STATE OF WASHINGTON
DEPARTMENT OF HEALTH

August 31, 2012

CERTIFIED MAIL # 7011 1570 0002 7808 7310

Jeffrey Robert, CSO
Providence St. Peter Hospital
413 Lilly Road Northeast
Olympia, Washington 98506-5166

Re: CN #12-29

Dear Mr. Robert:

We have completed our review of the Certificate of Need application submitted by Providence Health & Services-Washington proposing to expand the number of level I rehabilitation beds at St. Peter Hospital. Enclosed is a written evaluation of the application. For the reasons stated in this evaluation, the application submitted is consistent with applicable criteria of the Certificate of Need Program, provided Providence Health & Services-Washington agrees to the following in its entirety.

Project Description:
This Certificate approves the reallocation of six licensed acute care beds from general medical-surgical to its dedicated level I rehabilitation unit at St. Peter Hospital. At project completion, St. Peter Hospital would continue to be licensed for 390 acute care beds. The type of license and number of beds are summarized below.

Type	Approved
General Medical/Surgical	283
Chemical Dependency/Alcohol Treatment	50
Psychiatric	20
Level I Rehabilitation	24
Level II Intermediate Care Nursery	13
Total	**390**

Conditions:
1. Approval of the project description as stated above. Providence Health & Services-Washington further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.

2. Providence Health & Services-Washington will provide to the department, for review and approval, a revised Admission Policy for Acute Care Services to be used at the hospital. The revised policy must specifically address a patient's admission without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical or mental status and be consistent with the other components of the agreement provided in the application.
3. Providence Health & Services-Washington will provide to the department, for review and approval, a revised Criteria and Process for Inpatient Medical Rehabilitation Policy to be used at the hospital. The revised policy must specifically address a patient's admission without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical or mental status and be consistent with the other components of the agreement provided in the application.

Approved Costs:
The approved capital cost of this project is $1,800,000.

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

cc: Department of Health, Investigations and Inspections Office

EVALUATION DATED AUGUST 31, 2012, OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY PROVIDENCE HEALTH & SERVICES-WASHINGTON PROPOSING TO ADD SIX LEVEL I REHABILIATION BEDS TO ST. PETER HOSPITAL IN THURSTON COUNTY

APPLICANT DESCRIPTION

Providence Health & Services-Washington (Providence) is a Washington State non-profit corporation founded in 1856 on the principles of the Catholic tradition. Providence owns and operates a variety of healthcare facilities, including hospitals, nursing homes, home health, and hospice agencies. Providence's eight hospitals that are operated at nine separate locations are shown in the table below.[1] [source: Application, Exhibit 2 and Providence Health & Services website]

Name	City	County
Providence Centralia Hospital	Centralia	Lewis
Providence Regional Medical Center – Everett Colby Campus	Everett	Snohomish
Providence Regional Medical Center- Everett Pacific Campus	Everett	Snohomish
Holy Family Hospital	Spokane	Spokane
Sacred Heart Medical Center and Children's Hospital	Spokane	Spokane
St. Joseph Hospital	Chewelah	Stevens
St. Peter Hospital	**Olympia**	**Thurston**
St. Mary Hospital	Walla Walla	Walla Walla
Mount Carmel Hospital	Colville	Whitman

PROJECT DESCRIPTION

This project focuses on the St. Peter Hospital located at 413 Lilly Road in Olympia, within Thurston County that is shown in bold in the table above. St. Peter Hospital (St. Peter) is operated under the Southwest Washington subsidiary of Providence and is licensed by the Washington State Department of Health (department) as an acute care hospital and is also accredited by the Joint Commission.[2] St. Peter is designated by the department's Office of Emergency Medical Services and Trauma Systems as a Washington State level III adult trauma hospital and a level II rehabilitation hospital. St. Peter's rehabilitation unit is currently CARF accredited.[3]

Healthcare services offered at St. Peter range from general inpatient acute care to specialty care through programs such as a regional cancer center and behavioral health. St. Peter also provides

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[1] Providence Regional Medical Center-Everett operates two separate campuses under one hospital license.

[2] The Joint Commission is an independent, not-for-profit organization that accredits and certifies more than 19,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards.

