

**REVIEW OF PROVIDENCE ALASKA MEDICAL CENTER  
CERTIFICATE OF NEED APPLICATION FOR RELOCATION  
AND EXPANSION OF SLEEP DISORDERS CENTER**

**August 3, 2009**



**Sean Parnell  
Governor**

**William H. Hogan  
Commissioner**

**State of Alaska/DHSS  
Division of Health Care Services  
Section of Health Planning and Systems Development  
Certificate of Need Program**

**TABLE OF CONTENTS**

**BACKGROUND**.....3

**PROJECT DESCRIPTION** .....3

**REVIEW STANDARDS**

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

        #1 Documented Need ..... 4

        #2 Relationship to Plans ..... 5

        #3 Stakeholder Participation ..... 5

        #4 Alternatives Considered ..... 5

        #5 Impact on Existing System ..... 6

        #6 Access ..... 7

**SERVICE SPECIFIC STANDARDS AND METHODOLOGY** .....7

**FINANCIAL FEASIBILITY** ..... 7

**PUBLIC COMMENT SUMMARY** .....8

**RECOMMENDATION** .....8

**APPENDIX A – Estimated Cost to Medicaid – Office of Rate Review**.....9

## **BACKGROUND**

Providence Alaska Medical Center (PAMC) is currently licensed by the State of Alaska as an acute care hospital with 326 beds including 27 psychiatric beds and 10 rehabilitation beds.

In the last five years PAMC, through the Certificate of Need process, has completed the following projects:

- 2004: Magnetic Resonance Imaging System
- 2005: Construction of a 60 bed Long Term Acute Care Hospital as a joint venture
- 2006: Expansion of the Post Anesthesia Care Unit  
Relocation and Expansion of the Cancer Center
- 2007: Expansion of the Cardiovascular Observation Unit  
Relocation and Expansion of Sports Medicine/Rehabilitation Therapy  
Expansion of the Neonatal Intensive Care Unit  
Addition of a Cardiac Catheterization Laboratory
- 2009: Construction of an Ambulatory Surgical Center as a joint venture

PAMC is owned and operated by Providence Health and Services as a not-for-profit Catholic healthcare organization with sister organizations and facilities in four western states. Through the Sisters of Providence this organization has had a presence in Alaska, beginning in Nome, since 1902. Currently Providence Health and Services Alaska operates four hospitals in communities in Alaska: Anchorage, Kodiak, Seward, and Valdez.

PAMC maintains an open door philosophy consistent with values of the Sisters of Providence. They provide health care to all individuals regardless of race, creed, or ability to pay

The Sleep Disorder Center was first opened with six testing beds. Two additional testing beds were added in May 2009. The Center is accredited by the American Academy of Sleep Medicine and the Medical Director is board certified in Sleep Disorders.

## **PROJECT DESCRIPTION:**

PAMC is requesting a Certificate of Need be granted to allow for expansion and relocation of their Sleep Disorder Center. Currently the Center operates 8 testing beds split in two different buildings on the PAMC medical campus. If approved, the Sleep Disorder Center will lease a 10,360 square foot space in a medical office building, currently being constructed, on the PAMC campus. PAMC proposes to increase the number of testing beds from 8 to 10 and shell-in space for two additional testing beds to allow for future expansion.

All current services will remain operational throughout construction and it is not expected to disrupt any other hospital services.

Estimated cost of this project is \$3,604,524 including construction, architecture, engineering fees, relocation expenses and capital equipment. It will be financed by PAMC through accumulated revenue.

Construction is planned to be completed by May 2010.

This proposal does not add inpatient bed capacity or any new services for the facility. Use of the term "bed" is used to define sleep testing beds which do not have an inpatient function or purpose. Because of this fact, service specific standards and methodologies were not used in the review of this application.

## **REVIEW STANDARDS**

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

**General Review Standard #1- Documented Need:** The applicant documents need based on current use in the Anchorage area, national trends in sleep disorders, an Alaskan forecast provided by a national healthcare forecasting company, patient residence, and a methodology proposed by PAMC.

The application outlined the needs that would be met as a result of this project:

1. **Current Use:** PAMC has increased their sleep studies by 6% in 2008 with the addition of 2 beds in October 2008. Currently, there is a seven week waiting list for testing. This waiting time has been constant 2006-2008.<sup>1</sup> There are four other Sleep Centers in the Anchorage area, excluding the Alaska Native Medical Center, with a total of 10 beds. All report high occupancy levels but none report a waiting list.
2. **National Trend:** National estimates from a number of health organizations state that 20% of the population is affected by sleep disorders and only about 23% of that group are diagnosed. It is anticipated that with education and awareness of symptoms more patients will recognize the need for testing.<sup>2</sup>
3. **Alaska Forecast:** Thomson Healthcare through their forecasting tool, Market Planning Plus, predicts that sleep studies in Alaska will increase 60% from 2008 volumes by 2013.<sup>3</sup>
4. **Patient Residence:** 73% of PAMC's patients reside in Anchorage. With the continued increase in population of the Anchorage area, especially in seniors over age 65, PAMC anticipates an increase of 12% in sleep testing volume over the next 10 years.<sup>4</sup>

