



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH  
*Olympia, Washington 98504*

January 10, 2018

CERTIFIED MAIL # 7016 3010 0001 0575 0686

Deanne Okazaki, SSM  
Providence Medical Center - Everett  
1321 Colby Avenue  
Everett, WA 98201

RE: CN Application #17-12

Dear Ms. Okazaki:

We have completed review of the Certificate of Need application submitted by Providence Regional Medical Center Everett proposing to establish a five operating room ambulatory surgery center in Everett, within Central Snohomish County. Enclosed is a written evaluation of the application.

For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Providence Regional Medical Center Everett agrees to the following in its entirety.

**Project Description**

This certificate approves the establishment of a five-operating room ambulatory surgery center in Everett, within Central Snohomish County. This will be accomplished by converting the existing eight-operating room mixed-use surgical department to a separately licensed, five-operating room ASF. The ASF will provide care to patients of all ages who require surgical services, are not expected to require hospitalization, and can be served appropriately in an outpatient surgery setting. Approved surgical types include bariatrics, ophthalmology, ENT, gastroenterology, gynecology, general surgery, orthopedics, spine, plastics, podiatry, urology, vascular surgery, pain management, cardiovascular, oral/maxillofacial, oncology, thoracic, and neurosurgery.

**Conditions**

1. Providence Regional Medical Center Everett agrees with the project description as stated above. Providence Regional Medical Center Everett further agrees that any change to the project as described in the project description above is a new project that requires a new Certificate of Need.

2. Providence Regional Medical Center Everett will license this facility as an ASF under WAC 246-330.
3. Providence Regional Medical Center Everett will maintain Medicare and Medicaid certification for this proposed ASF, regardless of facility ownership.
4. Providence Regional Medical Center Everett will submit a copy of the final executed admission policy prior to offering services. This policy shall be consistent with the draft provided in the application, with the addition of language that describes the types of patients that would be treated as the surgery center. The types of patients shall be consistent with those described in the application.
5. Percutaneous Coronary Interventions (PCI) as defined in WAC 246-310-705 will not be performed at the ASF.
6. Providence Regional Medical Center Everett will submit a copy of the final executed charity care policy prior to offering services. The agreement must be consistent with the draft provided to the department within the application.
7. Providence Regional Medical Center Everett will submit a copy of the final executed patients rights and responsibilities policy prior to offering services. The agreement must be consistent with the draft provided to the department within the application.
8. Providence Regional Medical Center Everett will provide the department with a listing of key staff for the ASF prior to offering services. Key staff includes all credentialed or licensed management staff, including the director of nursing and the medical director.
9. Providence Regional Medical Center Everett will submit a copy of the final executed medical director agreement prior to offering services. The agreement must be consistent with the draft provided to the department within the application.
10. Providence Regional Medical Center Everett will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health at this ASF. Providence Regional Medical Center Everett will use reasonable efforts to provide charity care at the planning area average. The planning area average is 2.6% of gross revenue. Providence Regional Medical Center Everett will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires that these records be available upon request.
11. Providence Regional Medical Center Everett will complete all of the Center for Medicare and Medicaid Services and Department of Health required steps in order for this proposed facility to operate as a distinct entity from the hospital.
12. Providence Regional Medical Center Everett will provide copies of all ancillary and support contracts between the hospital and the ASF for review and approval.
13. Providence Regional Medical Center Everett will provide a copy of the contract for pharmacy services for review and approval.

Deanne Okazaki, PRMCE  
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**Approved Costs**

The approved capital expenditure for this project is \$95,403

Please notify the Department of Health within 20 days of the date of this letter whether you accept the above project description, conditions, and capital costs for your project. If you accept these in their entirety, your application will be approved and a Certificate of Need sent to you.

If you reject any of the above provisions, your application will be denied. The department will send you a letter denying your application and provide you information about your appeal rights.

Send your written response to the Certificate of Need Program, at one of the following addresses.

Mailing Address:

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

Physical Address:

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,



Nancy Tyson, Executive Director  
Health Facilities and Certificate of Need

Enclosure

**EVALUATION DATED JANUARY 10, 2018 OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY PROVIDENCE HEALTH & SERVICES, PROPOSING TO ESTABLISH A 5-OPERATING ROOM AMBULATORY SURGERY CENTER IN CENTRAL SNOHOMISH COUNTY.**

**APPLICANT DESCRIPTIONS**

Providence St. Joseph Health is the parent organization of Providence Health & Services and St. Joseph Health. Formed in 2016, the Providence St. Joseph Health family includes the founding organizations, as well as Covenant Health in Texas. Providence St. Joseph Health, through its subsidiary Providence Health & Services, operates Providence Health & Services-Washington. Providence Regional Medical Center Everett is a DBA of Providence Health & Services-Washington.

With 50 hospitals, 829 physician clinics, senior services, supportive housing and many other health and educational services, the health system and its partners employ more than 100,000 caregivers (employees) serving communities across seven states.<sup>1</sup> System offices are based in Renton, WA and Irvine, CA. [source: Providence St. Joseph Health website]

Providence Health & Services is the third largest not-for-profit health system in the United States, with facilities located in Alaska, Washington, Montana, Oregon and California, within the Providence Health & Services system. For reader ease, Providence St. Joseph Health and all of its Washington subsidiaries will be referred to as “Providence” throughout this evaluation.

Providence facilities licensed by the Washington State Department of Health are shown below:

**Hospitals**

Providence Centralia Hospital  
Providence Holy Family Hospital  
Providence Mount Carmel Hospital  
**Providence Regional Medical Center Everett**  
Providence Sacred Heart Medical Center and Children’s Hospital  
Providence St Josephs Hospital  
Providence St Mary Hospital  
  
Providence St Peter Hospital  
  
Kadlec Regional Medical Center  
Swedish Edmonds  
Swedish Medical Center – Cherry Hill  
Swedish Medical Center – First Hill  
Swedish Medical Center – Issaquah Campus

**Ambulatory Surgery Center**

Providence Surgery and Procedure Center

**In-Home Service Agencies**

Providence DominiCare  
  
Providence Elder Place  
  
Providence Home Services  
Providence Hospice  
Providence Hospice and Home Care of Snohomish County  
Providence Hospice of Seattle\*  
Providence Infusion and Pharmacy Services  
Providence Infusion and Pharmacy Services  
Providence SoundHomeCare and Hospice  
Providence St Mary Home Health  
Providence VNA Home Health

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<sup>1</sup> Alaska, California, Montana, New Mexico, Oregon, Texas and Washington

Providence Regional Medical Center Everett (PRMCE) is a not-for-profit hospital located in Everett that has been serving the Snohomish County community since 1905. PRMCE operates two hospital campuses, located at 916 Pacific Avenue (Pacific Campus) and at 1321 Colby Avenue (Colby Campus). PRMCE is currently licensed for 501 acute care beds, which includes 19 level II rehabilitation beds, as well as 13 Level II NICU bassinets and 16 NICU Level III bassinets. It was recently approved for a 70-bed addition. [source: DOH Licensing Data, PRMCE website, CN historical files]

### **PROJECT DESCRIPTION**

With this application, PRMCE proposes to establish a Certificate of Need-approved ambulatory surgery center in Everett, within the Central Snohomish County secondary service planning area. PRMCE proposes to accomplish this by converting five of the eight existing operating rooms (ORs) on the Pacific Campus from mixed-use surgical services – being used for both inpatient and outpatient surgeries, interchangeably – to being exclusively dedicated to outpatient surgical services and licensed as an ambulatory surgical facility under WAC 246-330. Following project completion, the 8-OR mixed-use surgery department would become a five-OR separately licensed ASF. The ASF would be located on the first floor of the Pacific Campus at 916 Pacific Avenue, Everett [98201].

The ASF will provide care to patients of all ages who require surgical services, are not expected to require hospitalization, and can be served appropriately in an outpatient surgery setting. With Certificate of Need Approval, PRMCE intends to maintain the same types of outpatient surgery that are currently performed under the hospital license, including bariatrics, ophthalmology, ENT, gastroenterology, gynecology, general surgery, orthopedics, spine, plastics, podiatry, urology, vascular surgery, pain management, cardiovascular, oral/maxillofacial, oncology, thoracic, and neurosurgery.<sup>2</sup>

The estimated capital expenditure is \$95,403. It includes minor construction as well as regulatory costs as the space is removed from the hospital license and CMS certification and transitions to independent ASF space.

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

This application is subject to Certificate of Need review as the construction, establishment, or other development of a health care facility under RCW 70.38.105(4)(a) and WAC 246-310-020(1)(a).

### **EVALUATION CRITERIA**

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<sup>2</sup> The department requested that PRMCE clarify what kinds of vascular, cardiovascular, and neurosurgery procedures would be included, as there are many that are not appropriate in the ASF setting. PRMCE provided the following statement in response, confirming that the acuity of these cases would be appropriate in an ASF setting: “We would anticipate procedures that would be less than 120 minutes and in appropriate ASA classification consistent with the resources at the ASF, such as minor peripheral vascular, vein, and low acuity spine procedures that are performed in many local ASFs today.” [source: January 6, 2017 screening response p3]

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 that 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:

- (b) *“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 experience related to a proposed undertaking, with whom the department consults during the review of an application.”*

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

### **TYPE OF REVIEW**

This application proposes a new ASF in the Central Snohomish County secondary service planning area. Though not submitted under a published concurrent review, this application was initially reviewed concurrently with Sound Surgeons, LLC and Everett Bone & Joint Surgery Center under the regular timeline outlined in WAC 246-310-160. This application was removed from the concurrent review due to the declaration of a Pivotal Unresolved Issue (PUI). The PUI will be discussed in greater detail within the Financial Feasibility portion of the review.

The review timeline used for these three applications is summarized below:

**APPLICATION CHRONOLOGY**

<b>Action</b>	<b>Providence Everett</b>
Letter of Intent Submitted	September 19, 2016
Application Submitted	October 31, 2016
Department’s pre-review activities: <ul style="list-style-type: none"> <li>• DOH 1st Screening Letter</li> <li>• Applicant’s Responses Received</li> </ul>	November 22, 2016 January 6, 2017
<ul style="list-style-type: none"> <li>• DOH 2nd Screening Letter</li> <li>• Applicant’s Responses Received</li> </ul>	April 3, 2017 May 17, 2017
Beginning of Review	May 25, 2017
Public Hearing Conducted	N/A
Public Comments accepted through the end of public comment	June 29, 2017
Rebuttal Comments Submitted	July 14, 2017
Department’s Original Anticipated Decision Date	August 28, 2017 <sup>3</sup>
Declaration of Pivotal Unresolved Issue (PUI)	September 1, 2017
Applicant Provided PUI Response	October 13, 2017
PUI Public Comments Due	November 3, 2017
PUI Rebuttal Due	November 30, 2017
Department’s Anticipated Decision Date	January 2, 2018
Department’s Actual Decision Date	January 10, 2018

**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.”

As noted above, WAC 246-310-010(2) requires an affected person to first meet the definition of an ‘interested person.’ WAC 246-310-010(34) defines “interested person” as:

- (a) The applicant;
- (b) Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;
- (c) Third-party payers reimbursing health care facilities in the health service area;
- (d) Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;

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<sup>3</sup> The department contacted Providence on August 24, 2017 to notify them of the PUI. The department indicated to Providence that a PUI would not be declared until Providence was able to identify a date they could provide a response to the PUI questions.

