



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH  
*Olympia, Washington 98504*

February 8, 2016

CERTIFIED MAIL # 7015 1640 0000 6441 5850

Elaine Couture, Regional CEO  
Providence Health Care  
101 West Eighth Avenue  
Spokane, Washington 99204

CERTIFIED MAIL # 7015 1640 0000 6441 5867

Ron Escarda, CEO  
Fairfax Behavioral Health  
10200 Northeast 132nd Street  
Kirkland, Washington 98034

RE: Certificate of Need Application #15-32

Dear Ms. Couture and Mr. Escarda:

We have completed review of the Certificate of Need application submitted by co-applicants Providence Health Care and Universal Health Services proposing to construct a 100-bed psychiatric hospital located in Spokane County. Enclosed is a written evaluation of the application.

For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Providence Health Care and Universal Health Services each agree to the following in its entirety.

**Project Description**

This Certificate of Need approves the construction of a 100-bed psychiatric hospital that will provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, and detoxification services for patients 18 and older. The hospital would also include a child and adolescent treatment program for patients ages 5 through 17, and geriatric services for patients aged 65 and older. Of the 100 psychiatric beds, 28 will be relocated from Sacred Heart Medical Center and Children's Hospital. The two tables below show the number of beds at each facility at project completion.

<b>Spokane Behavioral Health</b>	<b>Number of Beds</b>
Beds dedicated to patients age 5 to 17	24
Beds dedicated to patients age 18 and older	76
<b>Total Licensed Adult Psychiatric Beds</b>	<b>100</b>

<b>Sacred Heart Medical Center and Children's Hospital</b>	<b>Number of Beds</b>
Medical Surgical	586
Psychiatric Beds [child-adolescent (24) / adult (20)]	44
Level II Intermediate Care Nursery	21
Level III Neonatal Intensive Care Nursery Beds	40
<b>Total Licensed Beds</b>	<b>691</b>

**Conditions**

1. Approval of the project description as stated above. Co-applicants Providence Health & Services and Universal Health Services further agree that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit a copy of executed Operating Agreement for review and approval. The executed agreement must be consistent with the draft provided in the application.
3. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit a copy of the adopted and approved Admission Policy for review and approval. The final policy must be consistent with the draft provided in the application.
4. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit a copy of the adopted Charity Care Policy approved by the Department of Health's Hospital and Patient Data System's office.
5. The new 100 bed psychiatric hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent polices reviewed and approved by the Department of Health. The new 100-bed psychiatric hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Eastern Region. Currently, this amount is 2.34% of gross revenue and 6.07% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.
6. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit a copy of the adopted and approved Discharge Planning Policy for review and approval. The final policy must be consistent with the draft provided in the application.

7. Annual budgets, as required by WAC 246-454-030, submitted by the new 100 bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Eastern Region.
8. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit to the department's Certificate of Need program for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.
9. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit to the department's Certificate of Need program for review and approval a final listing of ancillary and support vendors for the 100-bed psychiatric hospital.
10. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit to the department's Certificate of Need program for review and approval an executed Transfer Agreement for the 100-bed psychiatric hospital.
11. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act (ITA) patients, co-applicants Providence Health & Services and Universal Health Services will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at Spokane Behavioral Health at the time of referral or if such referral is clinically inappropriate.
12. Within 60 days of Spokane Behavioral Health becoming operational, Providence Health & Services will provide documentation to the Certificate of Need Program demonstrating it has delicensed 28 adult psychiatric beds at Sacred Heart Medical Center and Children's Hospital.

**Approved Costs:**

The approved capital expenditure for this project is \$37,484,755.

Please notify the Department of Health within 20 days of the date of this letter whether you accept the above project description, conditions, and capital costs for your project. If you accept these in their entirety, your application will be approved and a Certificate of Need sent to you.

If you reject any of the above provisions, your application will be denied. The department will send you a letter denying your application and provide you information about your appeal rights.

Send your written response to the Certificate of Need Program, at one of the addresses below.

Mailing Address:

Department of Health  
Certificate of Need Program  
Mail Stop 47852  
Olympia, WA 98504-7852

Physical Address:

Department of Health  
Certificate of Need Program  
111 Israel Road SE  
Tumwater, WA 98501

Elaine Couture, Providence Health Care  
Ron Escarda, Fairfax Behavioral Health  
CN Application #15-32  
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If you have any questions, or would like to arrange for a meeting to discuss our decision, please contact Janis Sigman with the Certificate of Need Program at (360) 236-2955.

Sincerely,



Steven M. Saxe, FACHE  
Director, Community Health Systems

Enclosure

## **EXECUTIVE SUMMARY**

### **EVALUATIONS DATED FEBRUARY 8, 2016, FOR THREE CERTIFICATE OF NEED APPLICATIONS EACH PROPOSING TO ESTABLISH A PSYCHIATRIC HOSPITAL IN SPOKANE COUNTY**

- **SIGNATURE HEALTHCARE SERVICES, LLC PROPOSING TO ESTABLISH A 72-BED PSYCHIATRIC HOSPITAL IN SPOKANE VALLEY**
- **SPRINGSTONE, LLC PROPOSING TO ESTABLISH A 72-BED PSYCHIATRIC HOSPITAL IN SPOKANE VALLEY**
- **CO-APPLICANTS PROVIDENCE HEALTH & SERVICES AND UNIVERSAL HEALTH SERVICES, INC. PROPOSING TO ESTABLISH A 100-BED PSYCHIATRIC HOSPITAL IN SPOKANE**

### **BRIEF PROJECT DESCRIPTIONS**

#### **Signature Healthcare Services, LLC**

Signature Healthcare Services, LLC (Signature) proposes to establish a 72-bed psychiatric hospital in Spokane Valley, within Spokane County. The psychiatric hospital would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, detoxification, and adult and geriatric services for patients 18 and older. The hospital would also include adolescent treatment program for patients ages 12 through 18, and geriatric services for patients aged 65 and older. [source: Application, p8 and August 10, 2015, supplemental information, p2]

Signature anticipates the 72-bed psychiatric hospital would become operational by January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. The capital expenditure associated with the establishment of the psychiatric hospital is \$22,412,785. [source: Application, p52 and August 10, 2015, supplemental information, p5]

#### **Springstone, LLC**

Springstone, LLC (Springstone) proposes to establish a 72-bed psychiatric hospital in Spokane Valley, within Spokane County. The psychiatric hospital would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, adult and geropsychiatric services, and substance abuse treatment for patients 18 years of age and older. [source: Application, p8 and p18]

Springstone anticipates the psychiatric hospital would become operational by January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. The capital expenditure associated with the establishment of the 72-bed psychiatric hospital is \$24,405,658. [source: August 10, 2015, supplemental information, p3 and Attachment 4]

#### **Co-applicants Providence Health & Services and Universal Health Services**

Co-applicants Providence Health & Services and Universal Health Services (Providence/UHS) propose to establish a 100-bed psychiatric hospital in Spokane, within Spokane County. Of the 100 beds, 72 would be new beds and 28 would be relocated from Providence's Sacred Heart Medical Center psychiatric unit. The psychiatric hospital would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, and detoxification services for patients 18 and older. The hospital would also include a child and adolescent treatment program

for patients ages 5 through 17, and geriatric services for patients aged 65 and older. [source: Application, p15]

Providence/UHS anticipates the psychiatric hospital would become operational by January 1, 2017. Under this timeline, year 2017 is full year one and year 2019 is full year three. The capital expenditure associated with the establishment of the 100-bed psychiatric hospital is \$37,484,755. [source: Application, p58 and August 10, 2015, supplemental information, p4]

### **APPLICABILITY OF CERTIFICATE OF NEED LAW**

All three applications are subject to review as the establishment of new health care facility under Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

### **CONCLUSIONS**

#### **Signature Healthcare Services, LLC**

For the reasons stated in this evaluation, the application submitted by Signature Healthcare Services, LCC proposing to establish a 72-bed psychiatric hospital in Spokane Valley, within Spokane County is not consistent with the applicable criterion and a Certificate of Need is denied.

#### **Springstone, LLC**

For the reasons stated in this evaluation, the application submitted by Springstone, LLC proposing to establish a 72-bed psychiatric hospital in Spokane Valley, within Spokane County is not consistent with the applicable criterion and a Certificate of Need is denied.

#### **Co-applicants Providence Health & Services and Universal Health Services**

For the reasons stated in this evaluation, the application submitted by co-applicants Providence Health & Services and Universal Health Services proposing to establish a 100-bed psychiatric hospital in Spokane, within Spokane County is consistent with the applicable criterion, provided the co-applicants agree to the following in its entirety.

#### **Project Description:**

This Certificate of Need approves the construction of a 100-bed psychiatric hospital that will provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, and detoxification services for patients 18 and older. The hospital would also include a child and adolescent treatment program for patients ages 5 through 17, and geriatric services for patients aged 65 and older. Of the 100 psychiatric beds, 28 will be relocated from Sacred Heart Medical Center and Children’s Hospital. The two tables below show the number of beds at each facility at project completion.

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7. Annual budgets, as required by WAC 246-454-030, submitted by the new 100 bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Eastern Region.
8. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit to the department's Certificate of Need program for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.
9. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit to the department's Certificate of Need program for review and approval a final listing of ancillary and support vendors for the 100-bed psychiatric hospital.

10. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit to the department's Certificate of Need program for review and approval an executed Transfer Agreement for the 100-bed psychiatric hospital.
11. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act (ITA) patients, co-applicants Providence Health & Services and Universal Health Services will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at Spokane Behavioral Health at the time of referral or if such referral is clinically inappropriate.
12. Within 60 days of Spokane Behavioral Health becoming operational, Providence Health & Services will provide documentation to the Certificate of Need Program demonstrating it has delicensed 28 adult psychiatric beds at Sacred Heart Medical Center and Children's Hospital.

**Approved Costs:**

The approved capital expenditure for this project is \$37,484,755.



**EVALUATIONS DATED FEBRUARY 8, 2016, FOR THREE CERTIFICATE OF NEED APPLICATIONS EACH PROPOSING TO ESTABLISH A PSYCHIATRIC HOSPITAL IN SPOKANE COUNTY**

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- **CO-APPLICANTS PROVIDENCE HEALTH & SERVICES AND UNIVERSAL HEALTH SERVICES, INC. PROPOSING TO ESTABLISH A 100-BED PSYCHIATRIC HOSPITAL IN SPOKANE**

**APPLICANT DESCRIPTIONS**

**Signature Healthcare Services, LLC**

Signature Healthcare Services, LLC (Signature) is a for-profit corporation owned by individual Soon K. Kim and Farmouth, Inc., which is also wholly-owned by individual Soon K. Kim. Signature is based in Corona, California and is one of the largest privately held psychiatric hospital companies in the country. Signature has been registered with the Washington State Secretary of State office since September 2, 2014. Signature Healthcare Services, LLC, the parent corporation, does not have a specific website. Instead each of its subsidiary hospitals have websites specific to their facility and services. [source: Application, Attachments 2 & 3 and Washington State Secretary of State website]

As of the writing of this evaluation, Signature owns, operates, or manages a total of 13 psychiatric hospitals in the following five states: Arizona (2); California (5); Illinois (1); Nevada (1); and Texas (4). The 13 facilities are listed below.

<b>Facility Name</b>	<b>City</b>	<b>State</b>
Aurora Behavioral Health Systems, LLC	Glendale	Arizona
Aurora Behavioral Healthcare-Tempe, LLC	Tempe	Arizona
Aurora Charter Oak, Los Angeles, LLC	Covina	California
Aurora Los Encinas, LLC	Pasadena	California
Aurora-San Diego, LLC	San Diego	California
Aurora Behavioral Healthcare-Santa Rosa, LLC	Santa Rosa	California
Vista Del Mar, LLC	Ventura	California
Aurora Chicago Lakeshore Hospital, LLC	Chicago	Illinois
Desert Parkway Behavioral Healthcare Hospital, LLC	Las Vegas	Nevada
Dallas Behavioral Healthcare Hospital, LLC	De Soto	Texas
Georgetown Behavioral Health Institute, LLC	Georgetown	Texas
Houston Behavioral Healthcare Hospital, LLC	Houston	Texas
San Antonio Behavioral Healthcare Hospital, LLC	San Antonio	Texas

If this project is approved, Signature would operate the hospital under the name of Spokane Behavioral Healthcare Hospital, LLC. [source: Application, p3]

For this project, Signature Healthcare Services, LLC is the applicant and, if this project is approved, would be the certificate holder. The hospital license would be issued to Spokane Behavioral Healthcare Hospital, LLC.

### **Springstone, LLC**

Springstone, LLC (Springstone) was founded in Louisville, Kentucky in 2010. The company is focused on providing highly specialized care – both inpatient and outpatient – to people struggling with emotional and mental health issues and/or drug and alcohol dependency. Springstone hospitals are community centered and locally managed to meet market needs. Springstone's mission is to develop and operate private hospitals that treat mental illness and substance abuse and deliver high quality treatment using innovative, evidence-based approaches. The leadership team of Springstone is listed below. [source: Springstone, LLC website]

<b>Name</b>	<b>Role</b>
W. Earl Reed, III	Chief Executive Officer
E. Daniel Thomas	Chief Operating Officer
Jill L. Force	Executive Vice President, Chief Administrative Officer, and General Counsel
Jim Schnuck	Executive Vice President and Chief Financial Officer

As of April 15, 2015, Springstone identified that it owns, operates, or manages a total of eight psychiatric hospitals in the following states: Indiana (2); Ohio (2); and Texas (4). The eight facilities are listed below. [source: Application, p3]

<b>Facility Name</b>	<b>City</b>	<b>State</b>
Brentwood Meadows	Newburgh	Indiana
Sycamore Springs	Lafayette	Indiana
Becket Springs	West Chester	Ohio
Dublin Springs	Dublin	Ohio
Carrollton Springs	Carrollton	Texas
Mesa Springs	Fort Worth	Texas
Rock Springs	Georgetown	Texas
Westpark Springs	Richmond	Texas

In addition to the eight facilities identified above, Springstone states that three more facilities are under construction in the states of Arizona (1); Kansas (1); and Ohio (1). On October 6, 2015, the Washington State Department of Health issued an “Intent to Issue a Certificate of Need” to Springstone, LLC approving the establishment of a 72-bed psychiatric hospital in Salmon Creek, within Clark County. Since this Spokane County project was received before the Clark County project was approved, Springstone did not include it as a facility under construction.

Springstone, LLC is not registered to do business in Washington State, rather Springstone created a wholly owned subsidiary known as Spokane Springs, LLC. This corporation is currently registered with the state of Washington.<sup>1</sup> [source: Washington State Secretary of State and Department of Revenue websites] If this project is approved, Springstone would operate the hospital under the name of Spokane Springs, LLC. [source: Application, p2]

For this project, Springstone, LLC is the applicant and, if this project is approved, would be the certificate holder. Since Springstone is not a Washington State corporation or registered to do business in this state, the hospital license would be issued to Spokane Springs, LLC.

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<sup>1</sup> Established on May 15, 2015 with the Washington State Secretary of State office and Department of Revenue under UBI #603510335.

**Co-applicants Providence Health & Services and Universal Health Services**

There are three main entities for this joint project: Providence Health & Services; Universal Health Services, Inc.; and Spokane Behavioral Health, LLC.<sup>2</sup> Below is a description of each entity and the role in this project.

**Providence Health & Services**

Providence Health & Services (Providence) was established in 1856 and is the third largest not-for-profit health system in the United States. Providence has been registered with the Washington State Secretary of State office since March 19, 1992. [source: Washington State Secretary of State website]

Providence owns, manages, or operates 34 hospitals, 475 physician clinics, 22 long-term care facilities, 19 hospice and home health programs, and 693 supportive house units in 14 locations within the states of Alaska, California, Montana, Oregon, and Washington. Focusing on the hospitals located in Washington State, Providence owns and operates eight hospitals in six different counties. The eight Washington State hospitals are listed below. [source: Application, p10 and Exhibit 4]

<b>Facility Name</b>	<b>City</b>	<b>County</b>
Centralia Hospital	Centralia	Lewis
Regional Medical Center-Everett (2 campuses)	Everett	Snohomish
Holy Family Hospital	Spokane	Spokane
Sacred Heart Medical Center & Children’s Hospital	Spokane	Spokane
Mount Carmel Hospital	Colville	Stevens
St. Joseph Hospital	Chewelah	Stevens
St. Peter Hospital	Olympia	Thurston
St. Mary Medical Center	Walla Walla	Walla Walla

**Universal Health Services, Inc.**

Universal Health Services (UHS) is one of the largest, for-profit hospital management companies in the nation. Founded in 1979, UHS subsidiaries own, operate, or manage 25 acute care hospitals and 202 behavioral health facilities, and a variety of other healthcare facilities in 34 states, Puerto Rico, the US Virgin Islands, and the District of Columbia. [source: Application, p12 and Exhibit 5]

UHS is not registered in Washington State, however, its subsidiary—BHC Fairfax Hospital Inc.—has been registered in Washington since June 2, 1998. [source: Secretary of State website]

Focusing on the hospitals located in Washington State, UHS currently owns and operates three behavioral health hospitals in three different counties.<sup>3</sup> The three Washington State behavioral health hospitals are listed below. [source: Application, pp12-13]

<b>Facility Name</b>	<b>City</b>	<b>County</b>
Fairfax Behavioral Health	Kirkland	King
Fairfax Behavioral Health-Everett	Everett	Snohomish
Schick Shadel Hospital	Spokane	Spokane

<sup>2</sup> Throughout this concurrent review, Spokane Behavioral Health, LLC was referenced as ‘NEWCO.’

<sup>3</sup> On September 12, 2014, Certificate of Need #1533 was issued to UHS/BHC Fairfax Hospital approving the establishment of a 34-bed psychiatric hospital in Monroe, within Snohomish County. The hospital began operations on December 29, 2015.

### Spokane Behavioral Health, LLC

On October 16, 2015, Providence and UHS—through its BHC Fairfax Hospital, Inc. subsidiary—established the joint venture known as Spokane Behavioral Health, LLC.<sup>4</sup> The intent of the joint venture entity is to develop and operate a 100-bed psychiatric hospital in Spokane, within Spokane County. [source: Application, p8 and November 2, 2015 supplemental information, Exhibit 26]

Providence has 30% ownership in Spokane Behavioral Health, LLC and BHC Fairfax Hospital has 70% ownership interest. Joint applicants Providence and UHS provided the following description of the joint ownership interest. [source: October 15, 2015, supplemental information, pp1-2]

- *The valuation of Providence’s capital contribution will be approximately \$12,162,651.*
- *Providence’s capital will be a combination of the land, its existing inpatient psychiatric business for 28 beds, and cash. For purposes of these screening responses, we are assuming that the project is approved for 100 beds, 28 of which are from Providence’s existing inpatient psychiatric unit [at Sacred Heart Medical Center].*
- *Fairfax will have a 70% ownership interest in “NewCo.” The value of Fairfax’s capital contribution will be approximately \$28,379,520.*
- *Fairfax’s capital contribution will be in cash.*
- *Each entity has sufficient cash reserves to fund its capital contribution. No financing costs will be incurred.*

For this project, Providence and UHS are the joint applicants, and if this project is approved, would be the joint certificate holders. The hospital license would be issued to Spokane Behavioral Health, LLC.

For reader ease, this evaluation will refer to the joint applicants as ‘Providence/UHS’ and the proposed hospital—Spokane Behavioral Health—will be referenced ‘SBH.’

## **PROJECT DESCRIPTIONS**

### **Signature Healthcare Services, LLC**

Signature proposes to establish a 72-bed psychiatric hospital in Spokane Valley, within Spokane County. Signature provided an executed purchase and sales agreement for a total of 4 acres in Spokane Valley. While the site address for the property is identified as 16727, 16815, and 16829 Desment Court in Spokane Valley, the parcel of land where the hospital will be located has not been assigned an address. Signature also provided a parcel number for the site. [source: Application, p3, p5 and Attachment 9]

Within the application, Signature acknowledges that it must complete an Environmental Impact Statement or a Statement of Non-Significance process through the city of Spokane.<sup>5</sup> Before applying

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<sup>4</sup> UBI #603551948.

<sup>5</sup> WAC 246-03-030 states, in part, that Certificate of Need applications are subject to State Environmental Policy Act (SEPA) requirements whenever the applicant proposes to construct a new hospital or to construct major additions to the existing service capacity of such an institution. The rule further states that the Department of Health shall not issue a Certificate of Need approving hospital construction until the applicant has supplied it with a determination of non-significance or a final environmental impact statement (EIS), and until seven days after the issuance by the lead agency of any final EIS. Nothing in WAC 246-03-030 precludes

for conditional use permits, Signature must complete the 'Essential Public Facility' process. Signature states it will initiate the essential public facility siting processes within 60 days after CN approval. Signature expects both process will take approximately six months to complete. [source: Application, p5 and 6].

The proposed 72-bed psychiatric hospital would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, detoxification, and adult and geriatric services for patients 18 and older. The hospital would also include adolescent treatment program for patients ages 12 through 18, and geriatric services for patients aged 65 and older. [source: Application, p8 and August 10, 2015, supplemental information, p2]

The capital expenditure associated with the establishment of the 72-bed psychiatric hospital is \$22,412,785. Of that amount 67.3% is related to construction costs and fixed equipment; 12.8% is related to land purchase and site preparation; 2.2% for moveable equipment; and the remaining 17.7% is related to fees, permits, interim financing, and state taxes. [source: Application, p52]

Signature anticipates the 72-bed psychiatric hospital would become operational by January 1, 2018. Signature states this timeline includes the six months expected to complete the siting and environmental process for the site. Under this timeline, year 2018 is full year one and year 2020 is full year three. [source: Application, p14 and August 10, 2015, supplemental information, p5]

### **Springstone, LLC**

Springstone proposes to establish a 72-bed psychiatric hospital in Spokane Valley, within Spokane County. Springstone provided an executed purchase and sales agreement for a total of 6.56 acres purchased through its property LLC known as Propstone, LLC<sup>6</sup> (buyer) and Pinecroft, LLC (seller). The executed agreement provides a legal description of the land and identifies parcel numbers. The address for the proposed hospital has not been assigned. Documents provided in the application indicate that Springstone must complete the 'Essential Public Facility' process and obtain either an Environmental Impact Statement or a Statement of Non-Significance for the site.<sup>7</sup> [source: Application, p7 and August 10, 2015, supplemental information, Attachments 1 & 2]

The proposed 72-bed psychiatric hospital would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, adult and geropsychiatric services, and substance abuse treatment for patients 18 and older. [source: Application, p8 and Exhibit 10]

The capital expenditure associated with the establishment of the 72-bed psychiatric hospital is \$24,405,658. Of that amount 68.3% is related to construction costs and fixed equipment; 10.7% is related to land purchase and site preparation; 3.5% for moveable equipment; and the remaining 17.5% is related to fees, permits, and state taxes. [source: August 10, 2015, supplemental information, Attachment 4]

Springstone anticipates the 72-bed psychiatric hospital would become operational by January 1, 2018. Springstone states this timeline includes the time needed to complete the siting and environmental

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the Department of Health from making a commitment to issue a Certificate of Need to an applicant, then issuing the Certificate of Need after receipt of an appropriate environmental impact statement or determination of non-significance.

<sup>6</sup> Further discussion regarding Propstone, LLC is in the Financial Feasibility section of this evaluation.

<sup>7</sup> WAC 246-03-030 referenced in footnote #3 above would also apply to the Springstone project.

process for the site. Under this timeline, year 2018 is full year one and year 2020 is full year three. [source: Application, p15 and August 10, 2015, supplemental information, p3]

**Co-applicants Providence Health & Services and Universal Health Services**

Providence/UHS propose to establish a 100-bed psychiatric hospital to be located on the campus of Sacred Heart Medical and Children’s Hospital located at 104 West Fifth Avenue in Spokane [99204]. The address for the new hospital has not yet been assigned. The site is currently owned by Providence, and will be made available on a fair market value basis as part of Providence’s contribution to the joint venture and overall costs of the project. Providence/UHS provided a letter from the city of Spokane Planning and Development office confirming that a hospital is within the permitted use of the site. The letter further confirms that the siting process for an ‘essential public facility’ is not required. [source: Application, pp31-32 and Exhibit 8]

The proposed 100-bed psychiatric hospital would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, and detoxification services for patients 18 and older. The hospital would also include a child and adolescent treatment program for patients ages 5 through 17, and geriatric services for patients aged 65 and older. [source: Application, p15]

Currently, Providence operates a 72-bed psychiatric unit at Sacred Heart Medical and Children’s Hospital—24 bed child/adolescent unit (ages 5 – 17) and a 48 bed adult unit (ages 18 and older). If this project is approved, Providence intends relocate 28 of the 48 adult psychiatric beds used at Sacred Heart Medical Center to the new psychiatric hospital. The table below shows the current and proposed number of psychiatric beds in the county.

