STATE OF WASHINGTON

DEPARTMENT OF HEALTH

Olympia, Washington 98504

August 1, 2019

CERTIFIED MAIL # 7018 2290 0001 8591 8605

Rob Watilo, Chief Strategy Officer
Kadlec Regional Medical Center
888 Swift Road
Richland, WA 99352

RE: Certificate of Need Application #19-15

Dear Mr. Watilo:

We have completed review of the Certificate of Need application submitted by Kadlec. The application proposes to add 67 acute care beds to the Kadlec Regional Medical Center in Richland, within the Benton-Franklin County planning area. Enclosed is a written evaluation of the application.

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

Project Description

This certificate approves the addition of 67 acute care beds in the hospital known as Kadlec Regional Medical Center. A breakdown of the beds at project completion is below.

Services Provided	Total Beds-Current	Total Beds-Following Completion
Acute Care	231	298
Inpatient Rehab	12	12
NICU Level II & III	27	27
Total	**270**	**337**

Conditions:

1. Kadlec Regional Medical Center agrees with the project description as stated above. Kadlec Regional Medical Center 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. Kadlec Regional Medical Center will use reasonable efforts to provide charity care consistent with the regional average or the amount identified in the application –

whichever is higher. The regional charity care average from 2016-2018 was 0.96% of gross revenue and 2.51% of adjusted revenue. Kadlec Regional Medical Center will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires that these records be available upon request.

3. Prior to execution of this certificate, Kadlec Regional Medical Center will submit the final, adopted charity care policy approved by the department of health.

4. Kadlec Regional Medical Center will finance the project using cash reserves as stated in the application

5. Kadlec Regional Medical Center agrees that the hospital will maintain Medicare and Medicaid certification, regardless of facility ownership.

Approved Costs:
The approved capital expenditure for this project is $1,416,100

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 the Certificate of Need Program at (360) 236-2955.

Sincerely,

Nancy Tyson, Executive Director
Health Facilities and Certificate of Need

Enclosure

EVALUATION DATED AUGUST 1, 2019 FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY KADLEC REGIONAL MEDICAL CENTER PROPOSING TO ADD 67 ACUTE CARE BEDS TO KADLEC REGIONAL MEDICAL CENTER IN RICHLAND, WITHIN BENTON COUNTY

APPLICANT DESCRIPTION

Kadlec Regional Medical Center (Kadlec) was established in 1944 as an army medical facility associated with the Hanford Site in Richland, Washington. It has been located at its current location at 888 Swift Boulevard in Richland [99352] since 1971. The hospital is licensed for 270 beds, which includes 12 NICU Level II Bassinets, 15 NICU Level III Bassinets, and 12 acute rehabilitation beds. [source: Kadlec website, ILRS]

In 2014, Kadlec entered into an affiliation with Kadlec Regional Medical Center. As a part of this affiliation, Western HealthConnect (as subsidiary of Kadlec) became the sole corporate member of Kadlec. In 2016, Kadlec Regional Medical Center and St Joseph Health – a California-based non-profit hospital system – entered into an affiliation and formed a new "super-parent" company called Kadlec St Joseph Health. Kadlec St Joseph Health, Kadlec Regional Medical Center, Western HealthConnect, and Kadlec are all registered with the Washington State Department of Revenue and the Office of the Secretary of State. [source: Application p5]

Kadlec offers a number of healthcare services in Benton and Franklin counties and the surrounding areas. This includes the 270-bed acute care hospital, primary care offices, urgent care, and specialty care services. Kadlec is also invested in several joint ventures throughout the area, including Tri-Cities Home Health, Tri-Cities Cancer Center, and Tri-Cities Laboratory. [source: Application Exhibit 4]

Kadlec is Medicare and Medicaid certified, and is accredited by The Joint Commission. [source: Application p8]

PROJECT DESCRIPTION

This project focuses on Kadlec Regional Medical Center in Richland. The hospital has been in operation for many years and provides a variety of healthcare services to the residents of Benton-Franklin Counties and surrounding communities. As of the writing of this evaluation, Kadlec is licensed for a total of 270 beds located at 888 Swift Boulevard in Richland [99352]. Table 1 below shows 270 beds broken down by service. [source: CN historical files and Kadlec hospital license application submitted on November 26, 2018 for license HAC.FS.00000161]

Table 1
Kadlec Regional
Current Configuration of Licensed Acute Care Beds

Services Provided	Total Beds
Acute Care	231
Inpatient Rehab	12
NICU Level II & III	27
Total	**270**

The estimated capital expenditure associated with the 67 bed addition is $1,416,100. Of that amount, approximately 10% is related to construction; 81% is related to equipment, and the remaining 9% is for sales tax and fees (consulting, architect, and engineering). [source: Application, p53]

This project proposes the addition of 67 acute care beds in three phases. The first phase of 10 beds is expected to commence immediately following Certificate of Need approval. The second phase of 20 beds will be added early in 2020. The third phase requires some remodel and construction and is expected to be available by the start of 2021. The table below shows the 67 bed addition broken into phases. [source: Screening Responses, p2]

Table 2
Kadlec Regional Medical Center
67 Bed Addition and Phases

Phase	Number of Beds	Timeline for Occupancy[1]	Location of Beds
1	10	Upon CN approval	Floor 4
2	20	January 1, 2020	Floor 2
3	37	January 1, 2021	Floor 3
TOTAL	**67**		

APPLICABILITY OF CERTIFICATE OF NEED LAW

Kadlec's application is subject to review as the change in bed capacity of a health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

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;

[1] Due to workload constraints, this decision was significantly delayed from March 2019 to August 2019. The timelines above are reflective of Kadlec's estimates assuming a March decision. The department fully expects that each of these phases would be delayed accordingly.

(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	Kadlec Regional
Letter of Intent Submitted	June 4, 2018
Application Submitted	October 5, 2018
Department's pre-review activities • DOH Screening Letter • Applicant's Responses Received	 October 26, 2018 November 13, 2018
Beginning of Review	December 19, 2018
End of Public Comment/No Public Hearing Conducted • Public comments accepted through end of public comment	 January 23, 2019
Rebuttal Comments Received	February 6, 2019
Department's Anticipated Decision Date	March 25, 2019
Department's Anticipated Decision Date with 150-day Extension[2]	August 23, 2019
Department's Actual Decision Date	August 1, 2019

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;

[2] Thirty-day extension letters were sent to Kadlec on May 3, 2019, May 29, 2019, July 11, 2019, and July 24, 2019.

(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, several entities requested to receive information about the application. Only one qualified for interested and affected person status – TRIOS, LLC.

SOURCE INFORMATION REVIEWED

- Kadlec Regional's Certificate of Need application received October 5, 2019
- Kadlec Regional's screening responses received November 18, 2018
- Public comments received by the close of business on January 19, 2019
- Rebuttal documents received by the close of business on February 6, 2019
- Department of Health's Hospital and Patient Data Systems' Comprehensive Hospital Abstract Reporting System data for years 2008 through 2017
- OFM Population Projections – medium series for 2017
- Hospital/Finance and Charity Care (HFCC) Financial Review
- Department of Health Integrated Licensing and Regulatory System database [ILRS]
- Licensing and/or survey data provided by the Department of Health's Office of Health Systems and Oversight
- Licensing data provided by the Medical Quality Assurance Commission, Nursing Quality Assurance Commission, and Health Systems Quality Assurance Office of Customer Service
- Kadlec Regional Medical Center' website at www.kadlec.org
- Joint Commission website at www.qualitycheck.org
- Certificate of Need historical files

CONCLUSIONS

For the reasons stated in this evaluation, the application submitted by Kadlec Regional Medical Center proposing to add 67 medical/surgical beds to Kadlec Regional Medical Center in Richland, within Benton-Franklin County is consistent with the applicable criteria of the Certificate of Need Program, provided Kadlec Regional Medical Center agrees to the following in its entirety.

Project Description:

This certificate approves the addition of 67 general medical/surgical acute care beds to Kadlec Regional Medical Center located in Richland. The project will be completed in three phases. Below is the number of beds by phase, as well as a configuration of acute care beds at completion of this project.

Phase	Number of Beds	Timeline for Occupancy[3]	Location of Beds
1	10	Upon CN approval	Floor 4
2	20	January 1, 2020	Floor 2
3	37	January 1, 2021	Floor 3
TOTAL	**67**		

[3] Due to workload constraints, this decision was significantly delayed from March 2019 to August 2019. The timelines above are reflective of Kadlec's estimates assuming a March decision. The department fully expects that each of these phases would be delayed accordingly.

Services Provided	Total Beds-Current	Total Beds-Following Completion
Acute Care	231	298
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Total	**270**	**337**

Conditions:

1. Kadlec Regional Medical Center agrees with the project description as stated above. Kadlec Regional Medical Center 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. Kadlec Regional Medical Center will use reasonable efforts to provide charity care consistent with the regional average or the amount identified in the application – whichever is higher. The regional charity care average from 2016-2018 was 0.96% of gross revenue and 2.51% of adjusted revenue. Kadlec Regional Medical Center will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires that these records be available upon request.

3. Prior to execution of this certificate, Kadlec Regional Medical Center will submit the final, adopted charity care policy approved by the department of health.

4. Kadlec Regional Medical Center will finance the project using cash reserves as stated in the application

5. Kadlec Regional Medical Center agrees that the hospital will maintain Medicare and Medicaid certification, regardless of facility ownership.

Approved Costs:

The approved capital expenditure for this project is $1,416,100

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 Kadlec Regional Medical Center **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.

WAC 246-310 does not contain an acute care bed forecasting method. The determination of numeric need for acute care hospital beds is performed using the Hospital Bed Need Forecasting method contained in the 1987 Washington State Health Plan (SHP). Though the SHP was "sunset" in 1989, the department has concluded that this methodology remains a reliable tool for predicting baseline need for acute care beds.[4]

The 1987 methodology is a twelve-step process of information gathering and mathematical computation. This forecasting method is designed to evaluate need for additional capacity in general, rather than identify need for a specific project.