- (e) Health care facilities and health maintenance organizations which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;*
- (f) Any person residing within the geographic area to be served by the applicant; and*
- (g) Any person regularly using health care facilities within the geographic area to be served by the applicant.*

During the course of the original concurrent review, five people requested interested person status for any one of the three applications:

- Elana Zana, Ogden Murphy Wallace, PLLC
- Nancy Field, Field Associates
- Joy Borkholder, SEIU Healthcare 1199 NW
- Heidi Aylsworth, Swedish Health Services
- Lori Aoyama, Health Facilities Planning & Development

None of the five people above provided information to demonstrate that they qualified as an interested person under WAC 246-310-010(34), nor did any of the above persons provided comments.

Sound Surgeons and Everett Bone & Joint each automatically qualified as interested persons, as they were the other parties in the original concurrent review. Representatives from each of these facilities provided public comments during the course of the review. Therefore, Everett Bone & Joint and Sound Surgeons each qualify as an affected person.

#### **SOURCE INFORMATION REVIEWED**

- PRMCE Certificate of Need application received October 31, 2016
- PRMCE screening responses received January 6, 2017 and May 17, 2017
- Public comment received by 5:00pm on June 29, 2017
- Rebuttal response received by 5:00pm on July 14, 2017
- PUI Documentation received by 5:00pm on October 13, 2017
- Compliance history for credentialed or licensed staff from the Medical Quality Assurance Commission and Nursing Quality Assurance Commission
- Compliance history for facilities and services from the Washington State Department of Health – Office of Investigation and Inspection
- DOH Provider Credential Search website: <http://www.doh.wa.gov/pcs>
- Historical charity care data for years 2013, 2014, and 2015 obtained from the Department of Hospital/Finance and Charity Care (HFCC) Financial Review
- Year 2016 Annual Ambulatory Surgery Provider Survey for Surgical Procedures Performed During Calendar Year 2015 for hospitals, ambulatory surgery centers, or ambulatory surgical facilities located in Central Snohomish County
- Claritas population data – 2016
- Department of Health internal database – Integrated Licensing & Regulatory Systems (ILRS)



- Joint Commission website: <http://www.qualitycheck.org>
- Providence Regional Medical Center Everett website: <http://washington.providence.org/hospitals/regional-medical-center/>
- Washington State Department of Revenue website: <http://www.dor.wa.gov>
- Center for Medicare and Medicaid Services website: <https://www.cms.gov>
- Certificate of Need historical files

## **CONCLUSIONS**

For the reasons stated in this evaluation, the application submitted by Providence Regional Medical Center Everett proposing to establish a 5-OR ambulatory surgery center in Everett, within Central Snohomish County is consistent with the applicable criteria of the Certificate of Need Program, provided Providence Regional Medical Center Everett agrees to the project description, conditions, and approved costs listed below.

## **Project Description**

This certificate approves the establishment of a five-operating room ambulatory surgery center in Everett, within Central Snohomish County. This will be accomplished by converting the existing eight-operating room mixed-use surgical department to a separately licensed, five-operating room ASF. The ASF will provide care to patients of all ages who require surgical services, are not expected to require hospitalization, and can be served appropriately in an outpatient surgery setting. Approved surgical types include bariatrics, ophthalmology, ENT, gastroenterology, gynecology, general surgery, orthopedics, spine, plastics, podiatry, urology, vascular surgery, pain management, cardiovascular, oral/maxillofacial, oncology, thoracic, and neurosurgery.

## **Conditions**

1. Providence Regional Medical Center Everett agrees with the project description as stated above. Providence Regional Medical Center Everett further agrees that any change to the project as described in the project description above is a new project that requires a new Certificate of Need.
2. Providence Regional Medical Center Everett will license this facility as an ASF under WAC 246-330.
3. Providence Regional Medical Center Everett will maintain Medicare and Medicaid certification for this proposed ASF, regardless of facility ownership.
4. Providence Regional Medical Center Everett will submit a copy of the final executed admission policy prior to offering services. This policy shall be consistent with the draft provided in the application, with the addition of language that describes the types of patients that would be treated as the surgery center. The types of patients shall be consistent with those described in the application.
5. Percutaneous Coronary Interventions (PCI) as defined in WAC 246-310-705 will not be performed at the ASF.

6. Providence Regional Medical Center Everett will submit a copy of the final executed charity care policy prior to offering services. The agreement must be consistent with the draft provided to the department within the application.
7. Providence Regional Medical Center Everett will submit a copy of the final executed patients rights and responsibilities policy prior to offering services. The agreement must be consistent with the draft provided to the department within the application.
8. Providence Regional Medical Center Everett will provide the department with a listing of key staff for the ASF prior to offering services. Key staff includes all credentialed or licensed management staff, including the director of nursing and the medical director.
9. Providence Regional Medical Center Everett will submit a copy of the final executed medical director agreement prior to offering services. The agreement must be consistent with the draft provided to the department within the application.
10. Providence Regional Medical Center Everett will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health at this ASF. Providence Regional Medical Center Everett will use reasonable efforts to provide charity care at the planning area average. The planning area average is 2.6% of gross revenue. Providence Regional Medical Center Everett will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires that these records be available upon request.
11. Providence Regional Medical Center Everett will complete all of the Center for Medicare and Medicaid Services and Department of Health required steps in order for this proposed facility to operate as a distinct entity from the hospital.
12. Providence Regional Medical Center Everett will provide copies of all ancillary and support contracts between the hospital and the ASF for review and approval.
13. Providence Regional Medical Center Everett will provide a copy of the contract for pharmacy services for review and approval.

**Approved Capital Expenditure**

The approved capital expenditure for this project is \$95,403

## **CRITERIA DETERMINATIONS**

### **A. NEED (WAC 246-310-210)**

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Providence Regional Medical Center Everett met the applicable need criteria in WAC 246-310-210 and has met the applicable ambulatory surgery facility criteria in WAC 246-310-270.

- (1) *The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.* To evaluate this sub-criterion, the department uses facility-specific criteria found in WAC 246-310-270.

### **WAC 246-310-270(6)**

WAC 246-310-270(6) requires a minimum of two operating rooms (ORs) in an ASC.

### **Providence Regional Medical Center Everett**

*“Providence Health and Services – Washington (“Providence”) dba Providence Regional Medical Center Everett (“PRMCE”) is requesting Certificate of Need approval to convert a current hospital based mixed use surgery department to a Certificate of Need approved ambulatory surgical facility (“ASF”) with five operating suites in the Central Snohomish Planning Area.”* [source: PRMCE Application p9]

### **Public Comments**

None

### **Rebuttal Comments**

None

### **Department Evaluation**

The application provided documentation and statements to demonstrate the proposed surgery center would have five ORs. Information found within the department’s internal database confirms that PRMCE has had a technical assistance with Construction Review Services for this five-OR proposed surgery center. **This sub-criterion is met.**

### **WAC 246-310-270(9) – Ambulatory Surgery Numeric Need Methodology**

WAC 246-310-270(9) provides step-by-step instructions for calculating numeric need in a planning area.

The department’s evaluation of each methodology will be discussed at the end of this sub-criterion.

**Providence Regional Medical Center Everett**

PRMCE provided the following information regarding their calculation of the numeric need methodology.

*“Based on the methodology, there is need for nearly 7.2 outpatient ORs in the Central Snohomish Planning Area 2 in 2018. The ASF methodology, defined in WAC 246-310-270, describes how to take current surgical capacity, ambulatory surgery utilization figures, and population estimates and forecasts to prepare a planning area need forecast to determine if there is need for additional inpatient/mixed use and/or outpatient ORs.*

*As shown in [the] Table below, there are 26 CON-approved ORs in the Central Snohomish Planning Area, including 22 inpatient/mixed use ORs and 4 CON-approved outpatient ORs. Furthermore, while licensed, non-CON-approved outpatient ORs have been identified (see Exhibit 5) and their outpatient surgery volumes included in the methodology to determine planning area surgery use rates, these non-CON-approved ORs have not been included in the count of ORs in [the] Table.*

Facility name	Number of ORs		
	Inpatient	Outpatient	Mixed Use
<i>Providence Regional Medical Center Everett (Colby Campus)</i>			13
<i>Providence Regional Medical Center Everett (Pacific Campus)</i>			9
<i>Gateway Surgery Center</i>		2	
<i>Northwest Weight Loss Surgery</i>		2	
<b><i>Total CN-Approved</i></b>		<b>4</b>	<b>22</b>

*After identifying planning area inpatient/mixed use and outpatient surgical capacity, surgery volumes by licensed surgery center were obtained:*

- 1. When available, data from the Program’s 2016 Annual Ambulatory Surgery Survey for Surgical Procedures Performed during CY2015 (“Survey”) was utilized.*
- 2. The Department’s ILRS database, as accessed by the Department of Health Certificate of Need staff, was used to obtain outpatient surgery volume data for those ambulatory surgery centers that were licensed and in the planning area, but did not respond to the DOH 2015 Survey, referenced above.*

*“It should be noted that it is likely this use rate will increase over the forecast period for at least two reasons:*

- (1) The planning area population is becoming older, as discussed above. Older persons have a much higher surgery use rate than younger persons; hence, as the population ages, other things being equal, the surgery use rate will rise.*

*(2) Surgical services are shifting to outpatient settings due to improved clinical practices/technologies that allow surgeries to be performed on an outpatient basis. This change in clinical practice also induces an increase in the outpatient surgery use rate. As such, a 93.56 use rate per 1,000 residents, held constant, is a conservative approach and may be underestimating future demand for outpatient surgeries.*

*“The model shows substantial projected net need 7.21 outpatient ORs in Central Snohomish Planning Area in 2019. This analysis provides strong quantitative support for approval of this Certificate of Need application.*

*“Market demand for surgeries is moving away from inpatient to outpatient surgeries due to advances in the medical practice that allow physicians to perform safe, high-quality procedures in an outpatient setting, as well as patient expectations and preferences for more care being available in an ambulatory setting. There also is growing demand by payers and other stakeholders to move care delivery to lower cost care settings, as appropriate. As demonstrated in application of WAC 246-270(9), there is forecasted net need for outpatient operating suites. This demonstrated Central Snohomish Planning Area need is driving our request, a request that will improve access to affordable care.” [source: PRMCE Application pp21-25]*

#### Public Comments

Everett Bone and Joint provided the following comments related to this sub-criterion:

*“In the case of the PRMCE request, this would affect net need evaluation, since its approval would increase the supply of outpatient ORs, as would our request, but in the case of Northwest Weight Loss, it would not change supply of CN-approved outpatient ORs, since it was already CN-approved for its two ORs. **Our analysis demonstrates there is net need for an additional seven (7) outpatient ORs. We have requested two ORs be CN-approved, PRMCE has requested five and Northwest Weight Loss, no additional outpatient ORs. In other words, all three CN requests can be approved, based on our findings.**” [source: EBJ Comments p3]*

#### Rebuttal Comments

None

#### Department Numeric Need Methodology and Evaluation

The numeric portion of the methodology requires a calculation of the annual capacity of the existing providers inpatient and outpatient OR's in a planning area – Central Snohomish County. To determine the zip codes associated with Central Snohomish County, the department relied on the map and breakdown of zip codes identified in the 1980 State Health Plan for Central Snohomish County. While the State Health Plan was sunset in 1989, for some projects, it continues to be a reliable tool. The department continues to use the zip codes listed by planning area as a starting point for determining ASC planning area zip codes.

