



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

August 1, 2011

CERTIFIED MAIL # 7008 1300 0000 7202 9676

Meredith Vaughan, System Director
PeaceHealth-Planning and Strategy
14432 southeast Eastgate Way, #300
Bellevue, Washington 98007-6412

Dear Ms. Vaughan:

Enclosed is Certificate of Need #1447 issued to PeaceHealth approving the establishment of a ten-bed acute care hospital in Friday Harbor, within San Juan County.

The certificate is not approval for any other local, federal, or state statutes, rules, or regulations. Such a project may also need Department of Health approval for a construction plan and facility licensing or certification, as well as other federal or local jurisdiction permits.

The Certificate of Need is valid for two years. The project must begin during this time. If there is substantial and continuing progress, we may extend the certificate for one six month period. For an extension, you must submit an extension request at least 120 days before the expiration. You cannot begin a project after the expiration date.

We monitor projects until completed or the expiration date, whichever occurs last. We do this with quarterly progress reports. At least 30 days before the report's due date, you will receive a form to complete and return. If you have any question, please contact Janis Sigman, Manager of the Certificate of Need Program at (360) 236-2955.

Sincerely,

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

Enclosure

cc: Linda Foss, Department of Health, Investigations and Inspections Office
Karen Stricklett, Department of Health, Customer Service Office





This Certificate is granted under the authority of RCW 70.38. Issuance of this Certificate does not constitute approval under any other local, federal or state statute, implementing rules and regulations. Examples where additional approval may be necessary include, but are not limited to, construction plan approval through the Construction Review Unit of the Department of Health, facility licensing/certification through the Department of Social and Health Services or Department of Health, and other federal or local jurisdiction permits.

Certificate of Need #1447 is issued to:

Legal Name of Applicant: PeaceHealth
Address of Applicant: 14432 Southeast Eastgate Way, #300
Bellevue, Washington 98007
Type of Service: Acute Care Hospital
Facility Name: PeaceIsland Medical Center
Facility Address: 1049 San Juan Valley Road
Friday Harbor, Washington 98250

**ISSUANCE OF THIS CERTIFICATE OF NEED IS BASED ON THE DEPARTMENT'S RECORD
AND EVALUATION DATED JANUARY 25, 2010 (CN App #09-37)**

Description/Services To Be Provided:

PeaceIsland Medical Center will have 10 acute care beds, and of those, five are "swing" beds as referenced in Washington Administrative Code (WAC) 246-310-010(57). Services to be provided include non-complex inpatient care, hospital outpatient procedures, and swing bed care. Outpatient procedures include endoscopies, oncology infusion therapy, and outpatient surgeries, such as simple hernia repairs. Inpatient surgery and obstetrical services are not proposed to be provided. Swing bed care includes acute care or nursing home care.

PeaceIsland Medical Center will be operated by PeaceHealth under a 50-year agreement between PeaceHealth and San Juan Public Hospital District (PHD) #1, the entity that currently operates the primary care clinic—InterIsland Medical Center. Under the agreement, PeaceHealth assumes full operational and financial responsibility for constructing and operating the new hospital and the clinic. While PeaceHealth will construct the EMS facility on the same campus as the hospital and the clinic, once it is constructed, PeaceHealth will sell it back to San Juan County PHD #1 for their operation and oversight. The district will have no governance, management, or operational responsibilities for the hospital and the clinic, however the agreement includes the hospital district's commitment to provide an annual subsidy to PeaceHealth to assist its efforts to provide healthcare services to the residents.

Service Area
San Juan County

Terms and Conditions on the attached page

Approved Capital Expenditure

The approved capital expenditure associated with this project is \$24,837,554.

This Certificate authorizes commencement of the project from August 1, 2011 to August 1, 2013, unless extended, withdrawn, suspended, or revoked in accordance with applicable sections of the Certificate of Need law and regulations.

Date Certificate Issued: August 1, 2011

A handwritten signature in blue ink, appearing to read 'Steven Saxe', written over a horizontal line.

Steven Saxe
Director, Health Professions and Facilities

This Certificate is not transferable.

Certificate of Need #1447

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TERMS:

1. Prior to providing services at the new hospital, PeaceHealth must provide to the Certificate of Need Program for review and approval a final "Admission Policy" for PeaceIsland Medical Center. The final Admission Policy will be consistent with the draft policy provided in Exhibit 5 of the application.
2. Prior to providing services at the new hospital, PeaceHealth must provide to the Certificate of Need Program for review and approval a final "Charity Care Policy" for PeaceIsland Medical Center. The final Charity Care Policy will be consistent with the draft policy provided in Exhibit 5 of the application.
3. Prior to providing services at the new hospital, PeaceHealth will provide a listing of providers with whom it has established new relationships/agreements. If any of the agreements require PeaceHealth to compensate for the services, PeaceHealth will provide a copy of the executed agreement for review by the department.

CONDITIONS:

1. PeaceIsland Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 1.93% of gross revenue and 4.20% of adjusted revenue. PeaceIsland Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.
2. The funding sources are tax exempt bonds at 42.9%; local fundraising at 34.8% and reserves from PeaceHealth-Whatcom at 22.3%. If the funding sources or percentages for this project change, PeaceHealth must submit an amendment application for review and approval. The amendment application must be submitted and an amended Certificate of Need must be issued or denied prior to commencement of the project.
3. If the project is delayed after commencement, PeaceHealth must submit a revised timeline for review.

The total approved capital expenditure for this project is \$24,837,554.