

## Feasibility Assessment

### Overview of Findings and Recommendations

For the past year and a half, a group of Islanders has been seeking ways to expand healthcare access for our community. Since January 2008, an extensive study has focused on the feasibility of creating a new integrated medical center on San Juan Island that would have as its heart an expanded clinic, and that would also offer some outpatient services and limited inpatient services. This study was a joint undertaking of Islanders; representatives from the Inter Island Medical Center, EMS, and San Juan County Public Hospital District #1; independent consultants; and staff from PeaceHealth, a mainland not-for-profit healthcare provider best known to Islanders through St. Joseph Hospital, Bellingham.

This is an overview of the feasibility study and the recommendations of the assessment team to the Hospital District Board. The complete study report is available through the Hospital District Board Secretary at 360.378.5152.

**It is the recommendation of the assessment team that the Hospital District and PeaceHealth Boards approve and execute a non-binding Letter of Intent to continue the investigation of a long-term relationship to build and operate a new integrated medical center on San Juan Island. Final Agreements, if reached, will also require the approval of the Hospital District and PeaceHealth Boards.**

**This initial Feasibility Assessment indicates that building and operating the new integrated medical center, as described in this report and analyzed by the assessment team, could be fully financed without any increase in taxes.**

*Why was a study on Island healthcare needed?*

In our neighborhoods and at the market we hear the stories every day:

*A physician at the InterIsland Medical Center (IIMC) is called in during the night to see a patient brought in by EMS. After the patient has been treated and stabilized, she still needs a doctor's supervision for 24 to 36 hours to make sure that no complications arise, so she is transported to the mainland and admitted to a hospital for observation. Her family has to take the ferry and stay on the mainland until she is discharged less than 48 hours later. It is stressful and expensive for both patient and family.*

*An Island patient has been under a mainland doctor's care for cancer treatment, but now he needs to receive chemotherapy every two weeks for several months. Every other Tuesday he is on the ferry in the morning, at the hospital for a few hours, and back on the ferry in the afternoon. The regimen of travel and chemotherapy is exhausting.*

*An Island teen needs a simple arthroscopic outpatient procedure after a sports accident, but his parents must take off a day from work to take him off-island to have it done, because it cannot be done on the Island.*

These are just three common examples among many that illustrate how healthcare needs are outgrowing the current mission and capacity of the IIMC to serve the community with the high quality of service that Islanders have come to expect.

Our Island population has received excellent healthcare for decades, but the IIMC cannot continue to provide even the current level of service as it faces increasing space and financial challenges. Our physicians are working in an aging, extremely overcrowded medical facility. Our growing Island Medicare population is receiving service for which reimbursements are far less than the costs of care, and the gap between IIMC income and costs is growing. The *status quo* cannot be maintained much longer.

*So what can be done?*

Many possible solutions have been investigated. The IIMC has been reviewed by consultants specializing in rural medical facilities and services. Their study found that the IIMC building and infrastructure were too out of date and the facility and site too small to make renovations or additions practical. It was recommended that the San Juan County Public Hospital District #1 Board of Commissioners, which is the body responsible for oversight of the IIMC and for assuring high-quality long-term healthcare for the community, investigate alternate sites and build a new medical center, one which would be able to serve the growing population with an expanded clinic and, in addition, some outpatient and limited inpatient services.

With such an integrated facility, the stable emergency patient, the patient needing chemotherapy, and the teen needing only an outpatient procedure could all be treated on Island, with far less stress, physical discomfort intensified by having to transport from and to the Island, and expense for patients and their families. And so could many others.

*But how could a small Island community support a new integrated medical center?*

One way to assure that any facility created on the Island would be built and operated in a financially responsible way that the community could sustain over the long term would be to partner with a larger mainland healthcare provider. Ideally, the partner should have a history of successfully serving small, rural, isolated communities with both clinic and hospital services, and should have a mission, values and service policies compatible with our community's needs and expectations.

