



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

September 2, 2011

CERTIFIED MAIL # 7008 1300 0000 7202 9942

Tracey Kasnic, Vice President
Patient Care Services
Central Washington Hospital
1201 South Miller Street
Post Office Box 1887
Wenatchee, Washington 98807

RE: CN11-28

Dear Ms. Kasnic:

We have completed review of the Central Washington Hospital application proposing to establish a 30-bed transitional care unit (TCU) within space at the hospital. For the reasons stated in this evaluation, the application submitted by Central Washington Hospital is not consistent with the applicable review criteria. However the establishment of a 22-bed TCU is consistent with applicable criteria of the Certificate of Need Program provided Central Washington Hospital agrees to the following in its entirety.

Project Description:

This project approves the establishment of a 22-bed transitional care unit within space at Central Washington Hospital using beds banked under the full facility closure provisions of RCW 70.38.115(13). Once the 22-bed transitional care unit is operational there will be no remaining beds banked under full facility closure at Central Washington Hospital. At project completion, Central Washington Hospital would be operating with the following number of beds.

Bed Type	# of Licensed Beds
General Medical/Surgical (includes 6-bed level II ICN)	176
Transitional Care Unit	22
Total Number of Licensed Beds	198

Conditions:

1. Approved project as described above.
2. Prior to providing services in the transitional care unit, Central Washington Hospital must provide its final Admission Policy for the unit. The final policy must be consistent with the draft policy provided in the application.



Approved Costs:

The approved capital expenditure associated with the establishment of the 22-bed transitional care unit within space at Central Washington Hospital is \$550,860.

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

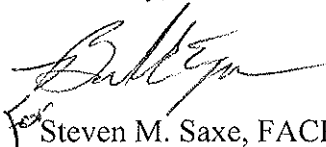
Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

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

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

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

Sincerely,



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

Enclosure

**EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY
CENTRAL WASHINGTON HOSPITAL PROPOSING TO ESTABLISH
A THIRTY-BED TRANSITIONAL CARE UNIT AT THE HOSPITAL**

APPLICANT DESCRIPTION

The origins of Central Washington Hospital date to the early 1900s with the establishment of Central Washington Deaconess Hospital and St. Anthony's Hospital. The two organizations merged in 1974 to form Central Washington Health Services Association. The St. Anthony's facility was renamed Rosewood Hospital in 1978 and the facilities combined their operations at the remodeled and expanded Rosewood Hospital site under the name Central Washington Hospital. [source: Central Washington Hospital website]

Central Washington Hospital (CWH) is located at 1201 South Miller Street in Wenatchee, within Chelan County. CWH provides healthcare services to the residents of Chelan County through its hospital, home health agency, hospice agency, and dialysis center. As of the writing of this evaluation, all of the health care facilities are located in Chelan County. [source: CN historical files]

PROJECT DESCRIPTION

On March 4, 1988, CWH was issued Certificate of Need (CN) #917 approving the establishment of a 35-bed nursing home to be built adjacent and attached to the hospital. The nursing home would be operated as a transitional care unit, or TCU. On June 14, 1993, CN #917RA was issued to CWH reducing the number of approved beds from 35 to 30. The TCU was built and became operational with 22 nursing home beds.

CWH continued to operate the 22-bed TCU until July 31, 2009, when CWH elected to close the facility to accommodate a patient tower construction project at the hospital. Even though CWH only operated 22 nursing home beds in its TCU, CWH requested to bank the 30 approved TCU beds under full facility closure provisions of Revised Code of Washington 70.38.115(13)(b) and Washington Administrative Code 246-310-396. On August 26, 2009, the department approved CWH's request to bank 30 nursing home beds under the full facility closures.

CWH submitted this application to re-open its 22-bed TCU with its 30 beds banked under full facility closure. During the review of this project, staff noted that the TCU had never operated with 30 beds. Historical Medicaid cost report data obtained from the Department of Social and Health Services confirmed that CWH's TCU operated from 1994 through 2009 with only 22 beds.

