



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH

December 20, 2012

CERTIFIED MAIL # 7011 1570 0002 7809 5452

Kenneth J. Martin  
Chairman of the Board  
Confluence Health  
820 North Chelan Avenue  
Wenatchee, Washington 98801

Re: CN #13-03

Dear Mr. Martin:

We have completed review of the Certificate of Need application submitted by Confluence Health proposing to lease Wenatchee Valley Hospital (WVH) in Wenatchee within Chelan County. For the reasons stated in this evaluation, the application submitted is consistent with applicable criteria of the Certificate of Need Program, provided Confluence Health agrees to the following in its entirety.

**Project Description:**

This project approves the lease of Wenatchee Valley Hospital in Wenatchee. At project completion, the allocation of Wenatchee Valley Hospital's 20 acute care beds is as follows:

Bed Type	# of Licensed Beds
General Medical/Surgical	14
Dedicated or PPS Exempt Rehabilitation	6
<b>Total Number of Licensed Beds</b>	<b>20</b>

**Conditions:**

1. Confluence Health agree with the project description stated above. Confluence Health 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. Confluence Health must submit to the department for review and approval and executed lease agreement with Wenatchee Valley Medical Center consistent with the draft agreement in the application.
3. Confluence Health will ensure that Wenatchee Valley Hospital will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Wenatchee Valley Hospital will use reasonable efforts to provide charity care in

an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Central Region. Currently, this amount is 2.01% gross revenue and 4.52% of adjusted revenue. Wenatchee Valley Hospital will maintain records documenting the amount of charity care it provides and demonstrating compliance with its charity care policies.

4. Confluence Health must submit for review and approval a copy of Confluence Health's adopted admission policy. This must be consistent with the draft provided in the application.
5. Confluence Health must submit for review and approval a copy of Confluence Health's adopted charity care policy. This policy must be consistent with the draft submitted in the application.

**Approved Costs:**

The approved capital expenditure for this project is \$112,000.

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 Janis Sigman in the Certificate of Need Program, at one of the following addresses.

Mailing Address:

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

Other Than By Mail:

Department of Health  
Certificate of Need Program  
111 Israel Road SE  
Tumwater, WA 98501

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

Sincerely,

*Lisa Hodgson for*

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

Enclosure

**EVALUATION DATED DECEMBER 20, 2012 FOR THE CERTIFICATE OF NEED  
APPLICATION SUBMITTED BY CONFLUENCE HEALTH PROPOSING TO LEASE  
WENATCHEE VALLEY HOSPITAL IN WENATCHEE WITHIN CHELAN COUNTY**

**APPLICANT DESCRIPTION**

Wenatchee Valley Medical Center (WVMC) is a for-profit multispecialty physician group practice in Wenatchee, Washington. WVMC offers physician and ancillary services at 8 clinics throughout North Central Washington. WVMC also operates Wenatchee Valley Hospital located at 820 North Chelan Avenue in Wenatchee [98801], within Chelan County. Wenatchee Valley Hospital is licensed for 20 acute care beds, which includes 14 medical/surgical beds and 6 rehabilitation beds. [Source: Application, p8]

Central Washington Hospital (CWH) is a not-for-profit community hospital located at 1201 South Miller Street in Wenatchee [98807], also in Chelan County. CWH is licensed for 198 acute care beds, this includes 176 medical/surgical beds, which includes 6 Level II ICN beds and 22 transitional care beds. CWH provides complex care to the region through the hospital itself, in addition to operating 5 clinics in and around the hospital in Wenatchee. [Source: Application, p8]

On March 13, 2012, CWH and WVMC affiliated and created a new corporation known as Confluence Health. [Source: Secretary of State Corporations website] Confluence Health (CH) is the applicant for this project.

CH is a not-for-profit health care delivery system governed by a Board of Directors made up of 15 community members and physicians nominated by WVMC. The Board will be responsible for general oversight and strategy of CH in coordination with the chief executive officer of WVH. [Source: Application, p8 & p17]

**PROJECT DESCRIPTION**

CH proposes to lease and operate Wenatchee Valley Hospital (WVH) from WVMC. The lease agreement does not result in a merger or the acquisition of either WVMC or CWH by CH. If this lease transaction is approved, CWH will remain a separate not-for-profit organization and WVMC would remain a for-profit physician owned business.

