



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH

October 29, 2012

CERTIFIED MAIL # 7011 1570 0002 7809 5278

Gina Drummond, CEO  
Hospice of Spokane  
121 South Arthur St.  
Spokane, Washington 99210

RE: CN 12-17

Dear Ms. Drummond

We have completed review of Hospice of Spokane's Certificate of Need application to establish a new 20-bed hospice care center within Spokane County. For the reasons stated in the evaluation, the application submitted by Hospice of Spokane proposing to establish a 20 bed hospice care center in Spokane County is not consistent with the applicable criteria of the Certificate of Need Program. However, the construction of a twelve bed hospice care center (Phase I) is consistent with the applicable review criteria, provided Hospice of Spokane agrees to the following in its entirety.

**Project Description:**

This certificate approves the construction of a 12-bed hospice care center located in the city of Spokane. Hospice of Spokane will be Medicare and Medicaid certified. Services to be provided include, but not limited to, General Inpatient Care (GIP), Inpatient Respite, and Routine Home Care.

**Conditions:**

1. Hospice of Spokane agrees with the project description stated above. Hospice of Spokane 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. Hospice of Spokane's hospice care center shall be available to all residents of Spokane County as space is available.

**Approved Costs:**

The approved capital expenditure for this project is \$5,138,924

Gina Drummond  
Hospice of Spokane  
October 29, 2012  
Page 2 of 2

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  
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,



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

Enclosure

**EVALUATION DATED OCTOBER 29, 2012 FOR THE CERTIFICATE OF NEED  
APPLICATION SUBMITTED BY HOSPICE OF SPOKANE PROPOSING TO ESTABLISH  
A TWENTY BED HOSPICE CARE CENTER IN SPOKANE COUNTY**

**APPLICANT DESCRIPTION**

Hospice of Spokane (HoS) is a not-for-profit entity that provides hospice services to the residents of Spokane, Pend Oreille, Stevens, and Ferry counties in Washington State. HoS operates a Medicare certified/Medicaid eligible hospice agency at 121 South Arthur Street in the city of Spokane. HoS also operates a 12 bed hospice care center at 367 East 7<sup>th</sup> Avenue in the city of Spokane. [Source: Application, p2 and HoS website]

**PROJECT DESCRIPTION**

HoS submitted this application proposing to construct a second hospice care center at 102 West Rhodes Avenue in Spokane, within Spokane County. The new facility involves construction of a 17,175 square foot facility that would house the new 20-bed hospice care center. [Source: Application, p1 & 5]

HoS proposes to build this second hospice care center in two phases. A description of each phase and the timing for completion is shown in the table below. [Source: Application, pp6 & 16]

	Phase One	Phase Two
Number of Beds	12	8
Square Footage to be constructed	13,200	4,000
Start of Construction	October 2013	April 2017
Date of Occupancy and offering services	January 2015	January 2018

Hospice care center services are basically the same types of hospice services as provided by a hospice agency. However, the main difference between a hospice care center and a hospice agency is the location where hospice patients receive the services. In the case of a hospice agency, patients receive hospice care in their homes or current place of residence; while patients at hospice care centers are provided services at a center or a place other than the patient's home. Services provided at the hospice care center generally include symptom and pain management to terminally ill patients, as well as emotional, spiritual, and patient bereavement support for the patient's family. Hospice care centers also have unique requirements under licensing and Certificate of Need (CON). These unique requirements include:

- The maximum number of beds any one hospice care center may be licensed for is 20 (WAC 246-310-290(9)(b)).
- Only an existing Medicare certified hospice agency may apply for a CON to establish and license a hospice care center.
- Need for a hospice care center is based on that hospice agency's demonstrated need rather than the typical larger community need (WAC 246-310-290(6)).

The capital expenditure associated with the total project is \$6,566,877. The cost of phase one is \$5,138,924. The cost of phase two is \$1,427,953. HoS is proposing to fund 77% of the project with agency reserves and 23% through fund raising. [Source: Application, pp27 & 29]

## APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review as the construction 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).