[3] Founded in 1966 as the Commission on Accreditation of Rehabilitation Facilities, CARF International is an independent, nonprofit accreditor of health and human services in a variety of healthcare areas, including rehabilitation. CARF accredits more than 48,000 programs and services at more than 21,000 locations on five continents. More than 8 million persons of all ages are served annually by more than 6,000 CARF-accredited providers. CARF accreditation extends to 19 countries in North and South America, Europe, Asia, and Africa. [source: CARF website at www.carf.org]

outpatient services to the residents of Thurston County and surrounding communities. [source: Application, p7]

Currently, St. Peter is licensed for 390 acute care beds. This application requests the addition of 6 acute care beds to the hospital's license. St. Peter currently operates an 18-bed level I rehabilitation unit on the third floor of the hospital.[4] The 6 additional beds would be solely used for these rehabilitation services. A breakdown of St. Peter's current and projected number of beds is shown in the table below. [source: Application, p7]

Type	Current	Proposed
General Medical/Surgical	289	289
Chemical Dependency/Alcohol Treatment	50	50
Psychiatric	20	20
Level I Rehabilitation	18	24
Level II Intermediate Care Nursery	13	13
Total	**390**	**396**

If this project is approved, the additional 6 beds would be added in two phases. Phase one is the addition of 2 beds within six months of approval, or by the end of year 2012. Phase two is the addition of the remaining 4 beds, and is expected to occur in January 2014. [source: Application, pp18-22]

Providence provided its rationale for adding the 6 beds in two phases. Based on a misunderstanding of prior CN approval and a need to add rehabilitation capacity, in 2005, St. Peter began operating a 19th bed. Once Providence became aware of the need for approval before adding more rehabilitation beds, it discontinued operation of the 19th bed. However, the need for additional capacity in St. Peter's rehabilitation unit is ongoing. As a result, with minor remodel of the rehabilitation unit, Providence intends to add 2 rehabilitation beds upon approval. Phase two requires additional construction before the remaining 4 beds could be added. [source: Application, pp13-14 & Exhibit 7]

Based on the two phased project, year 2013 would be St. Peter's first year of operation with 392 acute care beds, and year 2016 would be year three with 396 acute care beds. [source: Application, p16]

The capital expenditure associated with both phases of the project is $1,800,000. Of that amount, approximately 74% is for building construction; 10% is for fixed and moveable equipment, 9% is for fees, and 7% is for sales tax.

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review as the change in bed capacity of an existing health care facility under Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

[4] On July 26, 1991, St. Peter was issued Certificate of Need (CN) #1053 for the establishment of an 18-bed level III rehabilitation unit. In 1991, level III rehabilitation was identified as the highest level of acute rehabilitation services and required prior CN approval before the services could be offered. Currently, the highest level of rehabilitation services is level I.

EVALUATION CRITERIA

The department makes its Certificate of Need determinations based on chapter 246-310 WAC. 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 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, an applicant must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).[5] WAC 246-310 does not contain service or facility specific criteria for level I rehabilitation projects. The acute care bed methodology and standards found in the 1987 State Health Plan, Volume II, is used to assist in the evaluation of hospital projects requesting acute care bed capacity.

APPLICATION CHRONOLOGY

A chronologic summary of the review for this project is shown on the following page.

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

Action	St. Peter Hospital
Letter of Intent Submitted	November 30, 2011
Application Submitted	March 27, 2012
Department's pre-review activities including screening and responses	March 28, 2012 through May 17, 2012
Beginning of Review • public comments accepted throughout review • No public hearing requested or conducted	May 18, 2012
End of Public Comment[6]	June 22, 2012
Rebuttal Comments	July 10, 2012
Department's Anticipated Decision Date	August 24, 2012
Department's Actual Decision Date	August 31, 2012

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."

During the review of this project, no entities sought or received affected person status.

SOURCE INFORMATION REVIEWED

- Providence Health System's Certificate of Need Application received March 27, 2012
- Providence Health System's supplemental information dated May 15, 2012
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Office of Hospital and Patient Data Systems dated July 31, 2012
- Historical charity care data obtained from the Department of Health's Office of Hospital and Patient Data Systems (2008, 2009, and 2010 summaries)
- Population data obtained from the Office Financial Management based on year 2010 census published May 2012
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Acute Care Bed Methodology extracted from the 1987 State Health Plan
- Data obtained from Providence Health & Services-Washington website www.providence.org
- Data obtained from CARF website www.carf.org
- Hospital and Patient Data Systems historical files
- Certificate of Need historical files

[6] Since no public comments were submitted regarding this project, Providence did not submit any rebuttal comments.

CONCLUSION

For the reasons stated in this evaluation, the Certificate of Need application submitted by Providence Health & Services-Washington proposing to add six dedicated level I rehabilitation beds to the hospital, is consistent with applicable criteria of the Certificate of Need Program, provided the applicant agrees to the conditions stated below.

Project Description:

This Certificate approves the reallocation of six licensed acute care beds from general medical-surgical to its dedicated level I rehabilitation unit at St. Peter Hospital. At project completion, St. Peter Hospital would continue to be licensed for 390 acute care beds. The type of license and number of beds are summarized below.

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2. Providence Health & Services-Washington will provide to the department, for review and approval, a revised Admission Policy for Acute Care Services to be used at the hospital. The revised policy must specifically address a patient's admission without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical or mental status and be consistent with the other components of the agreement provided in the application.
3. Providence Health & Services-Washington will provide to the department, for review and approval, a revised Criteria and Process for Inpatient Medical Rehabilitation Policy to be used at the hospital. The revised policy must specifically address a patient's admission without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical or mental status and be consistent with the other components of the agreement provided in the application.

