

**EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON
BEHALF OF COULEE MEDICAL FOUNDATION AND COULEE COMMUNITY
HOSPITAL PROPOSING A LEASE OF COULEE COMMUNITY HOSPITAL
LOCATED IN GRAND COULEE**

PROJECT DESCRIPTION

Grant, Okanogan, Lincoln, and Douglas counties Public Hospital District #6 currently owns and operates Coulee Community Hospital. The hospital district is governed by a five-member board of elected commissioners.

Coulee Community Hospital is located at 411 Fortuyn Road in Grand Coulee within Grant County. The hospital holds a Washington State Critical Access Hospital (CAH) designation. Coulee Community Hospital is licensed for 25 beds, of which 10 beds are used for acute care patients and 15 beds are used for long-term care services. Coulee Community Hospital provides acute care and long-term care services, including emergent and some diagnostic services, to the residents and tourists of Grant, Okanogan, Lincoln, and Douglas counties. [source: Application, pp1-4]

The hospital district also owns and operates two medical clinics in Grant County—Coulee Family Medicine located in Grand Coulee and its satellite clinic located in Coulee City. The two medical clinics provide outpatient services, including a variety of therapies and social services to the residents and tourists of the four counties. [source: Application, p4-5]

This application proposes a lease of Coulee Community Hospital. Under Washington law [Revised Code of Washington 70.44], the district, as a unit of local government, does not have the ability to mortgage its own property. The district owns the real estate where the hospital and the two clinics operate. The district intends to replace the existing hospital with a new hospital at the same site. To accomplish this and to comply with the public hospital district and National Housing Act requirements required for FHA¹ mortgage insurance, the district proposes to lease the site of the hospital to an existing and separate corporation known as Coulee Medical Foundation (“Foundation”). [source: Application preamble]

The Foundation is a non-profit entity governed by a three-member board of directors. The Foundation is a philanthropic, charitable organization, which solicits, receives, and manages gifts of money and property in support of Coulee Community Hospital and community education programs. The Foundation seeks to involve, as members, as many citizens as possible throughout the community. Members participate in all forms of philanthropic activities and act as health care ambassadors, making the community more aware of hospital services. [source: Application preamble and Coulee Community Hospital website]

¹ The Federal Housing Administration (FHA), an agency of the federal government, insures private loans that are issued for new and existing housing, and loans that are approved for home repairs. Created by congress in 1934, the FHA became part of the Department of Housing and Urban Development's Office of Housing (HUD) in 1965. Today the mission of the FHA includes helping borrowers get amounts they qualify for, and assisting lenders by reducing their risk in issuing loans. [source: FHA website]

The Foundation would, in turn, enter into a leaseback and operating agreement with the district for the hospital and the clinics, thereby allowing the district to continue operations and oversight of the hospital and clinics. The lease arrangement will allow the Foundation to grant a leasehold mortgage of the hospital site to Red Mortgage Capital, Inc.² an authorized FHA lender, and obtain funding through the FHA insured mortgage loan to build the replacement hospital and clinic. The hospital and clinics would maintain current operations as the replacement hospital is being built. [source: Application preamble and FHA website]

The applicant provided the following rationale for building a replacement hospital. [source: November 4, 2008, Eide Bailly study]

“The current facility, which was constructed in 1962, has numerous physical deficiencies and can no longer effectively provide acute care services. Additionally, an increasing portion of the services provided by the hospital are performed in an outpatient setting, a trend that is likely to continue for the foreseeable future. However, the existing hospital was built to treat patients primarily in an inpatient setting. The replacement facility will not only remedy the hospital’s current physical deficiencies, it will also allow outpatient health care services to be performed more efficiently, and will be more attractive to patients, physicians, and visitors.”

The new replacement hospital will be a 66,000 sf single-story facility built adjacent to the existing hospital on the same parcel of land. The replacement hospital will have 25 private rooms, which include two labor and delivery rooms.³ Further, the new facility will have a two operating room (OR) surgery area, one outpatient procedure room, one endoscopy room, four pre-op/recovery rooms. The emergency area will house four exam rooms, with two of the rooms used primarily for trauma patients. The new radiology area will have one general X-ray area, a CT scanner room, one mammography room, an ultrasound room, bone densitometry, and a nuclear medicine room. The new hospital will house laboratory, pharmacy, therapy areas, and support space.⁴ The outpatient clinic will have 21 exam rooms and two procedure /treatment rooms and be used by employed primary care providers and visiting specialists. [source: November 4, 2008, Eide Bailly study, p14]

Equipment to be purchased for the new hospital include OR equipment, radiology equipment, new hospital beds, furniture, exam tables, emergency room equipment, telecommunications, and information systems equipment. [source: November 4, 2008, Eide Bailly study, p14]