## EVALUATION CRITERIA

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

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

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

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

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

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

- (i) Nationally recognized standards from professional organizations;*
- (ii) Standards developed by professional organizations in Washington State;*
- (iii) Federal Medicare and Medicaid certification requirements;*
- (iv) State licensing requirements;*
- (v) Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and*
- (vi) The written findings and recommendations of individuals, groups, or organizations with recognized expertise related to a proposed undertaking, with whom the department consults during the review of an application.”*

To obtain Certificate of Need approval, an applicant must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment), and WAC 246-310-295 (hospice care center standards).<sup>1</sup> WAC 246-310-295 contains service and facility specific standards and criteria for hospice care center projects. These specific standards and criteria will be evaluated as part of the applicable need, financial feasibility, structure and process of care, or cost containment criteria sections.

---

<sup>1</sup> Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6).

**TYPE OF REVIEW**

This application was submitted during the year 2011 hospice care center concurrent review cycle outlined in WAC 246-310-295(3). The concurrent review process promotes the expressed public policy goal of RCW 70.38 that the development or expansion of health care services is accomplished in a planned, orderly fashion and without unnecessary duplication. Since no other hospice care center applications were submitted for Spokane County during this review cycle, as allowed under WAC 246-310-295(5), the department converted the application to a regular review timeline.

**APPLICATION CHRONOLOGY**

The timeline below represents the regular review timeline for the project.

<b>Action</b>	<b>Hospice of Spokane</b>
Letter of Intent Submitted	October 26, 2011
Application Submitted	November 30, 2011
Department's Pre-review Activities including Screening and Responses	November 30, 2011 through February 21, 2012
Beginning of Review	February 22, 2012
Public Hearing and End of Public Comment No Public Hearing was conducted	March 28, 2012
Rebuttal Comments Received <sup>2</sup>	April 11, 2012
Department's Anticipated Decision Date	May 29, 2012
Department's Actual Decision Date	October 29, 2012

**AFFECTED PERSONS**

Washington Administrative Code 246-310-010(2) defines 'affected person' as:

*"...an interested person who:*

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

For this project, no entity sought or received affected person status under WAC 246-310-010.

**SOURCE INFORMATION REVIEWED**

- Hospice of Spokane's Certificate of Need application submitted November 30, 2011
- Hospice of Spokane's supplemental information received February 14, 2012
- Public comment received during the course of the review
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Profession compliance data provided by the Medical Quality Assurance Commission
- Data obtained from Hospice of Spokane's website
- Certificate of Need historical files

<sup>2</sup> Rebuttal comments were due on April 11, 2012, but no rebuttal comments were submitted.

## **CONCLUSION**

For the reasons stated in this evaluation, the application submitted by Hospice of Spokane proposing to establish a 20 bed hospice care center in Spokane County is not consistent with the applicable criteria of the Certificate of Need Program. However, the construction of a twelve bed (Phase I) is consistent with the applicable review criteria, provided Hospice of Spokane agrees to the following in its entirety.

### **Project Description:**

This certificate approves the construction of a 12-bed hospice care center located in the city of Spokane. Hospice of Spokane will be Medicare and Medicaid certified. Services to be provided include, but not limited to, General Inpatient Care (GIP), Inpatient Respite, and Routine Home Care.

### **Conditions:**

1. Hospice of Spokane agrees with the project description stated above. Hospice of Spokane 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. Hospice of Spokane's hospice care center shall be available to all residents of Spokane County as space is available.

### **Approved Costs:**

The approved capital expenditure for this project is \$5,138,924

## **CRITERIA DETERMINATIONS**

### **A. Need (WAC 246-310-210) and Hospice Care Center Standards (WAC 246-310-295)**

Based on the source information reviewed and provided that the applicant agrees to the conditions identified in the 'conclusion' section of this evaluation, the department concludes that Hospice of Spokane's project has met the need criteria in WAC 246-310-210(1) and (2) and the Hospice Care Center methodology and standards outlined in WAC 246-310-295.