During a July 18, 2011, meeting between the department and representatives of CWH, the department explained that since the TCU never operated more than 22 beds, 8 of the beds banked under full facility closure did not qualify for bed banking. CWH concurred with the department's reasoning and stated that it would accept a reduction in the number of approved beds if necessary. With this application, CWH proposes to reopen the TCU using the beds banked under full facility closure. In its review of this project, the department will address the impact of 22 TCU beds versus 30 TCU beds, where applicable. [source: CN historical files]

If this project is approved, CWH intends to provide all services typically associated with a TCU. Transitional care patients are stated to require a high level of skilled nursing care and typically need

regular access to acute care resources, such as emergency support or daily diagnostic tests or treatments. Typically the services include short-term, intensive, post-acute services for patients following an acute episode, including nursing services, physical/speech/occupational therapies, and rehabilitation services. Additionally, the TCU would be Medicare certified and Medicaid eligible. [source: Application, pp6-7 & p15]

The capital expenditure associated with the establishment of the 30-bed TCU is \$550,860. Of that amount 49% is related to minor remodel of existing hospital space to comply with licensing codes; 32% for fixed/moveable equipment; and the remaining 19% is related to fees and state sales tax. [source: Application, p5 & 18]

If this project is approved, CWH anticipates the TCU would become operational by the end of November 2011. Under this timeline, year 2012 would be the TCU's first full calendar year of operation and 2014 would be year three. [source: Application, p11]

APPLICABILITY OF CERTIFICATE OF NEED LAW

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

CRITERIA EVALUATION

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

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

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

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

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

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

- (i) Nationally recognized standards from professional organizations;*
- (ii) Standards developed by professional organizations in Washington state;*
- (iii) Federal Medicare and Medicaid certification requirements;*
- (iv) State licensing requirements;*

- (v) *Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and*
- (vi) *The written findings and recommendations of individuals, groups, or organizations with recognized expertise related to a proposed undertaking, with whom the department consults during the review of an application.*"

RCW 70.38.115(13)(b) states:

"When an entire nursing home ceases operation, the licensee or any other party who has secured an interest in the beds may reserve his or her interest in the beds for eight years or until a certificate of need to replace them is issued, whichever occurs first. Certificate of need review shall be required for any party who has reserved the nursing home beds except that the need criteria shall be deemed met when the applicant is the licensee who had operated the beds for at least one year, who has operated the beds for at least one year immediately preceding the reservation of the beds, and who is replacing the beds in the same planning area." [emphasis added]

CWH operated the TCU at its hospital since it opened in approximately 1994 and banked the beds under full facility closure in 2009. Neither the hospital nor the TCU has been sold or leased during the bed banking. As a result, numeric need for the beds that would be addressed under WAC 246-310-210(1) is deemed met. For this project, to obtain Certificate of Need approval, CWH must demonstrate compliance with the applicable criteria found in WAC 246-310-210(2) (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).

APPLICATION CHRONOLOGY

Below is a chronologic summary of this project.

Action	CWH
Letter of Intent Submitted	October 29, 2010
Application Submitted	April 5, 2011
Department's pre-review activities including screening and responses	April 6, 2011, through June 12, 2011
Beginning of Review <ul style="list-style-type: none"> • public comments accepted throughout review; • no public hearing requested or conducted 	June 13, 2011
End of Public Comment	July 18, 2011
Rebuttal Comments Received ¹	August 2, 2011
Department's Anticipated Decision Date	September 16, 2011
Department's Actual Decision Date	September 2, 2011

¹ Five letters of support were provided as public comment and no letters of opposition. CWH chose to not provide rebuttal statements to the public comments.

AFFECTED PERSONS

Washington Administrative Code 246-310-010(2) defines “affected person” as:
“...an “interested person” who:

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

Throughout the review of this project, no entities sought and received affected person status under WAC 246-310-010(2).

SOURCE INFORMATION REVIEWED

- Central Washington Hospital’s Certificate of Need application submitted April 5, 2011
- Central Washington Hospital’s supplemental information received June 6, 2011, and June 23, 2011
- Public comment received during the review
- Years 2006, 2007, and 2008 Department of Social and Health Services Medicaid cost report data
- Licensing and/or survey data provided by the Department of Health’s Investigations and Inspections Office
- Hospital and Patient Data Systems analysis dated August 26, 2011
- Department of Social and Health Services, Office of Rates Management rates analysis dated August 31, 2011
- Certificate of Need meeting notes dated July 18, 2011
- Certificate of Need historical files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Central Washington Hospital. proposing to establish a 30 bed transitional care unit is not consistent with the applicable review criteria. However the establishment of a 22-bed transitional care unit is consistent with applicable criteria of the Certificate of Need Program provided Central Washington Hospital agrees to the following in its entirety.

