



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH

May 20, 2013

CERTIFIED MAIL # 7011 1570 0002 7802 6395

Meredith Vaughan, System Director  
Planning and Strategy  
PeaceHealth  
1115 Southeast 164<sup>th</sup> Avenue, 2<sup>nd</sup> Floor  
Vancouver, Washington 98683

Re: CN13-08

Dear Ms. Vaughan:

We have completed review of the Certificate of Need application submitted by PeaceHealth proposing to lease and operate Skagit County Public Hospital District #2-United General Hospital located in Sedro Woolley, within Skagit County. For the reasons stated in this evaluation, the application submitted by PeaceHealth is consistent with applicable criteria of the Certificate of Need Program, provided PeaceHealth agrees to the following in its entirety.

**Project Description**

PeaceHealth is approved to enter into an agreement to lease and operate Skagit County Public Hospital District #304-United General Hospital. The lease agreement is for 30 years, with two 10-year options to renew. United General Hospital is a 25-bed critical access hospital located in Sedro Woolley, within Skagit County.

**Conditions:**

1. PeaceHealth agrees with the project description as stated above. PeaceHealth further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. PeaceHealth United General Hospital must provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. PeaceHealth United General Hospital will use reasonable efforts to provide charity care in the amounts identified in the application, which are 3.28% of total revenue and 6.54% of adjusted revenue. PeaceHealth United General Hospital's charity care percentages should not be below the regional average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.18% of gross revenue and 4.71% of adjusted revenue. PeaceHealth United General Hospital will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.



3. PeaceHealth must submit to the department for review and approval an executed Admission Procedure/Patient Care Procedure consistent with the draft provided in the application.
4. PeaceHealth must submit to the department for review and approval an executed Patients' Rights and Responsibilities/Patient Care Policy consistent with the draft provided in the application.
5. PeaceHealth must submit to the department for review and approval an executed Bridge Assistance/Patient Financial Services Policy [Charity Care Policy] consistent with the draft provided in the application.
6. PeaceHealth must submit to the department for review and approval a copy of the executed Operating [lease] Agreement between Skagit County Public Hospital #304 and PeaceHealth St. Joseph Medical Center consistent with the draft agreement provided in the application. The agreement must be provided within 30 of execution.

**Approved Costs:**

The approved capital expenditure is \$1,103,401, and is solely related to the additional equipment to be purchased for continued hospital operations.

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 MAY 20, 2013, FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY PEACEHEALTH PROPOSING TO LEASE AND OPERATE SKAGIT COUNTY PUBLIC HOSPITAL DISTRICT #304 DBA UNITED GENERAL HOSPITAL LOCATED IN SKAGIT COUNTY**

**APPLICANT DESCRIPTION**

PeaceHealth is a not-for-profit healthcare organization based in Vancouver Washington that owns or operates three healthcare networks consisting of nine inpatient facilities and four critical access hospitals. The three healthcare networks are the Northwest Network, the Columbia Network, and the Oregon West Network. The Northwest Network includes two hospitals in Washington State and one hospital in Alaska. One of the hospitals in Washington is St. Joseph Medical Center located within the city of Bellingham, within Whatcom County. [source: Application p8]

**PROJECT DESCRIPTION**

This application proposes a 30-year lease and management agreement between PeaceHealth and United General Hospital (UGH) located at 2000 Hospital Drive in Sedro Woolley [98284], within Skagit County. UGH is a designated critical access hospital currently owned and operated by Skagit County Public Hospital District #304. The hospital is governed by a five-member board of commissioners and serves residents in the Skagit County areas of Burlington, Sedro Woolley, Bayview, Samish Island, Concrete, Marblemount, Clear Lake and Mount Vernon. UGH also serves portions of southeast Whatcom County. [source: Application, p8]

Under the terms of the proposed agreement, PeaceHealth would assume full operational control and financial responsibility for UGH's operations. The hospital would be operated under St. Joseph Medical Center and, over time, be fully integrated into PeaceHealth's operations, governance, mission, vision, and culture. [source: Application, p8]

In addition to UGH, PeaceHealth would also assume operational control and financial responsibility for the following two parcels of land in Sedro Woolley that are currently leased by the hospital district. [source: Application, p8, p17, and Draft Operating [lease] Agreement, Exhibit B]

Address	Occupant
2061 Hospital Drive	United Family Medicine Clinic
2031 Hospital Drive	PeaceHealth Specialty Clinic and UGH Finance, I/S, Foundation, Communications, and Physician Relations

The estimated capital expenditure for this project is \$1,103,401, and is solely related to the additional equipment to be purchased for continued hospital operations. [source: Application, p29]

If this project is approved, PeaceHealth anticipates UGH would begin operations under St. Joseph Medical Center on July 1, 2013. [source: Application, p19]

For reader ease, throughout this document the reference 'UGH' will be used for United General Hospital currently operated under the hospital district. The reference 'PHUGH' will be used for United General Hospital proposed to be operated under PeaceHealth.

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

This project is subject to Certificate of Need review under Revised Code of Washington (RCW) 70.38.105(4)(b) and Washington Administrative Code (WAC) 246-310-020(1)(b) as the lease of an acute care hospital licensed under RCW 70.41.

## **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, the 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).<sup>1</sup>

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<sup>1</sup> Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(1), (3), (4), (5), (6) and WAC 246-310-240(2) and (3).