CH states this lease arrangement would improve coordination and provision of services between the health service providers in Wenatchee and potentially reduce the costs of providing services. To accomplish this, CH will also enter into a number of ancillary agreements with WVMC to facilitate the operations of WVH. [Source: Application, p10]

The estimated capital expenditure for this project is \$112,000, which is solely related to the consulting and legal fees associated with the creation of the new CH corporation and the lease agreement. The \$112,000 was already been expended by CH under the CH board member approval. [Source: Application, p30; October 16, 2012, supplemental information, Revised Exhibit 10]

If approved, CH expects the lease to commence on January 1, 2013, and continue through December 31, 2019, unless sooner terminated. The draft lease agreement also includes two 7-year automatic renewals, which allows it to extend through year 2033. [Source: Application, Exhibit 7]

### **APPLICABILITY OF CERTIFICATE OF NEED LAW**

This project is subject to Certificate of Need (CN) review because it is the lease of all or part of an existing hospital under Revised Code of Washington (RCW) 70.38.105(4)(b) and Washington Administrative Code (WAC) 246-310-020(1)(b).

### **EVALUATION CRITERIA**

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, WVH 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).<sup>1</sup>

**TYPE OF REVIEW**

Applications for hospital leases are reviewed under an expedited review timeline as outlined in WAC 246-310-150.

**APPLICATION CHRONOLOGY**

The timeline below represents the expedited review timeline for this project.

<b>Action</b>	<b>CONFLUENCE HEALTH</b>
Letter of Intent Submitted	June 8, 2012
Application Submitted	September 6, 2012
Department's pre-review activities including screening and responses	September 7, 2012, through October 22, 2012
Beginning of Review	October 23, 2012
End of Public Comment <ul style="list-style-type: none"> <li>• no public hearing conducted under expedited review</li> <li>• public comments accepted through end of public comment</li> </ul>	November 13, 2012
Rebuttal Comments Due <sup>2</sup>	November 26, 2012
Department's Anticipated Decision Date	December 17, 2012
Department's Actual Decision Date	December 20, 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."

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

**SOURCE INFORMATION REVIEWED**

- Confluence Health Certificate of Need Application received September 6, 2012
- Confluence Health supplemental information received October 16, 2012, and October 22, 2012

<sup>1</sup> 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(1), (3), (4), (5), (6) and WAC 246-310-240(2) and (3).

<sup>2</sup> All public comments were submitted in support of the application. As a result, the applicant chose not to submit rebuttal comments.

- Public comments received at the Certificate of Need Program office by November 13, 2012
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Hospital and Patient Data Systems
- Historical charity care data obtained from the Department of Health's Hospital and Patient Data Systems (2008, 2009, and 2010 summaries)
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems received November 29, 2012
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Washington State Secretary of State website [[www.secstate.wa.gov](http://www.secstate.wa.gov)]
- Joint Commission website [[www.jointcommission.com](http://www.jointcommission.com)]
- Historical Certificate of Need files

**CONCLUSION**

For the reasons stated in this evaluation, the application submitted by Confluence Health proposing to lease Wenatchee Valley Hospital is consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need should be issued provided Confluence Health agrees to the following in its entirety.

**Project Description:**

This project approves the lease of Wenatchee Valley Hospital in Wenatchee. At project completion, the allocation of Wenatchee Valley Hospital's 20 acute care beds is as follows:

<b>Bed Type</b>	<b># of Licensed Beds</b>
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5. Confluence Health must submit for review and approval a copy of Confluence Health's adopted charity care policy. This policy must be consistent with the draft submitted in the application.

**Approved Costs:**

The approved capital expenditure for this project is \$112,000.

**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 the applicant has met the need criteria in WAC 246-310-210.

- (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.

To determine whether all residents of the Chelan County planning area would 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 policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status. Once the hospital is leased Confluence Health will need to have its own admission policy. Therefore, the department considers the admission policy submitted in the application to be draft.