Project Description:

This project approves the establishment of a 22-bed transitional care unit within space at Central Washington Hospital using beds banked under the full facility closure provisions of RCW 70.38.115(13). Once the 22-bed transitional care unit is operational there will be no remaining beds banked under full facility closure at Central Washington Hospital. At project completion, Central Washington Hospital would be operating with the following number of beds.

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Conditions:

1. Approved project as described above.
2. Prior to providing services in the transitional care unit, Central Washington Hospital must provide its final Admission Policy for the unit. The final policy must be consistent with the draft policy provided in the application.

Approved Costs:

The approved capital expenditure associated with the establishment of the 22-bed transitional care unit within space at Central Washington Hospital is \$550,860.

A. Need (WAC 246-310-210)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes Central Washington Hospital's project has met the need criteria in WAC 246-310-210(2).

- (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.

CWH is currently a provider of health care services to residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. Through its hospital, home health agency, hospice agency, and dialysis centers, CWH also participates in the Medicare and Medicaid programs. To determine whether all residents of the service area would continue to have access to a hospital's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment.

To demonstrate compliance with this sub-criterion, CWH provided a copy of its draft Admission Policy for the TCU. The draft policy outlines the process/criteria that the hospital would use to admit patients for the TCU. The draft policy also provides the following non-discrimination language:

"Central Washington Hospital's Transitional Care Unit (TCU) admission criteria is applied equally to ensure non-discriminatory admissions based on diagnostic related groups, including persons who are HIV positive, person with AIDS and persons with other communicable infectious diseases (where the unit has facilities suitable for the prevention of transmission of infections and communicable diseases). There is no discrimination or separation, direct or indirect, or any other distinction made in patients or prospective patients on the basis of color, race, national origin, or funding sources unless Central Washington Hospital is not an identified provider or the patient is not eligible for Central Washington Hospital's uncompensated care program."
[source: Application, Exhibit 5]

If this project is approved, the department would include a condition requiring CWH to submit its final adopted Admission Policy consistent with the draft policy provided in the application.

To determine whether the elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination. CWH currently provides services to Medicare eligible patients. Documents provided in the application demonstrate that CWH intends to maintain this status for the TCU. For this project, a review of the data provided for CWH identifies the facility's financial pro forma includes Medicare revenues. [source: Application, Exhibit 6]

To determine whether low-income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. CWH also provides services to Medicaid eligible patients. Documents provided in the application demonstrate that CWH intends to maintain this practice. For this

project, a review of the data provided for CWH identifies the facility’s financial pro forma includes Medicaid revenues [source: Application, Exhibit 6]

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

CWH states that its charity care policy would not change as a result of re-opening its TCU. To demonstrate its intent to continue to provide charity care to residents, CWH submitted its Department of Health approved charity care policy that outlines the process a patient uses to access this service. Further, CWH included a ‘charity care’ line item as a deduction from revenue within the pro forma financial documents for the TCU cost center and the hospital as a whole. [source: Application, Exhibits 4 and 6; HPDS website]

For charity care reporting purposes, the Department of Health’s Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. CWH is one of 21 hospitals located in Central Washington Region. According to 2007 - 2009² charity care data obtained from HPDS, CWH has historically provided the average percentage of charity care that is provided in the region. A comparison of the regional average and CWH’s most recent three-year (2007 - 2009) percentages of charity care for gross and adjusted revenues are detailed in Table 1 below.

**Table 1
Central Washington Hospital Charity Care Comparison (2007-2009)**

	3-Year Average Central Region	3-Year Average CWH
Percentage of Gross Revenue	1.92%	1.92%
Percentage of Adjusted Revenue	4.36%	5.35%

The pro forma revenue and expense statements submitted by CWH indicate that the hospital will continue to provide charity care at approximately 1.92% of gross revenue and 6.0% of adjusted revenue. RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. Since the three-year historical average is equal to or above that for the region and CWH projects to continue providing charity care at or above the regional average, the department concludes that a condition related to the percentage of charity care to be provided at CWH is not necessary if this project is approved.

With agreement to the condition regarding the draft Admission Policy, the department concludes that all residents, including low income, racial and ethnic minorities, handicapped, and other underserved groups would continue to have access to the services provided by CWH. **This sub-criterion is met.**

² Year 2010 charity care data is not available as of the writing of this evaluation.

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department concludes Central Washington Hospital’s project has met the financial feasibility criteria in WAC 246-310-220.