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

The department uses the methodology outlined in WAC 236-310-295(6) to determine need for a hospice care center within a planning area. The four-step methodology is used to demonstrate that an existing hospice agency's patient base is sufficient to support a hospice care center. The method uses the existing use rates for the hospice services, average number of resident deaths by planning area (county) for the most recent three years, and the projected population of the planning area to project the number of hospice care center beds.

#### Hospice of Spokane Methodology

Using the numeric methodology outlined in WAC 246-310-295(6), HoS provided the numeric methodology. The methodology is summarized in the table below.

Step one of the numeric methodology requires the applicant to 'determine the average total days of care provided in the applicant's preceding three years of operation. Therefore, for this project, the three years preceding statement in rule is full years 2008, 2009, and 2010.

**Table 1**  
**HoS's Hospice Care Center Methodology Assumptions**

<b>Assumption</b>	<b>Data Used/Result</b>
Planning Area	Spokane County
Historical Data Used	Full years 2008, 2009, & 2010
Three Year Average Total Patient Days	89,824
Three Year Average Percentage of Patients Requiring Care Other Than In Their Private Home	40.0%
Estimated Patient Days	35,493
Number of Beds Supported based on Patient Days	97.2 beds
Number of Beds Supported based on 65% Occupancy	150

Using the assumptions outlined above there is a need for 7.5 hospice care facilities at the maximum size 20 beds.<sup>3</sup> Although the applicant serves residents of surrounding counties, they have defined the Spokane County as the primary service area for this project. HoS projected a need for 20 hospice care center beds for its Spokane County patients.

<sup>3</sup> RCW 70.127, WAC 246-310-295(9)(b).

**Department’s Review of Hospice of Spokane’s Methodology**

The department also applied the numeric methodology and compared the two results. For hospice care center projects, the numeric methodology requires use of some data that is not reported to a third party and, therefore, is only available to the applicant.<sup>4</sup> However, the department annually collects hospice patient day data from existing hospice agencies so it can calculate the need for in-home hospice services. Patient day data is also used in the hospice care center methodology. Therefore, the department uses this survey data to verify, at least part, the data used in the applicant’s hospice care center method. The department currently does not collect data about the percent of hospice patients requiring care in settings other than “*their private home*” and therefore relies on the applicant’s reported percent. The department agrees with HoS’s numeric need projections. Based solely on the application of the numeric method, a 20-bed hospice care center would be justified.

In reviewing this application, the department notes that the numeric need methodology does not factor in the existence of beds already in operation by the applicant at another hospice care center within the same planning area. In this case HoS has another 12-bed hospice care center also located in Spokane. HoS noted in its application hospice care center days as a subset of the total patient days. Between 2008 and 2011, Hospice Center admissions represented about 24% of total admissions. HoS of Spokane is projecting that this would increase from 39% in the first year of operation of the 12-bed facility to 47% with the additional 8 beds. In its financial projection assumptions, HoS assumed a 3.5% annual increase in patient days. [source: February 14, 2012 supplemental information, p30] The department reviewed HoS’s total agency patient days for the period 2007-2010. [Source: Application, p5] The data shows a sizable increase in patient days between 2007 and 2008 (15.8%). However, from 2008 through 2010 there was a 7.37% decrease in total patient days. HoS’s historical information over last three years (2008-2010) shows hospice care center patient days have on average represented 4% of HoS’s total patient days. [source: Application, pg. 5] Using HoS’s projected total patients from 2015 through 2020 and the 4% historical average of hospice care center days to total patient days, the department projected a need of 19 beds through 2020. The results are presented in the table below.

**Table 2  
Department Projection Based On HoS Future Patient Days and Historical Use Rate**

<b>Year</b>	<b>HoS Proj. Total Patient Days</b>	<b>DoH Proj. HCC Days @ 4% of Total</b>	<b>ADC</b>	<b>Total # of Beds Needed at 65% Occ.</b>
2015	94,909	3,796	10	16
2016	98,230	3,929	11	17
2017	101,669	4,067	11	17
2018	105,227	4,209	12	18
2019	108,910	4,356	12	18
2020	112,722	4,509	12	19

The department concludes that a second HoS 12-bed hospice care center has been justified. With this project, HoS will have total of 24-beds between its two hospice care centers.