<b>CURRENT</b>			
<b>Facility Name</b>	<b>Child / Adolescent</b>	<b>Adult</b>	<b>Total</b>
Sacred Heart Medical Center	24	48	72
Proposed Joint Psychiatric Hospital	0	0	0
<b>Total Psychiatric Beds in County</b>	<b>24</b>	<b>48</b>	<b>72</b>

<b>PROPOSED</b>			
<b>Facility Name</b>	<b>Child / Adolescent</b>	<b>Adult</b>	<b>Total</b>
Sacred Heart Medical Center	24	20	44
Proposed Joint Psychiatric Hospital	24	76*	100
<b>Total Psychiatric Beds in County</b>	<b>48</b>	<b>96</b>	<b>144</b>

\* 48 new beds and 28 relocated from Sacred Heart Medical Center

As noted in the tables above, the Providence/UHS application proposes a Spokane County net gain of 72 psychiatric beds for a county total of 144. Of the proposed 100 beds, 24 would be dedicated to child/adolescent psychiatric services and 48 dedicated to adult psychiatric services.

The capital expenditure associated with the establishment of the 100-bed psychiatric hospital is \$37,484,755. Of that amount 71.5% is related to construction costs and fixed equipment; 11.1% is related to land purchase and site preparation; 2.1% for moveable equipment; and the remaining 15.3% is related to fees, permits, and state taxes. [source: Application, p58 and November 2, 2015, supplemental information, p4]

Providence/UHS anticipates the 100-bed psychiatric hospital would become operational by January 1, 2017. Providence/UHS states this timeline includes the time needed to raze an existing building on the site and construct the new building. Under this timeline, year 2017 is full year one and year 2019 is full year three. [source: Application, pp34-35 and August 10, 2015, supplemental information, p6]

### **APPLICABILITY OF CERTIFICATE OF NEED LAW**

All three applications are subject to review for the construction, development, or other establishment of new health care facility under Revised Code of Washington 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1)(a).

### **EVALUATION CRITERIA**

WAC 246-310-200(1)(a)-(d) identifies the four determinations that the department must make for each application. WAC 246-310-200(2) provides additional direction in how the department is to make its determinations. It states:

*“Criteria contained in this section and in WAC 246-310-210, 246-310-220, 246-310-230, and 246-310-240 shall be used by the department in making the required determinations.*

*(a) In the use of criteria for making the required determinations, the department shall consider:*

- (i) The consistency of the proposed project with service or facility standards contained in this chapter;*
- (ii) In the event the standards contained in this chapter do not address in sufficient detail for a required determination the services or facilities for health services proposed, the department may consider standards not in conflict with those standards in accordance with subsection (2)(b) of this section; and*
- (iii) The relationship of the proposed project to the long-range plan (if any) of the person proposing the project.”*

In the event WAC 246-310 does not contain service or facility standards in sufficient detail to make the required determinations, WAC 246-310-200(2)(b) identifies the types of standards the department may consider in making its required determinations. Specifically WAC 246-310-200(2)(b) states:

*“The department may consider any of the following in its use of criteria for making the required determinations:*

- (i) Nationally recognized standards from professional organizations;*
- (ii) Standards developed by professional organizations in Washington State;*
- (iii) Federal Medicare and Medicaid certification requirements;*
- (iv) State licensing requirements;*
- (v) Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and*
- (vi) The written findings and recommendations of individuals, groups, or organizations with recognized expertise related to a proposed undertaking, with whom the department consults during the review of an application.”*

To obtain Certificate of Need approval, each applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and

process of care); 246-310-240 (cost containment); and applicable portions of the 1987 Washington State Health Plan.<sup>8</sup>

### **TYPE OF REVIEW**

While not submitted under a published concurrent review cycle, these applications were reviewed concurrently. The concurrent review process promotes the expressed public policy goal of RCW 70.38 that the development or expansion of health care services is accomplished in a planned, orderly fashion and without unnecessary duplication. Specific to the projects submitted by each of the three applicants, the concurrent review allows the department to review the applications proposing inpatient psychiatric services in the same planning area—Spokane County—simultaneously to reach a decision that serves the best interests of the planning area’s residents.

In a concurrent review, the department issues one single evaluation regarding whether any or all of the projects should be issued a Certificate of Need. A chronologic summary of all three projects is provided in Appendix A attached to this document.

### **AFFECTED PERSONS**

Washington Administrative Code 246-310-010(2) defines “affected person” as:

“...an “interested person” who:

- (a) *Is located or resides in the applicant's health service area;*
- (b) *Testified at a public hearing or submitted written evidence; and*
- (c) *Requested in writing to be informed of the department's decision.”*

As noted above, WAC 246-310-010(2) requires an affected person to first meet the definition of an ‘interested person.’ WAC 246-310-010(34) defines “interested person” as:

- (a) *The applicant;*
- (b) *Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;*
- (c) *Third-party payers reimbursing health care facilities in the health service area;*
- (d) *Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;*
- (e) *Health care facilities and health maintenance organizations which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;*
- (f) *Any person residing within the geographic area to be served by the applicant; and*
- (g) *Any person regularly using health care facilities within the geographic area to be served by the applicant.*

Under concurrent review, each applicant is considered an affected person for the other application(s). No other entities sought affected person status for any of the three applications.

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<sup>8</sup> Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6).



## **SOURCE INFORMATION REVIEWED**

- Signature Healthcare Services, LLC Certificate of Need application received May 8, 2015
- Springstone, LLC Certificate of Need application received May 14, 2015
- Providence Health & Services and Universal Health Services joint application received June 5, 2015
- Signature Healthcare Services, LLC 's 1<sup>st</sup> screening responses received August 10, 2015
- Springstone, LLC 's 1<sup>st</sup> screening responses received August 10, 2015
- Providence Health & Services and Universal Health Services 1<sup>st</sup> screening responses received August 10, 2015
- Signature Healthcare Services, LLC 's 2<sup>nd</sup> screening responses received October 15, 2015 and November 2, 2015
- Springstone, LLC 's 2<sup>nd</sup> screening responses received October 15, 2015
- Providence Health & Services and Universal Health Services' 2<sup>nd</sup> screening responses received October 15, 2015, and November 2, 2015
- Signature Healthcare Services, LLC 's public comment received December 8, 2015
- Springstone, LLC 's public comment received December 8, 2015
- Providence Health & Services and Universal Health Services' public comments received December 8, 2015
- Public comments received at the December 8, 2015, Certificate of Need public hearing in Spokane
- Public comments received at the Certificate of Need Program office by 5:00pm December 8, 2015
- Signature Healthcare Services, LLC 's rebuttal comments received December 23, 2015
- Springstone, Inc.'s rebuttal comments received December 24, 2015
- Providence Health & Services and Universal Health Services' rebuttal comments received December 24, 2015
- Department of Health's Hospital and Patient Data Systems financial feasibility and cost containment analysis received January 22, 2016, for Signature Healthcare Services, LLC
- Department of Health's Hospital and Patient Data Systems financial feasibility and cost containment analysis received January 22, 2016, for Springstone, LLC
- Department of Health's Hospital and Patient Data Systems financial feasibility and cost containment analysis received January 22, 2016, for co-applicants Providence Health & Services and Universal Health Services
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Historical charity care data for years 2011, 2012, and 2013 obtained from the Department of Health Hospital and Patient Data Systems office
- Office of Financial Management Population Forecast Data as of May 2012
- Department of Health internal database-Integrated Licensing & Regulatory System (ILRS)
- Quality of Care survey responses from the states of Arizona, California, Nevada, and Texas
- Joint Commission quality check website at [www.qualitycheck.org](http://www.qualitycheck.org)
- Texas Department of Social and Health Services website at [www.dshs.state.tx.us](http://www.dshs.state.tx.us)
- Indiana State Department of Health website at [www.isdh.in.gov](http://www.isdh.in.gov)
- Ohio Department of Health website [www.odh.ohio.gov](http://www.odh.ohio.gov)
- Signature Healthcare Services, LLC, the parent corporation, does not have a specific website; rather each of its subsidiary hospitals have specific websites

**SOURCE INFORMATION REVIEWED (continued)**

- Springstone, LLC website at [www.springstone.com](http://www.springstone.com)
- Providence Health & Services website at [www2.providence.org](http://www2.providence.org)
- Universal Health Services, Inc. website at [www.uhsinc.com](http://www.uhsinc.com)
- Washington State Secretary of State website at [www.sos.wa.gov](http://www.sos.wa.gov)
- Major Diagnostic Category (MDC) definitions [source: wikipedia.org]
- US Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov)
- Certificate of Need historical files

**CONCLUSIONS**

**Signature Healthcare Services, LLC**

For the reasons stated in this evaluation, the application submitted by Signature Healthcare Services, LCC proposing to establish a 72-bed psychiatric hospital in Spokane Valley, within Spokane County is not consistent with the applicable criterion and a Certificate of Need is denied.

**Springstone, LLC**

For the reasons stated in this evaluation, the application submitted by Springstone, LLC proposing to establish a 72-bed psychiatric hospital in Spokane Valley, within Spokane County is not consistent with the applicable criterion and a Certificate of Need is denied.

**Co-applicants Providence Health & Services and Universal Health Services**

For the reasons stated in this evaluation, the application submitted by co-applicants Providence Health & Services and Universal Health Services proposing to establish a 100-bed psychiatric hospital in Spokane, within Spokane County is consistent with the applicable criterion, provided the co-applicants agree to the following in its entirety.

**Project Description:**

This Certificate of Need approves the construction of a 100-bed psychiatric hospital that will provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, and detoxification services for patients 18 and older. The hospital would also include a child and adolescent treatment program for patients ages 5 through 17, and geriatric services for patients aged 65 and older. Of the 100 psychiatric beds, 28 will be relocated from Sacred Heart Medical Center and Children’s Hospital. The two tables below show the number of beds at each facility at project completion.

<b>Spokane Behavioral Health</b>	<b>Number of Beds</b>
Beds dedicated to patients age 5 to 17	24
Beds dedicated to patients age 18 and older	76
<b>Total Licensed Adult Psychiatric Beds</b>	<b>100</b>

<b>Sacred Heart Medical Center and Children’s Hospital</b>	<b>Number of Beds</b>
Medical Surgical	586
Psychiatric Beds [child-adolescent (24) / adult (20)]	44
Level II Intermediate Care Nursery	21
Level III Neonatal Intensive Care Nursery Beds	40
<b>Total Licensed Beds</b>	<b>691</b>

**Conditions:**

1. Approval of the project description as stated above. Co-applicants Providence Health & Services and Universal Health Services further agree that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit a copy of executed Operating Agreement for review and approval. The executed agreement must be consistent with the draft provided in the application.
3. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit a copy of the adopted and approved Admission Policy for review and approval. The final policy must be consistent with the draft provided in the application.
4. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit a copy of the adopted Charity Care Policy approved by the Department of Health's Hospital and Patient Data System's office.
5. The new 100 bed psychiatric hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. The new 100-bed psychiatric hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Eastern Region. Currently, this amount is 2.34% of gross revenue and 6.07% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.
6. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit a copy of the adopted and approved Discharge Planning Policy for review and approval. The final policy must be consistent with the draft provided in the application.
7. Annual budgets, as required by WAC 246-454-030, submitted by the new 100 bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Eastern Region.
8. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit to the department's Certificate of Need program for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.
9. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit to the department's Certificate of Need program for review and approval a final listing of ancillary and support vendors for the 100-bed psychiatric hospital.
10. Prior to providing services at the hospital, co-applicants Providence Health & Services and Universal Health Services will submit to the department's Certificate of Need program for review and approval an executed Transfer Agreement for the 100-bed psychiatric hospital.
11. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act (ITA) patients, co-applicants Providence Health & Services and Universal Health Services will contract with the state to provide that care. An ITA referral may

only be rejected if there are no beds available at Spokane Behavioral Health at the time of referral or if such referral is clinically inappropriate.

12. Within 60 days of Spokane Behavioral Health becoming operational, Providence Health & Services will provide documentation to the Certificate of Need Program demonstrating it has delicensed 28 adult psychiatric beds at Sacred Heart Medical Center and Children's Hospital.

**Approved Costs:**

The approved capital expenditure for this project is \$37,484,755.

**CRITERIA DETERMINATIONS**

**A. Need (WAC 246-310-210)**

Based on the source information reviewed and each the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Signature Healthcare Services, LLC, Springstone, LLC, co-applicants Providence Health & Services and Universal Health Services have met the need criteria in WAC 246-310-210.

*(1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.*

WAC 246-310 does not contain a psychiatric hospital bed forecasting method. The 1987 Washington State Health Plan (SHP) that was “sunset” has a numeric methodology for projecting psychiatric bed need. However, unlike the acute care bed need method from the same document, the department is unable to obtain all the required data to apply this methodology. Therefore, the department has concluded that the psychiatric bed need method from the 1987 SHP is not a reliable tool for forecasting psychiatric bed need. As a result, the evaluation of the need criterion for psychiatric beds begins with an evaluation of the numeric need methodology provided by the applicant.

**Numeric Need Methodology**

All three applicants provided a numeric need methodology based on the following factors: planning area, population estimates and forecasts, use rate, and current capacity. Table 1 below explains the common factors used in each methodology.

**Table 1  
Spokane County Numeric Methodology Assumptions and Data**

<b>Assumption</b>	<b>Data Used</b>
Planning Area	Spokane County
Population Forecasts	Office Of Financial Management Population Data released May 2012.
Use Rate	27.25 per 100,000 population. In recent psychiatric bed applications, the department concurred that the average use rate of the Northwest states is a reasonable determination of a use rate.
Current Capacity	Sacred Heart Medical Center and Children’s Hospital is the only provider of psychiatric services in Spokane County. Total number of psychiatric beds at the hospital is 72.

**Signature Healthcare Services, LLC Numeric Need Methodology**

Signature proposes to provide adolescent through geriatric psychiatric services for patients 12 and older. As a result, Signature relied on Spokane County population projections for residents age 12 and older. Signature counted all 72 psychiatric beds at Sacred Heart Medical Center for current capacity and computed in-migration for non-Spokane County residents obtaining psychiatric services in Spokane County. Table 2 on the following page shows a summary of the bed need methodology for years 2018 through 2020, and years 2025 and 2030. [source: Application, pp22-41 and August 10, 2015, supplemental information, p9]

**Table 2  
Signature Psychiatric Bed Need Projections**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
Population – 12+	384,515	390,025	395,534	400,628	439,914
Use Rate/100,000	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	146	147	149	157	164
Minus Current Supply	72	72	72	72	72
<b>Net Bed Need (Surplus)</b>	<b>74</b>	<b>75</b>	<b>77</b>	<b>85</b>	<b>92</b>

**Springstone, LLC Numeric Need Methodology**

Springstone proposes to serve patients 18 and older, including geriatric patients. Springstone relied on Spokane County population projections for residents age 15 and older and provided the following explanation for the approach. [source: Application, p25, footnote #7]

*“One of OFM’s [Office of Financial Management] estimated population cohort is the 15-19 cohort. Because we intend to serve individuals age 18+, we had the option of excluding 18 and 19 year olds, or including 15-17 year olds. We chose to include 15-17 year olds. The impact is a very slight overestimation of bed need. The 15-17 cohort has historically represented approximately 4% of the Spokane County population.”*

Springstone acknowledges that Sacred Heart Medical Center is the only provider of psychiatric services in the county with 72 beds. Springstone states that 48 of the 72 beds are used for adult psychiatric services and the remaining 24 are used for child/adolescent. For its methodology, Springstone subtracted 48 adult psychiatric beds as current capacity. [source: Application p24]

Table 3 below shows a summary of Springstone’s bed need methodology for years 2018 through 2021, and year 2025. [source: Application, p25]

**Table 3  
Springstone Psychiatric Bed Need Projections**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
Population – 15+	394,007	399,987	406,057	411,976	436,528
Use Rate/100,000	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	107.4	109.0	110.7	112.3	119.0
Minus Current Supply	48	48	48	48	48
<b>Net Bed Need (Surplus)</b>	<b>59.4</b>	<b>61.0</b>	<b>62.7</b>	<b>64.3</b>	<b>71.0</b>

**Co-applicants Providence Health & Services and Universal Health Services Numeric Need Methodology**

Providence/UHS propose to serve patients age 5 years and older, which includes child/adolescent and geriatric programs, so it relied on population projections for Spokane residents age 5 and older. Providence/UHS counted all 72 beds at Sacred Heart Medical Center for current capacity and extended its projections for sixteen years to show years 2015 through 2030. To be consistent with the information provided by both Signature and Springstone, Table 4 on the following page shows a summary of the bed need methodology for years 2018 through 2020, and years 2025 and 2030. [source: Application, p45]

**Table 4  
Providence/UHS Psychiatric Bed Need Projections**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
Population – 5+	472,236	476,798	481,704	504,641	525,643
Use Rate/100,000	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	128.7	130.0	131.3	137.51	143.2
Minus Current Supply	72	72	72	72	72
<b>Net Bed Need (Surplus)</b>	<b>56.7</b>	<b>59.0</b>	<b>59.3</b>	<b>65.5</b>	<b>71.2</b>

**Department’s Review of Applicant’s Numeric Methodologies**

When comparing the population data used by each applicant, it is noted that the source is Office of Financial Management (OFM) population projections released May 2012 for Spokane County. This is the same data that is used by the department in numeric methodology projections.

The department compared the population projections for years 2018 through 2020 submitted by each applicant. It is noted that Signature’s population projections include residents age 12 and older; Springstone’s population projections include residents age 15 and older, even though Springstone does not intend to serve patients under 18. Providence/UHS’s population projections include residents age 5 and older. The difference in population projections appears to be directly related to the target age group used in each methodology. The population projections provided by each applicant are reasonable.

Table 5 below is a summary of the “Net Bed Need” line for each applicant shown in Tables 2 through 4 above.

**Table 5  
Three-Table Summary of Net Need Bed Need (Surplus)**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
<b>Signature</b>	<b>74</b>	<b>75</b>	<b>77</b>	<b>85</b>	<b>92</b>
<b>Springstone</b>	<b>59.4</b>	<b>61.0</b>	<b>62.7</b>	<b>64.3</b>	<b>71.0</b>
<b>Providence/UHS</b>	<b>56.7</b>	<b>59.0</b>	<b>59.3</b>	<b>65.5</b>	<b>71.2</b>

As shown in Table 5 above, Signature’s numeric methodology projects approximately 20 more beds in the planning area due to in-migration. Both Springstone and Providence/UHS do not factor in any in-migration into the methodology.

**Public Comments**

During the review of these projects, both Signature and Providence/UHS provided comments directly related to the numeric methodology used by the other applicants. The comments are summarized by topic below.

**Numeric methodology includes in-migration**

[source: December 8, 2015, Signature public comment, p3]

Both Springstone and Providence/UHS included patient inflow [in-migration] within their numeric methodologies. This approach results in unreliable numeric need projections.

Age group to be served by the psychiatric hospital is unclear

[source: December 8, 2015, Providence/UHS public comment, pp21-23]

Signature's application states it will only care for adults (ages 18 and older). Its screening responses state it is planning to care for patients ages 12 and older, however the forecast methodology uses population projections for ages five and older. Since no revisions to its numeric methodology were provided, Signatures intentions are unclear.

Springstone proposes to only care for adults ages 18 and older. However, its numeric methodology includes population for residents 15 and older. Since it is not planning to care for patients in the 15 to 17 age range, Springstone's numeric methodology is incorrect.

**Rebuttal Comments**

In response to the topics raised in public comments, each applicant provided rebuttal responses. The responses are summarized by topic below.

Numeric methodology includes in-migration

[source: December 24, 2015, Springstone rebuttal information, p5]

Signature is incorrect. Our numeric methodology is based on Spokane County only, but the patient day projections for the proposed psychiatric hospital assume some amount of in-migration from counties adjacent to Spokane.

[source: December 24, 2015, Providence/UHS rebuttal information,

In-migration is not included in our numeric methodology which is consistent with department decisions since 2012.

Age group to be served by the psychiatric hospital is unclear

The rebuttal comments submitted by both Signature and Springstone did not include a response to the age groups used in their respective numeric methodologies.

**Department's Review**

Numeric methodology includes in-migration

A review of the numeric methodologies provided by each of the applicant's demonstrates that only Signature included in-migration, which was referenced in the application as 'in-flow.' This approach is inconsistent with the department's general acute care bed need numeric methodology used as guidance for psychiatric projects. Both Springstone and Providence/UHS did not include in-migration in the methodology. The inclusion of in-migration results in a larger net need in the planning area, but is not grounds for denial.

Age group to be served by the psychiatric hospital is unclear

Co-applicants Providence/UHS criticized both Signature's and Springstone's approach to the population figures used in the numeric methodology. Specific to Signature's methodology, Providence/UHS asserts that population for Spokane residents 5 and older were used. While Signature did not respond to the comments, the department reviewed the numeric methodology provided in the application and concludes that the population age range used in Spokane County population for residents 12 and older. The issue raised is not grounds for denial of the Signature project.



Specific to Springstone’s application, it is true that the applicant proposes to serve patients age 18 and older. However its population age range used in the numeric methodology identifies residents 15 and older. The rationale for this approach was identified in the application and restated in the department’s summary of Springstone’s need methodology. The issue raised is not grounds for denial of the Springstone project.

**Department’s Numeric Methodology**

The department also computed a numeric methodology for Spokane County. Factors used in the department’s methodology include:

- OFM population projections released May 2012;
- Age group five and older; broken out by ages 5-17 and 18 and older.
- Use rate of 27.25 per 100,000 residents;
- Projection years are 2015 through 2030.

For consistency with the applicant’s projections, the department’s summary of projected bed need will show years 2018 through 2020, and years 2025 and 2030. The department’s complete methodology is included as Appendix B attached to this evaluation.

**Child and Adolescent Numeric Methodology**

Signature proposes to provide psychiatric services to adolescents and adults; in its application the adolescent age range is 12 to 18 year olds. Springstone does not propose to serve either children or adolescents. Providence/UHS proposes to provide psychiatric services children and adolescents and identified the age range for these patients to be 5 to 17.

Signature’s methodology included a breakdown of residents age 12 to 18 and included a percentage of inflow [in-migration] adjustment of 31% for this age group. Subtracting the 24 child/adolescent beds at Sacred Heart Medical Center, Signature’s adolescent numeric methodology projected a net surplus of 8 beds in 2015 which decreased to a net surplus of 6 beds in year 2030. [source: August 10, 2015, supplemental information, pp7-9]

Even though Providence/UHS intends to serve both children and adolescents at the new psychiatric hospital, its methodology did not include a breakdown by age group. [source: Application, pp44-45]

To assist in its evaluation of these applications, the department calculated a separate methodology for child and adolescent residents—ages 5 to 17. Table 6 below shows a summary of the department’s numeric need for this age range.

**Table 6  
Department Numeric Bed Need Methodology  
Spokane County Residents Age 5 - 17**

	2018	2019	2020	2025	2030
Beds Needed for Residents Age 5-17	23	23	23	24	25
Minus Current Capacity	24	24	24	24	24
Net Bed Need ( <b>Surplus</b> )	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>0</b>	<b>1</b>

Numbers are rounded to whole

As shown in Table 6, the department’s methodology shows a net surplus of 1 child and adolescent bed for Spokane County residents in year 2018. The projected surplus becomes a net need of 1 bed in year 2030. As shown in Table 6, the numeric methodology solely based on 27.25/100,000 population does not demonstrate need for additional child/adolescent beds in Spokane County.

To evaluate utilization of the existing capacity of child/adolescent psychiatric beds in Spokane County, the department reviewed historical years CHARS data.<sup>9</sup> Factors used in the CHARS data review include all Washington State hospitals that discharged a patient between the ages of 5 and 17 (inclusive) with a major diagnostic code (MDC) of 19-Mental Diseases and Disorders. Patient discharges were identified by the patient’s county of residence; the number of days stayed in the facility (length of stay) was also included.

Table 7 below shows the comparison data for Sacred Heart Medical Center’s 24 bed child/adolescent psychiatric unit.