The project is expected to be completed in two phases. Phase one is the construction of the replacement hospital which will commence in April 2009. This phase is expected to take 15 months, with an anticipated occupancy date of July 2010. Phase two is the demolition of the existing facility and subsequent work on the current site (i.e. landscaping, walkways, etc). This

² “Red Mortgage Capital is a leader in health care finance with a commitment to rebuilding America’s rural hospitals. Our specialized bankers are dedicated to the small and rural hospital industry and will help you to identify the options that will achieve your goals and then guide you through the financing. “ [source: Red Mortgage Capital website]

³ On June 12, 2007, the hospital received notification from the Department of Health and Human Services Centers for Medicare and Medicaid Services (CMS) that the hospital’s critical access hospital (CAH) status will be maintained after completion of the replacement project.

⁴ Support space includes admissions, administration, medical records, and business office.

phase is expected to begin approximately July 2010 and be complete by the end of December 2010. [source: November 4, 2008, Eide Bailly study, p14]

The estimated capital expenditure for the project, including both phases, is \$29,443,573, which includes purchase of the site and building / equipment costs. [source: Application, p12]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need (CN) review because it is the lease of an existing hospital under Revised Code of Washington (RCW) 70.38.105(4)(b) and Washington Administrative Code (WAC) 246-310-020(1)(b).

CRITERIA EVALUATION

To obtain Certificate of Need approval, the applicants 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); and 246-310-240 (cost containment).⁵

APPLICATION CHRONOLOGY

July 7, 2008	Letter of Intent Submitted
August 6, 2008	Application Submitted ⁶
October 29, 2008	Department Begins Review; no Public Hearing Requested or Conducted
November 18, 2008	End of Public Comment ⁷
December 5, 2008	Rebuttal Documents Received ⁸
December 9, 2008	Department Declares Pivotal Unresolved Issue (PUI)
December 10, 2008	Applicant PUI Documents
January 6, 2009	Rebuttal Documents for PUI Received ⁹
January 26, 2009	Department's Anticipated Decision Date
January 23, 2009	Department's Notification of 30 Day Extension
February 5, 2009	Department's Decision Date

AFFECTED AND INTERESTED PERSONS

No entities sought and received interested or affected person status under WAC 246-310-010.

⁵ 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(1), (3), (4), (5), (6).

⁶ This application was submitted on July 25, 2008. WAC 246-310-080(4) requires an applicant to submit a letter of intent a minimum of 30 days prior to submission of the application. For this project, the letter of intent was submitted only 18 days prior to the application. To comply with this rule, the Program held the application for 12 days—the remaining number of days equal to 30. As a result this application was declared “submitted” on August 6, 2008.

⁷ During the course of the review, no public comments were submitted.

⁸ Because no public comments were submitted, the applicant did not provide rebuttal documents.

⁹ No comments were received related to the unresolved issue documents; as a result, the applicant did not provide rebuttal comments.

SOURCE INFORMATION REVIEWED

- Coulee Medical Foundation and Grant, Okanogan, Lincoln, and Douglas counties Public Hospital District #6 Certificate of Need Application submitted August 6, 2008
- Coulee Medical Foundation and Grant, Okanogan, Lincoln, and Douglas counties Public Hospital District #6 supplemental information dated October 17, 2008, and November 4, 2008
- Coulee Community Hospital's PUI documents received December 10, 2008
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Hospital and Patient Data Systems
- Historical charity care data obtained from the Department of Health's Hospital and Patient Data Systems (2004, 2005, and 2006 summaries)
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems received December 19, 2008
- Licensing and/or survey data provided by the Department of Health's Office of Health Care Survey
- Quality of care surveys for Coulee Community Hospital
- Revised Code of Washington 70.44 "Public Hospital Districts"
- Revised Code of Washington 24.03 "Washington Non-Profit Corporation Act"
- Internet data for Coulee Community Hospital (www.couleecommhospital.org)
- Internet data for and Coulee Medical Foundation (www.couleecommhospital.org)
- Internet data for Federal Housing Administration (FHA) (www.fha.com)
- Internet data for Red Mortgage Capital, Inc. (www.redcapitalgroup.com)
- Internet data for Eide Bailly (<http://company.monster.com/webbin/>)
- Grant County Washington Assessor website (<http://gismapservr.co.grant.wa.us/parcel>)

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Grant, Okanogan, Lincoln, and Douglas counties Public Hospital District #6 and Coulee Medical Foundation on behalf of Coulee Community Hospital is consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need should be issued provided the applicant agrees to the five terms and one condition stated below.

The approved capital expenditure for this project is \$29,493,573.

TERMS

1. Within 30 days of finalizing the Site Lease Agreement, the applicants will submit to the Certificate of Need Program for review and approval a final, executed Site Lease Agreement. The final Site Lease Agreement will be consistent with the draft agreement provided in Appendix 1 of the application.