Approved Costs:

The approved capital cost of this project is $1,800,000.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes that Providence Health & Services-Washington has met the need criteria in WAC 246-310-210.

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

The department uses the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan to assist in its determination of need for acute care capacity. The 1987 methodology is a twelve-step process of information gathering and mathematical computation. This forecasting method is designed to evaluate need for additional capacity in general, rather than identify need for a specific project.

Summary of Providence's Numeric Methodology

[source: Application, pp23-27 and Exhibit 8]

Providence submitted this application to increase its level I rehabilitation beds. To demonstrate numeric need, Providence provided a modified version of the acute care bed methodology that focuses on rehabilitation patients and patient days. The acute care bed methodology was used because the rehabilitation beds are licensed acute care beds that are dedicated to a specific use.

St. Peter is located in Thurston County. Level I rehabilitation services are considered tertiary services[7] and the planning area for tertiary services is typically much larger than the hospital's general acute care planning area. For this project, Providence identified its assumptions and factors used in its numeric methodology:

- Level I Rehabilitation Planning Area - four counties: Thurston, Lewis, Mason, and Grays Harbor
- Historical Level I Rehabilitation data – CHARS[8] data years 2001 through 2010
- Projected Population – based on Office of Financial Management medium series population 15 and older intercensal and postcensal estimates 1990 - 2010
- Rehabilitation DRGs
  - DRG[9] 945 – Rehabilitation with CC[10] or MCC[11]
  - DRG 946 – Rehabilitation without CC or MCC
- Psychiatric Data and DRGs – patients, patient days, and DRGs related to psychiatric services were excluded.

Steps 1 through 4 of the methodology develop trend information on hospital utilization. In steps 1 through 4, Providence appropriately focused on historical data to determine the health service area [HSA], planning area, and use trends for level I rehabilitation services. Providence

[7] "Tertiary health service" means a specialized service that meets complicated medical needs of people and requires sufficient patient volume to optimize provider effectiveness, quality of service, and improved outcomes of care. See RCW 70.38.025(14) and WAC 246-310-010(58)
[8] Comprehensive Hospital Abstract Reporting System.
[9] DRG=Diagnosis Related Group
[10] CC=complication or co-morbidity
[11] MCC=major complication or co-morbidity

computed a use trend line for the HSA, planning area, and statewide. The use trend line projected a mild decline in level I rehabilitation use for the HSA, planning area, and statewide. Providence determined that the HSA trend line was most statistically reliable and applied the data derived from those calculations to the projection years in the following steps.

Steps 5 through 9 calculate a baseline non-psychiatric bed need forecasts.
For these steps, Providence applied its use trend line to the projected population to determine a use rate broken down by population ages 15-64 and ages 65 and older. Providence multiplied the use rates derived from step 6 by the slopes of the HSA, planning area, and statewide ten-year use rate trend line. This step is completed for comparison purposes, and showed the planning area use rate to be statistically most reliable. Providence also determined the in-migration for residents who do not live within the four-county planning area, but need level I rehabilitation services at St. Peter. The use rates, broken down by age group, and the in-migration ratio are each applied in future steps of this methodology.

Below is the use rate and in-migration ratio, by age group, that Providence applied to the projected population.

Table 1
Providence Methodology
Use Rate Applied to Projected Population

	Use Rate	In-Migration Ratio
15- 65 Age Group	10.65/1,000	0.739
65 and Older Age Group	64.96/1,000	0.960

When the use rates are applied to the projected population, the result is the projected number of rehabilitation patient days for the planning area. The numeric methodology is designed to project bed need in a specified "target year." It is the practice of the department to evaluate need for a given project through at least seven years from the last full year of available CHARS data. For this application, the last full year of available CHARS data is 2010; therefore, the target year is 2017.

Steps 10 through 12 are intended to determine the total baseline hospital bed need forecasts, including need for short-stay psychiatric services.
Step 11 projects short-stay psychiatric bed need. Step 12 is the adjustment phase where any necessary changes are made to the calculations in the prior steps to reflect conditions which might cause the pure application of the methodology to under-or over-state the need for acute care beds.

In steps 10 through 12, Providence projected the number of rehabilitation beds needed in the planning area, subtracted the existing capacity, resulting in a net need for level I rehabilitation beds. For existing capacity, Providence subtracted a total of 26 rehabilitation beds:

- St. Peter in Thurston County = 18
- Providence Centralia Hospital in Lewis County = 8

These steps also allow psychiatric projections, which Providence appropriately did not compute [step 11], and allow for other adjustments in population, use rates, market shares, out-of-area use and occupancy rates [step 12]. Providence did not include any other adjustments than those described in the previous steps.

The table below shows the results of Providence's numeric methodology for years 2012 through 2017.