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<sup>1</sup> Providence Alaska Medical Center Certificate of Need Application May 2009 pg.14

<sup>2</sup> American Academy of Sleep Medicine website [www.aasm.org](http://www.aasm.org)

<sup>3</sup> Providence Alaska Medical Center addendum to Certificate of Need Application 6/1/09

<sup>4</sup> Providence Alaska Medical Center Certificate of Need Application May 2009 pg.15

5. Methodology proposed by PAMC: PAMC through their own methodology forecast a need for 14 sleep center beds through 2013.<sup>5</sup> While the State does not have a specific methodology for determining need, and no other states have established formulas for determining need, the projection presented by PAMC is consistent with the approach used by the State to determine other service needs.

This standard is met. The applicant documented need for services.

**General Review Standard #2 – Relationship to Applicable Plans:**

There are no local, state or federal health plans that specifically address the community need for Sleep Disorder services or testing.

The applicant does demonstrate that the proposed project is consistent with the goals and long-term planning of PAMC. The Neurosciences service of PAMC recently completed a three year strategic plan which identified expansion of the Sleep Disorder Center to address its full capacity. Excerpts of the plan were included in the application.

This standard is not applicable as there are no appropriate plans pertaining to this project.

The applicant does however address the fact that this project is addressed in the facility's strategic planning.

**General Review Standard #3 – Stakeholder Participation:**

The applicant discussed the development of a core team of physicians, nurses, and technicians to design and equip the Center.

As stated by the application, "No patients were involved as this is a very technical piece of equipment and expert knowledge is required".<sup>6</sup>

This review standard is only partially met due to the fact that service providers were included in the needs assessment but there was no patient participation in process.

**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.

The applicant explored five alternatives for the current project.<sup>7</sup>

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<sup>5</sup> Providence Alaska Medical Center addendum to Certificate of Need Application 6/1/09

<sup>6</sup> Providence Alaska Medical Center addendum to Certificate of Need Application 6/1/09

<sup>7</sup> Providence Alaska Medical Center addendum to Certificate of Need Application 6/1/09

1. Do nothing: It was determined that this was not an acceptable alternative as the current center is not adequate to accommodate the recent increase in need for sleep disorder services and due to the fact that the Center is located in two different areas of the hospital causing inefficiencies in the delivery of services.
2. Use space in the existing space: This option was not an acceptable alternative as currently there is not enough space to house the Sleep Center in one location. This alternative would not address the increased need for services and inefficiencies currently experienced with two locations.
3. Continue to split the Center in two locations: This option was not considered acceptable due to the current experience with inefficiencies, especially redundancy in work process.
4. Lease space off campus: This alternative was reviewed as an option but would require maintaining some sleep testing beds on campus to address inpatient needs. Again, the inconvenience and cost of operating two testing areas preventing the applicant from exploring this alternative further.
5. Relocate and expand the program by leasing space in a new building on the PAMC campus: This was the only option that provided the Center with the ability to have all sleep services in one location, to allow for services for inpatients as well as outpatients, and to allow for enough space to expand current services and “shell-in” space for future expansion.

This review standard is met as alternatives were discussed and documented by the applicant.

**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.

Currently, there are four similar facilities/services for sleep disorder testing and treatment within Anchorage Alaska.<sup>8</sup> Sleep disorder services at the Alaska Native Medical Center were not included in this analysis as they only serve Native beneficiaries. PAMC and Alaska Sleep Center are American Association of Sleep Medicine (AASM) accredited. AASM accreditation is voluntary. Alaska Sleep Center and Sleep Clinics of America, as they currently operate, are not subject to Certificate of Need statutes, regulations or review.

Utilization of each facility was documented and while all facilities were operating at capacity, only PAMC identified a need to maintain a wait list for patients requesting service.

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<sup>8</sup> Facilities: PAMC, Alaska Regional Hospital, Alaska Sleep Center, and Sleep Clinics of America.

The applicant states the anticipated impact on the existing region and current health delivery system is that patients can receive more timely sleep disorder testing prior to surgery or other procedures without additional travel (especially if traveling from outside of the region), it would prevent patients from declining testing because of the delay in services and follow-up, and finally, by expanding services, the Sleep Disorder Center would be able to incorporate testing and services to patients with chronic diseases or disabilities with sleep disorders as a known comorbidity to their condition, such as Parkinson's, stroke, or dementia.

It is anticipated that the expansion of the program will encourage greater compliance and a higher level of patient and family participation in the process.<sup>9</sup>

This review standard is met.