As part of its research, the group of Islanders that has been working to find ways to expand healthcare service for the community has talked with several off-island healthcare systems, seeking one that would be a good fit to the Island. In December 2007, PeaceHealth was invited to Friday Harbor for discussions.

PeaceHealth and St. Joseph Hospital have already been serving Islanders for more than 120 years, providing an array of outpatient and inpatient services. Improving access to healthcare and serving

communities is at the heart of the mission and values of PeaceHealth, and assisting San Juan Island to create and operate a new integrated medical center would be an undertaking consistent with the work PeaceHealth has done in other, similar communities in the Pacific Northwest.

*What has been the process which has begun and might lead to possible formation of a long-term relationship?*

First, the Hospital District and PeaceHealth needed to have a clear understanding of the nature and needs of the community, what services a new medical center on the Island might provide, how much it would cost and how it might be paid for. It was also important to determine the details of the facility requirements, how much and what kinds of staffing would be needed, and what benefits would come from combining the resources of the Hospital District and PeaceHealth. Only after this information was gathered and analyzed, and it was determined that the community, the Hospital District and PeaceHealth would benefit from such a relationship, would work begin (authorized by a non-binding Letter of Intent) to detail the proposed relationship between the two organizations. All final financial, operational and governance details would have to be spelled out and approved by the Boards of both the Hospital District and PeaceHealth before an integrated medical center project could be undertaken. The initial information gathering phase of this project has been completed and the findings noted in the detailed Feasibility Assessment – Report of Initial Findings.

*How has this initial information been gathered?*

For the past four months, several dozen people including members of the Hospital District Board; EMS; personnel from the IIMC; staff from PeaceHealth; independent consultants knowledgeable about rural healthcare facilities, and services, and State of Washington laws and facility certification requirements; and members of the community have undertaken an intensive study of the major areas of interest mentioned above.

Data presented in the report represent best estimates of realistic needs and trends based on historic and current use of both Island and mainland healthcare services by Island residents and, in some cases, forecasts from leading healthcare research/analytical sources. Projected costs and services were verified by comparing data from similar facilities and environments. National and professional standards guided estimates of, for example, space needs. Great effort was made to assure that the data are realistic, not “manufactured” or skewed.

*What was the starting point of the study?*

The first work of the assessment team overseeing the study was to develop the basic principles that would guide the planning for the envisioned integrated medical center. These principles covered a number of different topics:

- Mission and Vision: We commit to explore opportunities and options for a possible relationship that enhances and expands access to the highest quality healthcare services and facilities for the San Juan Island community.

- Patient-Centered Care: Doing the right thing for patients and their families will always remain the primary focus of our work.
- Quality and Safety: We share a strong commitment to increase access to safe, evidence-based care of the highest quality on San Juan Island.
- Collaboration and Choice: Maintaining good relationships with other on-island and off-island providers to support patient choice is important and valued.
- Community-Centered/Mission-Centered Care: On-Island services must continue to be designed to serve all patients, regardless of their ability to pay.
- Island-Appropriate-Care: Expansion of services must be appropriate for the Island's setting and realities (e.g., depth of back-up support, seasonality, etc.)
- Integrated Care: Enhancements will improve continuity of care and knowledge-sharing among a patient's healthcare providers (e.g., development of a common, fully integrated medical records system across care settings).
- Sustainability and Stewardship: Expanded services and associated infrastructure must be sustainable for the community, the Hospital District, the on-Island physicians and healthcare providers, and PeaceHealth.
- Technology: Fully utilizing available technology will support the delivery and maximize the coordination of care by a patient's primary physician (e.g., telemedicine, shared digital imaging, etc.)
- Form Follows Function: Community needs and the selected, expanded healthcare services will determine the nature and structure of the new medical center.