For ASC planning areas, the state health plan identifies 9 Central Snohomish County zip codes. Three of these, identified in the table below, are not valid zip codes and do not have any associated residents. When the remaining 6 zip codes are charted on the Department of Ecology Snohomish County zip code map, inclusion of another 2 zip codes appears reasonable based on the geographic location of the zip codes. Table 1 below shows the zip codes and associated cities within the Central Snohomish County secondary service planning area. [sources: 1980 SHP and Washington State Department of Ecology Snohomish County zip code map prepared by GIS Technical Services and released August 3, 2006; USPS ZIP Code Lookup Tool]

**Table 1**  
**Central Snohomish County Planning Area ZIP Codes**

<b>ZIP Code</b>	<b>City</b>	<b>Source</b>
98201	Everett	1980 State Health Plan
98202	Invalid ZIP Code	1980 State Health Plan
98203	Everett	1980 State Health Plan
98204	Everett	1980 State Health Plan
98205	Invalid ZIP Code	1980 State Health Plan
98206	PO Box	1980 State Health Plan
98208	Everett	Snohomish County Map
98258	Lake Stevens	1980 State Health Plan
98270	Marysville	1980 State Health Plan
98271	Marysville	Snohomish County Map
98275	Mukilteo	1980 State Health Plan

According to the department’s records, there are six planning area providers with OR capacity. Of these providers, one is a hospital and five are ambulatory surgical facilities. One additional ambulatory surgical facility – Trask Surgery Center – is also included, for a total of six. Though the facility closed in 2016, this surgery center held a significant market share for surgical services in the Central Snohomish secondary service planning area. To exclude the Trask Surgery Center volumes would artificially suppress need in the planning area and skew the methodology.

Because there is no mandatory reporting requirement for utilization of ASFs or hospital ORs, the department sends an annual utilization survey to all hospitals and known ASFs in the state. When these applications were submitted, the most recent utilization survey data available was for year 2015. The data provided in the utilization survey is used, if available.

Below, Table 2 shows a listing of the hospital sites. [source: CN historic files, ILRS]

**Table 2**  
**Central Snohomish County Hospital ORs**

<b>Facility</b>	<b>ZIP Code</b>
Providence Regional Medical Center Everett – Colby Campus	98201
Providence Regional Medical Center Everett – Pacific Campus	98201

[source: ILRS]

For the hospital, all known OR capacity and procedures are included in the methodology calculations for the planning area.

Table 3 below, contains a listing of the ASFs in the planning area.

**Table 3**  
**Central Snohomish County ASFs**

<b>Facility</b>	<b>ZIP Code</b>	<b>CN Approved or Exempt?</b>
Gateway Surgery Center	98201	Approved
Northwest Weight Loss Surgery	98208	Approved
Everett Bone and Joint Surgery Center	98201	Approved
Kemp Surgery Center	98201	Exempt
Physicians Eye Surgery Center	98201	Exempt
Trask Surgery Center	98201	Exempt

[source: ILRS]

Out of the six ASFs listed above, three are located within the offices of private physicians, whether in a solo or group practice that have received an exemption (considered a Certificate of Need-exempt ASF). The use of these ASFs is restricted to physicians that are employees or members of the clinical practices that operate the facility. Therefore, these facilities do not meet the ASC definition in WAC 246-310-010. For Certificate of Need-exempt ASFs, the number of surgeries, but not ORs, is included in the methodology for the planning area. In summary, OR capacity will be counted for three Certificate of Need-approved ASFs and one hospital.

The data points used in the department's numeric methodology are identified in Table 4. The methodology and supporting data used by the department is provided in Appendix A attached to this evaluation.

**Table 4  
Department's Methodology Assumptions and Data**

<b>Assumption</b>	<b>Data Used</b>
Planning Area	Central Snohomish County
Population Estimates and Forecasts	Age Group: 0-85+ Claritas Population Data released year 2015 Year 2015 – 309,336 Year 2020 – 328,159
Use Rate	Divide calculated surgical cases by 2015 population results in the service area use rate of 93.668/1,000 population
Year 2015 Total Number of Surgical Cases	14,143 – Inpatient or Mixed-Use; 14,832 – Outpatient 28,975 – Total Cases
Percent of surgery: outpatient vs. inpatient	Based on DOH survey and ILRS: 51.19% outpatient; 48.81% inpatient
Average minutes per case	Based on DOH survey and ILRS: Outpatient cases: 54.51 minutes Inpatient cases: 117.33 minutes
OR Annual capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes (per methodology in rule)
Existing providers/ORs	Based on listing of Central Snohomish Providers: 6 dedicated outpatient ORs 22 mixed use ORs
Department's Methodology Results	Need for 6.46 outpatient ORs

Based on the assumptions described in Table 4 above, the department's application of the numeric methodology indicates a need for 6.46 outpatient ORs in 2020.

When comparing the applicant's and department's methodology, there are small differences in several data points identified in Table 4 above. The outcomes of each methodology are shown below:

	<b>Use Rate</b>	<b>Projection Year</b>	<b>Numeric Need</b>
<b>DOH</b>	93.668/1,000	2020	6.46
<b>PRMCE</b>	93.560/1,000	2019	7.21

PRMCE used the same data sources, including DOH Survey, ILRS, and 2015 Claritas population data.

As shown above PRMCE used 2019 as the projection year; but the department used 2020. It is not clear why PRMCE used a shorter projection horizon. The data points used in this



numeric need methodology are tightly connected, and PRMCE’s population forecast resulted in a numeric need for additional outpatient operating rooms. Another difference between the department’s calculations and PRMCEs are as a result of the Pivotal Unresolved Issue (PUI) that was declared to address information related to financial feasibility. Everett Bone & Joint is now a CN-approved surgery center, and counted in the methodology. At the time PRMCE prepared their application, EBJ was not yet CN-approved, their ORs were not counted. The discrepancy between PRMCE and the department on this data point does not affect the numeric need significantly.

In some ASF applications, the differences described above can significantly affect the outcome of the methodology. The differences in this instance are not significant, as need is still shown in excess of the ORs proposed by PRMCE. This is shown below:

**Table 5  
Central Snohomish County Numeric Need**

	<b>Numeric Need</b>
Gross Planning Area Need for Outpatient ORs	6 ORs
Providence Regional Medical Center Everett	-5 ORs
Need Remaining	1 OR

Following the methodology in rule, the five ORs that would be converted to dedicated outpatient are currently included in the methodology under mixed-use capacity. The remaining need shown above may be a conservative estimate following the conversion of these five ORs to dedicated outpatient.

Based on the source information evaluated the department concludes, **there is numeric need for additional outpatient ORs.**

As shown above, the total number of requested outpatient operating rooms does not exceed the net need identified within the numeric need methodology. Numeric need would not be a barrier to approval of this project.

**WAC 246-310-210**

In addition to demonstrating need for services within a planning area, the applicant must also demonstrate that existing services are not sufficiently available and accessible to meet that need.

**Providence Regional Medical Center Everett**

*“Application of WAC 246-310-270 to the Central Snohomish Planning Area demonstrates need for additional ambulatory surgery suites. Without the project, there will be too few*

*outpatient surgery suites to meet projected demand, and access to affordable outpatient care will be limited.*

*“If this project is not approved, the Central Snohomish Planning Area residents will lack access to affordable, quality care and our desire to lower the cost of care for the local community and provide care when and where it is needed will not be fulfilled.” [source: PRMCE Application p25]*

### Public Comments

None

### Rebuttal Comments

None

### Department Evaluation

In addition to numeric need, the department must determine whether other services and facilities for the type proposed are not or will not be sufficiently available and accessible to meet that need.

PRMCE provided statements related to the availability and accessibility of other providers in the planning area. Their statements largely focused on the numeric need. It is true, the numeric need does demonstrate that there is a shortage of CN-approved dedicated outpatient ORs available in the planning area. Though there is numeric need for additional outpatient ORs, it should be noted that this project does not increase the total number of available ORs in the planning area, as this project proposes to convert existing mixed-use ORs to dedicated outpatient. While this does not increase the total number of ORs in the planning area, it does increase the accessibility of dedicated outpatient ORs.

Several local surgeons provided comments supporting the addition of outpatient OR capacity in the planning area. Three were supportive of the EBJ project within the original CN review, and six were supportive of the Sound Surgeons project within the original CN review. The department did not receive any public comment to suggest that other area providers opposed the addition of outpatient surgery capacity in the planning area. To further evaluate this sub-criterion, the department identified the surgical specialties available at the existing planning area surgery centers, below. This includes those surgery centers dedicated to endoscopy that were excluded in the numeric need methodology.

**Table 6**  
**Surgical Specialty Comparison**

ASF	Current Specialties Provided
<b>Gateway Surgery Center</b>	<b>ENT, Orthopedics, Plastic Surgery, Urology, Pain Management</b>
<b>Northwest Weight Loss Surgery</b>	<b>Bariatrics and Plastic Surgery</b>
<b>Everett Bone and Joint Surgery Center<sup>4</sup></b>	<b>Orthopedics and Pain Management</b>
Kemp Surgery Center	ENT, Gastroenterology, General Surgery, Maxio Facial, Ophthalmology, Orthopedics, Plastic Surgery, Podiatry, Urology
Physicians Eye Surgery Center	Ophthalmology
<b>Trask Surgery Center**</b>	<b>General Surgery, Gynecology, Ophthalmology, Podiatry, Plastic Surgery</b>

\*\* - Trask Surgery Center closed in 2016.

[source: ILRS, DOH IIO]

Of the surgery centers above, three have Certificate of Need approval – shown in bold. Though exempt surgery centers are present in the planning area, they are under no obligation to provide charity care, or to serve Medicare and Medicaid patients. Therefore, these remaining exempt surgery centers may not be sufficiently available and accessible to all residents of the planning area.

In summary, based on the department’s numeric need methodology, numeric need for additional OR capacity in the Central Snohomish County secondary service planning area is demonstrated. The number of ORs requested by PRMCE does not exceed the planning area need, and the existing supply may not be sufficiently available and accessible to all planning area residents. Further, the applicant meets the standard under WAC 246-310-270(6). **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.

