



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

August 11, 2014

CERTIFIED MAIL #7011 1570 0002 7809 5803

Heidi Aylsworth, Chief Strategy Officer
Swedish Health Services
747 Broadway
Seattle, Washington 98122-4302

RE: CN14-29

Dear Ms. Aylsworth:

We have completed review of the Certificate of Need (CN) application proposing to amend CN #1498 because of an increase in the approved costs. For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of Certificate of Need Program, provided Swedish Health Services agrees to the following in its entirety.

Project Description

Swedish Health Services requests an amendment of Certificate of Need #1498 to reflect a change in the approved capital expenditure of the 15-bed level II project. Swedish Health Services has updated the financial statements to reflect a change in financing for the project from bond financing to the use of cash reserves. No other amendment of Certificate of Need #1498 is being sought at this time.

This certificate approves the establishment of a 15-bed intermediate care nursery and level II obstetric services at the Issaquah Campus. Once the intermediate care nursery is operational, the breakdown of beds by use is shown below.

Type	Approved
General Medical/Surgical	160
Level II Intermediate Care Nursery	15
Total	175

Conditions

1. Swedish Medical Center agrees with the project description as stated above. Swedish 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.

- Swedish Medical Center Issaquah must provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Swedish Medical Center Issaquah will use reasonable efforts to provide charity care in the amounts identified in the application, which are 1.7% of total revenue and 2.75% of adjusted revenue. Swedish Medical Center Issaquah's charity care percentages should not be below the regional average amount of charity care provided by hospitals in the King County Region. Currently, this amount is 1.67% of gross revenue and 3.05% of adjusted revenue. Swedish Medical Center Issaquah will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

Approved Costs:

The approved capital expenditure for this project is \$3,100,000.

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

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

Mailing Address:

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

Other Than By Mail:

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

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

Sincerely,



Steven M. Saxe, FACHE
Director, Office of Community Health Systems

Enclosure

**EVALUATION DATE AUGUST 11, 2014, OF THE CERTIFICATE OF NEED
APPLICATION SUBMITTED BY SWEDISH HEALTH SERVICES PROPOSING TO
AMEND CERTIFICATE OF NEED #1498**

APPLICANT DESCRIPTION

Swedish Health Services (SHS) is a not-for-profit corporation and a 501(c)(3) exempt organization with 100% ownership of Swedish Medical Center.¹ Swedish Medical Center is also a Washington private, not-for-profit corporation and a 501(c)(3) exempt organization. Swedish Medical Center provides Medicare and Medicaid acute care services at the following five campuses. [source: CN historical files, Application p4-5]

SHS-First Hill	747 Broadway, Seattle	King County
SHS-Ballard	533 Tallman Avenue Northwest, Seattle	King County
SHS-Cherry Hill	500 – 17 th Avenue, Seattle	King County
SHS-Edmonds	21601 76 th Avenue West, Edmonds	Snohomish County
SHS-Issaquah	751 Northeast Blakely Drive, Issaquah	King County

BACKGROUND INFORMATION

This project focuses on SHS-Issaquah identified in bold above. On February 14, 2013, SHS was issued Certificate of Need (CN)# 1498 approving the establishment of a 15-bed neonatal intensive care nursery and level II obstetric services at the Issaquah Hospital campus. The 15-bed nursery would be completed in two phases, with eight beds in phase one and the remaining seven beds in phase two. According to most recent progress reports submitted by SHS, the project is nearing completion. CN#1498 was issued with an approved capital expenditure of \$2,133,123. Of that amount 35% was related to construction costs; 47% for fixed and moveable equipment; 10% is related to fees; and the remaining 8% is related to state taxes.

AMENDMENT PROJECT DESCRIPTION

SHS submitted this application because the costs of the project have increased beyond the allowable amount of 12%. The capital expenditure for the project increased 45% to \$3,100,000 due to increase in construction costs, architect and engineering fees, and associated Washington State sales tax.

The construction cost increase is primarily due to compliance with 2010 Facility Guidelines Institute (FGI) design and construction of nursery space which increased the square footage of the nursery from 3,120 to 5,182. Also, a humidification system was added to the project to comply with ASHRAE (American Society of Heating, Refrigerating and Air Conditioning Engineers) standard. The revisions required rework of the level II space plans and also increased any associated taxes. [source: Application p9]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review under WAC 246-310-570(1)(e) because costs of the project have increased beyond the amount allowable in WAC 246-310-570.

¹ Swedish Health Services also has ownership percentages in a variety of other healthcare entities, such as home health, ambulatory surgery, and urgent care clinics. Since these entities are not pertinent to this project, they will not be discussed in this evaluation.

