REVIEW OF PEACEHEALTH KETCHIKAN MEDICAL CENTER ADDITION AND ALTERATIONS PROJECT

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Department of Health & Social Services
Office of Rate Review
Certificate of Need Program

TABLE OF CONTENTS

BACKGROUND

The applicant for this Certificate of Need (CON) is PeaceHealth Ketchikan Medical Center (PHKMC). PHKMC is a 25 bed critical access community hospital and 29 bed long term care facility serving as the regional medical hub for southern Southeast Alaska. The hospital, owned by the City of Ketchikan and operated by PeaceHealth, is a not for profit health care institution. The existing hospital campus dates back to 1963. See *CON Application* at 4.

PHKMC submitted this application for CON review in February of 2014 for its Addition and Alterations project. The project consists of two phases. Phase I will include the construction of a new building to house the surgery department, provide another procedure room and update and add clinical exam and office space. Phase I will also include a new parking garage and relocation/ updating of the helipad.

Phase II consists of a remodel of the existing hospital and expansion of the emergency room department, laboratory department and clinical space within the existing hospital structure.

If granted a CON, PHKMC plans for the project to take an estimated 46 months from start of the construction to the completion of both phases outlined above. See *CON Application* at 11.

PROJECT DESCRIPTION

The Addition and Alterations project consists of two phases.

Phase I:
Construct a new building for the following:

• 3 surgical suites with sterile support areas	**Relocates and expands** 3 OR Suites
• 2 procedure rooms	**Adds** one additional procedure room for a total of two procedure rooms
• Outpatient clinics	**Relocates and Expands** existing clinics
• Clinical, Professional and Admin	**Adds and Expands** existing offices
• Conference and meeting space	**Adds** space for all facility staff
• Parking garage and helipad structures	**Replaces, Expands and Relocates** existing structures

Phase II:
Renovate, expand and/or alter existing hospital areas to include:

• Emergency Department	**Renovates and Expands** existing department
• Laboratory Department	**Renovates and Expands** existing department
• Diagnostic Imaging Department	**Relocates and Consolidates** existing services
• Admitting Area	**Relocates and Renovates** existing area
• Lobby and Foundation	**Relocates and renovates** lobby/foundation

Phase I will involve construction of an additional building west of the existing hospital building. Phase II includes renovations of existing space within the current hospital building. These

renovations include redesign of the Emergency Room, relocation of the IV/infusion services and expansion of the laboratory. The renovation will also allow current off-site operations, such as human resources and finance, to be on-site and in the hospital building. The project does not include additional beds of any type.

Total square footage for the construction and renovation for Phase I is estimated to be 94,779 SF and to be completed by November, 2015.

Total square footage for the renovations and alterations for Phase II is estimated to be 39,206 SF and to be completed by March, 2018.

Project Costs

Total cost of the project is estimated at **$84,433,225** : $54,870,517 Construction Costs
$11,298,147 Movable Equipment
$18,264,561 Other Costs

REVIEW

PHKMC is a licensed health care facility under AS 18.07.111(8), and the proposed project consists of an "expenditure" that is over the $1.45 million threshold for "construction" of a health care facility. Given that the project as a whole is the "expenditure" that exceeds $1.45 million, and given that PHKMC is applying for a CON for the project as a whole, the project must be reviewed in its entirety, as well as by the service specific review standards and methodology for Surgery Care, Laboratory Department Services and Hospital Emergency Department Services.

To perform this review, the entire project will first be subject to the General Review Standards. Then, "[a]fter determining whether an applicant has met the general review standards in Section I of this document, the department will apply the . . . service specific review standards in its evaluation of an application for a certificate of need." *Alaska Certificate of Need Review Standards and Methodologies* at 23-24.

General Review Standards

General Review Standard #1- Documented Need:
The applicant documents need for the project by the population served, or to be served, including, but not limited to, the needs of rural populations in areas having distinct or unique geographic, socioeconomic, cultural, transportation, and other barriers to care.

PHKMC has developed a Master Plan of strategic objectives and priorities that identify improvements to the access, availability and quality of care by PHKMC to the southern Southeast Region of Alaska. "The PHKMC plan will ensure that contemporary standards and regulatory requirements are met in the years ahead." See *CON Application* at 79.

Part of the development process of the Master Plan included incorporating findings from a Community Health Needs Assessment (CHNA). As a federal requirement, PHKMC assembled and administered the CHNA, and partnered with Ketchikan Health and Social Services Department, Prince of Wales Health and Social Services, Ketchikan Wellness Coalition, Community Connections-Prince of Whales and Ketchikan, Prince of Wales Health Network, Ketchikan Gateway Mental Health Services, and Prince of Wales Regional Emergency Medical Systems to produce its first Community Needs Assessment: VISTA - PeaceHealth Ketchikan Medical Center- COMMUNITY HEALTH NEEDS ASSESMENT, May 30, 2013. See *CON Application* at 28.

PHKMC is focused on updating health care service delivery, incorporating findings likes those from the CHNA and other strategic planning objectives to provide a high standard of patient focused care. "The future of PHKMC and its ability to provide high standards of care depend not on serving a growing population and economy but rather through following national trends that are recognized in PHKMC's efforts to provide cost-effective offerings of a wider range of medical care…." See *CON Application* at 79.

PHKMC states that completion of the Addition and Alterations Project is necessary. "It will provide space configured and sized to meet practice patterns in three of the most critically constrained areas, i.e., surgery, emergency department, and clinical office space." See *CON Application* at 33.

While supporting documentation and narrative are provided in the application, there is a noticeable lack of depth to the accompanying narrative. However, going beyond the narrative and taking the application as a whole, PHKMC appears to adequately demonstrate need for the Addition and Alterations Project in Ketchikan.