To evaluate this sub-criterion, the department evaluates an applicant’s admission policies, willingness to serve Medicare and Medicaid patients, and to serve patients that cannot afford to pay for services. 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 assurances regarding access to treatment.

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<sup>4</sup> CN #1616, issued on 9/13/2017

The admission policy must also include language to ensure all residents of the planning area would have access to the proposed 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.

Medicare certification is a measure of an applicant's willingness to serve the elderly. With limited exceptions, Medicare is coverage for individuals age 65 and over. It is also well recognized that women live longer than men and therefore more likely to be on Medicare longer.

Medicaid certification is a measure of an applicant's willingness to serve low income persons and may include individuals with disabilities.

Charity care shows a willingness of a provider to provide services to individuals who do not have private insurance, do not qualify for Medicare, do not qualify for Medicaid, or are under insured. With the passage of the Affordable Care Act in 2010, the amount of charity care decreased over time. However, with recent federal legislative changes affecting the ACA, it is uncertain whether this trend will continue. Specific to ASCs, WAC 246-310-270(7) requires that ASCs shall implement policies to provide access to individuals unable to pay consistent with charity care levels reported by the hospitals affected by the proposed project.

### **Providence Regional Medical Center Everett**

PRMCE provided copies of the following policies, which are currently in use at the hospital. [source: PRMCE Application, Exhibit 12]

- Admission Policy
- Patient Rights and Responsibilities Policy
- Charity Care Policy

In addition to the policies listed above, PRMCE provided the following statement:

*“Since this will be a d/b/a Providence Health & Services - WA, the non-discrimination and patients' rights and responsibilities policies for the ASF will be consistent with the one that is currently in place for Providence hospitals.”* [source: January 6, 2017 screening response p6]

PRMCE provided its current and projected sources of revenue by payer. A breakdown is shown below. [source: January 6, 2017 screening response p4]

**Table 7**  
**PRMCE Current and Projected Payer Mix**  
**Outpatient Surgery**

<b>Payer</b>	<b>Historical</b>	<b>Forecast</b>
Medicaid	26.7%	26.7%
Medicare	15.2%	15.2%
Commercial	53.6%	53.6%
Self-Pay	1.6%	1.6%
Other Government	2.9%	2.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

*PRMCE expects the proposed project will have a payer mix consistent with the above table which outlines the current outpatient surgery payer mix for PRMCE. [source: PRMCE Application p17]*

Public Comments

None

Rebuttal Comments

None

Department Evaluation

PRMCE provided the hospital’s policies, stating that they would be used at the proposed surgery center. As they has not yet been adopted by the proposed surgery center, the department considers these policy to be in draft form. These are consistent with approved policy reviewed by the Department of Health for the hospital. Therefore, if this project is approved, the department would attach a condition requiring that PRMCE provide the final adopted policies that are consistent with the policy provided with the application. In addition, the admission policy must include a description of the types of patients to be served that is consistent with information within the application.

The financial data provided in the application shows Medicare and Medicaid revenues consistent with Table 7 above. The department concluded that PRMCE intends for this proposed surgery center to be accessible and available to Medicare and Medicaid patients based on the information provided.

PRMCE provided the hospitals current Charity Care Policy that is used for all of its healthcare facilities. It is the policy approved by the department and posted on the department’s website. PRMCE stated this same policy will be used at the proposed surgery center if this project is approved. The policy includes the process one must use to access charity care. Further assessment of charity care follows in the next section.

Based on the information reviewed and with PRMCE’s agreement to the conditions identified above, the department concludes **this sub-criterion is met.**

**WAC 246-310-270(7) – Charity Care Requirement**

WAC 246-310-270(7) requires that ASCs shall implement policies to provide access to individuals unable to pay consistent with charity care levels reported by the hospitals affected by the proposed ASC.

**Providence Regional Medical Center Everett**

*“PRMCE is a part of Providence whose mission is to provide compassionate care to all people in need. This includes a special concern for those who are poor and vulnerable. With more than 110 years of history providing services to those in need, PRMCE turns no one away.*

*Given our Mission to care for those who are poor and vulnerable, PRMCE cares for large populations of charity care and Medicaid patients. In 2015, PRMCE offered \$8.7 million in free and discounted care for those in need. In addition to providing a high level of free and discounted medical care, PRMCE provided an additional \$49.0 million in unfunded cost of government-sponsored medical care, community health, grants and donations, education and research programs and subsidized services.*

*With Medicaid expansion and health insurance exchanges, PRMCE’s charity care spending reflects the success of more people gaining health insurance coverage. PRMCE is using community benefit investments to create healthier communities, beyond just the need for free and discounted care. Not only does this improve access to care, but through programs and donations, PRMCE’s community benefit connects families with preventive care to keep them healthy, fills gaps in community services and provides opportunities that bring hope in difficult times.”* [source: PRMCE Application p30]

The charity care proposed for this ASF is shown in the table below. [source: PRMCE Application, Exhibit 14]

**Table 8  
PRMCE ASF Proposed Charity Care**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Gross Revenue	\$22,500,800	\$22,770,300	\$23,039,800	\$23,319,100
Charity Care	\$299,261	\$302,845	\$306,429	\$310,144
Charity Care – % Gross	1.33%	1.33%	1.33%	1.33%

**Public Comments**

None

**Rebuttal Comments**

None

**Department Evaluation – Charity Care Requirement**

For charity care reporting purposes, Washington State is divided into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. This application proposes an ASC in Central Snohomish County, within the Puget Sound Region.

Currently there are 19 hospitals operating within the region. Of the 19 hospitals, some did not report charity care data for the years reviewed.<sup>5</sup> The only hospital located in Central Snohomish County is Providence Regional Medical Center Everett, in Everett.

Table 9 below compares the three-year historical average of charity care provided by the hospitals operating in the Puget Sound Region (with the exception of those that did not report), in Snohomish County, in Central Snohomish County, and the applicants’ projected charity care percentages.

**Table 9  
Charity Care – Three Year Average**

	<b>% of Total Revenue</b>	<b>% of Adjusted Revenue</b>
3-year Puget Sound Region	1.88%	4.65%
3-year Snohomish County	2.38%	6.01%
3-year Central Snohomish County	2.60%	6.64%
PRMCE ASF – Projected	1.33%	2.29%

[source: PRMCE Application, Exhibit 14]

As shown above, the projected percentage of charity care proposed by PRMCE is lower than the regional average and the Central Snohomish average.

The department evaluated the impact on the ASF if it provided charity care at both the regional average and the Central Snohomish County average. The results of this analysis are summarized in Table 10 below.<sup>6</sup>

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<sup>5</sup> For years 2013 and 2014, the following three hospitals did not report data: Forks Community Hospital in Forks; Whidbey General Hospital in Coupeville; and EvergreenHealth-Monroe [formerly Valley General Hospital, Monroe]. For years 2015, EvergreenHealth-Monroe and Cascade Valley Hospital did not report data.

<sup>6</sup> This is not meant to predetermine whether the project would financially feasible, as this will be evaluated under WAC 246-310-220.

**Table 10**  
**PRMCE ASF Charity Care Impact**

	<b>Charity Care Dollars at 1.33%</b>	<b>Charity Care Dollars at 1.88%</b>	<b>Charity Care Dollars at 2.60%</b>
<b>2018</b>	\$299,261	\$423,015	\$585,020
<b>2019</b>	\$302,845	\$428,081	\$592,027
<b>2020</b>	\$306,429	\$433,148	\$599,034

As shown above, at the planning area average, the proposed PRMCE ASF would provide approximately an additional \$293,000 in charity care in year 3 to low-income persons, and other underserved groups. Based on the above analysis, if this project is approved, the department would attach a condition requiring PRMCE to make reasonable efforts to provide charity care at the planning area average. This condition would also require PRMCE to maintain records of charity care applications received and the dollar amount of charity care discounts granted at the proposed ASF. The department would require that these records be available upon request.

Based on the information reviewed and with PRMCE’s agreement to the conditions identified above, the department concludes **this sub-criterion is met.**

(3) The applicant has substantiated any of the following special needs and circumstances the proposed project is to serve.

(a) The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both, to individuals not residing in the health service areas in which the entities are located or in adjacent health service areas.

Department Evaluation

This sub-criterion is not applicable to this application

(b) The special needs and circumstances of biomedical and behavioral research projects designed to meet a national need and for which local conditions offer special advantages.

Department Evaluation

This sub-criterion is not applicable to this application

(c) The special needs and circumstances of osteopathic hospitals and non-allopathic services.

Department Evaluation

This sub-criterion is not applicable to this application



(4) The project will not have an adverse effect on health professional schools and training programs. The assessment of the conformance of a project with this criterion shall include consideration of:

(a) The effect of the means proposed for the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.

Department Evaluation

This sub-criterion is not applicable to this application

(b) If proposed health services are to be available in a limited number of facilities, the extent to which the health professions schools serving the area will have access to the services for training purposes.

Department Evaluation

This sub-criterion is not applicable to this application

(5) The project is needed to meet the special needs and circumstances of enrolled members or reasonably anticipated new members of a health maintenance organization or proposed health maintenance organization and the services proposed are not available from nonhealth maintenance organization providers or other health maintenance organizations in a reasonable and cost-effective manner consistent with the basic method of operation of the health maintenance organization or proposed health maintenance organization.

Department Evaluation

This sub-criterion is not applicable to this application

**B. FINANCIAL FEASIBILITY (WAC 246-310-220)**

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Providence Regional Medical Center Everett met the applicable financial feasibility criteria in WAC 246-310-220.

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

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.

**Providence Regional Medical Center Everett**

The PRMCE forecast model uses the following assumptions and methodologies:

1. The estimated cases that will remain in the ASF principally will be cases less than 120 minutes. In 2015, the Colby and Pacific campuses had a total of 3,555 cases the met this standard of minutes per case being less than 120 minutes. As outlined below.

