

**REVIEW OF THE CERTIFICATE OF NEED APPLICATION TO  
EXPAND THE CARDIAC OBSERVATION UNIT AT  
PROVIDENCE ALASKA MEDICAL CENTER**

**April 16, 2007**



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Governor**

**Karleen Jackson, PhD  
Commissioner**

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**State of Alaska/DHSS  
Office of the Commissioner  
Health Planning & Systems Development Unit  
Certificate of Need Program**

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### **EXECUTIVE SUMMARY**

Providence Alaska Medical Center (“PAMC”) submitted a Certificate of Need (“CON”) application to expand its existing Cardiovascular Observation Unit from 9 to 15 bays. The current Observation Unit is operating above capacity requiring patients to either move to other parts of the hospital for recovery or be scheduled for a procedure based on availability of a recovery bed rather than on the availability of a cardiac catheterization laboratory.

The total cost of the project to remodel 1,634 square feet of space, add six new bays, and purchase equipment (including new stretchers and a new nurse call system for all 15 bays) is \$1,312,575 including \$306,806 for equipment. The expanded cardiovascular observation area is complete and ready to occupy as soon as a decision on the CON is made. The only construction that remains to be completed is the removal of the drywall separation from the existing unit and the finishing of some of the flooring, ceiling and wall areas that connect the two spaces.

The Alaska CON Program has no specific standards or methodology for the proposed project. The applicant’s estimate of need for additional bays was based on a number of factors, including the potential construction of two new cardiac catheterization laboratories for which PAMC has submitted a separate CON application. Certificate of Need staff recommend that a CON for six new cardiac observation bays be granted regardless of the outcome of the determination of need relative to PAMC’s CON application for proposed new cardiac catheterization laboratories, due to the capacity issues associated with the current observation unit. At least four new observation bays (or a total of 13 bays) can be justified regardless of whether or not the Department grants a CON for two new catheterization labs. It is recommended that the additional bays be approved because the additional space has already been incorporated into the observation unit and cannot be easily removed or eliminated. The additional space does not add any material increase in cost to the State’s Medicaid program and will not increase the daily rate until 2012. This project will improve the flow of patients through the Heart Center and Radiology Units, provide more efficient staffing, and result in higher quality patient care.

**Recommendation:** It is recommended that Providence Alaska Medical Center be approved for six additional cardiovascular observation bays at a cost of \$1,312,575 with a project completion date of December 31, 2007.

**GENERAL REVIEW STANDARDS CERTIFICATE OF NEED MATRIX**

<b>GENERAL REVIEW STANDARDS FOR CERTIFICATE OF NEED</b>	<b>Standard Met?</b>
<b>General Review Standard #1 -- Documented Need:</b> <i>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. In applying this standard, the department will also consider, when appropriate, whether the service is in an area of the state that is unserved or under-served in the type of proposed service.</i>	Met
<b>General Review Standard #2 Relationship to Applicable Plans:</b> <i>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.</i>	Met
<b>General Review Standard #3 – Stakeholder Participation:</b> <i>The applicant demonstrates effective formal mechanisms for stakeholder participation in planning for the project and in the design and execution of service.</i>	Not Met
<b>General Review Standard #4 – Alternatives Considered:</b> <i>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.</i>	Met
<b>General Review Standard #5 – Impact on the Existing System:</b> <i>The applicant demonstrates the impact on existing health care systems within the project's service area that serve the target population in the service area, and health care systems that serve the target population in other regions of the state.</i>	Met
<b>General Review Standard #6 – Access:</b> <i>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.</i>	N/A

## **REVIEW OF THE CERTIFICATE OF NEED APPLICATION TO EXPAND THE CARDIOVASCULAR OBSERVATION UNIT AT PROVIDENCE ALASKA MEDICAL CENTER**

### **BACKGROUND**

PAMC submitted a CON application to expand its existing Cardiovascular Observation Unit (“CV OBS”) from 9 bays to 15 bays. The project includes remodeling 1,634 square feet of space, previously used as a conference room, and located adjacent to the existing CV OBS. The total space of the CV OBS will increase from 2,391 square feet to 4,025 square feet. Equipment to be purchased includes new stretchers and a new nurse call system for all 15 bays. Each bay holds one stretcher (bed). The current CV OBS is operating above capacity, requiring patients to be scheduled for procedures based on availability of recovery bays rather than on availability of cardiovascular labs. As a result, there are times where patients must be sent to the critical care floor for recovery. The total projected cost of the project is \$1,312,575, including \$306,806 for equipment. The CV OBS has not been remodeled or expanded since it opened in January, 1997.