Kadlec Regional Medical Center

This project proposes to add 67 acute care beds to Kadlec Regional Medical Center Hospital located in Richland, within Benton County. Kadlec provided an acute care bed methodology based on historical CHARS[5] data for years 2008 through 2017. Below are the assumptions and factors used in the numeric methodology. [source: Application pp32-36, Exhibit 15]

- Hospital Planning Area – HSA #3, Benton-Franklin County
- CHARS Data – Historical years 2008 through 2017
- Projected Population – Based on Office of Financial Management medium series data for county and statewide figures. For each data source, historical and projected intercensal and postcensal estimates were calculated.
- Planning Horizon – Kadlec provided data through 2031, identifying a 7-year planning horizon following the base year. The base year is 2017; year seven is 2024.
- Excluded MDCs[6] and DRGs[7]
  - MDC 19 – patients, patient days, and DRGs for psychiatric
  - DRG385-391/789-795 – patients, patient days, and DRGs for neonates
  - DRG 462/945-946 – patients, patient days, and DRGs for rehabilitation
- Weighted Occupancy – Calculated consistent with the State Health Plan as the sum, across all hospitals in the planning area, of each hospital's occupancy rate times that hospital's percentage of total beds in the area. Kadlec's methodology calculated a weighted occupancy of 66.49%.
- Existing Acute Care Bed Capacity – Four acute care hospitals operate in the Benton-Franklin County planning area.

[4] The acute care bed methodology in the 1987 SHP divides Washington State into four separate Health Service Areas (HSAs) that are established by geographic regions appropriate for effective health planning. Benton County is located in HSA #3, which includes eight counties: Benton, Chelan, Douglas, Franklin, Grant, Kittitas, Okanogan, Yakima

[5] CHARS=Comprehensive Hospital Abstract Reporting System

[6] MDC=Major Diagnostic Category

[7] DRG=Diagnosis Related Group

In addition, Kadlec provided the following information on emergency visits, current and projected hospital occupancy, population growth and in-migration to the planning area from surrounding areas [source: Application pp27-29]

"Emergency Department:
Kadlec has been designated by the Department of Health as a Level III adult trauma center. Kadlec is the largest trauma center in the Planning Area. Kadlec's emergency department visits have increased from 86,004 in 2014 to 100,620 in 2017, as shown in Table 13. In each of the past four years, approximately 62% of Kadlec's inpatient admissions have come from the emergency department (Table 14) As emergency department volumes increase, so do inpatient admissions.

Applicant's Tables

Table 13. Emergency Department Visit Statistics, 2014-2017

Hospital	2014	2015	2016	2017
Kadlec Regional Medical Center	86,004	98,257	95,729	100,620

Source: Kadlec
Excludes: Neonates (DRGs 789-795), Rehab (DRGs 945 and 946), and Chemical Dependency/Substance Abuse (MDC 20).

Table 14. Kadlec Admissions from the Emergency Department, 2014-2017

	2014	2015	2016	2017
Total Inpatient Admits	14,540	14,732	14,281	15,395
Admits from Emergency Department (ED)	9,066	9,225	8,610	9,548
% of Total Inpatient Admits from ED	62.4%	62.6%	60.3%	62.0%

Source: Kadlec
Excludes: Neonates (DRGs 789-795), Rehab (DRGs 945 and 946), and Chemical Dependency/Substance Abuse (MDC 20).

Occupancy Rate
As shown in Table 15, Kadlec's acute care bed occupancy rate has increased significantly in recent years. In 2017, Kadlec operated at a 73.6% occupancy rate for its acute care beds. The 2017 occupancy rate exceeds the optimal hospital occupancy standard of 70% which the Department utilizes with the acute care bed Forecasting Method when applied to a hospital the size of Kadlec. This occupancy growth trend is expected to continue, and, without the project, Kadlec will face increasing occupancy constraints.

Thus, Kadlec is facing significant demand pressures on its available acute care beds. For example, because 62% of its admissions come 2014 2015 2016 2017 Total Inpatient Admits 14,540 14,732 14,281 15,395 Admits from Emergency Department (ED) 9,066 9,225 8,610 9,548 % of Total Inpatient Admits from ED 62.4% 62.6% 60.3% 62.0% Page 28 from the emergency department (see Table 14), Kadlec often has patients who need to wait for an extended length of time in the emergency department until an acute care bed becomes available. Adding acute care beds will enable Kadlec

to move patients from the emergency department into the optimal site of care in a timely manner. This will result in improved care for the patient and will help reduce the overall cost of care.

Applicant's Table

Table 15. Kadlec Acute Care Occupancy Rate, 2013-2017

	2013	2014	2015	2016	2017
Patient Days	51,108	52,392	55,589	55,138	62,045
ADC	140.0	143.5	152.3	151.1	170.0
Number of Acute Beds	231	231	231	231	231
Occupancy	60.6%	62.1%	65.9%	65.4%	73.6%

*Excludes Neonates (DRGs 789-795), Rehab (DRGs 945 and 946), and Psych (MDC 19)
**Excludes Rehabilitation Unit Utilization
Source: CHARS 2013-2017

Growing Population

From 2010-2015, the Benton-Franklin Planning Area population grew 1.7% annually. As shown in Table 16, this trend is expected to continue during the 5-year periods from 2015-2020 and from 2020- 2025, with an estimated average annual population increase of 1.8% during each of those periods.

The population growth is driven primarily by growth in the number of residents age 65 years and older. As shown in Table 16, the number of residents age 65 years and older increased, on average, 5.0% per year from 2010-2015, and is forecasted to grow 4.2% per year during 2015-2020 and 3.7% per year during 2020-2025. This high rate of growth in the number of older residents is important because older residents have a much greater inpatient utilization rate than younger residents. In turn, this translates into much greater demand for inpatient care in the Planning Area. As discussed below in Step 6 of the Forecasting Method and as shown in Table 20, residents age 65 years and older from the Benton-Franklin Planning Area have an inpatient use rate of patient days that is more than five times that of residents whose ages range from 0 to 64 years old.

Applicant's Table

Table 16. Benton-Franklin Planning Area Population Statistics, 2010-2035

	Year						Average Annual Growth				
	2010	2015	2020	2025	2030		2010-2015	2015-2020	2020-2025	2025-2030	2030-2035
Ages 0-64	227,058	241,914	259,517	279,278	297,956	302,150	1.3%	1.4%	1.5%	1.3%	1.4%
Ages 65+	26,282	33,826	41,760	50,244	57,653	58,709	5.0%	4.2%	3.7%	2.8%	1.8%
Total	**253,340**	**275,740**	**301,277**	**329,522**	**355,609**	**360,859**	**1.7%**	**1.8%**	**1.8%**	**1.5%**	**1.5%**

Planning Area Resident Utilization and In-Migration

Residents from both inside and outside the Planning Area have increasingly relied on Kadlec for inpatient care. Table 17 shows the previous five-year patient day volumes at Kadlec for acute care, segmented by geographic designation.

The Table shows that, in each of the past five years, approximately a quarter of Kadlec's patient days have been attributable to patients who reside outside the Planning Area. Thus, Kadlec serves

the acute care needs not just of Planning Area residents, but also of a significant number of residents from the surrounding region."

Applicant's Table

Table 17. Kadlec Patient Days by Patient Origin, 2013-2017

	2013	2014	2015	2016	2017	Average Annual Growth
PA Residents to KRMC	38,627	39,313	41,433	40,736	46,760	4.8%
In-migration to KRMC	12,481	13,079	14,156	14,402	15,285	5.1%
Total Acute Days at KRMC	**51,108**	**52,392**	**55,589**	**55,138**	**62,045**	**4.8%**
PA Residents to KRMC (% of Total)	75.6%	75.0%	74.5%	73.9%	75.4%	
In-migration to KRMC (% of Total)	24.4%	25.0%	25.5%	26.1%	24.6%	

*Excludes Neonates (DRGs 789-795), Rehab (DRGs 945 and 946), and Psych (MDC 19)
**Excludes Rehabilitation Unit Utilization
Source: CHARS 2013-2017
PA = Planning Area

Kadlec based its methodology on the available beds in the planning area and counted 372 beds. The beds represent available medical/surgical beds between the four active hospitals in the planning area. The following bed types were excluded: NICU bassinets at all levels, rehabilitation beds, and psychiatric beds.

Table 3 below shows the results of Kadlec's numeric methodology for years 2017 through 2024 [source: Application p30, Exhibit 15]

Table 3
Kadlec Acute Care Bed Mythology
Projection Years 2017-2024

	2017	2018	2019	2020	2021	2022	2023	2024
Gross Bed Need	372	382	393	404	415	426	437	449
Minus Existing Capacity	372	372	372	372	372	372	372	372
Net Need (surplus)	-1	10	21	32	43	54	65	77

The results cited above shows need in excess of the 67 requested beds in the projection year.

In addition to numeric need, the applicant must also demonstrate that other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need. Kadlec provided the following statement:

"…there is an estimated shortage of 10 acute care beds in the Planning Area in 2018. Most importantly, however, the Forecasting Method establishes that there will be a need for an additional 77 acute care beds in the Planning Area in 2024, which is the target year under the seven-year planning horizon the Department uses for acute care bed expansion projects. [source: Application, p30, Exhibit 15]

Public Comment

The department received public comment from a number of sources supporting the proposed expansion, but also received some opposing comment. The Trios Health comment expresses two primary concerns about the need methodology for additional acute care beds in the planning area. The concerns are summarized below.

The Kadlec application requests all of the need projected in the planning area

Trios states, *"Importantly, the methodology projects need for all providers, and Kadlec's request for more than 100% of all the beds needed in 2021 is detrimental to Trios Health returning to its pre-bankruptcy state and to preserving choice and access in the Planning Area. The two critical access hospitals, by definition, have a limited range of services, and prior to being impacted by the failed financial position of the District and the subsequent bankruptcy, Trios Health historically maintained a higher census than it did in 2017 and 2018. Kadlec currently has 60% of the acute care beds in the planning area."* [source: January 22, 2019, public comment, p3]

The acute care need methodology miscounts the number of beds at Prosser

Trios contends, "*Kadlec would have 298 acute care beds. The correct application of the State's methodology identifies a total need of 417 beds, and a net need of 35 beds. Kadlec' s projections identify 43 beds needed, but it miscounted the bed supply at Prosser."* [source: January 22, 2019, public comment, FN2]

Rebuttal Comment

Kadlec supplied rebuttal to the public comment submitted and addressed each of the issues outlined above directly.