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

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

CWH anticipates its TCU will become operational in November 2011. Based on this timeline CY 2012 would be the TCU’s first full calendar year of operation. To demonstrate compliance with this sub-criterion, CWH provided two separate projected revenue and expense statements. One statement shows the TCU cost center only and the second shows CWH as a whole with the TCU. Since CWH submitted this application to re-open its TCU with 30 beds, both statements are based on a 30 bed TCU.

Table 2 below illustrates the projected revenue, expenses, and net income for CY 2012 through 2014 for CWH’s TCU cost center. [source: Application, Exhibit 6]

**Table 2
Central Washington Hospital TCU Cost Center Only
Projected Revenue and Expenses Calendar Years 2012 - 2014**

	CY 1 2012	CY 2 2013	CY 3 2014
# of beds	30	30	30
#of Patient Days	5,111	5,840	7,300
# of Patients	434	480	600
% of Occupancy	46.7%	53.3%	66.7%
Net Patient Revenue	\$2,503,728	\$2,860,758	\$3,575,947
Total Operating Expense [1]	\$3,381,247	\$3,464,843	\$4,060,821
Net Profit or (Loss) [2]	(\$877,519)	(\$604,085)	(\$484,874)

[1] includes allocated costs

[2] includes deductions for bad debt, charity care and contractual allowances

As shown in Table 2 above, CWH projects the 30 bed TCU would be operating at less than 70% occupancy for all three years. The occupancy percentages equate to approximately 16 empty TCU beds in 2012 to 10 empty TCU beds in year 2014.

To evaluate whether the projected number of patients and admissions could be accommodated with 22 TCU beds rather than 30 beds, the department recalculated the occupancy percentages identified above. Table 3 on the following page shows these calculations.

**Table 3
Central Washington Hospital TCU Cost Center Only
Occupancy Percentage Recalculations**

	CY 1 2012	CY 2 2013	CY 3 2014
# of beds	22	22	22
#of Patient Days	5,111	5,840	7,300
# of Patients	434	480	600
% of Occupancy	63.6%	72.7%	90.9%
Net Patient Revenue	\$2,503,728	\$2,860,758	\$3,575,947
Total Operating Expense [1]	\$3,381,247	\$3,464,843	\$4,060,821
Net Profit or (Loss) [2]	(\$877,519)	(\$604,085)	(\$484,874)

As shown in Table 3 above, reducing the number of TCU beds from 30 to 22, increases the percentage of occupancy, but does not prevent CWH from reaching its projected number of patients or patient days. With 22 beds, year 2012 calculates 8 empty beds and 2014 calculates 2 empty beds.

Historical Medicaid cost report data obtained from the Department of Social and Health Services (DSHS) provides CWH's TCU occupancy rate as a 22-bed unit for its last three years of operation—2006, 2007, and 2008. Those occupancy rates are shown in Table 4 below.

**Table 4
Central Washington Hospital TCU
2006 – 2008 Occupancy Percentages**

	CY 1 2006	CY 2 2007	CY 3 2008
# of beds	22	22	22
#of Patient Days	5,184	5,395	5,448
% of Occupancy	64.6%	67.2%	67.8%

When comparing the occupancy percentages shown in Table 2 and Table 4 above, CWH projected its occupancy of its 30 bed TCU would be near the same occupancy as its 22-bed TCU before its closure. While the occupancy percentages shown in the department's recalculated percentages in Table 3 are higher than the TCU has historically experienced, CWH states that the new configuration of the TCU should allow CWH to operate the TCU more efficiently and at a higher occupancy. [source: June 6, 2011 supplemental information, p2] As a result, the department concludes that the higher occupancies shown in Table 3 with 22 beds is not unreasonable.

As shown in Table 2 and 3 above, regardless of the number of beds in the TCU, CWH projects its will operate at a loss in all three years. The loss decreases substantially from year one to year three, however CWH did not provide projections beyond year three to show when the TCU would operate at a profit. CWH states that without the \$690,000 in estimated allocated costs, the TCU would operate at a slight profit in both years two and three.