Table 2
Providence Methodology
Bed Need Summary / St. Peter with 18 Rehabilitation Beds

	2012	2013	2014	2015	2016	2017
Gross Number of Beds Needed	34.75	35.71	36.72	37.96	38.98	40.05
Minus Existing Capacity	26.00	26.00	26.00	26.00	26.00	26.00
Net Bed Need or (Surplus)	8.75	9.71	10.72	11.96	12.98	14.05

As shown above in Table 2, for current year 2012, Providence projected a need for 8 rehabilitation beds which increases to 14 by the end of year 2017.

Providence did not provide the calculations to show the impact of this project on the bed need for future years. Using the timeline provided in this application, the department calculated the impact, which is summarized in the table below.

Table 3
Providence Methodology
Bed Need Summary / St. Peter's Six Bed Addition

	2012	2013	2014	2015	2016	2017
Gross Number of Beds Needed	34.75	35.71	36.72	37.96	38.98	40.05
Minus Existing Capacity	26.00	28.00	32.00	32.00	32.00	32.00
Net Bed Need or (Surplus)	8.75	7.71	4.72	5.96	6.98	8.05

As shown above in Table 3, once all 6 level I rehabilitation beds are added to St. Peter in year 2014, a small need for additional rehabilitation beds is demonstrated.

The modified acute care bed methodology provided in the application justifies the additional rehabilitation beds at St. Peter. The current supply of these specialized beds is low [26 to serve four counties]. However the use of level I rehabilitation services is also not growing at an alarming rate.

To determine availability and accessibility of rehabilitation services, the department also reviewed historical data reported by Providence for St. Peter. The historical data shows the 'volume trend' for years 1992 through 2011—a total of 19 years. Specifically, the department reviewed St. Peter's number of licensed beds vs. the number of set up beds at the hospital. Regardless of the number of licensed beds at St. Peter, the hospital has historically had available licensed beds that could be set up for use. This application was submitted in March 2012, and the application confirms that only 343 of the 390 licensed beds are currently set up. [source: Application, p12] Additionally, a review of the department's internal construction database reveals that St. Peter does not have any major construction projects in review that would result in the set up and use of the current un-used bed capacity. [source: DOH ILRS database]

In conclusion, Providence demonstrated that additional level I rehabilitation beds are needed at St. Peter, but has failed to demonstrate that the additional beds should be new beds added to St. Peter's

license. If Providence agrees to add the 6 rehabilitation beds within St. Peter's exiting 390 bed acute care license, **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.*

St. Peter is currently a provider of health care services to residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. As an acute care hospital, St. Peter also participates in the Medicare and Medicaid programs. To determine whether all residents of the service area would continue to have access to an applicant's proposed services, the department requires applicants 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. The admission policy must also include language to ensure all residents of the service area would have access to services. This is accomplished by providing an admission polity that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status

To demonstrate compliance with this sub-criterion, Providence provided a copy of two separate admission policies. One policy focuses on admission to the hospital for all acute care services and the other focuses on admission into the rehabilitation program. Below is an overview of each policy.

- Providence St. Peter Hospital Admission Policy for Acute Care Services
  [source: Application, Exhibit 10B)
  This policy outlines the process used to admit patients for treatment or care at the hospital. It includes admission to St. Peter's specialty services, such as rehabilitation, trauma, and outpatient services. The policy was reviewed and revised in April 2009. This policy does not include the necessary language to ensure all residents of the service area would have access to services at St. Peter Hospital.
- Criteria and Process for Inpatient Medical Rehabilitation Program
  [source: Application, Exhibit 10A]
  The policy outlines admission criteria and admission processes and procedures for the inpatient rehabilitation unit. The policy was reviewed and revised in May 2009. This policy does not include the necessary language to ensure all residents of the service area would have access to services at St. Peter Hospital.

Since these policies do not include the non-discrimination language to ensure all residents of the service area would have access to the services at St. Peter, the department concludes that a condition requiring Providence to submit revised policies with the non-discrimination language is necessary.

The department uses Medicare certification to determine whether the elderly would have access or continue to have access to the proposed services. St. Peter currently provides services to Medicare eligible patients. Documents provided in the application demonstrate that Providence intends to maintain this status at the hospital. For this project, a review of the policies and data provided for St. Peter identifies the hospital's financial pro forma includes Medicare revenues. [source: May 15, 2012, supplemental information, Revised Exhibits 15A and 15B]

The department uses the facility's Medicaid eligibility or contracting with Medicaid to determine whether low-income residents would have access to the proposed services. St. Peter also provides services to Medicaid eligible patients. Documents provided in the application demonstrate that Providence intends to maintain this practice. For this project, a review of the policies and data provided for St. Peter identifies the hospital's financial pro forma includes Medicaid revenues. [source: May 15, 2012, supplemental information, Revised Exhibits 15A and 15B]

The department uses a hospital's charity care policy to 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 include the process for accessing charity care at the facility.