**Table 7**  
**2013 and 2014 Discharge Data for MDC 20**  
**Washington State Patients Age 5 – 17**

	<b>Year 2013</b>	<b>Year 2014</b>
Statewide Number of Discharges	1,903	2,153
Statewide Number of Patient Days	17,888	21,592
SHMC Number of Discharges	497	584
SHMC Number of Patient Days	5,727	6,965
Number of SHMC Beds	24	24
SHMC Percentage of Total Discharges	26.1%	27.1%
SHMC Percentage of Total Patient Days	32.0%	32.3%
SHMC Occupancy Percentage	65.4%	79.5%

As shown in Table 7 above, utilization of Sacred Heart Medical Center’s 24-bed child/adolescent unit increased from 65% in year 2013 to 80% in year 2014. An 80% utilization calculates to an average of four available beds within the unit.

Within Washington State’s Department of Social and Health Services is a section known as Division Behavioral Health and Recovery (DBHR) which is also is part of the Behavioral Health Administration (BHA). BHA is an administration within DSHS that provides prevention, intervention, inpatient treatment, outpatient treatment, and recovery support to people with addiction and mental health needs. DBHR created 11 separate regional support networks or RSNs to ensure that the range of care, resources, and services are person-driven; build on strengths and opportunities; and are available and accessible to individuals and their families seeking to recover

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<sup>9</sup> The Comprehensive Hospital Abstract Reporting System (CHARS) is a Department of Health system used to identify and analyze hospitalization trends; establish statewide diagnosis related group (DRG) weights, a way of comparing hospital stays across all hospitals; and identify and quantify health care access, quality, and cost containment issues. CHARS contains coded hospital inpatient discharge information derived from hospital billing systems. CHARS collects age, sex, zip code and billed charges of patients, as well as the codes for their diagnoses and procedures. CHARS data are available for 1987 to 2014. Coded hospital-based observation stay data is available from 2008 forward. [source: DOH website: “What is CHARS?”]

from mental illness so they may live safer, healthier, and more independent lives. The RSNs are responsible for:

- Subcontracting with licensed community mental health agencies to provide services;
- Managing involuntary treatment services; and
- Ensuring services are provided to anyone with a serious mental illness.

[source: Department of Social and Health Services, DBHR website]

Most RSNs are made up groups of counties. Specific to these projects, is the Spokane County RSN, which covers the eight counties of Adams, Ferry, Grant, Lincoln, Okanogan, Pend Oreille, Spokane, and Stevens. The department also reviewed the 2013 and 2014 CHARS data by the eight RSN counties. That review showed that the majority of patients aged 5 through 17 that reside in one of the eight counties received care at Sacred Heart Medical Center. In fact, of the 429 discharges in year 2013, 7 received treatment at a facility other than Sacred Heart Medical Center. For year 2014, there were 514 discharges, and 3 received treatment at a facility other than Sacred Heart Medical Center.

In summary, the numeric methodology does not take into account in-migration or the utilization of the existing 24-bed child/adolescent unit operating at Sacred Heart Medical Center. The 1987 Washington State Health Plan (SHP) that is used as guidance for occupancy standards for hospital services recommends 55% for forecasting purposes. Taking into consideration that Sacred Heart Medical Center’s 24-bed child/adolescent unit operated at 80% in year 2014, additional beds dedicated to these services is reasonable.

Based on the numeric methodology above, information extrapolated from both Signature and Providence/UHS applications, and historical discharge data specific to the 5 to 17 age group, the department concludes that numeric need for additional psychiatric beds for residents age 5 to 17 is demonstrated.

Adult Numeric Methodology

All three applicants propose to provide psychiatric services for adults, including geriatric residents. To assist in its evaluation of need for adult psychiatric services, the department’s methodology includes a breakdown of population showing residents age 18 and older. Table 8 below shows a summary of the department’s numeric need for this age range.

**Table 8  
Department Numeric Bed Need Methodology  
Spokane County Residents Age 18 and older**

	2018	2019	2020	2025	2030
Beds Needed for Residents Age 18 +	106	107	108	113	118
Minus Current Capacity	48	48	48	48	48
Net Bed Need ( <b>Surplus</b> )	58	59	60	65	70

Numbers are rounded to whole

As shown in Table 8 above, the department’s methodology shows a need for 58 adult psychiatric beds in year 2018 which increases to 70 in year 2030.

Both Signature and Springstone are requesting a 72 bed hospital, which would be essentially all of the projected beds needed for adults in Spokane County for approximately 15 years—through year 2030. [source: Signature Application, p7 and Springstone Application p8]

Providence/UHS is requesting a 100-bed hospital and states that if the project is approved, 76 of the beds would be used for adult / geriatric patients. Further, Sacred Heart Medical Center would reduce its current adult psychiatric bed capacity by a maximum of 28 beds, from 48 to 20, leaving 24 child/adolescent beds and 20 adult beds at the hospital. [source: Application, p10 and August 10, 2015, supplemental information, pp2-3] As a result, this project also requests all of the projected bed need for Spokane County through year 2030.

The department's methodology summarized in Table 8 above calculates a need for adult psychiatric beds in Spokane County.

Signature's bed need methodology calculated for populations 19-65 and 65 + also show need for additional psychiatric beds in year 2015 that increases through 2030.<sup>10</sup> [source: August 10, 2015, supplemental information, p7]

Springstone's bed need methodology projected need for additional adult psychiatric beds beyond the 48 in operation at Sacred Heart Medical Center. Springstone's application proposed to serve only patients 18 years and older, which is more than three quarters of the total Spokane County population. [source: Application, p23]

Providence/UHS's bed need methodology calculated for populations 5 years and older showed need for additional psychiatric beds in year 2015 that increases through 2030.<sup>11</sup> [source: August 10, 2015, supplemental information, p7]

Based on the numeric methodology above and information extrapolated from all three applicants, the department concludes that need for additional psychiatric beds for residents age 18 and older is demonstrated.

In summary, based on the discussions above the department concludes that numeric need for both child/adolescent and adult psychiatric beds is demonstrated.

Each applicant also provided supplemental information and documentation to demonstrate need for additional psychiatric beds in the county. A summary of the information provided by each applicant is below.

### **Signature Healthcare Services, LLC**

Signature provided extensive additional rationale for adding psychiatric beds in Spokane County. A summary of the main themes is below. [source: Application, pp13-22]

### **Planning Horizon**

Using a 15-year planning horizon, focusing on residents age 12 and older, and factoring in patient in-migration into Spokane County, Signature projected 74 psychiatric beds would be needed in Spokane County by the end of year 2018, which increases to 92 by the end of year 2030. Within its application, Signature provided rationale for the 15-year planning horizon, which states:

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<sup>10</sup> Signature's methodology also included an inflow [in-migration] adjustment for the two age groups of 21% and 37% respectively.

<sup>11</sup> Providence/UHS's application did not include an 'adult only methodology.

*"The Department of Health certificate of need program can only respond to certificate of need applications to expand psychiatric hospital services, it cannot directly create capacity. While the Washington State parity legislation was approved in 2005 and changes in the Involuntary Treatment Act (ITA) took place in 2010, the response by existing and new hospital providers has taken from 5 years to 10 years to respond to known significant changes in the environment that have dramatically affected needed psychiatric hospital bed capacity. In fact, the bulk of the new capacity approved by the Department of Health through January 2014 will not be open even for initial services until 2016 or 2017. In evaluating this Spokane County proposal, we ask the Department to consider a 10-year to 15-year planning horizon to address the significant demand factors including changes in the Involuntary Treatment Act, substantial expansion of insurance coverage, mental illness and substance abuse treatment parity, significant population growth, and the greater lead time to bring a larger hospital project with a longer implementation schedule fully on line."*

#### Involuntary Treatment Act [ITA] 2010 Changes Going into Effect in 2012

In 2010, the Washington Legislature enacted changes to the Involuntary Treatment Act that became effective in 2012. The Washington Institute for Public Policy (WIPP) projected a need for an additional 19 to 114 community hospital beds and 23-54 adult evaluation and treatment beds to respond to the expected increase. The higher number of hospital beds (114) reflected the need assuming a 78% community hospital/psychiatric hospital occupancy. The actual utilization level in 2009 was 75%.

By design, the WIPP analysis did not address bed need increases due to other factors, such as population growth, behavioral health parity, or increases in the insured population. The Department of Health's approval of over 300 hospital beds in King County and Snohomish County since 2012 should effectively address ITA needs in those two counties when those beds come on line.

#### Spokane County Population Growth

Signature reviewed OFM population projections for Spokane County and concluded it is increasing at nearly the same rate as Washington State and other urban counties with an expected 13% growth in total population from years 2012 through 2025.

#### Impact of the Affordable Care Act on the Uninsured

Spokane County's uninsured population could decrease from 13.1% to as low as 2.1% if the 62,200 additional county residents who will be eligible for Affordable Care Act assistance obtain health insurance. Approximately 25% of the uninsured adult population in Spokane County or over 15,000 individuals are estimated to have a mental illness disorder or substance abuse disorder or both and these individuals will now have additional financial resources to receive support. This should increase demand for all categories of health care, including psychiatric services.

#### Spokane County Military Population Growth

During recent Certificate of Need reviews, a number of applicants have stated that they have served or will serve military troops, retirees, and other eligible Tri-Care beneficiaries and can justify additional psychiatric beds. Fairchild Air Force base is within Spokane County. Signature expects a number of military retirees in Eastern Washington will use psychiatric hospital resources within Spokane County. Fairchild Air Force now supports over 12,000 military retirees and nearly 7,000 active military and family members living both on and off base.

### Springstone, LLC

Using a 15-year planning horizon and population projections for Spokane County residents age 15 and older, Springstone projected 71 psychiatric beds would be needed in Spokane County by the end of year 2030. Springstone provided extensive additional rationale for establishing a 72-bed psychiatric hospital in Spokane County to serve patients age 18 and older. A summary of the main themes is below. [source: Application, pp17-21]

### National Information and Statistics Related to Mental Illness

Springstone provided supporting data from three separate studies. One conducted by the Centers for Disease Control and Prevention; another by the National Institute of Mental Health; and a third by Substance Abuse and Mental Health Services Administration. The studies show that mental illness and drug / alcohol addiction are common problems across the United States. Most people with these conditions can be successfully treated, allowing them to lead healthy lives, which reduces the negative impacts on their families, co-workers, and communities. Focusing on mental illness, one out of four adults in the United States has a mental health issue, ranging from depression and anxiety to chronic mental illness. One in 17 people—or approximately 6%—of the United States population, suffers from a serious debilitating mental illness. Mental illness results in more disability in developed countries than any other group of illness, including cancer and heart disease. For example, individuals with mental illness have increased rates of chronic diseases such as cardiovascular disease, diabetes, obesity, asthma, epilepsy, and cancers. Further, the economic burden of mental illness in the United States exceeds \$300 billion.

### Spokane County Need for Additional Psychiatric Beds

Sacred Heart Medical Center is the only provider of inpatient psychiatric services in Spokane County. The hospital has 72 psychiatric beds, and of those, 48 are adult inpatient beds. Using the year 2015 Spokane County population for residents 15 years and older, Spokane County has 48 psychiatric beds to serve 376,000 residents, which equates to a current bed to population ratio of 12.7 / 100,000 residents. While this ratio is better than the Washington State average, it is still well below the 27.25 / 100,000 average of the other northwest states.

Despite efforts of Spokane County's regional support network (RSN), the mental health community, and the number of psychiatric beds at Sacred Heart Medical Center, the lack of psychiatric beds in Spokane County has resulted in too many mentally ill patients being 'boarded' at hospitals. On August 7, 2014, the Washington Supreme Court banned 'psychiatric boarding,' and gave hospitals until December 26, 2014, to end the practice. Boarding still occurs due to limited resources.

### Chemical Dependency Services

While the proposed 72-bed psychiatric hospital will be licensed as a psychiatric hospital under Revised Code of Washington (RCW) 71.12, Springstone asserts that a percentage of the beds would be used for chemical dependency treatment as defined in MDC 20 [alcohol/drug use or induced mental disorders].

To support its application, Springstone provided a study of year 2013 acute patient days generated by Spokane County residents age 18+ for MDC 20. The data shows 694 inpatient chemical dependency discharges of Spokane County residents age 18+, which generated 3,054 patient days, resulting in an average length of stay of 4.4 days. Of the 694 discharges, 619--or 89.2%--Spokane County residents received chemical dependency services in a hospital within the county. The

remaining 75--or 10.8%--of the Spokane County residents received their services in a hospital located outside Spokane County.<sup>12</sup>

Springstone asserts that a significant percentage of residents in need of chemical dependency care are likely not receiving it. This assertion is based on a December 2012 National Institute on Drug Abuse report entitled "*Drug Facts: Nationwide Trends*." Springstone proposes that its application for 72 psychiatric beds, with a number dedicated to chemical dependency services would address this unmet need.

### **Public Comments**

During the review of these projects, Signature provided comments questioning whether Springstone's application demonstrated need for chemical dependency services. The comments are summarized below.

#### **24-Bed Chemical Dependency Unit**

[source: December 8, 2015, Signature public comments, pp9-10 and Attachments 19 & 21]

Springstone identified a numeric need for 72-psychiatric beds. Springstone proposed to meet the need with 24 general psychiatric beds, 24 geropsychiatric beds, and 24 special, acute care hospital level chemical dependency treatment beds to service MDC 20 alcohol/drug use or dependence patients. With this configuration, only 24-general psychiatric beds are available for adult involuntary treatment patients as well as indigent and Medicaid patients. Specific to MDC 20 patients, Springstone failed to document need for 24 acute care hospital level beds.

### **Rebuttal Comments**

In response to the issue raised, Signature provided rebuttal responses which are summarized below.

#### **24-Bed Chemical Dependency Unit**

[source: December 24, 2015, Springstone rebuttal information, p5]

Signature wrongly assumes the 72-bed hospital will be operated with a psychiatric hospital license and a chemical dependency license. This is incorrect. All 72 of the beds will be under a psychiatric hospital license and will be available for involuntary treatment patients.

### **Department's Review**

#### **24-Bed Chemical Dependency Unit**

Signature suggests that Springstone's project requests 48 psychiatric beds and 24 chemical dependency beds. Signature further suggests that since Springstone did not submit rationale to demonstrate need for the 24 chemical dependency beds, its project should be denied. Springstone, on the other hand, asserts that it is proposing a 72-bed licensed psychiatric hospital under RCW 71.12. Within the 72 licensed psychiatric beds will be a 24-bed chemical dependency unit. The 24-bed unit will address an unmet need in the planning area for chemical dependency services.

To sort out this issue, the department compared the services proposed at Springstone's hospital with those proposed at Signature's hospital. Signature proposes to serve patients age 12+, including geriatric patients. All 72 beds would be licensed under RCW 71.12. Signature proposes

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<sup>12</sup> The other Washington hospitals are: Providence St. Peter (18); Lake Chelan Community Hospital (17); Valley General Hospital (12) Providence Regional Medical Center-Everett (10); Highline Medical Center (7); Swedish Medical Center-Ballard (3); Newport Hospital (3); Grays Harbor Community Hospital (2); Whitman Hospital and Medical Center (1); Lourdes Counseling Center (1) and BHC Fairfax Hospital (1).

a variety of services at the psychiatric hospital including "*detoxification and treatment for patients with co-occurring addiction and psychiatric diagnoses for adults age 18 and older.*" [source: Application, p8] Signature's application clearly proposes to serve some chemically dependent patients.

Single-line drawings provided in the application indicate the 72-beds will be broken into two 25-bed patient care units and one 22-bed unit. Each of the care units will have its own patient common areas. [source: Application, Attachment 7] Since the hospital also proposes to serve adolescents—patients age 12-17—those patients could be admitted into a separate section of the hospital. Since the hospital also proposes to provide chemical dependency services, those patients could be also be admitted into a separate section of the hospital. While it is not considered to be a 'chemical dependency unit' any of the units could function as such.

Springstone proposes to serve patients age 18+, including geriatric patients. All 72 beds would be licensed under RCW 71.12. Springstone proposes a variety of services at the psychiatric hospital, including "*inpatient psychiatric services, involuntary treatment services, adult and geropsychiatric services, as well as substance abuse services. The hospital will offer day hospital/partial hospitalization and intensive outpatient services.*" [source: Application, p8] Springstone's application also proposes to serve some chemically dependent patients.

Single-line drawings provided in the application show the 72-beds, but do not show any separate units. The drawings also show patient common areas and seclusion rooms. [source: August 10, 2015, supplemental information, Attachment 9] Since the hospital proposes to provide chemical dependency services, those patients could be admitted into a separate area within the hospital; Springstone refers to the section as a 'chemical dependency unit.'

The review above shows that both applicants propose to provide chemical dependency services to a segment of the patient population. Both applicants also propose to structure their hospital to allow appropriate separation--and in some cases, required separation--of certain types of patients, such as adolescent, geriatric, and chemically dependent. One application refers to the separation as a 'unit' which may have a different meaning to the other applicant. In short, both applicants propose a full-service psychiatric hospital and all proposed beds would be licensed under RCW 71.12.

In summary, the comments raised by Signature related to Springstone's chemical dependency service or unit are not grounds for denial.

### **Co-applicants Providence Health & Services and Universal Health Services**

Using a 15-year planning horizon and population projections for Spokane County residents age 5 and older, Providence/UHS projected 71.2 psychiatric beds would be needed in Spokane County by the end of year 2030. Providence/UHS provided extensive additional rationale for establishing a 100-bed psychiatric hospital in Spokane County to serve patients age 5 and older. A summary of the main themes is below. [source: Application, pp37-48]



Involuntary Treatment Act [ITA] 2010 Changes Going into Effect in 2012

Providence/UHS provided data and discussion on this topic similar to the data provided by Signature. Given the similarities, the department will not provide a restatement of the information provided by Providence/UHS.<sup>13</sup>

National Information and Statistics Related to Mental Illness

Providence/UHS provided data and discussion on this topic similar to the data provided by Springstone. Again, the department will not provide a restatement of the information provided by Providence/UHS.<sup>14</sup>

Spokane County Population Growth

Providence/UHS reviewed OFM population projections for Spokane County for residents age 5 and older and noted the growth rate for residents 55 and older is significantly higher than the growth rate for younger residents. Providence/UHS states this growth is significant because older residents have a higher utilization rate. For Washington State, as a whole, persons age 18-54 have a higher inpatient psychiatric utilization rate (27.0) than residents under 18 (11.3).

Spokane County Use of Psychiatric Services

Providence/UHS also provided a summary of its five-year review of psychiatric use of Sacred Heart Medical Center. The review covered years 2009 through 2013 and shows the average percentage of growth in patients and patient days. The review shows the number of inpatient psychiatric patients and patient days has remained relatively stable over the five years. Sacred Heart Medical Center's 72 psychiatric beds have been averaging above 90% occupancy during the five-year review, and averaged higher than 97% occupancy in year 2013. Sacred Heart Medical Center also serves as a regional provider of psychiatric services since there are no inpatient psychiatric providers located in any of the Washington State counties bordering on Spokane County.<sup>15</sup> Because of the lack of available providers, 26.9% of the patient days at Sacred Heart Medical Center's psychiatric unit were generated from residents outside of the county.

Reduction in Psychiatric Beds at Sacred Heart Medical Center

Sacred Heart Medical Center currently operates a 72-bed psychiatric unit. The hospital has been providing psychiatric services since 1971 for adults and since 1984 for children and adolescents. The current bed configuration is 48 dedicated to adult and geriatric patients and 24 dedicated for children and adolescents. If this project is approved, the applicant would reduce the number of dedicated adult/geriatric beds at Sacred Heart Medical Center from 48 to 20; the child and adolescent beds would remain at 24. The 28 bed reduction leaves 44 psychiatric beds at Sacred Heart Medical Center. [source: Application, p10 and August 10, 2015, supplemental information, pp2-3]

Providence/UHS states this bed reduction would have a positive impact on Sacred Heart Medical Center because it would allow the lesser acute patients to be treated at the proposed 100-bed psychiatric hospital and allow Sacred Heart Medical Center to allocate more resources to the more medically acute psychiatric patients. The applicant also anticipates a reduction in emergency

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<sup>13</sup> The department's approach in this evaluation of not restating similar information on this topic is for reader ease only and should not, in any way, be viewed as a discount of the information provided by Providence/UHS.

<sup>14</sup> Again, this approach is for reader ease only and should not, in any way, be viewed as a discount of the information provided by Providence/UHS.

<sup>15</sup> Pend Oreille, Stevens, Lincoln, and Whitman counties all border Spokane County.

department visits and utilization for psychiatric services at Sacred Heart Medical Center.<sup>16</sup> [source: August 10, 2015, supplemental information, p2]

Providence/UHS also anticipates a positive impact on the Eastern Washington Region. As a 100-bed psychiatric hospital, SBH would allow for greater access to the ‘right care at the right time’ for the community and surrounding areas with rural hospital. [source: August 10, 2015, supplemental information, p3]

### **Public Comments**

During the review of these projects and at the December 8, 2015, public hearing, the department received several letters of support from healthcare, law enforcement, and other entities in Spokane County and surrounding areas. Other than the three applicant’s comments on each other’s applications, there were no letters of opposition for additional psychiatric services in Spokane County. Below is a list of the support submitted for additional psychiatric beds and the location of the entity submitting the letter.

#### **Healthcare**

Newport Hospital and Health Services (Newport)  
Lincoln Hospital Public Hospital District #3 (Davenport)  
Whitman Hospital and Medical Center (Colfax)  
University of Washington School of Medicine (Seattle)  
Three Rivers Hospital (Brewster)  
Tri-State Memorial Hospital and Medical Campus (Clarkston)  
Columbia Medical Associates (Spokane)  
Spokane Regional Health District (Spokane)  
Spokane Emergency Physicians (Spokane)  
Spokane County Medical Society (Spokane)  
Providence Sacred Heart Medical Center & Children’s Hospital (Spokane)  
Providence Medical Group (Spokane)  
NEW Health Programs (Chewelah)  
Kootenai Health (Coeur d’Alene, Idaho)  
Group Health (Spokane)  
Empire Health Foundation (Spokane)  
Washington State University (Spokane)  
Department of Social and Health Services, Behavioral Health and Service Integration  
Administration at Eastern State Hospital (Medical Lake)  
Better Health Together (Spokane)  
Washington State University Health Sciences Spokane (Spokane)  
Partners with Families and Children: Spokane (Spokane)  
Evergreen Health Monroe (Monroe)  
Gritman Medical Center (Moscow, Idaho)  
Providence Northeast Medical Group (Colville)

#### **Public Comments (continued)**

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<sup>16</sup> During the rebuttal phase of these projects, Signature provided comments on a new topic it had not raised in its December 8, 2015, public comments. The comments are directly related to the proposed reduction in the number of psychiatric beds at Sacred Heart Medical Center and future pediatric psychiatric services to be provided at Sacred Heart Medical Center. Since the comments are new information not previously raised in Signature's public comments, the department considers the comments outside of the rebuttal process. The topic will not be considered in this review or addressed in this evaluation.

### Law Enforcement

Spokane Police Division (Spokane)

Spokane County Office of Prosecuting Attorney (Spokane)

### Other Entities

Pend Oreille County Counseling Services (Newport)

Spokane County United Way (Spokane)

Spokane County Community Services, Housing, and Community Development (Spokane)

Spokane County Board of Commissioners (Spokane)

Providence Health Care Stevens County Ministries (Colville)

Resident of Colville

Residents of Spokane (three separate letters)

Resident of Stevens County

Mayor of Spokane (Spokane)

Lutheran Community Services (Spokane)

Washington State Senator Mark Schoesler

Washington State Senator Mike Padden

Washington State Representative Mary Dye

Washington State Representative Joe Schmick

Washington State Representative Marcus Riccelli

Washington State Representative Eileen Cody

Washington State Representative Bob McCaslin

Catholic Charities Spokane (Spokane)

Greater Spokane Incorporated (Spokane)

Irwin Medical Consulting (physician retired Moses Lake)

The majority of the letters centered on the need for psychiatric services in Spokane County. Some provided statistical data to support their position that Spokane County needs additional psychiatric beds. Others provided very descriptive personal experiences of a family member to support the need.

Law enforcement support focused on the need for mental health services and crises intervention, rather than ‘jail time’ for those in need for psychiatric services. For the healthcare or other entities outside of Spokane County, the support was focused on the need for additional psychiatric beds and services located Spokane County for referral purposes.

As identified above, the program received letters of support from representatives and senators of the Washington State Legislature. Those letters of support recognized the general need for psychiatric services in Washington State and also focused on need for services in the eastern part of the state.

### Rebuttal Comments

Springstone was the only applicant that provided rebuttal responses to the letters of support referenced above. Below is an excerpt of Springstone’s comments. [source: December 24, 2015, Springstone rebuttal information, pp2-3]

*“While NEWCO [Providence/UHS] attempts to portray these letters as support for only its project, the vast majority of the letters would welcome capacity from **any** source.”*

To support this assertion, Springstone provided excerpts from nine of the letters referenced above. The nine letters referenced by Springstone are listed below.