<sup>4</sup> For example, historical data for acute care hospitals are reported to a data collection program within the Department of Health. For dialysis centers, the facility reports historical data to the Northwest Renal Network. In these examples, the department and the applicant can obtain the same data and apply it in the numeric methodology.



WAC 246-310-295(8)

WAC 246-310-295(8)(a)-(c) identify certain occupancy standards that all hospice care centers must meet. Sub-section (a) requires the hospice care center to operate at a minimum of 50% occupancy for the first three years following completion of the project. HoS's project projects to meet this requirement.

Subsection (b) requires the applicant to maintain 65% occupancy after the first three years of operation. HoS's project projects to meet this requirement.

In summary, the department concludes that phase 1 or a 12-bed hospice care center is consistent with the applicable review criteria. **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.

HoS currently provides healthcare services to residents of Spokane, Pend Oreille, Stevens, and Ferry counties through its agency and its existing hospice care center located in Spokane County. To determine whether all residents of the service area would have access to the proposed hospice services, the department requires an applicant to provide a copy of their 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.

HoS provided a copy of its current Admission Policy used for the hospice agency and its existing hospice care center. This same policy will be used for the proposed hospice care center. The policy includes the necessary language to demonstrate that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to HoS's hospice care center. The policy also provides HoS's hospice admission criteria and outlines the process to be used for admission of patients appropriate for hospice care. [Source: February 14, 2012 supplemental information, p11]

The department uses Medicare certification to measure whether the elderly would have access or continue to have access to the proposed services. HoS currently provides services to Medicare eligible patients through its hospice agency, and its existing hospice care center. A review of the policies and financial data provided in the application shows it includes Medicare revenues. Additionally, HoS provided the expected sources of revenue for the hospice care center, which includes approximately 86.2% Medicare. [Source: Application, p11 and February 14, 2012, supplemental information, p19]

The department uses contracting with Medicaid to measure whether low-income residents would have access to the proposed services. HoS currently provides services to Medicaid eligible patients through its hospice agency, and its existing hospice care center. A review of the policies and financial data provided in the application shows it includes Medicaid revenues. Additionally, HoS provided the expected sources of revenue for the hospice care center, which includes approximately 6.2% Medicaid. [Source: Application, p11 and February 14, 2012, supplemental information, p19]

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.

HoS provided a copy of its current Charity Care policy used for the hospice agency, and its existing hospice care center. The policy includes the necessary language to demonstrate that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to HoS's charity care. The policy outlines the process a patient must use to access charity care. Additionally, HoS included charity care as a deduction from revenue within its pro forma financial statements. [Source: February 14, 2012, supplemental information, pp11-16 & 27]

Based on the information above, the department concludes that all residents of the service area would have access to the proposed hospice services. **This sub-criterion is met.**

### **THE REMAINDER OF THIS EVALUATION WILL FOCUS ON THE 12-BED HOSPICE CARE CENTER INFORMATION**

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

Based on the source information reviewed and provided that the applicant agrees to the conditions identified in the 'conclusion' section of this evaluation, the department concludes that Hospice of Spokane'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.

The numeric methodology used to determine the number of hospice care center beds needed by a hospice agency is based on the agency's own patient base. For this sub-criterion, an applicant applies this data to the number of patients it expects would use the hospice care center. To determine if HoS's hospice care center would meet its immediate and long range operating costs, the department first reviewed the assumptions used by HoS to determine the projected number of patients and patient days it would serve. The assumptions used by HoS are shown below. [Source: February 14, 2012, supplemental information, p30]

- HoS is committed to providing and improving accessibility and availability of hospice care center services residents of Spokane County and surrounding counties. Our existing hospice care center averaged 85% occupancy for the first 3 full years of operation.
- The 4-step hospice methodology shows a calculated bed need much greater than the 20 beds being requested.
- HoS is not able to provide respite care in the existing hospice house due to the high census currently being experienced by this facility.
- HoS operates the only existing hospice care center in Spokane County.