EVALUATION CRITERIA

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

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

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

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

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

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

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

The review for an amendment project is limited to only those criteria that would be affected by the amendment, provided that the amendment does not significantly alter the project. While SHS’s costs have increased, the site, services, and timeline for providing level II services has not changed. As a result, the department’s review will focus on applicable portions of financial feasibility (WAC 246-310-220); structure and process of care (WAC 246-310-230); and cost containment (WAC 246-310-240).²

² Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project. WAC 246-310-210; WAC 246-310-230 (1) and (2); and WAC 246-310-240(3).

CN#1498 was issued with four conditions. All four conditions were met on February 13, 2013. Two of the four conditions are considered ongoing because they focus on the project description and the percentage of charity care to be provided at the hospital. If this amendment application is approved, these two conditions will be updated for this project.

TYPE OF REVIEW

As allowed under WAC 246-310-570, the department accepted the project as an amendment to an existing Certificate of Need. This application was reviewed under an expedited review timeline as outlined in WAC 246-310-150, which is summarized below.

APPLICATION CHRONOLOGY

Action	Swedish Health Services
Letter of Intent Submitted	February 24, 2014
Application Submitted	March 27, 2014
Department’s pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • SHS Responses Received • DOH 2nd Screening Letter • SHS Responses Received 	April 16, 2014 May 1, 2014 May 12, 2014 June 13, 2014
Beginning of Review	June 25, 2014
End of Public Comment <ul style="list-style-type: none"> • public comments accepted throughout review; • no public hearing conducted under the expedited review rules 	July 15, 2014
Rebuttal Comments ³	July 30, 2014
Department’s Anticipated Decision Date	August 19, 2014
Department’s Actual Decision Date	August 11, 2014

AFFECTED AND INTERESTED PERSONS

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

“...an “interested person” who:

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

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

SOURCE INFORMATION REVIEWED

- Swedish Health Services Certificate of Need application received March 27, 2014

³ There were no public comments received during the review; therefore, SHS did not submit any rebuttal comments.

- Swedish Health Services supplemental information received May 1, 2014, and June 13, 2014
- The department's August 12, 2011, evaluation focusing on the Issaquah Hospital intermediate care nursery and level II obstetric services
- Quarterly progress reports related to Certificate of Need #1498
- November 7, 2012 'Finding of Fact, Conclusions of Law, and Final Order' approving the establishment of a level II intermediate care nursery at the Issaquah Hospital
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems received July 18, 2014
- Historical charity care data obtained from the Department of Health's Hospital and Patient Data Systems (2009, 2010, and 2011 summaries)
- Licensing and/or survey data provided by the Department of Health's Office of Investigations and Inspections
- Emergency and trauma designation data provided by the Department of Health's Office of Emergency Medical Services and Trauma System
- Joint Commission website [www.jointcommission.org]
- Certificate of Need Historical files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Swedish Health Services proposing to amend Certificate of Need #1498 because of an increase in approved costs is consistent with the applicable review criteria, provided Swedish Health Services agrees to the following in its entirety.

PROJECT DESCRIPTION:

Swedish Health Services requests an amendment of Certificate of Need #1498 to reflect a change in the approved capital expenditure of the 15-bed level II project. Swedish Health Services has updated the financial statements to reflect a change in financing for the project from bond financing to the use of cash reserves. No other amendment of Certificate of Need #1498 is being sought at this time.

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CONDITION:

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2. Swedish Medical Center Issaquah must provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Swedish Medical Center Issaquah will use reasonable efforts to provide charity care in the amounts identified in the application, which are 1.7% of total revenue and 2.75% of adjusted revenue. Swedish Medical Center Issaquah's charity care percentages should not be below the regional average amount of charity care provided by hospitals in the King County Region. Currently, this amount is 1.67% of gross revenue and 3.05% of adjusted revenue. Swedish Medical Center Issaquah will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

Approved Costs:

The approved capital expenditure for this project is \$3,100,000.

CRITERIA DETERMINATIONS

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department determines that the applicant has met the financial feasibility criteria in WAC 246-310-220(1), (2), and (3).

a. *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.