*What did the study reveal about the scope of the services that could be supported by an integrated medical center that included some outpatient and inpatient care?*

The integrated medical center would offer an expanded setting for clinic services already provided by the IIMC and would include additional space for an increased number and variety of services. Much more convenient scheduling would be possible since there would be greater capacity for meeting primary care needs and adequate space for the equipment for such diagnostic evaluations as cardiac stress tests, mammography, sonograms, and electrocardiograms which now occupy and often share cramped and inadequate spaces.

Outpatient services would be available, largely through visiting specialists, in such areas as dermatology, hearing and speech examinations and therapy, colonoscopy, GI diagnostic testing, endoscopic nasal and sinus procedures, infusion and transfusion, pain management, allergy evaluation and treatment, for example. Also available would be some outpatient surgeries which are normally performed in a procedure room rather than in an operating room. These might include cataract procedures, middle and inner ear procedures, and hernia repair, for example. Expanded diagnostic services including CT scan, bronchoscopy, and mobile MRI would be available.

The integrated medical center would be planned to meet the standards of a Critical Access Hospital (CAH). This is a federal designation, certified by the State of Washington for small rural hospitals serving isolated populations. It allows for increased reimbursement for hospital services. The limited inpatient services offered in our new integrated medical center would provide, for example, supervised acute care and care for those patients no longer needing post-surgical hospitalization at a mainland hospital but who are not ready for skilled nursing home care. No inpatient surgery would

be offered for the first five years after the integrated medical center opened, but this could be re-evaluated in future years.

Patients who need to be under observation for a day or two would receive care in an appropriate setting. Islanders who need short-term care after surgeries or other procedures would be able to have the medical supervision and assistance needed. Medical cardiology, medical oncology, and services in such areas as body injuries, gastroenterology, rheumatology, and neurological degenerative disorders, for example, would be available.

A number of outpatient and inpatient procedures *would NOT be performed* at the integrated medical center; these include obstetrics and delivery, cardiac catheterization and heart surgery, cosmetic procedures, bone marrow procedures, upper GI surgery, brain surgery, neurosurgeries for peripheral nerve disorders, joint replacement, nuclear medicine, radiation therapy, spinal fusions, head and neck surgery, plastic surgery, and vascular surgery, for example.

The variety of services offered might expand or be modified over time as Islanders needs direct.

*Do we have enough San Juan Island residents who will want and use these expanded services on Island?*

An important part of the study looked at the actual data about what kinds and how much service Islanders are already seeking in off-Island hospitals. The State of Washington requires all hospitals to report a variety of data on all patients discharged from their facilities, including the zip code of each inpatient. From these data it was possible to determine how many of what kinds of services

*An Island perspective:*

*I go off island for a specialist visit every other month. It seems like half my neighbors are also on the 8:05 ferry to the mainland for the same reason. We frequently talk about how making this trip so often is wearing.*

Islanders have needed in the past. Realistic projections were then made to determine whether there was enough demand to support safe, high quality care for selected and proposed services. These projections were further refined to take into account that the use of the new medical center would grow gradually over time and not reach projected numbers until the community had become familiar and comfortable with the new medical center and was convinced of the high quality of the service available. It was clearly understood that many

Islanders will continue to prefer to utilize mainland healthcare providers for some or all of their care, and that was factored into the estimates of probable demand for local service. Patient choice would continue to be respected. All of the data discussed in this overview are detailed in the full report.

*Who would be providing all these services?*

The primary care physicians, nurses, and staff who currently serve the community in the IIMC would be the core group of medical care providers and support staff. Additional physician hours, as well as hours for RNs and other care providers, would be needed to staff the emergency department full time and for the limited inpatient services. Staffing needs were determined based on current IIMC staffing patterns, discussions with IIMC staff, and anticipated services and number of patients; the data were then verified against other CAH facilities of comparable size and in similar

environments. Currently the IIMC employs 25.3 FTEs (full time equivalents). It is estimated that a total of 44.5 FTEs would be needed to staff all the clinic, outpatient, and limited inpatient services. This includes administrative, office, imaging and technical personnel, physicians, RNs and other levels of direct caregivers, as well as support staff. Many of these additional positions would represent employment and education opportunities for Island residents.