To demonstrate compliance with this sub-criterion, the applicant provided a copy of the WVH admissions, transfer, and referrals policy currently used for the hospital by WVMC. This admission policy will continue to be used under the lease of WVH by CH. The policy outlines the process/criteria that WVH currently uses to admit patients for treatment or care at the hospital. The policy provides the required non-discrimination statements to ensure continued access to the hospital by residents of the service area. [Source: Application, p23 and Exhibit 5]

The department uses Medicare certification to determine whether the elderly would have access, or continue to have access, to the proposed services. To demonstrate compliance with this sub-criterion, CH stated that WVH currently contracts with Medicare and this transaction would not affect this status. Hospital-wide financial data provided in the application includes Medicare revenues. [Source: Application, pp18 & 30]

The department uses the facility's Medicaid eligibility or contracting with Medicaid to determine whether low-income residents would have access, or continue to have access, to the proposed services. To demonstrate compliance with this sub-criterion, CH stated that WVH currently contracts with Medicaid and the applicant intends to maintain this status. Further, financial data provided in the application includes Medicaid revenues. [Source: Application, pp18 & 30]

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.



To demonstrate compliance with this sub-criterion, CH provided a copy of WVH's current, Department of Health approved, charity care policy. [Source: Application, Exhibit 4] CH states that the current policy would not change as a result of this transaction. The current policy outlines the process/criteria that patients use to access this service from WVH. Further, CH included a 'charity care' line item as a deduction from revenue within the WVH pro forma financial documents. [Source: Application, p 28] Once the hospital is leased, Confluence Health will need its own charity care policy. Therefore, the department considers the charity care policy in the application to be a draft.

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. WVH is located in Chelan County within the Central Region. Currently there are 21 hospitals located within the region, including WVH. According to 2008-2010<sup>3</sup> charity care data obtained from HPDS, WVH has historically provided less than the average charity care provided in the region.

The pro forma revenue and expense statements submitted by CH indicate that the hospital will provide charity care at approximately 2.92% of gross revenue and 5.23% of adjusted revenue. RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care.

The table below shows a comparison of WVH's most recent three-year (2008 - 2010) average percentage of charity care for gross and adjusted revenues, the Central Region averages, and CH's projected charity care averages for WVH. [Source: HPDS 2008-2010 charity care summaries and Application p24]

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<sup>3</sup> Year 2011 charity care data is not available as of the writing of this evaluation.

**Table 1**  
**Charity Care Percentage Comparison**

	% of Total Revenue	% of Adjusted Revenue
Central Region	2.01%	4.52%
Wenatchee Valley Hospital 3-year historical average	1.43%	2.74%
Wenatchee Valley Hospital 3-year projected	2.91%	5.23%

The department notes that WVH's three-year historical average is below that for the region. In this application, CH projects that WVH would provide charity care above the regional average. Because WVH would be operated and managed by a new entity, to ensure that the charity care averages would be consistent with the regional averages, the department concludes that a condition related to the percentage of charity care to be provided at WVH is necessary if this project is approved.

With agreement to the condition regarding the charity care percentages, **this sub-criterion is met.**

**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 the applicant 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.

To demonstrate that the hospital's revenues would cover its expenses, CH provided the pro forma financial statements for projected years 2013 through year 2015. CH also provided the assumptions used as a basis for the projections. The assumptions summarized below.  
[Source: Application, p25-27]

- The number of set up, licensed beds remains at 20, and the breakdown of beds remains at 14 general medical surgical beds and 6 dedicated rehabilitation beds.
- CH would maintain all services currently provided at WVH. The services continue to exclude emergency department services that were discontinued in August 2012.<sup>4</sup>

<sup>4</sup> Emergency services are provided by Central Washington Hospital in Wenatchee.

With the closure of the emergency department at WVH, the outpatient days were reduced from 37,920 in 2011 to 24,535 in 2012. Year 2012 figures were used as a basis for projecting outpatient days for 2013 through 2015.