Regarding the request of all of the beds projected in the need methodology

Regarding the request for all of the capacity determined in the acute care need methodology for the planning area, Kadlec stated, "…*the acute care bed need methodology applies to planning areas, and when there is net bed need in a planning area in the target year (as in this case), any provider is free to request additional beds consistent with the net need projection. In applying the methodology, the Department has consistently used a 7-year forecast horizon for acute care bed expansion projects*."

Kadlec continues, "*It is indisputable that seven years is the proper planning horizon for hospital expansion projects, and that 2024 is the target year for calculating acute care bed need in the Benton-Franklin Planning Area. However, Trios argues that the 7-year planning horizon should be abandoned in this case in order to provide it with market protection. This argument violates the Department's consistent and long-established policy and practice in applying the methodology to acute care bed expansions by existing hospitals. Trios' argument must be rejected."* [source: February 4, 2019 rebuttal, pp3-4]

Regarding the bed count in the planning area

Kadlec states, "*The only significant difference between the two need calculations…is Kadlec's use of 15 acute care beds at Prosser Memorial Hospital ("PMH") in the Planning Area bed inventory, and Trios' use of 25 beds at PMH in the inventory. Kadlec utilized the Department's 2016 acute care bed survey data. The 2018 survey indicates PMH has 19 set-up, acute care beds. Thus, the correct number of beds at PMH is 19, not 25 or 15. This revised figure would change Kadlec's bed need forecast to 74 beds in the target year of 2024, not 76, a reduction in need of only 2 beds. The bed*

need in the target year still exceeds the 67 beds requested by Kadlec." [source: February 4, 2019 rebuttal, FN8]

Kadlec characterized Trios Health's overall comments in their public comments as a request for "18 to 24 months of market protection," and provided the following information to the department in response to this:

Simply put, Trios is requesting the Department to provide it with 18 to 24 months of market protection. In its effort to rationalize this request, Trios reveals a fundamental misunderstanding of how the Department's acute care bed need methodology works. In Section C below, we discuss each of Trios' erroneous assertions relating to the bed need methodology and the hospital occupancy statistics in the Planning Area. Moreover, an essential flaw undermines all of Trios' assertions: Trios fails to recognize the 7-year planning horizon used in the acute care bed need methodology fully takes into account the current market conditions in the Planning Area, and thus renders invalid all of Trios' arguments in support of granting it market protection.

Trios' request for special treatment is particularly inappropriate given that Trios acknowledges it already has received a special dispensation from the Department: 'Thanks in large part to the support and efforts of the Department of Health, on August 2, 2018, CN #1470 was issued to [Trios] approving the acquisition of the 111-bed Trios Health hospital."3 As evidence of this dispensation, Trios notes: "in the more than 40-year history of the CN Program, the Trios Health acquisition was the first time the emergency review timeline was used."

However, Trios is now requesting further dispensation from the Department in the form of 18 to 24 months of market protection. Trios' motive is transparent: it wants time to build its market share in the Planning Area.[5] Based on the current occupancy rate at Kadlec and the projected need in the Planning Area, Kadlec has evaluated its ability to meet the growing demands for its services and, appropriately, filed a request to address the need. By comparison, RCCH and Trios are seeking further special treatment in the form of market protection, which will delay the availability of much-needed beds and prevent Kadlec from addressing the growth evidenced in the community. Trios' request is presumptuous, unreasonable, and inappropriate, and it must be rejected by the Department.

FN 5: As part of its rationalization for further special treatment, Trios asserts that it "takes seriously its obligations to the community." (Trios Comments, p. 3.) However, this assertion is belied by RCCH's operating history in Washington. In its comments on RCCH's CN application to acquire Trios Health, as well as in its comments on RCCH's CN applications to acquire Lourdes Medical Center and Lourdes Counseling Center, Kadlec set forth in detail its concerns about RCCH's commitment to serving all residents in the communities it serves, especially those who are financially vulnerable and in need of charity care. These concerns arise out of events occurring at Capital Medical Center ("CMC") in Olympia, and include (1) a legal action commenced by the Attorney General of Washington relating to CM C's practices relating to low-income and charity care patients and (2) CMC's failure to comply with CN conditions relating to the level of charity care provided at CMC.

Department Evaluation

Below are the assumptions and factors used in the department's acute care bed need methodology. The methodology is included in this evaluation as Appendix A.

- Hospital Planning Area – Benton-Franklin Counties
- CHARS Data – Historical years 2008 through 2017
- Projected Population –Based on Office of Financial Management medium series data for Benton-Franklin Counties and statewide. Historical and projected intercensal and postcensal estimates were calculated.
- Excluded MDCs[8] and DRGs[9]
  - MDC 19 – patients, patient days, and DRGs for psychiatric[10]
  - DRG385-391/789-795 – patients, patient days, and DRGs for neonates
  - DRG 462/945-946 – patients, patient days, and DRGs for rehabilitation
- Weighted Occupancy – Calculated consistent with the State Health Plan as the sum, across all hospitals in the planning area, of each hospital's occupancy rate times that hospital's percentage of total beds in the area. The department's methodology calculated a weighted occupancy of 66.49%.
- Existing Acute Care Bed Capacity – Four acute care hospitals operates in the Benton-Franklin planning area. Based upon DOH bed surveys of 2018 and Hospital Year End Reports

Below is a summary of the steps in the department's numeric need methodology.

Steps 1 through 4 develop trend information on historical hospital utilization.
In steps 1 through 4, the department focused on historical data for years 2008 through 2017 to determine the statewide and health service area [HSA] use trends for acute care services. Benton-Franklin is within HSA #3. The department computed a trend line for statewide and HSA utilization of inpatient acute care services. The HSA and state use trend line projected an increase in acute care use: -2.7405 and 0.8595, respectively. The SHP requires use of either the statewide or HSA trend line *"whichever has the slowest change."* The HSA trend line, with the slight decrease, showed the slowest change and is considered more statistically reliable. The department applied the data derived from those calculations to the projection years in the following steps.

Steps 5 through 9 calculate baseline, non-psychiatric bed need forecasts.
For these steps, the department calculates base-year use rates, broken down by population ages 0-64 and ages 65 and older, determining the rates at which different populations receive inpatient non-psychiatric care. This includes calculating in-migration to Benton-Franklin County (for Washington and out-of-state residents) and out-migration (to other Washington State hospitals and Oregon hospitals[11]). This results in a use rate for the hospital in Benton-Franklin County. The department then multiplies this use rate by the slope acquired in Step 4 to project how this use rate may change during the projection period.

Table 4 below shows the use rates, broken down by age group that Kadlec and the department applied to the projected population for the projection year:

Table 4

[8] MDC=Major Diagnostic Category
[9] DRG=Diagnosis Related Group
[10] An error in reporting shows an unexplainable jump of psychiatric days for HSC#3 in 2013, to 4,717 from 585 in 2012. To correct this clear error, the median number calculated from 2012 and 2014 was substituted.
[11] Current data is unavailable from the State of Oregon regarding out migration. Further, Though Benton County shares a border with Oregon, there are no large population centers on the Oregon side that would dramatically alter the need methodology.

Department Numeric Need Methodology
Use Rates by Age Cohort

	0-64	65+
Department	198.20/1,000 population	1,101.65/1,000 population
Kadlec	199.32/1,000 population	1,035.22/1,000 population

When the use rates are applied to the projected population, the result is the projected number of patient days for the planning area. The numeric methodology is designed to project bed need in a specified "target year." It is the practice of the department to evaluate need for a given project through at least seven years from the last full year of available CHARS data. Using 2017 CHARS data, seven years is 2024.

Steps 10 through 12 are intended to determine the total baseline hospital bed need forecasts, including need for short-stay psychiatric services.

In step 10, the department projected the number of acute care beds needed in the planning area, subtracted the existing capacity, resulting in a net need for acute care beds.

The department and Kadlec largely agreed on the current bed count for Benton-Franklin County, with the exception of the total number of beds available at Prosser Memorial Health. Though PMH Medical has historically been licensed for 25 beds, the 2018 acute care bed survey indicated that only 19 of the 25 are set up and staffed. Further addition verification, review of the most recent year-end report showed that Prosser had indicated that all 25 beds were available. With the year-end reports serving as the most recent data available, the department counts Prosser Memorial Health as 25 available beds. [source: Prosser Memorial Health response to 2018 annual survey of in-patient beds]

In the end, the agency applied the following beds counts for the Benton-Franklin planning area.

Table 5
Benton-Franklin Planning Current Bed Capacity

Facility	Bed Count
Kadlec Regional	231
Lourdes	25
Prosser Memorial	25
Trios Health	101
Total	**382**

Table 6 below shows the department's methodology calculations for years 2018 through 2024. This table also shows the impact to the planning area as the beds are added by phase.

Table 6
Department of Health Methodology
Projection Years 2018 through 2024

	2018	2019	2020	2021	2022	2023	2024
Gross Number of Beds Needed	398	404	415	422	428	434	441
Minus Existing Capacity	382	382	382	382	382	382	382
Ned Bed Need/(Surplus)	**17**	**24**	**35**	**41**	**48**	**54**	**60**
Bed Additions	0	10	20	37	0	0	0
Net Bed Need/(Surplus) with project[12]	**17**	**13**	**3**	**-29**	**-23**	**-17**	**-11**

Step 11 projects need for short-stay psychiatric beds. Step 12 is the adjustment phase where any necessary changes are made to the calculations in the prior steps to reflect conditions which might cause the application of the methodology to over or understate the need for acute care beds. This application did not request short-stay psychiatric beds, nor are there any circumstances known to the department (or suggested by the applicant) to suggest that adjustments are necessary to any prior steps. Therefore, neither Kadlec nor the department completed steps 11 or 12. Neither of these steps will be discussed any further.