**TYPE OF REVIEW**

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

**APPLICATION CHRONOLOGY**

<b>Action</b>	<b>PeaceHealth</b>
Letter of Intent Submitted	October 18, 2012
Application Submitted	November 20, 2012
Department’s Pre-review Activities including screening and responses	November 21, 2012, through January 31, 2013
Beginning of Review	February 1, 2013
End of Public Comment/Public Hearing <sup>2</sup>	February 20, 2013
Rebuttal Comments Due	March 4, 2013
Department Declares Pivotal Unresolved Issue (PUI)	March 27, 2013
Applicant Submits PUI Documents	March 25, 2013
Public Comments on PUI Documents	April 4, 2013
Rebuttal Comments Submitted for PUI Documents	April 15, 2013
Department's Anticipated Decision Date	May 6, 2013
Department's Actual Decision Date	May 20, 2013

**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.*”

The department received comments in support and opposition from healthcare providers and many residents in the planning area. All of the comments were considered during the review of this project. For this project, two entities qualified for affected person status as defined above.

- Skagit County Public Hospital District #1 – Skagit Valley Hospital  
A 137-bed public hospital located at 1415 East Kincaid in Mount Vernon, within Skagit County. Skagit Valley Hospital provides a variety acute care services and some tertiary services to the residents of east Skagit County and surrounding communities.
- Skagit County Public Hospital District #2 – Island Hospital  
A 43-bed public hospital located at 1211 – 24<sup>th</sup> Street in Anacortes, within Skagit County. Island Hospital provides a variety acute care services to the residents of west Skagit County and surrounding communities.

<sup>2</sup> Public hearings are not conducted under an expedited review schedule.

## **SOURCE INFORMATION REVIEWED**

- PeaceHealth's Certificate of Need application received November 20, 2012.
- PeaceHealth's supplemental information received January 24, 2013
- Public comments submitted by February 20, 2013, from healthcare providers and many residents in the planning area
- PeaceHealth rebuttal comments received on March 4, 2013
- United General Hospital rebuttal comments received March 1, 2013
- Board of Commissioners rebuttal comments received March 1, 2013
- PeaceHealth's Pivotal Unresolved Issue [PUI] documents received March 29, 2013
- Public comments received by April 5, 2013, related to the PUI documents
- Rebuttal comments received by April 15, 2013, related to the PUI documents
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Licensing and compliance history data provided by the Department of Health's Medical Quality Assurance Commission
- Joint Commission website at [www.jointcommission.org](http://www.jointcommission.org)
- Data obtained from the Department of Health's Integrated Licensing & Regulatory System [ILRS] database
- Department of Health's Hospital and Patient Data Systems analysis received January 30, 2013
- Years 2009, 2010, and 2011 Comprehensive Hospital Abstract Reporting System [CHARS] data obtained from the Department of Health's Hospital and Patient Data Systems for United General Hospital
- Washington State Secretary of State website at [www.sos.wa.gov](http://www.sos.wa.gov)
- Revised Code of Washington 70.44 Public Hospital Districts

## **CONCLUSION**

For the reasons stated in this evaluation, the Certificate of Need application submitted by PeaceHealth proposing to lease and operate United General Hospital owned by Skagit County Public Hospital District # 304 is consistent with applicable criteria of the Certificate of Need Program, provided PeaceHealth agrees to the following in its entirety.

## **Project Description**

PeaceHealth is approved to enter into an agreement to lease and operate Skagit County Public Hospital District #304-United General Hospital. The lease agreement is for 30 years, with two 10-year options to renew. United General Hospital is a 25-bed critical access hospital located in Sedro Woolley, within Skagit County.

## **Conditions**

1. PeaceHealth agrees with the project description as stated above. PeaceHealth further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. PeaceHealth United General Hospital must provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. PeaceHealth United General Hospital will use reasonable efforts to provide charity care in the amounts identified in the application, which are 3.28% of total revenue and 6.54% of adjusted revenue. PeaceHealth United General Hospital's charity care percentages should not be below the regional average

amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.18% of gross revenue and 4.71% of adjusted revenue. PeaceHealth United General Hospital will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

3. PeaceHealth must submit to the department for review and approval an executed Admission Procedure/Patient Care Procedure consistent with the draft provided in the application.
4. PeaceHealth must submit to the department for review and approval an executed Patients' Rights and Responsibilities/Patient Care Policy consistent with the draft provided in the application.
5. PeaceHealth must submit to the department for review and approval an executed Bridge Assistance/Patient Financial Services Policy [Charity Care Policy] consistent with the draft provided in the application.
6. PeaceHealth must submit to the department for review and approval a copy of the executed Operating [lease] Agreement between Skagit County Public Hospital #304 and PeaceHealth St. Joseph Medical Center consistent with the draft agreement provided in the application. The agreement must be provided within 30 of execution.

**Approved Costs:**

The approved capital expenditure is \$1,103,401, and is solely related to the additional equipment to be purchased for continued hospital operations.

## **CRITERIA DETERMINATIONS**

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

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

- (2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

Both United General Hospital and St. Joseph Medical Center are existing providers of healthcare services in Washington State. PeaceHealth must demonstrate that UGH would continue to be available to all residents of the services area, including low-income, racial and ethnic minorities, handicapped and other underserved groups. UGH must also participate in the Medicare and Medicaid programs and commit to providing a percentage of charity care in the planning area.

#### Admission Policy

To determine whether all residents of the planning area would have access to an applicant's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the service area would have access to services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

To demonstrate compliance with this sub-criterion, PeaceHealth provided copies of the existing Admission Policy currently used at UGH. The Admission policy does not include the required language to ensure that all residents of the planning area have access to the services at the hospital. [source: Application, Exhibit 5]

PeaceHealth also provided a copy of St. Joseph Medical Center's current Admissions Procedure and Patients Rights and Responsibilities Policy that would be used at UGH under St. Joseph Medical Center's operations. The Admissions Procedure establishes guidelines for admission of patients. This document also does not include the required language to ensure all residents would have access to services provided at UGH. The Patient Rights and Responsibilities document provides the overall guiding principles related to patients rights and responsibilities when admitted at the hospital. This document includes the required access to care language. [source: Application, Exhibits 6A and 6B]

Both documents identify a 'next review' date of February 9, 2013 and June 25, 2011, respectively. PeaceHealth did not provide updated documents. Based on the lapsed review dates, the department considers these documents to be in draft format. If this project is approved, the department would attach conditions requiring PeaceHealth to provide updated documents for review and approval.