Providence demonstrated its intent to continue to provide charity care to residents by submitting its department approved charity care policy. The policy includes the necessary non-discrimination language to ensure all residents of the service area would have access to care. Further, Providence included a 'charity care' line item as a deduction from revenue within the pro forma financial documents for both the main hospital and the rehabilitation unit. [source: Application, Exhibit 9 and May 15, 2012, supplemental information, Revised Exhibits 15A and 15B]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems program (HPDS) divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. St. Peter is one of 14 hospitals located in the Southwest Region. According to 2008 - 2010[12] charity care data obtained from HPDS, St. Peter has historically provided more than the average charity care provided in the region. A comparison of St. Peter's most recent three-year (2008 - 2010) percentages of charity care for gross and adjusted revenues with the regional average is detailed in the table below.

Table 4
St. Peter Hospital Three-Year Charity Care Comparison

	3-Year Average Southwest Region	3-Year Average St. Peter
Percentage of Gross Revenue	3.32%	3.35%
Percentage of Adjusted Revenue	7.72%	8.40%,

RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. The pro forma revenue and expense statements submitted by Providence for St. Peter indicate that the hospital will provide charity care at approximately 3.32% of gross revenue and 6.78% of adjusted revenue. St. Peter's three-year historical average is higher than that for the region and Providence projects to continue providing charity care above the regional average.

Based on the charity care history for St. Peter, the department concludes that a condition related to the percentage of charity care to be provided at St. Peter is not necessary if this project is approved. **This sub-criterion is met.**

[12] Year 2011 charity care data is not available as of the writing of this evaluation.

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes that Providence Health & Services-Washington 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 will meet its immediate and long-range capital and operating costs by the end of the third complete year of operation.

To evaluate this sub-criterion, the department first reviewed the assumptions used by Providence to determine the projected number of patient discharges and days for level I rehabilitation services. The assumptions used by Providence are summarized below. [source: Application, pp37-39]

- Actual 2001 through 2011 rehabilitation patient discharges and days were reviewed. The review showed an upward trend in both discharges and days. Discharges increased at 1% on average and patient days increased by 6.4% per year.
- A linear regression curve was applied to the historical data to forecast discharges and patient days for years 2012 through 2019.
- Average length of stay (ALOS) was held constant at the 2011 ALOS of 12.8 days.
- In year 2018, when the level I rehabilitation patient days reached 7,593, the occupancy percentage would be 86.7. At this point, Providence kept its patient days at this number through 2019.

Using the assumptions stated above, Providence projected patient discharges and days for years 2012 through 2019. Years 2013 through 2016 are shown in the table below.

Table 5
Providence St. Peter Hospital's Projected
Level I Rehabilitation Discharges and Days

	2013	2014	2016	2016
Number of Beds	20	24	24	24
Patient Discharges	479	502	525	548
Patient Days	6,131	6,424	6,716	7,008
Average Occupancy	84.0%	73.3%	76.7%	80.0%

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

If approved, Providence would add two beds to the rehabilitation unit by the end of year 2012. The remaining four beds would be added in January 2014. Under this timeline, year 2013 would be the first year of operation with 20 rehabilitation beds, year 2014 would be the first year of operation with 24 rehabilitation beds, and 2016 would be year three.

Providence provided two separate Revenue and Expense statements for this project. One statement focuses on the level I rehabilitation cost center only and the other is for the hospital as a whole, with the 6 additional rehabilitation beds. The department also reviewed the assumptions used by Providence to determine revenue and expense projections for the rehabilitation cost center and St. Peter as a whole. The assumptions used by Providence are summarized below. [source: Application, p46]

Rehabilitation Cost Center Statement

- Expenses, gross revenue, and net revenues are driven from the cost center 2011 actuals.
- Payer mix for the cost center is based on 2010 payer mix and is expected to remain constant.

Hospital Aggregate Statement

- Bad debt remains constant at 1.8% of gross revenues. In year 2012, bad debt is included in 'other deductions from revenue.'
- Charity care is presumed to remain constant at 3.3% of gross revenue.

After reviewing Providence's assumptions above, the department concludes they are reasonable. The table below shows the projected revenue, expenses, and net income for the rehabilitation cost center only. [source: May 15, 2012, supplemental information, Revised Exhibit 15B]

Table 6
Calendar Years 2013 through 2016
Projected Revenue and Expense Statement
Level I Cost Center Only

	Year 1-2013	Year 2-2014	Year 3-2015	Year 4-2016
Net Revenue	$ 4,607,000	$ 4,826,000	$ 5,045,000	$ 5,265,000
Total Expenses	$ 6,030,000	$ 6,285,000	$ 6,540,000	$ 6,795,000
Net Profit /(Loss)	($ 1,423,000)	($ 1,459,000)	($ 1,495,000)	($ 1,530,000)

The 'Net Revenue' line item is gross revenue minus any deductions for charity care, bad debt and contractual allowance.. The 'Total Expenses' line item includes rehabilitation specific salaries and wages and supplies. It also includes allocated costs from both Providence and St. Peter Hospital. As shown above, Providence projected net losses in all four years shown. Additionally, the net loss increases by approximately $35,000 each year.