The primary differences between the result of the department's methodology and the methodology submitted by Kadlec are the count of available beds in the planning area. This leads to a difference in the tabulated amount of the additional capacity needed. Ultimately, both models show need for additional acute care beds in the Benton-Franklin planning area within the 7-year forecast period. Further, once the proposed beds are added to the planning area, need reappears in the following projection year of 2025. Year three of phase three of the project will likely occur in 2025 when there will be a need for 74 acute care beds.

The public comment submitted by Trios Health addressed two issues involving the acute care need methodology and one issue involving availability and accessibility of services in the planning area.

Need forecast period

In relation to the use of the 7-year forecast of need, the Department has been consistent in its application of a 7-year horizon in the development of a planning area's acute care need forecast. Nothing presented in the comment from Trios would justify the application a differing forecast period of the planning area need.

Rebuttal from the applicant further states, "*It is indisputable that seven years is the proper planning horizon for hospital expansion projects, and that 2024 is the target year for calculating acute care bed need in the Benton-Franklin Planning Area. However, Trios argues that the 7-year planning horizon should be abandoned in this case in order to provide it with market protection. This argument violates the Department's consistent and long-established policy and practice in applying the methodology to acute care bed expansions by existing hospitals*." [source: Kadlec Rebuttal, p4]

The Department has concluded that the 7-year projection period to 2024 is accurate and applicable to the acute care need methodology applied to the evaluation of this proposed bed expansion.

[12] The occupancy standard shifts as a result of this project, which is why these numbers do not sum.

Planning area bed count

The numeric need methodology considerers the current bed capacity for the planning area. Trios contends that the proper count should be 25. Kadlec, in their rebuttal, concedes that it inaccurately reported the Prosser Memorial Health capacity at 15, but claim the corrected number is 19, rather than 25. [source: Trios comment, FN2; Kadlec Rebuttal, FN8]

The 2018 year end reporting submitted by Prosser Memorial Health indicated that they have all 25 licensed beds in use. Therefore, the Department has included these 25 staffed acute care beds in its production of the Benton-Franklin planning area need methodology. [source: PMH Medical Center 2018 Year End Report]

Availability and Accessibility of Services in the Planning Area

Within their comments, Trios did not contest whether there was a growing need for beds in Benton and Franklin Counties – their concerns instead seemed to focus instead on whether the beds should be awarded to Kadlec and the timing of any CN award of acute care beds. Related to the timing, Kadlec proposed to add the beds in three phases, with phase three correlating with year 7 of the projection horizon – 2024. This is appropriate and generally consistent with the department's expectations for an acute care bed addition. Furthermore, Kadlec does not propose to add beds significantly beyond those identified in the numeric need methodology.[13] Regardless of who the applicant is and what market share they hold within the community, this approach is acceptable to the department.

On the topic of Trios' CN conditions following bankruptcy, Trios asserts that the addition of beds at Kadlec could compromise their ability to provide mandatory services. They also voiced that this may impact some undefined "new services" proposed for next year. It is important to recognize that Kadlec is not proposing any expansion of services at their hospital. Kadlec is only proposing the addition of needed beds that are responsive to inpatient hospitalization trends, overall population growth, and the aging population. The bed addition as proposed by Kadlec should not impact Trios' market share, as Kadlec did not rely solely on the numeric need methodology in projecting need for services, and also relied on existing referral patterns. Use of existing referral patterns is also an acceptable approach in predicting utilization, regardless of the identity of the applicant or their competitor(s).

Trios cites the department's use of the emergency review schedule in their 2018 change of ownership in their request that the department limit Kadlec's approval. While the emergency review was used to preserve over 100 beds in the community, this should not be conflated with the assumption that the department would ignore numeric need to deny a valid CN request for additional acute care beds. Finally, Trios only identifies that they could absorb the need in the community in the short term, suggesting that Kadlec reapply for additional beds in 18 to 24 months. Trios will have the opportunity to absorb capacity in the planning area as Kadlec implements their project – an approval in 2019 for beds that will not be active until 2021 at the earliest does not limit Trios' ability to rebuild their operations following bankruptcy.

Absent documentation that there is insufficient numeric need in the planning area or that the existing healthcare system could support the upcoming numeric need, the department concludes that the

[13] The department's methodology shows a need for 60 out of the 67 beds in 2024, and for approximately 74 beds in 2025. Based on the growth of need, an excess of seven beds for one year is not unreasonable.

planning area does not have sufficient beds available and accessible to the community. **This sub-criterion is met.**

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

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

The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and assurances regarding access to treatment. 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 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.[14] With the passage of the Affordable Care Act in March 2010, the amount of charity care is expected to decrease, but not disappear.

Kadlec Regional Medical Center

Kadlec provided copies of the following policies currently in used at the hospital. [source: Application, Exhibit 16, 17; Screening Responses, p6]

- Admissions Policy
- Non-Discrimination
- Patient Rights and Responsibilities
- Charity Care Policy[15]

Kadlec is currently Medicare and Medicaid certified. Kadlec provided its current source of revenues by payer for the hospital and stated that the additional 67 beds would not change the payer mix. [source: Application, p7] Current and projected hospital-wide payer mix is shown below.

[14] WAC 246-453-010(4)

[15] Kadlec is in process of updating its charity care policies to comply with the recently adopted SB 6273, so the draft policy was submitted with the CN application…When completed, Kadlec will submit the updated charity care policy to DOH for approval and will provide the CN program with the final policy as a condition of the CN.

Table 7
Kadlec Region al Medical Center Payer Mix

Revenue Source	Current and Projected
Medicare	42%
Medicaid	23%
Commercial	30%
Other Gov/L&I	3%
Private/Self Pay	3%
Total	**100%**

In addition to the policies and payer mix information, Kadlec provided the following information related to uncompensated care provided by Kadlec specifically. [source: Application, p37]

"Kadlec has a mission to provide compassionate care to all people in need. This includes a special concern for those who are poor and vulnerable. Patients are treated and cared for regardless of gender, race, ethnicity, disabilities or their ability to pay. Kadlec's 74-year mission has been, and is, to provide quality health care for every patient.

Given its mission, Kadlec provides charity care to those who are poor and vulnerable and unable to pay for required care. In 2017, Kadlec provided $7.8 million in free and discounted care for those in need in the Planning Area and in the surrounding region. In addition to providing a high level of free and discounted medical care, Kadlec provided approximately $38.5 million in the unfunded cost of government-sponsored medical care; community health, grants and donations; education and research programs; and subsidized services. Overall, Kadlec's community benefit in 2017 was more than $46 million.

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

Table 21 highlights Kadlec's commitment to giving to our communities, with 2017 community benefit in excess of $46 million."

Applicant's Table 21 Recreated
Kadlec Community Benefit, 2017

Service	*Amount*
Unfunded portion of Government-sponsored medical care	$36.7 Million
Free and Discounted Medical Care	$7.8 Million
Community health, grants and donations	$0.6 Million
Education and research programs	$0.8 Million
Subsidized services	$0.4 Million
Total	**$46.3 Million**

Public Comment
None

Rebuttal Comment
None

Department Evaluation
The admission policy that was provided includes the required information, including the criteria for admitting patients and a description of the types of patients that would be served.

The financial data provided in the application shows Medicare and Medicaid revenues consistent with the table above. The department concluded that Kadlec intends to continue to be accessible and available to Medicare and Medicaid patients based on the information provided. Kadlec is currently Medicare certified

The draft charity care policy includes the process a patient would need to follow in order to obtain charity care and is consistent with other charity care policies submitted to the department for the hospital. If approved, the department would attach a condition requiring submission of an updated Charity Care policy consistent with the expectations outlined in this section of the review

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

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. Kadlec proposes to add 67 acute care beds to the hospital located in Benton County, within the Central Region.

Currently there are 21 hospitals operating within the region. Of the 21 hospitals, some did not report charity care data for the years reviewed – in 2016, Wenatchee Valley Hospital, Quincy Valley Hospital, and Sunnyside Community Hospital were late in reporting to DOH. Sunnyside was also late in reporting in 2017. Of these 21, there are four hospitals located in Benton and Franklin counties – Lourdes Medical Center, Kadlec Regional Medical Center, Prosser Memorial Hospital, and Trios Health – that would be affected by approval of this project. Lourdes Counseling Center, a psychiatric hospital, is not included as they do not provide surgical services.

The charity care table below compares the three-year historical average of charity care provided by the hospitals operating in the Central Region (with the exception of those that did not report), in Benton and Franklin Counties, and the applicants' projected charity care percentages.

Department's Table 8
Charity Care – Three Year Average

	% of Total Revenue	% of Adjusted Revenue
3-year Central Region	0.96%	2.51%
3-year Benton-Franklin County	1.20%	3.22%
Kadlec Regional	1.31%	3.53%

[source: HFCC Charity Care Reports, Application, p39]

As shown above, the projected percentage of charity care proposed by this facility exceeds the regional and planning area average. This figure is generally consistent with the average charity care provided at Kadlec Regional Medical Center.

The 2014 Report of Charity Care in Washington Hospitals offers the following analysis of decreased charity care across Washington State Hospitals with the introduction of the Affordable Care Act (ACA):

"Implementation of the ACA is changing the landscape of charity care in Washington State. More patients have health coverage, either through Medicaid expansion or through purchase of private coverage. As a result, Washington saw the first decline in the amount of charity care reported by hospitals since the department began gathering these data…

"As hospitals begin to report all data for calendar year 2014, the ACA becomes fully effective, and the number of insured stabilizes, we will likely see a continued decline in charity care in Washington over the next few years before it levels off again." [source: 2014 Washington State Charity Care in Washington Hospitals – January 2016]

The Certificate of Need program recognizes that charity care in Washington State is expected to continue to decline as more individuals receive healthcare coverage under the ACA, but charity care is not expected to reach zero.

Kadlec acknowledged the requirement to provide charity care and committed to the regional average. **With agreement to a charity care condition, this sub-criterion is met.**

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

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

Department Evaluation
This sub-criterion is not applicable to this application.