#### Medicare and Medicaid Programs

The department uses Medicare certification to determine whether the elderly would have access, or continue to have access, to services. UGH currently contracts with Medicare and provides services to Medicare patients.



To demonstrate compliance with this sub-criterion, PeaceHealth stated that St. Joseph Medical Center currently contracts with Medicare and provided its Medicare provider number. PeaceHealth stated that UGH would continue to be Medicare certified under St. Joseph Medical Center's operations. The projected Medicare revenue is 36.1% of total revenue. Additionally, financial documents provided in the application demonstrate that UGH would continue to provide services to the Medicare population. [source: January 24, 2013, supplemental information, Exhibit 11B-Revised]

The department uses the facility's Medicaid eligibility or contracting with Medicaid to determine whether low-income residents would have access, or continue to have, access, to services. UGH currently contracts with Medicaid and provides services to the Medicaid population.

To demonstrate compliance with this sub-criterion, PeaceHealth stated that St. Joseph Medical Center currently contracts with Medicaid and provided its Medicaid provider number. PeaceHealth stated that UGH would continue to contract with Medicaid under St. Joseph Medical Center's operations. The projected Medicaid revenue is 13.8% of total revenue. Additionally, financial documents provided in the application demonstrate that UGH would continue to provide services to the Medicare population. [source: January 24, 2013, supplemental information, Exhibit 11B-Revised]

#### Charity Care Policy

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 provided by the applicant. The policy should also include the process one must use to access charity care at the facility.

To demonstrate compliance with this sub-criterion, PeaceHealth provided a copy of the existing charity care policy used at UGH.<sup>3</sup> The existing policy outlines the current process to obtain charity care at UGH and includes the required non-discrimination language. [source: Application, Exhibit 7]

To ensure that charity care would continue to be provided at UGH under St. Joseph Medical Center's operation, PeaceHealth provided a copy of the current charity care policy used at the St. Joseph Medical Center in Bellingham.<sup>4</sup> The policy outlines the process to obtain charity care at St. Joseph Medical Center and includes the required non-discrimination language. Additionally, financial documents provided in the application demonstrates that UGH would continue to provide charity care under the operation of St. Joseph Medical Center. [source: Application, Exhibit 8 and January 24, 2013, supplemental information, Exhibits 11B and 11C-Revised]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems (HPDS) divides Washington State into five regions: King County, Puget Sound, Southwest, Central, and Eastern. Both UGH and St. Joseph Medical Center are located within the Puget Sound Region. According to the 2008-2010<sup>5</sup> charity care data obtained from HPDS, the three-year average for the Puget Sound Region is 2.18% total revenue and 4.71% adjusted revenue. The same data also shows UGH's three year average charity percentages at 3.19% total and 6.45% adjusted.

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<sup>3</sup> The policy provided by PeaceHealth is not the same policy that is posted on the Department of Health website at <http://www.doh.wa.gov/Portals/1/Documents/5300/CCP206-2006.pdf>.

<sup>4</sup> The St. Joseph Medical Center policy provided by PeaceHealth is also not the same policy that is posted on the Department of Health website.

<sup>5</sup> Year 2011 charity care data is not available as of the writing of this evaluation.

Within the application, PeaceHealth stated that UGH would provide charity care at approximately 3.28% of gross revenue and 6.54% of adjusted revenue. [source: January 24, 2013, supplemental information, Exhibit 11B-Revised] RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. The table below shows a comparison of UGH’s 2008 - 2010 average percentage of charity care for gross and adjusted revenues, the Puget Sound Region average, and projected average percentage of charity care for UGH under the St. Joseph Medical Center operations.

**Table 1  
Charity Care Percentage Comparison**

	<b>% of Total Revenue</b>	<b>% of Adjusted Revenue</b>
Puget Sound Regional Average	2.18%	4.71%
UGH Historical 3-year Average	3.19%	6.45%
UGH Projected 3-year Average	3.28%	6.54%

The department notes that UGH’s three-year historical average is above Puget Sound Region. In this application, PeaceHealth projects that UGH would continue to provide charity care above the regional average. Since UGH would be operating under a different entity, to ensure that the charity care averages would be consistent with the regional averages, the department concludes that a condition related to the percentage of charity care to be provided at UGH is necessary if this project is approved.

During the review of this project, healthcare providers and community members submitted comments related to this sub-criterion. The comments are identified by topic and summarized below.

Access to Healthcare Services

[source: Compassion and Choices of Washington, American Civil Liberties Union of Washington, and the following community residents: Stonewall Jackson Bird, Darwin Helmuth, Patrick Goff, William Pfeifer, Howard Pellett, Gene and Marilyn Derig; Mary Barbieri, Erica Wollman]

Concerns were raised regarding healthcare services that may not continue at UGH under a lease agreement with an affiliate of PeaceHealth, a religious based organization. Services that may no longer be available at UGH include: male and female elective sterilization procedures; infertility treatments, contraceptive counseling, pregnancy termination; end of life counseling and services; medically assisted suicide [Death with Dignity Act]; HIV testing; and prescribing HIV/AIDS medications. Additionally, concerns were raised that some populations, such as homosexual or transgender, may not be able to access healthcare at UGH under the catholic association.