It is also worth noting that a letter from PHKMC to the CON Program was received a few days prior to the close of the public comment period. In the letter, the applicant requests that this General Review Standard #1 be waived. Since the letter was received after the application was deemed complete, it was not considered in this analysis.

Recommendation: The proposed project does meet General Review Standard #1.

General Review Standard #2 – Relationship to Applicable Plans:

The applicant demonstrates that the project, including the applicant's long-range development plans, augments and integrates with relevant community, regional, state, and federal health planning, and incorporates or reflects evidence-based planning and service delivery. A demonstration under this standard should show that the applicant has checked with the department regarding any relevant state plan, with appropriate federal agencies for relevant federal plans, and with appropriate communities regarding community or regional plans.

Per its CON application, PHKMC demonstrates it performed due diligence by considering other planning at the local, state, and federal levels. The current planning process began in April 2008; and the Master Plan was adopted by the Ketchikan City Council January 13, 2009. See *CON Application at* 28.

The completed plan represents a process that included facilitating dialogue with hundreds of stakeholders. "Those involved in this process included patients, hospital staff, physicians, administrators, benefactors, the local business community, governing board and foundation leaders, City of Ketchikan representatives, Ketchikan Gateway Borough representatives and representatives from communities throughout Southeast Alaska, and other health service providers." See *CON Application* at 34.

The applicant demonstrates the project plan is consistent with a) the PHKMC Community Needs Assessment b)The Alaska Rural Health Plan c) Alaska Health Professional Shortage Area d) Healthy Alaskans 2020 e) Alaska's Rural Hospital Flexibility Program and f) State of AK SH&SS Mission, Vision and Service Philosophy. Additionally, the State of Alaska's legislative appropriations for this project "were approved and signed into law by the Governor for FY 2013 and FY 2014". *See CON Application* at 80.

Finally, PHKMC states that "there are no state or federal health plans that specifically address the community need for replacement of outdated (50 year-old) surgical suites, nor for laboratory, or emergency rooms". *Id*

The applicant demonstrates the project is aligned with current applicable state and community plans. PHKMC acknowledges long range planning must take into account the need for ongoing integrative strategies that recognize national trends and technologies, in addition to relevant local and community health care objectives.

Recommendation: The proposed project does meet General Review Standard #2.

General Review Standard #3 – Stakeholder Participation:

The applicant demonstrates evidence of stakeholder participation in planning for the project and in the design and execution of services.

PHKMC demonstrates evidence of stakeholder participation in developing a long range master or strategic plan, as well as in the specific planning of the design and execution of services for the Addition and Alterations project.

Throughout the Master Plan planning process, a plan which spans the next 20 years, PHKMC was cognizant of incorporating and partnering with relevant and local stakeholders in the development of short and long terms goals. These stakeholders included health coalitions and policy makers, patients, hospital staff, the local business community, the City of Ketchikan and Ketchikan Gateway Borough and other Southeast Alaska community representatives. "Input was gathered through group meetings, presentations and individual questionnaires. This process also included the design of the facilities." See *CON Application* at 80.

There was extensive stakeholder participation in planning and development of the proposed Addition and Alterations project. Special care was taken to present, at various intervals, the proposed plan many times over as it was developed. PHKMC solicited and incorporated feedback and input from a variety of participants in these sessions. Participants included entities

such as the Ketchikan City Council and U.S. Senator Lisa Murkowski, among many other community and state-wide stakeholders. See *CON Application* at 35.

These efforts in collaborating with the private and public sectors in the project planning process resulted in strong support for the project. Notably, in January of 2013, the community of Ketchikan included Phase I in its fiscal year 2014 State Funding Request. See *CON Application* at 25.

Recommendation: The proposed project does meet General Review Standard #3.

General Review Standard #4 – Alternatives Considered:

The applicant demonstrates that they have assessed alternative methods of providing the proposed services and demonstrates that the proposed services are the most suitable approach.

Per its CON application, PHKMC has demonstrated that it considered alternative methods for providing the proposed services and that it is pursuing the most suitable approach.

"The development of the Master Plan considered several locations, potential land acquisition, and also evaluated doing nothing." See *CON Application* at 35.

PHKMC considered many alternative options, but the final "[o]ption of construction of a new 3 ½ story addition, a new surgery department, new clinical areas to meet today's medical group needs, increased parking, new helipad, and renovations of the vacated space for lab, diagnostic imaging and emergency room was chosen." See *CON Application* at 82.

The applicant demonstrated due diligence. PHKMC was careful to have all plans, including the long range Master or strategic plan, as well as the short term program and schematic design of the project vetted with key stakeholders and community members. Ultimately, the Ketchikan City Council approved the Master Plan and identified the PHKMC Addition and Alterations Project as its number one funding priority.

Recommendation: The proposed project does meet General Review Standard #4.

General Review Standard #5 – Impact on the Existing System:

The applicant briefly describes the anticipated impact on existing health care systems within the project's service area that serve the target population in the service area, and the anticipated impact on the statewide health care system.

Per its CON application, PHKMC adequately describes the anticipated impact of its proposed project on the community, as a whole. PHKMC is currently the only critical access hospital offering comprehensive care in the southern Southeast Alaska region. In addition to the critical care provision of service, PHKMC provides "[g]eneral and orthopedic surgery; obstetrics and gynecology; birthing center; diagnostic imaging; laboratory; physical, occupational and speech therapies; long-term care; and a sleep study center." See *CON Application* at 36. The PeaceHealth Medical Group is the primary provider of specialty care, through sponsorship of specialty health care services in Ketchikan and throughout southern Southeast Alaska.

The applicant states it supports and collaborates with many other health care providers in the region, including the tribal health clinic, the Southeast Alaska Regional Health Consortium, other local and community providers and the US Coast Guard. "The project looks to enhance care and services in the service area." See *CON Application* at 36.