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

Department Evaluation
This sub-criterion is not applicable to this application.

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

Department Evaluation
This sub-criterion is not applicable to this application.

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

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

Department Evaluation
This sub-criterion is not applicable to this application.

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

Department Evaluation
This sub-criterion is not applicable to this application.

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

Department Evaluation
This sub-criterion is not applicable to this application.

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Kadlec **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.

Kadlec Regional Medical Center

Kadlec relied mostly on the acute care bed methodology for their volume projections, along with the following assumptions. [source: Application p38]

Utilization:

- *Outpatient volumes increase at 6% per year.*
- *Primary Care volumes increase at 8% per year.*
- *Length of Stay is held constant at 2017 levels.*

Using the assumptions stated above, Kadlec projected the number of discharges, patient days, average daily census, and occupancy with the 67 bed increase. The projections are shown below, beginning with calendar year 2018. [source: Application, Exhibit 9]

Table 9
Kadlec Regional Medical Center
Med/Surg Utilization Projections

Year	Discharges	Patient Days	ADC	Acute Beds	Occupancy
2018	15,362	63,822	174.86	231	75.7%
2019	16,030	66,598	182.46	241	75.7%
2020	16,912	70,263	192.50	261	73.8%
2021	18,078	75,105	205.77	298	69.0%
2022	18,557	77,096	211.22	298	70.9%
2023	19,049	79,141	216.82	298	72.8%
2024	19,553	81,235	226.56	298	74.7%

The assumptions Kadlec used to project revenue, expenses, and net income for the proposed expansion for the projection years are shown below. [sources: Application, pp54-55]

Revenues:

- I*nflation of gross and net revenues was excluded from model.*
- *The gross and net revenues are based on actual inpatient, outpatient, and primary care cases.*
- *Incremental revenues were calculated on a per case basis, based on actual reimbursement from 2018 cases.*
- *Payer mix for both cases and gross revenues was held constant at 2018 rates.*
- *Deductions from revenues were calculated based on actuals.*
- *Charity care is assumed constant at 1.31% of gross revenues, the Kadlec 3-year average*
- *(2014-2016). This is higher than the Central Washington region 3-year (2014-2016) average of 1.05%.*

Expenses:

- *FTEs (by account classification, by year), Salaries & Wages, and Benefits were modeled for forecast incremental case volumes based on actuals. It is assumed an FTE works*
- *2,080 hours per year.*
- *2. Non-productive hours are calculated by multiplying productive hours by 1.10; the non-productive factor is thus 10% of productive hours, which is consistent with actual run rate.*
- *Benefits as a percentage of wages and salaries are estimated at 8.7%. Beginning in 2017, retirement, health care, and workers comp are recorded at the system level (not locally) so they are excluded from the benefit percentage.*
- *Expenses were modeled for the forecast incremental case volumes based on actuals.*
    - *Supplies were calculated on a per case basis as a percentage of net revenues from 2018 projections.*
    - *Purchased services 12 were calculated on a per case basis based on 2018 projections.*
    - *Pharmacy and drugs were calculated on a per case basis t revenues from 2017 projections.*

Table 10
Projected Revenue and Expenses

	2020	2021	2022	2023	2024
Patient Days	70,263	75,105	77,096	79,141	81,235
Net Revenue	$731,750,188	$778,251,980	$816,662,013	$857,378,134	$900,529,660
Total Expenses	$716,344,884	$760,119,043	$796,420,820	$834,866,619	$876,188,037
Net Profit/(Loss)	**$15,405,304**	**$18,132,937**	**$20,241,193**	**$22,511,515**	**$24,341,623**

The 'Net Revenue' line item is gross inpatient and outpatient hospital revenue, plus any non-operating revenue. The 'Total Expenses' line item includes all expenses related to hospital operations, including all staff salaries/wages.

Public Comment
None

Rebuttal Comment
None

Department Evaluation
To evaluate this sub-criterion, the department first reviewed the assumptions used by Kadlec to determine the projected patient days of the proposed expansion. The projections are based upon the acute care need methodology for the Benton-Franklin planning area. This assumption is reasonable.

Kadlec based its revenue and expense assumptions for the on the assumptions listed above, including actual historical figures, from the hospital when applicable. This is reasonable.

The site is the hospital already owned by Kadlec, thus there are no site costs beyond stated improvements.

Kadlec identified the medical director, would be an employee and that the cost of their services is accounted for in "other direct expenses." [source Application, p58].

The pro forma financial statements show revenues exceeding expenses within the first full year of operation and to continue doing so.

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.

Kadlec Regional Medical Center

The capital expenditure associated with the addition of 67 acute care beds is $ $1,416,100. The table below summarizes costs by category. [source: Application, p49]

Table 11
Kadlec Regional Medical Center
Estimated Capital Expenditure Breakdown

Item	Cost	Percentage
Construction	$150,000	10.6%
Moveable Equipment	$1,153,959	81.5%
WA Sales tax	$112,141	7.9%
Total	**$1,416,100**	**100.00%**

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Kadlec confirmed that the hospital would continue full operations during construction and the addition of 67 beds. As a result, no start-up costs are required.

In its financial review, the HFCCP provided the following information and review regarding the rates proposed by Kadlec for the hospital: "Kadlec's rates are similar to the Washington statewide averages." [source: HFCCP Program analysis p4]

Table 12
HFCCP Rate Analysis

Kadlec	2022	2023	2024
Rate per Various Items	**CONyr4**	**CONyr5**	**CONyr6**
Admissions	19,307	19,803	20,311
Patient Days	88,505	90,778	93,106
Gross Revenue	2,407,976,859	2,530,767,571	2,660,902,927
Deductions From Revenue	1,609,516,836	1,691,591,428	1,778,575,257
Net Patient Billing	798,460,023	839,176,143	882,327,670
Other Operating Revenue	18,201,990	18,201,990	18,201,990
Net Operating Revenue	816,662,013	857,378,133	900,529,660
Operating Expense	644,187,984	674,870,927	707,965,159
Operating Profit	172,474,029	182,507,206	192,564,501
Other Revenue	(152,232,835)	(159,995,691)	(168,222,877)
Net Profit	20,241,194	22,511,515	24,341,624
Operating Revenue per Admission	$ 41,356	$ 42,376	$ 43,441
Operating Expense per Admission	$ 33,366	$ 34,079	$ 34,856
Net Profit per Admission	$ 1,048	$ 1,137	$ 1,198
Operating Revenue per Patient Day	$ 9,022	$ 9,244	$ 9,477
Operating Expense per Patient Day	$ 7,279	$ 7,434	$ 7,604
Net Profit per Patient Day	$ 229	$ 248	$ 261
Operating Revenue per Adj Admissions	$ 16,182	$ 16,182	$ 16,181
Operating Expense per Adj Admissions	$ 13,055	$ 13,013	$ 12,984
Net Profit per Adj Admissions	$ 410	$ 434	$ 446
Operating Revenue per Adj Pat Days	$ 3,530	$ 3,530	$ 3,530
Operating Expense per Adj Pat Days	$ 2,848	$ 2,839	$ 2,832
Net Profit per Adj Pat Days	$ 89	$ 95	$ 97

Kadlec stated under WAC 246-310-220(1) that the payer mix is not expected to change significantly with the addition of these beds. Further, Kadlec stated that all assumptions related to costs and charges are based on current rates at Kadlec with no proposed changes.

Based on the above information, the department concludes that Kadlec's expansion would probably not have an unreasonable impact on the costs and charges for healthcare services in Benton-Franklin County and surrounding communities. **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.

Kadlec Regional Medical Center

The total estimated capital expenditure associated with the additional 67 acute care beds is $1,416,100. Of that amount, approximately 10% is related to construction; 81% is related to equipment, and the remaining 9% is for sales tax. [source: Application, p49]

Kadlec intends to fund the project using Kadlec St Joseph Health reserves and provided a letter of financial commitment for the project. There are no start-up costs associated with this project. [source: Screening Responses, Exhibit 21]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

After reviewing the balance sheet, the HFCCP provided the following statements. [source: HFCCP analysis, p4]

"The CN project capital expenditure is $1,416,100. Kadlec will use its existing reserves. This investment represents 0.2% of total assets, and only 1.4% of Board Designated Assets of the hospital as of 2017."

This expansion represents a very small portion of that amount of available funding from the organization. **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 Kadlec **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.

Kadlec Regional Medical Center

Kadlec currently operates 231 acute care beds. Table 12 provides a breakdown of current and projected FTEs [full time equivalents]. [source: Screening Response, Exhibit 29]

Table 12
Current and Proposed FTEs

	2018	2019	2020	2021	2022	2023
Management Physician	143	143	144	144	144	144
RNs	691	736	789	849	899	952
Physicians	156	164	174	186	195	205
Non-Physician Med	92	97	103	110	115	121
Other/Support	1,564	1,649	1,749	1,862	1,956	2,056
Nonproductive	268	283	300	320	336	353
Agency	13	14	14	15	16	17
Total	2,927	3,086	3,273	3,486	3,661	3,848
Increase/(Decrease)		**5.4%**	**6.1%**	**6.5%**	**5.0%**	**5.1%**

In addition to the table above, Kadlec provided the following statements related to this sub-criterion. [source: Application, p58]

"We do not anticipate any staffing challenges. Kadlec has an excellent reputation and history of being able to recruit and retain appropriate personnel. Kadlec offers a competitive wage scale, a generous benefit package, and a professionally rewarding work setting.

As part of Providence, Kadlec has multiple resources available to assist with the identification and recruitment of appropriate and qualified personnel:

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

Each of these factors has contributed to the ability to maintain a highly qualified employee and management base. Kadlec employs a large number of general and specialty care providers. Kadlec offers an attractive work environment and hours, thus attracting local area residents who are qualified to work in the hospital setting. We do not expect staffing challenges that would disrupt Kadlec's ability to achieve its goals and objectives relative to adding and operating the additional beds."

Public Comment
None

Rebuttal Comment
None

Department Evaluation
Kadlec is currently licensed for 231 general acute care beds. With an additional 67 beds, the increase in staff coincides with the increase in admissions and patient days for the hospital.