Decrease of Patient Out-Migration

[source: Island Hospital and Skagit Valley Hospital]

Both hospitals recognized that UGH is an integral part of the existing healthcare system in Skagit County with all three hospitals providing the needed services to the residents. The hospitals stated that the continued operations of UGH is an important component in the planning area. Because referral patterns are already in place in the planning area, the hospitals expressed concerns that UGH’s lease with PeaceHealth’s St. Joseph Medical Center in Bellingham would change existing referral patterns, specifically, patients would be referred from UGH to Bellingham, rather than one of the hospitals in the planning area. Skagit Valley Hospital is the only tertiary service provider in

Skagit County. Tertiary services currently provided by Skagit Valley Hospital include adult elective percutaneous coronary intervention (PCI) and neonatal intermediate care and level II obstetric services. For tertiary services not provided at Skagit Valley Hospital, the hospital has established referral patterns outside of the planning area. Both hospitals asserted this change in referral patterns could be a hardship for patients' and their families and may lead to destabilization of the healthcare infrastructure in the planning area.

In response to the concerns summarized above, PeaceHealth, UGH, and the public hospital district Board of Commissioners provided rebuttal responses. The responses are summarized below by topics raised. [source: PeaceHealth responses received March 4, 2013; UGH and Board of Commissioners responses received March 1, 2013]

#### Access to Healthcare Services

Without this project, UGH's continued services will be jeopardized. The proposed lease would stabilize existing services and allow UGH to continue providing healthcare services to residents in the planning area. Some of the opposition to this project is based on the assertions that some services would no longer be available to specific residents of the planning area. UGH does not currently offer OB or GYN services, including pregnancy termination, or elective sterilization services. These services cannot be discontinued if they are not currently offered.

After the Death with Dignity Act became effective<sup>6</sup>, UGH's Board of Commissioners declared by a motion that this service would not be offered at UGH. In the motion, the commissioners determined that "*this was an event that should be conducted between the patient and his/her physician and somewhere more personal than a hospital, such as their home.*" Again, services cannot be discontinued if they are not currently offered.

As noted in the application, PeaceHealth does not plan to discontinue any existing services at UGH. The changes anticipated are an increased access to specialty care through strengthened collaboration between PeaceHealth Bellingham specialist and UGH's physician clinics.

Concerns regarding discrimination based on an association with a religious based organization are unfounded. UGH is currently committed to providing care to patients with no discrimination and the same commitment would be continued under the PeaceHealth lease. This commitment by PeaceHealth is substantiated by the current Admissions Procedure and Patients Right and Responsibilities Policy that would be used at UGH under St. Joseph Medical Center's operations. These policies specifically include non-discrimination language.

#### Decrease of Patient Out-Migration

Both Island Hospital and Skagit Valley Hospital expressed concerns that out-migration would increase leading to disruption of the existing healthcare system in the planning area once UGH was

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<sup>6</sup> The Washington Death with Dignity Act, Initiative 1000, codified as Revised Code of Washington 70.245 went into effect on March 5, 2009. Subsection 020(1) provides the following guidance: "*An adult who is competent, is a resident of Washington state, and has been determined by the attending physician and consulting physician to be suffering from a terminal disease, and who has voluntarily expressed his or her wish to die, may make a written request for medication that the patient may self-administer to end his or her life in a humane and dignified manner in accordance with this chapter.*"

operated under PeaceHealth. The hospitals do not acknowledge that the current out-migration in the east Skagit planning area represents 29% of all discharges and 40% of all patient days. This data was obtained from 2011 CHARS data.<sup>7</sup> While this project would not stop out-migration, keeping UGH a viable hospital in the planning area may slow the current growth of out-migration. Since UGH would continue to be a critical access hospital without tertiary services, this collaboration would not result in a destabilization of the healthcare system.

### **Departments Evaluation**

#### **Access to Healthcare Services**

WAC 246-310-210(1)(a) states, in part, that in case of an application which proposes elimination of a healthcare service, the department must evaluate the need for the service in the planning area, alternatives to providing the service, and the effect of the elimination of the service on underserved populations. While concerns were raised regarding UGH's discontinuation of obstetric and gynecology services, including pregnancy termination, elective sterilization services, and end of life services consistent with the Death with Dignity Act, both PeaceHealth and UGH state that these services are not currently offered at UGH.<sup>8</sup> This assertion is substantiated in the application and a review of historical CHARS data reported to the Department of Health by UGH. [source: Application, p15 and 2009 – 2011 CHARS data]

It is important to note that as a 25-bed critical access hospital, UGH's existing inpatient services are limited. While UGH offers critical care and emergency inpatient services, approximately 80% of the hospital's services are provided in an outpatient setting. [source: 2009 – 2011 CHARS data] PeaceHealth does not intend to eliminate existing services at UGH. Rather, PeaceHealth intends that PeaceHealth Medical Group physicians would rotate to the multi-specialty clinic on the UGH campus, which would complement the existing services at the clinic and improve access to care. [source: January 24, 2013, supplemental information, p3]

Current policies and procedures in use at UGH demonstrate that UGH does not currently discriminate based on gender or sexual preference. Current PeaceHealth policies and procedures used at St. Joseph Medical Center demonstrate that non-discriminate access to care at UGH would continue under the PeaceHealth lease.

In summary, WAC 246-310-210(1)(a) does not apply in this project because there is no elimination of services at UGH. Residents of the planning area would continue to have access to the same services currently provided at UGH under the PeaceHealth lease.