- Tri-State Memorial Hospital and Medical Campus (Clarkston)
- Irwin Medical Consulting (physician retired Moses Lake)
- Providence Medical Group (Spokane)
- Gritman Medical Center (Moscow, Idaho)
- Kootenai Health (Coeur d'Alene, Idaho)
- Spokane County Office of Prosecuting Attorney (Spokane)
- Department of Social and Health Services, Behavioral Health and Service Integration Administration at Eastern State Hospital (Medical Lake)
- Providence Health Care Stevens County Ministries (Colville)
- Resident of Colville

### **Department's Review**

The concept of support, with no opposition, for psychiatric services in Spokane County is significant. Springstone provided excerpts from nine different letters and asserted that they do not necessarily support one applicant over another. The department recognizes some of the letters of support were submitted by a representative of Providence and expressed support of the Providence/UHS project. The Providence letters aside, **every** letter submitted in support of psychiatric services expressed support specifically for the Providence/UHS project. Below is the excerpt from the nine letters referenced by Springstone above demonstrating support for the Providence/UHS project.

Tri-State Memorial Hospital and Medical Campus (Clarkston)

*"I strongly support this project and JV [joint venture] application as I believe these two organizations will serve our region and help to deliver a highly demanded service yet difficult (presently) to fulfill. Providence has worked with TSMH in other services that we are now able to help deliver to our local community and feel they, and Fairfax Behavioral Health, are the most qualified to make this need become a reality."*

Irwin Medical Consulting (physician retired Moses Lake)

*"I am very well acquainted with the psychiatric needs of Eastern Washington and have been very excited about the proposed venture with Providence and Fairfax. ...The Providence Health Care and Fairfax Behavior[al] Health consortium is a very exciting answer to these problems for the following reasons:..."*

Providence Medical Group (Spokane)

*"Providence is the clear choice because of its extensive community network of providers. Together, Providence and Fairfax can ensure their new hospital will be able to leverage these existing relationships and successfully collaborate to provide integrated health services and continuity of care."*

Gritman Medical Center (Moscow, Idaho)

*"Gritman Medical Center cannot accept in-patient mental health patients and our hospital is not well-equipped to handle patients who present a potential harm to themselves or other community members. When patients must be transferred, there is frequently a lack of available beds to transfer them to. Located 90 miles from Spokane, Gritman Medical Center is fortunate to have several, various partnerships with*

*Providence Health Care. This project would meet a dire need in the Spokane and surrounding communities.”*

Kootenai Health (Coeur d’Alene, Idaho)

*“Providence has been a strong community partner, well known for providing compassionate, quality health care of all kinds to the region. Fairfax is also known for excellent, compassionate care and is the leading provider of inpatient behavioral health services in Washington. We are confident that together they can offer effective integrated care models that will benefit the patients they care for from across the region.”*

Spokane County Office of Prosecuting Attorney (Spokane)

*“The Spokane County Prosecuting Attorney’s Office supports the Providence Health Care and Fairfax Behavioral Health Joint Venture for a 100-bed, free standing psychiatric hospital.”*

Department of Social and Health Services, Behavioral Health and Service Integration Administration at Eastern State Hospital (Medical Lake)

*“We recognize and support the efforts Providence Medical Center Sacred Heart is taking to open a 100-bed acute psychiatric inpatient facility in Spokane. Our community, including the entire eastern Washington region, desperately needs additional acute inpatient psychiatric services.”*

Providence Health Care Stevens County Ministries (Colville)

*“I strongly support Providence Health Care’s proposal to form a joint venture with Fairfax Behavior[al] health and construct a 100-bed free standing psychiatric hospital. The need is great, and if Providence is involved, the poor and underserved will be sure to have access.”*

Resident of Colville

*“The proposed joint venture between Providence Health Care and Fairfax Behavioral Health to develop a 100-bed freestanding psychiatric hospital in Spokane County on the campus of Providence Sacred Heart Medical Center and Children’s Hospital is the best proposal to begin to address the overwhelming behavioral health needs in Spokane County and Eastern Washington.”*

It is true that the letters submitted during public comment support need for additional psychiatric services in Spokane County. However, contrary to Springstone’s claim, all letters identify a preference for one applicant.

**Signature Healthcare Services, LLC**

Based on the above information, need has been demonstrated by Signature Healthcare Services, LLC. **This sub-criterion is met.**

**Springstone, LLC**

Based on the above information, need has been demonstrated by Springstone, LLC. **This sub-criterion is met.**

**Co-applicants Providence Health & Services and Universal Health Services**

Based on the above information, need has been demonstrated by co-applicant’s Providence Health & Services and Universal Health Services. **This sub-criterion is met.**

- (2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

Neither Signature nor Springstone are current providers of health care services to the residents of Washington State. While both Providence Health & Services and Fairfax Behavioral Health have a variety of healthcare facilities in Washington, they do not currently jointly operate a facility.

To demonstrate that all residents of the service area would have access to the services provided by each applicant, specific documentation to demonstrate availability to all residents of the service area and a commitment to maintain Medicare and Medicaid participation must be provided. Each applicant must commit to provide a percentage of charity care in the planning area.

### **Admission Policy**

To determine whether all residents of the service area would have access to the proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the service area would have access to services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

### **Medicare and Medicaid Eligibility**

The department uses the applicant's or facility's Medicare certification to determine whether the elderly would have access or continue to have access to additional services.

The department uses the applicant's or facility's Medicaid eligibility or contracting with Medicaid to determine whether low-income residents would have access to the services.

### **Charity Care**

A facility's charity care policy should confirm that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to healthcare services of the applicant. The policy should also include the process one must use to access charity care at the facility.

### **Signature Healthcare Services, LLC**

#### **Admission Policy**

Signature provided a copy of the Admission Policy to be used at the psychiatric hospital. The policy is a draft, and outlines the criteria that the hospital uses to admit patients for psychiatric treatment at the hospital. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, color, religion, sex, or natural origin. [source: Application, Appendix 15]

#### **Medicare and Medicaid Programs**

To demonstrate compliance with this sub-criterion, Signature provided its projected source of revenues by payer for the psychiatric hospital. Medicare revenues are projected to be 28.8% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, p9 and p62 and Appendix 11]

Signature also provided its projected percentage of Medicaid revenues at 40.7% for the psychiatric hospital. Additionally, the financial data provided in the application shows Medicaid revenues. [source: Application, p9 and p62 and Appendix 11]

### Charity Care Policy

To demonstrate compliance with this sub-criterion, Signature provided a copy of its charity care policy to be used at the psychiatric hospital. The policy is a draft and outlines the process one must follow to obtain charity care. Since the policy is a draft and the proposed hospital is not operational, the policy has not been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. The pro forma financial documents provided in the application also include a charity care 'line item' as a deduction of revenue. [source: Application, Appendix 11 and November 2, 2015, supplemental information, Attachment 20]

During the review of these projects, Providence/UHS provided comments directly related to the Admission Policy and Charity Care Policy provided by Signature. The comments are summarized by topic below.

### **Public Comments**

#### Admission Policy

[source: December 8, 2015, Providence/UHS public comment, p39-40]

Signature's admission policy is generic, unclear, and does not provide any specificity about patient screening and acceptance. It does not indicate who is conducting patient evaluations, the general procedure for evaluation of new patients, or how it will handle special cases.

#### Charity Care Policy

[source: December 8, 2015, Providence/UHS public comment, pp37-38]

Signature's charity care policy states that only persons with annual income at 200% or below will receive full charity care. There is no explicit language in the draft policy that indicates how much of its internal revenue it will allocate towards charity care.

### **Rebuttal Comments**

The rebuttal comments submitted by Signature did not include a response to policies referenced above.

### **Department's Review**

#### Admission Policy

Signature provided a draft Admission Policy. The draft policy identifies criteria used to admit patients for psychiatric treatment at the hospital and includes required non-discrimination language. Providence/UHS implies that because the draft policy does not identify who would conduct patient evaluations, the general procedure for evaluation of new patients, or how it will handle special cases, the policy is not a valid draft. The policy as submitted meets the criteria for a Draft Admission Policy. If Signature's project is approved, the department would attach a condition related to the approval requiring Signature to provide a copy of its final Admission Policy for department review and approval. The issue raised is not grounds for denial of Signature's project.

### Charity Care Policy

Signature provided a draft Charity Care Policy. The draft policy outlines the process one must follow to obtain charity care. Providence/UHS implies that because there is no explicit language that indicates how much of its internal revenue it will allocate towards charity care, the policy is not a valid draft. The policy as submitted meets the criteria for a Draft Charity Care Policy. If Signature's project is approved, the department would attach a condition related to the approval requiring Signature to provide a copy of its Charity Care Policy that has been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. The issue raised is not grounds for denial of Signature's project.

### Springstone, LLC

#### Admission Policy

Springstone provided a copy of the Admission Policy to be used at the psychiatric hospital. The policy is a draft, and outlines the criteria that the hospital uses to admit patients for psychiatric treatment at the hospital. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, color, religion, sex, natural origin, or income. [source: Application, Exhibit 10]

#### Medicare and Medicaid Programs

To demonstrate compliance with this sub-criterion, Springstone provided its projected source of revenues by payer for the psychiatric hospital. Medicare revenues are projected to be 35.0% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, p33 and Exhibit 13]

Springstone also provided its projected percentage of Medicaid revenues at 43.0% for the psychiatric hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, p 33 and Exhibit 13]

#### Charity Care Policy

To demonstrate compliance with this sub-criterion, Springstone provided a copy of its Financial Assistance/Charity Care Policy to be used at the psychiatric hospital. The policy is a draft and outlines the process one must follow to obtain charity care. Since the policy is a draft and the proposed hospital is not operational, the policy has not been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. The pro forma financial documents provided in the application also include a charity care 'line item' as a deduction of revenue. [source: Application, Exhibit 10 and Exhibit 13]

During the review of these projects, Providence/UHS provided comments directly related to the Admission Policy and Charity Care Policy provided by Springstone. The comments are summarized by topic below.

### Public Comments

#### Admission Policy

[source: December 8, 2015, Providence/UHS public comment, pp40-41]

Springstone's admission policy is vague and provides little to no information about its acceptance procedures. The exclusion criteria in the policy indicates that it would not accept co-morbid patients, or patients requiring medical care while admitted to the inpatient psychiatric unit.



Another exclusion criteria focuses on cognitive function of the patient and appears to exclude geropsychiatric patients with Alzheimer's or dementia.

#### Charity Care Policy

[source: December 8, 2015, Providence/UHS public comment, pp38-39]

Springstone's charity care policy is inconsistent with its assertion that it will accept all patients regardless of payer status. The policy indicates that even if a patient's income is at or below 250% of the Federal Poverty Guidelines, the patient will still be required to pay 20%.

#### **Rebuttal Comments**

The rebuttal comments submitted by Springstone did not include a response to policies referenced above.

#### **Department's Review**

##### Admission Policy

Springstone provided a draft Admission Policy. The draft policy identifies criteria used to admit patients for psychiatric treatment at the hospital and includes required non-discrimination language. Providence/UHS implies that because the draft policy includes specific exclusion language, it may exclude a segment of patients that would otherwise qualify for psychiatric services. The concern raised by Providence/UHS is valid; however, as submitted the policy meets the criteria for a Draft Admission Policy. If Springstone's project is approved, the department would attach a condition related to the approval requiring Springstone to provide a copy of its final Admission Policy for department review and approval. The department's review of the policy would include a review of any exclusion language and its potential effect on access to psychiatric services. The issue raised is not grounds for denial of Springstone's project.

##### Charity Care Policy

Springstone provided a draft Charity Care Policy. The draft policy outlines the process one must follow to obtain charity care. Providence/UHS implies that the policy may not allow charity care to a segment of the low income population and may not be a valid draft. The policy as submitted meets the criteria for a Draft Charity Care Policy. If Springstone's project is approved, the department would attach a condition related to the approval requiring Springstone to provide a copy of its Charity Care Policy that has been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. The issue raised is not grounds for denial of Springstone's project.

#### **Co-applicants Providence Health & Services and Universal Health Services**

##### Admission Policy

Providence/UHS provided a copy of the Admission Policy to be used at the psychiatric hospital. The policy is a draft, and outlines the criteria that the hospital uses to admit patients for psychiatric treatment at the hospital. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, religion, ethnicity, culture, language, socioeconomic status, sex, sexual orientation, or gender identify expression. [source: Application, Exhibit 15]

##### Medicare and Medicaid Programs

To demonstrate compliance with this sub-criterion, Providence/UHS provided its projected source of revenues by payer for the psychiatric hospital. Medicare revenues are projected to be 28.1% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, p63 and Exhibit 20]

Providence/UHS also provided its projected percentage of Medicaid revenues at 42.4% for the psychiatric hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, p63 and Exhibit 20]

### Charity Care Policy

To demonstrate compliance with this sub-criterion, Providence/UHS provided a copy of its Charity Care Policy to be used at the psychiatric hospital. The policy is a draft and outlines the process one must follow to obtain charity care. Since the policy is a draft and the proposed hospital is not operational, the policy has not been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. The pro forma financial documents provided in the application also include a charity care 'line item' as a deduction of revenue. [source: Application, Exhibit 14 and Exhibit 20]

For the Providence/UHS application, there was no public comment submitted related to this sub-criterion.

### Charity Care Percentage Requirement

For charity care reporting purposes, HPDS divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. All three projects propose a new psychiatric hospital that would be located in Spokane County within the Eastern Region. Currently there are 21 operating hospitals located within the region. Of the 21 hospitals, two are dedicated to specialty services.<sup>17</sup> Of the remaining 19 hospitals, four did not report charity care data for year 2013.<sup>18</sup>

Table 9 on the following page compares the three-year average of charity care provided by the remaining 15 hospitals currently operating in the Eastern Region and reported charity care data to HPDS for years 2011-2013.<sup>19</sup> The table compares the percentage of charity care projected to be provided at each applicant's new psychiatric hospital.<sup>20</sup> [source: Signature, Application, p62 and Appendix 11; Springstone, Application, p33 and Exhibit 13; Providence/UHS, Application p63 and Exhibit 20; and HPDS 2011-2013 charity care summaries]

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<sup>17</sup> St. Luke's Rehabilitation Institute is an acute care hospital dedicated to rehabilitation services only. Shriner's Hospital for Children is also an acute care hospital. It provides care to children for orthopedic and neuromusculoskeletal conditions. Shriner's Hospital for Children also provides a substantial amount of free services to children. Neither of these two hospitals would be affected by approval of this project.

<sup>18</sup> Four hospitals are Dayton General Hospital in Dayton; Ferry County Memorial Hospital in Republic; Newport Community Hospital in Newport; and Othello Community Hospital in Othello.

<sup>19</sup> As of the writing of this evaluation, charity care data for years 2014 and 2015 is not available.

<sup>20</sup> The department acknowledges that the Affordable Care Act will likely have a long-term impact on the amount charity care provided by facilities. The regional average used to measure an applicant's compliance with the charity care standard is a self-correcting three year rolling average. The department expects an applicant to make documented reasonable efforts to meet that level of charity care.

**Table 9  
Charity Care Percentage Comparisons**

	<b>Percentage of Total Revenue</b>	<b>Percentage of Adjusted Revenue</b>
Eastern Region Average	2.34%	6.07%
Signature Projected Average	3.83%	12.57%
Springstone Projected Average	5.34%	24.27%
Providence/UHS Projected Average	2.37%	8.38%

As noted in Table 9 above, all three applicants intend to provide charity care above the regional average. Each hospital would be a new facility in the Eastern Region and would be one of two hospitals providing psychiatric services in the county. Regardless of the approved project, to ensure the new psychiatric hospital would meet its charity care obligations, the department would attach a charity care condition requiring the hospital to provide charity care at or above the regional average.

**Signature Healthcare Services, LLC**

Since the Admission Policy and Charity Care Policy are in draft format, the department would attach a condition to require Signature to submit adopted and approved policies consistent with the drafts provided in the application. Further, since the Charity Care Policy has not been reviewed and approved by the department’s HPDS office, the charity care condition would also include final review by them.

Additionally, if the project is approved, the department would attach a charity care condition requiring Signature to provide charity care at certain percentages at the new hospital.

Based on the information provided in the application and with Signature’s agreement to the conditions as described above, the department concludes **this sub-criterion is met.**

**Springstone, LLC**

Since the Admission Policy and Charity Care Policy are in draft format, the department would also attach a condition to require Springstone to submit adopted and approved policies consistent with the drafts provided in the application. Further, since the Charity Care Policy has not been reviewed and approved by the department’s HPDS office, the charity care condition would also include final review by them.

Additionally, if the project is approved, the department would attach a charity care condition requiring Springstone to provide charity care at certain percentages at the new hospital.

Based on the information provided in the application and with Springstone’s agreement to the conditions as described above, the department concludes, **this sub-criterion is met.**

**Co-applicants Providence Health & Services and Universal Health Services**

Since the Admission Policy and Charity Care Policy are in draft format, the department would also attach a condition to require Providence/UHS to submit adopted and approved policies consistent with the drafts provided in the application. Further, since the Charity Care Policy has not been reviewed and approved by the department’s HPDS office, the charity care condition would also include final review by them.

Additionally, if the project is approved, the department would attach a charity care condition requiring Providence/UHS to provide charity care at certain percentages at the new hospital.

Based on the information provided in the application and with Providence/UHS's agreement to the conditions as described above, the department concludes, **this sub-criterion is met.**

## **B. Financial Feasibility (WAC 246-310-220)**

Based on the source information reviewed and each the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Signature Healthcare Services, LLC, Springstone, LLC, co-applicants Providence Health & Services and Universal Health Services have met the financial feasibility criteria in WAC 246-310-220.

### *(1) The immediate and long-range capital and operating costs of the project can be met.*

WAC 246-310 does not contain specific WAC 246-310-220(1) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what the operating revenues and expenses should be for a project of this type and size. Therefore, using its experience and expertise the department evaluates if the applicant's pro forma income statements reasonably project the proposed project is meeting its immediate and long-range capital and operating costs by the end of the third complete year of operation.

#### **Signature Healthcare Services, LLC**

If this project is approved, Signature expects to begin providing psychiatric services in Spokane County in January 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. [source: Application, p14]

To evaluate this sub-criterion, the department first reviewed the assumptions used by Signature to determine the projected number of patients for the new hospital. The assumptions are summarized below. [source: Application, pp59-61 & Attachment 1; August 10, 2015, supplemental information, p11; and October 15, 2015, supplemental information, p1]

- Discharges were based on forecasts using Blader use rates from a national study based with OFM age-specific rates.<sup>21</sup>
- Weighted length of stay per patient age group was based on Blader study and Washington Institute for Public Policy: Inpatient Psychiatric Capacity and Utilization in Washington State, January 2015 and revised February 2015.
- Patient days is the result of age-specific lengths of stay applied to projected discharges and compared with bed need ratio approach.

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<sup>21</sup> Joseph C. Blader, PhD completed a study in 2011 entitled *Acute Inpatient Care for Psychiatric Disorders in the United States, 1996 through 2007*. During the twelve years inclusive of 1996 and 2007, Dr. Blader's study shows the rate at which American children aged five to thirteen were hospitalized with a primary diagnosis of psychiatric disorder rose from 15.6 per 10,000 to 28.3 per 10,000, an increase of 81%, while the rate for adolescents grew 42%. During the same period, there was a shift away from private payers to governmental programs, primarily Medicaid. The data was drawn from the National Hospital Discharge Survey, a representative nation-wide database maintained by the Centers for Disease Control and Prevention. [source: August 10, 2015, supplemental information, pp11-12]

- Inpatient fill rates are based on Signatures experience. Signature projected the following occupancy percentages for the 72-bed psychiatric hospital:
  - Year 1 – 29%
  - Year 2 – 69%
  - Year 3 – 88%

Based on the assumptions described above, Signature's projected utilization of the 72-bed psychiatric hospital for the first three years of operation is in Table 10 below. [source: October 15, 2015, supplemental information, p1]

**Table 10**  
**Signature 72-bed Psychiatric Hospital**  
**Utilization Projections for Calendar Years 2018 - 2020**

	<b>Year 2018</b>	<b>Year 2019</b>	<b>Year 2020</b>
# of Discharges	1,048	2,478	3,152
Total Patient Days	7,727	18,113	23,136
Average Length of Stay	7.37	7.31	7.34
Average Daily Census	21	50	63
% Occupancy with 100 beds	29.4%	68.9%	88.0%

Average daily census data is rounded to nearest whole number where appropriate

Using the assumptions above, Table 11 below illustrates the projected revenue, expenses, and net income for CY 2018 through 2020 for Signature's 72-bed psychiatric hospital. [source: Application, Attachment 11]

**Table 11**  
**Signature 72-bed Psychiatric Hospital**  
**Projected Revenue and Expenses for Calendar Years 2018 - 2020**

	<b>Year 2018</b>	<b>Year 2019</b>	<b>Year 2020</b>
Net Revenue	\$ 5,311,221	\$ 13,755,494	\$ 17,553,217
Total Expenses	\$ 8,837,792	\$ 13,617,116	\$ 15,606,890
Net Profit or (Loss)	(\$ 3,526,571)	\$ 138,378	\$ 1,946,327

The 'Net Revenue' line item above includes both inpatient and outpatient gross revenues, minus any deductions for bad debt, charity care, and contractual allowances. It also includes revenue expected to be generated by the hospital for non-inpatient operations. 'Total Expenses' include all operating expenses, rent expenses, and corporate allocated costs.

As shown in Table 11 above, Signature expects to operate the new psychiatric hospital with a \$3.5 million loss in year one. This loss is the result of low utilization in year one, coupled with one-time startup costs for operation of a new facility, such as staffing and staff training. By the end of year three, the 72-bed hospital would be operating at a profit. The net profit line item shown in Table 11 above is pre-tax.

Signature proposes that the building will be owned by Spokane Real Estate, LLC, a to-be-formed wholly owned subsidiary of Signature, LLC and created specifically for this project. Spokane Real Estate, LLC will receive initial capitalization of \$7,844,475 from owner Soon K. Kim, who owns all real estate corporations associated with the Signature hospitals. Spokane Real Estate, LLC 's

role in this project is to build the hospital and then lease it back to Spokane Behavioral Healthcare Hospital--licensee of the hospital--at fair market rates. [source: Application, p55 and Attachment 10]

To demonstrate compliance with this sub-criterion, Signature provided a copy of the executed Purchase and Sale Agreement for the site between Signature Healthcare Services, LLC [buyer] and Hanson Industries, Inc. [seller]. [source: Application, Attachment 9] Signature also provided a copy of the draft Facility Lease and Security Agreement between Spokane Life Properties, LLC [landlord] and Spokane Behavioral Healthcare Hospital [tenant]. [source: November 2, 2015, supplemental information, Attachment 21].<sup>22</sup>

To assist in the evaluation of this sub-criterion, the department’s Hospital and Patient Data Systems (HPDS) office reviewed the proposed hospital’s projected balance sheet for year three. The information is shown in Table 12 below. [source: January 22, 2016, HPDS analysis, p2]

**Table 12**  
**Signature 72-bed Psychiatric Hospital Projected Balance Sheet for Year 2020**

Assets		Liabilities	
Current Assets	\$ 4,218,197	Current Liabilities	\$ 558,239
Fixed Assets	\$ 0	Long Term Debt	\$ 0
Board Designated Assets	\$ 0	Other Liabilities	\$ 0
Other Assets [depreciation]	\$ 0	<b>Equity</b>	<b>\$ 3,659,958</b>
<b>Total Assets</b>	<b>\$ 4,218,197</b>	<b>Total Liabilities and Equity</b>	<b>\$ 4,218,197</b>

After reviewing the balance sheet above, HPDS provided the following statements.

*“...the hospital only has current assets, current liabilities, and members’ equity. All property, plant, and equipment including software and desks, and all long term financials, such as board designated assets and long term debt are held by other entities.”*

HPDS also provided a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. If a project’s ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, HPDS reviews a project’s projected statement of operations to evaluate the applicant’s immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2014 data for comparison with projected years 2018 through 2020. The ratio comparisons are shown in Table 13 on the following page. [source: January 22, 2016, HPDS analysis, p3]

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<sup>22</sup> The department’s review of the purchase and sale agreement and the lease agreement is in the sub-criterion of WAC 246-310-220(2).