HoS states the hospice care center admissions are a subset of HoS and are not unique. [source: February 14, 2012 Supplemental Information, p2] HoS projected its patients and patient days, revenue, expenses, and net income using calendar years. The table below shows the projections for years 2015 [Source: Application, p11, February 14, 2012 Supplemental Information, p2]

**Table 3**  
**Years 2015 through 2020 Projected Patients and Patient Days for**

	12-Beds		
	CY 2015	CY 2016	CY 2017
# of Beds	12	12	12
# of Admissions	432	481	481
# of Days	3,924	3,924	3,924
Average Length of Stay	9.08	8.16	8.16
Average Daily Census	10.8	10.8	10.8
Average Occupancy	90%	90%	90%

As shown in the table above, HoS expects the average occupancy of the hospice care center would reach 90% beginning in year one. Based on the information provided in the application, these projections appear to be reasonable. Additionally, the department compared HoS's projected average daily census and occupancy percentages to its current hospice care center and with other hospice care centers and determined they are comparable and reasonable.

HoS used its projected admissions and days shown in the table above to prepare its pro-forma income statements for the Hospice care center. Below is a summary of the statements. [Source: February 14, 2012, supplemental information, p27]

**Table 4**  
**Calendar Years 2015 through 2017**  
**Projected Revenue and Expense Statements**

	CY 2015	CY 2016	CY 2017
Net Revenue	\$1,884,543	\$2,044,341	\$2,201,375
Total Expenses	\$2,166,306	\$2,119,573	\$2,176,729
Net Profit /(Loss)	<b>(\$281,763)</b>	<b>(\$75,232)</b>	<b>\$24,646</b>

The 'Net Revenue' line item is gross revenue minus any deductions for charity care, bad debt, and contractual allowances. The 'Total Expenses' line item includes salaries and wages, depreciation, and allocated costs for hospice care center. As shown in the table above, HoS projected it would operate at a loss in years 2015 and 2016 and a profit in year 2017.

HoS's hospice care center is to be located in a soon-to-be constructed building at 102 West Rhodes Avenue in Spokane. HoS provided a copy of the letter from Spokane County Title Company stating that purchase of the property was completed and that the Statutory Warranty Deed for the site was being sent. The land was purchased in November 2010 and the warranty deed was recorded that same month and year. On April 12, 2011, HoS completed the land use process and received approval from the Office of the Spokane County Land Use Hearing Examiner. The Hearing Examiner provided a Conditional Use Permit for the site. [source: Application, Exhibits 1 and 4] In the screening process, the department noted an increase in building size described in the Conditional Use Permit. HoS provided a letter from the Hearing Examiner stating that the increase

in building size was not a substantial change as long as the other conditions of approval have not changed. Therefore, the permit remains valid for the project. Since HoS will be the owner of the property and building no lease agreement for the site is necessary.

HoS has five physicians on its active medical staff, and identified one of them—Robert Bray, MD—as the medical director for the new hospice care center. Since the Medical Director is employed by HoS no medical director agreement is required. [Source: Application pp4 and 34]

In addition to the projected Revenue and Expense Statements, HoS provided the projected Balance Sheets for HoS as a whole, which includes the hospice agency, the existing 12- bed hospice care center in, and the new 12-bed hospice care center. Since HoS reports on a calendar year ending in December, year 2015 shown below is a full 12 months of operation for the new 12 bed hospice care center. [Source: February 14, 2012 Supplemental Information, p 21]

**Table 5**  
**Hospice of Spokane**  
**Forecasted Balance Sheets**  
**Year 2015**

Assets		Liabilities	
Current Assets	\$7,247,674	Current Liabilities	\$1,620,594
Fixed Assets	\$13,342,618	Long Term Debt	\$0.0
Board Designated Assets	\$4,120,196	<b>Equity</b>	<b>\$23,089,894</b>
<b>Total Assets</b>	<b>\$24,710,488</b>	<b>Total Liabilities and Equity</b>	<b>\$24,710,488</b>

HoS is not proposing to incur any long term debt obligation. [Source: Application, p32 and February 14, 2012 Supplemental Information, Attachment 2]