**Application Table 8  
PRMCE Cases and Minutes 2015 Summary**

		Total Minutes	Total Cases	Average Minutes/Case
Pacific and Colby Campus	Cases less than 120 minutes/case	244,144	3,555	68.7

2. The next step is to project the estimated cases to 2018, which is the first year of the ASF. From 2015 to 2016 there has been an increase of about 25% outpatient cases which will increase our estimated cases to 4,436. Over 2017-2018, growth will be more modest, about 3.5% over this period, thus forecasting 4,592 cases in 2018.
3. To project volume to year 2022 we are using a conservative growth rate of 1.2% which is the projected growth rate of the Central Snohomish population (per Table 4).
4. Based on the PRMCE forecasted number of ambulatory surgeries at the ASF, there would be demand for 4.6 ORs in year 2018. This assumes operations of 240 days per year and operating minutes of 68.70 minutes/case in 2018. The current operating minutes/case at PRMCE for outpatient surgeries less than 120 minutes is 68.70 minutes/case. [source: PRMCE Application p27]

We have added 2015 actual and 2016 estimated cases to revised Table 9, below. Please note we have used 68.7 minutes per case, the actual figure from PRMCE Colby and Pacific campuses for ambulatory surgeries determined appropriate for the proposed ASF (Table 8, Application, p. 27)

**Revised [Application] Table 9  
PRMCE Demand for ASF ORs 2018-2022**

	2015	2016	2018	2019	2020
	Actual	Estimated	Projected		
Total Cases	3,555	4,436	4,592	4,647	4,702
Cases per Day <sup>7</sup>	14.81	18.48	19.13	19.36	19.59
Surgery Minutes per Year <sup>8</sup>	224,229	304,753	315,470	319,249	323,027
Estimated ORs Needed <sup>9</sup>	3.5	4.4	4.6	4.7	4.7

[source: January 6, 2017 screening response pp4-5]

<sup>7</sup> Assumes 240 days of operation

<sup>8</sup> Assumes 68.7 Minutes/Case, PRMCE actuals for 2015 Ambulatory Surgeries at Colby and Pacific Campuses

<sup>9</sup> WAC 246-310-270

The assumptions PRMCE used to project revenue, expenses, and net income for the proposed surgery center for projection years 2018-2020 are shown below. [sources: PRMCE Application pp36-37, PRMCE January 6, 2017 screening response p7]

- *Inflation of gross and net revenues was excluded from the models.*
- *Revenues were calculated using estimates based on broader Providence Health and Services and affiliates' financials as a comparable ASF. Providence Health & Services and its affiliates operate ASFs in several markets within the Western United States. Our estimates were based on analysis of these facilities historical and current financial performance and based on local payer mix in the market.*
- *Deductions from revenue were calculated based on PRMCE payer reimbursement figures, by payer. Contractual allowances, by payer are included.*
- *Bad debt is assumed constant at PRMCE's average of 0.28% of gross revenues.*
- *Charity care is assumed constant at PRMCE's average of 1.33% of gross revenue.*
- *The payer percentage figures, based on total cases, are provided below.*

<b>Payer</b>	<b>Percentage</b>
Medicare	15.2%
Medicaid	26.7%
Commercial	53.6%
Other Government/L&I	2.9%
Self-Pay	1.6%
<b>Total</b>	<b>100.0%</b>

- *Staffing requirements are, based on hours of operation, number of ORs in operation and case volumes.*
- *Wage and salary figure are specific to each group of FTEs, and are calculated on an hourly basis, based on PRMCE 2016 actuals. It is assumed a FTE works 2,080 hours per year.*
- *Non-productive hours are found by multiplying productive hours by 1.12—the nonproductive factor is, thus 12%. This is also based on PRMCE actuals.*
- *Benefits were calculated as 30.0% of total wages and salaries, based on PRMCE figures.*
- *Direct expenses including supplies, purchased services, maintenance, equipment repairs, insurance, utilities, professional services, rental/lease-equipment and pharmacy/drugs were calculated on a per case basis, driven off PRMCE actuals (2015).*
- *B&O taxes were calculated at 1.5% of net revenue.*
- *Billing and collection were calculated at 4% of net revenue, based on PRMCE actuals.*
- *Employee education and training was calculated based on cost per FTE.*
- *Depreciation expenses reflect current depreciation costs for these ORs. It has been held constant over the forecast period.*

- *Lease expenses reflect current equipment lease expenses. They have been held constant.*
- *Like PRMCE, the ASF will be a d/b/a of Providence Health & Services - Washington. Since they will be related entities who will be governed by the same administration and Community Board, there is no need for a lease agreement between the two entities.*
- *Management and support costs were calculated as 10.3% of operating expense. This covers other services provided by PRMCE, including, sterile processing, purchasing executive leadership, finance, human resources, legal, medical staff oversight, etc.*
- *Inflation was not included in any operating expense forecasts.*

PRMCE’s projected revenue, expenses, and net income for the proposed ASF are shown in Table 11 below.

**Table 11**  
**Projected Revenue and Expenses Years 2018 through 2020**

	<b>CY2018 (year one)</b>	<b>CY2019 (year two)</b>	<b>CY2020 (year three)</b>
Procedures	4,592	4,647	4,702
Net Revenue	\$11,250,401	\$11,385,150	\$11,519,901
Total Expenses	\$10,136,945	\$10,217,038	\$10,297,133
Net Profit/(Loss)	\$1,113,456	\$1,168,112	\$1,222,768
Net Profit/(Loss) per Procedure	\$242.48	\$251.37	\$260.05

The “Net Revenue” line item is gross patient revenue, minus deductions from revenue for contractual allowances, bad debt, and charity care. The “Total Expenses” line item includes operating expenses, including salaries and wages, benefits, insurance, rentals and leases, corporate allocation, and depreciation.

Public Comments

None

Rebuttal Comments

None

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by PRMCE to determine the projected number of procedures and occupancy of the proposed ASF. The NCHS report used by PRMCE to assume surgical use in the planning area is the most recently available utilization survey for outpatient surgery trends in the United States. Furthermore, the volumes projected using these use rates are very close to the volumes supported in the department’s numeric need methodology. After reviewing PRMCE’s utilization assumptions, the department concludes they are reasonable.

PRMCE based its revenue and expense assumptions for the ASF and for the hospital on the assumptions listed above. Though the proposed ASF will be a new facility, and the services will be reimbursed at the ASF rate, PRMCE based a number of its revenues and expenses on past performance of the hospital, with adjustments to reimbursement at the ASF rate. This is reasonable.

Though the medical director has not yet been identified, PRMCE also provided a draft medical director agreement that outlines the roles, responsibilities, and compensation for the medical director.

The pro forma financial statements show revenues exceeding expenses within the first full year of operation and to continue doing so. Under the department’s evaluation of WAC 246-310-210(2) and WAC 246-310-270(7), the department attached a condition related to the amount of charity care to be provided at the ASF.

The department evaluated the impact on the ASF if it provided charity care at both the regional average and the Central Snohomish County average. The results of this analysis are summarized in Table 12 below.

**Table 12**  
**PRMCE ASF Charity Care Impact**

	<b>Charity Care Dollars at 1.33%</b>	<b>Charity Care Dollars at 1.88%</b>	<b>Charity Care Dollars at 2.60%</b>
<b>2018</b>	\$299,261	\$423,015	\$585,020
<b>2019</b>	\$302,845	\$428,081	\$592,027
<b>2020</b>	\$306,429	\$433,148	\$599,034
	<b>Net Revenue exceeding expenses</b>		
<b>2018</b>	\$1,113,456	\$989,702	\$827,696
<b>2019</b>	\$1,168,112	\$1,042,875	\$878,929
<b>2020</b>	\$1,222,768	\$1,096,049	\$930,162

As shown above, at the planning area average, the proposed PRMCE ASF would still be financially viable, even if the charity care level is increased.

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

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

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

and expertise the department compared the proposed project's costs with those previously considered by the department.

**Providence Regional Medical Center Everett**

PRMCE provided the following statement related to this sub-criterion:

*“There is no impact since current volume remains stable in the forecast for PRMCE between the PRMCE Colby and Pacific Campus surgery locations.”* [source: PRMCE Application p35]

Despite this assertion, the department had recent experience with a facility transition from one type of licensure to another, and was aware of numerous possible construction costs and regulatory costs that would be associated with such a transition.

During the screening process, the department made PRMCE aware of these costs, and PRMCE confirmed their understanding of the process. In addition, they identified that the costs could be found under “Other Direct Expenses.” The “Other Direct Expenses” are listed below. [source: PRMCE App Exhibit 14]

- *Supplies*
- *Purchased Services*
- *Maintenance and Repairs*
- *Marketing*
- *B&O Taxes*
- *Billing Expense*
- *Equipment Repairs*
- *Insurance*
- *Utilities*
- *Employee Education, Training*
- *Rental/Lease Equipment*
- *Pharmacy/Drugs*
- *Professional Services*

This will be discussed in greater detail within the Department's evaluation, however it should be noted that it is unclear how the costs could be included within the pro formas provided within the application, as Providence did not acknowledge that any of those certification-related costs existed in the original application.

Secondly, it appears that the construction costs claimed within PRMCE's screening response are not fully inclusive of the full spectrum of work identified in their technical assistance with Construction Review Services.

Providence's screening response states the following:

*“Based on the CRS review, a recommendation was made that if, at a future date, Providence chooses to utilize three of the unused OR rooms (marked as not used on Exhibit 6) for something other than ASF use, then fire/smoke barrier doors should be installed to separate the ASF space from non-ASF space. At this time, the ASF space has not changed and there are no plans to utilize those operating rooms. However, if plans change in the future, the estimated maintenance and repair cost to install fire/smoke barriers doors in two locations is \$20,000.*

*“Based on the CRS review, a recommendation was made to relocate the ASF waiting room to another area with in the ASF. The estimated maintenance and repair cost to relocate the waiting room is \$1,000 for moving, cleaning and painting expenses.*

*“Based on the CRS review, a recommendation was made to add a remote generator enunciator signal to the ASF. The estimated maintenance and repair cost is \$2,500.” [source: May 17, 2017 screening response p2]*

In contrast, the CRS Technical Assistance review documents states:

*“A one hour fire barrier with 20 minute rated fire doors **shall enclose the whole distinct entity that forms the ASC/ASC per 2012 NFPA 101 Chapter 20.3.7.1 and the Medicare K-tag list.** [emphasis added]*

*“The waiting and check in **must be enclosed behind that same one hour fire barrier** as part of the distinct entity requirements of 42CFR 416.22. [emphasis added]*

*“A medical gas master alarm will be required in the ASF from the contract medical gas service*

*“The ceiling tiles in the clean equipment room do not meet the clean ability requirements due to the multiple fissures and regular type of tile*

*“All operating rooms will need the following upgrades;*

- *Replace the task lights (troffers) with a sealed/gasketed frame lens/fixture to eliminate the gaps around the existing ones that do not provide a monolithic finish.*
- *Two sources of power are required at each critical care & general care patient bed location. Consisting of one source from the critical power branch and the other the normal power source. Provide at least one duplex hospital grade receptacle in each OR on a normal power supply source.*
- *Gaps around white boards, corner guards, light fixtures, in door jambs can harbor bacteria that cannot be cleaned. Fill these gaps with caulking or other equivalent to provide a smooth finish, free of cracks and crevices.*
- *Remove all wire mold from walls of the OR’s that would be very difficult to seal to form the finish with no cracks and crevices.”*

[source: CRS TA Notes CRAS.FS.60729655]

The costs identified by PRMCE in their response to screening are not fully inclusive of the required steps identified by Construction Review Services. Moreover, PRMCE did not identify a financing source for the work that would need to be done in order to meet state and federal requirements. Therefore, the department elected to declare a Pivotal Unresolved Issue (PUI) in order to give Providence one final opportunity to represent the full costs associated with the project, and to identify a financing source:

In response to the department’s PUI questions, PRMCE re-stated their position that the costs associated with converting the space should not be considered a capital expenditure, below:

*“In its CN application (#17-12), Providence noted there were no capital expenditures associated with the proposed project, which it continues to believe to be an accurate statement. The minor improvements that were identified as a result of the CRS TA review and that have been listed in Table 2 will be funded through Providence's operating budget. None of the items are ones that would be capitalized.”* [source: PUI Response p2]

While this position will be evaluated in greater detail within the “Department Evaluation” section below, it should be noted that the department maintains that these costs meet the definition of a capital expenditure under WAC 246-310-010(10).