In Washington State, Medicaid nursing facility rates are set by the Nursing Home Rates Section of the Office of Rates Management part of the Aging and Disability Services Administration of DSHS. Medicaid rates for long term care nursing facilities are set individually for each specific facility. Rates are based generally on a facility's costs, its occupancy level, and the individual care

needs of its residents. The Medicaid payment rate system does not guarantee that all allowable costs relating to the care of Medicaid residents will be fully reimbursed. The primary goal of the system is to pay for nursing care rendered to Medicaid-eligible residents in accordance with federal and state laws, not to reimburse costs—however defined—of providers. A facility's overall Medicaid rate is comprised of rates for the following seven separate components:

- Direct care - nursing care and related care provided to residents
- Therapy care - speech, physical, occupational, and other therapy
- Support services - food and dietary services, housekeeping, and laundry
- Operations - administration, utilities, accounting, and maintenance
- Variable return - an incentive payment for relative efficiency
- Property - depreciation allowance for real property improvements, equipment and personal property used for resident care
- Financing allowance - return on the facility's net invested funds i.e., the value of its tangible fixed assets and allowable cost of land

[source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

For existing nursing homes, the component rates are based on examined and adjusted costs from each facility's cost report. For new nursing homes, such as this project, the initial Medicaid rate is set using a peer group review. [source: DSHS WAC 388-96-710(3)]

All component rates require, directly or indirectly, use of the number of resident days—the total of the days in residence at the facility for all eligible residents—for the applicable report period. Resident days are subject to minimum occupancy levels. Effective July 1, 2002, the minimum occupancy for direct care, therapy care, support services, and variable return component rates is 85%; for operations, financing allowance, and property component rates, the minimum occupancy rate is 90%.³ If resident days are below the minimum, they are increased to the imputed occupancy level, which has the effect of reducing per resident day costs and the component rates based on such costs. If the actual occupancy level is higher than the minimum, the actual number of resident days is used. [source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

Information obtained from the Office of Rates Management within DSHS indicates that CWH's Medicaid reimbursement rate would be approximately \$174 per patient day. Within the pro forma Statement of Operations, CWH projected the reimbursement rate to be \$207 per patient day. [source: Application, p25] Therefore, the department concludes that the estimated revenues for the TCU in Table 3 are most likely overstated by approximately \$34,000 in year one; \$39,000 in year two, and \$48,000 in year three.

Table 5 on the following page shows CWH as a whole with the TCU and based on the projected rate of \$207. [source: Application, Exhibit 6]

³ For essential community providers—i.e., facilities at least a forty minute drive from the next closest nursing facility—the minimum occupancy is set at 85% for all components in recognition of their location in lesser-served areas of the state. CWH's TCU does not meet the definition of an essential community provider.

Table 5
Central Washington Hospital
Projected Revenue and Expenses Calendar Years 2012 – 2014

	CY 1 2012	CY 2 2013	CY 3 2014
Net Patient Revenue	\$200,926,728	\$206,855,623	\$213,300,313
Total Operating Expense	\$203,669,247	\$206,724,316	\$210,344,016
Net Profit or (Loss) [1]	(\$2,742,519)	\$131,307	\$2,956,297

[1] includes deductions for bad debt, charity care and contractual allowances

As shown in Table 5 above, the inclusion of CWH's TCU affects the financial viability of the hospital in calendar year one. In subsequent years, CWH would operate at a profit with either a 22-bed or a 30-bed TCU. Since the department concluded that CWH's Medicaid rate projections are likely overstated, Table 6 below is a recalculation of CWH as a whole based on the \$174 projected reimbursement rate.

Table 6
Central Washington Hospital
Projected Profit or (Loss) Using Lower Medicaid Reimbursement Rate

	CY 1 2012	CY 2 2013	CY 3 2014
Net Profit or (Loss) [Table 5]	(\$2,742,519)	\$131,307	\$2,956,297
Minus Medicaid Overstatement	\$34,000	\$39,000	\$48,000
Revised Net Profit or (Loss)	(\$2,776,519)	\$92,307	\$2,908,297

As shown in Table 6 above, the reduced Medicaid reimbursement rate increases the net loss in year one, but does not change the net profit in years two and three to a net loss. CWH's hospital revenues would cover its expenses even with the lower reimbursement rate for years two and three.