Providence provided the following statements in response to the cost center loss each year.

"The rehabilitation cost center financial statement, with or without the project, does show current and forecast net losses. This simply demonstrates the fact that rehabilitation services, once indirect allocated costs are included, generate net losses. This is not uncommon when individual costs centers are evaluated."

The table below shows the projected revenue, expenses, and net income for St. Peter with the additional 6 rehabilitation beds. [source: May 15, 2012, supplemental information, Revised Exhibit 15B]

Table 7
Calendar Years 2013 through 2016
Projected Revenue and Expense Statement
Providence St. Peter Hospital

	Year 1-2013	Year 2-2014	Year 3-2015	Year 4-2016
Net Revenue	$ 407,247,000	$ 405,050,000	$ 415,038,000	$ 424,363,000
Total Expenses	$ 383,824,000	$ 371,111,000	$ 373,125,000	$ 374,936,000
Net Profit /(Loss)	$ 23,423,000	$ 33,939,000	$ 41,913,000	$ 49,427,000

The 'Net Revenue' line item is gross revenue minus any deductions for charity care, bad debt and contractual allowance.. The 'Total Expenses' line item includes salaries and wages, amortization, and depreciation. As shown above, Providence projected net profits in all four years shown.

When comparing the two tables, it is clear that St. Peter's rehabilitation unit is subsidized by the hospital, which is not uncommon for high acuity services within a hospital. Historical records show that St. Peter has been offering some rehabilitation services since at least 1987 and established its rehabilitation unit in approximately 1992. While not documented in the CN historical files, it is likely that St. Peter's rehabilitation unit has historically operated as a cost center loss. If Providence was requesting to establish a new rehabilitation service and projecting the losses shown above, the department would have concerns about the viability of the new service. Since Providence has been providing rehabilitation services at St. Peter for more than 20 years, the department concludes Providence has elected to provide the much need services to the planning area and subsidize the cost center with profits of the hospital.

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

The table below is a summary of the hospital's 2010 ratios compared to the statewide average. Since the level I rehabilitation service is a cost center for the hospital, the only ratio that is applicable to the cost center is operating expense to operating revenue. The projected ratios reflect the level I rehabilitation cost center's operating expense to operating revenue ratio. HPDS also included the projected ratios for St. Peter as a whole for its third full year of operation with the additional level I rehabilitation beds.

Table 8
Providence St. Peter Hospital Level I Rehabilitation Unit
Projected Financial Ratios

Ratio Category	Trend [13]	State 2010	PSPH 2010	Rehab Year 1 2013	Rehab Year 2 2014	Rehab Year 3 2015	PSPH-2015
Long Term Debt to Equity	B	0.544	0.332	n/a	n/a	n/a	0.276
Current Assets /Current Liabilities	A	2.281	1.300	n/a	n/a	n/a	2.131
Assets Funded by Liabilities	B	0.434	0.367	n/a	n/a	n/a	0.306
Operating Exp/Operating Rev.	B	0.947	0.959	1.309	1.302	1.296	0.899
Debt Service Coverage	A	5.892	8.220	n/a	n/a	n/a	8.869

Long Term Debt to Equity	Long Term Debt/Equity
Current Assets/Current Liabilities	Current Assets/Current Liabilities
Assets Funded by Liabilities	(Current Liabilities + Long term Debt)/Assets
Operating Expense/Operating Revenue	Operating Expense/Operating Revenue
Debt Service Coverage	Net Profit + Depr and Int. Exp/Current Mat. LTD and Int. Exp

After reviewing the ratios shown in the table above, HPDS concluded that even though this project has more expenses than revenue, this project would not adversely impact the financial health of St. Peter as a whole. HPDS also reviewed the hospital's Pro Forma Income Statements 'with the project' and 'without the project.' When compared, HPDS concluded that the hospital would maintain its financial health with the additional beds. [source: HPDS analysis, p3]

Based on the information above and HPDS's review of the financial and utilization information, the department concludes that the immediate and long range operating costs for the hospital 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 direct 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.