As shown in the balance sheets above, this project will not have a significant financial impact on HoS. The audited historical financial statements submitted by HoS confirm their ability to fund this project using agency reserves. [Source: Application, Exhibit 1]

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

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

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

HoS states that the establishment of the second hospice care center in Spokane County is projected to cost \$5,138,924 (12-bed phase 1) [Source: Application, p9]

HoS determined its expected sources of revenues based on its long-time experience with hospice and hospice care center services in Spokane County. The majority of its revenue would come from

Medicare. Medicare pays for hospice care on a prospective payment system (PPS) basis. The table below shows the expected payer mix for the proposed hospice care center and HoS in total. [Source: Application, p11]

**Table 6  
Hospice of Spokane and  
Hospice Care Center and HoS Payer Mix**

Payer Source	Percentages	
	HCC	HoS
Medicare	86.2%	89.2%
Medicaid	6.2%	5.2%
Commercial Insurance	7.4%	5.4%
Private Pay	0.2%	0.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Since the applicant expects that majority of its payer source would be from Medicare, the proposed project is not expected to have any impact on the operating costs and charges for hospice services in the planning area because Medicare payments are prospective payments.

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

HoS states that the establishment of a second hospice care center in Spokane County is projected to cost a total of \$5,138,924 for a 12-bed facility. The following page shows a capital expenditure breakdown for a 12-bed facility. [Source: Application, p9 & p27]

**Table 7  
Hospice of Spokane Projected Capital Cost**

Item	12-Bed
Land Purchase	\$675,912
Construction Costs <sup>5</sup>	\$3,439,912
Moveable Equipment	\$2351,828
Architect/Engineering Fees	\$278,000
Sales Tax	\$299,272
Other <sup>6</sup>	\$94,000
<b>Total Project Cost</b>	<b>\$5,138,924</b>

HoS also provided a copy of the contractor's estimate of the construction costs, including fixed equipment. The letter confirms the cost of \$3,439,912, which represents the construction costs for the 12-bed, phase 1 facility. [Source: February 14, 2012 Supplemental Information, p31 The department notes that the equipment listing provided in the application addressed only phase 1 or the 12-bed facility the department has concluded is needed.

HoS intends to finance the project through a combination of reserves and donations. Below is a breakdown of the funding sources. [Source: Application, p29]

**Table 8  
Hospice of Spokane Funding Sources**

Item	Phase One	% of Total
Reserves	\$3,956,971	77.0%
Bequests/Donations	\$886,465	17.3%
Private Foundations	\$295,488	5.7%
<b>Total</b>	<b>\$5,138,924</b>	<b>100.0%</b>

HoS intends to fund 77% of the project through reserves and 23% through fund raising. HoS provided a letter of commitment from the Board Chairman demonstrating a commitment to undertake and fund this project primarily with reserves. The letter also indicates that HoS will use reserves for the entire cost of the project, if necessary.

HoS also provided a copy of its three most recent audited financial statements (2008, 2009, and 2010) demonstrating the financial capability to fund the project. [Source: Application, Appendix 1]

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

<sup>5</sup> Construction costs include fixed equipment, consulting fees, site preparation, and supervision and inspection of the site.

<sup>6</sup> Other includes Materials testing and Geotechnical Report, Utility connection fee, and development costs.

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

Based on the source information reviewed and the applicant’s agreement with the conditions identified in the ‘conclusion’ section of this evaluation, the department concludes that Hospice of Spokane’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.

HoS intends to locate its proposed hospice care center on the north side of the city of Spokane. To demonstrate compliance with this sub-criterion, HoS submitted its projected number of FTEs [full time equivalents] for this hospice care center only. The FTE table below shows years 2015 through 2017, the associated number of beds, and average daily census. [Source: Application, pp11 & 34]

