



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

May 2, 2017

CERTIFIED MAIL # 7016 0910 0000 3454 9306

Richard Petrich, VP Planning
CHI Franciscan Health
1145 Broadway, #1000
Tacoma, Washington 98402

RE: Certificate of Need Application #17-09

Dear Mr. Petrich:

We have completed review of the Certificate of Need application submitted by CHI Franciscan Health proposing to relocate 242 licensed acute care beds from Harrison Medical Center's Bremerton campus to the Silverdale campus. Enclosed is a written evaluation of the application.

For the reasons stated in the enclosed evaluation, the application is consistent with applicable Certificate of Need criteria provided CHI Franciscan Health agrees with the following in its entirety.

Project Description:

Harrison Medical Center is currently licensed for 347 acute care beds located on two campuses. Harrison Medical Center will relinquish 11 acute care beds dedicated to psychiatric services, leaving 336 acute care beds located on two campuses—242 at the Bremerton campus and 94 at the Silverdale campus. This certificate approves the relocation of all 242 licensed acute care beds from the Bremerton campus to the Silverdale campus. The relocation will occur in the two phases as described below.

- Phase One - is the construction of a nine-story tower on the Silverdale campus that would house acute care beds, an emergency department, a cancer center, diagnostic imaging, and ancillary and support services (pharmacy, laboratory, central supply, etc.). Once constructed, 168 beds would be relocated to the Silverdale campus. Phase one is expected to be complete by January 1, 2020. At completion of phase one, Harrison Medical Center's Bremerton campus would have 74 licensed beds remaining and the Silverdale campus would have 262 licensed beds.
- Phase Two – includes construction of a second tower on the Silverdale campus and the relocation of the remaining 74 beds. This phase is expected to be complete by January 2023.

At completion of both phases, Harrison Medical Center would be licensed to operate a total of 336 acute care beds located at one campus in Silverdale. The table below shows the bed configuration for the Silverdale campus with 336 licensed beds.

Services Provided	Silverdale Campus Licensed Beds
General Medical Surgical	312
Psychiatric-PPS Exempt	0
Level II-Intermediate Care Nursery	24
Total	336

Conditions:

1. Approval of the project description as stated above. CHI Franciscan Health further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Upon issuance of a Certificate of Need, CHI Franciscan Health shall relinquish the 11 psychiatric beds located on the Bremerton campus. Once relinquished, Harrison Medical Center will be licensed for 336 acute care beds located on two campuses.
3. CHI Franciscan Health shall finance the project as described in the application.
4. Harrison Medical Center will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. Harrison Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 1.87% gross revenue and 4.70% of adjusted revenue. Harrison Medical Center will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.
5. The 242 acute care beds are to be added to the Silverdale campus in two phases. If phase two is not completed within five years of the completion of phase one, any remaining bed authorization not meeting licensing requirements shall be forfeited. If construction of phase two consists of any amount less than the 74 acute care beds, the bed capacity meeting the licensing requirements at that time shall be the facility's final Certificate of Need authorized bed count.

Approved Costs:

The total estimated capital expenditure associated with both phases is \$484,690,706.

Richard Petrich, VP Planning
CHI Franciscan Health
Certificate of Need Application #17-09
May 2, 2017
Page 3 of 3

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

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

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

Mailing Address:

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

Physical Address:

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

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

Sincerely,



Steve Bowman, PhD, MHA
Director, Office of Community Health Systems

Enclosure

EVALUATION DATED MAY 2, 2017, FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY CHI FRANCISCAN HEALTH PROPOSING TO RELOCATE 242 OF 253 ACUTE CARE BEDS FROM HARRISON MEDICAL CENTER’S BREMERTON CAMPUS TO THE SILVERDALE CAMPUS, BOTH IN KITSAP COUNTY

APPLICANT DESCRIPTION

Catholic Health Initiatives (CHI) is a not-for-profit entity and the parent company of CHI Franciscan Health System (FHS). In Washington State, FHS operates as the governance of a board of directors and an executive team that consists of a CEO and a number of vice presidential roles in finance, nursing, strategy, ethics, operations, and others. In Washington State, CHI Franciscan operates a variety of healthcare facilities. Below is a listing of the eight hospitals, six dialysis centers, hospice care center, hospice agency, and two ambulatory surgery centers owned or operated by CHI Franciscan in Washington State. [source: CN historical files]

Hospitals

Harrison Medical Center, Bremerton
Highline Medical Center, Burien
Regional Hospital, Tukwila
St Anthony Hospital, Gig Harbor
St Clare Hospital, Lakewood
St Elizabeth Hospital, Enumclaw
St Francis Hospital, Federal Way
St Joseph Medical Center, Tacoma

Ambulatory Surgery Centers

Gig Harbor Ambulatory Surgery Center
Franciscan Endoscopy Center

Dialysis Centers

Franciscan Bonney Lake Dialysis Center¹
Franciscan Eastside Dialysis Center
Franciscan South Tacoma Dialysis Center
Greater Puyallup Dialysis Center
St Joseph Medical Center
St Joseph Dialysis Center Gig Harbor

Hospice Care Center

FHS Hospice Care Center

Hospice Agency

Franciscan Hospice, Tacoma

In addition to the eight hospitals listed above, on August 24, 2016, Franciscan Specialty Care, LLC received Certificate of Need approval to establish a new, 60-bed level I rehabilitation hospital in Tacoma, within Pierce County. Franciscan Specialty Care, LLC is 51% owned by CHI Franciscan Health dba St Joseph Medical Center and 49% owned by RehabCare Development 4 – a 100% subsidiary of Kindred Healthcare, Inc. The new rehabilitation hospital is expected to be operational by the end of December 2018.² [source: CN historical files]

PROJECT DESCRIPTION

This project focuses on Harrison Medical Center (HMC) a not-for-profit hospital serving the residents of Kitsap County and surrounding communities. HMC is currently licensed for a total of 347 beds located at two campuses. Table 1 on the following page shows the bed configuration for each campus. [source: CN historical files]

¹ Franciscan Bonney Lake Dialysis Center is recently approved and not yet operational.

² August 24, 2016, ‘Intent to Issue a Certificate of Need’ and CN #1594 issued March 10, 2017.

**Table 1
Harrison Medical Center Current Configuration of Licensed Acute Care Beds**

Services Provided	Bremerton Campus Licensed Beds	Silverdale Campus Licensed Beds	Total Beds for Both Campuses
General Medical Surgical	242	70	312
Psychiatric-PPS Exempt	11	0	11
Level II-Intermediate Care Nursery	0	24	24
Total	253	94	347

HMC provides a variety of general medical surgical services, including intensive care, emergency services, and cardiac care.³ The hospital is currently a Medicare and Medicaid provider, holds a level III adult trauma designation from the Department of Health’s Emergency Medical Services and Trauma office⁴, and holds a three-year accreditation from the Joint Commission⁵. [source: Application, p2 and CN historical files]

This project proposes relocation of 242 of the 253 acute care beds from the Bremerton campus to the Silverdale campus. If approved, HMC intends to relinquish the 11 beds dedicated to psychiatric services,⁶ leaving 242 licensed beds at the Bremerton campus to be relocated in the two phases described below:

- Phase One- is the construction of a nine-story tower on the Silverdale campus that would house acute care beds, an emergency department, a cancer center, diagnostic imaging, and ancillary and support services (pharmacy, laboratory, central supply, etc.). Once constructed, 168 beds would be relocated to the Silverdale campus. Phase one is expected to be complete by January 1, 2020. At completion of phase one, HMC’s Bremerton campus would have 74 licensed beds remaining and the Silverdale campus would have 262 licensed beds.
- Phase Two – includes construction of a second tower on the Silverdale campus and the relocation of the remaining 74 beds. This phase is expected to be complete by January 2023.

At completion of both phases, HMC would be operating a total of 336 acute care beds located at one campus in Silverdale. Table 2 on the following page shows the bed configuration for the Silverdale campus with 336 licensed beds. [source: Application, p10]

³ HMC provides both elective percutaneous coronary interventions (PCI) services and open heart surgery at the Bremerton campus.

⁴ A Level II Trauma Center has demonstrated an ability to provide prompt assessment, resuscitation, surgery, intensive care and stabilization of injured patients and emergency operations. [source: American Trauma Society]

⁵ The Joint Commission accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization’s commitment to meeting certain performance standards. [source: Joint Commission website]

⁶ The 11 psychiatric beds have not been operational since 2009. On January 5, 2017, CHI Franciscan agreed to relinquish the 11 beds if a CN is issued for this project.

Table 2
Harrison Medical Center
Proposed Configuration of Licensed Acute Care Beds

Services Provided	Silverdale Campus Licensed Beds
General Medical Surgical	312
Psychiatric-PPS Exempt	0
Level II-Intermediate Care Nursery	24
Total	336

The total estimated capital expenditure associated with both phases is \$484,690,706. Of that amount, approximately 63% is related to land improvements and construction necessary to complete two towers, 22% is related to both fixed and moveable equipment, and the remaining 15% is for sales tax and fees (consulting, architect, and engineering). [source: Application, p35]

CHI Franciscan proposes phase one would be complete by January 2020 and phase two would be complete by January 2023. With the exception of the 11 psychiatric beds, CHI Franciscan intends to keep all 336 acute care beds licensed and operational during the implementation of the project. [source: Application, p19 and January 5, 2017, screening response, Attachment 6]

APPLICABILITY OF CERTIFICATE OF NEED LAW

CHI Franciscan’s application is subject to review as the construction, development, or other establishment of a 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 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 criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment).

TYPE OF REVIEW

This project was reviewed under the regular timeline outlined in WAC 246-310-160, which is summarized below.

APPLICATION CHRONOLOGY

Action	CHI Franciscan
Letter of Intent Submitted	August 24, 2016
Application Submitted	October 28, 2016
Department’s pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • Applicant's Responses Received • DOH 2nd Screening Letter • Applicant's Responses Received 	November 21, 2016 January 5, 2017 N/A N/A
Beginning of Review	January 12, 2017
End of Public Comment <ul style="list-style-type: none"> • Public comments accepted through end of public comment • Public hearing conducted 	February 21, 2017 February 21, 2017
Rebuttal Comments Received ⁷	March 15, 2017
Department's Anticipated Decision Date	May 1, 2017
Department's Actual Decision Date	May 2, 2017

⁷ After the public comment was mailed, the CN Program received a number of phone calls and e-mails expressing concerns regarding the due date for rebuttal comments. The initial due date for rebuttal comments was March 8, 2017. The concerns centered on the delay in receiving the CD with the pdfs of public comments. The CDs were mailed from the Certificate of Need Program office in Tumwater on February 22, 2017. Some did not receive the information until March 1; others received the information after March 1. To ensure fairness and allow for thoughtful rebuttal comments, the CN Program extended the rebuttal due date from March 8 to March 15. This resulted in an extended decision date from April 24, 2017 to May 1, 2017.

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.”*

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

- (a) *The applicant;*
- (b) *Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;*
- (c) *Third-party payers reimbursing health care facilities in the health service area;*
- (d) *Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;*
- (e) *Health care facilities and health maintenance organizations which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;*
- (f) *Any person residing within the geographic area to be served by the applicant; and*
- (g) *Any person regularly using health care facilities within the geographic area to be served by the applicant.*

During the review of this project, a total of 18 persons or health care providers sought and received interested person status. Many provided written or oral comments on the project. Of the 18 persons or health care providers that qualified for interested persons, eleven sought affected person status. A brief description of each is below.

MultiCare Health System

MultiCare Health System is a not-for-profit health care organization that owns and operates five hospitals in King and Pierce counties. All five hospitals provide a variety of healthcare services to residents of King and Pierce counties and surrounding communities. MultiCare Health System also owns and operates a variety of healthcare clinics located in King, Kitsap, Pierce, Snohomish, and Thurston counties. [source: MultiCare Health System website] MultiCare Health System did not provide written comments on this project nor did a representative attend the February 21, 2017, public hearing. MultiCare Health System does not meet the affected person qualifications identified above.

City of Bremerton

Mayor Patty Lent is employed by the City of Bremerton. Mayor Lent attended the February 21, 2017, public hearing and submitted written comments at the hearing. On March 15, 2017, Mayor Lent requested affected person status on behalf of the City of Bremerton and requested to be informed of the department’s decision on this project. The City of Bremerton met the affected person qualifications identified above.

Carol Cassella, MD

Dr. Cassella is a resident of Bainbridge Island, within Kitsap County and a user of the health care services provided by HMC. Dr. Cassella is also an anesthesiologist with the Surgery Center of Silverdale. Dr. Cassella attended the February 21, 2017, public hearing and submitted written comments at the hearing. On February 21, 2017, Dr. Cassella requested to be informed of the

department's decision on this project. Carol Cassella, MD met the affected person qualifications identified above.

Nancy Field

Ms. Field is a resident of Sequim, within Clallam County and a user of the health care services provided by HMC. Ms. Field attended the February 21, 2017, public hearing and submitted written comments at the hearing. On January 9, 2017, Ms. Field requested to be informed of the department's decision on this project. Nancy Field met the affected person qualifications identified above.

Deborah Pedersen

Ms. Pedersen is a resident of Port Townsend, within Jefferson County and a user of the health care services provided by HMC. Ms. Pedersen attended the February 21, 2017, public hearing and submitted written comments at the hearing. On February 21, 2017, Ms. Pedersen requested to be informed of the department's decision on this project. Deborah Pedersen met the affected person qualifications identified above.

Barry Peters

Mr. Peters is a resident of Bainbridge Island, within Kitsap County and a user of the health care services provided by HMC. Mr. Peters attended the February 21, 2017, public hearing and submitted written comments at the hearing. On February 21, 2017, Mr. Peters requested to be informed of the department's decision on this project. Barry Peters met the affected person qualifications identified above.

Blake E. Reiter, MD

Dr. Reiter is resident of Poulsbo within Kitsap County and a practicing physician in the county. Dr. Reiter did not attend the February 21, 2017, public hearing, instead he submitted written comments on February 17, 2017. Within the written comments, Dr. Reiter requested to be informed of the department's decision on this project. Blake Reiter, MD met the affected person qualifications identified above.

Todd E. Schneiderman, MD

Dr. Schneiderman is resident of Kingston within Kitsap County and a practicing physician in the county. Dr. Schneiderman did not attend the February 21, 2017, public hearing, instead he submitted written comments on February 17, 2017. Within the written comments, Dr. Schneiderman requested to be informed of the department's decision on this project. Todd Schneiderman, MD met the affected person qualifications identified above.

Richard Huddy

Mr. Huddy is a member of the Bremerton City Council and a resident of Kitsap County. Mr. Huddy attended the February 21, 2017, public hearing and submitted written comments at the hearing. On February 21, 2017, Mr. Huddy requested to be informed of the department's decision on this project. Richard Huddy met the affected person qualifications identified above.

Berit Madsen, MD

Dr. Madsen is a resident of Kitsap County and a practicing physician at Peninsula Cancer Center located in Poulsbo. Dr. Madsen did not attend the February 21, 2017, public hearing, instead he submitted written comments on February 17, 2017. Within the written comments, Dr. Madsen requested to be informed of the department's decision on this project. Berit Madsen, MD met the affected person qualifications identified above.

Joanne Tyler

Ms. Tyler is a resident of Port Townsend, within Jefferson County. Ms. Tyler did not attend the February 21, 2017, public hearing, instead she submitted written comments on February 20, 2017. Within the written comments, Ms. Tyler requested to be informed of the department's decision on this project. Joanne Tyler met the affected person qualifications identified above.

SOURCE INFORMATION REVIEWED

- CHI Franciscan Health System's Certificate of Need application received October 28, 2016
- CHI Franciscan Health System's screening responses received January 5, 2017
- Public comments received by the department through the close of business on February 21, 2017
- Public comments received at the public hearing in Poulsbo on February 21, 2017
- CHI Franciscan Health System's rebuttal documents received March 15, 2017
- Mayor Patty Lent's rebuttal documents received March 15, 2017
- Ms. Carol Cassella's rebuttal documents received March 14, 2017
- Ms. Nancy Field's rebuttal documents received March 15, 2017
- Ms. Deborah Pedersen's rebuttal documents received March 15, 2017
- Department of Health's Hospital and Patient Data Systems' Hospital Census and Charges Report for years 2013, 2014, and 2015
- Department of Health's Charity Care Program financial feasibility and cost containment analysis received April 18, 2017⁸
- Department of Health Integrated Licensing and Regulatory System database [ILRS]
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Licensing data provided by the Medical Quality Assurance Commission, Nursing Quality Assurance Commission, and Health Systems Quality Assurance Office of Customer Service
- Department of Health's Emergency Medical Services and Trauma designation dated October 2015
- CHI Franciscan Health System's website at www.chifranciscan.org
- Harrison Medical Center's website at www.chifranciscan.org/harrison-medical-center-bremerton
- MultiCare Health System's website at www.multicare.org
- Joint Commission website at www.qualitycheck.org
- American Trauma Society website at www.amtrauma.org
- Certificate of Need historical files

PUBLIC COMMENTS OUTSIDE SCOPE OF REVIEW CRITERIA

The following topics raised during this Certificate of Need review are outside the scope of the review criteria. As a result, these topics will not be addressed in this evaluation.