- The closure of the emergency department also resulted in a reduction in inpatient days at WVH from 3,326 in 2011 to 2,630 in 2012. Year 2012 figures were used as a basis for projecting inpatient days for years 2013 through 2015.
- Payer mix is expected to change slightly, also a result of the closure of the emergency department. Payer mix is projected from 2012 figures, rather than 2011.
- Variable expenses and revenue forecasts are calculated from 2011 actuals.
- The number of FTEs was assumed to flex with volume, which shows a modest increase in staffing.
- Year 2013 through 2015 proformas do not include any inflation factors.
- Charity care projected at 3% of revenue for all three years.
- Deductions from revenue have been held constant at 41.0% of gross revenues.
- Federal income taxes are included in historical revenue and expense statements. No federal income taxes are included in the projections as the hospital would be operating as a not-for-profit.

After reviewing the assumptions used by CH to project the revenue and expenses at WVH for years 2013 through 2015, the department concludes they are reasonable. Based on the assumptions summarized above, CH provided the projected revenue and expense statements for WVH for years 2013 through 2015. The statements are summarized in the table below. [Source: Application, Exhibit 8]

**Table 2**  
**Wenatchee Valley Hospital**  
**Projected Revenue and Expenses for Years 2013 through 2015**

	2013	2014	2015
Inpatient Admissions	694	701	708
Inpatient Days	2,656	2,683	2,710
Percentage Occupancy	36.4%	36.8%	37.1%
Total Net Revenue	\$27,183,267	\$27,639,904	\$28,092,233
Total Operating Expenses	\$23,749,374	\$24,136,362	\$24,542,239
<b>Operating Profit or (Loss)</b>	<b>\$3,433,893</b>	<b>\$3,503,542</b>	<b>\$3,549,994</b>
Non Operating Revenue (Loss)	(\$341,964)	(\$341,964)	(\$341,964)
<b>Net Profit or (Loss)</b>	<b>\$3,091,929</b>	<b>\$3,161,578</b>	<b>\$3,208,030</b>

The 'Total Net Patient Revenue' line item in the table above is the result of gross patient revenue minus any deductions for contractual allowances, bad debt, and charity care. The 'Total Operating Expenses' line item includes staff salaries/wages and all expenses to operate the hospital. The expense line item also includes allocated costs. The 'Non Operating Loss' reflects the non-operating loss of the cafeteria.

The table above reflects a gradual increase in admissions and patient days and includes all acute care services currently provided at WVH. The occupancy percentages are expected to

remain at approximately 36% in the next three years. With the assumptions above, CH projects WVH would operate at a profit for years 2013, 2014, and 2015.

To analyze short- and long-term financial feasibility of hospital projects and to assess the financial impact of a project on overall facility operations, the department uses financial ratio analysis. The analysis provided by the Department of Health's Hospital and Patient Data Systems office (HPDS) assesses the financial position of an applicant both historically and prospectively. 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.

For Certificate of Need applications, HPDS compares the projected ratios with the most recent year's financial ratio guidelines for hospital operations. For this project, HPDS uses 2010 data for comparison. The ratio comparisons shown below include WVH in 2011, and projected ratios for the hospital operated under the lease agreement. [HPDS analysis, p3] The ratio review is shown in the table below.

**Table 3  
Current & Projected HPDS Debt Ratios for Wenatchee Valley Hospital**

Category	Trend*	State 2010	WVH 2011	WVH 2013	WVH 2014	WVH 2015
Long Term Debt to Equity	B	0.554	0.412	0.692	0.274	0.136
Current Assets/Current Liabilities	A	2.283	2.812	3.959	7.128	8.992
Assets Funded by Liabilities	B	0.434	0.409	0.543	0.308	0.200
Operating Exp. to Operating Rev.	B	0.947	0.971	0.854	0.854	0.855
Debt Service Coverage	A	5.876	1.915	35.867	50.403	65.398
<b>Definitions:</b>	<b>Formula</b>					
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 Exp/Operating Rev	Operating Expenses/Operating Revenue					
Debt Service Coverage	Net Profit+Depr. and Interest Exp/Current Maturity LTD and Interest Exp					

\*A is better if above the ratio, and B is better if below the ratio.