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

Information provided in the application demonstrates that Kadlec is a well-established provider of healthcare services Benton-Franklin County and surrounding areas. Information provided in the application demonstrates that Kadlec has the ability and expertise to recruit and retain a sufficient supply of qualified staff for this project.

There was no public comment related to this sub-criterion. Based on the above information, the department concludes that Kadlec demonstrated adequate staffing at Kadlec is available or can be recruited. **This sub criterion is met.**

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

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

Kadlec Regional Medical Center

Kadlec provided the following statements related to this sub-criterion. [source: Application, p59]

"Kadlec is an existing acute care hospital providing high quality patient services, which includes appropriate ancillary and support services. Kadlec has ancillary services that ensure efficiency and access to state-of-the-art diagnostic and therapeutic services to serve all patients in the best possible manner. The existing ancillary and support services will support the additional bed capacity and will be increased to match needs as we add beds over the 2019-2021 period.

Kadlec utilizes a combination of internal and external arrangements to address the ancillary and support services needed by the hospital. All but two services are provided via an existing internal arrangement. Kadlec has the ability to increase its internal support services, as needed. Kadlec also has two existing external arrangements related to linen services and reference laboratory. Since Kadlec already contracts for linen and reference laboratory services, the hospital will adjust these two services, as needed, after CN approval and as the additional beds become available. No new contracts or new services will be required for the additional 67 beds."

Public Comment
None

Rebuttal Comment
None

Department Evaluation

Kadlec has been in operation for many years. All ancillary and support services are already in place. With the addition of 67 more acute care beds, Kadlec expects some ancillary and support needs may increase, but that existing arrangements are sufficient to account for this increase.

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that Kadlec will continue to maintain the necessary relationships with ancillary and support services with the addition of 67 beds. **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.

Kadlec Regional Medical Center
Kadlec provided the following statements related to this sub-criterion. [source: Application, pp61-62]

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

"Kadlec is licensed by the State of Washington Department of Health, is Medicare-certified, and is accredited by The Joint Commission. Kadlec also participates in a variety of other accreditation, licensure and certification reviews by external agencies (please see a list of current licensures, accreditations, and certifications in section I.E: Facility licensure/accreditation status).

Public Comment
None

Rebuttal Comment
None

Department Evaluation
As a 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.[16] To accomplish this task, the department reviewed the quality of care and compliance history for Kadlec and their parent corporation, Providence.

Washington State Survey Data
The eight Providence hospitals currently operating include Providence Holy Family Hospital, Providence St Joseph's Hospital, Providence Mount Carmel Hospital, Providence Centralia Hospital, Providence Sacred Heart Medical Center and Children's Hospital, Providence St Mary Medical Center, Providence St Peter Hospital, and Providence Regional Medical Center Everett. Swedish Health Services and Western Health Connect also operate under the Providence umbrella – their Washington State hospitals include Swedish Edmonds, Swedish First Hill, Swedish Issaquah, Swedish Cherry Hill, and Kadlec Regional Medical Center.

[16] WAC 246-310-230(5)

All of the hospitals listed above are accredited. The Providence hospitals and Kadlec Regional Medical Center are accredited by the Joint Commission. The Swedish hospitals are accredited by Det Norske Veritas (DNV). [source: Joint Commission website, DNV website, ILRS]

The department also reviewed the survey deficiency history for years 2016 through 2018 for all Providence hospitals located in Washington State. Of the eight Washington State hospitals, three had deficiencies in one of the three years. All deficiencies were corrected with no outstanding compliance issues.[17]

In addition to the hospitals above, department also reviewed the compliance history for the two ambulatory surgical facilities and 13 in-home service agency licenses, including home health, hospice and a hospice care center. All of these facilities are operational. Using its own internal database, the survey data showed that more than 40 surveys have been conducted and completed by Washington State surveyors since year 2016. All surveys resulted in no significant non-compliance issues. [source: ILRS survey data and Department of Health Investigations and Inspections Office]

Providence has not yet hired staff for this surgery center, including a medical director. Since the medical director will be an employee of Providence (not the surgery center), no medical director contract was provided. If this project is approved, the department would attach a condition requiring Providence to submit a listing of key staff for the surgery center. Key staff includes all credentialed or licensed management staff, including the director of nursing, and medical director.

Other States

In addition to a review of all Washington State facilities owned and operated by Providence, the department also examined a sample of Providence/St Joseph Health facilities nationwide. According to information in the application and its website, Providence operates healthcare facilities across the western United States. The department randomly selected Providence and Providence-affiliated facilities in Montana, California, and Texas to review for their compliance with state and federal standards, shown below:

[17] The three hospitals were Holy Family Hospital in Spokane County, Providence Regional Medical Center-Everett in Snohomish County, and Providence St. Peter in Thurston County.

Department's Table 13
Providence and Affiliated Facilities Outside of Washington

Facility Name	State	Joint Commission Accredited?	State Enforcement Action since 2016?
Providence			
Providence Little Company of Mary Medical Center San Pedro	CA	yes	yes[18]
Providence Little Company of Mary Medical Center Torrance	CA	yes	no
Providence Saint John's Health Center	CA	yes	yes[19]
Providence Saint Joseph Medical Center	CA	yes	no
Providence Tarzana Medical Center	CA	yes	no
Providence Affiliate – St Joseph Health			
Petaluma Valley Hospital	CA	yes	no
Hoag Hospital Newport Beach	CA	no – DNV	no
Covenant Health Plainview	TX	no	no

As shown above, out-of-state Providence facilities have demonstrated compliance with applicable state and federal regulations. No evidence on any of the state licensing websites indicated that any of the above facilities have ever been closed or decertified from participation in Medicare or Medicated as a result of compliance issues. Furthermore the penalties identified above were resolved through minor administrative fines.

Based on the above information and agreement to the conditions identified in this evaluation, the department concludes that Kadlec demonstrated reasonable assurance that its surgery center located in Richland would be operated in compliance with state and federal requirements. **This sub criterion is met.**

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

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

Kadlec Regional Medical Center

Kadlec provided the following statements related to this review criterion. [source: Application, 60]

"Kadlec has developed long-term collaborative relationships with other providers to expand program offerings and ensure access and continuity of appropriate care for residents of Benton and

[18] One administrative enforcement action related to an ulcer acquired after admission and failure to report timely. No other violations found. Fine paid in full.

[19] One administrative enforcement action related to reporting "retention of a foreign object in a patient." No other violations found. Fine paid in full.

Franklin Counties and the other surrounding communities served by Kadlec. Kadlec coordinates patient access to other Providence entities as well as community providers to ensure continuity of care during hospital discharge to other levels of care as well as when other facilities need to transfer patients to Kadlec for more advanced care. Those providers include hospitals, hospice, home care, long-term care facilities, psychiatric care, assisted living, and other providers.

Kadlec will continue to evolve relationships with hospitals, nursing homes, and other health care providers. Kadlec's processes and relationships are reviewed annually to maintain strong inclusive relationships and processes for the care continuum."

Public Comment
None

Rebuttal Comment
None

Department Evaluation
Information in the application demonstrates that as a current provider, Kadlec has the infrastructure in place to expand. Additionally, Kadlec 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 the expansion. **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 Kadlec **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. First the 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.

Kadlec Regional Medical Center

Step One

For this project, Kadlec 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, Kadlec considered three total options. The options are below. [source: Application, p63]

> *"As part of its due diligence, and in deciding to submit this application, Kadlec explored the following alternatives to adding bed capacity in the Planning Area: (1) maintain the status quo; i.e., "do nothing," (2) pursue the requested project: CN approval to add 67 beds to the existing Kadlec facility, or (3) build a new facility to accommodate 77 acute care beds.14*
>
> *The three alternatives were evaluated using the following decision criteria: access to health care services; quality of care; cost and operating efficiency; staffing impacts; and legal restrictions. Each alternative identifies advantages (A), disadvantages (D), or neutrality (N) in the tables below.*
>
> *Based upon evaluation of the above decision criteria, the requested project is the best alternative for addressing the clear and significant need for new acute care beds in the Benton-Franklin Planning Area."*

The applicant provided rations based upon a variety of focused areas. Below are Kadlec's rationales for rejecting options 1 and 3 under Cost and Operating Efficiency. [source: Application p65]

Option 1: Do Nothing

> "*Under this option, Kadlec would not utilize its unused capacity to add beds to its existing facility.*
>
> *The principal disadvantage is that by maintaining the status quo, there are no improvements to cost efficiencies."*

Option 3: Build a new facility to accommodate 77 acute beds

> "*A new hospital facility would require substantially more capital expenditures when compared to the proposed project, requiring new construction or refurbishing an existing facility at considerable expense.*

Step Three

This step is applicable only when there are two or more approvable projects. Kadlec's application is the only application under review to add acute care capacity in Benton-Franklin County. Therefore, this step does not apply.

Public Comments
None

Rebuttal Comments
None

Department Evaluation
Information provided in the Kadlec application supporting documentation demonstrate that the additional acute care beds are needed in the planning area. Kadlec discussed the occupancy constraints and appropriately concluded that a "do nothing" option was not the best option.

Kadlec provided information in the application that supports rejection of the building of an additional hospital. Though possible, it is not as operationally efficient as the proposed project.

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 Kadlec 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;

Kadlec Regional Medical Center
"While this project involves the minimal construction of two showers, Kadlec ensures that all construction projects meet the Washington State Building Code and the Washington Energy Code. In addition, the energy conservation program ensures all construction projects are evaluated for alternative electrical and mechanical systems incorporating energy use reduction technology. Kadlec endeavors to exceed energy codes where it is affordable to do so in the interest of reducing ongoing operating costs." [source: Application, p68]

Public Comments
None

Rebuttal Comments
None

Department Evaluation
As part of its analysis, HFCCP provided the following statements regarding the construction costs, scope, and method. [source: HFCCP analysis, p5]

"The costs of the project are the cost for construction, planning and process. Kadlec's projections are below.

Table 14
Capital Expenditure per Unit

Kadlec	
Total Capital	$ 1,416,100
Beds/Stations/Other (Unit)	67
Total Capital per Unit	$ 21,135.82

"The costs shown are lower than most 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. Kadlec is using existing space and will design the facility to the latest energy and hospital standards.