- Concern about the physical hospital in Bremerton once vacated and its visual and economic impact on the city of Bremerton.
- Capping the number of private specialty practices that CHI Franciscan can purchase and expand.
- Limiting ancillary staff and physician salaries to the local market.
- Requiring CHI Franciscan to provide easy access to its Northwest Pacific Image Share to all physicians.

⁸ The hospital financial analysis previously performed by Hospital and Patient Data Systems (HPDS) office is now performed by staff from the Charity Care Program within the Office of Community Health Systems.

- agreements on physicians and surgeons, such as non-compete agreements.
- Consideration of the option of more ambulatory surgery center use in the planning area.

CONCLUSIONS

For the reasons stated in this evaluation, the application submitted by CHI Franciscan Health proposing to relocate of 242 of the 253 licensed acute care beds from the Bremerton campus to the Silverdale campus is consistent with applicable review criteria of the Certificate of Need Program, provided that CHI Franciscan Health agrees to the following in its entirety.

Project Description

Harrison Medical Center is currently licensed for 347 acute care beds located on two campuses. Harrison Medical Center will relinquish 11 acute care beds dedicated to psychiatric services, leaving 336 acute care beds located on two campuses—242 at the Bremerton campus and 94 at the Silverdale campus. This certificate approves the relocation of all 242 licensed acute care beds from the Bremerton campus to the Silverdale campus. The relocation will occur in the two phases as described below.

- Phase One - is the construction of a nine-story tower on the Silverdale campus that would house acute care beds, an emergency department, a cancer center, diagnostic imaging, and ancillary and support services (pharmacy, laboratory, central supply, etc.). Once constructed, 168 beds would be relocated to the Silverdale campus. Phase one is expected to be complete by January 1, 2020. At completion of phase one, Harrison Medical Center’s Bremerton campus would have 74 licensed beds remaining and the Silverdale campus would have 262 licensed beds.
- Phase Two – includes construction of a second tower on the Silverdale campus and the relocation of the remaining 74 beds. This phase is expected to be complete by January 2023.

At completion of both phases, Harrison Medical Center would be licensed to operate a total of 336 acute care beds located at one campus in Silverdale. The table below shows the bed configuration for the Silverdale campus with 336 licensed beds.

Services Provided	Silverdale Campus Licensed Beds
General Medical Surgical	312
Psychiatric-PPS Exempt	0
Level II-Intermediate Care Nursery	24
Total	336

Conditions:

1. Approval of the project description as stated above. CHI Franciscan Health further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Upon issuance of a Certificate of Need, CHI Franciscan Health shall relinquish the 11 psychiatric beds located on the Bremerton campus. Once relinquished, Harrison Medical Center will be licensed for 336 acute care beds located on two campuses.
3. CHI Franciscan Health shall finance the project as described in the application.

4. Harrison Medical Center will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. Harrison Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 1.87% gross revenue and 4.70% of adjusted revenue. Harrison Medical Center will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.
5. The 242 acute care beds are to be added to the Silverdale campus in two phases. If phase two is not completed within five years of the completion of phase one, any remaining bed authorization not meeting licensing requirements shall be forfeited. If construction of phase two consists of any amount less than the 74 acute care beds, the bed capacity meeting the licensing requirements at that time shall be the facility's final Certificate of Need authorized bed count.

Approved Costs:

The total estimated capital expenditure associated with both phases is \$484,690,706.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI Franciscan Health met the applicable need criteria in WAC 246-310-210.

- (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.

For acute care hospital projects, this sub-criterion is evaluated when an applicant proposes to create a new hospital with new acute care beds or add acute care beds to its existing license. HMC is currently licensed for 347 acute care beds located on two campuses. CHI Franciscan is requesting to relocate 242 licensed beds from the Bremerton campus to the Silverdale campus within the Kitsap County. Once relocated, HMC would operate 336 licensed beds on one campus.

For these reasons, this sub-criterion is not applicable to this application.

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

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

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

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

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

Charity care shows a willingness of a provider to provide services to individuals who do not have private insurance, do not qualify for Medicare, do not qualify for Medicaid, or are under insured. With the passage of the Affordable Care Act, the amount of charity care is expected to decrease, but not disappear.

CHI Franciscan Health

CHI Franciscan provided copies of the following policies specifically used at HMC. [source: Application, Exhibit 7]

- Admission Policy-Approved July 2013
- Patient Rights and Responsibilities-Approved October 2012
- Non-Discrimination Policy-Approved March 2012
- Charity Care Policy-Approved March 2012

HMC is currently Medicare and Medicaid certified. CHI Franciscan provided its current source of revenues by payer for HMC and stated that the consolidation of all 336 beds is not expected to change the payer mix. A breakdown of revenue sources is shown in Table 3 below. [source: January 5, 2017, screening response, p9 & Attachment 6]

**Table 3
Harrison Medical Center Payer Mix**

Revenue Source	Current 347 beds	Projected 336 beds
Medicare	52.0%	52.0%
Medicaid	19.0%	19.0%
Commercial	23.0%	23.0%
Other	6.0%	6.0%
Total	100.0%	100.0%

In addition to the policies and payer mix information, CHI Franciscan provided the following information related to uncompensated care provided by CHI Franciscan. [source: Application, p25]

“In addition to charity care as measured by the department, CHI Franciscan provides numerous uncompensated services to the communities served. In fiscal year 2015 alone, CHI Franciscan’s quantifiable Community Benefit (including the cost of charity care) total \$142 million.”

During the review of this project, the department received several letters expressing concerns related to potential changes of services provided at HMC that may result from this relocation project. The concerns focus on the following types of services: Death with Dignity/End of Life, Charity Care, and Reproductive Health. Below is a summary of the concerns by topic of services.

- **Charity Care**
Continued access to acute care beds and medical care services for low income persons, uninsured residents, and elderly where transportation is a barrier.
- **Access to Healthcare for All Individuals**
Given that HMC is currently affiliated with CHI, a catholic organization, concerns were raised about HMC’s requirement to be bound by the Ethical and Religious Directives for Catholic Health Care Services ("ERDs"). Adherence to the ERDs may also increase the likelihood that LGBTQ individuals and families will face discrimination in seeking to access health care services consistent with their medical needs.
- **Death with Dignity / End of Life**
Given that HMC is currently affiliated with CHI, many community members and affiliated healthcare providers expressed concerns with services that are prohibitive by religious directives, such as:
 - (a) following a patient's advance medical directives that reject invasive end-of-life procedures; and
 - (b) participating in the death with dignity option as permitted under Washington State law.

Additionally, a community member expressed concerns that CHI Franciscan may prevent other physicians from *“being individually involved in following my advanced directives or my death-*

with-dignity decisions by denying his professional liability insurance coverage for that off-premises involvement.”

- **Reproductive Health**

Additional concerns with services that are prohibitive by religious directives, include

- (a) prescribing contraception;
- (b) performing a tubal ligation;
- (c) in-vitro fertilization; and
- (d) elective pregnancy termination.

The concerns also raised the issue that HMC is the only hospital located in Kitsap County and if reproductive services are not available, there are no alternative options within the county.

- **General**

A community member suggested that if the Certificate of Need is approved for the relocation project in Silverdale, the approval should be conditioned upon a formal Harrison Board-approved guarantee that the Catholic Church's ethical and religious directives would not be imposed on any employed or affiliated healthcare providers for the 20 year period following the approval.

CHI Franciscan also provided public comment on the issues raised above. The public comment is quoted below.

CHI Franciscan Public Comment

“The consolidation onto the Silverdale campus will not change Harrison's status as a secular entity, and there will not be a reduction or elimination of services as a result of the relocation.”

[source: David Schultz, public comments p2]

CHI Franciscan provided the following rebuttal comments to the issues raised regarding access to services.

CHI Franciscan Rebuttal Comments

“Several raised conjectural access concerns related to the fact that Harrison, which is secular, is owned by CHI Franciscan which operates under the Catholic Health Initiatives’ Ethical and Religious Directives (ERDs). These individuals requested that the CN Program not allow the “expansion” of Harrison until certain guarantees are imposed.

*We note that not one of the persons expressing concern provided **any** evidence of **any** patient being denied access to **any** service. Further, we note that this application is neither about an expansion, nor about a new service or any service being eliminated. This CN application simply seeks to consolidate Harrison’s existing licensed bed capacity onto a single campus in order to provide better, more accessible, and more efficient quality patient care.”*

“Harrison is secular; it does not operate under Catholic Health Initiatives’ Ethical and Religious Directives (ERDs). The comments from those that expressed concern, were conjectural in nature: not one of the letters provided any evidence of any patient being denied access to any service.” [emphasis in original]

“By Harrison’s account, there were approximately 10 emails, letters or public comment statements expressing concern about Harrison’s secular status. We believe that 100% of these letters were from Bainbridge Island residents. The comments largely verbatim restate or summarize the public comments made by Mr. Barry Peters at the public hearing. After close review, Harrison summarized the comments into two concerns: 1) concern over Harrison remaining secular in the future, and 2) concern over the physician acquisitions that have occurred.”

“There is absolutely no interest or intent to revisit the secular nature of the Hospital which was the subject of much negotiation prior to the affiliation. The record contains several letters of support from individuals that were on the Board at the time of the negotiation. These letters reflect the rigorous nature of the negotiations to ensure that Harrison remain secular. For example, and according to a letter submitted by a Board member that participated in the negotiations

“Two very important matters were negotiated-- abortions and end of life matters. Because Harrison had never performed abortions, had no plans to begin to do so, and because alternative resources were available and accessible in the community, we were able to agree to CHI’s Ethical and Religious Directives. In addition, it must be noted for the record that as part of our affiliation, a Community Board was established to oversee women’s reproductive services at Harrison. The intent was to assure the Board and community that the services that had previously been in place remained in place. Post affiliation, this Community Board and our various OB/GYN providers have indicated that there is absolutely no change in the way women’s services operate at Harrison.” (Letter of support, James T. Civilla, January 30, 2017)”

*“Because [community member] provided no evidence (or even anecdotes) as to how CHI Franciscan is imposing directives on independent doctors and providers, it is nearly impossible for us to respond to his comment. We can state however, other than standard credentialing and medical staff bylaws—which every hospital in the State has—we have no authority over providers in independent practices. Finally, [community member] requests conditions be imposed that are unrelated to the CN application seeking to consolidate our currently licensed beds. We are aware of no CN decision ever, that eliminated licensed beds from an existing hospital. We further remind the CN Program that WAC 246-310-490(3), entitled Conditional certificate of need allows the CN Program to issue a conditional CN as long as the condition relates directly to the project being reviewed. This CN simply seeks to consolidate Harrison’s existing beds on a single campus. We are not adding beds or services, nor are we eliminating services. It must also be noted that not one individual provided **any** example of **any** service being restricted, nor **any** patient not receiving services that they requested or medically needed. More importantly, many of the letters, including that of [community member] stated explicitly that that they have been “satisfied patients of Harrison” over the years.” [emphasis in original]*

“The fact is that Harrison fully addressed the questions related to access and admission in our CN submittal. Further, we operate in full compliance with Department of Health requirements. Specifically, in accordance with WAC 246-320-141(6), Harrison’s policies related to access to care (admission, nondiscrimination, end-of-life care and reproductive health) have been provided to the Department of Health, which in turn posted them on its website. In addition, RCW 70.170.060 and WAC 246-453-070 requires hospitals to submit charity care policies, procedures and sliding fee schedules to the department for review and approval. Harrison has complied with this requirement as well. The policies posted on the DOH website are:

- Admissions - updated July 2013
- Charity Care - updated March 2017

- *End of Life* - updated July 2010 and December 2013
 - *Non-discrimination* - updated October 2012
 - *Reproductive Health* - updated November 2012 ”
- [footnote for Reproductive Health Policy states: DOH website indicates that this was updated November 2012; document itself indicates it was updated 6/20/2014.]

“The posted policies represent the current policies of Harrison. We do not believe that any changes are required. Should the Program want to see any changes, we understand that it has placed conditions on CNs in the past with the requirement that the applicant provide any updated policies prior to initiating the CN approved project. In the highly unlikely event that the Program finds it would like a revision, Harrison would be happy to comply with such requirement.”

Harrison is aware of the contents of the [ACLU May 2016 Report]. As a secular hospital this report is not applicable. Further, while a handful of public comments suggest that being owned by a Catholic system has constrained access, not one letter provided any examples. Harrison is also not aware of any example wherein we were unresponsive to needs of patients for certain services.

The Catholics for Choice letter and the largely unsigned letter dated February 21, 2017 from a number of organizations including the ACLU and Planned Parenthood suggest that Harrison fails to meet the health care needs of the community. The letters make quite a few statements with absolutely no substantiation (no patient stories, no patient complaints, etc.). Again, Harrison is not aware of any patients that were denied service or experienced access problems. We are a secular organization and open and accessible to all patients.”

[source: CHI Franciscan March 15, 2017, rebuttal, pp4-9]

“In conclusion, as noted throughout our application and this document, CHI Franciscan’s proposal to consolidate acute care services in Silverdale will improve and enhance the patient care environment. No change in services is proposed with the acute care consolidation.

Many of the concerns raised were related to Catholic Ethical and Religious Directives. As stated throughout the public hearing and this document, Harrison is secular and operates in full conformance with its women’s reproductive services and end of life care policies as posted on the Department of Health’s website. Harrison’s nondiscrimination policy, which has also been approved by the Department of Health, precludes discrimination. These Policies are very clear: all persons who need immediate medical care will receive it, with no conditions and no screening. At Harrison, medical necessity drives care, not race, color, religion, sex, national origin, age, disability, citizenship, sexual orientation, gender identity, genetic information, marital status, veteran status, or other protected status.” [emphasis in original]

[source: CHI Franciscan March 15, 2017, rebuttal, pp4-9 and p13]

Department Evaluation

CHI Franciscan has been providing healthcare services to the residents of King, Kitsap and Pierce counties through its hospitals and medical clinics for many years. Healthcare services are stated to be available to low-income, racial and ethnic minorities, handicapped and other underserved groups. [source: CHI Franciscan Health System website]

The Admission Policy describes the process HMC uses to admit a patient and outlines rights and responsibilities for both HMC and the patient. Included with the Admission Policy is the Patient

Rights and Responsibilities Policy. This policy includes the following non-discrimination language.

“Harrison Medical Center honors and protects the rights of all patients in every setting, and has established mechanisms to deliver these rights to our patients at the time of their registration. The Medical Center prohibits discrimination based on age, race, ethnicity, religion, culture, language, physical or mental disability, socioeconomic status, sex, sexual orientation and gender identity or expression. The Medical Center respects the patient’s cultural and personal values, beliefs, and preferences.”

The Non-Discrimination Policy includes the following language.

“As a provider of medical care, Harrison Medical Center does not exclude, deny benefits to, or otherwise discriminate against any person on the basis of race, color, national origin, disability, age, sex, religion, health care provider conscience protections, or other protected status in admission to, participation in, or receipt of the services and benefits under any of its programs and activities, whether carried out by Harrison Medical Center directly or through a contractor or any other entity with which Harrison Medical Center arranges to carry out its programs and activities.”

The Non-Discrimination Policy also includes the following language that focuses on HMC and its employees and independent contractors.

“Harrison Medical Center is an equal opportunity employer. It is the policy of Harrison Medical Center to prohibit discrimination and harassment of any type and to afford equal employment opportunities to employees and applicants, without regard to race, color, religion, sex, national origin, age, disability, citizenship, sexual orientation, gender identity, genetic information, marital status, veteran status, or other protected status. Harrison Medical Center will comply with all EEO requirements that apply under federal, state and local law. The policy of equal employment opportunity and anti-discrimination applies to all aspects of the relationship between Harrison Medical Center and its employees, including but not limited to:

- Recruitment*
- Employment*
- Promotion*
- Transfer*
- Training*
- Working conditions*
- Wages and salary administration*
- Employee benefits and application of policies*

The policies and principles of equal employment opportunity also apply to the selection and treatment of independent contractors, personnel working on our premises who are employed by temporary agencies and any other persons or firms doing business for or with Harrison Medical Center.”