Initial Approval Summary

Based on the department's August 12, 2011, initial evaluation and the health law judge's November 7, 2012, final order, this sub-criterion was met based on the following factors:

- 1) a review of SHS's number level II beds and patients for projected years FY2014 through FY2017;
- 2) a review of revenue and expense statements for projected years FY2014 through FY2017; and
- 3) the construction costs, medical director, and ICN were substantiated in the pro forma financial documents. [source: Initial evaluation, pp24-31]

Amendment Application

This application proposes to amend CN#1498 because of an increase in the capital expenditure beyond the allowable amount. Information provided in the application demonstrates that the projected number of level II beds, patients, patient days, revenue, and expenses would not change. [source: Application, p9]

Department's Review

A comparison of the initial projected net profits and the amended net profits show no substantial changes. Based on the above information, the department concludes that SHS's projected revenues and expenses are reasonable and can be substantiated for this amendment application. The department concludes that the immediate and long-range operating costs of the project can be met. **This sub-criterion is met.**

b. *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.

Initial Approval Summary

Based on the department's August 12, 2011, initial evaluation and the health law judge's November 7, 2012, final order, this sub-criterion was met based on the following factors:

- 1) a review of SHS's capital expenditure breakdown associated with the additional 15 ICN beds;
 - 2) a review of SHS's anticipated funding sources; and
 - 3) a review of SHS's projected sources and percentages of revenue by payer.
- [source: Initial evaluation, pp26-27]

Amendment Application

This application proposes to amend CN#1498 because of an increase in capital expenditure beyond the allowable amount. Information provided in the application explains that SHS's original funding source of tax-exempt bonds has been changed to cash reserves. SHS is nearing completion of the construction of the 15-bed level II neonatal intensive care nursery. [source: Application, p9]

A comparison of SHS's capital expenditure from the initial application to the amendment application shows increase in construction, planning costs and associated sales tax. SHS identified a total capital expenditure for both phases to be \$3,100,000. The costs, by phase, are broken down in Table 1. [source: Initial application p27 and Application, p26]

**Table 1
Swedish Medical Center Issaquah
Capital Expenditure Breakdown**

Item	Initial Total	Amended Total
Construction Costs	\$ 729,000	\$ 1,652,229
Equipment (Fixed and Moveable)	\$ 992,305	\$ 992,305
Architect, Engineering, & Consulting Fees	0	\$ 88,778
Financing costs & interim interest	\$ 112,836	0
Consulting Fees	\$ 34,457	\$ 34,457
Supervision & Inspection of Site	\$ 81,000	\$ 81,000
Washington State Sales Tax	\$ 163,524	\$ 251,231
Total Capital Costs	\$ 2,113,122	\$ 3,100,000

SHS also provided a table showing the costs of the project per gross square foot. A comparison of initial application to the amended application shows the majority of the construction and planning for ICN space occurred in the early stages of creating the floor plans and submission of architectural designs. The costs increased for the amended application due to the increase bed and total gross square footage. [source: Initial application p27 and Application p26]

Table 2
SHS ICN Cost Center Construction Cost Breakdown

	Initial	Amendment
Estimated Gross Square Footage (GSF)	3,120	5,182
Number of Level II ICN Beds	14	15
Construction Cost per GSF	\$ 588.71	\$ 549.75
Total cost per GSF	\$ 677.28	\$ 598.22
Total Cost per Bed	\$ 150,937.34	\$206,666.67

Department’s Review

Based on the above information, the department concludes that SHS’s projected revenues and expenses are reasonable and can be substantiated for this amendment application. The department concludes that the immediate and long-range operating costs of the project can be met. **This sub-criterion is met.**

c. *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.

Initial Approval Summary

Based on the department’s August 12, 2011, initial evaluation and the health law judge’s November 7, 2012, final order, this sub-criterion was met based on the following factors:

- 1) a review of SHS’s historical financial health; and
- 2) a review of SHS’s current financial health. [source: Initial evaluation, pp28]

Amendment Application

With this amendment application SHS changed the funding source to cash reserves. To demonstrate compliance with this sub-criterion, SHS provided its historical and projected financial statements, which includes cash flow statements and balance sheets. [source: Application pp 9 and 34-35 and Supplemental information, Exhibit C]

Department’s Review

To assist the department in its evaluation of this sub-criterion, HPDS reviewed hospital financial data reported by each hospital. Staff from HPDS provided the following analysis. [source: HPDS analysis, p3]

“Swedish Health Services capital expenditure will be increased by a net of \$986,877 from \$2,113,123 to \$3,100,000. The financing method is being changed from tax exempt bonds to cash reserves. The financing methods used are appropriate business practice.”

Based on the above information, the department concludes that SHS's source of financing continues to be appropriate even with the increase in costs for this project. **This sub-criterion is met.**

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department determines that the applicant has met the structure and process (quality) of care criteria in WAC 246-310-230.