The CV OBS expansion proposed in this application is nearly complete and ready to occupy as soon as a determination is made with respect to this CON application. The only construction that remains to be completed is the removal of the drywall separation from the existing unit and the finishing of some of the flooring, ceiling and wall areas that connect the two spaces. PAMC originally projected the cost of the proposed CV OBS to be less than the \$1.1 million threshold that triggers the requirement for a CON; therefore, the applicant did not submit a CON application prior to the start of construction. PAMC has indicated that when it determined that the cost of the project would exceed the \$1.1 million threshold, it submitted a CON application.

The CV OBS is used to prepare and recover patients who are having a procedure performed in one of the cardiac catheterization laboratories; provide space for cardiac procedures performed in the CV OBS such as tilt table, TEE (transesophageal echocardiogram) and cardioversion (converting the heart from an abnormal to normal beat); prepare patients for open-heart surgery; and allow patients to recover from a radiology procedure.

### **REVIEW STANDARDS**

#### **General Review Standards Applicable to All CON Applications**

***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.*

A population based need for the CV OBS cannot be determined because this service is an internal support function to multiple existing services. Therefore, the need is based on support for the multiple services rather than a service related to a certain disease incidence in the population. Patients served by CV OBS may be seen twice - once while being admitted or prepped for a service - and again during recovery from a procedure.

The applicant states that the current CV OBS is operating above capacity; therefore, at times there is no CV OBS bay available. When the CV OBS is full, patients are sent to some other part of the hospital such as the Critical Care Unit, the Post-Anesthesia Care Unit, or to another inpatient bed, or they just wait longer for services. Moving patients to other units in the hospital requires movement of staff nurses to monitor patients, which also causes more delays in the use of the labs. The current lack of CV OBS bays causes many delays, including delaying the start of a procedure and delaying a patient's transfer to the CV OBS Unit.

<b>Cardiovascular Observation Unit Patient Growth &amp; Projections 2004-2010</b>							
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Patients</b>	<b>4,868</b>	<b>5,184</b>	<b>5,408</b>	<b>5,516</b>	<b>5,626</b>	<b>5,739</b>	<b>5,854</b>
<b>% Growth</b>		<b>6.5%</b>	<b>4.3%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>

***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.***

The applicant states that their strategic plan provides for an expected increased utilization in the areas of cancer treatment, cardiac procedures, and surgical procedures due to the aging and growth of the state's population. The CV OBS provides support for cardiac, interventional radiology, and imaging procedures; therefore, the applicant is attempting to keep pace with the future needs of an aging population.

***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.***

This standard was not met. Stakeholder participation in the planning was not discussed within this application

***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.***

PAMC considered four alternatives for the CV OBS project:

- Do nothing: This was not chosen because the CV OBS is at capacity; therefore, efficiency and patient quality of care would be negatively impacted unless something is done;
- Recover patients in the PACU<sup>1</sup>: This was not chosen because the PACU is also at capacity, is a significant distance from the cardiac catheterization laboratories, and PACU nurses do not have the proper training. This also would negatively impact patient quality of care;
- Recover patients in the Cardiac Care Unit - This is done at times; however, this is not the best utilization of resources. Patient census increases in the summer would negatively affect staffing and the quality of patient care as patients and staff get shifted between the Units; and
- Expand the CV OBS Unit – This was chosen because the Unit is closer to the existing cardiac catheterization laboratories, staff utilization and quality of care would be enhanced, and construction in the space to be incorporated (a neighboring conference room) would cause less disruption of other services.

***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.***

No impact is expected on other providers such as Alaska Regional Hospital, Elmendorf, Alaska Native Medical Center, or Mat-Su Regional Medical Center, because the service is an internal support function for cardiac care and does not affect the services of other care providers.

***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.***

This standard is not applicable since CV OBS is an internal support service located within the hospital and therefore there is no effect on accessibility.