**Table 9  
12-Bed Hospice Care Center Proposed FTEs Years 2015-2017**

<b>Staff</b>	<b>2015 Initial</b>	<b>2016 Increases</b>	<b>2017 Increases</b>	<b>Total</b>
<b># of Beds</b>	<b>12</b>	<b>12</b>	<b>12</b>	
<b>Average Daily Census</b>	<b>10.8</b>	<b>10.8</b>	<b>10.8</b>	
Medical Director	0.15	0.0	0.0	0.15
RN/LPN	8.50	0.0	0.0	8.50
HNA	7.70	0.0	0.0	7.70
MSW	0.50	0.0	0.0	0.50
Housekeeping/Laundry	0.94	0.0	0.0	0.94
Food Service	1.00	0.0	0.0	1.00
Maintenance	0.10	0.0	0.0	0.10
<b>Total FTE's</b>	<b>18.89</b>	<b>0.0</b>	<b>0.0</b>	<b>18.89</b>

In addition to the direct staff shown in the table above, the pro forma financial statements include allocated costs for services that will be provided by HoS for the new hospice care center including administration, pharmacy, lab, physical therapy, chaplain services, and volunteer coordinator services. [Source: Application, pp11 & 34]

Washington Administrative Code 246-335-155(14) requires specific staffing levels for hospice care centers depending on the type of services being offered. The staffing levels identified in the WAC include:

- two people, who may be either personnel, contractor or volunteers, available 24/7;
- RN available 24/7 for consultation and direct participation in nursing care;
- RN available 24/7 for direct nursing services; and
- Pharmacist available 24/7 for services and consultation.

A review of HoS’s proposed FTE levels would support the staffing level requirements as identified in the hospice care center licensing requirements.

HoS has identified LouAnn Ward, RN who will manage the proposed hospice care center. HoS also identified Robert Bray, MD as the medical director for the proposed hospice care center. Dr. Bray is part of HoS's active medical staff, along with Stanley Malnar, MD, Joni Nichols, MD, and Kirk Lund MD. Since Dr. Bray is on staff, a medical director agreement is not necessary. [Source: Application, p4 and February 14, 2012, supplemental information, Attachment 5] The pharmacy services will be provided by HoS which currently provides this service for their existing hospice care center.

The majority of the staff for the hospice care center has yet to be recruited. However, the proposed hospice care center's manager, medical director, and pharmacy services have been identified. In addition, the numbers and types of FTEs to be recruited appear reasonable based on the department's review of its previous hospice care center decisions. The department concludes that sufficient staffing is available or can be recruited. **This sub-criterion is met.**

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

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

As an existing provider of hospice services in Spokane, Pend Oreille, Stevens, and Ferry counties, HoS has established relationships with healthcare providers in the community. As stated previously, in addition to the direct staff, the proforma financial statements include allocated costs for services that will be provided by HoS for the new hospice care center including administration, pharmacy, lab, physical therapy, chaplain services, and volunteer coordinator services. [Source: Application, p35] These same services will be provided to the new hospice care center.

HoS has been providing hospice services in the four counties for many years. With the long history of providing hospice services in Spokane County, and surrounding areas, the department concludes HoS has established appropriate ancillary and support relationships in these counties for the new hospice care center. Based on the information, the department concludes that there is reasonable assurance the proposed hospice care center would have appropriate ancillary and support services. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2) (a) (i). There are known recognized standards as identified in WAC 246-310-200(2) (a) (ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. As part of its review, the department must conclude that the proposed service would be operated in a manner that ensures safe and adequate care to the public.<sup>7</sup> Therefore, using its experience and

---

<sup>7</sup> Also WAC 246-310-230(5).



expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Currently, HoS operates a Medicare certified and Medicaid eligible hospice agency and a 12-bed hospice care center. The Department of Health's Investigations and Inspections Office (IIO) conducts quality of care and compliance surveys for hospice agencies and hospice care centers. Records indicate that IIO completed at least one compliance survey for HoS agency since 2009.<sup>8</sup> The compliance survey found no significant deficiencies. [Source: facility survey data provided by the Investigations and Inspections Office]

HoS identified Robert Bray, MD as the medical director for the proposed hospice care center. The other staff for the proposed hospice care center is Stanley Malnar, MD, associate medical director and Lou Ann Ward, RN, Hospice House Manager. Dr. Bray and Dr Malnar are part of HoS's active medical staff, along with Joni Nichols, MD, Kirk Lund, MD, and Stacie Bering, MD. A review of all five physicians' compliance histories did not show any current or past enforcement actions. [Source: Compliance history provided by Medical Quality Assurance Commission] HoS's medical staff also includes Alison Kackman, ARNP, and Ellen Imsland, ARNP. LouAnn Ward, RN is identified as the Hospice House manager. A review of the nursing staff's compliance histories did not show any current or past enforcement actions. [Source: Nursing Commission]

