

**REVIEW OF ALASKA REGIONAL HOSPITAL CERTIFICATE  
OF NEED APPLICATION FOR REMODEL AND EXPANSION  
CONSTRUCTION OF THE CLINICAL LABORATORY**

**September 29, 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**

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## **BACKGROUND**

Alaska Regional Hospital (ARH) is a for profit corporation owned by Galen Hospital of Alaska, Inc. (formerly Humana, Inc.) doing business as ARH.<sup>1</sup> Galen Hospital of Alaska, Inc. is wholly owned and operated by Hospital Corporation of America (HCA). HCA owns and operates 163 hospitals and 112 freestanding outpatient centers in 20 states and London, England.<sup>2</sup> ARH is the only medical facility in Alaska owned and operated by HCA.

ARH is currently licensed by the State of Alaska as an acute care hospital with 250 beds including 10 rehabilitation beds.

ARH is also accredited by the Joint Commission on Healthcare Organizations (JCAHO). The facility was surveyed in July 2007 and is accredited through July 2010.

In the last five years ARH has submitted one Certificate of Need application for review. In 2007 ARH was approved to add one interventional neuroradiology catheterization laboratory. Other construction and capital projects at ARH in the last five years have been for replacement equipment or for projects that were not over the monetary threshold and did not require CON review.

ARH provides health care to all individuals regardless of race, creed, or ability to pay. This was evidenced on review of financial records and ARH's non-discrimination policy.<sup>3</sup>

## **PROJECT DESCRIPTION**

ARH is requesting a Certificate of Need be granted for construction to expand and remodel the hospital's clinical laboratory. The current laboratory space of 5,818 square feet would be remodeled along with an adjacent 161 square foot office. This space has not been altered or remodeled since its initial construction in 1977. 2,618 square feet will be new construction expanding the laboratory to a total of 8,597 square feet.

The new construction, which will be an addition to the current building, adds to the total square footage of the hospital. No additional patient beds or operating suites will be added as a part of this project.

There will be no increase in the scope or number of services provided by the laboratory.

Hospital Laboratory Department Services review standards as well as general review standards were used in the review of this application.

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<sup>1</sup> Alaska Regional Hospital Certificate of Need Application June 2009 Appendix H

<sup>2</sup> HCA website [www.hcahealthcare.com](http://www.hcahealthcare.com)

<sup>3</sup> Alaska Regional Hospital Certificate of Need Application June 2009 pg. 33 and Appendix E

The total cost is projected at \$4,310,845 and will be financed through a cash capital expenditure. The estimated completion date is March 31, 2010.

## **REVIEW STANDARDS**

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

**General Review Standard #1- Documented Need:** The applicant documents need based on current use within the state, need for service, and national care standards.

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

1. **Current Use:** The applicant discussed the need for the current remodel/expansion as a necessary corrective action for College of American Pathologists (CAP) certification and to correct deficiencies and avoid fines with Alaska Occupational Safety and Health (AOSH) through the Department of Labor and Workforce Development. The applicant provided documentation from the past 5 years which have stated that remodeling of existing space and the additional space for laboratory services were required to maintain certification and to prevent fines.
2. **Need for Service:** As discussed above and as the application documents, ARH demonstrates the need for changes in the existing laboratory space and the need for additional space through inspection reports from the CAP and AOSH. The application also discussed the need to maintain laboratory services as a crucial component to maintaining State licensure and JCAHO accreditation as a acute care hospital.
3. **National Trends:** The CAP is a certifying body for clinical laboratories. Their review criteria are based on national standards which strive to improve patient care, reduce errors and risk, and control costs through review of a facility against these quality standards.<sup>4</sup> AOSH also have established guidelines for the health and safety of employees working in a laboratory setting. These guidelines are adapted from federal workplace health and safety regulations and standards.<sup>5</sup>

This standard is met. The applicant documented need for the proposed project.

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

There are no local, state or federal health plans that specifically address need for hospital laboratory services and space requirements. However, CAP, AOSH, state licensure and JCAHO

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<sup>4</sup> College of American Pathologists website [www.cap.org](http://www.cap.org)

<sup>5</sup> State of Alaska Department of Labor and Workforce Development [www.labor.state.ak.us/lss/oshhome.htm](http://www.labor.state.ak.us/lss/oshhome.htm)

review standards all address laboratory and staff space requirements as a part of licensure or certification.

The applicant does demonstrate that the proposed project has been reviewed and approved as a corrective measure by both CAP and AOSH which allows ARH to maintain their certification and prevent fines. Portions of their review are documented 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 addresses deficiencies identified in review of the current laboratory.

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

The applicant consulted with laboratory staff, CAP, and AOSH regarding the location, design, and expansion for the laboratory.

The applicant also stated that patients were not involved in the laboratory layout or design as they routinely do not have access to the area.<sup>6</sup>

This review standard is met due to the fact that service providers and certification staff were included in the needs assessment. Patient participation in the developing of the plan was not considered essential as this is a restricted area of the hospital with minimal, if any, patient access.

**General Review Standard #4 – Alternatives Considered:**

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

The applicant explored three alternatives for the current project:

1. Close the laboratory: It was determined that this was not an acceptable alternative as laboratory services are a crucial component in an acute care hospital.
2. Utilize another laboratory through contracted services: This alternative was discussed and it was felt it would place patients at risk by delaying results of laboratory tests necessary for diagnosis and treatment in an acute care setting.