Recommendation: The proposed project does meet General Review Standard #5.

General Review Standard #6 – Access:

The applicant demonstrates that the project's location is accessible to patients and clients, their immediate and extended families and community members, and to ancillary services. This includes the relocation of existing services or facilities.

Per its CON application, PHKMC demonstrates that the project's location is accessible. PHKMC has been in the same location for fifty years. For other remote, southern Southeast communities of Alaska, access via air and relay by boat taxi from the Ketchikan Airport are options. Also, a helipad, which is located next to the emergency room, is available. "The campus is located on a sloping site situated above Tongass Avenue, the major arterial in Ketchikan. Access to the hospital is reasonable and known throughout the PHKMC service area." See *CON Application* at 36.

PHKMC states that the flow of vehicular and pedestrian traffic will improve as a result of the project renovations and expansion. Optimal interior traffic circulation, for both the public and the staff, will be a result of the new project design. Once the hospital renovation is complete, diagnostic imaging patients will no longer need to be transported through the main lobby. Additionally, emergency department main access will be relocated, and the department pedestrian traffic rerouted.

Recommendation: The proposed project does meet General Review Standard #6.

Service-Specific Review Standards

After determining whether a project has met the general review standards, the department must apply service-specific review standards for services designated in the *Alaska Certificate of Need Review Standards and Methodologies*. For purposes of this application, Surgery, Hospital Laboratory and Emergency Department Services require this additional review.

General Surgery Services

The department will use the following formula to determine need for general surgery capacity:

STEP ONE: Determine the projected general surgery caseload using the formula:

C = P x GSUR

C (caseload)

P (projected population)
GSUR (general surgery use rate)

Projected population is the projected population in the fifth year post implementation of the project. In its application, PHKMC cites the primary service area population and census area data of the Ketchikan Gateway Borough and Prince of Wales-Hyder area. This data is published by the Alaska Department of Labor and Workforce Development, and the U.S. Census Bureau. See *CON Application* at 38.

The general surgery use rate is calculated by averaging the number of general surgery cases performed, over the preceding three years per 1,000 persons. PHKMC calculated the average number of general cases over the last three years using actual surgery numbers from the facility for 2011, 2012 and 2013. The three year average was 1,526.

The total primary service area population average over three years (2011-2013) is 20,074.

General surgery use rate was calculated by dividing the average surgery rate from 2011-2013 by average primary service area population from the same time period. The rate is .07602.

Total projected primary service area year 2020 population is calculated to be 18,547.

Therefore, projected caseload in the year 2020 is 1,410.

(P)18,547 x (GSUR).07602 = (C)1,410

Step One: Determine the projected general surgery caseload					
Year	***PHKMC Actual Surgeries***	***Primary service area Population***	***General Surgery Use Rate***	***P = Projected Population year 2020***	***C = P x GSUR Projected General Surgery Caseload***
2011	***1638***	***19649***	***.0834***		
2012	***1484***	***20223***	***.0734***		
2013	***1456***	***20349***	***.0716***		
3 year average	***1526***	***20074***	***.07602***	***18547***	***1410***

STEP TWO: Determine the projected number of operating rooms required to meet projected demand using the formula:

GORR=C/TU

GORR (general operating rooms required)
C (projected general surgery caseload)

TU (target use rate for operating rooms)

PHKMC determined the number of general operating rooms required by dividing the projected caseload in 2020 (1,410) by the target use rate of the operating rooms.

The target use rate for operating rooms is defined as 900 inpatient and outpatient surgical cases per operating room, and 1,200 surgical cases per operating room for outpatient surgery use. For its application, PHKMC determined the operating room target use rate by assuming 900 surgical cases per operating room.

Therefore, PHKMC's general operating room requirement equates to approximately 1.57 rooms, which is rounded up to 2 operating rooms.

(C) 1,410 divided by (TU) 900 = (GORR) 1.57 rooms = 2 rooms

Step Two: Determine the projected number of operating rooms required	
Primary service area Caseload year 2020	***1410***
divided by 900(target use for rooms serving inpts & outpts)	***1.57 rooms***

STEP THREE: Determine unmet need for general purpose operating rooms

To determine unmet need for general purpose operating rooms, the number of existing/CON approved operating rooms is subtracted from the projected need.

The existing hospital has three operating rooms currently in use. With the calculation from Step Two reflecting the need for 2 general operating rooms, there appears to be no unmet need (2-3= -1).

However, PHKMC is currently licensed and accredited for three operating rooms in the current hospital. The applicant states that it intends to continue doing business with three surgery rooms, and the third room will be maintained for surge and C-section capacity. See *CON Application* at 39.

Since PHKMC is not introducing any new services and proposes to only relocate and expand existing surgery capacity, the project should be approved for the three operating rooms.

Hospital Laboratory Department Services

1. The population served by a laboratory to be moved will continue to have reasonable access to the service at the new site, or will have reasonable access to comparable laboratory services in the community.

Not applicable. The laboratory is not being moved, just remodeled.

2. For an off-site laboratory replacement project, implementation will result in a substantial cost savings, cost avoidance, consolidation of underutilized facilities, or in other ways improves operational efficiency.

Not applicable. This is not an off-site laboratory replacement project.

3. Redundant equipment is justified based on demand analysis or limited access to other laboratory equipment and services within the community.

Not applicable. There is no redundant equipment proposed.

4. Accreditation reports and a visual inspection of the laboratory show a defined need to add space, redesign the laboratory to make it more efficient and safe, ensure higher-quality services, and correct functional problems that affect quality and efficiency.

This standard appears to be met. "An on-site inspection of the laboratory will make obvious the critical need for a replacement facility that provides additional space, an efficient and safe environment, higher quality service, and corrects current physical plant deficiencies." See *CON Application* at 87.