To determine whether CWH would meet its immediate and long range capital costs, the department's Hospital and Patient Data Systems (HPDS) reviewed the most current balance sheets for historical year [2010] for the hospital as a whole. A summary of the review and HPDS staff evaluation is below. [source: HPDS analysis, p2]

Table 7
Central Washington Hospital Balance Sheet for Year 2010

Assets		Liabilities	
Current Assets	\$ 69,979,515	Current Liabilities	\$ 30,315,932
Fixed Assets	\$ 165,154,112	Long Term Debt	\$ 117,039,809
Board Designated Assets	\$ 65,319,694	Other Liabilities	\$ 0
Other Assets	\$ 12,044,622	Equity	\$ 165,142,202
Total Assets	\$ 312,497,943	Total Liabilities and Equity	\$ 312,497,943

After reviewing the balance sheet above, HPDS provided the following analysis.

“Central Washington Hospital has adequate reserves to fund this project. This project will not adversely impact reserves, total assets, total liability, or the general health of the hospital in a significant way.”

[source: HPDS analysis, p2]

To assist the department in its evaluation of this sub-criterion, HPDS provided a summary of the short and long-term financial feasibility of the project, which includes a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are 1) long-term debt to equity; 2) current assets to current liabilities; 3) assets financed by liabilities; 4) total operating expense to total operating revenue; and 5) debt service coverage. If a project's ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, HPDS reviews a project's projected statement of operations to evaluate the applicant's immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compared the projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2009 data for comparison with current year 2010 for CWH as a whole, and projected years 2012, 2013, and 2014 for the TCU only. The ratio comparisons are shown in Table 8 below. [source: HPDS analysis, pp2-3]

**Table 8
Current and Projected HPDS Debt Ratios for Central Washington Hospital and TCU**

Category	Trend ⁴	State 2009	Current CWH 2010	Projected TCU 2012	Projected TCU 2013	Projected TCU 2012
Long Term Debt to Equity	B	0.551	0.709	-----	-----	-----
Current Assets/Current Liabilities	A	2.221	2.308	1.955	2.395	2.938
Assets Funded by Liabilities	B	0.433	0.472	0.154	0.144	0.134
Operating Expense/Operating Revenue	B	0.942	0.995	1.350	1.211	1.136
Debt Service Coverage	A	5.928	35.163	-----	-----	-----
Definitions:	Formula					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets					
Operating Expense/Operating Revenue	Operating expenses / operating revenue					
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp					

Comparing CWH's most current (2010) ratios with the statewide ratios (2009) revealed that three ratios—long term debt to equity, assets funded by liabilities, and operating expense/operating revenue—are out of range. HPDS provided the following statement related to these ratios.

“Central Washington has had an average financial picture recently. The hospital was in the middle of a large construction project at the end of 2010. A hospital during this period is likely to have some ratios out of range due to the new debt. The ratios above are acceptable given the new debt the hospital has not yet had time to pay down. The Operating Expense/Operating Revenue ratio which is for the TCU only shows the unit did not break even by the end of the third year of operations. The method to create an income statement for a cost center within a hospital has two main components: direct expense such as a nurse working with patients in the department and allocated expenses which is a calculation to allocate overhead expenses like administration to the individual cost centers. There are multiple ways to create allocation methods. The allocated costs

⁴ A is better if above the ratio, and B is better if below the ratio.

are often costs which will be expended regardless of the existence of a particular unit. The TCU does cover its direct expenses."

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.

CWH operated a 22-bed TCU for many years before closing the unit to accommodate a larger construction project at the hospital. The TCU has been closed for approximately two years, and CWH anticipates minor remodel of the space that will now house the TCU. CWH will use some furniture and equipment that was previously located in the TCU before the unit closed. [source: Application, p18]

The capital expenditure associated with the establishment of the 30-bed TCU is \$550,860. Below is a breakdown of the costs. [source: Application, p18]

Item	Cost	% of Total
Construction Costs	\$ 268,468	48.7%
Fixed & Moveable Equipment	\$ 177,852	32.3%
Architect & Engineering Fees	\$ 30,000	5.5%
CN Fees & Permits	\$ 45,380	8.2%
Washington State Sales Tax	\$ 29,160	5.3%
Total Estimated Capital Costs	\$ 550,860	100.0%

To demonstrate compliance with this sub-criterion, CWH provided a non-binding construction cost estimate from its contractor, with the following statements.

"...Based on my expertise and experience in cost estimation for similar type projects, I conclude that the costs identified within the April 2011 certificate of need application to be reasonable."