**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. The relocation will not displace or disrupt current services.

The proposed project would be located in a medical office building on the hospital campus with full access to all the services offered to inpatients as well as outpatients. Testing would be scheduled 6 nights per week from 7pm-7am with additional testing offered during the day if necessary.

Travel time for most of PAMC's area patients is approximately 30 minutes by private vehicle as well as regular service by the city transit system. Anchorage International Airport is also accessed by regular city transit service, private vehicles, or taxicabs.

This review standard is met.

**SERVICE SPECIFIC STANDARDS AND METHODOLOGY**

This application for relocation and expansion of the Sleep Disorders Center does not increase inpatient bed capacity or add any new services to the facility. Because of this fact, service specific standards and methodologies were not used in the review of this application.

**FINANCIAL FEASIBILITY AND COST TO MEDICAID**

Review of the application by the Department's Office of Rate Review indicates the cost to Medicaid will be minimal for the following reasons:

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<sup>9</sup> Dr. Robert Lada, testimony during public meeting June 18, 2009.

1. It is estimated that 6% of PAMC's Sleep Center patients have Medicaid coverage.
2. The increase in payment will be for physician services using RBRVS rates. This amount is difficult to estimate as it is dependent on the type of procedure performed.
3. The current inpatient per diem rate reimbursement for PAMC will not be affected as the total cost of the project is below the \$5 million threshold needed to trigger an add-on amount for reimbursement.

It is estimated that this project may increase Medicaid costs from \$59,500 in 2010 to \$174,300 in 2014. This estimated increase is due to the increased number of testing beds, not an increase in the percentage who are Medicaid patients.

The project appears to be financially feasible.

A complete analysis from the Office of Rate Review is in Appendix A of this report.

### **PUBLIC COMMENT SUMMARY**

A written public comment period was held from June 2, 2009 to July 2, 2009. A public meeting was held in Anchorage on June 18, 2009. Three PAMC Sleep Disorder Center employees attended and no one spoke in opposition to the project. No members of the public attended. Two letters in support for the project were received, one from a patient of the Center for 25 years and another from a 3<sup>rd</sup> year Family Practice Resident at PAMC. Both stressed the need for additional testing and testing capacity at PAMC.

### **RECOMMENDATION**

It is recommended that Providence Alaska Medical Center be granted a Certificate of Need for relocation of their Sleep Disorders Center through the leasing of 10,360 square feet center in a medical office building located on the PAMC campus. PAMC will be approved to expand their Sleep Disorders Center by two testing beds, from 8 to 10. Construction will allow for two testing beds to be shelled-in for future expansion. The total cost of the project is \$3,604,524. The completion date is May 31, 2010.



Providence Alaska Medical Center  
Certificate of Need Review for  
Relocation and Expansion of Sleep Disorders Center

August 3, 2009

**APPENDIX A – Estimated Cost to Medicaid – Office of Rate Review**

# STATE OF ALASKA

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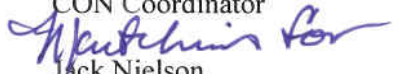
## DEPT. OF HEALTH AND SOCIAL SERVICES

### OFFICE OF RATE REVIEW

#### MEMORANDUM

**Date:** July 31, 2009

**To:** Ms. Karen S. Lawfer  
CON Coordinator

**From:**   
Jack Nielson  
Executive Director

**Subject:** Certificate of Need (CON) Review for Providence Alaska Medical Center's Relocation and Expansion of the Providence Sleep Disorders Center

Providence Alaska Medical Center wishes to relocate and expand the Providence Sleep Disorders Center. The proposed project would relocate the Sleep Disorders Center from the Hospital's main building to building S and add 2 sleep study beds with room for an additional 2 sleep study beds if necessary. Total cost for the CON project is estimated to be \$3.6 million dollars.

Per 7 AAC 43.685(f)(3), granting of immediate additional capital payment add-on amounts to a per-day rate through a Certificate of Need 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 criteria, an add-on would not be applied to the current Medicaid inpatient per-diem rate.

There will be increased charges to the Medicaid program for the additional available physician services; there would not be a change to the overall Medicaid outpatient reimbursement rate as these services will be billed under Physician Service billing codes and paid using RBRVS rates. The application provided an estimate of the increased billings to the Department. The cost to the Department cannot be determined with the information provided since the number of additional units to be provided and the procedure codes billed would be necessary. However, since the Medicaid program customarily pays less than the amount billed by the provider under the Physician payment system, it would be safe to say that the additional cost would not be greater than the increased Medicaid charges billed.

	Projected Revenues					
	Year	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Estimated Incremental Revenue Increase per CON Application		991,667	1,700,000	2,163,000	2,523,000	2,905,000
Medicaid Utilization for Sleep Clinic per CON Application		6.00%	6.00%	6.00%	6.00%	6.00%
Estimated Medicaid Charges		59,500	102,000	129,780	151,380	174,300

Should you have any questions please contact Sheila Heiker at (907) 334-2468 or me at 334-2447.