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<sup>1</sup> PACU = Post Anesthesia Care Unit – where patients go to recover from surgery.

**Review Standards Specific to Cardiovascular Observation Services:**

The Department of Health and Social Services does not have specific review standards or a specific methodology for determining the need for a Cardiovascular Observation Unit. As a result, the general review standards are the only standards applicable to the application submitted by PAMC.

**DETERMINATION OF NEED SUMMARY**

The applicant demonstrates need for the proposed project based on practical observation (not on a citation in literature or by a professional organization) as follows:

1. Eight existing CV OBS bays are used for preparation and recovery for the four existing cardiac catheterization laboratories - (the applicant states that the industry standard is at least two bays per catheterization laboratory);
2. Four additional bays are requested to serve two new cardiac catheterization laboratories for which the applicant has submitted a separate CON application;
3. One existing and one new bay are needed for procedures performed in the bays, such as cardioversion, tilt table, and TEE (transesophageal echocardiogram);
4. Imaging does not currently have its own designated bay for its patients, however, the applicant projects the need for one additional bay for recovery; and
5. Open Heart surgery patients prepared for surgery in the CV OBS need 1-2 bays.

	<b>Existing Bays</b>	<b>Proposed New Bays</b>	<b>Total Proposed &amp; Existing Bays</b>
<b>Cardiac cath labs</b>	<b>8</b>	<b>4</b>	<b>12</b>
<b>Procedures in Bays</b>	<b>1</b>	<b>1</b>	<b>2</b>
<b>Imaging Recovery Bays</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>Open Heart Surgery Prep</b>	<b>0</b>	<b>1-2</b>	<b>2</b>
<b>Total Bays</b>	<b>9</b>	<b>8</b>	<b>17</b>

The applicant initially calculated a need for fifteen bays based on current use and projected use associated with the proposed two new cardiac catheterization laboratories. During the review of this application, the Department requested additional information from the applicant. The information provided by the applicant indicates that the total number of CV OBS bays needed, is 17 bays based on each type of service outlined above<sup>2</sup>.

<sup>2</sup> Emails from Lisa Wolf, Providence Alaska Medical Center, March 30, 2007 (2) and April 5, 2007

If the CON for the proposed two new catheterization laboratories is approved, four additional CV OBS bays would meet the need for the two new cardiac catheterization laboratories and four additional CV OBS bays for other services for a total need of 17 bays. If no cardiac catheterization laboratories are approved, the projected need is for 13 bays. If only one new cardiac catheterization laboratory is approved, then the projected need is for 15 bays.

**Should all 6 Observation Bays requested be approved if the two new Cardiac Catheterization Laboratories are not approved?** The applicant states that this project will improve the flow of patients through the Heart Center and Radiology Unit, provide more efficient staffing, and improve quality of patient care. There appears to be a real problem with the flow of patients in the CV OBS regardless of whether the two proposed catheterization labs are built. At least four new observation bays (bringing the total to 13 bays needed) can be justified without the new catheterization labs. Regardless of whether PAMC's application for two additional cardiac catheterization laboratories is approved, the Department recommends approval of the two additional bays (providing for a total of 15 bays) for several reasons:

- Future growth and need is likely to occur in other hospital service areas that utilize the CV OBS bays (open heart surgery preparation, cardioversion, TEE, tilt table, and interventional radiology).
- It is impractical to carve out the space for two beds, which is about 250-300 square feet of space. The space is small, is fully incorporated into the unit, and cannot be easily changed or eliminated.
- There is no definitive standard or methodology to determine need for this project, which is a support service for multiple activities. The standard used by the applicant only applies to a part of the project; therefore, there is a greater likelihood the standard is inadequate.
- Space associated with two beds accounts for only about 15-18% of the project cost to Medicaid and will not increase the daily rate until 2012. Even if denied, the space would have to be remodeled and used for something else, which would eliminate any cost savings.
- This project will improve the flow of patients through the Heart Center and Radiology Units, provide more efficient staffing, and higher quality of patient care, and may reduce the need for additional cardiac catheterization laboratory space.

#### **PUBLIC COMMENT**

The written public comment period for this project was held from February 15, 2007, to March 19, 2007, and a public meeting was held in Anchorage on March 6, 2007. One letter of support was received for application. Only one individual besides the court reporter, presenter for PAMC, and the DHSS facilitator showed up for public meeting, and he chose not to comment.