- 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.*

Initial Approval Summary

Based on the department's August 12, 2011, initial evaluation and the health law judge's November 7, 2012, final order, this sub-criterion was met based on the following factors:

- 1) a review of SHS's quality of care history since; and
- 2) A review of SHS's medical director.

[source: Initial evaluation, pp35-36]

Amendment Application

SHS owns and operates five healthcare facilities within Washington State. SHS does not own or operate any out-of-state facilities. The Department of Health's Office of Investigations and Inspections (OII) conducts quality care and compliance surveys at all types of healthcare facilities operated by SHS.

Swedish Medical Center Issaquah will continue to provide Medicare and Medicaid services to the residents of King County and surrounding communities. The hospital contracts with the Joint Commission to survey and accredit the quality of service provided. The Joint Commission lists Swedish Medical Center Issaquah in full compliance with all applicable standards following the most recent on-site survey in October 2011.⁴

Complementing reviews performed by the Joint Commission are the surveys conducted by the Department of Health's Office of Investigations and Inspections (OII). Most recently, OII completed one quality of care / fire life safety survey at the hospital.⁵ There were no adverse licensing actions as a result of the survey. [source: facility survey data provided by DOH Office of Investigations and Inspections]

The majority of Swedish Medical Center Issaquah's level II staff is in place. Swedish Medical Center provided names and professional license numbers for all credentialed staff. Quality of care for Swedish Medical Center Issaquah's staff is verified through the Department of Health's Medical Quality Assurance Commission. The commission

⁴ <http://www.qualitycheck.org>

⁵ Survey completed February 2011.

credentials medical staff in Washington State and is used to review the compliance history for all medical staff, including physicians, RNs, and licensed technicians. A compliance history review of credentialed or licensed staff associated with Swedish Medical Center Issaquah's special care nursery reveals no recorded sanctions for all. [source: compliance history provided by Medical Quality Assurance Commission]

Department's Review

Given the compliance history of SHS and the compliance history of staff associated with the special care nursery and family birth center, the department concludes that there is reasonable assurance that the hospital would continue to operate in conformance with state and federal regulations with the additional 15-bed level II ICN. **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.

Initial Approval Summary

Based on the department's August 12, 2011, initial evaluation and the health law judge's November 7, 2012, final order, this sub-criterion was met based on the following factors:

- 1) a review of SHS's history of providing healthcare services to the residents of the planning area; and
- 2) a review of SHS's history of providing level II services within its existing hospitals throughout King County. [source: Initial evaluation, pp36-37 and November 7, 2012 Final Order pp 9-12]

Amendment Application

Currently, SHS operates five healthcare facilities in two separate counties. SHS has multiple pediatric sub-specialists on staff and an ongoing relationship with level II and level III providers at Seattle Children Hospital. [source: CN historical files]

Department's Review

Given the long standing history SHS in the planning area and the fact that need for the additional ICN beds in the planning area has not changed, the department continues to conclude that approval of this project will not result in an unwarranted fragmentation of services. **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.*

Initial Evaluation Summary

Based on the department's August 12, 2011, initial evaluation and the health law judge's November 7, 2012, final order, this sub-criterion was met based on the following factors:

- 1) a review of SHS's history of providing healthcare services to the residents of the planning area; and
- 2) a review of SHS's history of providing level II services within its existing hospitals throughout King County. [source: Initial evaluation, pp36-37 and November 7, 2012 Final Order pp 9-12]

Amendment Application Review

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

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

Based on the source information reviewed, and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Swedish Medical Center has met the cost containment criteria in WAC 246-310-240.

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

WAC 246-310 does not contain specific WAC 246-310-240 criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the information provided by the applicant.

Initial Approval Summary

Based on the department's August 12, 2011, initial evaluation and the health law judge's November 7, 2012, final order, this sub-criterion was met based on the following factors:

- 1) SHS's ability to meet the previous review criteria; and
- 2) a review of alternatives considered by SHS. [source: November 7, 2012 Final Order pp12-13]

Amendment Application

Once SHS determined that the costs for the project would increase beyond the amount allowable by Certificate of Need rules, the only option available is to submit an amendment application. SHS appropriately submitted the application before project completion, but after it had determined all costs for the project.

Department's Review

In this amendment evaluation review, the department concluded that SHS met the review criteria in the applicable sections of WAC 246-310-220 and WAC 246-310-230. Based on the discussion above, there is no other option than to submit a Certificate of Need amendment application. The department concludes that establishment of a 15-bed level II ICN at the Issaquah campus continues to be the best alternative for the residents of the planning area even with the increase in costs. **This sub-criterion is met.**