Review Methodology (Hospital Laboratory Department Services)

The department will use a net square feet per patient bed method as follows: Laboratory size may not exceed 50 net square feet per patient bed based on the projected number of beds that would be served by the laboratory or are requested in the application and recommended for approval in the review document.

Based on a five year average, 19.4% of the volume in the laboratory is for inpatients. The methodology provides for 50 net square feet per hospital bed or 1,250 square feet (50 square feet times 25 inpatient beds=1,250 net square feet).

The PHKMC laboratory net square feet will be 2,706. 19.4% of the planned 2,706 square footage equates to 525 net square feet. This is less than the 1,250 square feet allowed by the methodology.

This standard is met.

Hospital Emergency Department Review Services

1. The applicant demonstrates that the project promotes, or otherwise helps ensure, the maintenance of a stable and efficient emergency medical system.

PHKMC is the regional medical center providing emergency care to southern Southeast Alaska. PHKMC plans to renovate and expand the department to improve patient access to care, ensure patient security and relocate critical staff and patient space such as the nurse's station and triage area. "The emergency department at PHKMC is constrained by surrounding departments, limiting its ability to gain additional space for needed patient care and support areas." See *CON Application* at 51.

PHKMC contends these upgrades are "necessary to help ensure and maintain a stable and efficient emergency medical system." See *CON Application* at 88. With planned upgrades and improved patient access to care and improved security measures, the applicant demonstrates the project will support and maintain an efficient and stable emergency room department.

2. For the addition or expansion of general emergency services, a proposal will not be approved unless each emergency department treatment room will provide a minimum of 1,500 visits annually. The total number of emergency department treatment rooms (excluding specialized rooms such as cast/x-ray rooms, observation rooms, secure rooms and space for visiting physician clinics) approved will not exceed one room for 1,500 visits annually, based on utilization projections in the fifth year of operation. The department may approve additional space if the applicant documents use patterns, and submits data and analysis that show seasonal high peak use rates warranting additional treatment rooms.

To calculate the number of treatment rooms an emergency department is allowed to use for services, the following formula is used:

EDTR=C5/1500, and
C5=P5 x SAS x UR

EDTR (emergency department treatment rooms needed)
C5 (emergency department visits projected for the fifth year after project)
UR (average of number of emergency department visits per year for last three years divided by population)
P5 (projected population for the fifth year after project completion)
SAS (service area share)

In its application, PHKMC uses the most recent 2012 population estimates released in 2013 for its P5 value, versus the Alaska Department of Labor (AKDOL) projected 2020 population which shows a decline in population from the 2010 census. AKDOL shows population increases in 2012. It is PHKMC's contention that this number is more relevant, as it reflects a higher, more accurate and current population count than the projections for 2020.

PHKMC averaged the 2010 census numbers with estimates from 2011 and 2012, averaged over the primary service area of Ketchikan Gateway Borough and Prince of Wales-Hyder Census Area to reach a total of 20,349 people in 2012. This number is higher than the 2020 projection of 18,547, which was taken from AKDOL projections for 2010-2035. Using PHKMC's estimates, P5's value for this application is 20,349.

PHKMC uses 100% of the primary service area in its calculation, as it is the only provider in the service area. Therefore, the value of SAS is 100%.

PHKMC current utilization rate of emergency room services averaged over the past three years of 2011-2013 reflects a total of 9,396. PHKMC's current population (established in Step #1 of the General Surgery Review Standards) is 20,074. Therefore, the value of UR (9,396 divided by 20,074) is .467.

20,349 x 100 x .467 = C5
C5=9,503

PHKMC's projected emergency department room need is the utilization rate (9,503) divided by the (1500) patient minimum visits per room requirement, or 6.33 rooms. This number rounded up is 7 rooms.

PHKMC has seven emergency department treatment rooms planned for its renovated emergency department.

(C5) 9,503 / 1,500 = EDTR
EDTR= 7

This standard appears to be met.

3. For the addition or expansion of fast-track emergency services within a facility . . . .

This review standard is not applicable to this application as there is no fast-track services proposed**.**

4. For a proposal for additional space in the hospital emergency department, the applicant must perform a size-by-functional-need survey and analysis for additional space that demonstrates efficient use of the space.

A size-by-function-need survey was conducted and enclosed in Appendix C of the CON application. This standard appears to have been met.

FINANCIAL FEASABILITY

Per its application, PHKMC is utilizing both a federal (FY 2010) grant appropriation of $1,000,000, and a state (FY2013) legislative grant of $ 3,000,000 to finance the construction of this project. Additionally, the City of Ketchikan currently has a one percent sales tax dedicated to health care and in October 2013 voters approved a bonding measure to fund $43,000,000 of the cost of Phase I (Addition Construction).

Additionally, a "FY 2014 state designated legislative appropriation of $15,000,000 was signed into law by the Governor during the past legislative session. PHKMC will contribute $8,261,977 toward the cost of fixtures, furnishings and equipment for the both phases 1 and 2." See *CON Application* at page 68.

Below is a summary of PHKMC's construction costs, income statement, and balance sheet.