#### **Decrease of Patient Out-Migration**

Both Island Hospital and Skagit Valley Hospital state that UGH is an important piece of the healthcare system that is working well for the communities served. As such, both hospitals would like the existing referral patterns and services provided at each of the three hospitals to remain

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<sup>7</sup> Data excludes DRG 795, level III neonatal intensive care services, which are not currently offered at UGH, Island Hospital, or Skagit Valley Hospital.

<sup>8</sup> End of life services consistent with the Death with Dignity Act are offered through Skagit Hospice Services, LLC. This hospice agency has been in operation for many years and continues to be co-owned and operated with Skagit Valley Hospital. Hospice services are provided to Medicare and Medicaid patients in Skagit, Island, San Juan, and Snohomish counties. [source: ILRS database-Skagit Hospice Services, LLC #437 and Washington State Secretary of State data]

unchanged. It is reasonable to expect some changes in referral patterns if UGH is affiliated with PeaceHealth's hospital in Bellingham. While UGH's inpatient services are expected to remain unchanged, PeaceHealth intends to strengthen the outpatient component through the expanded use of the clinic by PeaceHealth Medical Group physicians. Since 80% of UGH's services are outpatient, this change by PeaceHealth could affect referral patterns.

Skagit Valley Hospital is concerned that under the lease, UGH would begin referring its tertiary patients to Bellingham rather than to Skagit Valley Hospital. PeaceHealth states that it has been collaborating with UGH for many years and a shift in referral patterns is not intended or expected. The department expects some changes in referral patterns for tertiary services would occur; however, nothing in the application or the comments provided indicates that the change would be so substantial that there would be an irreparable impact to the existing healthcare infrastructure.

In summary, while the lease and operation of UGH by PeaceHealth may increase some inpatient outmigration, outpatient outmigration is expected to improve for many residents of the planning area. Since the majority of UGH's services are outpatient, this could result in improved access to for some residents.

Based on the source information reviewed and compliance of the conditions regarding the Admissions Procedure and Patients Right and Responsibilities Policy and the percentage of charity care to be provided at PHUGH, **this sub-criterion is met.**

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department determines that the applicant has met the financial feasibility criteria in WAC 246-310-220.

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

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

To evaluate this sub-criterion, the department first reviewed the assumptions used by PeaceHealth to determine the projected number of admissions, patient days, and occupancy of PHUGH after the lease agreement is effective. The assumptions used by PeaceHealth are summarized below. [source: Application, pp26-27]

- Projections in year 1, except for surgery cases, were based on UGH calendar year 2012 [CY2012] annualized from actual data from January through August 2012.
- Projected inpatient days and admissions were held constant in year 1. In years 2 and 3, a projected growth of 1% was assumed.
- Average length of stay was assumed to be at the current length of stay of 2.81 days.
- Average daily census assumed a modest increase of increase 6.8 in year 1 to 6.9 in year 3.

- Emergency department visits in year 1 were based on UGH’s annualized CY2102 volume, plus a 2.5% growth factor. A 2% per year growth factor was assumed in years 2 and 3.
- Ancillary volumes were based on CY2012 volumes and assume a modest range of increase of 0.05% in year 1 to 2.0% in year 3.
- Surgical services are forecast to grow quickly based on PeaceHealth Medical Group physicians’ rotations at PHUGH. Volumes are projected to increase 31.1% from CY2012 annualized in year 1, then a 15% increase in years 2 and 3.

Using the assumptions stated above, PeaceHealth projected number of inpatient admissions and patient days, and emergency room visits for PHUGH. The projections are shown in the table below. [source: Application, p18 and pp31-32]

**Table 2  
PeaceHealth United General Hospital  
Projected Fiscal Years 2014 through 2016**

	<b>FY 2014 Full Year 1</b>	<b>FY 2015 Full Year 2</b>	<b>FY 2016 Full Year 3</b>
Projected Number of Admissions*	880	889	898
Projected Number Inpatient Days*	2,477	2,501	2,526
Project Inpatient LOS	2.81	2.81	2.81
Outpatient Visits	44,949	45,747	45,560

\*Does not include normal newborn admissions or patient days

When compared with the three year historical data provided in the application, the department notes an overall modest increase in inpatient admission and days. The modest increase is expected based on UGH’s number of beds (25) and limited services currently provided. After reviewing the assumptions and projections, the department concludes they are reasonable.

If this project is approved, PeaceHealth anticipates the lease and operation would become effective July 1, 2013. Under this timeline, fiscal year 2014 is UGH’s first full year of operation under PeaceHealth and 2016 would be year three. PeaceHealth also provided its assumptions used to project revenue, expenses, and net income for UGH. [source: Application pp27-30 and January 24, 2013, supplemental information, p8] Those assumptions are summarized below.

- Revenue forecast assumes critical access hospital reimbursement will continue at UGH. Revenues do not include any inflation.
- Revenues include annual district tax revenue of approximately \$912,000 consistent with the lease agreement.
- Generally, expenses are based on CY2012 annualized expenses.
- The number of direct patient FTEs [full time equivalents] are assumed to flex with volume, and show a slight decrease from CY2012 to year 1 [from 120.7 to 118.2], then a slight increase from 118.2 to 124.9 in year 3.
- Overhead and support FTEs were assumed to decrease from CY2012 [from 103.0 to 84.9] and then remain constant at 84.9 through year 3. The initial year 1 decrease is based on the expected economies of scale with administrative and support activities.
- Wages and salaries are expected to remain constant at CY2012 annualized figures.
- Bad debt is assumed to equal 2.7% of gross patient revenue and is based on CY2012 annualized figures.