**Table 13  
HPDS Debt Ratios Review  
Signature 72-bed Psychiatric Hospital**

<b>Category</b>	<b>Trend*</b>	<b>State 2014</b>	<b>Projected Year 1 2018</b>	<b>Projected Year 2 2019</b>	<b>Projected Year 3 2020</b>
Long Term Debt to Equity	B	0.447	N/A	N/A	N/A
Current Assets/Current Liabilities	A	2.721	6.845	6.082	7.556
Assets Funded by Liabilities	B	0.386	0.146	0.164	0.132
Operating Expense/Operating Revenue	B	0.953	1.664	0.990	0.889
Debt Service Coverage	A	5.088	N/A	N/A	N/A
<b>Definitions:</b>	<b>Formula</b>				
Long Term Debt to Equity	Long Term Debt/Equity				
Current Assets/Current Liabilities	Current Assets/Current Liabilities				
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets				
Operating Expense/Operating Revenue	Operating expenses / operating revenue				
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp				

\* A is better if above the ratio, and B is better if below the ratio

As noted above, two of the ratios—long term debt to equity and debt service coverage—are not used because no debt is associated with the hospital. The owner of Signature intends to fund the project using a combination of bank loans and a not-yet-formed real estate company. The remaining three ratios are in range by year three. Related to the calculations for the ratios in Table 10 above, HPDS provided the following information.

*“...Spokane Behavioral Healthcare hospital does not yet exist. Because of this, the financial ratios are only from the proposal. Because of the structure of the deal, the hospital has no physical assets and no debt. The facility is leased from the real estate subsidiary wholly owned by Dr. Soon K. Kim. Because of this, two ratios are not used (Long Term Debt to Equity and Debt Service Coverage). The ones that can still be calculated are very strong in the third year of the project.”*

During the review of this project, no entities submitted comments related to the utilization or financial documents submitted by Signature.

Based on the financial and utilization information above, the department concludes that the immediate and long-range operating costs of the project can be met. **This sub-criterion is met.**

**Springstone, LLC**

If this project is approved, Springstone expects to begin providing psychiatric services in Spokane County in January 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. [source: Application, p7 and August 10, 2015, supplemental information, p3]

To evaluate this sub-criterion, the department first reviewed the assumptions used by Springstone to determine the projected number of patients for the new hospital. The assumptions are summarized below. [source: Application, p26]

- Based on actual 2010-2013 data for Spokane County adult patients under MDC 15, assumed an average length of stay of 8 days.
- Assumed 15% in-migration.

- Assumed 72 beds will be licensed as psychiatric beds even though patients with dual diagnosis or co-occurring disorders will be treated.
- The proposed 72-bed psychiatric hospital will have one 24 bed chemical dependency unit.
- Assumes existing provider—Sacred Heart Medical Center—psychiatric patient days will remain unchanged.
- Fill rates are based on actual operating experience in other underserved markets where Springstone has established psychiatric hospitals. They are:
  - Year 1 – 41%
  - Year 2 – 60%
  - Year 3 – 81%

Based on the assumptions described above, Springstone’s projected utilization of the 72-bed psychiatric hospital for the first three years of operation is in Table 14 below. [source: Application, p10 & p26]

**Table 14**  
**Springstone 72-bed Psychiatric Hospital**  
**Utilization Projections for Calendar Years 2018 - 2020**

	<b>Year 2018</b>	<b>Year 2019</b>	<b>Year 2020</b>
# of Discharges	1,358	1,970	2,662
Total Patient Days	10,864	15,757	21,297
Average Length of Stay	8.0	8.0	8.0
Average Daily Census	30	43	58
% Occupancy with 72 beds	41.3%	60.0%	81.0%

Average daily census data is rounded to nearest whole number where appropriate

Reviewing the assumptions described above and taking into consideration the results of the numeric need methodology, Springstone’s assumptions and projected utilization of the 72-bed psychiatric hospital are reasonable.

Using the assumptions above, Table 15 below illustrates the projected revenue, expenses, and net income for CY 2018 through 2020 for Springstone’s 72-bed psychiatric hospital. [source: Application, Exhibit 13]

**Table 15**  
**Springstone 72-bed Psychiatric Hospital**  
**Projected Revenue and Expenses for Calendar Years 2018 - 2020**

	<b>Year 2018</b>	<b>Year 2019</b>	<b>Year 2020</b>
Net Revenue	\$ 9,351,847	\$ 13,942,262	\$ 18,776,773
Total Expenses	\$ 11,540,072	\$ 13,312,529	\$ 16,777,090
Net Profit or (Loss)	(\$ 2,188,225)	\$ 629,733	\$ 1,999,683

The ‘Net Revenue’ line item above includes both inpatient and outpatient gross revenues, minus any deductions for bad debt, charity care, and contractual allowances. It also includes revenue expected to be generated by the hospital for non-inpatient operations. ‘Total Expenses’ include all operating expenses, rent expenses, and corporate allocated costs.



As shown in Table 15 above, Springstone expects to operate the new psychiatric hospital with a \$2.1 million loss in year one. This loss is the result of low utilization in year one, coupled with one-time startup costs for operation of a new facility, such as staffing and staff training. By the end of year three, the 72-bed hospital would be operating at a profit. The net profit line item shown in Table 15 above is pre-tax.

Springstone proposes that the building will be owned by Propstone, LLC, a wholly owned subsidiary of Springstone, LLC. Propstone, LLC’s role in this project is to enter into the purchase agreement for the site and build the hospital. Propstone, LLC will then enter into a lease agreement with Spokane Springs, LLC—the licensee of the hospital—for the lease of the building. To demonstrate compliance with this sub-criterion, Springstone provided a copy of the purchase/sales agreements and the lease agreement.<sup>23</sup>

To assist in the evaluation of this sub-criterion, HPDS reviewed Spokane Springs projected balance sheet for year three. The information is shown in Table 16 below. [source: January 22, 2016, HPDS analysis, p2]

**Table 16**  
**Springstone 72-bed Psychiatric Hospital Projected Balance Sheet for Year 2020**

Assets		Liabilities	
Current Assets	\$ 1,729,326	Current Liabilities	\$ 1,477,887
Fixed Assets	\$ 557,269	Long Term Debt	(\$ 1,190,889)
Board Designated Assets	\$ 0	Other Liabilities	\$ 0
Other Assets [depreciation]	\$ 0	<b>Equity</b>	<b>\$ 1,999,597</b>
<b>Total Assets</b>	<b>\$ 2,286,595</b>	<b>Total Liabilities and Equity</b>	<b>\$ 2,286,595</b>

After reviewing the balance sheet above, the department notes that the hospital has no long term financials, such as board designated assets or liabilities because these are held by other entities. HPDS provided the following statements related to the projected balance sheet.

*“...the balance sheet shows that the cash is not kept in Spokane Springs, but a parent corporation. This sweep of cash is a legitimate business method.”*

HPDS also provided a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. If a project’s ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, HPDS reviews a project’s projected statement of operations to evaluate the applicant’s immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2014 data for comparison with projected years 2018 through 2020. The ratio comparisons are shown in Table 17 on the following page. [source: January 22, 2016, HPDS analysis, p3]

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<sup>23</sup> The department’s review of the documents is in the sub-criterion of WAC 246-310-220(2).

**Table 17**  
**HPDS Debt Ratios Review**  
**Springstone 72-bed Psychiatric Hospital**

Category	Trend*	State 2014	Projected Year 1 2018	Projected Year 2 2019	Projected Year 3 2020
Long Term Debt to Equity	B	0.447	(2.094)	1.638	(0.596)
Current Assets/Current Liabilities	A	2.721	2.063	1.642	1.170
Assets Funded by Liabilities	B	0.386	1.606	0.790	0.126
Operating Expense/Operating Revenue	B	0.953	1.234	0.955	0.894
Debt Service Coverage	A	5.088	(32.762)	17.559	42.023
<b>Definitions:</b>	<b>Formula</b>				
Long Term Debt to Equity	Long Term Debt/Equity				
Current Assets/Current Liabilities	Current Assets/Current Liabilities				
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets				
Operating Expense/Operating Revenue	Operating expenses / operating revenue				
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp				

\* A is better if above the ratio, and B is better if below the ratio

As noted above, four of the five ratios are within range by the end of year three. Current Assets/Current Liabilities ratio is out of range because cash is not kept at the hospital level; rather it is kept by the parent corporation of Springstone, LLC

During the review of this project, no entities submitted comments related to the utilization or financial documents submitted by Springstone.

Based on the financial and utilization information above, the department concludes that the immediate and long-range operating costs of the project can be met. **This sub-criterion is met.**

**Co-applicants Providence Health & Services and Universal Health Services**

If this project is approved, Providence/UHS expect to begin providing psychiatric services in Spokane County in January 2017. Under this timeline, year 2017 is full year one and year 2019 is full year three. [source: Application, pp34-35 and August 10, 2015, supplemental information, p4]

To evaluate this sub-criterion, the department first reviewed the assumptions used by Providence/UHS to determine the projected number of patients for the new hospital. The assumptions are summarized below. [source: Application, pp53-55]

- Admissions were based on UHS's psychiatric hospital in Oregon State known as Cedar Hills Hospital which began operations in 2010. The applicants expected the 'ramp rate' to be similar for the new 100-bed Spokane psychiatric hospital.
- Admissions and patient day growth also reflected utilization that would have otherwise occurred at Sacred Heart Medical Center's psychiatric unit. The basis for this assumption is the reduction of 28 psychiatric beds at Sacred Heart Medical Center once the new hospital begins operations.
- Assumed an average length of stay of 10 days, which is slightly lower than the 2014 length of stay for Cedar Hills (11 days) and slightly above the 2009-2013 calculated average length of stay for Spokane County residents age five and older (9 days).
- Year 2013 data showed 26.9% of Spokane County hospitals' psychiatric patient days were derived from patients residing outside of the county [in-migration]. The 2013

data also showed 4.1% of Spokane County residents received psychiatric care from a provider outside of Spokane County [out-migration]. [shown in Table 4 on page 27 of the application.] To be conservative, the projected admissions assumed no in- or out-migration.

- Assumed all 100 beds will be licensed as psychiatric beds even though patients with dual diagnosis or co-occurring disorders will be treated.
- Fill rates are:
  - Year 1 – 44.5%
  - Year 2 – 55.7%
  - Year 3 – 80.7%

Based on the assumptions described above, Providence/UHS’s projected utilization of the 100-bed psychiatric hospital for the first four years of operation is in Table 18 below. [source: Application, p29 and p53]

**Table 18**  
**Providence/UHS 100-bed Psychiatric Hospital**  
**Utilization Projections for Calendar Years 2017 - 2020**

	<b>Year 2017</b>	<b>Year 2018</b>	<b>Year 2019</b>	<b>Year 2020</b>
# of Discharges	1,626	2,033	2,955	3,094
Total Patient Days	16,260	20,325	29,552	30,945
Average Length of Stay	10.0	10.0	10.0	10.0
Average Daily Census	45	56	81	85
% Occupancy with 72 beds	44.5%	55.7%	81.0%	84.8%

Average daily census data is rounded to nearest whole number where appropriate

Reviewing the assumptions described above and taking into consideration the results of the numeric need methodology, Providence/UHS’s assumptions and projected utilization of the 100-bed psychiatric hospital are reasonable.

Using the assumptions above, Table 19 below illustrates the projected revenue, expenses, and net income for CY 2017 through 2020 for Providence/UHS’s 100-bed psychiatric hospital. [source: Application, Exhibit 20]

**Table 19**  
**Providence/UHS 100-bed Psychiatric Hospital**  
**Projected Revenue and Expenses for Calendar Years 2017 - 2020**

	<b>Year 2017</b>	<b>Year 2018</b>	<b>Year 2019</b>	<b>Year 2020</b>
Net Revenue	\$ 14,201,529	\$ 18,784,839	\$ 27,298,944	\$ 28,587,546
Total Expenses	\$ 14,121,299	\$ 16,446,595	\$ 21,413,209	\$ 22,312,764
Net Profit or (Loss)	\$ 80,230	\$ 2,338,244	\$ 5,885,735	\$ 6,268,782

The ‘Net Revenue’ line item above includes both inpatient and outpatient gross revenues, minus any deductions for bad debt, charity care, and contractual allowances. It also includes revenue expected to be generated by the hospital for non-inpatient operations. ‘Total Expenses’ include all operating expenses, rent expenses, corporate allocated costs, and depreciation.

As shown in Table 19 above, Providence/UHS expects to operate the new psychiatric hospital with a slight profit, or break even, in year one due to low utilization and one-time startup costs for operation of a new facility, such as staffing and staff training. Years two and three show a larger profit. The net profit line item shown in Table 19 above is pre-tax.

As of the writing of this evaluation, Providence (under the Sacred Heart Medical Center) owns the property where the new hospital will be located. If this project is approved, Providence will transfer the land title to the new hospital entity in exchange for a portion of equity interest. As a result, no lease agreement or lease costs for the site or the facility is necessary. [source: Application, p32 & Exhibit 12 and October 15, 2015, supplemental information, p3]

To assist in the evaluation of this sub-criterion, HPDS reviewed the year 2020 projected balance sheet for proposed 100-bed psychiatric hospital owned and operated by joint applicants Providence/UHS.<sup>24</sup> The information is shown in Table 20 below. [source: January 22, 2016, HPDS analysis, p2]

**Table 20  
Providence/UHS 100-bed Psychiatric Hospital Projected Balance Sheet for Year 2020**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$ 16,858,257	Current Liabilities	\$ 1,702,261
Fixed Assets	\$ 24,706,602	Long Term Debt	\$ 0
Board Designated Assets	\$ 0	Other Liabilities	\$ 0
Other Assets	\$ 0	<b>Equity</b>	<b>\$ 39,872,598</b>
<b>Total Assets</b>	<b>\$ 41,574,859</b>	<b>Total Liabilities and Equity</b>	<b>\$ 41,574,859</b>

After reviewing the balance sheet above, the department notes that the hospital has no long term financials, such as board designated assets or liabilities because these are held by other entities. HPDS provided the following statements related to the projected balance sheet.

*“...The Balance Sheet for the third year of the project for NEWCO, LLC [is below and] is reasonable for the third year of operation. Other entities hold Board Designated Assets and there is no debt as the funds for this project are an investment by Providence and UHS\Fairfax.”*

HPDS also provided a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. If a project’s ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, HPDS reviews a project’s projected statement of operations to evaluate the applicant’s immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compares projected ratios with the most recent year financial ratio guidelines for hospital operations. Even though the 100-bed psychiatric hospital is

<sup>24</sup> During the review of these projects, Signature provided comments asserting that Providence/UHS did not provide a projected balance sheet for the new psychiatric hospital. In its rebuttal comments, Signature acknowledged that the balance sheet was provided in Exhibit 20 of its August 10, 2015, supplemental information. Therefore, Signature’s comments regarding this topic will not be further addressed in the evaluation.

projected to be operational in year 2017, for consistency with this concurrent review, HPDS used 2014 data for comparison with projected years 2018 through 2020. The ratio comparisons are shown in Table 21 below. [source: January 22, 2016, HPDS analysis, p3]

**Table 21**  
**HPDS Debt Ratios Review**  
**Providence/UHS 100-bed Psychiatric Hospital**

Category	Trend*	State 2014	Projected Year 1 2018	Projected Year 2 2019	Projected Year 3 2020
Long Term Debt to Equity	B	0.447	N/A	N/A	N/A
Current Assets/Current Liabilities	A	2.721	1.471	5.415	9.909
Assets Funded by Liabilities	B	0.386	0.038	0.046	0.041
Operating Expense/Operating Revenue	B	0.953	0.876	0.784	0.781
Debt Service Coverage	A	5.088	N/A	N/A	N/A
<b>Definitions:</b>	<b>Formula</b>				
Long Term Debt to Equity	Long Term Debt/Equity				
Current Assets/Current Liabilities	Current Assets/Current Liabilities				
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets				
Operating Expense/Operating Revenue	Operating expenses / operating revenue				
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp				

\* A is better if above the ratio, and B is better if below the ratio

As noted above, only three of the five ratios are used in this review. Related to the calculations for the ratios in Table 20 above, HPDS provided the following information.

*“Because of the structure of the deal, asset contribution by Providence, and cash from reserves by both Providence and UHS, the hospital has no debt. Because of this, two ratios, Long Term Debt to Equity and Debt Service Coverage are not used. The ones that can still be calculated are very strong.”*

During the review of these projects, Signature provided comments directly related to the Universal Health Services 2013 10-K Report. The comments are summarized below.

**Public Comments**

**UHS 2013 10-K Report**

[source: December 8, 2015, Signature public comments, p7]

Providence/UHS did not submit its latest 10-K report as requested within the application. Providence/UHS submitted its 2013 10-K report; the latest report would have been year 2014 which was signed on February 26, 2015. The 2013 10-K omits required record of all the adverse disclosures in the 2014 filing.

**Rebuttal Comments**

In response to the issue raised, Providence/UHS provided rebuttal responses which are summarized below.

**UHS 2013 10-K Report**

[source: December 24, 2015, Providence/UHS rebuttal comments, pp28-29 and Exhibit 8]

Providence/UHS states that in preparation of its application before June 2015, it accessed the Securities and Exchange Commission [SEC] website and downloaded the 2013 10-K report. In June 2015, the 2014 10-K was also available on the SEC website. Providence/UHS further states that the 2013 10-K includes the majority of disclosures contained in the 2015 10-K.

**Department’s Review**  
**UHS 2013 10-K Report**

Signature’s concerns related to the 2013 10-K provided in the application are reasonable. The department’s application requests the most recent audited financial information from an applicant. When an application is filed in June 2015, the department expects the 2014 10-K to be included if it is available. In its rebuttal responses, Providence/UHS acknowledged the 2013 10-K was not the most recent and provided the 2014 10-K. Providing new documentation in rebuttal response intended to supplement an application is not allowed.

The department’s June 26, 2015, screening letter did not request the 2014 10-K because these documents are available on the SEC website. For example, if an applicant provides its 2010 10-K in an October 2011 application, that 10-K submission would be most recent. When the evaluation is prepared in May 2012, the 2011 10-K would be most recent and would typically be used in the review. Since the information is available on the SEC website, it can be downloaded or reviewed by anybody at any time.

In summary, while the department is precluded from using the 2014 10-K provided in Providence/UHS’s rebuttal responses, review of the 2014 10-K on the SEC website is acceptable. The issue raised is not grounds for denial of Providence/UHS’s project.

Based on the financial and utilization information above, the department concludes that the immediate and long-range operating costs of the project can be met. **This sub-criterion is met.**

- (2) The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.

WAC 246-310 does not contain specific WAC 246-310-220(2) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what an unreasonable impact on costs and charges would be for a project of this type and size. Therefore, using its experience and expertise the department compared the proposed project’s costs with those previously considered by the department.

**Signature Healthcare Services, LLC**

The capital expenditure associated with the establishment of the 72-bed psychiatric hospital is \$22,412,785. A breakdown of the costs is shown below. [source: Application, p52]

<b>Item</b>	<b>Cost</b>	<b>% of Total</b>
Land Purchase and Site Preparation	\$ 2,871,200	12.8%
Construction Costs [includes fixed equipment]	\$ 15,084,797	67.3%
Moveable Equipment	\$ 624,000	2.8%
Architect/Engineering/Consulting Fees	\$ 1,407,940	6.3%
Financing and Interim Financing Costs	\$ 715,994	3.2%
Sales Tax	\$ 1,708,854	7.6%
<b>Total</b>	<b>\$ 22,412,785</b>	<b>100.0%</b>

Signature proposes the new 72-bed psychiatric hospital would be located in Spokane Valley, within Spokane County. To demonstrate compliance with this sub-criterion, Signature provided seven documents related to the site, construction, and operation of the hospital. A summary of each document is provided below. [source: Application, Attachments 7, 9, & 12; August 10, 2015, supplemental information, Attachment 5; and November 2, 2015, supplemental information, Attachments 21, 22]

- Purchase and Sale Agreements – Attachment 9  
Signature proposes that the site for the hospital will be located on approximately 4 acres and provided a copy of the Purchase and Sale Agreement for the site. The agreement is between Signature Healthcare Services, LLC [buyer] and Hanson Industries, Inc. [seller] and identifies \$2,000,000 for site costs. The agreement was executed on December 30, 2014. The agreement outlines roles and responsibilities of both the purchaser and the seller. The agreement also includes a legal description of the parcel, and the seller's disclosure statement related to the property.
- Land Use Documentation – Attachment 12  
Signature provided a copy of a memo from the senior planner of the Spokane Valley Community and Economic Development Department. According to the memo, the site must undergo a siting and zoning process and an environmental impact review. The memo also includes references to specific county codes related to land development and Conditional Use Permit and Site Plan Development Review processes, which have not yet been completed by Signature.
- Cost Estimator Letter – Attachment 5  
Signature provided a copy of a letter from its architect—IN2IT Architecture, located in Las Vegas Nevada. The letter confirms development of the construction costs associated with the psychiatric hospital in Spokane. The letter identifies costs for building construction and identifies \$22,412,785 as costs for the entire project and confirms reasonableness of the costs.
- Single Line Drawings – Attachment 7  
The line drawings provided clearly show a single-story building that would house 72 beds broken into two 25-bed patient care units and one 22-bed unit. Most rooms would be two-bed rooms. The drawings also clearly show separate patient common areas for each of the three patient care units.
- Draft Lease Agreement Between Spokane Life Properties, LLC [landlord] and Spokane Behavioral Healthcare Hospital, LLC [tenant] – Attachment 21  
The draft agreement identifies roles and responsibilities of both the landlord and the tenant. The department notes that the landlord is identified in the application as Spokane Real Estate, LLC; the agreement identifies the landlord to be Spokane Life Properties, LLC.

The draft agreement is for lease of the property, the hospital and all other buildings, structures, and other improvements [including landscaping/parking], and all permanently fixed equipment. The agreement is for 10 years, and includes two 5-year renewal options. The agreement identifies the annual rent at \$1,166,744. Rent expense is also identified in the pro forma financial statements as \$1,166,744 annually.

- Draft Management Agreement Between Spokane Behavioral Healthcare Hospital, LLC [hospital] and Signature Healthcare Services, LLC [management company] – Attachment 22  
The draft agreement identifies roles and responsibilities of both the hospital and the management company. The agreement is for five years, and includes three 5-year automatic

renewal options. Management costs are identified in the agreement at \$840,000/annual and are substantiated in the pro forma financial statements.

During the review of this project, no entities submitted comments related to the Signature’s capital expenditure for the project, the proposed site of the hospital, or site control by the applicant.

To receive Certificate of Need approval for this project, either an executed or draft lease agreement must be provided. While an executed lease agreement is always preferable, a draft lease agreement is acceptable provided the draft agreement identifies all costs associated with the lease and all exhibits/attachments referenced in the lease agreement are attached. The draft agreement provided in Attachment 21 meets this requirement. If approved, the department would attach a condition requiring Signature to submit an executed lease agreement consistent with the draft agreement provided in Attachment 21.

Because of the size of the construction project, the site requires either a Determination of Non-Significance [DNS] or a final Environmental Impact Statement [EIS]. The department is precluded from issuing a Certificate of Need until it receives one of the two documents. If this project is approved, the department would condition the approval requiring Signature to comply with the site requirement. Once Signature provides the department with either a DNS or a final EIS, the department would issue a Certificate of Need for the project with any conditions identified in this evaluation.

Signature provided a draft Lease Agreement and a draft Management Agreement. If this project is approved, the department would attach a condition requiring Signature to provide the executed agreements.