The department received letters voicing concerns related to adequate access to healthcare services at HMC post relocation. The majority of the concerns focused on end of life and reproductive health services. No data was provided to demonstrate that individuals had been denied access to any services at HMC. Rather, the concerns focused on HMC’s affiliation with CHI, a catholic organization, and the impact the affiliation could have on end of life and reproductive health services.

A review of the department website confirms that the policies are posted to the Department of Health website as required under WAC 246-320-141. To address the concerns, the department reviewed the policies. Though these policies are not required to be provided as part of this application review, they are pertinent to the concerns raised about access to services. Policies reviewed are:

- Harrison Medical Center Reproductive Healthcare Services – created June 2014
- Withdrawing or Foregoing Life Sustaining Treatment – updated July 2010
- Washington State Death with Dignity Act – updated December 2013

Two of the three policies – Reproductive Healthcare Services and Death with Dignity Act – were created after the year 2013 affiliation with CHI. Withdrawing or Foregoing Life Sustaining Treatment was created before the CHI affiliation. Excerpts of specific language from the policies that focus on the concerns raised is below.

Reproductive Healthcare Services

“It is the policy of Harrison Medical Center that all services rendered in our facilities shall be supportive of life. Harrison works together with community and hospital based healthcare providers to facilitate access to a broad range of female and male reproductive healthcare services. This policy focuses on services provided to patients in Harrison facilities only.”

“Through the primary care settings in hospital facilities, patients have access to a full array of preventative healthcare services including forms of contraception, and the prevention and treatment of sexually transmitted diseases.”

“At no time may direct actions to terminate life be performed or permitted. In circumstances wherein a woman’s life is in danger, providers at Harrison are expected to follow best practices of surgical and non-surgical treatment options even if it results in termination of the pregnancy.”

“When it comes to complex pregnancies, clinicians at Harrison exercise their best medical judgment and adhere to best practices and standards of care in the community to ensure safe, quality care for the patient. The Medical Center also seeks to facilitate end-of-life care and provide comfort to our patients and family members affected by a patient’s irreversible terminal disease or condition. When a life threatening condition is reversible, Harrison Medical Center’s goal is to help patients make informed decisions about life saving and fertility sparing treatment.”

Withdrawing or Foregoing Life Sustaining Treatment

“We acknowledge that foregoing life-sustaining treatments is warranted under certain circumstances as we strive to assist people while helping them maintain their independence and dignity. The patient’s specific wishes are of the utmost importance in such decisions. When a decision is reached to forego life-sustaining treatments, the goals will be to provide the patient with the ability to live the remainder of his/her life with as much dignity, control, and comfort as possible.”

“Life-sustaining treatments are any medical interventions deemed necessary for the preservation of life. They may include medical technologies that provide a vital bodily function (e.g., mechanical ventilation, kidney dialysis), surgical interventions, medications not directly

affecting the patient's comfort (e.g., antibiotics, insulin, cardiac medications), artificial nutritional support, or intravenous fluids."

The remainder of the two-page policy provides the process and procedures to be used under this policy.

Washington State Death with Dignity Act

"All providers at Harrison Medical Center (the "Medical Center" or "Harrison") are expected to respond to any patient's query about the "Washington State Death with Dignity Act" (the "Act") with openness and compassion. Harrison believes our providers have an obligation to openly discuss the patient's concerns, unmet needs, feelings, and desires about the dying process. Providers should seek to learn the meaning behind the patient's questions and help the patient understand the range of available options, including but not limited to comfort care, hospice care, and pain control. Ultimately, Harrison Medical Center's goal is to help patients make informed decisions about end-of-life care without the Medical Center actively participating in the provisions associated with the Act."

"Harrison respects the relationship between the health care provider and the patient if the provider elects to independently participate in the Act. Harrison does not mandate that any provider participate in the Act, nor does Harrison encourage any provider to do so. Only those providers who are willing and desire to participate should do so with the understanding that they will not have Medical Center resource support (facilities, equipment, staff, or fiscal) to include liability protection. Prescriptions for life-ending medications will not be filled at Harrison."

"Harrison providers as Medical Center employees may not participate in the Act, which means they may not:

- Perform the duties of an attending or consulting physician in accordance with the Act (RCW 70.245.060);*
- Provide the counseling function described under the Act (RCW 70.245.060);*
- Prescribe life-ending medication; and/or*
- Perform other duties as provided for in the Act (RCW 70.245.060).⁹"*

"The Medical Center seeks to make a positive difference in people's lives through exceptional medical care at all points on the healthcare continuum. We seek to facilitate end-of-life care and provide comfort to our patients when they learn that their lives may be affected by a terminal disease or condition."

Sub-section (8) of WAC 246-320-141 provides the following direction for hospitals.

"Hospitals must post a copy of the policies provided under subsection (5) of this section to its own web site where it is readily accessible to the public, without requiring a login or other restriction."

⁹ RCW 70.245.060 states: *Counseling Referral - If, in the opinion of the attending physician or the consulting physician, a patient may be suffering from a psychiatric or psychological disorder or depression causing impaired judgment, either physician shall refer the patient for counseling. Medication to end a patient's life in a humane and dignified manner shall not be prescribed until the person performing the counseling determines that the patient is not suffering from a psychiatric or psychological disorder or depression causing impaired judgment.*

[2009 c 1 § 6 (Initiative Measure No. 1000, approved November 4, 2008).]

A review of HMC's webpage on the CHI Franciscan website provides a section called "select policies." The policies under this section are listed below:

- Harrison Patient Rights and Responsibilities
- Harrison Advanced Directives
- Harrison Non-Discrimination Policy
- Foregoing Life Sustaining Treatment Policy
- Washington State Death with Dignity Act
- Reproductive Healthcare Services Policy

A comparison of the policies on the HMC specific section and the DOH website confirms that the policies are the same and CHI Franciscan is in compliance with the requirements of WAC 246-320-141(6) and (8) for HMC.

The information provided during the review of this project support CHI Franciscan's assertion that HMC remained a secular hospital after its affiliation with CHI. Further HMC continues to offer the end of life and reproductive health services at HMC consistent with its practice before the affiliation in 2013.

There was no information provided during this review that indicates HMC would change or eliminate its healthcare services or change its 'secular status' with the relocation of 242 acute care beds from Bremerton to Silverdale.

HMC's current Medicare revenues are approximately 52% of total revenues. CHI Franciscan does not anticipate any changes in Medicare percentages if this project is approved. Additionally, financial data provided in the application shows Medicare revenues.

Focusing on Medicaid revenues, CHI Franciscan expects no change from the approximately 19% currently provided at HMC with the relocation of all acute care beds to Silverdale. The financial data provided in the application also shows Medicaid revenues.

Commercial and other revenues are also expected to remain the same at 29% with the relocation project.

The Financial Assistance Policy (Charity Care) provided in the application has been reviewed and approved by the Department of Health's Charity Care and Hospital Financial Data Program (CCHFDP). The policy outlines the process one would use to obtain financial assistance or charity care. The policy was approved in March 2012. This is the same policy posted to the department's website for HMC. The pro forma financial documents provided in the application include a charity care 'line item' as a deduction of revenue

Charity Care Percentage Requirement

For charity care reporting purposes, Washington State is divided into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. CHI Franciscan proposes to relocate acute care beds in Kitsap County within the Puget Sound Region. Currently there are 19

hospitals operating within the region. Of the 19 hospitals, some did not report charity care data for years reviewed.¹⁰

Table 4 below compares the three-year historical average of charity care provided by the hospitals currently operating in the Puget Sound Region and HMC’s historical charity care percentages for years 2013-2015. The table also compares the projected percentage of charity care. [source: January 5, 2017, screening responses, Attachment 6 and HFCC Program’s 2013-2015 charity care summaries]

**Table 4
Charity Care Percentage Comparisons**

	Percentage of Total Revenue	Percentage of Adjusted Revenue
Puget Sound Region Historical Average	1.87%	4.70%
Harrison Medical Center Historical Average	1.75%	4.95%
Harrison Medical Center Projected Average	0.30%	1.03%

As noted in Table 4 above, the three-year historical average shows HMC has been providing charity care below the total regional average and above the adjusted regional average. For this project, CHI Franciscan projects that HMC would provide charity care below the regional average for both total and adjusted revenues.

CHI Franciscan has been providing health care services in King and Pierce counties for many years. HMC, located in Kitsap County, has been operational since 1965 and affiliated with CHI Franciscan since 2013. Charity care is health care provided through the hospital at no cost or reduced cost to low income patients. Charity care is a state-mandated and partially state-funded program that allows uninsured or underinsured people to receive inpatient and outpatient care at a reduced cost. Only people who meet certain income and asset criteria are eligible to receive charity care. Information provided in the application indicates that CHI Franciscan offers a variety of community outreach programs throughout Pierce, King, and Kitsap counties. Outreach programs help offset costs for healthcare services in the communities, but it is not charity care and cannot be counted toward the percentage of charity care provided by a hospital under Certificate of Need rules.

The focus of this sub-criterion is charity care percentages specific to HMC. Community members requested that the department ensure that health care for low income and uninsured residents continue to be available, but did not assert that healthcare services to those individuals has not been available at HMC in the past.

For this project, the department concurs that HMC must continue to provide charity care at HMC and the charity care provided should be at a percentage consistent with the regional average. If this project is approved, the department would attach a condition requiring HMC to make reasonable efforts to provide charity care at a level consistent with the average budgeted charity care projected by the hospital for the most recent three years. Currently, this amount is 1.87% gross revenue and

¹⁰ For years 2013 and 2014, the following three hospitals did not report data: Forks Community Hospital in Forks; Whidbey General Hospital in Coupeville; and EvergreenHealth-Monroe [formerly Valley General Hospital, Monroe]. For years 2015, EvergreenHealth-Monroe did not report data. Additionally, in 2015, MultiCare Health System was late in reporting data for Auburn Medical Center Mary Bridge Children’s Hospital, and Tacoma General/Allenmore. Charity care data for these three facilities were obtained from 2015 quarterly reports.

4.70% of adjusted revenue. This condition would also require HMC to maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department would require that these records be available upon request. CHI Franciscan must agree to the charity care condition stated below.¹¹

Harrison Medical Center will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. Harrison Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 1.87% gross revenue and 4.70% of adjusted revenue. Harrison Medical Center will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.

Based on the information provided in the application and with CHI Franciscan's agreement to the condition, the department concludes **this sub-criterion is met.**

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

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

Department Evaluation

This sub-criterion is not applicable to this application.

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

Department Evaluation

This sub-criterion is not applicable to this application.

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

Department Evaluation

This sub-criterion is not applicable to this application.

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

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

Department Evaluation

This sub-criterion is not applicable to this application.

¹¹ The condition related to the percentage of charity care and its impact on HMC's revenue and expense statement is further addressed in the financial feasibility section of this evaluation.

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

Department Evaluation

This sub-criterion is not applicable to this application.

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

Department Evaluation

This sub-criterion is not applicable to this application.

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI Franciscan met the applicable financial feasibility criteria in WAC 246-310-220.

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

CHI Franciscan

CHI Franciscan provided the following assumptions to determine the projected number of admissions, patient days, and occupancy of HMC. [source: Application, pp9-10, p22, and January 5, 2017, screening response, p1]

- *This project is not directed at unmet community needs, per se, but rather is directed at mitigating the age and functional obsolescence of the oldest structures on our Bremerton Campus so that CHI Franciscan and Harrison are best positioned to continue to assure access and comprehensive quality care for Kitsap residents.*
- *No additional beds are proposed to be added to the hospital; 11 psychiatric beds would be relinquished.*
- *The relocation would occur in two phases, which are explained below.*

<i>Phase</i>	<i>Description</i>	<i>Completion Date</i>
<i>One</i>	<i>Construct a 9 story tower to house acute care beds, an emergency department, a cancer center, diagnostic imaging, and ancillary and support services (pharmacy, laboratory, central supply, etc.). Relocate 168 acute care beds, for a facility total of 262. Bremerton campus would have 74 licensed beds remaining.</i>	<i>January 1, 2020</i>
<i>Two</i>	<i>Construct another tower and relocate the remaining 74 beds. At project completion, HMC would have 336 acute care beds.</i>	<i>Year 2023</i>

- *Patient days from 2015 onward are projected to grow only as a result of population growth.*
- *Actual 2015 use rates for the 0-64 and 65+ were calculated and held constant for Kitsap County.*
- *Harrison’s actual 2015 market share of Kitsap County resident days in 2015 was held constant, as was in-migration.*
- *OFM’s [Office of Financial Management’s] medium series population projections were used.*
- *Projected patient days by campus are shown in the table below*
- *Occupancy projections for calendar years 2023 through 2025 with 336 acute care beds are: show 53.9%; 55.2% and 56.3% for the entire hospital.*
- *Approximately 81% of HMC’s discharges are Kitsap County residents, making the county HMC’s primary service area. It’s secondary services area includes North Mason, Clallam, and Jefferson counties. The service area is not expected to change and no market share increase was assumed.*

Using the assumptions stated above, CHI Franciscan projected the number of inpatient discharges, patient days, average length of stay, and occupancy percentages for HMC. The projections shown in Table 5 below begin with calendar year 2020. [source: Application, p13 and January 5, 2017, screening response, p1]

**Table 5
Harrison Medical Center
Projections for Years 2020 through 2025**

	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025
Total Licensed Beds	336	336	336	336	336	336
Total Discharges	15,712	16,073	16,447	16,834	17,236	17,568
Total Patient Days	61,748	63,167	64,637	66,16	67,739	69,044
Average Daily Census	169.2	173.1	177.1	181.3	185.6	189.2
Occupancy Percentages	50.3%	51.5%	52.7%	53.9%	55.2%	56.3%

The assumptions CHI Franciscan used to project revenue, expenses, and net income for HMC for projection years 2018 through 2025 are below. [source: January 5, 2017, screening response, p9 & Attachment 6]

- *The hospital information includes both inpatient and outpatient revenues and expenses. The projections assume no changes in outpatient revenue.*
- *The revenue is based on the current HMC payer mix and charges. Current hospital-wide payer mix is shown below.*

<i>Revenue Source</i>	<i>Current 347 beds</i>	<i>Projected 336 beds</i>
<i>Medicare</i>	<i>52.0%</i>	<i>52.0%</i>
<i>Medicaid</i>	<i>19.0%</i>	<i>19.0%</i>
<i>Commercial</i>	<i>23.0%</i>	<i>23.0%</i>
<i>Other</i>	<i>6.0%</i>	<i>6.0%</i>
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>

- *No inflation was assumed for gross revenues.*
- *Bad debt is assumed at .02% of total patient services revenue*
- *Charity Care is assumed at .30% of gross patient revenue, which reflects CHI Franciscan’s current post*
- *Medicaid expansion charity care experience.*
- *Contractual Allowances are based on current contractual experience at HMC.*
- *Salaries are based on HMC current rates and benefits are assumed to be 26.5% of salaries.*
- *The following expenses are based on current HMC financials with no changes assumed: professional fees; supplies, purchased services-other; and other direct expenses.*
- *Purchased Services –Utilities; beginning in year 2023, HMC has assumed a reduction in utility expense of \$1,500,000 with the consolidation*
- *Depreciation is based on straight line method (for equipment a range of 7-15 years for useful life) and for the building (assumes 46 years for useful life).*
- *Rentals and Leases – Beginning in year 2023, HMC assumes decrease of \$1,200,000 because CHI will move services/offices from leased space in Bremerton to the Silverdale campus.*
- *Interest Expense Based on current HMC financials - includes the interest expense associated with the debt for Phase 2.*
- *Allocated costs are included in the “purchased services – other” expense line item. CHI Franciscan incurs many costs at a system wide level and these are accumulated and then allocated to those hospitals and other entities that benefit from these services. All of the costs that are allocated to HMC are contained within the “purchased services – other” expense line item. This is 36% of the costs in this line item.*
- *The allocation of the CHI National Office administration allocation is included in the “Other Direct Expense” line item. This is 38% of the costs in this line item.*

CHI Franciscan’s projected revenue, expenses, and net income for HMC for projection years 2018 through 2025 are shown in Table 6 below. [source: January 5, 2017, Attachment 6]

**Table 6
Harrison Medical Center
Projections for Years 2018 through 2025**

	CY 2018	CY 2019	CY 2020	CY 2021
Net Revenue	\$ 463,648,000	\$ 476,353,000	\$ 489,597,000	\$ 500,687,000
Total Expenses	\$ 402,515,000	\$ 409,450,000	\$ 433,230,000	\$ 431,180,000
Net Profit / (Loss)	\$ 61,133,000	\$ 66,903,000	\$ 56,367,000	\$ 69,507,000
	CY 2022	CY 2023	CY 2024	CY 2025
Net Revenue	\$ 512,137,000	\$ 524,262,000	\$ 536,815,000	\$ 546,964,000
Total Expenses	\$ 431,911,000	\$ 438,164,000	\$ 444,229,000	\$ 449,230,000
Net Profit / (Loss)	\$ 80,226,000	\$ 86,098,000	\$ 92,586,000	\$ 97,734,000

The ‘Net Revenue’ line item is gross inpatient and outpatient hospital revenue. The ‘Total Expenses’ line item includes all expenses related to hospital operations, including all staff salaries/wages and allocated costs from HMC to CHI Franciscan.