This project proposes the addition of 6 dedicated level I rehabilitation beds for a total cost of $1,800,000. The 6 beds would be added in two phases. The majority of the costs are associated with construction and equipment. Phase one includes minor remodel and additional equipment before the 2 rehabilitation beds can be added. Costs associated with phase one are $600,000. Phase two requires more extensive remodel and additional equipment before adding the 4 remaining beds. Costs associated with phase two are $1,200,000. A breakdown of the total capital

[13] The A means it is better if the number is above the state number and B means it is better if the number is below the state number.

costs for both phases is outlined in the table below. [source: Application, pp13-14, pp41-41, & Exhibit 7]

Table 9
St. Peter Rehabilitation Project Capital Expenditure Breakdown

Item	Total
Building Construction	$1,325,000
Fixed and Moveable Equipment	$173,508
Architect/Engineer/Consulting/Review Fees	$170,875
Sales Tax	$130,617
Total	**$1,800,000**

By HPDS standards, the costs of the project are the costs and charges that are billed to the patients and community. HPDS concludes that St. Peter's rates are similar to the Washington statewide averages. [source: HPDS Analysis, p3]

Based on the information above, **this sub-criterion is met.**

(3) The project can be appropriately financed.

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

The estimated cost for this project is $1,800,000. Providence intends to fund the project using cash reserves. [source: Application, p17] To demonstrate compliance with this criterion, Providence provided a non-binding contractor estimate for the construction costs and a letter of financial commitment from its Chief Financial Officer. [source: Application, Exhibits 13 & 14]

HPDS also reviewed Providence's most recent—year 2010—balance sheet to determine whether the funding is available. Below is a summary of the balance sheet. [source: HPDS analysis, p2]

Table 10
Providence Health and Services
Year 2010 Historical Balance Sheets

Assets		Liabilities	
Current Assets	$ 2,347,817,000	Current Liabilities	$ 1,806,625,000
Fixed Assets	$ 4,272,212,000	Long Term Debt	$ 1,705,313,000
Board Designated Assets	$ 2,694,216,000	Other	$ 930,310,000
Other Assets	$ 264,825,000	**Equity**	**$ 5,136,822,000**
Total Assets	**$ 9,579,070,000**	**Total Liabilities and Equity**	**$ 9,579,070,000**

After reviewing the historical balance sheet summarized above, HPDS concluded that Providence has the financial capability to fund the project and maintain its financial health. [source: HPDS analysis, p3]

Based on the information above, the department concludes that the proposed financing method is appropriate and the use of Providence reserves would not negatively affect the health system's financial viability. **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 concludes that Providence Health & Services-Washington has met the structure and process (quality) of care criteria in WAC 246-310-230.

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

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of full time equivalents (FTEs) that should be employed for projects of this type or size. Therefore, using its experience and expertise the department concludes that the planning would allow for the required coverage.

Providence estimates that the rehabilitation unit will require 4.5 additional FTEs to accommodate the additional patients and patient days expected with the 6 beds. The majority of the FTEs are for direct patient care. The table below shows the current and projected FTEs for years 2012 through 2016. [source: Application, Exhibit 15B]

Table 11
Providence St. Peter Rehabilitation Unit - FTE Forecast

	Current 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Total
Management	1.10	0.00	0.00	0.00	0.00	1.10
Tech Specialists	0.40	0.10	0.00	0.00	0.00	0.50
RNs	14.30	0.70	0.60	0.60	0.70	16.90
LPS	1.80	0.10	0.00	0.10	0.10	2.10
Aides & Orderlies	6.50	0.20	0.30	0.20	0.30	7.50
Clerical/Other Admin	2.00	0.10	0.10	0.10	0.00	2.30
Agency	1.60	0.10	0.10	0.00	0.10	1.90
Non-productive	1.80	0.10	0.00	0.10	0.00	2.00
FTE Total	**29.50**	**1.40**	**1.10**	**1.10**	**1.20**	**34.30**

Providence states it has done well in recruiting and retaining skilled individuals to meet St. Peter's needs. Additionally, Providence partners with local universities and colleges for learning experiences and as a recruitment strategy.

Providence asserts it has been very successful at retaining skilled and valuable professionals in all disciplines at St. Peter. The hospital is also employee centered and offers ongoing educational opportunities and leadership training to complement staff skill training. Providence asserts this approach ensures St. Peter's ability to recruit and retain the necessary staff for its rehabilitation

unit, which is demonstrated by the rehabilitation program's 85% retention rate. [source: Application, p48]

Based on the information provided, the department concludes that Providence provided documentation to demonstrate that it could recruit and retain the necessary staff at St. Peter to provide increased rehabilitation services. **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) 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 a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

This application proposes to continue rehabilitation services currently offered at St. Peter with an increased number of beds. As an existing provider of rehabilitation services, St. Peter has retained the support services necessary to provide the appropriate care. This is demonstrated in the application and through St. Peter's CARF and Joint Commission accreditations for the rehabilitation unit. Providence states that the additional 6 beds in the rehabilitation unit are not expected to change the relationships in place. [source: Application pp48-50]

After reviewing the application, the department concludes there is no indication that the existing relationships would not accommodate the additional 6 beds requested in this application. There is reasonable assurance that St. Peter will continue its relationships with ancillary and support services within the hospital and the community, and this project would not affect those relationships. **This sub-criterion is met.**

(3) *There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.*
WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Providence owns and operates a variety of healthcare facilities, including hospitals, nursing homes, home health and hospice agencies. The department's Investigations and Inspections Office (IIO) conducts quality of care and compliance surveys for the hospitals, home health, and hospice agencies. Records indicate that since 2009, IIO completed a total of 25 compliance surveys for Providence owned or operated healthcare facilities.[14] None of the compliance surveys revealed significant deficiencies for the facility. Additionally, all eight Providence hospitals are accredited by the Joint Commission. [source: facility survey data provided by the Investigations and Inspections Office and Joint Commission website]

[14] Year 2009=5 surveys; year 2010=10 surveys; year 2011=7 surveys; and year 2012=3 surveys.