PRMCE provided an itemized list of costs as they relate to the CRS TA notes. The final estimated capital expenditure is summarized and restated below. [source: PUI Response p11]

<b><i>Item</i></b>	<b><i>Cost</i></b>
<i>Licensing/Certification Applications</i>	<i>\$6,461</i>
<i>CRS Review</i>	<i>\$5,675</i>
<i>Fire Barriers and Doors</i>	<i>\$11,412</i>
<i>Waiting and Check-In Area Construction</i>	<i>\$984</i>
<i>Generator Costs</i>	<i>\$10,464</i>
<i>Operating Room Light Upgrades</i>	<i>\$60,275</i>
<i>Signage</i>	<i>\$132</i>
<b><i>Total</i></b>	<b><i>\$95,403</i></b>

PRMCE also identified one other cost that could potentially be a part of the project. Because PRMCE has not confirmed that this work will be required, it is not included in the expenditure above. [source: PUI Response p12]

<b><i>Item</i></b>	<b><i>Cost</i></b>
<i>Master Alarm Panel</i>	<i>\$2,015</i>
<i>Electrical labor</i>	<i>\$27,800</i>
<i>Supervision and Inspection</i>	<i>\$1,800</i>
<i>Washington State Sales Tax</i>	<i>\$2,892</i>
<b><i>Total</i></b>	<b><i>\$34,507</i></b>



### Public Comments

None

### Rebuttal Comments

None

### Department Evaluation

Regardless of how a healthcare facility may internally look at the financing of a project – through a capital budget or operations budget – that does not change how the department would look at these costs. “Capital Expenditure” is defined under WAC 246-310-010(10), as follows:

*Except for WAC 246-310-280, [which relates to ESRD facilities and is not applicable to this application] capital expenditure means an expenditure, including a force account expenditure (i.e., an expenditure for a construction project undertaken by a nursing home facility as its own contractor), which, under generally accepted accounting principles, is not properly chargeable as an expense of operation or maintenance. The costs of any studies, surveys, designs, plans, working drawings, specifications, and other activities (including staff effort, consulting and other services which, under generally accepted accounting principles, are not properly chargeable as an expense of operation and maintenance) shall be considered capital expenditures. Where a person makes an acquisition under lease or comparable arrangement, or through donation, which would have required certificate of need review if the acquisition had been made by purchase, this acquisition shall be deemed a capital expenditure. Capital expenditures include donations of equipment or facilities to a nursing home facility, which if acquired directly by the facility, would be subject to review under this chapter and transfer of equipment or facilities for less than fair market value if a transfer of the equipment or facilities at fair market value would be subject to the review.*

It is not clear how the conversion of this space would be considered maintenance or repair, so the costs identified in the table provided in the PUI are all within the capital expenditure, and will be evaluated as such.

Related to costs identified in response to the PUI, approved projects are afforded a margin of error of up to 12% or \$50,000, whichever is higher. In the case of this project, 12% of \$95,403 is less than \$50,000, so the cost of the generator, if applicable, would not exceed this cap.

The application submitted by Providence proposes to remove eight operating rooms from the hospital license in order to license five under an ASF, and bill for procedures at the ASF rate.

In order to evaluate this sub-criterion, the department performed a calculation of gross revenue per procedure after the project to determine whether the applicant’s projections were reasonable.

**Table 13**  
**Department Calculation of Gross Charges per Case**

	<b>2018</b>	<b>2019</b>	<b>2020</b>
Gross Revenue	\$22,500,800	\$22,770,300	\$23,039,800
Number of Procedures	4,592	4,647	4,702
Gross Revenue (charges) per Procedure	\$4,900	\$4,900	\$4,900

As shown above, the gross charges remain the same in the projection years. The gross charges shown above are comparable to those within similar projects reviewed by the department.

The capital expenditure associated with this project is limited to construction to make the current hospital space compliant with ASF licensing and Medicare standards.

Based on the above information, the department concludes that the establishment of the PRMCE ASF as a CN-approved ASF would likely not have an unreasonable impact on the costs and charges for healthcare services in the Central Snohomish secondary service planning area. However, if this project is approved, the department would attach a condition that PRMCE will complete all of the CMS and DOH required steps in order for this proposed facility to operate as a distinct entity from the hospital. Assuming PRMCE agrees to the condition identified under this section, **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.

**Providence Regional Medical Center Everett**

*“Providence believes that there are no capital expenditures associated with converting the hospital space to a licensed ASF. However, the costs associated with each of the eleven items the Department has identified...are estimated in the table below. We believe these expenses are costs that are already accounted for either in the ASF proforma under Other Direct Expenses or they are expenses of PRMCE and therefore are not part of the certificate of need review.”* [source: May 17, 2017 screening response p2]

As noted above, the department declared a PUI related to undisclosed construction and regulatory costs. In PRMCE’s response to this PUI, they provided an updated letter of financial commitment from Michael Langford, the Senior Finance Director for Providence Health & Services, Northwest Washington Service Area. [source: PUI Response p26]

**Public Comments**

None

## Rebuttal Comments

None

## Department Evaluation

Along with the updated capital expenditure evaluated under WAC 246-310-220(2), the PRMCE provided a letter of financial commitment in excess of the amount identified in the estimated capital expenditure. A review of Providence's audited financial statements show that there are adequate cash reserves to fund this project without materially impacting their financial position.

With the additional information provided in response to the PUI questions, the costs associated with this project can now be substantiated, and the financing source is appropriate. **This sub-criterion is met.**

## **C. STRUCTURE AND PROCESS (QUALITY) OF CARE (WAC 246-310-230)**

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Providence Regional Medical Center Everett met the applicable 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 FTEs [full time equivalents] 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 Regional Medical Center Everett**

*“PRMCE has an excellent reputation and history of being able to retain and recruit appropriate personnel. PRMCE offers a competitive wage scale, a generous benefit package, and a professionally rewarding work setting.*

*Providence has multiple resources available to assist with the identification and recruitment of appropriate and qualified personnel:*

- *Experienced recruitment teams locally and within Providence to recruit qualified manpower;*
- *Strong success in recruiting for critical to fill positions with recruiters that offer support on a national level as well as local level;*
- *Career listings on the Providence Web site and job postings on multiple search engines and listing sites (e.g. Indeed, Career Builders, Monster, NW Jobs).*

- *Educational programs with local colleges and universities as well as the University of Great Falls Bachelor of Science in Nursing program (operated by Providence).*

*Each of these factors has contributed to the ability to maintain a highly qualified employee and management base.” [source: PRMCE Application p40]*

PRMCE also provided the table below, showing staffing throughout the projection period. [source: PRMCE Application p39]

**Table 14  
PRMCE ASF Projected FTEs**

	<b>2018</b>	<b>2019</b>	<b>2020</b>
Office/Clerical	1.25	1.25	1.25
Scheduler	1.00	1.00	1.00
Billing and Collection	1.00	1.00	1.00
Medical Records	1.00	1.00	1.00
Room Prep/Clean	4.50	4.50	4.50
Registered Nurse	14.00	14.00	14.00
OR Technicians	7.00	7.00	7.00
Materials Management	1.00	1.00	1.00
Manager	1.00	1.00	1.00
<b>Total FTEs</b>	<b>31.75</b>	<b>31.75</b>	<b>31.75</b>

Public Comments

None

Rebuttal Comments

None

Department Evaluation

As shown above, the ASF would use Providence’s recruitment methods in order to staff the proposed 5-OR ASF.

Information provided in the application demonstrates that PRMCE is a well-established provider of healthcare services in the Central Snohomish secondary service planning area. PRMCE is currently operational with 501 licensed beds. Year-end financial data shows that PRMCE has all of these beds fully set-up and staffed. There is no information to suggest that PRMCE has any difficulty with staff recruitment or retention.

Given that PRMCE already offers surgical services through the hospital campus, the department concludes that PRMCE has the ability to staff the proposed ASF.

If this project is approved, the department would attach two conditions related to this sub-criterion. The first would require PRMCE to provide the department with a listing of key staff for the ASC prior to offering services. Key staff includes all credentialed or licensed management staff, including the director of nursing and the medical director. The second condition would require PRMCE to submit a copy of the final signed medical director agreement, consistent with the draft provided to the department within the application.

Based on the above information, the department concludes that a sufficient supply of qualified staff is available for this project. **This sub-criterion is met.**

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

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

#### **Providence Regional Medical Center Everett**

*“Given there is a currently an operational hospital mixed use surgery department at the proposed ASF location, all ancillary and support services are currently provided by PRMCE within the proposed location.”* [source: PRMCE Application p40]

*“The proposed ASF is located on the first floor of the PRMCE Pacific Campus. As part of a larger medical facility, the proposed ASF and its patients will have immediate access to the ancillary and support services including laboratory, pharmacy, medical imaging, housekeeping, food services, security, etc. It is Providence's experience that subsequent contracts and agreements, if necessary, can be established if needed well within the time frame of Certificate of Need approval and subsequent opening of the ASF”* [source: January 6, 2017 screening response p8]

#### **Public Comments**

None

#### **Rebuttal Comments**

None

#### **Department Evaluation**

PRMCE has been providing healthcare services in Central Snohomish County for many years.

The application stated that all ancillary and support services would be available through the hospital. PRMCE provided examples of which services would be under contract through the

hospital. In order to meet CMS participation requirements, the ASF must operate as a distinct entity from the acute care hospital. Therefore, the services identified above cannot be informal, and must be provided by the facility or through contractual agreements. If this project is approved, the department would attach a condition requiring PRMCE to provide copies of all ancillary and support contracts between the hospital and the ASF for review and approval.

The department expects the proposed ASF will contract with a pharmacy licensed and endorsed to provide medications to the ASF. The department would attach a second condition under this sub-criterion requiring the ASF to provide a copy of the contract for pharmacy services for review and approval.