Public Comments

None

Rebuttal Comments

None

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by CHI Franciscan to determine the projected number of admissions, patient days, and occupancy of HMC throughout the relocation project. Since HMC will continue to be operational during the relocation, and phase one of the project would be complete by January 2020, CHI Franciscan provided its patient days and discharge projections beginning with year 2020. When compared to historical data [years 2015 and 2016] obtained from the Department of Health’s Hospital and Patient Data Systems’ Hospital Census and Charges Report, the projections are reasonable. The department can reasonably substantiate CHI Franciscan’s three stated assumptions below:

- *Patient days from 2015 onward are projected to grow only as a result of population growth.*
- *Actual 2015 use rates for the 0-64 and 65+ were calculated and held constant for Kitsap County.*
- *Harrison’s actual 2015 market share of Kitsap County resident days in 2015 was held constant, as was in-migration.*

The average daily census and occupancy percentages of the hospital are expected to increase. Since the majority of the acute care beds and services are located on the Bremerton campus and the facility primarily has semi-private rooms, CHI Franciscan anticipates the single patient rooms at the Silverdale campus would allow for a higher patient occupancy in its projections. Table 7 below shows HMC’s discharge data for years 2015 and 2016. For these years, HMC was operating 242 beds at the Bremerton campus and 94 beds at the Silverdale campus. While HMC was licensed for 347 acute care beds, the 11 dedicated psychiatric beds have not been operational since year 2009. To ensure a fair comparison, the department calculated historical data in Table 7 below using the 336 operational acute care beds.

**Table 7
Harrison Medical Center
Historical Years 2015 through 2016**

	2015	2016
Total Licensed Beds	336	336
Total Discharges	14,789	14,652
Total Patient Days	57,750	57,788
Average Length of Stay	3.93	3.94
Average Daily Census	158.2	158.3
Occupancy Percentages	47.1%	47.1%

For ease in comparison, Table 8 immediately below is a duplicate of Table 5 that shows the projections provided by HMC.

**Table 8
Harrison Medical Center
Projections for Years 2020 through 2025**

	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025
Total Licensed Beds	336	336	336	336	336	336
Total Discharges	15,712	16,073	16,447	16,834	17,236	17,568
Total Patient Days	61,748	63,167	64,637	66,16	67,739	69,044
Average Daily Census	169.2	173.1	177.1	181.3	185.6	189.2
Occupancy Percentages	50.3%	51.5%	52.7%	53.9%	55.2%	56.3%

When comparing the historical data in Table 7 and the projected data in Table 8 above, the department notes that the discharges and patient days are expected to steadily increase beginning in calendar year 2020 with the construction completion of phase one and the addition of 168 acute care beds to the Silverdale campus. When phase one is complete, HMC continues to operate a total of 336 acute care beds, with 74 at the Bremerton campus and 262 at the Silverdale campus.

Phase two, the relocation of the remaining 74 beds from the Bremerton campus to the Silverdale campus, is expected to be complete in year 2023. CHI Franciscan is expecting an overall occupancy increase of 6.0% from year 2020 to year 2025.

After reviewing CHI Franciscan’s admission and patient day assumptions for HMC, the department concludes they are reasonable.

CHI Franciscan based its revenue and expenses for HMC on the assumptions referenced above. CHI Franciscan also used its current operations as a base-line for the revenue and expenses shown in Table 6. A review of HMC’s fiscal year historical data reported to the Department of Health shows that CHI Franciscan operated HMC at a profit for fiscal years 2013 through 2016. [source: DOH Hospital and Patient Data Systems’ Hospital Census and Charges Report-year 2013, 2014, and 2015]

With operation of all 336 licensed acute care beds at the Silverdale campus, CHI Franciscan projected that HMC will continue operating at a profit.

In the ‘need’ section of this evaluation, the department discussed the low percentage of charity care projected at HMC and concluded that a charity care condition is necessary. The revenue and expense statement in Table 6 is based on CHI Franciscan’s projections that charity care dollars and percentages at HMC would be below the regional average. Table 9 on the following page shows the adjustments in charity care to be provided based on the charity care condition state in this evaluation.

Table 9
Harrison Medical Center
Projected Charity Care Dollars for Years 2018 through 2025

	CY 2018	CY 2019	CY 2020	CY 2021
HMC Application	\$5,178,000	\$5,323,000	\$5,494,000	\$5,620,000
Department Calculation	\$32,376,469	\$33,275,360	\$34,212,884	\$34,997,555
Increased Difference	\$27,198,469	\$27,952,360	\$28,718,884	\$29,377,555
	CY 2022	CY 2023	CY 2024	CY 2025
HMC Application	\$5,749,000	\$5,850,000	\$5,991,000	\$6,106,000
Department Calculation	\$35,807,209	\$36,656,451	\$37,543,822	\$38,261,359
Increased Difference	\$30,058,209	\$30,806,451	\$31,552,822	\$32,155,359

As shown in Table 9 above, charity care dollars calculated by the department are more than six times the projected amount calculated by CHI Franciscan. Table 10 below shows a recalculation of the HMC revenue and expense summary using the revised charity care dollars calculated in Table 9 above.

Table 10
Harrison Medical Center
Projected Years 2018 through 2025-Charity Care Revised

	CY 2018	CY 2019	CY 2020	CY 2021
Net Revenue	\$430,536,450	\$442,487,559	\$454,965,035	\$465,396,364
Total Expenses	\$402,515,000	\$409,450,000	\$433,230,000	\$431,180,000
Net Profit / (Loss)	\$28,021,450	\$33,037,559	\$21,735,035	\$34,216,364
	CY 2022	CY 2023	CY 2024	CY 2025
Net Revenue	\$476,165,710	\$487,542,468	\$499,349,097	\$508,895,560
Total Expenses	\$431,911,000	\$438,164,000	\$444,229,000	\$449,230,000
Net Profit / (Loss)	\$44,254,710	\$49,378,468	\$55,120,097	\$59,665,560

As shown in Table 10 above, with the increase in charity care dollars, HMC would continue to operate at a profit as a 336-bed hospital and fully relocated in Silverdale.

To assist in the evaluation of this sub-criterion, the department's Charity Care and Hospital Financial Data Program (CCHFDP) within the Office of Community Health Systems reviewed the pro forma financial statements submitted by CHI Franciscan for HMC. To determine whether CHI Franciscan would meet its immediate and long range capital costs, CCHFDP reviewed the 2015 historical balance sheet for CHI. The information is shown in Table 11 below. [source: CCHFDP analysis, p2]

Table 11
CHI Balance Sheet for Year 2015

Assets		Liabilities	
Current Assets	\$ 4,182,225,000	Current Liabilities	\$ 4,040,489,000
Board Designated Assets	\$ 7,182,594,000	Other Liabilities	\$ 2,601,514,000
Property/Plant/Equipment	\$ 9,493,351,000	Long Term Debt	\$ 7,399,274,000
Other Assets	\$ 2,145,122,000	Equity	\$ 8,962,015,000
Total Assets	\$ 23,003,292,000	Total Liabilities and Equity	\$ 23,003,292,000

The department’s Charity Care and Hospital Financial Data Program also reviewed the 2016 historical balance sheet for HMC and the projected balance sheet for year 2025, three years following project completion of phase two. The information is shown in Tables 12 and 13 below. [source: CCHFPD analysis, p2]

**Table 12
Harrison Medical Center
Balance Sheet for Current Year 2016**

Assets		Liabilities	
Current Assets	\$ 98,341,000	Current Liabilities	\$ 69,937,000
Board Designated Assets	\$ 236,874,000	Other Liabilities	\$ 0
Property/Plant/Equipment	\$ 198,141,000	Long Term Debt	\$ 140,682,000
Other Assets	\$ 31,691,000	Equity	\$ 354,428,000
Total Assets	\$ 565,047,000	Total Liabilities and Equity	\$ 565,047,000

**Table 13
Harrison Medical Center
Balance Sheet for Projected Year 2025**

Assets		Liabilities	
Current Assets	\$ 478,846,000	Current Liabilities	\$ 87,110,000
Board Designated Assets	\$ 236,874,000	Other Liabilities	\$ 0
Property/Plant/Equipment	\$ 608,920,000	Long Term Debt	\$ 228,170,000
Other Assets	\$ 11,216,000	Equity	\$ 1,020,576,000
Total Assets	\$ 1,335,856,000	Total Liabilities and Equity	\$ 1,335,856,000

After reviewing the balance sheet above, staff the Charity Care and Hospital Financial Data Program provided the following statement.

“CHI-Franciscan CN capital expenditure is projected to be \$484,690,706. Phase one and part of phase two of the project will be funded by CHI reserves. \$145 million will be financed by an internal loan from CHI to CHI-Franciscan. CHI has the financial capacity to fund the project.. ...[Harrison Medical Center’s] Balance Sheet for the third year following completion of Phase II of the project ...is reasonable for the third year of operation.”

[source: CCHFPD analysis, p2]

For hospital projects, the Charity Care and Hospital Financial Data Program provides a financial ratio analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. Historical and projected balance sheet data is used in the analysis. CHI Franciscan’s 2015 balance sheet and HMC’s 2016 balance sheet were both used to review applicable ratios and pro forma financial information. Table 14 on the following page compares statewide data for historical year 2015, CHI historical year 2015, current year (2016) for HMC, projected years 2023 through 2015 HMC. [source: CCHFPD analysis, p3]

Table 14
Current and Projected Debt Ratios
CHI and Harrison Medical Center

Category	Trend *	State 2015	CHI 2015	HMC 2016	HMC 2023	HMC 2024	HMC 2025
Long Term Debt to Equity	B	0.564	0.461	0.397	0.302	0.260	0.224
Current Assets/Current Liabilities	A	2.029	3.201	1.406	2.862	4.168	5.497
Assets Funded by Liabilities	B	0.442	0.387	0.373	0.288	0.343	0.236
Operating Expense/Operating Revenue	B	0.965	0.943	0.890	0.836	0.828	0.821
Debt Service Coverage	A	4.345	5.408	8.239	5.815	6.221	6.951
Definitions:	Formula						
Long Term Debt to Equity	Long Term Debt/Equity						
Current Assets/Current Liabilities	Current Assets/Current Liabilities						
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets						
Operating Expense/Operating Revenue	Operating expenses / operating revenue						
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp						

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

After reviewing the financial ratios above, staff from Charity Care and Hospital Financial Data Program provided the following statements. [source: CCHFPD analysis, p3]

“All of the ratios except Current Assets/Current Liabilities for Harrison Medical Center are in the preferred range in the current year. All other ratios at present and projected for both CHI and Harrison are in the preferred range and trending in a favorable direction. Review of the financial and utilization information show that the immediate and long-range capital expenditure as well as the operating costs can be met. This criterion is satisfied.”

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.

CHI Franciscan

The capital expenditure associated with the relocation of 242 of 253 acute care beds from the Bremerton campus to the Silverdale campus is \$484,690,706. The project would be completed in two phases. A breakdown of the capital expenditure by phase is shown in Table 15 on the following page. [source: Application, p35]

Table 15
Harrison Medical Center
Estimated Capital Expenditure Breakdown

Item	Phase One Cost	Phase Two Cost	Total Cost
Land Improvements	\$ 1,600,000	\$ 0	\$ 1,600,000
Building Construction	\$ 184,106,488	118,800,000	\$ 302,906,488
Moveable Equipment	\$ 20,800,000	20,849,400	\$ 41,649,400
Fixed Equipment	\$ 32,000,000	32,610,600	\$ 64,610,600
Architect/Engineering Fees	\$ 17,010,895	9,504,000	\$ 26,514,895
Consulting Fees	\$ 2,400,000	1,306,800	\$ 3,706,800
Supervision & Inspection	\$ 1,380,799	\$ 0	\$ 1,380,799
Other Costs: Permits/Fees/Signage	\$ 20,593,464	16,536,960	\$ 37,130,424
Sales Tax	\$ 3,587,500	1,603,800	\$ 5,191,300
Total	\$ 283,479,146	\$ 201,211,560	\$ 484,690,706

CHI Franciscan provided a letter from ‘Cumming’ a contractor in Seattle attesting that the costs identified above are reasonable. [source: January 5, 2017, screening responses, Attachment 1]

Since HMC’s Silverdale campus is currently operational with 94 acute care beds, no start-up costs are required. [source: Application, p34]

CHI Franciscan provided a breakdown of the construction costs per square foot and per bed. The breakdown is shown in Table 16 below.

Table 16
Capital Cost Information

Phase	Total GSF5	Construction Cost/SF	Total Cost/SF	Cost/Bed
One	353,365	\$ 681.13	\$ 802.23	\$ 1,968,605
Two	127,980	\$ 1,356.20	\$ 1,572.21	\$ 2,719,075
Total	481,345	\$ 860.62	\$ 1,006.95	\$ 2,223,352

CHI Franciscan stated that no changes in costs or charges for healthcare services at HMC are anticipated. [source: January 5, 2017, screening response, p7]

Public Comments

The department received the following public comments related to this sub-criterion.

Manfred Henne, MD PhD

“The concern is the deteriorating quality and rising cost of healthcare in our region. For example:

- *CHI Franciscan is on track to become THE dominant healthcare provider in the area. By purchasing all specialty clinics (pulmonology, orthopedic, oncology, cardiology, cardiac surgeons, vascular surgeons, radiology and The Doctors Clinic the result does not leave patients with cost-effective alternatives to obtaining healthcare services.*
- *Rising costs. CHI Franciscan contracts with insurance companies at higher rates which can be double or triple what an independent provider can negotiate. There*

needs to be transparency in healthcare insurance rates and patients should know what they will be charged before they select a provider for services.

- *There is also a distortion of physician salaries which does not allow small independent practices to recruit and hire qualified doctors into Kitsap County.*
- *There is also the tendency for larger entities to incentivize staff and affiliated physicians with inflated salaries to keep referrals within the system, which is against the law, however there is no policing and enforcing this law.*
- *CHI Franciscan has a closed Electronic Medical Records system (Epic) that makes it very difficult for their staff physicians and affiliated physicians to refer patients outside of the CHI system - which is another incentive for affiliated and hospital-employed physicians not to refer to outside private practice facilities and physicians.*
- *CHI Franciscan has a closed IT system which makes it difficult for CHI physicians to access images/reports from outside facilities which favors keeping patients in the CHI system (higher patient cost).*

Is there an opportunity now to put restrictions on CHI Franciscan such as:

- *Capping the number of private specialty practices that CHI Franciscan can purchase and expand.*
- *Limiting ancillary staff and physician salaries to the local market.*
- *Requiring CHI Franciscan to provide easy access to its Northwest Pacific Image Share to all physicians.”*

[source: Manfred Henne, MD PhD public comment, p1]

Paul and Jacquelyn Aufderheide

“In 2009, DOH approved the Surgery Center of Silverdale's (SCS) application for an ambulatory surgery center. SCS is not at full capacity at this time. The need for additional operating rooms in Silverdale should take into consideration SCS's lack of full capacity. We suspect that the reason SCS's lack of full capacity may be the unfair practices of CHI in prohibiting physicians and surgeons from taking or referring patients to SCS via noncompete agreements. We request that DOH use its power and authority under WAC 246-10-123 to determine whether in fact, CHI has imposed noncompete agreements on physicians and surgeons effectively prohibiting them from utilizing ambulatory surgery centers. The Washington State Legislature has considered whether to limit the use of noncompete agreements in the medical field to protect the physician-patient relationship and ensure reasonable access to care. DOH should investigate CHI's practices in this regard and take the evidence gained into consideration in determining whether to grant CHI's CN application.”

[source: Paul and Jacquelyn Aufderheide public comment, p1]

Berit Madsen, MD

“This is an expensive project of almost half a billion dollars at a time of great uncertainty about the future of healthcare funding and at a time when the unsustainably high cost of medical care is coming under scrutiny. An expenditure of this magnitude will put pressure on the hospital to keep its beds and other facilities full and further restrict referrals to non-hospital outpatient facilities that can deliver the same services at a fraction of the cost to consumers and insurers including Medicaid and Medicare. For example; forcing outpatient surgeries to be performed in the hospital that could otherwise be done at an ambulatory surgery center.”