It is anticipated that regularly scheduled, visiting medical specialists would provide most of the outpatient procedures, and that these physicians would bring their own support staff with them to assure efficient, high quality care for the patients.

A long-term relationship with PeaceHealth would offer many benefits to the medical center including access to PeaceHealth's sophisticated recruiting and staffing capabilities and deep expertise in providing healthcare services in remote, island, and small communities. All prospective medical center physicians and staff would be evaluated to assure that they would have not only the appropriate technical and educational qualifications, but that they would provide patient-centered, high quality, compassionate care in support of the mission and values of the integrated medical center and PeaceHealth to provide the best possible care to every patient every time.

*How big a facility would we need to have an integrated clinic / outpatient / inpatient medical center?*

In order to estimate the space needed for the integrated medical center, a conservative estimate of the number of patients who might seek island-appropriate clinic, outpatient or inpatient care were applied to industry-standard small medical facilities planning formulas. Based on projected need, the total facility was estimated to be 42,242 sq. ft. which would include 24,492 sq. ft. of clinic space, 3,500 sq. ft. for the emergency department, and 14,250 sq. ft. for outpatient and inpatient space. Medical facility space includes two categories of construction termed "I" space and "B" space. Acute care and space for some outpatient procedures requires that "I" space standards prevail which are reflected in higher construction costs. The majority of the new medical center would be classified as "B" space, which meets different medical facility standards and is less expensive to build.

The hospital is projected to be a 10 bed facility. No inpatient operating rooms would be equipped in the initial construction, because currently planned outpatient services could be provided in procedure rooms suitable for a wide range of safe, service provisions. Some additional spaces could be "shelled out" which would assure their appropriate integration into the initial plans and construction, but they would not be finished or furnished until needed, therefore reducing building costs while accounting for future demand.

*How much would this integrated medical center cost to build, and how would it be paid for?*

The estimated total capital cost of the medical center is \$29.8 million: \$22.8 million for the building and \$7million for medical, technical and other equipment. In addition to the actual construction, this cost includes government-required site studies and reports, architectural and engineering services, project management, fees, furnishings, information technology, medical equipment and other facility construction-related costs. It also includes sales taxes, a 10% contingency allocation and a 10% cost escalation factor.

Building the integrated medical center would be financed through several sources:

Community philanthropy	\$10 million
PeaceHealth	\$7 million (approximate figure for all furnishings, medical equipment, IT equipment and installation, and other equipment)
Hospital District	\$12.8 million (net cost remaining after above contributions)

*Would taxes have to be raised to build or operate the integrated medical center and to fund the Hospital District's contribution?*

**The capital budget and financial model that have been developed do not indicate the need for additional taxes.**

*An Island perspective:  
I am living on a fixed income. I don't want to leave my home of thirty years. I can't afford a tax increase, even though I'd love fewer off-island medical trips.*

The Hospital District currently receives an annual tax levy of \$1.4 million. A "limited tax, general obligation bond" could be obtained based on commitment of \$950,000 of the levy; this would produce enough money for the Hospital District's contribution, and still retain sufficient levy each year to contribute to the ongoing costs of charity care for

Island residents who did not have insurance or the ability to pay for all of their care. Since PeaceHealth would assume full responsibility for operating the medical center and due to its reimbursement rules, there would be a reduced need for the levy to support the cost of operations.

*Could the integrated medical center be financially sustainable over the long term?*

Financial experts working on the study have prepared a five-year forecast for the integrated medical center. The figures they used were based on assumptions outlined above concerning the number of patients, clinic visits, and use of outpatient and limited inpatient services. It was assumed that the new, integrated medical center would have Critical Access Hospital designation which would allow it to receive cost-based reimbursement for Medicare patients, and that the clinic would be designated as a Hospital-Based Clinic and therefore also receive cost-based reimbursement for Medicare patients seen in the clinic, a substantially higher reimbursement than is available to rural health clinics such as the IIMC. Projected financial data were verified against data from comparable CAH facilities and PeaceHealth's decades of experience serving rural communities with similar integrated clinics and Critical Access Hospitals.