Based on the compliance history of HoS's hospice agency and existing hospice care center its medical director and associated physicians, and nursing staff, the department concludes there is reasonable assurance HoS's proposed hospice care center would be operated in conformance with state and federal regulations. **This sub-criterion is met.**

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

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

To demonstrate compliance with this sub-criterion, HoS provided the following statements. [Source: Application, p36]

*'HOS experience demonstrates that the availability of a Hospice House promotes continuity in the provision of hospice care to dying patients and their families. Prior to opening our 12 bed facility, when a patient required inpatient care, s/he was admitted to one of several facilities within the area and while HOS staff followed the patient and continued to provide case management services all other services were provided by the facility's staff. Additionally, when patients needed respite and were unable to stay in their private residence, HOS provided care to patients in other community based settings. This can create disruption in continuity of care at a time when patients and families have*

---

<sup>8</sup> Survey completed in January 2009.

*a profound need for care that focuses not only on pain and symptom management, but also on providing dignity and respect.”*

Throughout its application, HoS has indicated that if the project is approved, its hospice care center would work within the existing, established healthcare system. HoS’s statement above supports this concept and the importance of continuity of care to hospice patients.

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

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

This sub-criterion is evaluated in sub-section (3) above. Based on the above information, the department concludes that **this sub-criterion is met.**

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the ‘conclusion’ section of this evaluation, the department concludes that Hospice of Spokane’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 the applicable criteria, the department would move to step two in the process and assess the other options the applicant or applicants considered prior to submitting the application under review. If the department determines the proposed project is better or equal to other options the applicant considered before submitting their application, the determination is either made that this criterion is met (regular or expedited reviews), or in the case of projects under concurrent review, move on to step three.

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

#### Step One

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

## Step Two

Before submitting this application, HoS considered and rejected only one option. [Source: Application, pp39 & 40]

- Expansion of the existing facility by 8 beds to the maximum capacity (20 beds) allowed under Washington State law

HoS states this option was easily rejected because of the current Spokane County patient need and the high census experienced by the existing hospice house. Since the hospice care center rules limit the size of hospice care centers to 20 beds [WAC 246-310-295(9)(b)], only 8 more beds could be added. The existing hospice house has averaged 10% annual growth since opening in 2007 and experienced an ADC of 11.3 (94.1% occupancy) in calendar year 2010. Patients needing admission are already waiting an average of 1.5 days for a bed to become available and this situation is expected to only continue to worsen. [Source: February 14, 2012, supplemental information, p5]

The new hospice care center is also expected to improve geographic access to hospice care center services for those patients residing in North Spokane City and County. Approximately 36.9% or more of HoS's patients currently reside in this area.

The department agrees with HoS that adding just 8 additional beds may not be enough bed capacity to meet its need. However, the department does not agree with HoS that the second hospice care center should be 20 beds, built in two phases. Based on the department's assessment of HoS historical data and allowing for a reversal in the decline in total patient days, the department concluded that a 12-bed facility, or phase 1, is the best alternative.

Based on the source information reviewed and the applicant's agreement to the conditions identified in the 'conclusion' section of this evaluation, the department concludes that **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:*

WAC 246-310 does not contain specific WAC 246-310-240(2)(a) criteria as identified in WAC 246-310-200(2)(a)(i). There are known minimum building and energy standards that healthcare facilities must meet to be licensed or certified to provide care. If built to only the minimum standards all construction projects could be determined to be reasonable. However, the department, through its experience knows that construction projects are usually built to exceed these minimum standards. Therefore, the department considered information in the application that addressed the reasonableness of the construction project that exceeded the minimum standards.

As stated in the project description portion of this evaluation, this project involves construction. This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). **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). **This sub-criterion is met.**