[source: Berit Madsen, MD FACR public comment, p1]

Carol Cassella, MD

“When I moved to Kitsap County in 1996 I had multiple choices of physicians who made decisions and provided care for my family independent of any single overarching entity. In the last two years my choices have become so restricted that for numerous critical specialties I have only one choice-CHI. I have no local access to any oncologist, radiologist, cardiologist, pulmonologist, vascular surgeon, urologist, and numerous other specialists, who is not employed by or contracted with CHI. For all practicalities this represents a monopoly in our county. To draw a perfect circle on a map and say that I can "easily" seek care in Tacoma or Seattle is to ignore the realities of our geographic region. Getting to Seattle requires an expensive ferry trip that takes at least one hour's time, and far longer if the ferry is full. Driving to Tacoma is a minimum of ninety minutes and also includes a toll. For any surgical procedure this involves inordinately long trips for the surgery itself as well as the pre-operative and post-operative visits. In fact, the time delay is so significant that critically ill patients are not uncommonly transported by helicopter. Obviously these impediments are even more onerous for any individual who has limited financial or mobility issues.

CHI's control over most of Kitsap's primary and specialty practices has multiplied our healthcare costs. While I could previously have a blood test done at an independent lab for around fifty dollars, now that test must be done at Harrison and costs up to five hundred dollars. Every procedure done by a Harrison physician whose office is inside the hospital is billed with an extra, expensive facility fee. An uncomplicated outpatient orthopedic surgery which could be performed for five thousand dollars at a free-standing ambulatory surgery center last year now costs twenty thousand dollars or more at Harrison, despite using the same surgeon, implants and materials. These are only a few examples of gross price inflation because one entity dominates our county's medical care. As a consequence, insurance rates are higher in Kitsap than in wealthier counties such as King. In order to decrease their overhead CHI has cut emergency room staffing and nursing coverage causing painful and occasionally dangerous extended waiting times for treatment or hospitalization. All of these costs are being passed through to our residents ,insurance providers and businesses while the profits are often leaving our county and going to CHI headquarters in Denver, Colorado.”

[source: Carol Cassella, MD public comment, p1]

David Schultz

At its core, this project simply consolidates all of our existing inpatient beds and services onto a single campus. Let me give you some relevant history and facts:

- Prior to finalizing plans to move forward with consolidation, CHI Franciscan commissioned a comprehensive facility analysis that found that an investment of more than \$200 million was needed just to maintain current operations and functionality of the Bremerton campus. While the report noted the significant disruption to current Bremerton campus operations that would occur with such an extensive remodel, no cost was assigned to that disruption. We estimate that cost to be significant.*
- In addition to the functional obsolescence of Bremerton, it is costly to operate two campuses. Our financial analysis has conservatively estimated that we will realize operating savings of about \$9 million annually once the two campuses are consolidated.*

[source: David Schultz, public comment, p1]

CHI Franciscan Rebuttal Comments

“A handful of physicians, each of which is affiliated with an existing health care facility expressed concern about the utilization of their respective facilities. The operation of these facilities is not impacted by the Harrison CN application and several of the statements they made are either inaccurate, or we are not able to substantiate them. By Harrison’s review, four physicians wrote letters in opposition to the project. The physicians and their respective affiliations are outlined in Table 1.”

Table 1 of CHI Franciscan’s rebuttal comments is recreated below.

*Table 1 [of CHI Franciscan Rebuttal]
Affiliation of Providers Opposing the Harrison Consolidation*

<i>Provider Name</i>	<i>Specialty</i>	<i>Affiliation</i>	<i>Type of Facility</i>	<i>Unsubstantiated Comments</i>
<i>Manfred Henne, MD, Poulsbo</i>	<i>Radiology</i>	<i>InHealth Imaging</i>	<i>Physician owned Imaging center</i>	<i>Market position, increased costs, inflating physician salaries, “closed EHR”</i>
<i>Paul Aufderheide, DPM, Bremerton</i>	<i>Podiatry</i>	<i>Kitsap Podiatry Foot and Ankle Specialists</i>	<i>Clinic and ASC</i>	<i>Impact of hospital consolidation on ASC use CHI “alleged” practice of prohibiting or discouraging physicians from using ASCs.</i>
<i>Berit Madsen, MD, Poulsbo</i>	<i>Radiation Oncologist</i>	<i>Peninsula Cancer Center</i>	<i>Radiation Oncology</i>	<i>“An expenditure of this magnitude will put pressure on the hospital to keep its beds and other facilities full and further restrict referrals to non-hospital outpatient facilities that can deliver services at a fraction of the cost”</i>
<i>Carol Cassella, MD, Bainbridge Island</i>	<i>Anesthesiologist</i>	<i>Surgery Center of Silverdale</i>	<i>ASC</i>	<i>Monopoly, costs, Catholic system</i>

“Each of the providers noted above is a quality provider that serves Kitsap residents. Each of these providers is also affiliated with a health care facility, and therefore has, to at least

some degree, a conflict of interest. While several raised concerns about costs, no data was provided for us to refute.”

[footnote 3 in rebuttal responses state: *Dr. Cassella referenced “up to \$500 lab tests and \$5,000 orthopedic surgeries.” We cannot substantiate these statements, and neither did Dr. Cassella.*]

“The fact is that Franciscan is very interested in lower cost options. We established one of the first Accountable Care organizations in Washington State, now known as the Rainier Health Network. As the Program is aware, CMS established accountable care organization (ACO) models to promote care coordination and lower costs. The Medicare Shared Savings Program (MSSP) rewards ACOs that achieve better care for patients while keeping costs low. Success is measured by the program’s 33 quality measures in four main areas:

- 1) Patient/caregiver experience*
- 2) Preventive health*
- 3) Care coordination/patient safety*
- 4) At-risk population*

To achieve these outcomes, we actively seek out physician partners and every opportunity to lower costs. A listing of our physician ACO partners is included in Appendix 2. In addition, CHI, CHI Franciscan and Harrison all abide by all federal regulations at all times. We take the unsubstantiated comments about inflating physician salaries and creating a monopoly seriously. We have not inflated salaries nor do we utilize any monopolistic practices.”

Appendix 2 referenced in CHI Franciscan’s rebuttal documents included a list of 63 healthcare facilities and 41 individual providers.

Department Evaluation

CHI Franciscan provided a letter from a contractor, attesting that the construction estimate within the application is reasonable. CHI Franciscan confirmed that HMC would continue full operations during the construction of both phases. As a result, no start-up costs are required.

In the financial review, the Charity Care and Hospital Financial Data Program within the Office of Community Health Systems confirmed that the rates proposed by CHI Franciscan for HMC are similar to Washington statewide averages. [source: CCHFDP Program analysis p4]

CHI Franciscan stated under WAC 246-310-220(1) that the payer mix is not expected to change with the consolidation of all acute care beds on the Silverdale campus. Further, CHI Franciscan stated that all assumptions related to costs and charges are based on current rates at HMC with no proposed changes.

Concerns raised in public comment focus on the rising cost of healthcare. However, no documentation was submitted to substantiate the assertion that consolidation of beds at one campus would negatively affect healthcare costs. Conversely, CHI Franciscan asserts it can operate a single-campus hospital more efficiently than a two-campus hospital. This concept has not been disputed during this review.

Based on the above information, the department concludes that HMC’s relocation of acute care beds from Bremerton to Silverdale would probably not have an unreasonable impact on the costs and charges for healthcare services in Kitsap County. **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.

CHI Franciscan

The capital expenditure associated with the relocation of 242 of 253 acute care beds from the Bremerton campus to the Silverdale campus is \$484,690,706. [source: Application, p31]

CHI Franciscan intends to fund the project with two sources: reserves and debt finance. The entirety of Phase 1 will be funded through CHI Franciscan reserves.

Phase 2 includes both reserves and debt. The Phase 2 debt, which will not be incurred until 2020 is preliminarily estimated at 4.75%. For Phase 2, CHI will loan HMC \$145 million. At this time, the term is assumed to be 20 years with a fixed interest rate of 4.75%. Documentation of this information is included in the financing letter contained in Attachment 2 [of the screening responses].

[source: Application, p33 and January 5, 2017, screening response p3 & Attachment 2]

Attachment 2 of the Screening Response

"In response to your letter dated November 21, 2016, outlined below is an overview of the financing commitments from CHI related to Harrison Medical Center's Certificate of Need application. As you are aware, this application proposes a two phased project to relocate the inpatient beds and related services from currently located on the Bremerton Campus to the Silverdale Campus. The total capital expenditure for this two phased project is estimated to be \$484,690,706 (Phase 1: \$283,479,146 and Phase 2: \$201,211,560). CHI proposes to use reserves for the financing of Phase 1 and a portion of Phase 2. For Phase 2, CHI will loan Harrison \$145 million. At this time, the term is assumed to be 20 years with a fixed interest rate of 4.75%. As you will note, from the audited financial statements for 2015, submitted in Appendix 1 of the application, CHI has more than sufficient reserves to make this financial commitment."

CHI Franciscan provided the following rationale for its choice of financing. [source: January 5, 2017, screening response, p4]

CHI Franciscan is part of CHI and, as such, we do not secure outside debt financing independent of CHI nor do any of the individual hospitals take on debt independently. CHI is able to secure very favorable tax exempt interest rates from the marketplace due to its size and underlying supporting assets. CHI also maintains its own financial ratios as part of its bond covenants to maintain the best possible bond rating. In considering this project as well as all of the other capital projects that are contemplated and/or underway throughout CHI, they advised us that they would provide to us \$145 million of debt financing. Given the total dollar amount of the project, and our available reserves, we opted to fund the remaining balance (70%) with a portion of reserves. The use of reserves reduces the costs of operation (no debt service). Therefore, while there is an "opportunity cost" associated with using reserves (the funds are no longer available for any other purpose), it remains a cost efficient and prudent method of financing a portion of this project."

Public Comments

None

Rebuttal Comments

None

Department Evaluation

After reviewing the balance sheet, the HFCC Program provided the following statements.

“CHI-Franciscan and CHI will use reserves for the project’s capital expenditures. Review of CHI and Harrison balance sheets show they have the funds available for this project and should be able to fund both the reserve and parent-child loan portions of the project.

<i>CON Portion of Project</i>	
<i>Capital Expenditure</i>	<i>\$484,690,706</i>
<i>Percent of Total Assets</i>	<i>2.1%</i>
<i>Percent of Board Designated Assets</i>	<i>6.7%</i>
<i>Percent of Equity</i>	<i>5.4%</i>

Review of the financing information show that the project can be appropriately financed. This criterion is satisfied.” [source: CCHFDP analysis, p4]

If this project is approved, the department would attach a condition requiring CHI Franciscan to finance the project consistent with the financing description in the application. With the financing condition, the department concludes **this sub-criterion is met.**

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI Franciscan Health met the applicable 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 [full time equivalents] that should be employed for projects of this type or size. Therefore, using its experience and expertise the department concludes that the planning would allow for the required coverage.

CHI Franciscan

HMC currently provides acute care services with 336 of 347 licensed beds. Table 17 on the following page provides a breakdown of current and projected FTEs [full time equivalents] for the hospital with the relocation. For this table, current year is 2015 and projected years begin with 2016 through 2025, which is the third year following completion of phase two. [source: January 5, 2017, screening response, Attachment 3]

**Table 17
Harrison Medical Center
Current and Proposed FTEs for Years 2015-2025**

FTE by Type	CY 2016 Current	CY 2017 Increase	CY 2018 Increase	CY 2019 Increase	CY 2020 Increase
Nursing FTEs	546.0	18.6	19.4	20.5	21.5
Ancillary/Support FTEs	1,106.0	25.6	26.7	28.4	29.3
Total FTEs	1,652.0	44.2	46.1	48.9	50.8

FTE by Type	CY 2021 Current	CY 2022 Increase	CY 2023 Increase	CY 2024 Increase	CY 2025 Increase	Total FTEs
Nursing FTEs	17.7	18.6	18.4	19.4	15.5	715.6
Ancillary/Support FTEs	24.3	25.4	(42.4)	26.6	21.5	1,271.4
Total FTEs	52.0	40.0	(24.0)	46.0	37.0	1 987.0

CHI Franciscan provided the following description of the FTEs referenced in the table.

- Nursing FTEs = nursing managers, RNs, patient care assistants, and support staff
- Ancillary/Support FTEs = ancillary/support managers, RNs, patient care assistants, technicians, and support staff

[source: January 5, 2017, screening response, Attachment 3]

In addition to the table above, CHI Franciscan provided the following statements related to this sub-criterion. [source: January 5, 2017, screening response, Attachment 3]

“For an organization the size of CHI Franciscan and because this project proposes only the relocation of existing services, the staffing needs noted in Table 14 are relatively small (and due to projected volume growth that will occur regardless of whether the two campuses are consolidated). Please note that the incremental staff is associated with patient care only—other staffing is projected to decrease or remain flat as we realize economies of consolidating campuses. At this time, CHI Franciscan expects about a 70 FTE savings in support and non-patient care areas.” [source: Application, p40]

“CHI Franciscan offers a competitive wage and benefit package as well as numerous other recruitment and retention strategies. Specific strategies for clinical, ancillary and support staff include:

- *CHI Franciscan offers, and will continue to offer, a generous benefit package for both full and part time employees that includes: Medical, Dental, Paid Time Off/Extended Illness/Injury Time, Employee Assistance Plans, and a Tuition Reimbursement Program, among other benefits.*
- *CHI Franciscan posts all of its openings on our website via our online applicant tracking system. In addition to our own website, FHS has agreements with several job boards including Indeed.com, Health-e-Careers, and Washington HealthCare News to name a few.*
- *CHI Franciscan currently has contracts with more than 40 technical colleges, community colleges, and four year universities throughout the United States that enable us to offer either training and/or job opportunities. In addition, CHI Franciscan Education Services staff serves on healthcare program advisory boards and as clinical or affiliate faculty at a number of local institutions. FHS constantly monitors the*

“wage” market, making adjustments as necessary to ensure that our hospitals’ wage structures remains competitive.

- *CHI Franciscan provides a career counselor who is available to all staff to encourage development and growth within the healthcare industry. This is further supported through a tuition reimbursement program and referrals to state and federal funds for continuing education. In addition, the Franciscan Foundation has annual scholarships available for current employees to advance their education.*
- *CHI Franciscan’s various facilities serve as clinical training sites for healthcare specialties such as nursing, diagnostic imaging, physical/occupational therapy, and pharmacy, (to name a few).*
- *CHI Franciscan also offers various other recruitment strategies (i.e., nursing new grad events, nursing school class visits, job fairs, career days, direct e- mail campaigns, etc.) as other ways to bring new healthcare workers to the FHS organization.*
- *CHI Franciscan works closely with agency personnel, not only to negotiate rates but to also ensure that agency staff is able to provide the same high quality skill level that CHI Franciscan requires of our own employees.*
- *CHI Franciscan recruiters regularly attend local job fairs that reach targeted applicants within the greater Puget Sound area. These efforts have been extremely effective due, in large part, to the outstanding reputation CHI Franciscan has garnered as being an employer of choice due to our “Best Place to Work” initiatives.”*

Public Comments

The following persons provided public comment under this sub-criterion.

Malcom Winter, MD

“I feel fortunate that we’ve been able to attract an amazing number of top notch providers despite an increasingly competitive market. Many of these doctors, nurses, technicians and even administrators could choose to live anywhere in the country but they come here for the same reasons we all live in this amazing place. However, it will be increasingly difficult to attract the best people to outdated, crowded and substandard facilities Moving to a modern facility in Silverdale will make recruiting the best of the best a slam dunk, not only will they have a great place to live but a great place to work. As I develop my own maladies refreshing our ranks with excellence looks more and more attractive.”

[source: Malcom Winter, MD, public comment, p1]

Tamara Leal, BSN, MS

“I truly see a need for a new hospital from various significant standpoints....Merging our resources for greater staffing efficiency; this includes all staff. Currently, there are numerous times during high census when we need to float staff to each other's facilities in order to support each other. This floating, while it is challenging, allows us to continue to provide the highest quality care to our patients. The pooling of our staff will improve nurse retention and recruitment.”

[source: Tamara Leal, public comment, p1]

Rebuttal Comments

None

Department Evaluation

HMC is currently licensed for 347 acute care beds and operating 336 beds at two separate campuses. CHI Franciscan provided its current (2016) and projected (2017-2025) FTEs for HMC shown in Table 17. Below is a breakdown of the years shown in the FTE table when compared with the phases of the project.