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<sup>6</sup> Alaska Regional Hospital Certificate of Need Application June 2009, pg 20.

3. Remodel and expand the existing laboratory: Remodeling and expanding the existing laboratory was felt to be most appropriate way to provide additional space, to maintain certification and to prevent health and safety fines and sanctions.

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 discussed that there would be no anticipated impact on the statewide health care system due to the fact that there would be no increase in the scope of services or the number of laboratory services and tests provided.

The applicant did address a phasing plan for continuing services during the remodel and new construction phases of the project in an addendum to the original application.<sup>7</sup>

This review standard is met.

**General Review Standard #6 – Access:**

The applicant demonstrates that the project's location is accessible to patient care services and to ancillary departments of the hospital.

The proposed project would be located in the hospital with full access to all the services offered to inpatients as well as outpatients. Laboratory services are scheduled 24 hours per day, 7 days per week.

Travel time for most of ARH'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.

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<sup>7</sup> Alaska Regional Hospital, addendum to Certificate of Need application, dated 7/23/2009.

## **SERVICE SPECIFIC STANDARDS AND METHODOLOGY**

### **Specific Review Standard #1 – Access**

This standard addresses the relocation or moving of a laboratory to a new site.

While the applicant is not moving to a new site but expanding square footage off the existing laboratory, the applicant did outline a five phase staging plan to avoid disruption to current laboratory services.<sup>8</sup>

This specific review has been met for this project.

### **Specific Review Standard #2 - Offsite Laboratory Replacement**

This standard does not apply to the project as this is not an offsite laboratory replacement.

### **Specific Review Standard #3 – Redundant Equipment**

This standard does not apply. The applicant did not identify purchase of equipment in the application cost estimates.

### **Specific Review Standard #4 – Accreditation Reports**

CAP certification and AOSH health and safety deficiencies were well documented in the application. The corrective plan of remodeling and expansion construction for the laboratory has been reviewed by both agencies. The applicant documents the involvement with these agencies in the design and planning of this project with the emphasis on occupational health and safety.

This standard has been met.

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<sup>8</sup> Alaska Regional Hospital, addendum to Certificate of Need application, dated 7/23/2009.

### **Review Methodology - Size of Laboratory**

The Certificate of Need review methodology for determining the appropriate size of a hospital laboratory service states that size may not exceed 50 square feet per patient bed that would be served by the laboratory.<sup>9</sup>

ARH is licensed for 250 beds, with no proposal to increase or decrease the number of beds in this application. The application identifies a total of 8,597 square feet for the renovation and expansion of the laboratory.

Utilizing this methodology: 250 beds x 50 sq ft per patient bed = 12,500 square feet allowed. The project complies with the Department Review Methodology for laboratory department services.

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

Review of the application by the Department's Office of Rate Review indicates there will be no immediate increase to Medicaid, as the project is below the 5 million dollar threshold that could trigger a rate adjustment.

Any increase to Medicaid will be in rate year 2012 when the facility is rebased using 2010 as a base year. Due to the fact that there will be no increase in services, the impact to Medicaid is minimal, estimated at \$31,038 each year beginning in 2012.

The project appears financially feasible and will be funded through a cash capital expenditure.

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 July 30, 2009 to August 28, 2009. No comments were received. A public meeting was held in Anchorage on August 20, 2009. Three employees from ARH attended. There were no other attendees. No one spoke in opposition to the project.

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<sup>9</sup> Alaska Certificate of Need Review Standards and Methodologies, December 9, 2005, pg 7.



**RECOMMENDATION**

It is recommended that Alaska Regional Hospital be granted a Certificate of Need for renovation and expansion construction of a 8,527 square foot Clinical and Pathology Laboratory within the hospital.

The total cost of the project is \$4,310,845.

The anticipated completion date is March 31, 2010.

**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:** September 24, 2009

**To:** Karen Lawfer  
CON Coordinator

**From:** Jack Nielson   
Executive Director

**Subject:** Certificate of Need (CON) Review for Alaska Regional Hospital Remodel of Clinical Laboratory

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Alaska Regional Hospital is proposing to remodel their existing Clinical and Pathology Laboratory in order to comply with the College of American Pathologists and OSHA requirements. The remodel will impact the current lab area of 5,818 square feet (sf), office space of 161 sf and add 2,618 sf for a total of 8,597 sf. The lab area has not been updated since 1977. Total estimated cost of the project is \$4,310,845.

Per 7 AAC 43.685(f), the project will not impact the current Medicaid rate as the cost is below the \$5M threshold necessary for a rate adjustment. The increased cost to the facility will impact the Medicaid rate beginning in rate year 2012 when the facility will be rebased using 2010 as a base year. No increase in services is projected as a result of this project.

The facility did not separate revenues by inpatient and outpatient in their application, but did estimate that Medicaid will be 10.08% of their total gross charges for the facility. Using this percentage of utilization, the estimated impact to the program is as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Estimated Depreciation Expense	\$307,918	\$307,918	\$307,918	\$307,918	\$307,918
Medicaid Utilization (Per CON Application)	<u>10.08%</u>	<u>10.08%</u>	<u>10.08%</u>	<u>10.08%</u>	<u>10.08%</u>
Estimated Impact to Medicaid Program	<u>\$31,038</u>	<u>\$31,038</u>	<u>\$31,038</u>	<u>\$31,038</u>	<u>\$31,038</u>

If you have any questions please contact Neal Kutchins at 334-2467 or me at 334-2447.