St. Peter has been offering rehabilitation services since at least 1987 and established its rehabilitation unit in approximately 1992. Since the rehabilitation services have always been provided within the hospital, no separate medical director agreement was established.

Based on Providence's compliance history, the department concludes that there is reasonable assurance that St. Peter will continue to operate in conformance with state and federal regulations with the addition of 6 dedicated level I rehabilitation beds. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that 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.

The rehabilitation unit is currently CARF and Joint Commission accredited. The purpose of the rehabilitation unit is to return patients back into their community after a health trauma event, such as stroke, traumatic brain injury, surgery, or other medical event that requires inpatient rehabilitation therapy. St. Peter's admission and discharge clinical staff currently have strong working relationships with community providers in the planning area. Additionally, St. Peter's rehabilitation unit follows the guidelines of CMS admission criteria, which includes reporting and tracking patient outcomes using a national data base. Providence asserts that the additional 6 rehabilitation beds would assist St. Peter with its mission to continue to provide these services to the growing population in the planning area. [source: Application, p50]

After reviewing the application, the department concludes that approval of this project is not expected to change the relationships in place with the health care providers in the area since it does not involve a reduction in services for the planning area. The department also concludes there is reasonable assurance that approval of this project would assist in St. Peter's ability to meet the demand for rehabilitation services in the planning area.

Based on the information provided in the application, the department concludes that approval of this project will not result in an unwarranted fragmentation of services. **This sub-criterion is met.**

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

This sub-criterion is addressed in sub-section (3) above and **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 concludes that Providence Health & Services-Washington 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.

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

If the project met WAC 246-310-210 through 230 criteria, the department moves to step two in the process and assess the other options 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 its application, the determination is either made that (1) this criterion is met (regular or expedited reviews), or (2) in the case of projects under concurrent review, to 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 looks 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 assesses the competing projects and determines which project should be approved.

Step One

For this project, Providence met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two

Before submitting its application, Providence considered the following two options. [source: Application, p52-54]

- Do Nothing
  Providence considered continuing to operate the level I rehabilitation unit with 18 beds. Providence states that since its rehabilitation unit is operating at a high capacity, this option would result in patients having to travel out of the community to receive these services. According to Providence's internal statistics, capacity of the 18 beds may be reached as early as 2012 or 2013. As a result, Providence rejected this option.

- Add 14 level I rehabilitation beds, for a total of 32 at St. Peter
  Providence considered applying for the addition of 14 level I rehabilitation beds because the numeric need is projected in year 2017. This option would also meet the needs of future patients in the planning area for some time. However, this option requires

significantly more construction to accommodate 14 beds within the existing unit, resulting in more disruption to patients and staff. For those reasons, Providence rejected this option.

Step Three

This step is used to determine between two or more approvable projects which is the best alternative. This step does not apply to this project.

Department's Evaluation

As stated in the project description portion of this evaluation, Providence was approved in 1991 to establish an 18-bed level I rehabilitation unit at St. Peter. In 2005, the unit was expanded to 19 beds. Once Providence became aware of prior Certificate of Need approval before adding level I rehabilitation bed capacity, it discontinued operation of the 19th bed. As a result, once Providence identified the need for additional rehabilitation bed capacity, the 'do nothing' option was no longer available.

Since submission of an application to add level I rehabilitation bed capacity was the only option available to Providence to increase its rehabilitation census, the next step was to determine how many beds to add to the existing unit. Providence chose the option that allowed it to expand without a significant capital expenditure or reconfiguration of the unit. Providence's choice appears to be the most prudent and conservative.

One option not considered by Providence is the option of adding the 6 rehabilitation beds to St. Peter within its existing licensed bed capacity. As stated in the need portion of this evaluation, the department concluded was the better option for St. Peter.

Based on the documents provided in the application, including the numeric bed need forecast, the department concludes the addition of 6 rehabilitation beds within St. Peter's 390 bed acute care license is the best available alternative for the residents Thurston County and surrounding communities. **This sub-criterion is met.**

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

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

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

(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

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

Based on the source information provided, the department concludes that the cost, scope, and methods of construction are reasonable and approval of this project is not expected to have an unreasonable impact on the costs and charges to the public. **This sub-criterion is met.**