**Table 18
Harrison Medical Center
Projected FTEs by Phase**

Years	CHI Franciscan Action	Number of Staff Added each Year
2017 - 2019	Building the nine-story patient tower at the Silverdale campus. 242 beds located at Bremerton campus. 94 beds located at the Silverdale campus.	Average FTE increase in each of the three years=46.4
2020 - 2022	<u>Phase one</u> is complete in 2020 and 168 beds are relocated to the Silverdale campus. 74 beds remain at Bremerton campus. 262 beds located at the Silverdale campus.	Average FTE increase in each of the three years=45.6
2023 - 2025	<u>Phase two</u> is complete in 2023 and 74 beds are relocated to the Silverdale campus. 0 beds remain at Bremerton campus. 336 beds located at the Silverdale campus. Year 2025 is the third year of operation after implementation of phase two.	Year 2023 shows a decrease of 24.0 FTEs once all beds are located on the same campus. Average FTE increase for years 2024 & 2025=41.5

As shown in Table 18 above, CHI Franciscan projects an annual increase of 46.4 FTEs for HMC during the construction phase of this project. Once phase one is completed and 168 beds are relocated, HMC’s FTEs would continue an annual increase of 45.6 FTEs. CHI Franciscan expects its staffing efficiencies to be realized after completion of phase two-or in year 2023.

Staffing for HMC is based on the projected occupancy of 50.2% in year 2020; occupancy is expected to increase to 56.3% by the end of year 2025. It is clear from the both Tables 17 and 18 above, that CHI Franciscan intends to increase FTEs proportionately with the increased occupancy of HMC. Key staff for the hospital is already in place.

For this project, CHI Franciscan intends to use the strategies for recruitment and retention of staff it has successfully used in the past. The strategies identified by CHI Franciscan are consistent with those of other applicants reviewed and approved by the department.

Information provided in the application demonstrates that CHI Franciscan is a well-established provider of healthcare services in King, Kitsap, and Pierce counties. Specific to HMC, it has been part of CHI Franciscan since year 2013. Based on the above information, the department concludes that CHI Franciscan has the ability and expertise to recruit and retain a sufficient supply of qualified staff for this project. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(2) 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 ability to establish and maintain appropriate relationships.

CHI Franciscan

CHI Franciscan provided the following statements related to this sub-criterion. [source: Application, p41 and January 5, 2017, screening response, p5]

“This project proposes a consolidation, and as needed, an expansion of ancillary and support service departments to ensure that they are sufficiently sized to meet the demands of the additional acute care beds on the Silverdale Campus. No changes to any of the existing ancillary or support agreements are anticipated as a result of this project.”

CHI Franciscan provided the following list of vendors with whom HMC currently contracts for services. [source: January 5, 2017, screening responses, Attachment 4]

Vendor Name	Type of service
<i>S & S</i>	<i>Security Services</i>
<i>Crothall Services Group</i>	<i>Housekeeping</i>
<i>Olympic Ambulance Svc In</i>	<i>Ambulance</i>
<i>Olympic Peninsula Kidney Centers</i>	<i>Dialysis</i>
<i>Ecotex Healthcare Laundry</i>	<i>Laundry</i>
<i>Stericycle Inc.</i>	<i>Sharps, Red Bag & Pharmaceutical Waste</i>
<i>RestorixHealth Inc.</i>	<i>Outpatient Wound Care Center Management</i>
<i>Cerner Corp</i>	<i>Lab Information System</i>
<i>Clean Impressions</i>	<i>Floor Care Company</i>
<i>Thomas Cuisine Mgmt.</i>	<i>Dietary Services</i>
<i>Olympic ANESTHESIA SERVI</i>	<i>Anesthesia Services</i>
<i>Versant Holdings LLC</i>	<i>RN Residency Program</i>
<i>Varian Medical Systems Inc.</i>	<i>Linear Accelerator for Cancer Care</i>
<i>Puget Sound Inst of Path</i>	<i>Pathology Services</i>
<i>Children's Hospital</i>	<i>Neonatal Services</i>
<i>Iron Mountain Inc. Offsite</i>	<i>Records Storage</i>

Public Comments

None

Rebuttal Comments

None

Department Evaluation

HMC has been operational since 1965 and affiliated with CHI Franciscan since 2013. All ancillary and support services are already in place. CHI Franciscan recognizes that operation of a two campus hospital requires duplication of ancillary and support services. Once all 336 licensed beds

are located on one campus, CHI Franciscan expects some ancillary and support needs may increase or decrease. However, CHI Franciscan does not expect the existing ancillary and support agreements to change with the relocation.

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that CHI Franciscan will continue to maintain the necessary relationships with ancillary and support services during the construction and two-phase relocation of beds. The department concludes that approval of this relocation project in two phases would not negatively affect existing healthcare 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.

CHI Franciscan

CHI Franciscan provided the following statements related to this sub-criterion. [source: Application, p43]

“Neither CHI Franciscan nor Harrison have any history with respect to the actions noted in Certificate of Need regulations WAC 248-19-390(5) (a) (now WAC 246-310-230). Neither Harrison nor CHI Franciscan have any history of concern and operate, at all times, in conformance with all applicable federal laws, rules and regulations for the operation of a health care facility.”

Public Comments

The department received the following public comments related to this sub-criterion.

Manfred Henne, MD PhD

“[Harrison Medical Center should be required] to provide patients with cost disclosure enabling patients to make an informed cost choice before having procedures and services (transparency). [source: Manfred Henne, MD PhD public comment, p1]

Rebuttal Comments

None

Department Evaluation

As part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.¹² To accomplish this task, the department reviewed the quality of care compliance history for the healthcare facilities owned, operated, or managed by CHI Franciscan or its subsidiaries.

CHI Franciscan Health System is part of Catholic Health Initiatives (CHI), which is one of the largest not-for-profit healthcare systems in the United States. CHI operates several healthcare

¹² WAC 246-310-230(5).

facilities and services nationwide through a number of subsidiaries. Its Washington facilities are operated under the CHI Franciscan Health subsidiary. [sources: Application, p1 and Exhibit 1]

Public comments submitted during the review of this project requested that HMC be required to disclose costs to patients before performing a procedure to allow patients an opportunity to make informed choices for healthcare services. Revised Code of Washington (RCW) 70.41.250(2) requires representatives of a hospital to “*establish and maintain a procedure for disclosing to physicians and other health care providers with admitting privileges the charges of all health care services ordered for their patients. Copies of hospital charges shall be made available to any physician and/or other health care provider ordering care in hospital inpatient/outpatient services.*”

RCW 70.01.03 requires healthcare providers to “*provide the following to a patient upon request:*
(a) *An estimate of fees and charges related to a specific service, visit, or stay; and*
(b) *Information regarding other types of fees or charges a patient may receive in conjunction with their visit to the provider or facility.*”

Based on the above information, the requirement for the hospital to disclose costs to physicians and physicians to disclose costs to patients is currently in place. There was no information provided to suggest that HMC or its physicians are not compliant with the disclosure requirements.

Washington State Survey Data

The eight CHI Franciscan hospitals currently operating include Harrison Medical Center in Bremerton and Silverdale, Highline Medical Center in Burien, Regional Hospital located in Burien, St Anthony Hospital located in Gig Harbor, St Clare Hospital located in Lakewood, St Elizabeth Hospital located in Enumclaw, St Francis Community Hospital located in Federal Way, and St Joseph Medical Center located in Tacoma.

Seven of the eight hospitals are accredited by the Joint Commission.¹³ Highline Medical Center and St Joseph Medical Center have additional advanced certification as Primary Stroke Centers. [source: Joint Commission website, CN historical files]

In addition to the eight hospitals, department also reviewed the compliance history for the six dialysis centers, two ambulatory surgery centers,¹⁴ hospice care center, and hospice agency owned and operated by CHI Franciscan. With the exception of one dialysis center, all CHI Franciscan facilities are operational.¹⁵ Using its own internal database, the survey data showed that more than 25 surveys have been conducted and completed by Washington State surveyors since year 2011. All surveys resulted in no significant non-compliance issues. [source: ILRS survey data and Department of Health Investigations and Inspections Office]

¹³ Harrison Medical Center is accredited through year 2016, Highline Medical Center through 2016, Regional Hospital through 2018, St Anthony Hospital through 2018, St Clare Hospital through 2017, St Francis Community Hospital through 2017, and St Joseph Medical Center through 2017. St Elizabeth Hospital does not hold Joint Commission accreditation.

¹⁴ Gig Harbor Ambulatory Surgery Center is operated under St. Joseph Medical Center’s hospital license and Franciscan Endoscopy Center is operated under the St. Francis Hospital license.

¹⁵ Franciscan Bonney Lake Dialysis Center is not yet operational.

Other States

In addition to a review of all Washington State facilities owned and operated by CHI Franciscan, the department also examined a sample of CHI facilities nationwide. According to information in the application and its website, CHI operates healthcare facilities in 19 states. The department reviewed information from the licensing authorities for each of the facilities listed, and concluded that these facilities are substantially compliant with state licensure and Medicare conditions of participation. The department did not identify facility closures or decertification.

Table 19
CHI Rehabilitation Hospitals

Hospital Name	Location	Joint Commission Accredited?
St Vincent Rehabilitation Hospital	Sherwood, AR	yes
St Anthony Hospital	Lakewood, CO	yes
Jewish Hospital	Louisville, KY	yes
CHI Mercy Hospital	Devils Lake, ND	yes
Good Samaritan Hospital	Dayton, OH	yes
CHI Mercy Medical Center	Roseburg, OR	yes
CHI Memorial	Chattanooga, TN	yes
CHI St Luke’s Heath Memorial	Lufkin, TX	yes

[sources: Joint Commission website]

Based on the above information, the department concludes that CHI Franciscan demonstrated reasonable assurance that HMC would continue to operate in compliance with state and federal requirements if this project is approved. **This sub criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that 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.

CHI Franciscan

CHI Franciscan provided the following statements related to this review criteria. [source: Application, p42]

“This project proposes to relocate beds from the Bremerton Campus to the Silverdale Campus. It is not proposing any new services or beds. Harrison does, and will continue to work closely with other providers throughout Kitsap County to ensure that timely and seamless patient transitions continue to occur. No changes to these working relationships are proposed with the relocated bed capacity.”

Public Comments

The department received the following public comments related to this sub-criterion.

Jeanell Rasmussen, RN

“Managing our resources at one location versus two separate campuses will provide greater opportunities for efficiencies. Staffing a single site will allow more effective utilization of manpower, particularly when volumes fluctuate with seasonal variation and in context of the existing nursing shortages. A single location will enhance the level of support to existing services on the Silverdale campus with all levels of care provided on one campus.”

[source: Jeanell Rasmussen, RN public comment, p1]

Ronn Goodnough, RN

“Consolidation onto one campus will allow for safer care of patients in the existing Silverdale Hospital who require critical care. Currently these patients have to be stabilized and transported via ambulance to the Bremerton campus.”

[source: Ronn Goodnough public comment]

Carole McDowell, RN

“From the perspective of the Oncology Service Line, a new hospital would:

- 1. Bring together the entire Cancer Program Team which will enhance the team effectiveness and cohesion through increased interactions and activity and resource sharing. Oncology education that cuts across provider roles I responsibilities will benefit staff and patients. Having the team available for "curb-side" consults, and information sharing will positively help the whole team.*
- 2. Consolidating cancer services will enable the Cancer Conference and Breast Conference teams to be located in one place, so less travel time and better attendance for a larger team approach for patient treatment recommendations.*
- 3. The Cancer patients would no longer need to drive to different sites to receive chemotherapy, radiation therapy, imaging and to meet with Providers, Social work, etc. The oncology continuum of care activities from prevention/ early detection to diagnosis, treatment, symptom management, support groups, and finally to palliative care, end of life planning and survivorship planning will occur in one centralized location. The need for palliative care and symptom management (especially pain management) can be addressed at one location, and hospital beds in private rooms are needed for these patients. “*

[source: Carol McDowell RN public comment, p2]

Scott Weninger, Central Kitsap Fire and Rescue

“As the Fire Chief of Central Kitsap Fire & Rescue, I support the relocation of Harrison Hospital, our community's primary medical and surgical treatment facility, from its current location in East Bremerton to the Silverdale Campus. By relocating this facility, there is opportunity to build the hospital up to current fire and life-safety codes, including advanced built-in fire and smoke protection systems that are not currently available at the Bremerton facility. The compartmentation and built-in systems will provide enhanced safety for occupants, visitors, employees, and firefighters responding to emergencies.

[source: Scott Weninger, Central Kitsap Fire and Rescue, public comment, p1]

Charlie Aleshire

“I am Charlie Aleshire, Executive Director for Emergency Services for Harrison Medical Center. Currently I have responsibility for the clinical operations for two Emergency Departments, a 33 bed ED located in Bremerton and a 13 bed ED located in Silverdale. I am in support of centralizing services and relocating 248 beds from Bremerton to Silverdale for multiple reasons. First and foremost is to locate the primary hospital services in a location that is closest to the

densest patient population. Silverdale is more centrally located to better serve the needs of not only Kitsap County but also our neighboring Jefferson and Clallam counties. Travel time from Mason County residents will be unchanged. I specifically want to address the time issue because in the event you have a family member that suffers a terrible trauma getting to definitive care in the "golden hour" is known to decrease mortality & morbidity meaning of loss of life or long term disability. In the event your Dad experiences a heart attack, "minutes are myocardium" meaning prompt emergency care and a swift trip to the cath lab results in less damage to your heart. In the event your Mom has a stroke, every minute saved between the first onset of stroke symptoms to definitive intervention saves 2 million neurons per (yes, every minute!) resulting in less damage to the brain. I will close by asking for approval of this Certificate of Need request."

[source: Charlie Aleshire public comment, p1]

Kitsap Public Health District

"The KPHD appreciates the partnership HMC has demonstrated with local transit services to improve patient travel times to the Silverdale facility. We support continued partnership to decrease transit times to the new facility for all people in Kitsap County, especially those who cannot provide their own transportation to the facility.

We encourage HMC to partner with EMS agencies to identify routes which accomplish emergency transit times equal or superior to those for reaching the Bremerton facility, especially for those residents in downtown Bremerton and East Bremerton. Residents of downtown Bremerton and East Bremerton experience multiple disparities in overall health, transportation, socioeconomic status, and employment. It is especially important to ensure that these populations receive enhanced considerations regarding timely access to emergency healthcare.

Of special note, the HMC Bremerton facility provides challenges to ensuring patient safety and security. The facility is not earthquake hardened, suffers from antiquated and inefficient mechanical infrastructure, obsolete electrical and data infrastructure, and major degradation of water and other piping systems in the building. These problems all pose a risk to patient safety from a public health standpoint."

[source: Susan Turner, MD, MPH, MS, Health Officer, Kitsap Public Health District]

Deborah Pedersen

"I am a resident of Jefferson County, which is in the secondary service area for Franciscan Harrison's hospital, now located in Bremerton, Kitsap County. My local hospital is Jefferson Healthcare (JHC), operated by Jefferson County Public Hospital District 2. ... In the decades I have lived in Jefferson County, I have seen what was formerly Jefferson General Hospital struggle for survival. ... A great deal of Jefferson Healthcare's revenue derives from Medicare and Medicaid patients, and with the new national administration, JHC may face an even more challenging future.

We in Jefferson County feel ownership of our public healthcare system because we elect its commissioners. We value the hospital for all the safety it offers us, in particular an emergency department close to home that we can reach without crossing the Hood Canal Bridge, which is subject to frequent closures, some of which can be lengthy. We also appreciate that our hospital's policies serve our community's values. An example is JHC's accreditation as a leader in LGBTQ healthcare equality.

JHC needs each and every one of its patients. Our hospital will suffer if Kitsap's hospital increases its competition for Jefferson County patients. We don't want to lose our hospital: access to

healthcare would be diminished for us. We also don't want our hospital to be acquired by a giant organization, based far away, one which might limit access to healthcare services because of the purchasing organization's religious beliefs. I therefore request that the Department of Health delay approval of Franciscan-Harrison's application until the increase in beds has been properly documented as not competing with hospitals in Jefferson and Clallam Counties. Increasing from the current 247 beds to 336 without population or demographic data to support the increase is not acceptable. In addition, with the current crisis in mental health care, eliminating the possibility of opening mental health beds seems extremely deleterious to our communities.”