Review shows that the hospital for 2015 is in range for all five ratios. Since CH is a new entity and it has not had time to build up its assets. Because of this the 2013 Long Term Debt to Equity is out of range. However CH is able to improve the ratio by reducing its debt and improving its equity. The 2015 Debt Service Coverage ratio is in range though a large number. This is because CH able to quickly increase its profits and reduce its debt, which lowers its interest expense. [Source: HPDS analysis, pp2-3]

Based on the information above, the department concludes that the immediate and long-range operating costs of the project can be met and **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.

As stated in the project description section of this evaluation, the capital cost for this project is \$112,000, which is solely related to the consulting and legal fees associated with the creation of the new CH corporation and the lease agreement. The \$112,000 has already been expended by CH under the CH board member approval. Further, CH does not anticipate incurring any construction costs at WVH in the short term. [Source: Application, p15]

In response to this sub-criterion, CH has provided a copy of the draft lease agreement with WVMC for the lease and operations of WVH. The lease cost are identified at \$1,220,000 in year one (2013) and increases to \$1,250,000 in year three (2015). The increase in lease costs is reflected in the projected revenue and expense statements. [Source: October 17, 2012 supplemental information, p6 and Exhibit 8 Revised]

If this project is approved, the department would require CH to provide a signed copy of the lease consistent with the draft provided in the application.

Staff from HPDS compared the proposed costs for services under the lease agreement to the costs for services of existing hospitals. HPDS determined the costs and charges are reasonable and comparable. [Source: HPDS analysis, p4]

With agreement to the condition on the lease agreement and based on the information provided above, the department concludes that **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 capital cost for this project is \$112,000, which is solely related to the consulting and legal fees associated with the creation of the new CH corporation and the lease agreement. The \$112,000 has already been expended by CH under the CH board member approval. Further, CH does not anticipate incurring any construction costs at WVH in the short term. [Source: Application, p15]

Based on the information provided above, the department concludes **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 the applicant 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 concludes that the planning would allow for the required coverage.

CH states that it plans to maintain all existing employees of the hospital that are in good standing, and adopt the hospital's existing medical staff bylaws, rights, and privileges. Current pay scales and staff seniority will also be maintained. [Source: Application, p26]

Because of the slight increase in patient days projected at WVH, CH also projected a slight increase in staff at WVH. The proposed staffing is summarized in the table below. [Source: Source: Application, p26]

**Table 5  
Wenatchee Valley Hospital Staffing for Years 2013 through 2015**

	2013	2014	2015
Management FTEs	16.1	16.4	16.7
Nursing FTEs	55.4	56.5	57.6
Technologist/Professional FTEs	13.1	13.4	13.7
Support FTEs	43.5	44.6	45.3
<b>Total</b>	<b>128.1</b>	<b>130.6</b>	<b>133.2</b>

As shown in the table above, CH proposes modest increases in staffing for the first three full years of operation. CH also notes that the number of FTE employees will flex with volume. Because of the small number of FTEs projected, CH does not expect difficulty recruiting the needed staff.

CH identified the current and proposed Board Directors for CH and WVH. The 15 board members are the same individuals for both organizations. [Source: October 17, 2012 Supplemental information, p3]

Based on the information provided above, the department concludes that sufficient staff 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) 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.

Both members of CH have been operating medical clinics and a hospital in Chelan County for many years. Both have established and longstanding collaboration agreements, either written or oral. Examples of existing collaborations are below.

- CWH has an existing affiliation with three WVMC cardiologists who work at the heart center at CWH.
- WVMC physicians hold numerous medical directorships at CWH.
- WVMC and CWH work closely on quality and access to care improvements for the county and surrounding communities.
- WVMC has a clinic located on the CWH campus.
- Both CWH and WVMC have demonstrated a commitment to serving the counties of Chelan, Douglas, Grant, and Okanogan through the provision of substantial amounts of uncompensated care.
- CWH and WVMC have worked together to provide innovative health information services to patients and other regional providers, building a collaborative IT service called Community Choice.
- CWH and WVMC have worked together and separately to support the critical and complex care needs to patients served by local community health centers, this would continue.
- Both CWH and WVMC have numerous working relationships with other providers in the planning area, including physicians, skilled nursing facilities, and the planning area's two other hospitals located in Chelan County—Cascade Medical Center located in Leavenworth and Lake Chelan Community Hospital located in Lake Chelan. [Source: Application, p33]

Nothing in the application considered by the department would suggest these relationships will change as a result of this project.