Construction Costs

a. Site acquisition	*$ 0*
b. Estimated general construction	*$42,830,594 (includes $839,660 Helipad)*
c. Fixed equipment, not included in a.	*$12,039,923*
d. Total construction costs (sum of a.b.c)	*$54,870,517*
e. Major movable equipment	*$11,298, 147*
f. Other costs	*$18,264,561*
g. Total Proiect cost (sum of d,e,f)	***$84,433,225***
h. Amount to be financed	*$43,000,000*
i *Difference between 2g and 2h*	*$41,433,225*
j. Anticipated long term interest rate 3.5%	
k. Anticipated interim construction interest rate 3.5%	
I. Anticipated long term interest amount	*$1,505,000 year one $29,211,634 Life*
m. Anticipated interim interest amount	*$1,505,000 * 5 = $6,020,000*
n. Total items g.l.m	
0. *Estimated annual debt service requirement*	*$2,545,832*
p. Construction cost per square foot	*$409.53*
q. Construction cost per bed	*Not applicable*
r. Project cost per sq *ft.*	*$630.17*
s. *Project cost per bed*	*Not applicable*

Facility Income Statement

Schedule I. Facility Income Provide Last Five Years Actual and Projections For Three Years Beyond											
Gross Patient Revenue:	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Inpatient Routine	$8,259,010	$9,476,443	$9,910,571	$10,412,094	$11,041,594	$12,048,342	$12,727,138	$13,423,708	$14,180,462	$14,990,652	$15,846,065
Inpatient Ancillary	$14,114,886	$14,921,613	$14,304,688	$14,582,932	$15,368,367	$16,875,316	$17,826,061	$18,801,700	$19,861,636	$20,996,416	$22,194,537
Outpatient	$33,610,667	$37,741,654	$39,537,969	$40,532,583	$42,125,941	$44,303,262	$46,799,279	$49,360,653	$52,143,336	$55,122,506	$58,267,967
Long-Term Care	$8,893,015	$8,893,706	$10,005,817	$9,614,420	$8,739,927	$9,263,105	$9,784,982	$10,320,524	$10,902,339	$11,525,236	$12,182,901
Physicians	$13,768,248	$16,270,964	$16,584,357	$18,826,780	$20,700,901	$23,533,982	$24,859,871	$26,220,479	$27,698,645	$29,281,186	$30,952,061
Other (HHA)	$1,161,901	$1,101,670	$1,238,340	$1,001,973	$994,991	$1,076,717	$1,137,378	$1,199,628	$1,267,257	$1,339,661	$1,416,106
Total Patient Revenue	$79,807,727	$88,406,050	$91,581,742	$94,970,782	$98,971,721	$107,101,000	$113,135,000	$119,327,000	$126,054,000	$133,256,000	$140,860,000
Less Deductions											
Charity Care	$2,350,253	$2,856,252	$2,360,109	$3,243,322	$3,067,515	$3,555,753	$3,959,725	$4,176,445	$4,411,890	$4,663,960	$4,930,100
Contractual	$20,626,623	$22,767,425	$25,637,542	$28,223,930	$30,402,451	$34,049,324	$37,598,200	$41,088,840	$44,842,680	$48,877,520	$53,193,200
Bad Debts	$3,913,821	$4,241,124	$4,128,833	$4,205,278	$4,241,461	$4,583,923	$5,091,075	$5,369,715	$5,672,430	$5,996,520	$6,338,700
Total Deductions	$26,890,697	$29,864,801	$32,126,484	$35,672,530	$37,711,427	$42,189,000	$46,649,000	$50,635,000	$54,927,000	$59,538,000	$64,462,000
Net Operating	$52,917,030	$58,541,249	$59,455,258	$59,298,252	$61,260,294	$64,912,000	$66,486,000	$68,692,000	$71,127,000	$73,718,000	$76,398,000
All Other Revenues	$722,619	$2,557,364	$3,843,344	$1,528,796	$4,626,077	$3,965,000	$4,317,000	$4,756,000	$5,025,000	$5,349,000	$5,722,000
EXPENSES:											
Salaries	$21,840,355	$23,655,709	$25,989,910	$27,276,595	$27,144,699	$28,631,000	$30,422,000	$31,603,000	$32,791,000	$34,027,000	$35,315,000
Benefits	$5,850,548	$6,228,281	$6,999,609	$7,718,500	$8,312,975	$8,085,000	$9,141,000	$9,493,000	$9,850,000	$10,220,000	$10,606,000
Supplies	$4,349,050	$5,290,003	$5,026,896	$4,653,490	$5,381,668	$5,531,000	$5,796,000	$6,059,000	$6,351,000	$6,662,000	$6,994,000
Utilities											
Property Tax											
Bad Debts											
Lease											
Other Expenses	$18,129,910	$18,110,310	$17,826,877	$17,038,610	$18,741,232	$20,608,000	$19,173,000	$19,502,000	$20,005,000	$20,573,000	$21,139,000
Depreciation	$1,945,182	$1,999,802	$2,368,671	$2,408,648	$2,293,299	$1,958,000	$1,960,000	$2,710,000	$3,065,000	$3,398,000	$3,535,000
Interest	$17,315	$10,793	$3,181	$14,417	$8,918	$6,000	$4,000	$1,000	$17,000	$14,000	$10,000
Total Expenses	$52,132,360	$55,294,898	$58,215,144	$59,110,260	$61,882,791	$64,819,000	$66,496,000	$69,368,000	$72,079,000	$74,894,000	$77,599,000
Excess (Shortage) of Over Expenditures	$1,507,289	$5,803,715	$5,083,458	$1,716,788	$4,003,580	$4,058,000	$4,307,000	$4,080,000	$4,073,000	$4,173,000	$4,521,000