Based on the information and documentation provided in the application and with the applicant’s agreement to the conditions related to the site, operation, and management of the hospital, the department concludes **this sub-criterion is met.**

**Springstone, LLC**

The capital expenditure associated with the establishment of the 72-bed psychiatric hospital is \$25,136,556. A breakdown of the costs is shown below. [source: August 10, 2015, supplemental information, Attachment 4]

<b>Item</b>	<b>Cost</b>	<b>% of Total</b>
Land Purchase	\$ 2,000,614	8.2%
Construction Costs [includes fixed equipment]	\$ 16,666,000	68.3%
Moveable Equipment	\$ 844,000	3.5%
Architect/Engineering/Consulting Fees	\$ 2,100,000	8.6%
Site Preparation	\$ 850,000	3.5%
Sales Tax	\$ 1,945,044	8.0%
<b>Total</b>	<b>\$ 24,405,658</b>	<b>100.0%</b>

Springstone proposes the new 72-bed psychiatric hospital would be located in Spokane Valley, within Spokane County. To demonstrate compliance with this sub-criterion, Springstone provided five documents related to the site, construction, and operation of the hospital. A summary of each



document is provided below. [source: August 10, 2015, supplemental information Attachments 1, 2, 5, & 9 and October 15, 2015, supplemental information, Attachment 1]

- Purchase and Sales Agreements – Attachment 1  
Springstone proposes that the site for the hospital will be located on approximately 6.56 acres and provided an executed purchase and sales agreements for the land. The agreement was executed on June 30, 2015. The agreement outlines roles and responsibilities of both the purchaser and the seller and identifies a total purchase price of \$2,000,614. The agreement also includes a legal description for the parcel and a seller disclosure statement related to the property.
- Zoning for the Site – Attachment 2  
Springstone intended to provide a letter from the city of Spokane to demonstrate appropriate zoning for the proposed site. [source: Application, p13] In response to the department’s request for the zoning information, Springstone states that “*the city of Spokane Valley opted not to provide a letter, but rather refer the public and the Department to its municipal code.*” [source: August 10, 2015, supplemental information, p3] Zoning documents provided is a copy of Chapter 19.90 of the Spokane Valley Municipal Code entitled ‘Essential Public Facilities.’ The information provides the process one must use for local siting. The information, while informative, is not specific to the sited identified by Springstone in the application.
- Cost Estimator Letter – Attachment 5  
Springstone provided a copy of a letter from the construction company—Kelly Construction, Inc. The letter identifies costs for building construction, fixed and moveable equipment, and site preparation. Total cost identified in the letter, excluding sales tax, is \$18,360,000.
- Single Line Drawings – Attachment 9  
The line drawings provided clearly show a single-story building that would house 72 beds in two-bed rooms. Patient common areas and three seclusion rooms are also identified on the drawings.
- Draft Lease Agreement Between Propstone, LLC and Spokane Springs, LLC – Attachment 1  
The draft agreement identifies roles and responsibilities of both the lessor and the lessee. The agreement is for lease of the property, the hospital and all other buildings, structures, and other improvements [including landscaping], and all permanently fixed equipment. The agreement is for 10 years, with two 5-year options to renew. The agreement identifies both monthly and annual rent. The annual rent of \$2,128,797 is substantiated in the pro forma financial statements.

During the review of this project, no entities submitted comments related to Springstone’s capital expenditure for the project, the proposed site of the hospital, or site control by the applicant.

To receive Certificate of Need approval for this project, either an executed or draft lease agreement must be provided. While an executed lease agreement is always preferable, a draft lease agreement is acceptable provided the draft agreement identifies all costs associated with the lease and all exhibits/attachments referenced in the lease agreement are attached. The draft agreement provided in Attachment 1 meets this requirement. If approved, the department would attach a condition requiring Springstone to submit an executed agreement with specific information consistent with the draft agreement in Attachment 1.

The zoning information provided in the application, while informative, is not specific to this project. Because of the size of the construction project, the site requires either a Determination of

Non-Significance [DNS] or a final Environmental Impact Statement [EIS]. Springstone acknowledges this requirement within the application. The department is precluded from issuing a Certificate of Need until it receives one of the two documents. If this project is approved, the department would condition the approval requiring Springstone to comply with the site requirement. Once Springstone provides the department with either a DNS or a final EIS, the department would issue a Certificate of Need for the project with a condition related to the draft lease agreement as referenced above. Without the zoning information specific to the site, Springstone runs the risk of not being able to obtain the necessary zoning for the hospital. If this occurs, Springstone may have to change its site for the project, which would require changing the approved site with an amendment application. An amendment application could also result in delays for commencement and completion of the project. While the non-specific zoning information is not grounds for denial of this project, it could lead to an amendment review, which could extend the operational date for the proposed hospital.

Signature provided a draft Lease Agreement and a draft Management Agreement. If this project is approved, the department would attach a condition requiring Signature to provide the executed agreements.

Because of the size of the construction project, the site requires either a Determination of Non-Significance [DNS] or a final Environmental Impact Statement [EIS]. The department is precluded from issuing a Certificate of Need until it receives one of the two documents. If this project is approved, the department would condition the approval requiring Springstone to comply with the site requirement. Once Springstone, LLC provides the department with either a DNS or a final EIS, the department would issue a Certificate of Need for the project with any conditions identified in this evaluation.

Based on the information and documentation provided in the application and with the applicant’s agreement to the conditions related to the site, operation, and management of the hospital, the department concludes **this sub-criterion is met.**

**Co-applicants Providence Health & Services and Universal Health Services**

The capital expenditure associated with the establishment of the 100-bed psychiatric hospital is \$37,484,755. A breakdown of the costs is shown below. [source: Application, p58]

<b>Item</b>	<b>Cost</b>	<b>% of Total</b>
Land Purchase/Land Improvements	\$ 4,140,000	11.1%
Construction Costs [includes fixed equipment]	\$ 26,790,223	71.5%
Moveable Equipment	\$ 775,000	2.1%
Architect/Engineering/Consulting/Legal Fees <sup>25</sup>	\$ 2,581,553	6.9%
Site Preparation/Supervision & Inspection	\$ 996,030	2.6%
Sales Tax	\$ 2,201,949	5.9%
<b>Total</b>	<b>\$ 37,484,755</b>	<b>100.0%</b>

Providence/UHS propose the new 100-bed psychiatric hospital would be located in Spokane, within Spokane County. To demonstrate compliance with this sub-criterion, Providence/UHS provided five documents related to the site, construction, and operation of the hospital. A

<sup>25</sup> This amount also includes \$40,470 for the Certificate of Need application fee.

summary of each document is provided below. [source: Application, p20 and Exhibits 8, 11, 12, & 15; and November 2, 2015, supplemental information, Exhibit 27]

- Providence Sacred Heart Medical Center Property Deed – Exhibit 12  
As of the writing of this evaluation, co-applicant Providence owns the site for the proposed hospital as demonstrated by the property deed filed with 'First American Title.' The medical office building on the site will be razed and a the new 100-bed psychiatric hospital will be built in its stead. [source: Application, p20] The title includes a legal description for the site and identifies the lot size at approximately 1.86 acres.
- Zoning for the Site – Exhibit 8  
Providence/UHS provided a letter from the City of Spokane Planning and Development office to demonstrate appropriate zoning for the proposed site. The letter confirms that the site is appropriately zoned for a hospital. Further, the letter confirms that the Essential Public Facilities siting process, which includes Determination of Non-Significance [DNS] or a final Environmental Impact Statement [EIS], is not required for the site since it is already properly zoned for a hospital.
- Cost Estimator Letter – Exhibit 16  
Providence/UHS provided a copy of a letter from its construction company—Hoffman Construction Company. The letter identifies costs for building construction, fixed and moveable equipment, and site preparation. Total cost identified in the letter, excluding sales tax, is \$31,198,294.
- Single Line Drawings – Exhibit 11  
The line drawings provided clearly show a three-story building that would house 100 beds. Level one includes outpatient psychiatric services, inpatient support services, including pharmacy and a gymnasium. Inpatient beds would be located on levels two and three. Each level would hold 50 beds in two separate units [26 bed unit and 24 bed unit] all in two-bed rooms. Patient common areas and seclusion rooms are also identified on the drawings.
- Draft Operating Agreement for Spokane Behavioral Health, LLC – Exhibit 27  
The draft agreement identifies roles and responsibilities of both members - Providence Health & Services and BHC Fairfax (a subsidiary of UHS). The agreement requires establishment of a Board of Mangers for operation of the 100-bed psychiatric hospital.

During the review of these projects, Signature provided comments asserting Providence/UHS omitted specific agreements. The comments are summarized by topic below.

### **Public Comments**

#### **Management Agreement and Purchase Agreement**

[source: December 8, 2015, Signature public comment, pp6-7]

Providence/UHS failed to provide the requested management agreement between the two parties. The agreement is needed to substantiate the new hospital's organizational structure and its pro forma costs. The applicants state that the two parties had not decided whether Providence or Fairfax Behavioral Health would be managing the hospital. Providence/UHS also failed to provide a requested purchase services agreement between the two parties. [emphasis added] The agreement is needed to substantiate the new hospital's organizational structure and its pro forma costs.

### **Rebuttal Comments**

In response to the issue raised, Providence/UHS provided rebuttal responses which are summarized below.

### Management Agreement and Purchase Agreement

[source: December 24, 2015, Providence/UHS rebuttal comments, pp14-16]

Providence/UHS contends that it provided all of the necessary formative agreements necessary to review the project. Documents listed by Providence/UHS as ‘necessary’ include:

- Certificate of Formation for Spokane Behavioral Health, LLC;
- Statement of Mutual Intent and Term Sheet;
- Operating Agreement for Spokane Behavioral Health; and
- Pro Forma Revenue and Expense Statements and Balance Sheets for Spokane Behavioral Health.

Providence/UHS further contends that “*the department has made no further requests for information, nor, as noted above [in its rebuttal responses], has it notified Providence and Fairfax that the New Co application is incomplete.*”

### Department’s Review

#### Management Agreement and Purchase Agreement

First, the department must provide clarification related to its June 26, 2015, screening letter sent to Providence/ UHS. The pertinent section of the statement from page 2 of the June 26 screening letter is restated below.

- b) *According to this application, there are three main entities for the project: UHS, Providence, and NewCo. It appears that the organizational structure and roles/responsibilities have not been determined or finalized. The organizational structure and roles/responsibilities must be finalized before formal review begins. Further, at minimum, a draft of **any collaboration agreements, lease agreements, management agreements, and purchase agreements between the entities must be provided in the application before formal review begins.** The drafts must be complete enough to evaluate the project. Also note that if this project is approved, the department would include conditions requiring the applicants to provide final or executed agreements consistent with the drafts provided in the application. [emphasis added]*

The intent of the statement above is a reminder that **any** collaboration-type agreements must be provided in the application and must be, at a minimum, in draft format. The list is examples of agreements the department has reviewed in joint projects. The reference to a management agreement may, or may not, apply to Providence/UHS’s project.

Providence/UHS provided responses to a different question in its August 10, 2015, first screening responses. Below is the department’s question and Providence/UHS’s response.

#### Department’s Question #26

*Clarify whether any administrative/support services would be provided by a subsidiary of either UHS or Providence. If yes, please explain.*

#### Providence/UHS Responses to Question #26

*NEWCO is scheduled to being operations January 1, 2017. At this time, it is unknown the extent to which administrative/support services would be provided by either UHS*

*and/or Providence. However, the final model does include Management Fee operating expense, beginning at \$852,092 in 2017, increasing to \$1.7 million in 2020. There could also be ancillary/support services purchased from UHS/and or Providence; these costs have been included in the proforma financial statement.*

The information above indicates there may not be a management agreement because the facility may be managed by one of the owners. However, management fees have been included in the Revenue and Expense Statement because the applicant anticipates there will be costs associated with the management. The issue raised is not grounds for denial of Providence/UHS's project

The reference to a purchase agreement clearly does not apply to the Providence/UHS project because the site for the hospital is currently owned by Providence. However, in other projects reviewed by the department, a purchase agreement for a facility or a site is part of the review. For clarification, the reference is a purchase agreement—not a 'Purchase Services Agreement' as asserted by Signature. The issue raised is not grounds for denial of Providence/UHS's project.

One further clarification. In its rebuttal, Providence/UHS states "*the department has made no further requests for information, nor, as noted above, has it notified Providence and Fairfax that the New Co application is incomplete.*"

WAC 246-310-090 provides the following information in sub-section (2).

(2) *Screening and prereview activities.*

(a) *The department shall, within a fifteen working-day period for emergency, expedited, and regular reviews, screen the application to determine whether the information provided in the application is complete and as explicit as is necessary for a certificate of need review. This screening period shall begin on the first day after the department has received the application. In the event that the application is lacking significant information relating to the review criteria, the department may, upon notification, reserve the right to screen the application again upon receipt of the applicant's original response unless the applicant exercises option (c)(iii) of this subsection. [emphasis added]*

As stated in sub-section (2) above, the department's screening process is used to ensure an application is complete and explicit [clear] for a review. It is the applicant's responsibility, not the department's, to ensure that the application meets the applicable review criteria. Under regular review, the screening process can be completed two times. Consistent with WAC 246-310-090(2)(c)(i), the department's first screening letter allows the applicant to provide responses and request a second screening. The department's second screening letter does not allow for the applicant to request a third screening. If information in the second screening responses continue to result in an incomplete or unclear application, the department does not screen the application again.

It is noted that page 9 of the Providence/UHS October 15, 2015, [second] screening responses included the following statement:

*Pursuant to the provisions of Washington Administrative Code Section 246-310-090(2)(c), we request that the department continue to screen our application until the information is complete.*

Since the rules do not allow the department to screen an application three times, the department did not act on the request above. In summary, the department's screening process is used to ensure an application is complete and clear for a review. It is the applicant's responsibility to ensure that the

application meets the applicable review criteria. The applicant's responsibility cannot be deferred by requesting a third screening that is not allowed under WAC 246-310-090.

To receive Certificate of Need approval for this project, Providence/UHS must submit documents outlining the proposed relationship and other pertinent information for operation and management of the hospital. When read together, the draft Operating Agreement and other statements and documents provided in the application meet this requirement. If approved, the department would attach a condition requiring Providence/UHS to submit an executed Operating Agreement with specific information consistent with the draft agreement provided.

The zoning information provided in the application demonstrates appropriate zoning for the site. If this project is approved, a Certificate of Need could be issued without requiring a determination of non-significance (DNS) or a final environmental statement (EIS).

Based on the information and documentation provided in the application and with the applicant's agreement to the conditions related to the site, operation, and management of the hospital, the department concludes **this sub-criterion is met.**

(3) *The project can be appropriately financed.*

WAC 246-310 does not contain specific source of financing criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how a project of this type and size should be financed. Therefore, using its experience and expertise the department compared the proposed project's source of financing to those previously considered by the department.

**Signature Healthcare Services, LLC**

The capital expenditure associated with the establishment of the 72-bed psychiatric hospital is \$22,412,785. The costs include purchase of the land, constructing and equipping the building, all construction and consultant fees, financing and interim financing costs, plus Washington State sales tax. [source: Application, p52]

Signature intends to fund the project using two sources. The majority of the funding [65%], \$14,568,310 will be from bank loans at 5% interest for 25 years. To demonstrate a financial commitment to this portion of the funding, Signature provided a letter of financial commitment from its chief financial officer and an amortization schedule showing annual payments. It is noted that the borrower is the 100% owner of Signature, Soon K. Kim. [source: Application, Attachment 10; and August 10, 2015, supplemental information, p10]

The remaining \$7,844,475 will be funded from the real estate company to-be-formed as a wholly owned subsidiary of Signature, LLC and created specifically for this project. The real estate company will also receive initial capitalization of \$5,000,000 from owner Soon K. Kim, who owns all real estate corporations associated with the Signature hospitals. [source: Application, p55]

To demonstrate access to the funds, Signature provided two letters of financial interest, each from two separate banks: Torrey Pines Bank located in Los Angeles, California; and Wells Fargo Bank located in Santa Fe Springs, California. Both letters confirm past lending services with Soon K. Kim and express an interest, but not a commitment, to continue the lending services in the future. [source: Application, Attachment 10]

In addition to the capital expenditure of \$22,412,785, Signature's 100% owner, Soon K. Kim, will also fund the startup costs for the hospital. Startup costs are non-recurring costs necessary to begin providing services, such as recruitment/staff training. Startup costs for this project are identified at \$500,000. [source: Application, p54]

To demonstrate it has the funds to support the financing, Signature provided its most recent audited financial statements for the corporation [2011 through 2014]. The statements show more than \$55 million in current assets for year 2014. [source: Application, Appendix 18 and November 2, 2015, supplemental information, Attachment 24] The documents demonstrate that the funds necessary to finance the project are available.

During the review of these projects, Providence/UHS provided comments directly related to the source of financing of Signature's project. The comments are summarized below.

### **Public Comments**

#### **Bank Financing for 65% of the Project**

[source: December 8, 2015, Providence/UHS public comment, pp25-26]

Signature's application states that 65% of the project, or \$14,568,310, will be financed through bank loans. The only documents submitted to substantiate this claim were letters from two separate lenders. Neither lender provides a specific financial commitment to the project. Rather, the letters provide only general financial references for Signature and its owner Dr. Kim.

### **Rebuttal Comments**

In response to the issue raised, Signature provided rebuttal responses which are summarized below.

#### **Bank Financing for 65% of the Project**

[source: December 24, 2015, Signature rebuttal comment, p12]

Signature contends that it demonstrated the proposed project can be appropriately financed by submitting 'several letters' from banks that have financed projects (65% bank financing) exactly like the proposed Spokane project. Signature also provided documentation related to Dr. Soon Kim's net worth and his capacity to provide 35% financing.

### **Department's Review**

#### **Bank Financing for 65% of the Project**

As stated above, Signature provided two letters of financial interest each from a different bank. Both letters confirm past lending services with Soon K. Kim and express an interest, but not a commitment, to continue the lending services in the future. The department does not expect a bank to provide a written commitment to funding without first completing its internal processes. In past applications, the department has accepted the same type of letter from a bank. The issue raised is not grounds for denial of Signature's project.

Based on the above information, the department concludes that Signature's project can be appropriately financed. **This sub-criterion is met.**

### **Springstone, LLC**

The capital expenditure associated with the establishment of the 72-bed psychiatric hospital is \$24,405,658. The costs include purchase of the land, constructing and equipping the building, all construction and consultant fees, plus Washington State sales tax. [source: August 10, 2015, supplemental information, Attachment 4]

The project will be funded 100% by Welsh, Carson, Anderson & Stowe, XI, LP, an investment company that focuses on investments in information/business services and healthcare industries in the United States. According to its website, Welsh, Carson, Anderson & Stowe, XI, LP was founded in 1979 and currently has investments in 11 information/business service companies and 17 healthcare companies.

To demonstrate Welsh, Carson, Anderson & Stowe, XI, LP has the funds to support the financing, of this project, Springstone a copy of the 2014 Independent Auditor's Report for Welsh, Carson, Anderson & Stowe, XI, LP. The report includes a December 2014 balance sheet that identifies more than \$40 million in cash/cash equivalents and a net worth of more than \$3 billion. [source: August 10, 2015, supplemental information, Attachment 6] The documents demonstrate that the funds necessary to finance the project are available by the funding source.

In addition to the capital expenditure of \$24,405,658, Welsh, Carson, Anderson & Stowe, XI, LP will also fund the startup costs for the hospital identified at \$730,898. Springstone also provided a letter from Welsh, Carson, Anderson & Stowe, XI, LP demonstrating financial interest for the project and startup costs. [source: August 10, 2015, supplemental information, Attachment 7]

During the review of these projects, Providence/UHS provided comments directly related to the source of financing of Springstone's project. The comments are summarized below.

### **Public Comments**

#### **Funding Source for Project**

[source: December 8, 2015, Providence/UHS public comment, pp26-27]

Springstone's application states the project will be 100% funded through the capital investments from the company's primary owner Welsh, Carson, Anderson, Stowe. The application does not include complete information related to the financial strength of the funding source. Further the letter of financial commitment provided by Welsh, Carson, Anderson, Stowe does not include any specific conditions and terms regarding the financing.

### **Rebuttal Comments**

In response to the issue raised, Springstone provided rebuttal responses which are summarized below.

#### **Funding Source for the Project**

[source: December 24, 2015, Springstone rebuttal comments, pp11-12]

Springstone contends that it demonstrated the proposed project can be appropriately financed 100% by the company's primary owner Welsh, Carson, Anderson, Stowe. Springstone further clarifies that the transaction is not a loan. Once the Spokane County hospital is operational, Springstone may draw on the company's credit. Access to a line of credit is standard operating practice for all hospitals; however a line of credit has no impact on construction and start-up funding. Springstone further noted that the funding is identical to the funding outlined in its Clark County project recently approved on October 6, 2015.

### **Department's Review**

In the Clark County project referenced by Springstone in its rebuttal, Signature raised this same issue that was raised by Providence/UHS. In the Clark County review, the question was raised whether Welsh, Carson, Anderson, Stowe was the applicant. Neither Providence/UHS nor



Signature questioned who was the applicant in this Spokane County review. However, for clarification purposes, the department considers the parent company or corporation to be the applicant in a Certificate of Need application. This is a long-standing approach followed by the department and allows for a comprehensive review of the applicant, including quality of care history.<sup>26</sup> The department has not considered a financial investment corporation or company to be an applicant. This is also a long-standing approach for applications submitted by for-profit corporations, such as DaVita HealthCare Partners, Inc.; Fresenius Medical Care; and Universal Health Services. The applicant for the Springstone project is Springstone, LLC, the parent of Springstone, Inc., which is the parent of Spokane Springs, LLC--the proposed licensee of the hospital. As an investment company, Welsh, Carson, Anderson, & Stowe is not considered an applicant for the Springstone project.

Because Welsh, Carson, Anderson, & Stowe would be funding the Springstone project, the department requested their historical financial data to review the financial strength. As stated in the review above, Welsh, Carson, Anderson, & Stowe's December 2014 balance sheet identifies more than \$40 million in cash/cash equivalents and a net worth of more than \$3 billion. The \$24,405,658 associated with this Spokane County project represents less than one percent (0.81%) of its net worth. These concerns raised by Signature related to Springstone's project are not grounds for denial.

Based on the above information, the department concludes that Springstone's project can be appropriately financed. **This sub-criterion is met.**

#### **Co-applicants Providence Health & Services and Universal Health Services**

The capital expenditure associated with the establishment of the 100-bed psychiatric hospital is \$37,484,755. The costs include market value of the land, constructing and equipping the building, all construction and consultant fees, Washington State sales tax, and \$800,000 associated with razing the building currently on the site.<sup>27</sup> [source: Application, p58, August 10, 2015, supplemental information, p7; and October 10, 2015, supplemental information, p3 ]

Ownership interest in the proposed psychiatric hospital will be 70% UHS and 30% Providence. The capital costs of \$37,484,755, plus the start up costs of 3,057,417 will be funded based on each owner's interest. UHS, through its subsidiary, Fairfax Behavioral Health will contribute \$28,379,520 in cash to the costs; Providence will contribute \$12,162,651 through a combination of its ownership of the land, its psychiatric business for the 28 psychiatric beds that it will relocate to the new hospital, and cash. [source: October 15, 2015, supplemental information, pp1-2]

To demonstrate a financial commitment to its portion of the funding, UHS provided a letter of financial commitment from its vice president and treasurer. The letter confirms its intent to finance its portion of the project. UHS also provided its most recent audited financial statements for year 2013 that demonstrate it has the funds available to finance its portion of the project. [source: Application, Exhibit 18 and August 10, 2015, supplemental information, Revised Exhibit 17]

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<sup>26</sup> For example, see historical applications submitted by DaVita HealthCare Partners, Inc.; Fresenius Medical Care; Franciscan Health System; MultiCare Health System; Providence Health & Services; and Universal Health Services (UHS).

<sup>27</sup> Utility shut off, building demolition, removal of all associated debris, and site re-grade to prepare for new construction is included in the \$800,000.

Providence provided a letter of financial commitment from its chief financial officer. The letter confirms its intent to finance its portion of the project. Providence also provided its most recent audited financial statements for years 2012, 2013, and 2014 demonstrating it has the funds available to finance its portion of the project. [source: Application, Exhibits 17 & 18]

There was no public comment submitted related to this sub-criterion.

Based on the above information, the department concludes that Providence/UHS’s project can be appropriately financed. **This sub-criterion is met.**

**C. Structure and Process (Quality) of Care (WAC 246-310-230)**

Based on the source information reviewed and each the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Signature Healthcare Services, LLC, Springstone, LLC, co-applicants Providence Health & Services and Universal Health Services have met the structure and process of care criteria in WAC 246-310-230.

- (1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of FTEs that should be employed for projects of this type or size. Therefore, using its experience and expertise the department concludes that the planning would allow for the required coverage.

**Signature Healthcare Services, LLC**

The hospital is expected to become operational in January 2018 with all 72 psychiatric beds. Under this timeline, full calendar year one is 2018 and full year three is 2020. Staffing for the psychiatric hospital is based on the projected occupancy of 29% in year one, 68% in year two, and 88% in year three. Projected staffing is shown in Table 22 below. [source: August 10, 2015, supplemental information, pp19-20]

**Table 22  
Signature 72-bed Psychiatric Hospital  
Projected Staffing for Calendar Years 2018 - 2020**

	<b>Year 1-2018</b>	<b>Year 2-2019 Increase</b>	<b>Year 3-2020 Increase</b>	<b>Total</b>
Nursing	27.7	33.0	9.4	70.1
Inpatient Clinical	7.5	7.4	4.1	19.0
Outpatient Clinical	3.8	2.2	0.8	6.8
Administrative/Support	27.9	15.2	8.4	51.6
<b>Total</b>	<b>66.9</b>	<b>57.8</b>	<b>22.7</b>	<b>147.5</b>

Nursing staff includes licensed and registered nurses and mental health workers. Inpatient clinical staff includes social services, therapists, and nursing administrators. Outpatient clinical includes transportation staff and mental health staff. Administrative and support includes office functions, dietary, housekeeping, plant operations, etc.