No other comments were submitted. The one comment received supported the project and confirmed the problems being experienced with throughput and efficiency.

## **FINANCIAL FEASIBILITY AND COST TO MEDICAID**

### **Facility Financial Strength**

PAMC is a hospital that is strong financially. The applicant states that the project will be financed through accumulated revenues. There should be no problem financing the project since they have had an excess of revenues over expenses of \$73.4 million in the last five years (2002-2006).

### **Impact on Medicaid**

Since the capital expenditure for the project is under \$5 million, there would be no immediate additional capital payment add-on to the per-diem rate. The facility is in the process of having their reimbursement rate rebased, so the cost of this project would not be reflected in the Medicaid rate calculation until FY 2012.

The Office of Rate Review estimated the Medicaid costs related to this project for FY 2012 to 2013 based on the projections PAMC provided for FY 2009. The Office of Rate review estimates that the capital and operating costs to Medicaid for this project will be \$57, 677 in 2012 and in 2013.

If two beds were denied, approximately 250 to 300 square feet would be eliminated from the total project space. Therefore, space for two beds consists of about 15% to 18% of the total project. It is not expected that there would be any operational cost savings from elimination of the two beds because the same staffing is required to operate a four bed area as a six bed area. The cost of construction would actually increase by several thousand dollars since the space has already been built and would therefore require additional funds to change it into another use.

Certificate of Need Review for  
the Cardiovascular Observation Unit  
at Providence Alaska Medical Center

April 16, 2007

**APPENDIX A –**  
**OFFICE OF RATE REVIEW**  
**ESTIMATED COST TO MEDICAID**

**(next page)**

# STATE OF ALASKA

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## DEPT. OF HEALTH AND SOCIAL SERVICES

### OFFICE OF RATE REVIEW

#### MEMORANDUM

**Date:** March 8, 2007

**To:** David Pierce  
CON Coordinator

**From:** Jack Nielson   
Executive Director

**Subject:** Certificate of Need Review for Providence Alaska Medical Center Expansion of Cardiovascular Observation Beds

Providence Alaska Medical Center wishes to remodel an area in their existing facility to increase their Cardiovascular Observation beds from nine to fifteen. Total cost for the renovation project is to be \$1,350,390. This project has already been completed.

Per 7 AAC 43.685(f)(3), granting of immediate additional capital payment add-on amount to a per-day rate through a Certificate of Need (CON) requires that approved capital expenditures for the project be at least \$5,000,000. Since the submitted application for this project does not meet this criterion, an add-on would not be applied to the current Medicaid inpatient per-diem rate. The facility is due to be rebased using the facility's FY 2006 Medicare cost report. As such, expenses for this project may not be included in the facility's Medicaid rate calculation until the FY 2012 rate year.

The facility has a separate CON application for two additional Catheterization (Cath) Labs. These additional observation beds would help to service these labs and to ease the overflow from other procedures that utilize the cardiovascular observation beds.

The facility has only provided a three year projection of operating costs from 2007 through 2009, therefore FY 2010 through 2013 projected costs to the program are based upon the estimates given for FY 2009 and are listed below. No breakdown between inpatient and outpatient services was provided. Per the CON application, there was no increase in charges related to this project. It is assumed that the charges related to this area are included in the additional procedures from the two new Cath Labs.

Estimated Medicaid Cost/Utilization (using information available in CON)

	2007	2008	2009	2010	2011	2012	2013
Capital	\$19,928	\$19,928	\$19,928	\$19,928	\$19,928	\$18,826	\$18,826
Operating	<u>38,851</u>						
	<u>\$58,779</u>	<u>\$58,779</u>	<u>\$58,779</u>	<u>\$58,779</u>	<u>\$58,779</u>	<u>\$57,677</u>	<u>\$57,677</u>

Impact on Medicaid Program           \*           \*           \*           \*           \*           \$57,677           \$57,677

\* These costs would not be included in the Medicaid rate as an add-on because the project does not meet the \$5,000,000 minimum as set out in 7 AAC 43.685(f)(3). Costs would be included in Medicaid rates beginning FY2012.

Should you have any questions please contact Jack Nielson at 344-2447 or me at 334-2467.