[source: June 6, 2011, supplemental information, p8]

CWH also provided a table showing the costs of the project per gross square foot. The breakdown is replicated in Table 9 on the following page. [source: Application, p19]

Table 9
CWH TCU Cost Center Construction Cost Breakdown

Estimated Gross Square Footage (GSF)	12,390
Number of TCU Beds	30
Construction Cost per GSF	\$23.42
Total cost per GSF	\$44.46
Total Cost per Bed	\$18,362

Reducing the number of TCU beds from 30 to 22 increases the total cost per bed line item above from \$18,362 to \$24,039. When CWH closed its 22-bed TCU in 1999, it intended to re-open the unit when the larger construction project was nearly complete and the TCU could be accommodated within the hospital space. The department recognizes that the majority of the construction and planning for TCU space likely occurred in the early stages of creating the floor plans and submission of architectural designs for the larger construction project at the hospital. The construction costs for the TCU are lower when compared to costs to establish a new TCU within a hospital and retro fit space in an existing facility. The costs identified above are reasonable for this type of project.

Based on the above information, the department concludes that 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. **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.

As previously stated, the capital expenditure associated with the establishment of CWH's 30-bed TCU is \$550,860. CWH states that the project will be funded through the hospital's board designated reserves. [source: Application, p20]

After reviewing the balance sheet in Table 6, HPDS provided the following analysis.

"Central Washington Hospital has adequate reserves to fund this project. This project will not adversely impact reserves, total assets, total liability, or the general health of the hospital in a significant way."

[source: HPDS analysis, p2]

Based on the information provided, the department concludes that approval of this project would not adversely affect the financial stability of CWH as a whole. This sub-criterion is met.

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department concludes Central Washington Hospital’s project has met the structure and process of care criteria in WAC 246-310-230.

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

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

To staff its proposed 30-bed TCU, CWH intends to recruit 33.55 FTEs in year one, which would increase to a total of 42.73 FTEs by the end of full calendar year three (2014). A breakdown of CWH’s FTEs is shown in Table 10 below. [source: June 23, 2011, supplemental information, p2]

**Table 10
Central Washington Hospital TCU
2012 – 2014 Projected FTEs**

Staff/FTEs	Yr 2012	2013 Increase	2014 Increase	Total FTEs
Nursing Total	17.26	0.53	4.42	22.21
Dietary Totals	0.74	0.10	0.11	0.95
Administration Totals	5.18	0.27	0.16	5.61
Other Totals	10.37	1.09	2.50	13.96
Total FTE’s	33.55	1.99	7.19	42.73

Broken down into four main types of categories, CWH included all RNs and nursing assistants in the ‘nursing’ category. For ‘dietary’ totals, CWH included dietitians, aides, and cooks. ‘Administration’ totals included the TCU activities director, director of nursing, clerical, housekeeping, maintenance, and laundry personnel. ‘Other’ FTEs include all therapy staff, medical social worker, pharmacist, and wound care specialists.

In addition to the FTE table above, CWH provided a table showing its nursing staffing pattern per patient for an average 24-hour day and its nursing hours per patient day. [source: Application, p28] Tables 11 and 12 show this information.

**Table 11
Central Washington Hospital TCU
Proposed Staffing Pattern**

Staff/FTEs	Day	Evening	Night
RN	1:4	1:5	1:7
Nursing Aides & Assistants	1:5	1:7	1:7

Table 12
Central Washington Hospital TCU
Proposed Nursing Hours Per Patient Day

RN	3.33
Nursing Aides & Assistants	2.82
Total	6.15

Since the TCU closed in 2009, much of the former TCU staff is still employed at CWH in a different capacity or less than full-time. CWH plans to offer transfers back to the TCU for staff and states that some staff have already inquired about this option. Additionally, CWH works closely with Wenatchee Valley College to ensure adequate numbers of qualified RNs are available. Along with a competitive wage package, CWH anticipates no difficulty in recruiting staff for the TCU. [source: Application, p28; June 23, 2011, supplemental information, p2]

Based on this information, the department concludes adequate staffing for the TCU is available or can be recruited. **This sub criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Documentation provided in the application confirms that CWH maintains appropriate relationships with ancillary and support services for its existing hospital and other healthcare facilities. For its TCU, CWH provided much of the ancillary and support services, such as social services and nutrition services, on site when the unit was operational. CWH intends to continue providing these services on site. [source: Application, p29]

Based on this information, the department concludes adequate ancillary and support services are available for the TCU. **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 no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

CWH has been operating in Washington State since the early 1900s. As part of its review, the department must conclude that the proposed services by CWH would be provided in a manner that

ensures safe and adequate care to the public.⁵ To accomplish this task, the department reviewed CWH's quality of care compliance history for all healthcare facilities either owned, operated, or managed by CWH.