Facility Balance Sheet

Schedule II. Facility Balance Sheet Provide Last Five Years Actual and Projections For Three Years Beyond Project											
CURRENT ASSETS	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Cash & Cash Equivalent	$7,689,346	$8,156,344	$10,755,294	$13,003,008	$14,709,425	$14,054,000	$14,488,000	$14,924,000	$15,493,000	$16,051,000	$16,627,000
Net Patient Accounts Receivable	$8,805,661	$8,569,864	$10,133,252	$10,331,680	$11,652,084	$10,962,000	$11,302,000	$11,645,000	$12,091,000	$12,532,000	$12,987,000
Other Accounts Receivable	$36,208	$107,541	$77,069	$66,588	$308,721	$0	$0	$0	$0	$0	$0
Inventories	$828,637	$899,572	$963,463	$1,233,637	$1,344,441	$1,264,000	$1,321,000	$1,377,000	$1,447,000	$1,518,000	$1,594,000
Prepaid Expenses	$222,340	$205,779	$210,555	$190,993	$157,156	$0	$0	$0	$0	$0	$0
Other	$107,789	($66,271)	($64,527)	($108,039)	($1,191,780)	$500,000	$507,000	$515,000	$524,000	$534,000	$544,000
Total Current Assets	$17,689,981	$17,872,829	$22,075,106	$24,717,867	$26,980,047	$26,780,000	$27,618,000	$28,461,000	$29,555,000	$30,635,000	$31,752,000
Property and Equipment											
Land & Improvements	$968,735	$911,084	$911,084	$911,085	$911,085	$1,049,398	$1,049,395	$1,049,398	$1,049,398	$1,049,398	$1,049,398
Building/Fixed Equipment	$8,915,393	$11,117,321	$11,337,628	$12,058,742	$12,627,932	$12,322,744	$12,482,974	$12,642,974	$12,802,974	$12,962,974	$13,122,974
Major Movable Equipment	$16,569,562	$13,311,653	$14,110,224	$14,831,213	$15,237,286	$17,368,628	$24,940,628	$27,289,628	$29,391,628	$30,684,628	$31,973,628
Accumulated Depreciation	$19,138,170	$15,664,530	$17,934,834	$20,018,474	$21,854,526	$23,384,000	$25,043,000	$27,453,000	$30,218,000	$33,316,000	$36,551,000
Net Property & Equipment	$7,315,520	$9,675,528	$8,424,102	$7,782,566	$6,921,777	$7,357,000	$13,430,000	$13,529,000	$13,026,000	$11,381,000	$9,595,000
Other Assets	$14,179,688	$15,949,942	$18,782,295	$19,206,319	$21,162,314	$22,812,000	$18,664,000	$21,368,000	$24,598,000	$28,930,000	$33,714,000
TOTAL ASSETS	$39,185,189	$43,498,299	$49,281,503	$51,706,952	$55,064,138	$56,949,000	$59,712,000	$63,358,000	$67,179,000	$70,946,000	$75,061,000
LIABILITIES/FUND BALANCE											
Current Liabilities											
Accounts Payable	$2,681,269	$2,038,980	$1,103,775	$1,417,631	$1,637,174	$1,918,000	$1,977,000	$2,037,000	$2,114,000	$2,190,000	$2,269,000
Accrued Expenses	$0	$0	$43,510	$72,166	$26,420	$0	$0	$0	$0	$0	$0
Accrued Compensation	$2,838,621	$2,459,710	$2,857,879	$2,919,527	$3,383,163	$2,557,000	$2,557,000	$2,557,000	$2,557,000	$2,557,000	$2,557,000
Other Accruals	$967,016	($1,070)	$830,177	$1,020,188	$329,097	$1,017,000	$1,027,000	$1,022,000	$1,082,000	$1,118,000	$1,155,000
Total Current Liabilities	$6,486,906	$4,497,620	$4,835,341	$5,429,512	$5,375,854	$5,492,000	$5,561,000	$5,616,000	$5,753,000	$5,865,000	$5,981,000
Long Term Liabilities											
Long Term Debt	$87,210	$41,963	$45,748	$91,795	$69,901	$33,000	$0	$0	$100,000	$71,000	$38,000
Other	$267,119	$366,286	$476,273	$469,259	$549,998	$476,000	$476,000	$476,000	$476,000	$476,000	$476,000
Total Long Term Liabilities	$354,329	$408,249	$522,021	$561,054	$619,899	$509,000	$476,000	$476,000	$576,000	$547,000	$514,000
Fund Balance	$32,343,954	$38,592,430	$43,924,141	$45,716,386	$49,068,385	$50,948,000	$53,675,000	$57,266,000	$60,850,000	$64,534,000	$68,566,000
Total Liabilities & Fund Balance	$39,185,189	$43,498,299	$49,281,503	$51,706,952	$55,064,138	$56,949,000	$59,712,000	$63,358,000	$67,179,000	$70,946,000	$75,061,000

PUBLIC COMMENT SUMMARY

A public meeting was held in Ketchikan on December 16, 2014. Approximately thirty individuals attended the meeting in person, all providing comments. Of those in attendance, there were a combination of private citizens, PeaceHealth employees, City Council and Chamber of Commerce members and school employees.

All present spoke very highly of the project. It was clear the attendees of the meeting supported the planned renovation and expansion of the medical center facilities. There were only positive and affirmative comments presented and they focused on the carefully executed planning process and leadership and administration of PeaceHealth and the City of Ketchikan. The perceived positive impact to the healthcare system in the community, and the resulting lure of the state of the art facility were considered effective strategies to recruit top notch providers to the region. There were no negative comments spoken regarding the project at the public comment meeting.

A written public comment period was open from March 30, 2014 to April 29, 2014.

Three hundred and thirty one letters were received in support of the application.

No letters were received in opposition to the application. Five letters were not considered because they were received after the public comment deadline. (Please note: All five letters received after close of the comment period were also positive comments and positive support for the project.)

RECOMMENDATIONS

Overall Recommendation

The CON Program recommends that the Commissioner approve, in full, PHKMC's application for a CON concerning its Addition and Alterations Project.

The applicant appears to have satisfied all of the General Review Standards as well as the service-specific review standards under the "Alaska Certificate of Need Review Standards and Methodologies."