Based on source documents reviewed, the department concludes that there is reasonable assurance that WVH will continue to maintain the necessary relationships with ancillary and support services to provide healthcare in the communities. **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.

CH does not currently own or operate any healthcare facilities in Washington State or any other state. The two members of CH each operate medical clinics and one acute care hospital in Washington State. Below is a review of the quality of care history for both members of CH.

Wenatchee Valley Medical Center

WVMC operates a multispecialty group and one hospital. WVMC does not contract with the Joint Commission to survey and accredit the quality of service provided at WVH. The Department of Health's Investigations and Inspections Office (IIO) has completed two surveys at WVH since 2010.<sup>5</sup> There was no adverse licensing action as a result of these surveys. [Source: Facility survey data provided by the IIO]

Central Washington Hospital

CWH contracts with The Joint Commission and is in full compliance with all applicable standards following the most recent on-site survey in March 2011.<sup>6</sup>

Based on the compliance histories of WVH and CWH, there is reasonable assurance that CH would operate WVH in conformance with applicable state and federal licensing and certification requirements. **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.

WVH has been providing health care services to the residents of Chelan County and surrounding communities for a number of years. CH states that WVH has established many written and oral collaboration agreements that are expected to maintain under the proposed lease. [Source: Application, p33]

Based on WVH's documented relationships, the department concludes that WVH will continue to promote continuity in the provision of health care services in the community and maintain appropriate relationships with the existing health care system. **This sub-criterion is met.**

<sup>5</sup> Surveys were completed in years 2010 and 2012.

<sup>6</sup> <http://www.qualitycheck.org>



(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 terms and conditions identified in the "Conclusion" section of this evaluation, the department determines that the applicant has met the cost containment criteria in WAC 246-310-240(1).

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

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 through 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 WAC 246-310-210 through 230 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.

#### **Step One**

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

#### **Step Two**

WVMC is a large medical group with a small hospital. CWH is a small medical group with a larger hospital. Both entities recognized that the collaborative support and resources of a larger hospital system would allow both to maintain a presence in the planning area. As a result, the option of do nothing or status quo was not viable. However, before establishing CH and submitting this application for lease and operations of WVH, WVMC and CWH explored two other options. [Source: Application, pp35-39]

- **Management Services Agreement**

While a management services agreement may improve some specific services and financial concerns at CWH, the option does not result in optimal integration of the services. Although, this option may also improve operational and staff efficiencies at

both WVH and CWH, it does not allow for administrative and organizational economies of scale. This option was rejected.

- Develop a New Hospital

Because this option would require large debt and financial commitments, it was rejected early in the process of analyzing alternatives.

Although not explored as an option before submitting this application, the department required CH to address the option of closing WVH, which is the smaller of the two hospitals. CH provided many factors to demonstrate why this option was not considered to be reasonable. The factors are summarized below. [Source: October 16, 2012, supplemental information, p5]

- WVH currently provides the only level 1 rehabilitation service in North Central Washington. The 6 rehabilitation beds are in continuous use with an average daily census of 3.7 and average occupancy of 62%. If WVH did not provide level I rehabilitation services, residents would have to travel to Spokane or Seattle to receive this care.
- WVH also fully uses 6 operating rooms (ORs) and CWH fully uses 9 ORs. The combined number of ORs is barely meeting the OR needs in the planning area. Additionally, for WVH, some surgeries require a post-operative inpatient stay, thus requiring an inpatient bed on site. Without the inpatient beds, the 6 ORs could not be used for these complex surgeries.
- WVMC would incur significant financial losses if WVH were closed. At this time, WVMC is not operating at a loss; however, without the support of a larger healthcare system, WVMC may begin operating at a loss in the long term.

### Step Three

For this project, only CH's application was submitted. As a result, step three is not evaluated under this sub-criterion.

After reviewing the options considered and discussed above, the department concurs that the lease of WVH is the best alternative for WVMC, CWH, and the community. **This sub-criterion is met.**