- Charity care percentages are expected to remain constant from CY2012 percentages at 3.3% of gross revenues.
- Payer mix is expected to change slightly from CY2012 payer mix. A payer mix comparison is shown below. [sources: Current percentages-Application, p18; Projected percentages-Application pp28-29]

<b>Payer</b>	<b>Current %</b>	<b>Projected %</b>
Medicare	36.1%	35.7%
Medicaid	13.8%	14.7%
Commercial	30.9%	31.2%
Other*	19.3%	18.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

\*Other includes Labor & Industries, government, bureau, and private pay

- The revenue and expense statements do not include any lease expenses from PeaceHealth to the hospital district consistent with the lease agreement. PeaceHealth is responsible for all operating expenses associated with the leased assets, obligations under assumed contracts, and all transition costs of UGH into the PeaceHealth system.
- Operating expenses include a line item referenced as ‘System Fee’ which are allocated costs and approximately \$800,000 in year 1, with a slight increase in years 2 and 3.

Using the assumptions stated above, PeaceHealth projected revenue, expenses, and net income for UGH. The projections are shown in the table below. [source: January 24, 2013, supplemental information, Revised Exhibit 11B]

**Table 3**  
**PeaceHealth United General Hospital**  
**Projected Revenue and Expenses for Fiscal Years 2014 through 2016**

	<b>CY 2014 Full Year 1</b>	<b>CY 2015 Full Year 2</b>	<b>CY 2016 Full Year 3</b>
Net Revenue	\$ 35,716,229	\$ 36,107,311	\$ 36,858,553
Total Expenses	\$ 33,944,149	\$ 34,142,745	\$ 34,776,751
<b>Net Profit / (Loss)</b>	<b>\$ 1,772,080</b>	<b>\$ 1,964,566</b>	<b>\$ 2,081,802</b>
Minus Corporate Allocations	\$ 796,455	\$ 805,026	\$ 821,699
<b>Net Profit / (Loss) w/ Allocations</b>	<b>\$ 975,625</b>	<b>\$ 1,159,540</b>	<b>\$ 1,260,103</b>

The ‘Net Revenue’ line item is gross inpatient and outpatient revenue, minus deductions for contractual allowances and charity care.<sup>9</sup> The ‘Total Expenses’ line item includes salaries and wages, bad debt, and depreciation. As shown above, PeaceHealth projected net profits in all years shown when allocated costs are included.

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<sup>9</sup> The gross revenue line item also includes district tax revenue of \$912,685 provided to PeaceHealth from the hospital district. During the review of this project, the department received comments questioning whether the Washington Constitution allows tax revenue collected by a hospital district to be used as a subsidy for religious affiliate. The issue is addressed under the ‘Structure and Process of Care’ section of this evaluation.

No public comments were submitted for this sub-criterion. 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.

As stated in the project description section of this evaluation, PeaceHealth intends to maintain all services at PHUGH. As indicated in the assumptions used as a basis for the pro forma projections, PeaceHealth does not intend to make significant changes to the operations of the hospital or the projected payer mix to make a net profit. [source: Application, pp18 and 27-32]

No public comments were submitted for this sub-criterion. Based on the information provided above, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health 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.

The capital expenditure associated with this project is \$1,103,401, and is solely related equipment and associated tax. PeaceHealth intends to fund the project using cash reserves. [source: Application, p29]

The application also acknowledges that approximately \$4.4 million in working capital will be required from PeaceHealth post-transaction to fund inventory acquisitions, start-up, routine capital expenditures, and to fund any immediate shortfalls of operating revenues over operating expenses. The \$4.4 million is anticipated to be spent at approximately \$1.1 million per year for the next four years. PeaceHealth intends to fund the working capital from its own cash reserves. [source: Application, pp27-29]

To demonstrate PeaceHealth has the funds available to finance the project, including the working capital, PeaceHealth provided a copy of its fiscal year end 2012 audited financial statements. [source: Application, Exhibit 13] HPDS staff reviewed information provided by PeaceHealth and it noted that PeaceHealth has a very healthy financial standing and concluded method of financing is appropriate. [source: HPDS analysis, p2 and p4]

Based on the information provided above, the department concludes that the project can be appropriately financed. **This sub-criterion is met.**



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

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

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

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

With the exception of some administrative and support staff reductions, PeaceHealth anticipates that the current staff, including physicians, of UGH would become PeaceHealth employees when the lease agreement became effective. A modest growth in patient care FTEs is anticipated based on the modest increase in patient volume. [source: Application, pp27-30 and p34] The table below shows the current and projected staffing for UGH.

**Table 4  
Current and Projected FTEs**

	<b>Current FY2013</b>	<b>Projected FY 2014</b>	<b>Projected FY 2015</b>	<b>Projected FY 2016</b>
Direct Patient Care FTEs	120.7	118.2	121.4	124.9
Overhead/Support FTEs	103.0	84.9	84.9	84.9
<b>Total</b>	<b>223.7</b>	<b>203.1</b>	<b>206.3</b>	<b>209.8</b>

As shown in the table, only direct patient care staff is projected to increase. Since the majority of this staff is already in place, PeaceHealth does not expect difficulty recruiting the additional staff needed to keep up with the patient volumes projected in years 2 and 3.

No public comments were submitted for this sub-criterion. Based on the information provided above, the department concludes that sufficient staff is available or can be recruited. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(2) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant’s history in meeting these standards at other facilities owned or operated by the applicant.