[source: Deborah Pedersen public comment, p1]

Joanne Tyler

“I believe that the proposed expansion will make it even more difficult for Jefferson Healthcare to survive. As a patient of Jefferson Healthcare, I value its presence nearby, and it is in the interests of all the residents to be within easy access to a capable, well-staffed healthcare facility, and this is especially true in cases of medical emergency. The proposed increase in the number of beds in this application would compete with hospitals in nearby counties that presently serve their residents in a capable, convenient, and secular manner.”

[source: Joanne Tyler public comment, p1]

City of Bremerton Mayor Patty Lent

While it is clear to the City that Harrison's plan to relocate the acute care beds does not meet the letter or spirit of the certificate of need law, it is equally clear that Harrison is determined to construct a new hospital in Silverdale and close its hospital in Bremerton. While Harrison's relocation may be a good business decision for CHI Franciscan Harrison Medical Center and an economic boon to Silverdale, the move will harm Bremerton residents in three ways:

- 1. Access to acute care beds and medical care services for all of the residents of Kitsap County's largest city will be dramatically reduced. The impact will be particularly difficult for Bremerton's low-income persons, uninsured residents, and the elderly for whom transportation is a barrier to access. Bremerton has a much higher percentage of residents that rely on public transportation than the rest of the county. We have already experienced negative consequences of the ongoing exodus of physician specialists, diagnostic imaging and laboratory services.*
- 2. Relocation of all of the acute care beds will adversely affect the doctors, long term care facilities, their residents and families, and other providers and suppliers who are located near the existing facility.*
- 3. Unless the facility is repurposed or demolished, Harrison's vacation of its existing facility in Bremerton will blight the area surrounding the campus for years to come and cause lasting economic harm to the City.*

[source: City of Bremerton Mayor Patty Lent public comment, p2]

Rebuttal Comments

“The City of Bremerton’s request to require Harrison to maintain beds in Bremerton places the entire project at risk. [emphasis in original]

Harrison enjoys a long, positive partnership with the City, and we also share a mission of service to local residents. We respectfully, but wholly disagree with the City’s conclusion that the relocation and consolidation of Harrison will reduce access to acute care beds and medical services for the portion of Kitsap County residents that live in the greater Bremerton area. The City’s position seems predicated on its statement that “if the certificate of need is approved, Harrison will relocate medical care services from a high need area to a lower need area”. The City fails to acknowledge that Harrison intends to construct a new, large

Ambulatory Care Center (ACC) in Bremerton that will include primary care, urgent care, and ancillary services. It will also be home to our new Family Practice Residency Program that will ultimately include 24 residents. The new ACC will be the largest primary care center in the entirety of Kitsap County.

In addition, the new location will be the demonstration location for Harrison's integration of mental health into primary care, thereby offering earlier behavioral health intervention that supports decreased crisis and hospitalization.

Harrison concurs that the City of Bremerton has lower income and more poverty than many other areas of Kitsap County. Working with Kitsap Public Health District and others on this project has allowed us to confidently conclude that the new ACC, along with a more efficient and consolidated hospital is in the best interests of City of Bremerton residents.

The City also misquotes the cost of bringing the Bremerton facility to standards that would allow us to maintain current operations. On page 1 of its letter, the City states the cost is \$130 million. In fact, and as noted in our CN application, the cost is more than \$212 million.

The City also fails to note that the more than \$9 million in annual savings associated with consolidation, will be available for reinvestment into programs and services that benefit all Kitsap residents.

City of Bremerton Mayor Patty Lent

"Bremerton has been the home of Harrison Medical Center since April 17, 1911 when the City of Bremerton Hospital was formed. Though the name of the hospital has changed over the years, the residents of Bremerton and the employees at the Puget Sound Naval Shipyard have enjoyed the safety, security, accessibility and convenience of having a hospital in our city for nearly 106 years. The City of Bremerton will be adversely affected by approval of the CN application to relocate all acute care beds to Silverdale.

For Emergency Medical Transport (EMT) alone, the City of Bremerton estimates that the cost impact of transporting patients to Silverdale instead of Bremerton will be \$119,133 per year. See the attachment. In addition, the ambulance crews will be out-of-service for an additional 10-15 minutes per round trip while they return from Silverdale to the Bremerton city limits. The estimated cost impact for the Bremerton Police Department is expected to be less than that for the fire department."

The attachment referenced in the City of Bremerton rebuttal comments is shown on the following page.

City of Bremerton
 Bremerton Fire Department
Emergency Medical Transportation
ESTIMATED ANNUAL COST IMPACT OF HARRISON MOVING TO SILVERDALE
 as of March 14, 2017

Annual Extra Cost	Cost Description	Annual Cost Calculation
\$58,524	Labor	467 extra EMT hours @ \$62.66/ hour wages & benefits per EMT x 2 EMT's
\$31,969	Equipment	\$176,870 purchase price with a 100,000 mile life = \$1.77 per mile x 18,075 extra miles
\$21,330	Maintenance	\$9,306 annual maintenance cost per vehicle / 7,886 miles = \$1.18 per mile x 18,075 extra miles
<u>\$7,310</u>	Fuel	18,075 extra miles / 6.8 MPG = 2,655 extra gallons of fuel x \$2.75 per gallon
<u>\$119,133</u>	Total	

Deborah Pedersen

“My concern about the prospect of HMC competing with the secular public hospitals in Jefferson and Clallam counties is not allayed but is rather increased by the references to "regional service." A quick look at DOH CHARS data for 2015 shows that 91% of the acute care patient days at Jefferson Healthcare are patients from the seven zip codes in Jefferson County. At the same time, only about 5% of acute care patient days at Harrison Medical Center are from the Jefferson County zip codes. Transferring all the Harrison beds to a brand-new facility in Silverdale, one which is a shorter distance from Jefferson County and more convenient to a highway, cannot help but create harmful competition with Jefferson Healthcare.”

Department Evaluation

The letters sent by CHI Franciscan staff and Central Kitsap Fire and Rescue provide valuable perspectives related to this sub-criterion. Excerpts focus on the relocation’s impact on the efficiencies of operating a one campus hospital from staff perspective. The excerpts also touched on the efficiencies gained from a patient’s perspective, specifically in the areas of critical care and oncology. Patients receiving these acute care services are better served when the services are in one location, rather than travelling across town.

Comments of support from Central Kitsap Fire and Rescue provide a safety perspective. The new physical structure in Silverdale would be required to meet current fire and life-safety codes, which would not only promote patient safety, but safety of visitors, employees, and emergent personnel.

Kitsap Public Health District and HMC’s emergency medical services director provided support from the perspective of emergency services and transport times. The health district’s suggestions of partnerships between the hospital and local transit services to ensure timely transport of patients into Silverdale is significant.

In opposition of the project, two letters focus on the relocation’s impact on Jefferson General Hospital. A review of historical files shows that HMC has been operation in Kitsap County since 1965. The department’s historical files reveal that on December 23, 1974, Certificate of Need #185-73 was issued to Jefferson County Hospital District #2 approving the purchase of St. John Hospital. According to department records, St. John Hospital was formerly owned and operated by

Sisters of Providence.¹⁶ Information in the historical files do not identify when St. John Hospital first became operational. At the time of purchase, the hospital was licensed for 59 acute care beds and provided a full range of hospital services including medical, surgical, pediatric, and obstetric. Additionally at time of purchase, the hospital operated a full service emergency department and provided necessary ancillary services, such as diagnostic, radiology, laboratory, and pharmacy. At the time of purchase, Jefferson Healthcare also operated a 26-bed nursing home.¹⁷

As of the writing of this evaluation, Jefferson Healthcare is licensed for 42 acute care beds and is a recognized Washington State Critical Access Hospital.¹⁸ Services provided by Jefferson Healthcare continue to be medical, surgical, pediatric, and obstetric. Ancillary services include diagnostic, radiology, laboratory, oncology, pharmacy, and social services. Jefferson Healthcare continues to operate a full service emergency department.

Since both hospitals have been operating in adjacent counties since at least 1974, the department concludes that any impact of HMC's services on Jefferson Healthcare would have occurred years ago. The consolidation of HMC's acute care beds to the Silverdale campus does not change the services that would be provided by HMC. There is no information in the application materials or public comments that would conclude that the relocation project would cause an increased impact on Jefferson Healthcare.

Also in opposition to the project is city of Bremerton. The opposition focuses, in part, on the relocation and its impact on the residents of Bremerton. Since Bremerton is Kitsap County's largest city, relocating an entire acute care hospital from Bremerton to Silverdale is bound to impact its residents. City of Bremerton's asserts that the relocation will result in reduced access to care for Bremerton's low-income persons, uninsured residents, and the elderly. CHI Franciscan states that it intends to "*construct a new, large Ambulatory Care Center (ACC) in Bremerton that will include primary care, urgent care, and ancillary services. It will also be home to our new Family Practice Residency Program that will ultimately include 24 residents. The new ACC will be the largest primary care center in the entirety of Kitsap County. In addition, the new location will be the demonstration location for Harrison's integration of mental health into primary care, thereby offering earlier behavioral health intervention that supports decreased crisis and hospitalization.*" As the largest provider of healthcare services in Kitsap County, CHI Franciscan and shows an understanding of the medical needs in the county.

¹⁶ Once purchased, the hospital district renamed the hospital Jefferson General Hospital. The hospital has since been renamed Jefferson Healthcare.

¹⁷ It is unclear from department files when Jefferson Healthcare relinquished the 26 nursing home beds. Historical acute care license applications show that Jefferson Healthcare has not provided skilled nursing services since at least 2012. However, Jefferson Healthcare continues to maintain its five swing beds.

¹⁸ 42 U.S.C. 1395i-4 Critical Access Hospital is a federal designation under the Rural Hospital Flexibility Program (Flex Program), administered by the federal Office of Rural Health Policy. The purpose of the program is to ensure people enrolled in Medicare have access to healthcare services in rural areas, particularly hospital care. Critical Access Hospitals (CAHs) are small hospitals with fewer than 25 beds in rural areas. There are 39 CAHs in Washington. Most CAHs are operated by public hospital districts. CAHs are often the central hub of health services in their communities, providing primary care, long-term care, physical and occupational therapy, cardiac rehabilitation and other services in addition to emergency and acute care. Hospital staff provide these services either directly or in partnership with other community providers. Medicare rules and payment for CAHs are a little different from larger, urban hospitals. CAHs are paid based on reasonable costs for Medicare, rather than a set amount per diagnosis or procedure. In Washington, this is also true for Medicaid. CAHs also have some flexibility in staffing requirements and some other Medicare rules.

Information in the application demonstrates that as a long-time provider of acute care services, HMC has the basic infrastructure in place to consolidate its beds into one campus. As the only acute care hospital in Kitsap County, it is essential that HMC maintain its current relationships with the existing health care system. To that end, CHI Franciscan provided information within the application to demonstrate it intends to continue existing relationships and establish new relationships as necessary.

Based on the information provided in the application, the department concludes there is reasonable assurance that this project will continue to promote continuity in the provision of health care services in the community with relocation and consolidation of all acute care beds on the Silverdale campus of HMC. **This sub-criterion is met.**

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

This sub-criterion is addressed in sub-section (3) above and **is met.**

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI Franciscan Health **met** the applicable cost containment criteria in WAC 246-310-240.

- (1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.
To determine if a proposed project is the best alternative, in terms of cost, efficiency, or effectiveness, the department takes a multi-step approach. In Step one, department determines if the application has met the other criteria of WAC 246-310-210 thru 230. If the project has failed to meet one or more of these criteria then the project cannot be considered to be the best alternative in terms of cost, efficiency, or effectiveness as a result the application would fail this sub-criterion.

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

If there are multiple applications, the department's assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type. The adopted superiority 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 type superiority 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.

CHI Franciscan

Step One

For this project, CHI Franciscan 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, CHI Franciscan considered three other options. The options and CHI Franciscan's rationale for rejecting them is below. [source: Application, pp45-46]

- Do Nothing
After the facility assessment was complete, the "do nothing" option was ruled out because the many portions of the Bremerton campus are at or reaching the end of their useful life and need upgrade in order to assure that they meet CHI Franciscan facility.
- Maintain two campuses, and make investments in Bremerton to offset deferred maintenance and aging/obsolescence
As noted in the Need section of this application, well more than \$200 million will need to be expended to eliminate or mitigate the concerns with the Bremerton physical plant. The disruption to the Bremerton campus' operations is significant, as the center or core of the hospital needs to be demolished to accommodate the upgrades, and more than 70 beds need to be relocated to allow for the demolition. Even after those investments are made, the campus remains landlocked and unable to accommodate additional expansion. The access issues to the campus are also not addressed in the \$200 million investment. Importantly, Harrison continues to operate with duplication because of the two-campus structure. We have conservatively estimated that duplication at about \$9 million in operating expenses annually. For these reasons, option 2 was eliminated.
- Consolidate onto a single campus with all 336 acute care beds (single phase) or consolidate into a single campus with all 336 beds in two separate phases (the project)
Options 3 and 4 simply stage the relocation and ultimate consolidation into one or two phases. Undertaking the two phases simultaneously, while realizing some construction efficiencies (mobilizing, site work, etc.) was deemed too disruptive to parking, access, patient care and staff. The phasing of the project allows existing Silverdale services to be operated without interruption. In fact, if we were to undertake this as a single phase, most services would need to be relocated to Bremerton during construction. With a two phased project, patients and staff will have access to all existing Silverdale services while the first patient care tower is under construction.

Step Three

This step is applicable only when there are two or more approvable projects. CHI Franciscan's application is the only application under review to relocated acute care beds from one campus to another in Kitsap County. Therefore, this step does not apply.

Public Comments

During the review of this project, the department received 31 letters of support and six letters of opposition, and 18 letters taking a 'neutral' position on the topic. The neutral letters voiced concerns and provided suggestions to alleviate the concerns if the project were approved. Under this sub-criterion, the comments focused on the age of the Bremerton building and the costs to

renovate it when compared to building out the Silverdale campus and relocating all beds to one site. Below is a sampling of the letters submitted under this review criterion separate by support, opposition, and neutral.

Support

David W. Gitch

"From July 1991 through December 2004, I served as President/CEO of Harrison Medical Center (HMC). During the early 1990's, HMC undertook a comprehensive long-range planning process that examined current and future services, the current and projected demographics of the service area, the status of healthcare providers within the region, the state of and location of facilities and anticipated resources needed. Considerable public input was solicited from the community during this endeavor.

Among the conclusions were the following:

- The population growth was shifting to the Central Kitsap area (Silverdale) and North Kitsap reflecting in part transportation corridors and developable land.*
- Washington Department of Transportation was both planning and completing construction of a key link of Highway 3 between Bangor and Poulsbo (Highway 305). A major revamping of the intersection in Silverdale included linking Highway 3 with Highway 303 to Bremerton was being planned and subsequently completed.*
- The service region of HMC was growing as more advanced services, technology and specially trained personnel were available. In addition to Kitsap County, increased patients were arriving from North Mason and Jefferson counties.*
- Community input from areas outside of East Bremerton were asking that access be improved with a more centrally located hospital, near the improving highway system rather than remaining in a somewhat isolated East Bremerton location requiring navigation of city streets, traffic lights and increasing congestion.*
- Consideration was also given to relocation concerns expressed by Bremerton's public officials, business community, medical community and nearby residents. In the end, the HMC Board concluded that HMC had to serve the overall needs of a growing regional community which required relocation. At the same time, efforts would be made to minimize any impact in the local community.*
- Major sections of the East Bremerton Hospital, originally constructed in the 1960' s, were increasingly unable to accommodate the advances in technology as well as patient care areas meeting community standards. Furthermore, HMC was land-locked on 7 acres bounded by a steep hill to the east and challenging topography to the west precluding necessary and reasonable expansion.*

[source: David Gitch public comment, p1]

David Schultz

At its core, this project simply consolidates all of our existing inpatient beds and services onto a single campus. Let me give you some relevant history and facts:

- Harrison's goal has been to consolidate beds and decant Bremerton for nearly two decades. We first opened our Silverdale campus in 2000. Our 2013 affiliation with CHI Franciscan has allowed us to accelerate this effort.*
- Our Bremerton campus, which is more than 50 years old, is functionally obsolete. The youngest patient rooms on the Bremerton campus are already 32 years old.*
- Prior to finalizing plans to move forward with consolidation, CHI Franciscan commissioned a comprehensive facility analysis that found that an investment of more than \$200 million was needed just to maintain current operations and functionality of the*

Bremerton campus. While the report noted the significant disruption to current Bremerton campus operations that would occur with such an extensive remodel, no cost was assigned to that disruption. We estimate that cost to be significant.