Based on the information reviewed in the application and agreement to the conditions above, the department concludes that there is reasonable assurance that PRMCE will establish the necessary relationships with ancillary and support services if this project is approved. **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 Regional Medical Center Everett**

*"PRMCE has no history of criminal convictions related to ownership/operation of a health care facility, licensure revocations or other sanctions described in WAC 246-310-230(5)(a). (Note: the above WAC has been re-codified as WAC 246-310-230.) Patient care at PRMCE is and will continue to be provided in conformance with all applicable federal and state requirements."*

*"PRMCE has a history of providing high quality health care services in a safe and appropriate manner. PRMCE is licensed by the State of Washington Department of Health, is Medicare certified and accredited by the Joint Commission. PRMCE also participates in a variety of other accreditation, licensure and certification reviews by external agencies (such as the American College of Radiology, American College of Surgeons Commission on Cancer, Commission on Accreditation of Rehabilitation Facilities, etc.) This activity is part of our efforts to meet the expectations and requirements of customers to exceed external standards. PRMCE also uses national and regional benchmarking to set annual quality and safety goals for the delivery of patient care."*

*“All PRMCE facilities meet all relevant State and Federal rules and regulations. All current laws, rules and regulations will be applied to the ambulatory surgery center. All physicians performing surgeries at the ASF are required to be credentialed and privileged as a member of the PRMCE medical staff and be in good standing.”* [source: PRMCE Application p41]

PRMCE also provided the following statement related to their compliance with state and federal requirements as the facility transitions from a mixed-use surgery department under the hospital license, to an independent ASF:

*“Providence understands the steps required to convert the hospital based surgery department on the Pacific Campus to an Ambulatory Surgery Facility and is committed to following through with all regulatory requirements.”* [source: May 17, 2017 screening response p2]

#### Public Comments

None

#### Rebuttal Comments

None

#### Department Evaluation

As part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.<sup>10</sup> To accomplish this task, the department reviewed the quality of care compliance history for all healthcare facilities owned, operated, or managed by Providence or its subsidiaries. The department also reviewed the compliance history of a random selection of facilities and agencies owned, operated by, or affiliated with Providence outside of Washington State.<sup>11</sup>

Providence Health and Services – Washington is part of Providence St. Joseph Health, which is one of the largest not-for-profit healthcare systems in the United States. Providence operates several healthcare facilities and services nationwide through a number of subsidiaries. Its Washington facilities are operated under the Providence Health and Services – Washington subsidiary. [sources: Application, p11; January 6, 2017 screening response 1 p1]

#### Washington State Facilities

Using the department’s internal database, the department reviewed survey data for the 25 licensed facilities and agencies owned by, affiliated with, or operated by Providence in Washington State. This includes 13 hospitals<sup>12</sup>, one ambulatory surgery center, and eleven in-

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<sup>10</sup> WAC 246-310-230(5)

<sup>11</sup> Affiliates outside of Washington State include all St Joseph Health facilities and agencies. Providence and St Joseph Health – a California-based nonprofit healthcare system – announced their affiliation on July 6, 2016. [source: [www.stjhs.org/newsroom.aspx](http://www.stjhs.org/newsroom.aspx)]

<sup>12</sup> Providence directly owns and operates eight hospitals in Washington State. The five additional hospitals listed include Kadlec Regional Medical Center and four Swedish hospitals. Swedish and Providence affiliated in 2012. Kadlec and Providence affiliated in 2014. [source: Certificate of Need historical files]

home services agencies – shown below in Table 15. [source: Department of Health Office of Investigation and Inspection]

**Table 15  
Providence Facilities and License Status**

Licensee	License Number	Surveys since 2014	Substantially Compliant?
<b>Hospitals</b>			
Providence Centralia Hospital	HAC.FS.00000191	1	yes
Providence Holy Family Hospital	HAC.FS.00000139	2	yes
Providence Mount Carmel Hospital	HAC.FS.00000030	1	yes
Providence Regional Medical Center Everett	HAC.FS.00000084	1	yes
Providence Sacred Heart Medical Center and Children's Hospital	HAC.FS.00000162	0	yes
Providence St Joseph's Hospital	HAC.FS.00000194	1	yes
Providence St Mary Medical Center	HAC.FS.00000050	1	yes
Providence St Peter Hospital	HAC.FS.00000159	1	yes
Kadlec Regional Medical Center	HAC.FS.00000161	2	yes
Swedish Edmonds	HAC.FS.60183546	2	yes
Swedish Medical Center - Cherry Hill	HAC.FS.60329940	1	yes
Swedish Medical Center - First Hill	HAC.FS.00000001	1	yes
Swedish Medical Center - Issaquah Campus	HAC.FS.60256001	1	yes
<b>Ambulatory Surgery Center</b>			
Providence Surgery and Procedure Center (Spokane)	ASF.FS.60475161	1	yes
<b>In-Home Service Agencies</b>			
Providence DominiCare	IHS.FS.60259664	1	yes
Providence Elder Place	IHS.FS.00000415	1	yes
Providence Home Services	IHS.FS.00000419	1	yes
Providence Hospice*	IHS.FS.60201476	2	yes
Providence Hospice and Home Care of Snohomish County*	IHS.FS.00000418	3	yes
Providence Hospice of Seattle*	IHS.FS.00000336	2	yes
Providence Infusion and Pharmacy Services	IHS.FS.00000417	1	yes
Providence Infusion and Pharmacy Services	IHS.FS.60344780	1	yes
Providence SoundHomeCare and Hospice	IHS.FS.00000420	2	yes
Providence St Mary Home Health	IHS.FS.00000446	2	yes
Providence VNA Home Health	IHS.FS.00000467	2	yes

\* indicates a Medicare/Medicaid certified hospice agency



Assisted Living Facilities and Skilled Nursing Facilities are licensed through the Department of Social and Health Services Aging and Long-Term Support Administration (DSHS AL TSA). Using information from the DSHS AL TSA website, the department reviewed survey data for the five skilled nursing and four assisted living facilities owned by Providence in Washington State. According to the reports found on the website, all nine facilities are in substantial compliance with state regulations and have submitted applicable plans of correction to address survey deficiencies.

Providence and its affiliates operate all across the western United States. The department randomly selected Providence and Providence-affiliated facilities in Montana, California, and Texas to review for their compliance with state and federal standards, shown below:

**Table 16  
Providence and Affiliated Facilities Outside of Washington**

Facility Name	State	Joint Commission?	State Enforcement Action since 2014?
<b>Providence</b>			
St Patrick Hospital	MT	yes	no
Providence St Joseph Medical Center	MT	yes	no
St Joseph Assisted Living Center	MT	n/a <sup>13</sup>	no
Providence Holy Cross Medical Center	CA	yes	no
Providence Little Company of Mary Medical Center San Pedro	CA	yes	no
Providence Little Company of Mary Medical Center Torrance	CA	yes	no
Providence Saint John's Health Center	CA	yes	no
Providence Saint Joseph Medical Center	CA	yes	no
Providence Tarzana Medical Center	CA	yes	no
<b>Providence Affiliate – St Joseph Health</b>			
Santa Rosa Memorial Hospital	CA	yes	yes <sup>14</sup>
Queen of the Valley Medical Center	CA	yes	no
St Joseph Hospital, Eureka	CA	yes	no
Petaluma Valley Hospital	CA	yes	no
Hoag Hospital Irvine	CA	no – DNV <sup>15</sup>	no
Mission Hospital Laguna Beach	CA	yes	no
Mission Hospital Mission Viejo	CA	yes	yes <sup>16</sup>
St Joseph Hospital Orange	CA	yes	yes <sup>17</sup>

<sup>13</sup> The Joint Commission does not accredit or certify assisted living centers.

<sup>14</sup> Seven enforcement actions related to the facility's failure to report breach of information. Fines paid in full for all closed cases.

<sup>15</sup> "DNV" = Det Norske Veritas – an accrediting agency with CMS deeming authority, similar to the Joint Commission. [source: <http://dnvglhealthcare.com>]

<sup>16</sup> Three enforcement actions related to patient care and a "Breach to person/entity outside facility/hc system." Fines paid in full.

<sup>17</sup> Two enforcement actions related to patient care. Fines paid in full.

Facility Name	State	Joint Commission?	State Enforcement Action since 2014?
St Jude Medical Center	CA	yes	yes <sup>18</sup>
St Mary Medical Center	CA	yes	no
Hoag Hospital Newport Beach	CA	no – DNV	no
St Joseph Home Care	CA	yes	no
Covenant Medical Center	TX	yes	no
Covenant Children’s Hospital	TX	yes	no
Covenant Health Levelland	TX	no	no
Covenant Health Plainview	TX	no	no

As shown above, out-of-state Providence facilities have demonstrated compliance with applicable state and federal regulations. Aside from one action noted above at Saint Jude Medical Center, all citations against Providence-affiliated facilities happened prior to the affiliation of the two healthcare networks. No evidence on any of the state licensing websites indicated that any of the above facilities have ever been closed or decertified from participation in Medicare or Medicaid as a result of compliance issues.

With agreement to the conditions identified under WAC 246-310-230(2), there is reasonable assurance that the ASF will be operated in conformance with applicable state and federal regulations.

Conversion of licensed acute care hospital space to licensed ASF space requires a sequence of steps to remain compliant with state and federal regulations. In collaboration with other offices within HSQA,<sup>19</sup> the following steps have been identified:

- 1) CRS TA Conference – *completed*<sup>20</sup>
- 2) Certificate of Need approval
- 3) CRS Plan Review – Construction and final approval of comments for ASF only
  - (a) There would also be a second project on the hospital side to make the remaining ORs functional that has not been addressed
  - (b) CRS final inspection of the site
  - (c) Time frames for local building department (AHJ) review of changes must be included
- 4) Submit ASF license application
- 5) Office of Investigation and Inspection initial survey as an ASF
- 6) Receive Policy & Procedure approval for ASF operation and all contracted services unique to this site (i.e. emergency power, medical gases, central services, laundry, etc)
- 7) Unlicense and decertify the portion of the hospital that becomes the ASF. *The hospital license can be kept for this space during construction. However, if the space is to be used during construction, appropriate safeguards must be in place to ensure patient safety.*
- 8) The ASF would need to obtain all new licenses for pharmaceuticals (DEA) or other related items as a new ASF/ASC.

<sup>18</sup> One enforcement action related to “retention of a foreign object in a patient.” Fine paid in full.

<sup>19</sup> This includes the Office of Investigations and Inspections, Construction Review Services, and the Office of Customer Service.

<sup>20</sup> CRS #60729655

- 9) Issue ASF license – *this would be contingent on Providence Everett relinquishing the hospital license for the space, and decertification of the space*
- 10) Apply for CMS certification
- 11) Approval from MAC, then coordinate certification with accreditation agency

To ensure compliance with state and federal regulations, if this project is approved, the department would attach a condition requiring PRMCE to follow through with these steps.

Based on the above information and agreement to the conditions above, the department concludes that Providence demonstrated reasonable assurance that PRMCE would continue to operate in compliance with state and federal requirements if this project is approved. **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 direct 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.

#### **Providence Regional Medical Center Everett**

*“PRMCE has developed long-term collaborative relationships with other providers to expand program offerings and ensure access and continuity of appropriate care for residents of Snohomish County and the other surrounding communities served by PRMCE. This ASF will have a strong working relationship with the other PRMCE services located within the building and also at the Colby Campus. Patients requiring transfer to a higher level of care would be transferred to the PRMCE Colby Campus as appropriate.”* [source: PRMCE Application p40]

#### **Public Comments**

None

#### **Rebuttal Comments**

None

#### **Department Evaluation**

Information in the application demonstrates that PRMCE is a long-time provider of outpatient surgical services, and that they are prepared to make the necessary modifications to function as an ASF rather than an outpatient department of the hospital.