Physicians, including psychiatrists and psychologists, will be under contract rather than employed by Signature. Contracted staff is not included in the table above; however, they are included in the revenue and expense statements under 'professional fees.'

As noted in Table 22, Signature intends to recruit the majority of its staff in years one and two and then increase staff proportionately as occupancy of the hospital increases.

As a new hospital in Washington State, all staff must be recruited. Signature currently operates a total of 13 psychiatric hospitals in Arizona, California, Illinois, Nevada, and Texas and has experience in staff recruitment and retention. To ensure appropriate staff is available for this project, Signature states it *"is committed to both strong employee recruitment and retention programs because they are critical to the success of our hospitals and to excellent patient care."* [source: Application, p64]

Signature provided its staff recruitment strategies, which includes the points below.

- Inter-facility transfers of key, experienced staff.
- Competitive wage and benefits.
- Establishing relationships with area colleges and universities health care personnel educational programs.
- Offering ongoing continuing education.
- Employee referral program for employees referring friends and family.
- nationwide recruitment through posting on website, national recruiting websites, and local community online posting.
- Attending local and Puget Sound and Portland metropolitan area job fairs in order to reach out to potential candidates.

[source: Application, p64]

Key staff, including the medical director, has not yet been identified for the new hospital. Since the physicians, including the medical director, will be under contract, physician agreements will be established. Signature provided a draft medical director agreement that includes roles and responsibilities for the physician. [source: Application, Attachment 19]

If this project is approved, the department would attach a condition requiring Signature to provide the department with a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.

Additionally, since all physicians will be under contract, the department would attach a condition requiring Signature to provide the department with a copy of the executed physician contracts, including the medical director contract, for the hospital. The executed contracts must be consistent with the draft contracts provided in the application.

During the review of these projects, Providence/UHS provided comments directly related to the staff recruitment information provided in Signature's application. The comments are summarized below.

**Public Comments**

**Staff Recruitment and Retention**

[source: December 8, 2015, Providence/UHS public comment, pp11-12]

Providence/UHS acknowledges that Signature’s experience in operating psychiatric hospitals in other states demonstrates it has the capability to recruit qualified staff. On the other hand, Providence/UHS asserts its own application is superior because both Providence and UHS are providers of psychiatric services in Washington State and, in the case of Providence, Spokane County.

**Rebuttal Comments**

In response to the issue raised, Signature provided rebuttal responses which are summarized below.

**Staff Recruitment and Retention**

[source: December 24, 2015, Signature rebuttal comments, p10]

Both Signature and Springstone will be a new psychiatric provider in Spokane County and will need to establish new relationships. Providence/UHS’s facility, Spokane Behavioral Health, LLC, will also be a new provider in the county and will also need to establish new relationships.

**Department’s Review**

**Staff Recruitment and Retention**

The purpose of this sub-criterion is to ensure an applicant has comprehensive and reasonable plans to either recruit or retain staff for its proposed project. The department concurs that Signature would be a new provider to the state and planning area and must rely on past successful practices for recruitment for its facility. Recruitment plans provided in its application demonstrate Signature’s compliance with the sub-criterion.

Based on the information provided in the application, and acceptance of the conditions related to staffing, the department concludes staff is available or can be recruited. **This sub-criterion is met.**

**Springstone, LLC**

The hospital is expected to become operational in January 2018 with all 72 psychiatric beds. Under this timeline, full calendar year one is 2018 and full year three is 2020. Staffing for the psychiatric hospital is based on the projected occupancy of 43% in year one, 60% in year two, and 81% in year three. Projected staffing is shown in Table 23 on the following page. [source: August 10, 2015, supplemental information, p8]

**Table 23**  
**Springstone 72-bed Psychiatric Hospital**  
**Projected Staffing for Calendar Years 2018 - 2020**

	<b>Year 1-2018</b>	<b>Year 2-2019 Increase</b>	<b>Year 3-2020 Increase</b>	<b>Total</b>
RN	26.1	6.4	11.3	43.8
Mental Health Techs	18.4	14.7	10.0	43.1
Therapists	8.1	1.4	1.3	10.8
Billing	1.3	0.1	0.9	2.3
CEO/CFO	1.9	0.1	0.0	2.0
Business Development	3.8	0.2	1.0	5.0
Housekeeping/Plant Ops	4.8	0.2	2.5	7.5
Dietary	4.9	0.2	1.0	6.1
Other*	22.8	(1.3)	4.1	25.6
<b>Total</b>	<b>92.1</b>	<b>22.0</b>	<b>32.1</b>	<b>146.2</b>

\* includes directors, administrative support, receptionists, director of nursing

As noted in Table 23, Springstone intends to recruit the majority of its staff in year one to ensure adequate staffing upon opening. In years two and three, staff will increase proportionately as occupancy of the hospital increases.

Physicians, including psychiatrists and psychologists, will be under contract rather than employed by Springstone. Contracted staff is not included in the table above; however, they are included in the revenue and expense statements under ‘professional fees.’

As a new hospital in Washington State, all staff must be recruited. Springstone currently operates a total of eight psychiatric hospitals in Indiana, Ohio, and Texas and has experience in staff recruitment and retention. To ensure appropriate staff is available for this project, Springstone states it intends to *"institute a number of strategies to ensure successful recruitment of staff that have a proven interest in improving behavioral health services locally."* [source: Application, p35]

Springstone provided its staff recruitment strategies, which includes the points below.

- Establishing relationships with local colleges and universities by offering internships, training, and job opportunities.
- Offering competitive salary and benefit packages.
- Partnering with local career outreach organizations to support continued development within the health care industry.
- Working with local employment agencies and attending job fairs and school-based career events.

Given its history of recruitment and retention in other states, Springstone expects recruitment to be successful. [source: Application, pp35-36]

Key staff, including the medical director, has not yet been identified for the new hospital. Since the physicians, including the medical director, will be under contract, physician agreements will be established. Springstone provided draft physician agreements for the following positions.

- Hospital Medical Director
- Medical Director-Mental Health Services

- Medical Director-Addiction Services
- Physician Contracts

All draft contracts include job descriptions and outline roles and responsibilities for the positions. [source: Application, Exhibit 3]

If this project is approved, the department would attach a condition requiring Springstone to provide the department with a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.

Additionally, since all physicians will be under contract, the department would attach a condition requiring Springstone to provide the department with a copy of the executed physician contracts, including the medical director contracts, for the hospital. The executed contracts must be consistent with the draft contracts provided in the application.

During the review of these projects, Providence/UHS provided comments directly related to the staffing and recruitment information provided in Springstone's application. The comments are summarized below.

### **Public Comments**

#### **Staff Recruitment and Retention**

[source: December 8, 2015, Providence/UHS public comment, p12]

Providence/UHS acknowledges that Springstone's experience in operating psychiatric hospitals in other states demonstrates it has the capability to recruit qualified staff. On the other hand, Providence/UHS asserts its own application is superior because both Providence and UHS are providers of psychiatric services in Washington State and, in the case of Providence, Spokane County.

### **Rebuttal Comments**

The rebuttal comments submitted by Springstone did not include a response to the staff recruitment issue raised by Providence/UHS.

### **Department's Review**

#### **Staff Recruitment and Retention**

Springstone will be a new psychiatric provider in Spokane County and will need to establish new relationships. The purpose of this sub-criterion is to ensure an applicant has comprehensive and reasonable plans to either recruit or retain staff for its proposed project. The department concurs that Springstone would be a new provider to the state and planning area and must rely on past successful practices for recruitment for its facility. Recruitment plans provided in its application demonstrate compliance with the sub-criterion.

Based on the information provided in the application, and acceptance of the conditions related to staffing, the department concludes staff is available or can be recruited. **This sub-criterion is met.**

### **Co-applicants Providence Health & Services and Universal Health Services**

The hospital is expected to become operational in January 2017 with all 100 psychiatric beds. Under this timeline, full calendar year one is 2017 and full year three is 2019. Staffing for the psychiatric hospital is based on the projected occupancy of 44.5% in year one, 55.7% in year two,

and 81.0% in year three. Projected staffing for years 2019 through 2020 is shown in Table 24 below. [source: August 10, 2015, supplemental information, p9]

**Table 24  
 Providence/UHS 100-bed Psychiatric Hospital  
 Projected Staffing for Calendar Years 2017 - 2020**

	<b>Year 1-2017</b>	<b>Year 2-2018 Increase</b>	<b>Year 3-2019 Increase</b>	<b>Year 4-2020 Increase</b>	<b>Total</b>
Direct Clinical	55.7	11.4	27.3	5.2	99.6
Direct Non-Clinical	16.3	3.4	6.6	0.7	27.0
Indirect Clinical	1.4	0.2	0.0	0.7	2.3
Indirect Non-Clinical	22.6	5.2	6.4	1.2	35.4
<b>Total</b>	<b>96.0</b>	<b>20.2</b>	<b>40.3</b>	<b>7.8</b>	<b>164.3</b>

Direct clinical staff represented in Table 24 above is all nursing staff; direct non-clinical staff is therapy staff, including speech, OT, and PT. Indirect clinical staff includes pharmacy and dietary; indirect non-clinical staff is plant operations, patient transport, administration and support. [source: August 10, 2015, supplemental information, p8]

As noted in Table 24, Providence/UHS the majority of staff would be recruited in year one. In years two, three, and four, staff will increase proportionately as occupancy of the hospital increases. While the co-applicants expect a number of Sacred Heart Medical Center's current psychiatric staff would transfer to the new hospital with the transfer of 28 psychiatric beds in year one, the definitive number and type of staff is not yet known. [source: August 10, 2015, supplemental information, pp8-9]

It is also expected that physicians, including psychiatrists and psychologists, will be under contract rather than employed by the new hospital. Contracted staff is not included in the table above; however, they are included in the revenue and expense statements under 'professional fees.'

Both Providence and UHS operate hospitals in Washington State and each has its own staff recruitment strategies used to ensure appropriate staffing. The strategies include:

- Establishing psychiatric residency programs in year 2015 to increase the number of psychiatrists in the region.
- Career listings on their respective websites.
- Using their respective recruitment teams to assist in recruitment of management and clinical staff.
- Offering competitive salary and benefit packages.
- Fairfax hosts 8 nursing schools in the Puget Sound Region with approximately 130 nursing students complete their clinical rotation annually. Providence serves as a training site for both Washington State University in Pullman and Gonzaga University in Spokane nursing programs. Both applicants intend to use their current partnerships with the schools to assist in staffing the new hospital.
- Both Providence and UHS have already shown they can successfully recruit qualified staff in Washington State. Providence has a proven history of recruiting health and management personnel within Spokane County and Fairfax has a provident history of recruiting staff in the Puget Sound region.

Given the co-applicants history of recruitment and retention, they expect recruitment to be successful. [source: Application, pp68-69 and December 8, 2015, public comments, p11]

Key staff, including the medical director, has not yet been identified for the new hospital. Since the physicians, including the medical director, will be under contract, physician agreements will be established. Providence/UHS provided a draft physician agreement to be used for the new hospital. The draft agreement provides a job description and outline roles and responsibilities for the positions. [source: August 10, 2015, supplemental information, Exhibit 24]

During the review of this project, no entities submitted comments related to the staffing for the new hospital or the applicants ability to recruit and retain staff.

If this project is approved, the department would attach a condition requiring Providence/UHS to provide the department with a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.

Additionally, since all physicians will be under contract, the department would attach a condition requiring Providence/UHS to provide the department with a copy of the executed physician contracts for the hospital. The executed contracts must be consistent with the draft contracts provided in the application.

Based on the information provided in the application, and acceptance of the conditions related to staffing, the department concludes staff is available or can be recruited. **This sub-criterion is met.**

- (2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

### **Signature Healthcare Services, LLC**

Signature expects the new psychiatric hospital to become operational in January 2018. As a result, formal and informal working relationships with area healthcare providers have not yet been established. To demonstrate compliance with this sub-criterion, the applicant provided a description of common ancillary and support services necessary for a 72-bed psychiatric hospital. Patient services anticipated to be provided on-site include pharmacy, dietary, and therapy. Laboratory and radiology services are expected to be under contract with a local provider. [source: August 10, 2015, supplemental information, p12]

The psychiatric hospital would provide both inpatient and outpatient psychiatric services. Signature intends to establish formal and informal working relationships with community healthcare providers to ensure continuity of care for the patients after discharge. Community providers include mental health providers, hospitals, physicians, nursing homes, home care, and, when necessary, local schools. [source: Application, pp65-68]



During the review of these projects, Providence/UHS provided comments directly related to the ancillary and support services information provided in Signature's application. The comments are summarized below.

### **Public Comments**

#### **Ancillary and Support Services Linkages**

[source: December 8, 2015, Providence/UHS public comment, p12]

Signature does not have any existing relationships in place to provide ancillary and support services for the hospital in Spokane County. Providence/UHS asserts its own application is superior because co-applicant Providence is a provider of psychiatric services in Spokane County and formal relationships are already established.

### **Rebuttal Comments**

The rebuttal comments submitted by Signature did not include a response to ancillary and support services issue raised by Providence/UHS referenced above.

### **Department's Review**

#### **Ancillary and Support Services Linkages**

As a new provider to the state and county, Signature will need to establish new ancillary and support relationships. The purpose of this sub-criterion is to ensure an applicant either has, or can establish, comprehensive and wide-ranging relationships, including organizational relationships, for ancillary and support services to support the health services in the proposed project. Information documented in the Signature application indicates that it knows the types of ancillary and support services needed for a 72-bed psychiatric hospital. Further, the documentation demonstrates it has the experience to establish the appropriate and necessary relationships to be in compliance with the sub-criterion.

Given that Signature has not yet established ancillary and support agreements for the new hospital, if this project is approved, the department would attach a condition requiring a final listing of ancillary and support vendors for the 72-bed psychiatric hospital.

Based on the information provided in the application, and acceptance of the conditions related to ancillary and support documentation, the department concludes the project would have appropriate ancillary and support for its new psychiatric hospital. **This sub-criterion is met.**

### **Springstone, LLC**

Springstone expects the new psychiatric hospital to become operational in January 2018. As a result, formal and informal working relationships with area healthcare providers have not yet been established. To demonstrate compliance with this sub-criterion, the applicant provided a listing of common ancillary and support services necessary for a 72-bed psychiatric hospital. [source: Application, pp36-37]

Patient services anticipated to be provided on-site include pharmacy, dietary, and therapy. Laboratory and radiology services are expected to be under contract with a local provider. [source: Application, p36]

The psychiatric hospital would provide both inpatient and outpatient psychiatric services. Springstone intends to establish formal and informal working relationships with community healthcare providers to ensure continuity of care for the patients after discharge. Community

providers include mental health providers, hospitals, physicians, nursing homes, home care, and, when necessary, local schools. [source: Application, p36 and August 10, 2015, supplemental information, p10]

### **Public Comments**

#### **Ancillary and Support Services Linkages**

[source: December 8, 2015, Providence/UHS public comment, p12]

Springstone does not have any existing relationships in place to provide ancillary and support services for the hospital in Spokane County. Providence/UHS asserts its own application is superior because co-applicant Providence is a provider of psychiatric services in Spokane County and formal relationships are already established.

### **Rebuttal Comments**

The rebuttal comments submitted by Springstone did not include a response to ancillary and support services issue raised by Providence/UHS referenced above.

### **Department's Review**

#### **Ancillary and Support Services Linkages**

As a new provider to the state and county, Springstone will need to establish new ancillary and support relationships. The purpose of this sub-criterion is to ensure an applicant either has, or can establish, comprehensive and wide-ranging relationships, including organizational relationships, for ancillary and support services to support the health services in the proposed project. Information documented in the Springstone application indicates that it knows the types of ancillary and support services needed for a 72-bed psychiatric hospital. Further, the documentation demonstrates it has the experience to establish the appropriate and necessary relationships to be in compliance with the sub-criterion.

Given that Springstone has not yet established ancillary and support agreements for the new hospital, if this project is approved, the department would attach a condition requiring Springstone to provide a final listing of ancillary and support vendors for the 72-bed psychiatric hospital.

Based on the information provided in the application, and acceptance of the conditions related to ancillary and support documentation, the department concludes the project would have appropriate ancillary and support for its new psychiatric hospital. **This sub-criterion is met.**

#### **Co-applicants Providence Health & Services and Universal Health Services**

Providence/UHS expect the new psychiatric hospital to become operational in January 2017. As a result, formal and informal working relationships with area healthcare providers have not yet been established for the new hospital. However, Providence currently operates a 72-bed psychiatric unit at Sacred Heart Medical Center in Spokane and UHS operates a variety of psychiatric hospitals in western Washington State. To demonstrate compliance with this sub-criterion, the co-applicants provided a listing of common ancillary and support services necessary for a 100-bed psychiatric hospital. [source: August 10, 2015, supplemental information, p10]

Based on the staff table provided in the application, patient services anticipated to be provided on-site include pharmacy, dietary, and therapy. Laboratory and radiology services are expected to be under contract with a local provider. [source: August 10, 2015, supplemental information, p8]

The psychiatric hospital would provide both inpatient and outpatient psychiatric services. Providence/UHS intends to maintain or establish formal and informal working relationships with community healthcare providers to ensure continuity of care for the patients after discharge. Providence/UHS also provided a draft Discharge Planning Policy to be used at the new psychiatric hospital. [source: Application, Exhibit 21]

During the review of this project, no entities submitted comments related to this sub-criterion.

Given that Providence/UHS has not yet established ancillary and support agreements for the new hospital, if this project is approved, the department would attach a condition requiring Providence/UHS to provide a final listing of ancillary and support vendors for the 100-bed psychiatric hospital.

Based on the information provided in the application, and acceptance of the conditions related to ancillary and support documentation, the department concludes the project would have appropriate ancillary and support for its new psychiatric hospital. **This sub-criterion is met.**

- (3) *There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.*

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

### **Signature Healthcare Services, LLC**

Since this project requests the establishment of a new hospital, the hospital itself does not have a history of Medicare certification or inspections by the Department of Health. While Signature is not a new corporation, it does not have any facilities within Washington State. Signature Healthcare Services, LLC has been registered in Washington State since September 2, 2014. As of the writing of this evaluation, Signature Healthcare Services, LLC, or one of its subsidiaries, operates a total of 13 psychiatric hospitals in the following five states: Arizona, California, Illinois, Nevada, and Texas. [source: Application, Attachments 2, 3, & 17]

The department reviewed the survey information from the five states that Signature operates a psychiatric hospital. With the exception of Illinois, all states provided historical survey information that demonstrated no adverse licensing actions. Responses from the state of Illinois were not provided. [source: Quality of care survey responses from Arizona, California, Nevada, and Texas]

The department reviewed the accreditation information on the Joint Commission<sup>28</sup> website for the out-of-state behavioral health hospitals owned and operated by Signature. All 13 hospitals have Joint Commission accreditation, including the hospital in Illinois. Twelve of the 13 hospitals were

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<sup>28</sup> The Joint Commission is an independent, not-for-profit organization that accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards. [source: Joint Commission website]

considered comparable to the national patient safety and quality improvement goals identified on the website and there were no adverse licensing actions as a result of the surveys for the 12 hospitals. One facility in Las Vegas Nevada was determined to be below the national average during its 2014 survey.<sup>29</sup> [source: Joint Commission compare website]

During the review of this project, no entities submitted comments related to this sub-criterion.

Based on the above information, the department concludes there is reasonable assurance that the new 72-bed psychiatric hospital located in Spokane County would be operated in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met.**

### **Springstone, LLC**

Since this project requests the establishment of a new hospital, the hospital itself does not have a history of Medicare certification or inspections by the Department of Health. While Springstone is not a new corporation, it does not have any facilities within Washington State. Springstone, LLC was established in 2010 in Louisville, Kentucky. As of the writing of this evaluation, Springstone, LLC, or one of its subsidiaries, operates a total of eight psychiatric hospitals in the following three states: Indiana, Ohio, and Texas. [source: Application, p3 and Exhibit 2]

The department reviewed the survey or quality of care history information on websites of the three states that Springstone operates a psychiatric hospital. For the facilities located in Indiana and Texas there were no adverse licensing actions as a result of state surveys. [source: Texas Department of Social and Health Services and Indiana State Department of Health websites] For Ohio, hospitals are not licensed, but are ‘registered.’ Survey data is unavailable on the Ohio website. [source: Ohio Department of Health website]

The department reviewed the accreditation information on the Joint Commission website for the out-of-state behavioral health hospitals owned and operated by Springstone. All eight hospitals have Joint Commission accreditation, including the two hospitals in Ohio. All eight hospitals were considered comparable to the national patient safety and quality improvement goals identified on the website.<sup>30</sup> There were no adverse licensing actions as a result of these surveys. [source: Joint Commission compare website]

During the review of this project, no entities submitted comments related to this sub-criterion.

Based on the recent compliance history of Springstone, the department concludes there is reasonable assurance that the new 72-bed psychiatric hospital located in Spokane County would be operated in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met.**

### **Co-applicants Providence Health & Services and Universal Health Services**

Since this project requests the establishment of a new hospital, the hospital itself does not have a history of Medicare certification or inspections by the Department of Health. While the SBH, LLC is a new corporation, its owners Providence Health & Services and Universal Health Services are not new corporations. Below is a review of each owning entity.

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<sup>29</sup> Accreditation surveys completed in years 2012 through 2015.

<sup>30</sup> Accreditation surveys completed in years 2012 through 2015.

### Providence Health & Services

Co-applicant Providence owns, manages, or operates 34 hospitals, 475 physician clinics, 22 long-term care facilities, 19 hospice and home health programs, and 693 supportive house units in 14 locations within the states of Alaska, California, Montana, Oregon, and Washington. [source: Application, p10 and Exhibit 4]

Since the co-applicants are proposing to establish a new hospital, the department focused this review of the accreditation information on the Joint Commission website for the hospitals owned, managed, or operated by Providence in the five states identified above. Twenty-five hospitals have Joint Commission accreditation. All 25 hospitals were considered comparable to the national patient safety and quality improvement goals identified on the website.<sup>31</sup> There were no adverse licensing actions as a result of these surveys. [source: Joint Commission compare website]

Specific to the Washington State facilities, Providence owns and operates eight hospitals in the counties of Lewis (1), Snohomish (1), Spokane (2), Stevens (2), Thurston (1), and Walla Walla (1). Using the department's internal database, the department obtained survey data for the eight hospitals. Since 2011, two surveys have been conducted and completed by Washington State surveyors for each of the eight hospitals. All surveys resulted in no significant non-compliance issues. Additionally, all eight Washington State hospitals are Joint Commission accredited. [source: ILRS survey data]

### Universal Health Services

Co-applicant UHS owns, operates, or manages 25 acute care hospitals and 202 behavioral health facilities, and a variety of other healthcare facilities in 34 states, Puerto Rico, the US Virgin Islands, and the District of Columbia under one of many subsidiaries. [source: Application, p12 and Exhibit 5] UHS is not registered in Washington State, however, its subsidiary—BHC Fairfax Hospital Inc.—has been is registered in Washington since June 2, 1998. [source: Secretary of State website]

Since the co-applicants are proposing to establish a new hospital, the department focused this review of the accreditation information on the Joint Commission website for the hospitals owned, managed, or operated by UHS in 34 states, Puerto Rico, and the District of Columbia.<sup>32</sup> The department reviewed Joint Commission accreditation on 137 of 168—or 81.5%—of the facilities identified in the application. All 137 facilities were considered comparable to the national patient safety and quality improvement goals identified on the website.<sup>33</sup> There were no adverse licensing actions as a result of these surveys. [source: Joint Commission compare website]

Specific to the Washington State facilities, UHS owns and operates four hospitals under the BHC Fairfax subsidiary. The four hospitals are located in the counties of King (2) and Snohomish (2). Using the department's internal database, the department obtained survey data for the four hospitals. One of the facilities—Fairfax Behavioral Health-Monroe—obtain its first license in

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<sup>31</sup> Accreditation surveys completed in years 2012 through 2015.

<sup>32</sup> The 34 states are Alabama, Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Kentucky, Louisiana, Massachusetts, Michigan, Missouri, Mississippi, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, and Wyoming.

<sup>33</sup> Accreditation surveys completed in years 2012 through 2015.