- *In addition to the functional obsolescence of Bremerton, it is costly to operate two campuses. Our financial analysis has conservatively estimated that we will realize operating savings of about \$9 million annually once the two campuses are consolidated.*

[source: David Schultz, public comment, p1]

John Poppe [Washington Water Supply]

“The proposed project would improve emergency services with proximity to State Highway 3 which is the only transportation north/south arterial in this region. The proposed project would provide a Hospital structure that meets today's standards for natural emergencies to include earthquakes, wind storms, and flooding.

The proposed project would improve emergency response to our military services group to include active personnel, military families, and our large contingent of retired veterans.”

[source: John Poppe, president of Washington Water Supply, public comment, p1]

John Powers, Kitsap Economic Development Alliance

“Based upon my knowledge of the Kitsap County and West Sound communities and local economies, I believe the relocation and expansion of CHI-FH Harrison Medical Center to Silverdale will serve a critical and essential need of our Kitsap and West Sound communities to enhance access to centrally located major medical services both clinical and critical care. This is a fundamental building block for healthy, prosperous communities - retaining and attracting employers and employees throughout our market. In addition, the level of employment that will be secured and expanded during construction, and after in the new and expanded state of the art facility, will not only provide a boost to our local community; but, more importantly be a significant factor in retaining the quality of life, health, and economic vibrancy of our Kitsap and West Sound Communities.”

[source: John Powers, Kitsap Economic Development Alliance public comment, p1]

Opposition

City of Bremerton Mayor Patty Lent

“Applicant's failure to meet the criteria in WAC 246-310-240, section (1) which states, "Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable." The City asserts that Harrison's proposal to construct a new facility for \$484.5 million instead of renovating an existing facility for \$130.0 million will significantly increase the cost of medical care in Kitsap County. Over the next 30 years, the facility capital cost alone for the new facility will be 3.7 times as much as that for the renovated existing facility. In addition, the demolition and green-fielding of the existing facility, much of which is very serviceable, represents a waste of valuable resources. Both considerations are contrary to the intent of the certificate of need law.”

“In keeping with the spirit and intent of the certificate of need law, the City of Bremerton proposes an acute care bed allocation that is different than that envisioned in the Harrison certificate of need application. The City requests that Harrison be granted approval to move all but 100 acute care beds from Bremerton to Silverdale. The remaining 100 beds will be operated as a community hospital. As the population of Kitsap County grows and the demand for acute care beds increase, the additional beds can be allocated between Harrison's medical center in Silverdale and a community hospital in Bremerton.”

[source: City of Bremerton Mayor Patty Lent, public comment, pp1&2]

Nancy Field

“A comparison of the per bed cost of Phase 1 and Phase 2 shows substantial unexplained construction cost differences. The table below contrasts the projected capital cost per bed and for the square feet allocated by the applicant to "beds" for Phases 1 and 2.

It shows that construction of Phase 2 beds is expected to cost over a million dollars per bed, or over 60% more, than beds in Phase 1. The construction cost per square foot in Phase 2 for "bed" related space, as defined by the applicant, is twice that projected for such space in Phase 1. CHI/Harrison provides no apparent rationale for these discrepancies. Furthermore, the proposed project cannot be determined to be cost effective because it contains up to 100 more beds than are needed based on the applicant's own volume projections. Although the Department may accept the argument that a hospital can keep and relocated un-used licensed beds, it must also determine that spending patient care dollars to rebuild those beds is cost effective and is the preferred alternative of those available.” [source: Nancy Field public comment attached to Barry Peters public comment]

Anna Laurie

“I have lived in Bremerton for 35+ years and worked as an attorney here for almost 19 years. Recently, I retired from the Kitsap County Superior Court Bench after 15 years in that position. I am intimately familiar with this County. The notion of eliminating the health services provided by Harrison to the most populous area of the county is alarming. Bremerton is currently booming as evidenced by the construction of several apartment complexes designed to attract both commuters and shipyard workers to the downtown area. The Bremerton passenger-only fast ferry will start commuter service to Seattle in July 2017 producing an available housing resource to the thousands of people working in downtown Seattle who are unable to afford to live there. That migration must be considered in examining population trends. Finally, once Harrison leaves there is no emergency medical service available to the thousands of Bremerton residents reliant on public transit for access.” [source: Anna Laurie public comment, p1]

Neutral

Berit Madsen, MD

“As both a longtime resident of the community (25 years) and a medical provider in the area, I am writing to express concerns regarding the CON for the construction of a new CHI hospital facility in Silverdale. This is an expensive project of almost half a billion dollars at a time of great uncertainty about the future of healthcare funding and at a time when the unsustainably high cost of medical care is coming under scrutiny. An expenditure of this magnitude will put pressure on the hospital to keep it's beds and other facilities full and further restrict referrals to non-hospital outpatient facilities that can deliver the same services at a fraction of the cost to consumers and insurers including Medicaid and Medicare. For example; forcing outpatient surgeries to be performed in the hospital that could otherwise be done at an ambulatory surgery center. Before a CON for a large inpatient and outpatient hospital facility is approved, it would be prudent to make sure that other less costly sites of care are fully utilized and supported.”

[source: Berit Madsen, MD public comment, p1]

Todd Schneiderman, MD

“My second concern about this application centers around the responsible use of medical resources for the benefit of our residents. Being a member of the Surgery Center of Silverdale (SCS) I have seen several surgeons transfer all their surgical cases to Harrison as their practices have been acquired by one of the CHI affiliates. With the transfer of Harrison Bremerton to its Silverdale campus and movement of its acute care beds I am concerned that the operating rooms will move from Bremerton to the Silverdale campus as well. This has the potential to create additional pressure on CHI employed or affiliated surgeons to perform their surgeries at the new facility when other, less costly, options exist such as at the SCS or the other two ambulatory surgery centers in Kitsap County. For appropriate surgical cases, the use of an ASC has been well documented to provide less costly and often better care for the patient. In an environment of high deductible health plans this less costly surgical care could mean thousands of dollars in savings for each surgical patient.” [source: Todd Schneiderman, MD, public comment, p2]

Rebuttal Comments

CHI Franciscan

*“The Bremerton campus opened in 1965. The West wing was added in 1970 and various other additions occurred over the period of 1978-2002. Today, the “newest” inpatient rooms at Bremerton are 32 years old, and 60% of the inpatient beds are in semi-private rooms. An analysis commissioned by CHI Franciscan concluded that an investment of about \$212 million was needed at Bremerton to simply maintain **current operations** at that campus. However, even with that investment, two campuses are not efficient and investment well beyond the \$212 million would be needed to keep pace with demand, technology and service development. Once consolidated in 2023, operating cost reductions associated with improved efficiencies and operating a single campus are currently estimated at more than \$9 million annually.*

*“Under Cost Containment, Field states that the costs for Phase two are higher than for the Phase 1. This is true, and was explained in our application: Phase 2 requires the construction of a second tower. As such, additional costs related to the site are being incurred. At this point, the Field report states that “the Department may accept the argument that a hospital can keep and relocate un-used licensed beds, it must also determine that spending patient care dollars to rebuild those beds is cost-effective and the preferred alternative.” Harrison has conducted its due diligence, and Harrison and CHI have retained numerous outside experts to evaluate construction options and to value engineer the project. Value engineering is an integral part the design stage of a new development. Its purpose is to increase **value** (defined as function divided by cost). Neither CHI nor Harrison would proceed with a project that is not bringing value to the Kitsap Peninsula.”*

If Harrison is conditioned to “leave” beds in Bremerton, the entire project is placed at risk. We will need to expend considerably more funds to keep any inpatient capacity in Bremerton. Further, the efficiencies expected will not be realized.”

Nancy Field

Rebuttal comments restated the comments submitted in public comment.
[source: Nancy Field rebuttal comment, p1-6]

Department Evaluation

Information provided in the CHI Franciscan application and within public comments demonstrates that the continued operation of a two campus hospital is not cost effective to operate. CHI Franciscan discussed the duplicative staff and services necessary to maintain both campuses. Comments submitted by the Central Kitsap Fire and Rescue focus on the physical plant of the Bremerton campus. The building is outdated and inefficiently configured with add-ons. The application and public comments support that a “do nothing” option was appropriately ruled out by the applicant.

CHI Franciscan provided information in the application that supports rejection of the option of maintaining two campuses and improving the physical structure of the Bremerton campus. When compared to the costs of adding two patient towers at the Silverdale campus, the Bremerton construction costs are initially viewed as a better alternative. However, CHI Franciscan also noted that the extensive amount of construction required to bring the Bremerton campus up to physical standards would require the campus to close during the construction process. Closure of the Bremerton campus would require relocation of a number of beds to the Silverdale campus, which is unable to accommodate additional beds without its own construction project. Even though the Bremerton campus construction costs would exceed more than \$200 million in capital improvements, the facility is currently landlocked and unable to accommodate additional space. This option was appropriately rejected by CHI Franciscan.

Determining the better option of consolidating acute care beds at the Silverdale campus in one or two phases relied on the hospital remaining in operation and staff/patient safety during construction. CHI Franciscan rejected the one phase option.

Concerns raised under this sub-criterion focus on the cost comparison of renovation of the Bremerton campus and building out the Silverdale campus. CHI Franciscan addressed the concerns in the application, during public comment, and within its rebuttal documents. The department concurs that while the initial capital costs for this project are higher than renovation of the Bremerton campus, this project is the most cost effective investment of the two options.

The department did not identify any alternative that was a superior alternative in terms of cost, efficiency, or effectiveness that is available or practicable.

The department concludes that the project as submitted by CHI Franciscan is the best available option for the planning area and surrounding communities. **This sub-criterion is met.**

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

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

CHI Franciscan

“The project exceeds the Washington State Energy code as well as current FGI guidelines. These combined requirements create a “baseline” minimum requirement for a project in Washington. The project team analyzed systems and energy performance and selected systems that create a 31.9% reduction in energy consumption compared to the baseline required by the state energy code. This is 50% below the Northwest region energy consumption for all existing hospitals in the same geographic area. The project makes use of the following strategies and systems to reach the 31.9% energy reduction:

- *Sun shades are used to reduce heat gain on the west and south facades of the building.*
- *Insulation and glazing performs better than required by code.*

- *100% outside air economizers to reduce heating and cooling as the outside air temperatures permit.*
- *Variable air volume boxes are used on the supply and return air streams to allow the air changes in rooms to adjust based on need while always meeting minimum FGI standards.*
- *Occupancy sensors for operating rooms are to be installed to allow the air change rates to be turned down when rooms are not in use.*
- *Light sensors are being used on indoor lighting to turn off lights when not in use.*
- *High efficiency light fixtures and lamps are included throughout many areas in the project.*
- *Heat recovery chillers are used to recover waste heat from the building exhaust air which is then used to create hot water.*
- *High efficiency boilers are used for heating water.*
- *A reclaimed water system is used for flushing toilets and irrigation thus reducing potable water consumption.*
- *Electrical vehicle charging stations are being installed on site to support sustainable commuting.*
- *Bicycle storage areas are provided to encourage sustainable commuting.*
- *A walking trail system currently on site is being expanded and enhanced to provide integration and connection with the local community.*
- *Outdoor gardens and water features are being incorporated into the landscaping to reduce heat gain to the building from surrounding surfaces.”*

[source: Application, pp46-48]

Public Comment

City of Bremerton

“With respect to subsection (2a), the City asserts that the cost of constructing a new facility for 3.7 times as much as the cost of renovating the existing facility is not reasonable.”

[source: Mayor Patty Lent, City of Bremerton, p2]

CHI Franciscan

“By growing and expanding Silverdale in lieu of Bremerton, Harrison has maximized development dollars (for instance, no demolition or additional land costs), and importantly, will be able to maintain current patient service levels throughout the construction period.”

[source: David Schultz, public comment, p2]

CHI Franciscan Rebuttal Comment

“The City also misquotes the cost of bringing the Bremerton facility to standards that would allow us to maintain current operations. On page 1 of its letter, the City states the cost is \$130 million. In fact, and as noted in our CN application, the cost is more than \$212 million:

‘An analysis commissioned by CHI Franciscan concluded that an investment of about \$212 million was needed at Bremerton to maintain current operations at that campus. However, even with that investment, two campuses are not efficient and investment well beyond the \$212 million would be needed to keep pace with demand, technology and service development. Once consolidated in 2023, operating cost reductions associated with improved efficiencies and operating a single campus are currently estimated at more than \$9 million annually.’”

[source: CHI Franciscan rebuttal comment, p14]

Department Evaluation

As part of its analysis, HFCC provided the following statements regarding the construction costs, scope, and method:

“The costs of the project are the cost for construction, planning and process. Harrison’s projections are below.”

Total Capital	\$484,690,706
Beds/Stations/Other (Unit)	242
Total Capital per Unit	\$2,002,854.16

“The costs shown are higher than past construction costs reviewed by this office. Also construction cost can vary quite a bit due to type of construction, quality of material, custom vs. standard design, building site and other factors. Harrison is constructing a new building to healthcare services standards and to the latest energy and hospital standards. Harrison notes that the completed project is projected to create a 31.9% reduction in energy consumption compared to the baseline required by the state energy code. Staff is satisfied the applicant plans are appropriate. This criterion is satisfied.”

[source: CCHFDP analysis, p5]

Comments assert that the cost to add two patient towers to the Silverdale campus is higher than the cost to renovate and upgrade the Bremerton campus. This assertion does not take into account other physical limitations of the Bremerton campus. Throughout this application and review, CHI Franciscan provided information to demonstrate that the improvements for the Silverdale campus is more cost effective overall than the costs for upgrading the Bremerton campus. Community members do not dispute the age and physical limitations of the Bremerton campus.

Based on the information provided in the application and the analysis from HFCC, the department concludes **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.*

CHI Franciscan

“CHI Franciscan has the proven ability to effectively manage resources, and to provide services that are responsive to community need. Prior to developing this application, CHI Franciscan closely evaluated both the Bremerton and Silverdale campuses and determined that consolidating services at Silverdale (which has capacity to expand) would better meet community need and produce operational cost savings.”

[source: Application, p20]

Public Comments

City of Bremerton

“With respect to subsection (2b), the City asserts that the project will have an unreasonable impact on the costs and charges to the public for doctors, long term care facilities, and other providers and suppliers who are located near the existing facility. In addition, the travel and turnaround times, costs and risks of emergency transport will increase.”

[source: Mayor Patty Lent, City of Bremerton, p2]

Scott Weninger, Central Kitsap Fire and Rescue

Another significant advancement that would result from relocating to Silverdale is improved access directly from Highway 3 at Highway 303. Ambulances travelling from Silverdale and from northern areas of Kitsap County and Jefferson County will have reduced response times, less traffic lights, which would reduce patient transport times for these areas.”

[source: Scott Weninger, Central Kitsap Fire and Rescue, public comment, p1]

Rebuttal Comments

None

Department Evaluation

As part of its analysis, HFCC provided the following statements related to this sub-criterion.

“While it has been noted above that the construction costs per unit for this project are higher than other recent projects we have evaluated, completion of this project is expected to result in decreased energy consumption as well as significant decreases in operating cost per patient day because staffing and building costs will be concentrated at one new facility rather than distributed among two facilities, one of which is old and would require significant expense to maintain or improve. Staff is satisfied the project is appropriate. This criterion is satisfied.”

[source: CCHFDP analysis, p5]

Comments provided by the City of Bremerton assert that the costs would have an unreasonable impact on the costs and charges to the public for doctors, long term care facilities, and other providers and suppliers who are located near the existing facility. However, no documentation to support the assertions was provided.

City of Bremerton also asserted that the travel and turnaround times, costs and risks of emergency transport will increase with this project. However, these assertions were disputed by the comments provided by Central Kitsap Fire and Rescue. The department concludes that Central Kitsap Fire and Rescue is a reliable source for this topic.

This project involves construction by completing two patient towers at HMC. With the need to consolidate the two campuses and the assumptions related to the costs and charges discussed under the Financial Feasibility section of this evaluation, the department does not anticipate this project would have an unreasonable impact on the costs and charges to the public. Therefore, the department concludes **this sub-criterion is met.**

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

CHI Franciscan Health

“Once all services [are] consolidated on a single campus, operating efficiencies in staffing and operations are expected. For example, operating costs per patient day will decrease from \$7,057 in 2016 to \$6,506 in 2025, a 7.3% decline. Similar cost reductions will be seen in staffing costs per patient days; a 3.4% decrease is expected. This is due entirely to the consolidation into a single campus. Lastly, utility costs are expected to decline by 53% per patient day due to the consolidation. It should be noted that this does not include any additional cost reductions due to the expected energy efficient design of the new campus.”

[source: Application, p46]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

This project has the potential to improve delivery of acute care services to the residents of Kitsap County and surrounding communities with the consolidation of beds into one facility in Silverdale. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**