Staff is satisfied the applicant plans are appropriate."

Based on the information provided in the application and the analysis from HFCCP, 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.

Kadlec Regional Medical Center

Department Evaluation
This sub-criterion was evaluated in conjunction with WAC 246-310-220 above and is **considered 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.

Kadlec Regional Medical Center
"*Kadlec continually looks for ways to improve patient care, operational efficiency, and patient throughput. Kadlec, as with other Providence affiliated hospitals, has implemented several initiatives during the last several years in order to create additional capacity and ensure patients are served in the right care setting at the right time without expanding licensed acute care beds. These improvements have had a positive impact by opening up capacity temporarily. However, the demand for services continues to increase, and these initiatives are no longer enough to allow Kadlec to fulfill the demand for inpatient services in the Planning Area.*

The addition of 67 beds in the existing facility is most effective for staff efficiency and productivity. Locating the beds within the same facility will promote staff flexibility and efficiency in patient flow and throughput. In addition, the project will leverage supply chain and information technology support infrastructure already in place at Kadlec, essentially spreading fixed costs across a larger volume of services." [source: Application, p68]

Public Comments
None

Rebuttal Comments
None

Department Evaluation

This project has the potential to improve delivery of acute care services to the residents of Benton-Franklin County and surrounding communities with the addition of 67 acute care beds to Kadlec Regional Medical Center. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**

Attachment 1

Numeric Need Methodology

Benton-Franklin Planning Area

Benton-Franklin County Acute Care Bed Need
Step 1

2008 to 2017 HSA TOTAL NUMBER OF RESIDENT PATIENT DAYS

Source: DOH 2018 Statewide Methodology

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	10-YEAR TOTAL
HSA #3	242,029	242,667	245,459	243,780	235,762	237,431	233,767	240,601	244,458	260,999	**2,426,953**
STATEWIDE TOTAL	2,069,175	2,065,777	2,055,241	2,068,011	2,054,931	2,067,274	2,116,496	2,210,893	2,274,457	2,387,290	**21,369,545**

Prepared by Mark Thomas Summer 2019

Benton-Franklin County Acute Care Bed Need
Step 2

2008 to 2017 HSA TOTAL NUMBER OF RESIDENT PATIENT DAYS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	10-YEAR TOTAL
HSA #3	242,029	242,667	245,459	243,780	235,762	237,431	233,767	240,601	244,458	260,999	2,426,953
STATEWIDE TOTAL	2,069,175	2,065,777	2,055,241	2,068,011	2,054,931	2,067,274	2,116,496	2,210,893	2,274,457	2,387,290	21,369,545

2008 TO 2017 HSA TOTAL NUMBER OF PSYCHIATRIC PATIENT DAYS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	10-YEAR TOTAL
HSA #3	498	550	628	798	585	594	603	841	1,087	1,261	**7,445**
STATEWIDE TOTAL	17,292	16,685	17,392	17,964	16,983	20,118	22,239	29,898	29,562	31,607	**219,740**

HSA #3 Psych Hospitals include Lourdes Counseling Center in Richland

2008 to 2017 HSA TOTAL NUMBER OF PATIENT DAYS MINUS PSYCH DAYS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	10-YEAR TOTAL
HSA #3	241,531	242,117	244,831	242,982	235,177	236,837	233,164	239,760	243,371	259,738	**2,419,508**
STATEWIDE TOTAL	2,051,883	2,049,092	2,037,849	2,050,047	2,037,948	2,047,156	2,094,257	2,180,995	2,244,895	2,355,683	**21,149,805**

Prepared by Mark Thomas Summer 2019

Benton-Franklin County Acute Care Bed Need
Step 3

2008 to 2017 HSA TOTAL NUMBER OF PATIENT DAYS MINUS PSYCH DAYS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	10-YEAR TOTAL
HSA #3	241,531	242,117	244,831	242,982	235,177	236,837	233,164	239,760	243,371	259,738	**2,419,508**
STATEWIDE TOTAL	2,051,883	2,049,092	2,037,849	2,050,047	2,037,948	2,047,156	2,094,257	2,180,995	2,244,895	2,355,683	**21,149,805**

TOTAL POPULATIONS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	10-YEAR TOTAL
HSA #3	753,543	765,232	778,610	786,726	794,842	802,958	811,074	819,190	831,272	843,353	**7,986,800**
STATEWIDE TOTAL	6,558,454	6,641,495	6,724,540	6,791,914	6,859,288	6,926,662	6,994,036	7,061,410	7,176,813	7,292,215	**69,026,826**

RESIDENT USE RATE PER 1,000

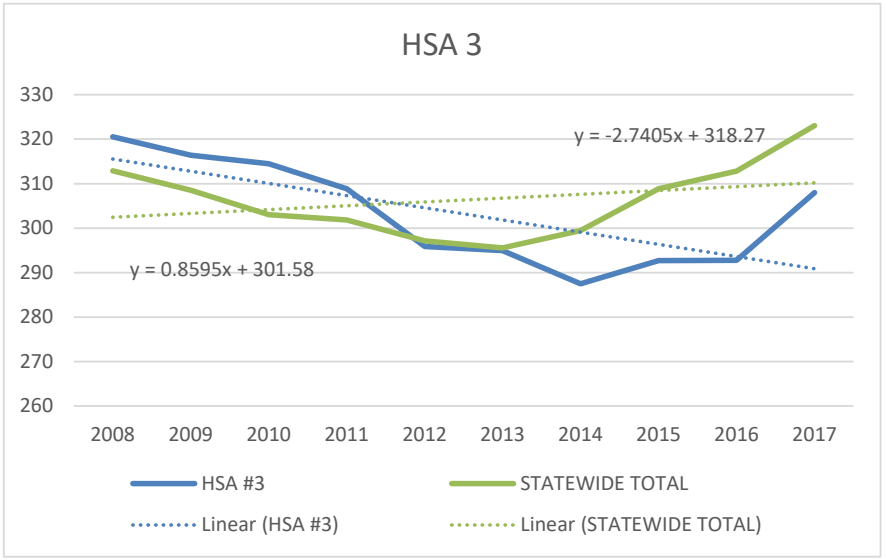
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	10-YEAR TOTAL
HSA #3	320.5272	316.3967	314.4463	308.8521	295.8789	294.9556	287.4756	292.6793	292.7695	307.9825	3031.963835
STATEWIDE TOTAL	312.8608	308.5287	303.0466	301.8364	297.1078	295.5473	299.4347	308.8611	312.7983	323.0408	3063.06257

Prepared by Mark Thomas Summer 2019

Benton-Franklin County Acute Care Bed Need
Step 4

RESIDENT USE RATE PER 1,000

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TREND LINE
HSA #3	320.5272	316.3967	314.4463	308.8521	295.8789	294.9556	287.4756	292.6793	292.7695	307.9825	-2.7405
STATEWIDE TOTAL	312.8608	308.5287	303.0466	301.8364	297.1078	295.5473	299.4347	308.8611	312.7983	323.0408	0.8595



Prepared by Mark Thomas Summer 2019

Benton-Franklin County Acute Care Bed Need
Steps 5 & 6

STEP #5
2017

HOSPITAL PATIENT DAYS

	Total Patient Days in Benton-Franklin Hospitals	-	Out of State (OOS) Resident Patient Days in Benton-Franklin Hospitals	=	Total Patient Days in Benton-Franklin Hospitals, Minus OOS	%
0-64	48,063		4,977		43,086	10.36%
65+	45,834		4,754		41,080	10.37%
TOTAL	**93,897**		**9,731**		**84,166**	10.36%

	Total Patient Days in Washington State Hospitals Minus Benton-Franklin	-	Out of State (OOS) Resident Patient Days in Washington State Hospitals Minus Benton-Franklin	=	Total Patient Days in Washington State Hospitals, Minus OOS, Minus Benton-Franklin	%
0-64	1,231,407		61,492		1,169,915	4.99%
65+	1,061,986		39,966		1,022,020	3.76%
TOTAL	**2,293,393**		**101,458**		**2,191,935**	4.42%

	Total Benton-Franklin Resident Patient Days in Benton-Franklin Hospitals	+	Total Benton-Franklin Resident Patient Days in Other Washington State Hospitals	=	Total Benton-Franklin Resident Patient Days	+	Benton-Franklin Resident Patient Days Provided in Oregon	=	Total Benton-Franklin Resident Patient Days - All Settings
0-64	36,966		12,160		49,126		0		49,126
65+	36,458		4,131		40,589		0		40,589
TOTAL	**73,424**		**16,291**		**89,715**		**0**		**89,715**

	Total Other Washington State Resident Patient Days in Benton-Franklin Hospitals	+	Total Other Washington State Resident Patient Days in Other Washington State Hospitals	=	Total Other Washington State Resident Patient Days	+	Other Washington State Resident Patient Days Provided in Oregon	=	Total Other Washington State Resident Patient Days - All Settings
0-64	6,120		1,157,755		1,163,875		55,390		1,219,265
65+	4,622		1,017,889		1,022,511		20,699		1,043,210
TOTAL	**10,742**		**2,175,644**		**2,186,386**		**76,089**		**2,262,475**

Benton-Franklin County Acute Care Bed Need
Steps 5 & 6

MARKET SHARES

PERCENTAGES OF PATIENT DAYS

Benton-Franklin RESIDENT PATIENT DAYS

	In Benton-Franklin Hospitals	In Other Washington State Hospitals	In Oregon Hospitals
0-64	75.25%	24.75%	0.00%
65+	89.82%	10.18%	0.00%

OTHER WASHINGTON STATE RESIDENT PATIENT DAYS

	In Benton-Franklin Hospitals	In Other Washington State Hospitals	In Oregon Hospitals
0-64	0.50%	94.96%	4.54%
65+	0.44%	97.57%	1.98%

2017
POPULATION BY PLANNING AREA

	Benton-Franklin County	Other Washington State
0-64	247,856	5,916,090
65+	36,844	1,091,425
TOTAL	284,700	7,007,515