December 2015. For the remaining three hospitals, a total of eight surveys have been conducted and completed by Washington State surveyors since 2011. All surveys resulted in no significant non-compliance issues. Additionally, one of the four Washington State hospitals are Joint Commission accredited. [source: ILRS survey data]

During the review of this project, no entities submitted comments related to this sub-criterion.

Based on the recent compliance history of each co-applicant, the department concludes there is reasonable assurance that the new 100-bed psychiatric hospital located in Spokane County would be operated in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met.**

- (4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how to measure unwarranted fragmentation of services or what types of relationships with a services area's existing health care system should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

#### **Signature Healthcare Services, LLC**

As previously stated, the new psychiatric hospital would become operational in January 2018 and working relationships with area healthcare providers have not yet been established, including a transfer agreement with a local hospital. Since the psychiatric hospital would provide both inpatient and outpatient psychiatric services, working relationships with community healthcare providers include mental health providers, hospitals, physicians, nursing homes, home care, and, when necessary, local schools. [source: Application, pp66-68]

Signature provided an example transfer agreement that it uses at its out-of-state psychiatric hospitals. The draft outlines roles and responsibilities of the sending facility and the receiving facility. Information within the draft agreement ensure continuity of care and timely transfer of patients and records between the two facilities. [source: August 10, 2015, supplemental information, Attachment 3]

During the review of this project, no entities submitted comments related to this sub-criterion.

Signature is currently operating 13 hospitals in five different states. Given the experience and expertise of the current management team, Signature does not anticipate any difficulty establishing the necessary formal and informal agreements with the community providers. Signature provided a draft transfer agreement, if this project is approved, the department would include a condition requiring Signature to provide a copy of the executed transfer agreement with a local hospital for the department's review and approval.

Provided that the applicant agrees to the conditions related to sub-criterion (2) above and the condition related to the transfer agreement, the department concludes that approval of this project is not expected to result in unwarranted fragmentation in the community. **This sub-criterion is met.**

### **Springstone, LLC**

As previously stated, the new psychiatric hospital would become operational in January 2018 and working relationships with area healthcare providers have not yet been established. Since the psychiatric hospital would provide both inpatient and outpatient psychiatric services, working relationships with community healthcare providers include mental health providers, hospitals, physicians, nursing homes, home care, and, when necessary, local schools. [source: Application, pp36-37]

To demonstrate compliance with this sub-criterion, Springstone provided a draft transfer agreement to be used at the psychiatric hospital for patients requiring transfer to an acute care hospital when medically necessary. The draft agreement identifies the process Springstone would use to transfer the patient and includes a section addressing follow-up with the receiving facility. [source: August 10, 2015, supplemental information, Attachment 8] Since the transfer agreement is a draft, if this project is approved, the department would include a condition requiring Springstone to provide a copy of the executed transfer agreement with a local hospital.

During the review of this project, no entities submitted comments related to this sub-criterion.

Springstone is currently operating eight hospitals in three different states. Given the experience and expertise of the current management team, Springstone does not anticipate any difficulty establishing the necessary formal and informal agreements with the community providers.

Provided that the applicant agrees to the conditions related to sub-criterion (2) above and the condition related to the transfer agreement, the department concludes that approval of this project is not expected to result in unwarranted fragmentation in the community. **This sub-criterion is met.**

### **Co-applicants Providence Health & Services and Universal Health Services**

As previously stated, the new psychiatric hospital would become operational in January 2017 and working relationships with area healthcare providers have not yet been established. Since the psychiatric hospital would provide both inpatient and outpatient psychiatric services, working relationships with community healthcare providers include mental health providers, hospitals, physicians, nursing homes, home care, and, when necessary, local schools. [source: August 10, 2015, supplemental information, p8]

To demonstrate compliance with this sub-criterion, Providence/UHS provided a draft Transfer Agreement to be used at the psychiatric hospital for patients requiring transfer to an acute care hospital when medically necessary. The draft agreement is based on existing transfer agreements used at UHS psychiatric hospitals. The draft agreement identifies the process a psychiatric hospital would use to transfer the patient and includes a section addressing follow-up with the receiving facility. [source: August 10, 2015, supplemental information, Exhibit 25] Since the transfer agreement is a draft, if this project is approved, the department would include a condition requiring Providence/UHS to provide a copy of the executed transfer agreement with a local hospital.

### **Public Comments**

As previously stated, during the review of the three psychiatric hospital projects, several entities submitted letters of support specific to the Providence/FHS project. Below is an example of three letters that submitted comments related to this sub-criterion.

#### **University of Washington School of Medicine, Seattle**

*“Having worked in partnership with Providence Health Care, I know the investment they have in their community, including vital educational partnerships to ensure qualified behavioral health providers are available now and in the future.”*

#### **Pend Oreille County Counseling Services, Newport**

*“Providence has some important advantages that an out-of-state entity might not. 1) an established history with local partnering and commitment with community supports, as evidenced by the millions of dollars contributed to subsidize the medical residency programs, nursing education and many other grants and donations for community health and social services in the area. 2) developed infrastructure for integrated primary and behavioral healthcare.”*

#### **Spokane Emergency Physicians, PS, Spokane**

*“There is perhaps no patient population more vulnerable than those afflicted with mental illness. This demographic lacks permanent shelter, regular meals, and is often struggling with substance abuse making their medical and psychiatric care more complex. In the last couple of years, the gaps in care for this patient population have become more severe in Spokane. As a result, Providence provided funding and forged alliances in our community to aid in providing shelter, food, and access to social services, including placement into substance abuse treatment programs, for our patients with mental illness, further extending safe-haven to them. ...Providence works closely with physicians to establish itself as the department of choice for emergency medical services and local law enforcement agencies. Our emergency department is one of the few in the state with a dedicated zone staffed by psychiatric nurses trained to provide care to patients with mental illness. Providence has proactively developed policies within our emergency department that will likely be identified as national best practice. These include daily psychiatric consults, 23 hour per day in-department staffing with mental health counselors, and department-specific social workers.”*

### **Rebuttal Comments**

The rebuttal comments submitted by Providence/UHS did not include a response to the comments related to this sub-criterion.

### **Department’s Review**

Within its application, Providence/UHS claims that it already has established relationships to the Spokane County service area's existing health care system through co-applicant Providence. The information provided during public comments substantiates the assertion by Providence/UHS.

Provided that the applicant agrees to the conditions related to sub-criterion (2) above and the condition related to the transfer agreement, the department concludes that approval of this project would promote continuity in the provision of health care and is not expected to result in unwarranted fragmentation in the community. **This sub-criterion is met.**



(5) There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.

WAC 246-310 does not contain specific WAC 246-310-230(5) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant. The department's review of this sub-criterion includes historical quality of care of the applicant to assess whether the applicant's history could be a positive indicator of the future.

### **Signature Healthcare Services, LLC**

During the review of this project, the department requested and Signature provided extensive information related to:

- a Certificate of Compliance Agreement (CCA) with the Office of Inspector General (OIG) that expired in year 2009;
- a qui tam action that was dismissed in year 2013; and
- a review conducted by the University of Illinois at Chicago (UIC) by the Mental Health Policy Program (MHPP) that was completed in year 2011.

[source: Application, p71; August 10, 2015, supplemental information, Attachment 4; October 15, 2015, supplemental information, Attachments 11, 12, 13, 14, & 15; and November 2, 2015, supplemental information, Attachment 24]

In two previous evaluations for Signature Healthcare Services, LLC projects, the department provided an extensive review of the issues raised and Signature's responses.<sup>34</sup> The department's concern in those evaluations was two-fold.

- 1) Signature did not volunteer the information related to the CCA, qui tam action, and the 2011 review by the MHPP; and
- 2) When the issues were raised by a competitor, Signature did not identify any steps taken to ensure that the issues raised are not repeated at the any of its other hospitals.

In the two previous evaluations, the department acknowledged that the most recent report was four years old [2011] and all of Signature's hospitals had undergone at least one quality of care review by the state licensing agency or the Joint Commission. As a result, Signature's quality of care history at its other facilities and its recent history at its Illinois hospital demonstrated an acceptable indicator of the future.

For its Spokane County project, Signature identified the past issues within the application and provided extensive documentation within its screening responses related to remedies or changes made by as a result of the report. For those reasons, the department will not rehash the issues in this evaluation and continues to conclude **this sub-criterion is met.**

### **Springstone, LLC**

This sub-criterion is addressed in sub-section (3) of this evaluation criteria. No additional issues were identified that required further evaluation. **This sub-criterion is met.**

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<sup>34</sup> Clark County psychiatric concurrent reviews [15-14 and 15-20] and Pierce County concurrent reviews [15-15A and 15-19].

### **Co-applicants Providence Health & Services and Universal Health Services**

During the review of these projects, Signature provided comments directly related to this sub-criterion. The comments focus on co-applicant UHS and are restated below.

#### **Public Comments**

[December 8, 2015, Signature public comment, p4]

*“...Universal Health Services (UHS) which owns Fairfax, has approximately 20 hospitals under federal investigation for fraud and a significant number of their hospitals have been cited by CMS and ordered to comply or face possible closure. Attachment 17 [of the public comments] provides a short synopsis of serious issues that plague UHS (including CMS suspension of payments) detailed in UHS’s 10-K filing with the United States Securities and Exchange Commission dated March 31, 2015.”*

#### **Rebuttal Comments**

In response to the issue raised by Signature above, Providence/UHS provided rebuttal responses, which are summarized below. [source: December 24, 2015, Providence/UHS rebuttal information, pp35-40]

Signature is fully aware of the standard in the CN rules for structure and process of care which requests information relating to an applicant’s history of (1) criminal convictions relating to a health care facility; (2) a denial or revocation of a license to operate a health care facility; or (3) a decertification as a provider in the Medicare or Medicaid programs. If any such history exists, the applicant is required to submit evidence that it will operate the proposed project in a manner that ensures safe and adequate care to the public. Neither Providence nor Fairfax (including UHS affiliate facilities) had any history of criminal convictions relating to a health care facility, no denial or revocation of a license to operate a health care facility, and no decertification as a provider in Medicare or Medicaid.

Signature’s allegations primarily relate to subpoenas and federal investigation of certain UHS affiliated facilities which are unrelated to Fairfax. The civil aspect of the investigation is a False Claim Act<sup>35</sup> investigation. These matters are summarized in UHS’s publicly available filing and UHS has cooperated with the investigation by producing millions of documents to date to respond to the government’s request. The investigations are ongoing and have not resulted in any formal allegations of wrongdoing, nor have there been any official findings of fact or law. None of the facilities identified in the public comments have had a criminal conviction, lost their license to operate, or been decertified from participation in Medicare or Medicaid. Additionally, more than half of the facilities identified as part of the investigation were acquired by UHS from prior operators in the last several years and the government’s records request to those facilities seek documents which pre-date UHS’s acquisition.

Providence/UHS also provided a summary of events and final actions for four UHS facilities. Of the four, one is applicable to this sub-criterion. It is summarized below.

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<sup>35</sup> A federal law of the United States that permits people that do not have a government affiliation to file legal actions against federal contractors to claim acts of fraud against the government. When such a claim is filed, the action is known as whistleblowing.

### Timberlawn Hospital

A part of Timberlawn Mental Health System, Timberlawn is a licensed psychiatric hospital located in Dallas, Texas. Due to a self-inflicted death in 2014 and subsequent CMS surveys which alleged failure to comply with Conditions of Participation, Timberlawn Hospital was terminated from the Medicare program effective August 14, 2015, approximately two months after this Spokane County CN application was submitted. Even though the facility was decertified for four months, it continued to treat patients, including Medicare and Medicaid beneficiaries.

### **Department's Review**

As previously stated, this sub-criterion requires the department to review historical quality of care and assess whether the applicant's history is a positive indicator of the future. It is true that this sub-criterion focuses on criminal conviction, license denial or revocation, or any decertification from either the Medicare or Medicaid programs. Based on the information provided in Providence/UHS rebuttal, only Timberlawn Hospital meets this compliance notification.

Within the rebuttal documents, Providence/UHS provided specific information on the events leading up to the decertification. Additionally, the co-applicants provided documentation within rebuttal responses related to remedies or changes made at the hospital as a result of the decertification.

UHS owns and/or operates more than 235 facilities and has 37 years of operating history. During that time, only one facility—Timberlawn Hospital—has been decertified. Based on UHS's historical compliance history, coupled with the quality of care conclusions addressed under subsection (3) of this sub-criterion, the department concludes there is reasonable assurance the proposed psychiatric services would be provided in a manner that insures safe and adequate care to the public. The department also concludes the psychiatric hospital would be operated consistent with applicable federal and state laws, rules, and regulations. **This sub-criterion is met.**

### **D. Cost Containment (WAC 246-310-240)**

Based on the source information reviewed, the department concludes Signature Healthcare Services, LLC has not met the cost containment criteria in WAC 246-310-240.

Based on the source information reviewed, the department concludes Springstone, LLC has not met the cost containment criteria in WAC 246-310-240.

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department concludes co-applicants Providence Health & Services and Universal Health Services has met the cost containment criteria in WAC 246-310-240.

#### *(1) Superior alternatives, in terms of cost, efficiency, or effectiveness, is not available or practicable.*

To determine if a proposed project is the best alternative, the department takes a multi-step approach. Step one determines if the application has met the other criteria of WAC 246-310-210 thru 230. If it has failed to meet one or more of these criteria then the project is determined not to be the best alternative, and would fail this sub-criterion.

If the project met the applicable criteria, the department would move to step two in the process and assess the other options the applicant or applicants considered prior to submitting the application under review. If the department determines the proposed project is better or equal to other options the applicant considered before submitting their application, the determination is either made that this criterion is met (regular or expedited reviews), or in the case of projects under concurrent review, move on to step three.

Step three of this assessment is to apply any service or facility specific criteria (tie-breaker) contained in WAC 246-310. The tiebreaker criteria are objective measures used to compare competing projects and make the determination between two or more approvable projects, which is the best alternative. If WAC 246-310 does not contain any service or facility criteria as directed by WAC 246-310-200(2)(a)(i), then the department would look to WAC 246-310-240(2)(a)(ii) and (b) for criteria to make the assessment of the competing proposals. If there are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b), then using its experience and expertise, the department would assess the competing projects and determine which project should be approved.

### **Signature Healthcare Services, LLC**

#### **Step One**

Signature concluded that once numeric need for a psychiatric hospital is demonstrated in Spokane County, the only option is to submit a Certificate of Need application. Signature considered three different sized hospitals—58 psychiatric beds; 72 psychiatric beds; 92 psychiatric beds. Signature evaluated each of its three options using criteria stated below.

- percent of bed need met;
- timing of bed availability;
- capital cost per bed;
- occupancy/utilization standard for psychiatric beds; and
- impact on other healthcare providers.

Using the evaluation criteria, Signature rejected two of the options and elected to submit an application for a 72-bed psychiatric hospital. [source: Application, pp72-77 and August 10, 2015, supplemental information, pp13-16]

### **Springstone, LLC**

#### **Step One**

Springstone also concluded that once numeric need for a psychiatric hospital is demonstrated in Spokane County, the only option is to submit a Certificate of Need application. Springstone took a variety of factors into consideration when evaluating the size of the hospital and number of beds to be requested, and ultimately determined the right-size for their project and chosen site. Springstone also elected to submit an application for a 72-bed psychiatric hospital. [source: Application, pp40-41 and August 10, 2015, supplemental information, pp10-11]

### **Co-applicants Providence Health & Services and Universal Health Services**

Co-applicants Providence/UHS concluded that numeric need for a psychiatric hospital was demonstrated in Spokane County for 72 beds. Once co-applicant Providence determined it would reduce its adult psychiatric beds at Sacred Heart Medical Center, the right size psychiatric hospital was determined to be 100 beds. Providence/UHS also acknowledge that a Certificate of Need application approval is necessary.

Providence/UHS also considered a variety of options, including either Providence or UHS submitting its own application, rather than a joint venture. Each of the options considered by Providence/UHS were evaluated using the following criteria.

- Promoting access to healthcare services;
- Promoting quality of care; and
- Promoting cost and operating efficiencies.

Using the evaluation criteria, Providence/UHS rejected the other options and elected to submit a joint application for a 100-bed psychiatric hospital and reduce the number of adult psychiatric beds at Sacred Heart Medical Center by 28. [source: Application, pp72-75 and August 10, 2015, supplemental information, p11]

### **Department's Superiority Analysis**

#### **Step Three**

In reviewing the materials submitted by the applicants and information provided during the public comment, the department concludes that the following summarized points support approval of the Providence/UHS joint application as the superior alternative in this concurrent review.

1. The existing inpatient medical and psychiatric services provided by Providence and UHS will enable them to more quickly and smoothly develop relationships in the community to contribute to more efficient and effective development of the necessary inpatient medical and behavioral health support services. Providence/UHS contends this is a strength of their application, and this contention is supported by the public comments submitted by independent organizations and interested persons in the community.
2. The existing medical and psychiatric outpatient services provided in Spokane County by co-applicant Providence will enable the new hospital to more quickly and smoothly develop relationships that will promote continuity in the delivery of outpatient services. Providence/UHS contends this is also a strength of their application, and this contention is supported by the public comments submitted by independent organizations and interested persons in the community.
3. The existing relationships with psychiatric physician residency programs and local colleges for nursing and other staff training and recruitment will enable the new hospital to more quickly and smoothly recruit, train, and retain appropriate staff needed for a new 100-bed psychiatric hospital. Providence/UHS contends this is also a strength of their application, and this contention is supported by the public comments submitted by independent organizations and interested persons in the community.
4. The location of the Providence/UHS project on a site already zoned for medical services campus will promote more quickly and smoothly development of their project and provides superior access to medical services over the other two projects.

Based on the documentation evaluated, the department makes the following conclusions.

**Signature Healthcare Services, LLC**

Based on the superiority analysis above, the department concludes **this sub-criterion is not met.**

**Springstone, LLC**

Based on the superiority analysis above, the department concludes **this sub-criterion is not met.**

**Co-applicants Providence Health & Services and Universal Health Services**

Based on the superiority analysis above, the department concludes this project is the best available alternative for the residents Spokane County and surrounding communities. **This sub-criterion is met.**

(2) *In the case of a project involving construction:*

(a) *The costs, scope, and methods of construction and energy conservation are reasonable;*

**Signature Healthcare Services, LLC**

In response to this sub-criterion, Signature states it has developed a total of 12 hospitals, and has opened two in the last year. For this project, Signature states that the space allocation and the development of functional relationships within the proposed hospital will be guided by industry standards, by Washington State licensing and construction review requirements for new facilities, and by CMS certification requirements for new facilities. [source: Application, p77]

After reviewing the information summarized above, the department concludes Signature, while not specifically stating how it will meet the sub-criterion, is fully aware of the specific requirements for Washington State, CMS, and the local authority construction and energy conservation codes. Based on the information, the department concludes **this sub-criterion is met.**

**Springstone, LLC**

In response to this sub-criterion, Springstone states it has developed 10 hospitals in four years, and has been actively involved in designing, planning, and engineering methods to ensure efficient and highly effective physical plants that support quality patient care. Over the four years, Springstone has developed ‘best practices’ in architectural planning and engineering that support its care philosophy of treating both the patient and families with the goal of providing more holistic, sustainable outcomes. [source: Application, pp41-42]

After reviewing the information summarized above, the department concludes Springstone has experience ensuring its existing facilities are compliant with Medicare certification and the local authority construction and energy conservation codes. Based on the information, the department concludes **this sub-criterion is met.**

**Co-applicants Providence Health & Services and Universal Health Services**

In response to this sub-criterion, Providence/UHS states it has been actively involved in designing, planning, and engineering methods to ensure efficient and highly effective physical plants that support quality patient care. Specific to this project, the three-story building is necessary for required spaces, but is designed to capture economies of scale because the two patient floors are identical. This will also lead to staff efficiencies. Further, co-location of clinical and ancillary support staff and services will allow for efficient operations. [source: Application, pp75-76]

After reviewing the information summarized above, the department concludes each of the co-applicants has experience ensuring its existing facilities are compliant with Medicare certification and the local authority construction and energy conservation codes. Based on the information, the department concludes **this sub-criterion is met.**

*(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.*

**Signature Healthcare Services, LLC**

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concluded **this sub-criterion is met.**

**Springstone, LLC**

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concluded **this sub-criterion is met.**

**Co-applicants Providence Health & Services and Universal Health Services**

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concluded **this sub-criterion is met.**

# **APPENDIX A**



## CHRONOLOGIC SUMMARY OF REVIEW

<b>Action</b>	<b>Signature</b>	<b>Springstone</b>	<b>Providence/Fairfax</b>
Letter of Intent Submitted	April 8, 2015	March 6, 2015	April 28, 2015
Application Submitted	May 8, 2015 <sup>1</sup>	May 14, 2015	June 5, 2015
Department's pre-review Activities <ul style="list-style-type: none"> <li>• Department 1<sup>st</sup> screening letter sent</li> <li>• Applicant's 1<sup>st</sup> screening responses received<sup>2</sup></li> <li>• Department's 2<sup>nd</sup> screening letter sent</li> <li>• Applicant's 2<sup>nd</sup> screening responses received</li> <li>• Supplemental responses to 2<sup>nd</sup> screening responses</li> </ul>	<p>June 5, 2015</p> <p>August 10, 2015</p> <p>August 31, 2015</p> <p>October 15, 2015</p> <p>November 2, 2015</p>	<p>June 5, 2015</p> <p>August 10, 2015</p> <p>August 31, 2015</p> <p>October 15, 2015</p> <p>None</p>	<p>June 25, 2015</p> <p>August 10, 2015</p> <p>August 31, 2015</p> <p>October 15, 2015</p> <p>November 2, 2015</p>
Beginning of Review			October 22, 2015
Public Hearing Conducted in Spokane County			December 8, 2015
End of Public Comment / Public Comments Accepted through the End of Public Comment			December 8, 2015
Rebuttal Comments Received			December 24, 2015
Department's Initial Anticipated Decision Date			February 8, 2016
Department's Actual Decision Date			February 8, 2016

<sup>1</sup> Signature submitted the application on April 24, 2015, sixteen days after the letter of intent. Consistent with Washington Administrative Code 246-310-080(4), the application was 'held' for 14 days for the remaining 30-day letter of intent period.

<sup>2</sup> The 1<sup>st</sup> screening response due date for Signature and Springstone was extended from July 20, 2015, to August 10, 2015, to coincide with the screening response due date for the Providence/Fairfax project

# **APPENDIX B**

Methodology Using 27.25 Use Rate to Determine Need for Psychiatric Beds in Spokane County for Residents Age 5 - 17												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Population 5-17	82,495	83,131	83,767	84,402	85,038	85,674	86,445	87,217	87,988	88,760	89,531	92,517
Use Rate	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	22.5	22.7	22.8	23.0	23.2	23.3	23.6	23.8	24.0	24	24	25
Minus Current Supply	24	24	24	24	24	24	24	24	24	24	24	24
Net Bed Need	(1.52)	(1.35)	(1.17)	(1.00)	(0.83)	(0.65)	(0.44)	(0.23)	(0.02)	0.19	0.40	1.21
Methodology Using 27.25 Use Rate to Determine Need for Psychiatric Beds in Spokane County for Residents Age 18 - 85+												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Population 18+	376,609	380,493	384,377	388,262	392,146	396,030	399,846	403,662	407,478	411,294	415,110	433,126
Use Rate	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	102.6	103.7	104.7	105.8	106.9	107.9	109.0	110.0	111.0	112	113	118
Minus Current Supply	48	48	48	48	48	48	48	48	48	48	48	48
Net Bed Need	54.6	55.7	56.7	57.8	58.9	59.9	61.0	62.0	63.0	64.1	65.1	70.0
Methodology Using 27.25 Use Rate to Determine Need for Psychiatric Beds in Spokane County for Residents Age 5 and older												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Population 5+	459,104	463,624	468,144	472,664	477,184	481,704	486,291	490,879	495,466	500,054	504,641	525,643
Use Rate	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	125.1	126.3	127.6	128.8	130.0	131.3	132.5	133.8	135.0	136	138	143
Minus Current Supply	72	72	72	72	72	72	72	72	72	72	72	72
Net Bed Need	53.1	54.3	55.6	56.80	58.03	59.26	60.51	61.76	63.01	64.26	65.51	71.24
Gross Bed Need	125.1	126.3	127.6	128.8	130.0	131.3	132.5	133.8	135.0	136	138	143
Minus Current Supply	144	144	144	144	144	144	144	144	144	144	144	144
Net Bed Need	(19)	(18)	(16)	(15)	(14)	(13)	(11)	(10)	(9)	(8)	(6)	(1)