstrate compliance with this sub-criterion, MHS provided the following statements. [source: Application, p43]

> *"Gig Harbor has unique health care needs and challenges due in large part to geographic distance from the Tacoma hospitals and other health care facilities. By providing surgical services within the community where patients live and their doctors practice, and by providing those services in a medical park where other medical services are readily available, [this project] promotes continuity of care as well as caters to the different surgical need of the patients. MultiCare is one of the most integrated health care systems on the west coast. All MultiCare facilities—from our acute care tertiary hospitals to our clinics, home health, hospice, and ASC—use the same electronic health record system."*

Since the ASC is operational as an exempt facility, working relationships with existing healthcare facilities have already been established. Since the ASC will not relocate, the department expects these relationships to continue. Further, nothing in the documents provided by MHS and reviewed by staff suggests that approval of this project would change these relationships. [source: CN historical files]

No public comments were submitted for this sub-criterion for either of the applications. Based on the above information, the department's conclusion regarding this sub-criterion follows.

Department's Evaluation

Franciscan Health System

Based on the source information provided above and the applicant's agreement to the conditions identified in the 'conclusion' section of this evaluation, the department concludes that approval of this project would not cause unwarranted fragmentation of the existing healthcare system. **This sub-criterion is met**.

MultiCare Health System

Based on the source information provided, the department concludes that approval of this project would not cause unwarranted fragmentation of the existing healthcare system. **This sub-criterion is met**.

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

This sub-criterion is evaluated in sub-section (3) above, and no public comments were submitted for this sub-criterion for either of the applications. Based on the above information, the department's conclusion regarding this sub-criterion follows.

Department's Evaluation

Franciscan Health System

This sub-criterion is met.

MultiCare Health System

This sub-criterion is met.

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the 'conclusion' section of this evaluation, the department determines that Franciscan Health System's project has met the cost containment criteria in WAC 246-310-240.

Based on the source information reviewed and the applicant's agreement to the conditions identified in the 'conclusion' section of this evaluation, the department determines that MultiCare Health System's project has met the cost containment criteria in WAC 246-310-240.

(1) *Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.* WAC 246-310 does not contain specific WAC 246-310-240(2)(a) criteria as identified in WAC 246-310-200(2)(a)(i). There are known minimum building and energy standards that healthcare facilities must meet to be licensed or certified to provide care. If built to only the minimum standards all construction projects could be determined to be reasonable. However, the department, through its experience knows that construction projects are usually built to exceed these minimum standards. The department considered information in the applications that addressed the reasonableness of their construction projects that exceeded the minimum standards. Therefore, using its experience and expertise the department assessed the materials contained in the application.

To determine if a proposed project is the best alternative, the department takes a multi-step approach. Step one determines if the application has met the other criteria of WAC 246-310-210 thru 230. If it has failed to meet one or more of these criteria then the project is determined not to be the best alternative, and would fail this sub-criterion.

If the project met the applicable criteria, the department would move to step two in the process and assess the other options the applicant or applicants considered prior to submitting the application under review. If the department determines the proposed project is better or equal to other options the applicant considered before submitting their application, the determination is either made that this criterion is met (regular or expedited reviews), or in the case of projects under concurrent review, move on to step three.

Step three of this assessment is to apply any service or facility specific criteria (tie-breaker) contained in WAC 246-310. The tiebreaker criteria are objective measures used to compare competing projects and make the determination between two or more approvable projects which is the best alternative. If WAC 246-310 does not contain any service or facility criteria as directed by WAC 246-310-200(2)(a)(i), then the department would look to WAC 246-310-240(2)(a)(ii) and (b) for criteria to make the assessment of the competing proposals. If there are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b), then using its experience and expertise, the department would assess the competing projects and determine which project should be approved.

Franciscan Health System

Step One

For this project, FHS has met the review criteria under WAC 246-310-210, 220, 230 and the ASC methodology and standards under WAC 246-310-270. Therefore, the department moves to step two below.

Step Two

Before submitting this application, FHS only considered the option of purchasing and then closing the endoscopic ASC. Since none of the four FHS hospitals had the capacity to accommodate the over 10,000 endoscopy cases without significant remodel and disruption, this option was rejected. [source: Application, p35]

Once FHS determined that it would purchase the exempt ASC, the only option it had is to submit a Certificate of Need application. Since the exempt ASC has been in operation since the 1990's, it

has a large, established volume of endoscopy procedures. The department did not identify any other options that should have been considered by FHS. Taking into account the regulatory requirements for hospitals to operate off-campus ASCs and the impact of closing this ASC would have on other providers, the department concludes that FHS chose the best option available.

MultiCare Health System

Step One

For this project, MHS has met the review criteria under WAC 246-310-210, 220, 230 and the ASC methodology and standards under WAC 246-310-270. Therefore, the department moves to step two below.

Step Two

Before submitting this application, MHS considered two options: do nothing or close the ASC. Below is a summary of each option and MHS's rationale for rejection. [source: December 7, supplemental information, p7]

- Do Nothing
  MHS considered this option which ultimately results in continuing to operate the ASC under the exemption. MHS states that the ASC is not currently utilized at full capacity and in order to allow physicians not associated with the group practice access to the ASC, a Certificate of Need is required. To best utilize the ASC and to ensure that the ASC continues to remain in operation in the future, this option was rejected.

- Close the ASC
  MHS considered this option because it would alleviate the financial loss of the ASC. However, MHS states that closing the ASC would also negatively impact the overall strategic position and performance of the MultiCare Gig Harbor Medical Park where the exempt ASC is located. Additionally, this option would reduce outpatient access to residents of the harbor and surrounding communities. For those reasons, this option was also rejected.

Once MHS determined that it wanted to allow physicians not part of the MHS practice access to the exempt ASC, the only option it had is to submit a Certificate of Need application. The department did not identify any other options that should have been considered by MHS. Taking into account the regulatory requirements for hospitals to operate off-campus ASCs and the impact of closing this ASC would have on residents of the community, the department concludes that MHS chose the best option available.

Franciscan Health System and MultiCare Health System

Step Three

This step is used to determine between two or more approvable projects which is the best alternative. Since both FHS and MHS's projects met all of the review criteria, this step applies to this concurrent review.

As stated in the need section of this evaluation, the department concluded that FHS demonstrated that approval of its dedicated endoscopy ASC would not affect current OR supply or projected need in the central Pierce planning area. The facility has been operational for many years, and

FHS does not intend to change the site, services, or physician access for the ASC. As a result, approval of this project is reasonable and a good resource for the community.

The department also concluded that MHS demonstrated need for additional OR capacity in the Central Pierce planning area. MHS has been operating its exempt ASC in Gig Harbor since 2009 and any impact on existing providers—hospital or ASC—has already occurred. Based on the department's numeric methodology, taking into consideration the projected population growth in the central Pierce planning area, and provided MHS agrees to limit the types of procedures to those identified in the application.

As a result, in this concurrent review, both projects could be approved without negatively affecting the approval of the other applicant.

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

(a) The costs, scope, and methods of construction and energy conservation are reasonable; and

Franciscan Health System and MultiCare Health System

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concludes that **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.

Franciscan Health System and MultiCare Health System

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2) **and is met**.

Department's Evaluation

Franciscan Health System

Based on the source information provided, the department concludes that approval of this project is the best option for the community. **This sub-criterion is met**.

MultiCare Health System

Based on the source information provided, the department concludes that approval of this project is the best option for the community. **This sub-criterion is met**.