STEP #6
USE RATE BY PLANNING AREA

	Benton-Franklin County	Other Washington State
0-64	198.20	206.09
65+	1,101.65	955.82

Benton-Franklin County Acute Care Bed Need
Step 7A

USE RATE BY PLANNING AREA
2017
Benton-Franklin County

0-64	**198.20**
65+	**1,101.65**

PROJECTED POPULATION - Benton-Franklin COUNTY

PROJECTION YEAR	**2024**
0-64	271,402
65+	47,795
TOTAL	319,197

PROJECTED USE RATE

PROJECTION YEAR	**2024**
USE RATES	
0-64 Using HSA #2 Trend	179.02
0-64 Using Statewide Trend	**204.22**
65+ Using HSA #2 Trend	1,082.46
65+ Using Statewide Trend	**1,107.66**

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Benton-Franklin County Acute Care Bed Need
Step 8

PROJECTED USE RATE

PROJECTION YEAR	**2024**
USE RATES	
0-64	179.02
65+	1,082.46

PROJECTED POPULATION

PROJECTION YEAR	**2024**
0-64	271,402
65+	47,795
TOTAL	**319,197**

PROJECTED NUMBER OF PATIENT DAYS

PROJECTION YEAR	**2024**
0-64	48,586
65+	51,737
TOTAL	**100,323**

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Benton-Franklin County Acute Care Bed Need
Step 9

PROJECTED NUMBER OF PATIENT DAYS

PROJECTION YEAR **2024**

	Benton-Franklin COUNTY RESIDENTS	ALL OTHER WASHINGTON STATE	TOTAL WASHINGTON STATE
0-64	48,586	1,440,799	1,489,385
65+	51,737	1,434,520	1,486,257
TOTAL	**100,323**	**2,875,319**	**2,975,642**

MARKET SHARE (% PATIENT DAYS FROM STEP 5)

Benton-Franklin RESIDENT PATIENT DAYS

	In Benton-Franklin Hospitals	In Other Washington State Hospitals	In Oregon Hospitals
0-64	75.25%	24.75%	0.00%
65+	89.82%	10.18%	0.00%

OTHER WASHINGTON STATE RESIDENT PATIENT DAYS

	In Benton-Franklin Hospitals	In Other Washington State Hospitals	In Oregon Hospitals
0-64	0.50%	94.96%	4.54%
65+	0.44%	97.57%	1.98%

PROJECTED RESIDENT PATIENT DAYS BY LOCATION, WITH MARKET SHARE ASSIGNED

Benton-Franklin RESIDENT PATIENT DAYS

	In Benton-Franklin Hospitals	In Other Washington State Hospitals	In Oregon Hospitals
0-64	36,560	12,026	0
65+	46,471	5,266	0
TOTAL	**83,031**	**17,292**	**0**

OTHER WASHINGTON STATE RESIDENT PATIENT DAYS

	In Benton-Franklin Hospitals	In Other Washington State Hospitals	In Oregon Hospitals
0-64	7,232	1,368,113	65,454

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Benton-Franklin County Acute Care Bed Need
Step 9

65+	6,356	1,399,701	28,463
TOTAL	**13,588**	**2,767,814**	**93,917**

NUMBER OF PATIENT DAYS PROJECTED IN Benton-Franklin HOSPITALS

0-64	43,792
65+	52,827
TOTAL	**96,619**

NUMBER OF PATIENT DAYS PROJECTED IN ALL OTHER WASHINGTON STATE HOSPITALS

2,785,106

NUMBER OF WASHINGTON STATE PATIENT DAYS PROJECTED IN OREGON HOSPITALS

93,917

PERCENTAGE OF OUT OF STATE RESIDENT PATIENT DAYS IN WASHINGTON STATE HOSPITALS

Benton-Franklin

0-64	10.36%
65+	10.37%

ALL OTHER WASHINGTON STATE

0-64	4.99%
65+	3.76%

PROJECTED NUMBER OF PATIENT DAYS IN PROJECTION YEAR, PLUS OUT OF STATE RESIDENTS

PROJECTION YEAR **2024**

PATIENT DAYS IN Benton-Franklin IN PROJECTION YEAR

		Ratio - Projected Patient Days in Planning Area Hospitals over Planning Area Resident Patient Days
0-64	48,327	0.994654152
65+	58,306	1.126978569
TOTAL	**106,633**	

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Benton-Franklin County Acute Care Bed Need
Step 10A

Benton-Franklin PLANNING AREA	2017	2018	2019	2020	2021	2022	2023	Target 2024	2025	2026	2027
POPULATION 0-64	247,856	250,827	253,798	259,517	262,488	265,459	268,430	271,402	279,278	282,249	285,220
0-64 USE RATE	198.20	195.46	192.72	189.98	187.24	184.50	181.76	179.02	176.28	173.54	170.80
POPULATION 65+	36,844	38,353	39,862	41,760	43,269	44,778	46,287	47,795	50,244	51,753	53,262
65+ USE RATE	1,101.65	1,098.91	1,096.17	1,093.43	1,090.69	1,087.95	1,085.20	1,082.46	1,079.72	1,076.98	1,074.24
TOTAL POPULATION	284,700	289,180	293,660	301,277	305,757	310,237	314,717	319,197	329,522	334,002	338,482
TOTAL PA RESIDENT DAYS	89,715	91,174	92,608	94,965	96,341	97,693	99,020	100,323	103,481	104,718	105,931
TOTAL DAYS IN PA HOSPITALS	94,606	96,263	97,895	100,500	102,071	103,617	105,138	106,633	110,106	111,534	112,936
AVAILABLE BEDS PER MOST RECENT DATA AVAILABLE - EITHER ACUTE CARE SURVEY OR YEAR-END FINANCIAL REPORT											
Kadlec	231	231	231	231	231	231	231	231	231	231	231
Lourdes	25	25	25	25	25	25	25	25	25	25	25
PMH Medical	25	25	25	25	25	25	25	25	25	25	25
Trios	101	101	101	101	101	101	101	101	101	101	101
TOTAL	**382**	**382**	**382**	**382**	**382**	**382**	**382**	**382**	**382**	**382**	**382**
Market Share By Hospital											
Kadlec	60.47%	60.47%	60.47%	60.47%	60.47%	60.47%	60.47%	60.47%	60.47%	60.47%	60.47%
Lourdes	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%
PMH Medical	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%
Trios	26.44%	26.44%	26.44%	26.44%	26.44%	26.44%	26.44%	26.44%	26.44%	26.44%	26.44%
Occupancy Standard by Hospital											
Kadlec	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%
Lourdes	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
PMH Medical	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Trios	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%
WEIGHTED OCCUPANCY STANDARD	66.06%	66.06%	66.06%	66.06%	66.06%	66.06%	66.06%	66.06%	66.06%	66.06%	66.06%
GROSS BED NEED	**392.36**	**399.23**	**406.00**	**416.80**	**423.32**	**429.73**	**436.04**	**442.24**	**456.64**	**462.57**	**468.38**
NET BED NEED/(SURPLUS)	**10**	**17**	**24**	**35**	**41**	**48**	**54**	**60**	**74.64**	**80.57**	**86.38**

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Benton-Franklin County Acute Care Bed Need
Step 10B

Benton-Franklin PLANNING AREA	2017	2018	2019	2020	2021	2022	2023	Target 2024	2025	2026	2027
POPULATION 0-64	247,856	250,827	253,798	259,517	262,488	265,459	268,430	271,402	279,278	282,249	285,220
0-64 USE RATE	198.20	195.46	192.72	189.98	187.24	184.50	181.76	179.02	176.28	173.54	170.80
POPULATION 65+	36,844	38,353	39,862	41,760	43,269	44,778	46,287	47,795	50,244	51,753	53,262
65+ USE RATE	1,101.65	1,098.91	1,096.17	1,093.43	1,090.69	1,087.95	1,085.20	1,082.46	1,079.72	1,076.98	1,074.24
TOTAL POPULATION	284,700	289,180	293,660	301,277	305,757	310,237	314,717	319,197	329,522	334,002	338,482
TOTAL PA RESIDENT DAYS	89,715	91,174	92,608	94,965	96,341	97,693	99,020	100,323	103,481	104,718	105,931
TOTAL DAYS IN PA HOSPITALS	94,606	96,263	97,895	100,500	102,071	103,617	105,138	106,633	110,106	111,534	112,936
AVAILABLE BEDS PER MOST RECENT DATA AVAILABLE - EITHER ACUTE CARE SURVEY OR YEAR-END FINANCIAL REPORT											
Kadlec	231	231	**241**	**261**	**298**	298	298	298	298	298	298
Lourdes	25	25	25	25	25	25	25	25	25	25	25
PMH Medical	25	25	25	25	25	25	25	25	25	25	25
Trios	101	101	101	101	101	101	101	101	101	101	101
TOTAL	**382**	**382**	**392**	**412**	**449**	**449**	**449**	**449**	**449**	**449**	**449**
Market Share By Hospital											
Kadlec	60.47%	60.47%	61.48%	63.35%	66.37%	66.37%	66.37%	66.37%	66.37%	66.37%	66.37%
Lourdes	6.54%	6.54%	6.38%	6.07%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%
PMH Medical	6.54%	6.54%	6.38%	6.07%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%
Trios	26.44%	26.44%	25.77%	24.51%	22.49%	22.49%	22.49%	22.49%	22.49%	22.49%	22.49%
Occupancy Standard by Hospital											
Kadlec	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%
Lourdes	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
PMH Medical	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Trios	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%
WEIGHTED OCCUPANCY STANDARD	66.06%	66.06%	66.16%	66.35%	66.65%	66.65%	66.65%	66.65%	66.65%	66.65%	66.65%
GROSS BED NEED	**392.36**	**399.23**	**405.38**	**415.00**	**419.59**	**425.94**	**432.19**	**438.34**	**452.62**	**458.49**	**464.25**
NET BED NEED/(SURPLUS)	**10**	**17**	**13**	**3**	**-29**	**-23**	**-17**	**-11**	**3.62**	**9.49**	**15.25**

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