UGH has been providing healthcare services to the residents of Skagit County and southeast Whatcom County for many years and has well-established ancillary, support, and transfer agreements in place. PeaceHealth states that all existing relationship will continue and, in some

cases, may expand. For example, in recent years, some PeaceHealth Medical Group physicians have begun rotation at UGH. PeaceHealth expects more physicians to rotate into UGH in the future. This application will also strengthen the already established relationship between UGH and St. Joseph Medical Center in Bellingham as UGH becomes integrated into the PeaceHealth system. [source: Application, pp36-37]

Documentation provided in the application demonstrates that PeaceHealth intends to continue working with existing providers. PeaceHealth does not intend to change the UGH existing service area, community support partnerships, or ancillary relationships as a result of the lease agreement, but may consider additional relationships as opportunities arise.

No public comments were submitted for this sub-criterion. The department concludes that there is reasonable assurance that PeaceHealth will continue to maintain the necessary relationships with ancillary and support services to provide healthcare in the communities. Approval of this project would not negatively affect these relationships. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

PeaceHealth owns and operates a variety of healthcare facilities in Alaska, Oregon, and Washington. As part of its review, the department must conclude that the proposed services would be provided in a manner that ensures safe and adequate care to the public<sup>10</sup>.

PeaceHealth owns one hospital in Alaska, four hospitals in Oregon, and four hospitals in Washington. The department reviewed credentialing by the Joint Commission for the nine hospitals. Seven of the nine hospitals hold a three year accreditation with the Joint Commission and have been awarded the *Gold Seal of Approval*.<sup>11</sup> [source: Joint Commission website] The remaining two hospitals are smaller, critical access hospitals and do not hold Joint Commission accreditation.<sup>12</sup>

For Washington State, surveys are conducted by the Department of Health's Investigations and Inspections Office. Records indicate that the department has completed compliance surveys for each of PeaceHealth's hospitals in Washington State since 2008. Each compliance survey revealed

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

<sup>11</sup> The Joint Commission's "Gold Seal of Approval" is an internationally recognized symbol of quality. Organizations that have achieved accreditation or certification from The Joint Commission may display the Gold Seal as an indicator that the organization has proven its commitment to high quality patient care and its willingness to be measured against the highest and most rigorous standards of performance. [source: Joint Commission website]

<sup>12</sup> Cottage Grove Community Hospital in Oregon and PeaceIsland Medical Center in Washington.

deficiencies typical for the type and size of the facility and PeaceHealth submitted an acceptable plan of corrections and implemented the required actions.<sup>13</sup>

If this project is approved, the public hospital district would no longer be operating UGH. However, to ensure that PeaceHealth would be operating a facility that had historically been in compliance with state and federal requirements, the department reviewed the historical quality of care for UGH. The hospital holds a three-year accreditation from the Joint Commission and in years 2010 and 2012, the department completed quality of care surveys for UGH. Both surveys indicate no substantial non-compliance issues.

During the review of this project, the department received comments questioning whether UGH would be operating in conformance with state and federal requirements. Specifically, the draft lease agreement requires the hospital district to provide up to 90% of the taxes collected to PeaceHealth. The remaining 10% is to be retained by the hospital district. Some hospital district residents questioned whether the Washington Constitution allows tax revenue collected by a hospital district to be used as a subsidy for religious affiliate. The comments are summarized below.

#### District Tax Revenue

[source: American Civil Liberties Union of Washington, Green Party of Skagit County, and the following community residents: Darwin Helmuth and William Pfeifer]

As a public entity, Skagit County Public Hospital District #304 is bound by the Washington Constitution. The Constitution provides that ‘*no public money or property*’ shall be used to support ‘*any religious establishment.*’ By providing an annual subsidy to PeaceHealth, the hospital district is supporting a religious establishment.

While PeaceHealth, UGH, and the public hospital district Board of Commissioners all provided rebuttal responses, the rebuttal summary below is from PeaceHealth’s responses.

#### District Tax Revenue

[source: PeaceHealth rebuttal, p11]

PeaceHealth asserts that under the Washington Constitution, courts have consistently upheld public subsidies to church affiliated organizations, as long as it is not purposefully supporting religious worship or indoctrination, placing its approval on a particular religious doctrine, or intentionally advancing the preference of religion over no religion. In this case, the purpose is the provision of important healthcare services, not the advancement of religion.

The tax money collected by PeaceHealth from the district would be used to off-set reductions in reimbursement for Medicare and Medicaid, and fund a significant amount of charity care for the residents. The lease agreement intends that the tax money would be expended in that way, regardless of whether the hospital district or PeaceHealth is operating UGH.

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<sup>13</sup> St. Joseph Medical Center=2008 and 2011; St. John Medical Center=2009 and 2012; Southwest Washington Medical Center=2008 and 2011; and PeaceIsland Medical Center 2012 [initial opening survey].

## **Departments Evaluation**

### **District Tax Revenue**

WAC 246-310-230(5) requires an applicant provide assurances that the proposed services will be offered in accord with state and federal law. RCW 70.44.240 allows public hospital districts to contract with any legal entity, including a non-profit hospital, to lease or operate their hospital.<sup>14</sup> Opponents of the lease assert that under the “establishment of religion” clauses in the state and federal constitutions, the hospital district may not enter into such a contract with PeaceHealth because PeaceHealth is a religiously-affiliated (Catholic) healthcare provider. However, no case law supporting this constitutional claim was provided. The department is not aware of support for the claim.

In summary, the lease agreement between PeaceHealth and the district requires a subsidy from the hospital district, which would be paid by them with collected tax dollars. Since PeaceHealth intends to use the tax dollars to offset the costs for services at PHUGH, the collected tax dollars would be going back to support the residents of the planning area. The elected board members of the public hospital district and PeaceHealth have concluded after their internal legal review that this action is not unlawful, and the department cannot dispute this conclusion.

Given the historical compliance history of PeaceHealth and UGH, the department concludes there is reasonable assurance that PeaceHealth would operate PHUGH in conformance with state and federal regulations. Based on the source information reviewed, the department concludes **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.