For Washington State, CWH owns and operates the hospital, a variety of healthcare clinics, and a dialysis center in Chelan County.⁶ [source: Application, p3]

Within the most recent five years (2005), the Department of Health's Investigations and Inspections Office has completed compliance surveys for the hospital and its dialysis center. All compliance surveys revealed minor non-compliance issues related to the care and management at CWH or its dialysis center. These non-compliance issues were typical of the type of healthcare facility and CWH submitted and implemented acceptable plans of correction. [source: facility survey data provided by the Investigations and Inspections Office]

Since the TCU would be located within space at the hospital, a separate administrator or medical director is not anticipated. Patient access to the TCU is based on physician referral. Additionally, CWH will re-establish its 'resident council' once the TCU becomes operational. The resident council is an ad hoc council comprised of residents in the TCU on any given weekly resident council meeting date. The meetings are coordinated by the TCU activities director. The responsibility of the council is to provide information to, and feedback from, current residents. The information is then used to modify and improve the overall program and care experience in the TCU. [source: Application, p16; June 23, 2011, supplemental information, p4]

Based on this information, the department concludes there is reasonable assurance the TCU will operate in compliance with state and federal requirements. **This sub criterion is met.**

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

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

In response to this criterion, CWH identified the providers that it has already established long term relationships within the neighboring counties of Chelan and Douglas. Further, CWH identified a number of providers in Spokane, Okanogan, and Grant counties where it has established relationships. [source: Application, pp29-30]

The department also considered CWH's history of providing care to residents in Washington State. The department concludes that the applicant has been providing acute care and other healthcare services to the residents of Washington State for several years and has been appropriately

⁵ WAC 246-310-230(5)

⁶ On June 16, 2011, CWH was issued CN #1445 approving the establishment of an 8-station dialysis center in Douglas County. The dialysis center is not yet operational.

participating in relationships with community facilities to provide a variety of medical services. Nothing in the materials reviewed by staff suggests that approval of this project would change these relationships. [source: CN historical files]

Based on this information, the department concludes that approval of this project would promote continuity in the provision of health care for the planning area, and would not result in an unwarranted fragmentation of services. Further, CWH demonstrated it has, and will continue to have, appropriate relationships to the service area's existing health care system within the planning area. **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 considered met.

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes Central Washington Hospital's project has met the cost containment criteria in WAC 246-310-240.

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

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

If the project met WAC 246-310-210 through 230 criteria, the department would move to step two in the process and assess the other options the applicant or applicants considered prior to submitting the application under review. If the department determines the proposed project is better or equal to other options the applicant considered before submitting their application, the determination is either made that this criterion is met (regular or expedited reviews), or in the case of projects under concurrent review, move on to step three.

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

Step One

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

Step Two

CWH's 22-bed TCU was operational for approximately 15 years and was closed because of the large construction project underway at the hospital. In August 2009, CWH banked 30-TCU beds under full facility closure because of the construction project which included construction of a new patient tower that removed part of the building where the TCU was located. During the planning stages of the construction project, CWH considered a temporary relocation of the TCU to other space within the hospital or to a site off of the hospital campus. These two options were ultimately rejected because CWH concluded it could not provide sufficient acute and TCU care with either of those options.

When CWH closed its TCU and banked its beds under the full facility closure provisions of RCW 70.38.115(13), the intent was to re-establish a 30-bed TCU once the tower was complete and space was vacated in the hospital. The patient tower was completed in May 2011 and many of the hospital's services relocated to the new tower. The TCU would be located on the first floor of the hospital in an area recently vacated by the hospital's progressive care unit and near the cardiac unit close to support services conducive to the TCU. [source: Application, p5, p34; June 6, 2011, supplemental information, p3]

CWH submitted this application for a 30-bed TCU; however, given that the hospital has never operated more than 22 beds in its TCU, the department informed CWH during this review that 8 of the beds banked under full facility closure were not eligible to be banked, and therefore could not be un-banked with this application. CWH concurred with the department's reasoning and stated that it would accept a reduction in the number of approved beds if necessary.

Step Three

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

Based on the information above, the department concludes that the approval of a 22-bed TCU at CWH is the best available alternative for the residents Chelan County and surrounding communities. **This sub-criterion is met.**

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

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

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

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

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