APPENDIX A

Estimated Impact to Medicaid

THE STATE of ALASKA
GOVERNOR SEAN PARNELL

Department of Health and Social Services

OFFICE OF RATE REVIEW

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MEMORANDUM

Date: May 12, 2014

To: Alexandria Hicks
CON Coordinator

From: Jared C. Kosin, Executive Director
Office of Rate Review

Subject: Certificate of Need (CON) Review for Ketchikan Medical Center

PeaceHealth Ketchikan Medical Center (PHKMC) is a 25-bed critical access community hospital combined with a 29-bed long term care facility. The hospital building and land are owned by the City of Ketchikan and leased to and operated by PeaceHealth, a not for profit, voluntary, private institution.

PHKMC proposes an Additions/Alterations project to build a new addition (Phase 1) that includes a replacement surgery department with three operating rooms (relocated from the hospital building), sterile processing, outpatient clinics, and a parking garage. The project also includes a remodel (Phase 2) of the emergency department, radiology, and support spaces within the existing hospital.

The main drivers for the project are updating the facilities to meet current practice patterns, changes in technology/equipment, and patient operations.

This project is estimated to cost $84,433,225 before interest expense. Phase 1 (addition) is scheduled to be completed by November 2015 and Phase 2 (remodel) is scheduled to be completed by March 2018. Since there will not be any added beds or new major equipment resulting from the project, the impact on the Medicaid program will mainly be in the form of increased capital costs.

Of the $84,433,225 project total costs, $70,261,977 has been secured. A breakdown of the secured funding from the CON application is as follows:

Secured Funding	
FY 2010 Federal Grant Appropriation	$ 1,000,000
FY 2013 State Legislative Grant	$ 3,000,000
FY 2014 State Legislative Grant	$ 15,000,000
City of Ketchikan Bond Issuance	$ 43,000,000
Peace Health Contributions	$ 8,261,977
Total	$ 70,261,977

The funding for the remaining $14,171,248 balance of the project is unknown. However, the facility has stated in the application:

> "The organization has been pursuing a funding strategy and plan to leverage the large amount of community and state funding already obtained toward securing the balance of project funding from federal and other sources."

As previously mentioned, the $84,433,255 estimated project costs do not include interest expense (see page 10 of CON application). Per documentation provided by the provider in the CON application, the $43,000,000 bond issuance by the City of Ketchikan will incur $29,211,634 in interest costs (see page 120 of CON application). This amount has not been included in the CON application stated total project costs and may result in an understated analysis of the impact to Medicaid (see below). Additionally, the Department is unable to determine who, by, or what methodology the financing will be repaid.

On page 128 of the CON application, a summary of capital costs identifies the City of Ketchikan as being responsible for $57,067,029 of the project cost and PHKMC being responsible for $8,261,976. Soft costs in the amount of $18,264,560 have not been broken down between the City of Ketchikan and PHKMC, resulting in an inability to determine the party responsible for these costs. Capital add-on rates are paid to the provider of Medicaid services for capital expenditures incurred by the provider in an approved CON. Based on the CON application, it appears the costs for the project are being shared between at least two parties. If this is accurate, some of the expenses would likely not be allowed in the CON add-on rate for the facility.

Given all of the unknowns, in order to complete an analysis of the impact to Medicaid, the Office of Rate Review (ORR) evaluated the information provided in the CON application as if the expenses were the sole responsibility of PHKMC. The facility is due to be rebased in FY 2017 using data from its FY 2015 Medicare cost report. Given the project's timeline, some expenses related to this project may not be included in the facility's Medicaid rate that will take effect in the FY 2017 rate year. However, any remaining costs of the project will likely be reflected in a reduced capital add-on until they are fully considered in the facility's Medicaid rate that will go into effect in the FY 2021 rate year.

Possible Impact to Medicaid (*using information available in CON application that extends to 2019*)

CON Capital Costs	2015	2016	2017	2018	2019
Estimated Annual Interest Expense	$ 4,000	$ 1,000	$ 17,000	$ 14,000	$ 10,000
Estimated Annual Depreciation	$ 1,960,000	$ 2,710,000	$ 3,065,000	$ 3,398,000	$ 3,535,000
Totals	$ 1,964,000	$ 2,711,000	$ 3,082,000	$ 3,412,000	$ 3,545,000
Current Acute Medicaid Utilization (from 2014 rate)	22.77%	22.77%	22.77%	22.77%	22.77%
Estimated Annual Impact to Medicaid due to increased depreciation and interest expenses	$ 447,203	$ 617,295	$ 701,771	$ 776,912	$ 807,197

Again, there are several unknowns associated with the actual capital expenses that will be incurred by PHKMC, so the estimated annual impact to Medicaid may be understated.

Please note, all calculations in this memorandum are estimates only and are based on the assumptions set forth in the CON application. The Department is not bound by these estimates or assumptions. Also, please note 7 AAC 07.070(i):

> ***Approval of a certificate of need does not imply any guarantee of federal, state, or private money, including Medicaid payments or grant awards, and does not imply any guarantee of profitability.***

If you have any questions please contact Christine Goetz at 334-2476 or me at 334-2447.

APPENDIX B

I. General Review Standards Applicable to all Certificate of Need Applications

Review Standards

The department will apply the following general review standards, the applicable service-specific review standards set out in this document, the standards set out in AS 18.07.043, and the requirements of 7 AAC 07 in its evaluation of each certificate of need application:

1. The applicant documents need for the project by the population served, or to be served, including, but not limited to, the needs of rural populations in areas having distinct or unique geographic, socioeconomic, cultural, transportation, and other barriers to care.

2. The applicant demonstrates that the project, including the applicant's long-range development plans, augments and integrates with relevant community, regional, state, and federal health planning, and incorporates or reflects evidence-based planning and service delivery. A demonstration under this standard should show that the applicant has checked with the department regarding any relevant state plan, with appropriate federal agencies for relevant federal plans, and with appropriate communities regarding community or regional plans.