UGH is a long-time provider of healthcare services in east Skagit County. Even operating as a critical access hospital, this project garnered much attention from residents of the planning area and Skagit County in general. Much of the attention focused on the importance of continued operations

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<sup>14</sup> RCW 70.44.204 specifically states: *Any public hospital district may contract or join with any other public hospital district, publicly owned hospital, nonprofit hospital, legal entity, or individual to acquire, own, operate, manage, or provide any hospital or other health care facilities or hospital services or other health care services to be used by individuals, districts, hospitals, or others, including providing health maintenance services. If a public hospital district chooses to contract or join with another party or parties pursuant to the provisions of this chapter, it may do so through establishing a nonprofit corporation, partnership, limited liability company, or other legal entity of its choosing in which the public hospital district and the other party or parties participate. The governing body of such legal entity shall include representatives of the public hospital district, which representatives may include members of the public hospital district's board of commissioners. A public hospital district contracting or joining with another party pursuant to the provisions of this chapter may appropriate funds and may sell, lease, or otherwise provide property, personnel, and services to the legal entity established to carry out the contract or joint activity.*

of UGH. The two other hospitals in the county both recognized that UGH was an integral part of the healthcare infrastructure in Skagit County. The CEO of UGH provided a letter explaining the importance of entering into a lease agreement with PeaceHealth to allow financial stability and continued access to healthcare services at UGH. [source: UGH public comment received February 20, 2013]

PeaceHealth is a long-time provider of healthcare within Washington and other states, and has successfully operated a critical access hospital in Oregon. PeaceHealth's presence in Whatcom County is long standing. PeaceHealth and UGH have a four-year history of collaboration on some healthcare services. This lease could benefit both PeaceHealth and UGH, and allows for continued healthcare services in east Skagit County.

PeaceHealth provided a copy of the draft Operating [lease] Agreement between itself and Skagit County Public Hospital District No. 304. [source: Pivotal Unresolved Issue documents received March 29, 2013] The draft agreement identifies an initial 30-year term, plus two 10-year options to extend. The draft agreement also included eight exhibits that cover topics, such as the land and clinic owned by the hospital district, charity care obligations, and reporting requirements from PeaceHealth to the district. Given that the agreement is in draft format, if this project is approved, the department would require PeaceHealth to provide a copy of an executed agreement, with all exhibits, for review and approval.

No public comments were submitted for this sub-criterion. Based on the source information reviewed, the department concludes **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, and based on that evaluation; 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 determines that the applicant has met the cost containment criteria in WAC 246-310-240(1).

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

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

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

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

### **Step One**

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

### **Step Two**

Before submitting this application, PeaceHealth considered and ultimately rejected the three options summarized below.

#### **Option 1-No Project**

PeaceHealth noted that the hospital district and UGH do not have the resources to grow programs and services on its own. As a result, the hospital could not remain financially viable and may ultimately have to close. This option was rejected.

#### **Option 2-Management Agreement Only**

- This option would allow interaction between PeaceHealth and UGH, which would positively influence hospital operations. However, if PeaceHealth and UGH only established a management agreement, UGH would not benefit from the total economies of scale through integration of UGH into PeaceHealth. Therefore, this option was rejected.

#### **Option 3-Close the Hospital**

There would be no operating costs associated with this option; however closure of UGH would greatly reduce access to care for district residents. This option was also rejected.

### **Departments Evaluation**

Based on the discussion above, option #1 of "do nothing" could result in option #3: closure of the hospital. As previously stated, this application received a lot of attention from residents of both Skagit County and the public hospital district. Residents support the continued operation of UGH. The continued operation of UGH meant that the hospital district would have to enter into a partnership in order to ensure financial viability of UGH.

The other option considered by PeaceHealth and UGH is a management agreement, which does not require prior Certificate of Need review. Currently, UGH is operating under a limited services agreement with PeaceHealth that allows PeaceHealth to assist UGH in staffing some recently vacated key positions.<sup>15</sup> The agreement is set to expire when the lease agreement is implemented. However, the benefits of a management agreement are limited. For example, the management agreement only provides for staffing or management of specific positions. Positions that are not management in type, yet imperative for operations of a hospital, would not be

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<sup>15</sup> Some key positions were vacated within 30 days after this application was submitted for review.

covered unless the positions were specifically added under an addendum. In the short term, this type of management agreement is an effective stop-gap until a long term solution is reached. For long term, this type of agreement could be considered cumbersome and inflexible.

According to the application, PeaceHealth and the elected board of commissioners have been evaluating a potential alliance since 2009. In 2011, the board asked PeaceHealth to consider development of long-term operations and management of the district's clinical services. [source: Application, p8] While the selection process was not detailed in the application, the department assumes that the elected commissioners followed all appropriate laws before selecting PeaceHealth as its partner. Once the decision was made by the hospital district to enter into a long-term lease agreement with PeaceHealth, submission of a Certificate of Need application is required.

PeaceHealth states there are no anticipated changes in the type or scope of services to be provided at PHUGH post transaction. The changes in payer mix post transaction are not significant. PeaceHealth intends to maintain the charity care percentages at UGH and submitted documentation to support this intention. Most community members should see a seamless transition in operations of UGH. PeaceHealth expects to improve coordination and consolidation of patient care due, in part, to the integration of UGH into PeaceHealth.

The department did not identify any other option than those stated by the applicant.

### **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.

No public comments were submitted for this sub-criterion.

After reviewing the options considered by the applicant and discussed above, the department agrees that the lease and long-term agreement proposed between PeaceHealth and the public hospital district is the best available alternative under the circumstances. **This sub-criterion is met.**