In the first year of operation, it is anticipated that the integrated medical center will sustain a \$257,132 loss. By the third year, it is expected to break even, and by the fifth year to show a profit of \$183,417. Thereafter, the integrated medical center is expected to continue to operate in the black. A long-term relationship with PeaceHealth would deliver stability and numerous financial

savings through, for example, full use and on-island extension of their electronic medical record, ongoing clinical training programs, national recruiting programs, large volume purchasing, etc.

In 2007, the IIMC had patient revenues of approximately \$1.79 million. The projected first year operating revenue for the new medical center is \$7.9 million.

*How would the operating deficits be paid?*

If PeaceHealth and the Hospital District were to form a long-term relationship to create and operate an integrated medical center, each party would contribute to the project. The Island community would own the land and build the facility, and PeaceHealth would assume full responsibility for its operation. No new tax revenues are projected to be needed to build or operate the integrated medical center. The existing tax levy revenue would be used to first cover the interest on the Hospital District's bonds, and the remainder would continue to be used to offset as much of the cost of charity care to Island residents as possible.

*Who would govern the new integrated medical center?*

Governance and oversight of the integrated medical center would be provided through a local Governing Board, operating with delegated authority from the PeaceHealth Board. The local Governing Board would be responsible for overseeing the quality, operations, and performance of the integrated medical center. This Board would consist of a majority of members from the community, as well as representatives from the Hospital District Board and PeaceHealth.

Details of the long-term relationship between the Hospital District and PeaceHealth would need to be negotiated as part of the full relationship agreement.

*What would be some of the ways in which the proposed relationship with PeaceHealth would contribute to the new integrated medical center?*

Physicians in the clinic would become members of the PeaceHealth Medical Group, and collaborative relationships with other Island providers would be facilitated. Local pharmacists and physical therapists would continue to have important roles in serving the community including, perhaps, in the integrated medical center as well as through their current facilities. It was also assumed that some outpatient procedures would be undertaken by visiting specialists. These specialists would have scheduled periodic clinics on the Island in the new, well-equipped facility, and many would be accompanied by their own clinical support teams, thus relieving the local medical center staff of additional stress and schedule coverage.

Integration of Island medical center operations and PeaceHealth would occur in multiple ways. Some administrative support services (e.g. billing, insurance, purchasing) would be provided centrally by PeaceHealth to take advantage of their existing expertise and scale. Integrated, secure, and confidential electronic medical record would be available to support all providers and services in the new medical center and throughout the San Juan and Bellingham communities (inpatient,

outpatient, specialty and primary care) which would enable seamless referrals, care coordination, communication, and support of patients as they move through the community, as well as on and off island.

Referrals would continue to be made to mainland hospitals for inpatient surgery and other complex procedures and advanced care. Patients would always have a choice as to where they wish to be referred for the off-island care, and referrals would be supported through the integrated electronic medical record.

*Is this study a final definitive statement of the details of finance, construction, operations and governance of a potential integrated medical center for the Island?*

**No.** This study was undertaken to provide the initial information that would be needed by the Boards of both the Hospital District and PeaceHealth, to make decisions about whether to pursue a non-binding Letter of Intent. . Many more service, facility, financial and other details would need to be worked before a final long-term relationship agreement could be completed. This report is one of the first, not the last, that is needed to continue the evaluation of a possible long-term relationship.

*Should the Hospital District Board and PeaceHealth continue to work towards defining the terms of a relationship agreement?*

**Yes.** It is the recommendation of the assessment team that the Hospital District and PeaceHealth Boards approve and execute a non-binding Letter of Intent to continue the investigation of a long-term relationship to build and operate a new integrated medical center on San Juan Island. Final Agreements, if reached, will also require the approval of the Hospital District and PeaceHealth Boards.

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