3. The applicant demonstrates evidence of stakeholder participation in planning for the project and in the design and execution of services.

4. The applicant demonstrates that PHKMC has assessed alternative methods of providing the proposed services and demonstrates that the proposed services are the most suitable approach.

5. The applicant briefly describes the anticipated impact on existing health care systems within the project's service area that serve the target population in the service area, and the anticipated impact on the statewide health care system.

6. The applicant demonstrates that the project's location is accessible to patients and clients, their immediate and extended families and community members, and to ancillary services. This includes the relocation of existing services or facilities.

APPENDIX C

Surgical Care: Review Standards and Methodology

General Surgery Services Review Standards

After determining whether an applicant has met the general review standards in Section I of this document, the department will apply the following service-specific review standard in its evaluation of an application for a certificate of need for general surgery services: The applicant demonstrates need in accordance with the following review methodology.

These review standards for general surgery services do not apply to (1) open-heart surgery subject to the standards in B of this section; (2) surgery suites dedicated to C-sections and other birth-related surgeries; or (3) surgery suites dedicated to LASIK or other eye surgery.

Review Methodology

The department will use the following formula to determine need for general surgery capacity:

►**STEP ONE:** Determine the projected general surgery caseload using the formula:

C = P x GSUR

C (caseload) = the number of general surgery cases projected for the fifth year from the project implementation date. Cases refer to patients who may have one or more surgical procedures during a particular visit to the operating room. If the patient returns at a later date for additional services, the next visit will count as an additional case.
P (projected population) = the official state projected population in the fifth year following implementation of the project
GSUR (general surgery use rate) = defined as the average number of general surgery cases provided over the preceding three years per 1,000 (persons)

►**STEP TWO:** Determine the projected number of operating rooms required to meet projected demand using the formula:

GORR= C / TU

GORR = general operating rooms required
C = projected general surgery cases
TU = target use rate for operating rooms, defined as 900 surgical cases per operating room for operating rooms serving both inpatients and outpatients and 1,200 surgical cases for operating rooms dedicated to outpatient surgery use

►**STEP THREE:** Determine unmet need for general purpose operating rooms, if any, by subtracting number of existing and CON-approved operating rooms from the number projected to be needed.

Hospital Laboratory and Emergency Department Services: Review Standards and Methodology

Hospital Laboratory Department Services Review Standards

After determining whether an applicant has met the general review standards in Section I of this document, the department will apply the following service-specific review standards, as applicable, in its evaluation of an application for a certificate of need that involves the addition, expansion, or relocation of a laboratory. A proposal to add, expand, or relocate a hospital laboratory will not be approved unless the applicant demonstrates that:

1. The population served by a laboratory to be moved will continue to have reasonable access to the service at the new site, or will have reasonable access to comparable laboratory services in the community;

2. For an offsite laboratory replacement project, implementation will result in a substantial cost savings, cost avoidance, consolidation of underutilized facilities, or in other ways improves operational efficiency;

3. Redundant equipment is justified based on demand analysis or limited access to other laboratory equipment and services within the community;

4. Accreditation reports and a visual inspection of the laboratory show a defined need to add space, redesign the laboratory to make it more efficient and safe, ensure higher quality services, and correct functional problems that affect quality and efficiency.

Review Methodology

The department will use a net square feet per patient bed method as follows: Laboratory size may not exceed 50 net square feet per patient bed based on the projected number of beds that would be served by the laboratory or are requested in the application and recommended for approval in the review document.

B. Hospital Emergency Department Services Review Standards

After determining whether an applicant has met the general review standards in Section I of this document, the department will apply the following service-specific review standards, as applicable, in its evaluation of an application for a certificate of need that involves the expansion of an emergency department:

1. The applicant demonstrates that the project promotes, or otherwise helps ensure, the maintenance of a stable and efficient emergency medical system.

2. For the addition or expansion of general emergency services, a proposal will not be

approved unless each emergency department treatment room will provide a minimum of 1,500 visits annually. The total number of emergency department treatment rooms (excluding specialized rooms such as cast/x-ray rooms, observation rooms, secure rooms and space for visiting physician clinics) approved will not exceed one room per 1,500 visits annually, based on utilization projections in the fifth year of operation. The department may approve additional space if the applicant documents use patterns, and submits data and analysis that show seasonal high peak use rates warranting additional treatment rooms.

3. For the addition or expansion of fast track emergency services within a facility, a proposal will not be approved unless the applicant demonstrates that:

    a. the fast track space will have at least one physician, advanced nurse practitioner, or physicians' assistant assigned full-time to the service; and

    b. a minimum of two fast track rooms are needed, each anticipated to accommodate at least 1,500 visits per room per year by the fifth year of operation; and

    c. remaining general emergency service rooms will continue to handle a minimum of 1500 visits annually.

4. For a proposal for additional space in the hospital emergency department, the applicant must perform a size-by-functional-need survey and analysis for additional space that demonstrates efficient use of the space.

Review Methodology

The department will use the following formula to determine the need for emergency department treatment room services:

$$\mathbf{EDTR = C_5/1500}$$
$$\mathbf{C_5 = P_5 \times SAS \times UR}$$

EDTR = emergency department treatment rooms needed
$\mathbf{C_5}$ = caseload (emergency department visits) projected for the fifth year after project completion
UR = current utilization rate (average number of emergency department visits per year for the last three years, divided by population), to be determined on a service area basis
$\mathbf{P_5}$ = projected population for the fifth year after project completion
SAS (service area share) = the proposed service area's current share of the population to be served, as of the most recent geographic population estimates. If there is public information about service area population changes expected over the planning horizon, such as a military base closing, or a major economic project such as a new mine, the service area share estimate may be modified with an explanation to reflect the expected change.