PRMCE provided information within the application to demonstrate it intends to contract with the hospital for services. This includes the executed transfer agreement between the proposed

ASF and PRMCE. Based on the information provided in the application, the department concludes there is reasonable assurance that approval of this this project has the potential to promote continuity in the provision of health care services in the community. **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 agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Providence Regional Medical Center Everett met the applicable cost containment criteria in WAC 246-310-240.

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

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

If the project has met the applicable criteria in WAC 246-310-210 through 230 criteria, in step two, the department assesses the other options considered by the applicant. If the department determines the proposed project is better or equal to other options considered by the applicant and the department has not identified any other better options this criterion is determined to be met unless there are multiple applications.

If there are multiple applications, the department's assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type in Step three. The superiority criteria are objective measures used to compare competing projects and Page 187 of 209 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 type superiority criteria as directed by WAC 246-310-200(2) (a)(i), then the department would use 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**

Providence Regional Medical Center Everett met the applicable review criteria under WAC 246-310-210 through 230. Their application will be evaluated further under Steps Two and Three.

### **Step Two**

#### **Providence Regional Medical Center Everett**

*“PRMCE is requesting a certificate of need for the proposed ASF so that all eligible physicians can utilize this facility, which will be operational by January 1, 2018. As part of our due diligence, PRMCE explored multiple alternatives and evaluated them with respect to the following criteria: (1) access to needed services by planning area residents, (2) our current activities in the planning area, (3) quality of care, and (4) cost of care. The alternatives were: “do nothing” or request Certificate of Need approval for a freestanding ASF—the project.”*  
[source: PRMCE Application pp42-43]

The “no project” option was ruled out for the following reasons:

*“While in theory an option, PRMCE abandoned a “do nothing” strategy early in the due diligence. The planning area currently has too few Certificate of Need approved outpatient ambulatory ASF operating rooms which provider a lower cost setting for payers, providers and patients. A status quo strategy is detrimental to the continuum of care, as it does nothing to improve the cost effectiveness of care delivery. As there were no advantages to a “do nothing” strategy, it was not considered a feasible alternative.”*

The option to build a freestanding ASF was ruled out for the following reasons:

*“PRMCE evaluated a freestanding ambulatory surgery facility as an option. Building a freestanding facility would require substantial capital expenditures for construction, equipment, and support infrastructure costs rather than utilizing the existing infrastructure at the PRMCE Pacific Campus. Additionally, with a freestanding facility, ancillary support services are not readily available, reducing efficiency and throughput. Building a new facility was not considered a feasible alternative due to the increase in capital and operating costs as well as throughput and efficiency.”*

#### **Public Comments**

None

#### **Rebuttal Comments**

None

### Department Evaluation

Information provided within the application demonstrates that there is need for additional outpatient OR capacity in the Central Snohomish secondary health service planning area. Based on this alone, PRMCE appropriately rejected the “do nothing” option.

PRMCE also provided a rationale for rejecting the option to build a free-standing facility, away from the hospital campus. Though the regulatory burden associated with housing an ASF within the hospital is quite high, the department understands why the option to use existing space could be a more attractive option.

One alternative that was not identified within the application was to have the hospital internally designate these ORs for outpatient services only. The strengths of this option include: no requirement to go through Certificate of Need for prior review and approval, no need to complete physical changes to the space to be a distinct entity, and no “down time” between operating as mixed-use and dedicated outpatient. The weaknesses are largely reimbursement related. While conversion of hospital space to ASF space can be a complicated process, the department concludes that the benefits of lowered cost to consumers may potentially outweigh other concerns. This step is satisfied, and the department moves on to Step 3.

### **Step Three**

This step is applicable only when there are two or more approvable projects. PRMCE’s application is the only application under review to add outpatient surgical capacity in the Central Snohomish County secondary health service planning area. Therefore, this step does not apply.

Based on the information stated above, 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;*

### **Providence Regional Medical Center Everett**

Within the PUI responses, PRMCE provided contractors estimates that cover the entire scope of construction to be completed. This scope does not exceed the items identified within CRS TA #60729655. [source: PUI Response Exhibit 19, CRS TA Notes CRAS.FS.60729655]

### Public Comments

None

### Rebuttal Comments

None

Department Evaluation

As stated above, the costs identified in the PUI responses include the TA recommendations from Construction Review Services, and PRMCE provided contractors estimates that attest to the reasonableness of these costs. Furthermore, when compared to similar projects, the costs are similar. **This sub-criterion is met.**

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

**Providence Regional Medical Center Everett**

PRMCE provided contractors estimates that cover the scope of work necessary to be licensed as an ASF. [source: PUI Response Exhibit 19, CRS TA Notes CRAS.FS.60729655]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

As stated under the WAC 246-310-220(2), the costs of this project are solely related to conversion of the space from hospital licensure to a stand-alone ASF. With need for additional outpatient ORs in the planning area, and the assumptions related to costs and charges under the Financial Feasibility section of this evaluation, the department does not anticipate this project would have an unreasonable impact on the costs and charges to the public. Therefore, the department concludes this sub-criterion is met.

- (3) The project will involve appropriate improvements or innovations in the financing and delivery of health services which foster cost containment and which promote quality assurance and cost effectiveness.

**Providence Regional Medical Center Everett**

*“The main objective of the proposed project is to provide needed access to a high quality, low cost ambulatory surgery facility in the planning area where there is clear, demonstrated need. By dedicating the current mixed use to patients’ cases that are projected to last less than 120 minutes of outpatient surgery, PRMCE will be able to reduce the variation in case complexity and acuity which creates room set up, equipment, staffing, and cleaning challenges as well as reduce potential peri-operative complexity which can occur in a mixed use setting. The ASF will be open to all qualified physicians in the planning area, offering more choices for patients and further contributing to overall cost containment.”* [source: PRMCE Application pp43-44]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

Based on information provided within the application, and evaluated under WAC 246-310-210 and 230, the department is satisfied that his project is appropriate and needed. This project has the potential to improve the delivery of health services. As of the date of this evaluation, there are insufficient outpatient ORs in Central Snohomish County according to the numeric need methodology. This project has the potential to increase the availability and accessibility of outpatient surgical services to patients at a lower cost than hospital-based services. The department concludes that this project could appropriately improve the delivery of health services. **This sub-criterion is met.**



# APPENDIX A



**APPENDIX A  
ASC Need Methodology  
Central Snohomish County**

Facility	License Number	Zip Code	Special Procedure Rooms	Dedicated Inpatient ORs	Dedicated Outpatient ORs	Mixed Use ORs	Inpatient min/case	Inpatient Cases in Mixed Use ORs	2015 Inpatient Mins. In Mixed Use ORs	Outpatient Min/Case	Outpatient Cases	Outpatient Mins.	Data Source
Providence Regional Medical Center Everett - Colby	HAC.FS.00000084	98201	3	0	0	13	131.0	9,849	1,290,703				2016 survey for 2015 info
Providence Regional Medical Center Everett - Pacific	HAC.FS.00000084	98201	0	0	0	9	85.9	4,294	368,717				2016 survey for 2015 info
Gateway Surgery Center	ASF.FS.60100914	98201	0	0	2	0				45.0	1,633	73,485	2016 survey for 2015 info
Northwest Weight Loss Surgery	ASF.FS.60534516	98208	0	0	2	0				68.9	882	60,794	Application 17-24 Table 4 (p22)
Everett Bone and Joint Surgery Center	ASF.FS.60101038	98201	0	0	2	0				50.0	1,722	86,100	Application 17-07 Table 3 (p12)
Kemp Surgery Center	ASF.FS.60100209	98201	4	0	4	0				69.3	4,635	321,372	2016 survey for 2015 info
Physicians Eye Surgery Center	ASF.FS.60099809	98201	0	0	3	0				50.0	1,500	75,000	ILRS
Trask Surgery Center	ASF.FS.60100213	98201	0	0	4	0				43.0	4,460	191,725	ILRS (closed in 2016)
<b>Totals</b>			<b>7</b>	<b>0</b>	<b>17</b>	<b>22</b>	<b>216.9</b>	<b>14,143</b>	<b>1,659,420</b>	<b>326</b>	<b>14,832</b>	<b>808,476</b>	
							Avg min/case inpatient		<b>117.33</b>	Avg min/case outpatient		<b>54.51</b>	
<b>ORs counted in numeric methodology</b>					<b>6</b>	<b>22</b>							
ILRS: Integrated Licensing & Regulatory System													
Population data source: Claritas 2016													
Total Surgeries			28,975										
Area population 2015 [0-85+]			309,336										
Use Rate			93.668										
Planning Area projected 0-85+ population Year: 2020			328,159										
% Outpatient of total surgeries			51.19%										
% Inpatient of total surgeries			48.81%										



**APPENDIX A  
ASC Need Methodology  
Central Snohomish County**

	Service Area Population: 2020	328,159	Claritas	0-85+						
	Surgeries @ 93.668/1,000:	30,738								
a.i.	94,250	minutes/year/mixed-use OR								
a.ii.	68,850	minutes/year/dedicated outpatient OR								
a.iii.	6	dedicated outpatient OR's x 68,850 minutes =			413,100	minutes dedicated OR capacity	7,579	Outpatient surgeries		
a.iv.	22	mixed-use OR's x 94,250 minutes =			2,073,500	minutes mixed-use OR capacity	17,672	Mixed-use surgeries		
b.i.		projected inpatient surgeries =	15,004	=	1,760,395	minutes inpatient surgeries				
		projected outpatient surgeries =	15,735	=	857,672	minutes outpatient surgeries				
b.ii.		Forecast # of outpatient surgeries - capacity of dedicated outpatient OR's								
		15,735	-	7,579	=	8,156	outpatient surgeries			
b.iii.		average time of inpatient surgeries		=	117.33	minutes				
		average time of outpatient surgeries		=	54.51	minutes				
b.iv.		inpatient surgeries*average time		=	1,760,395	minutes				
		remaining outpatient surgeries(b.ii.)*ave time		=	444,572	minutes				
					2,204,967	minutes				
c.i.		if b.iv. < a.iv. , divide (a.iv.-b.iv.) by 94,250 to determine surplus of mixed-use OR's								
		<b>Not Applicable - Go to c.11. and ignore any value here.</b>								
		2,073,500								
		- 2,204,967								
		-131,467	/	94,250	=	-1.39				
c.ii.		if b.iv. > a.iv., divide (inpatient part of b.iv - a.iv.) by 94,250 to determine shortage of inpatient OR's								
		<b>USE THESE VALUES</b>								
		1,760,395								
		- 2,073,500								
		(313,105)	/	94,250	=	-3.32				
		divide outpatient part of b.iv. By 68,850 to determine shortage of dedicated outpatient OR's								
		444,572	/	68,850	=	6.46				