2. Within 30 days of finalizing the Lease Purchase Agreement, the applicants will submit to the Certificate of Need Program for review and approval a final, executed Lease Purchase Agreement. The final Lease Purchase Agreement will be consistent with the draft agreement provided in Appendix 2 of the application.
3. Within 30 days of finalizing the Regulatory Agreement with HUD, the applicants will submit to the Certificate of Need Program for review and approval a final, executed document. The final document will be consistent with the draft document provided in Appendix 7 of the application.
4. Within 30 days of finalizing the Approval Covenants for HUD Section 242 Mortgage Insurance document, the applicants will submit to the Certificate of Need Program for review and approval a final, executed document. The final document will be consistent with the draft document provided in Appendix 8 of the application.
5. Within 30 days of finalizing the Rider to Regulatory Agreement for HUD Section 242 Mortgage Insurance, the applicants will submit to the Certificate of Need Program for review and approval a final, executed document. The final document will be consistent with the draft rider provided in Appendix 8 of the application.

CONDITION

1. Coulee Community Hospital will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Coulee Community 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 Central Washington Region. Currently, this amount is 1.56% of gross revenue and 3.71% of adjusted revenue. Coulee Community Hospital will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

A. Need (WAC 246-310-210)

Based on the source information reviewed, the department determines that the applicant has met the applicable need criteria in WAC 246-310-210(2).

- (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.

Coulee Community Hospital is currently a provider of health care services to residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. As an acute care hospital, Coulee Community Hospital also currently participates in the Medicare and Medicaid programs. To determine whether all residents of the service area would continue to have access to a hospital's 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 any assurances regarding access to treatment.

To demonstrate compliance with this sub-criterion, Coulee Community Hospital provided a copy of its current Admission Policy (effective January 1, 2007) that would continue to be used at the replacement hospital. The policy outlines the process/criteria that Coulee Community Hospital uses to admit patients for treatment or care at the hospital. The policy also states that any patient requiring care is accepted for treatment at Coulee Community Hospital without regard to gender, age, disability, race, ethnicity, religion or source of payment. This policy is consistent with Certificate of Need requirements. [source: December 10, 2008, PUI documents]

To determine whether low income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. To determine whether the elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination.

Coulee Community Hospital currently provides services to Medicare and Medicaid eligible patients. Documents provided in the application demonstrate that it intends to maintain this status. For this project, a review of the policies and data provided for Coulee Community Hospital identifies the facility's financial resources as including both Medicare and Medicaid revenues. [source: Application, pp23-24 and Appendix 1]

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.

Coulee Community Hospital's current charity care policy outlines the process a patient would use to access this service. Further, the applicants included a 'charity care' line item as a deduction from revenue within the pro forma financial documents for the hospital. [source: December 10, 2008, PUI documents]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Located in Grant County, Coulee Community Hospital is one of 21 hospitals in the Central Region. According to 2004-2006¹⁰ charity care data obtained from HPDS, Coulee Community Hospital has historically provided significantly less than the average charity care provided in the region. Coulee Community Hospital's most recent three years (2004-2006) percentages of charity care for gross and adjusted revenues are 0.60% and 1.40%, respectively. The 2004-2006 average for the Central Region is 1.56% for gross revenue and 3.71% for adjusted revenue. [source: HPDS 2004-2006 charity care summaries]

Coulee Community Hospital's pro forma revenue and expense statements indicate that the hospital will provide charity care at approximately 0.60% of gross revenue and 0.78% of adjusted revenue. [source: Application, Appendix 4] RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. Given that the amount of charity care proposed to be provided at Coulee Community Hospital is below to the three-year historical gross and adjusted revenue averages for the region, the department concludes that a condition related to the percentage of charity care to be provided at Coulee Community Hospital is necessary if this project is approved.

With agreement to the charity care condition, the department concludes that all residents, including low income, racial and ethnic minorities, handicapped, and other under-served groups would have access to the services provided by the hospital. This sub-criterion is met.

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

Based on the source information reviewed, the department determines that the applicant has met the financial feasibility criteria in WAC 246-310-220(1), (2), and (3).

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

The estimated capital expenditure for the leaseback of Coulee Community Hospital is \$29,493,573; of that amount, \$23,279,988 is related to building and equipment acquisition costs; \$4,858,582 is related to permits, fees, and taxes; and \$1,354,903 is related to the site acquisition. [source: Application, p12]

Funding for the project would be obtained through the sale and leaseback arrangement between Coulee Community Hospital and the Foundation. The new debt will be amortized over 28 years beginning December 2008 and ending December 2036 at an interest rate of 7.50%. [source: November 4, 2008, supplemental information, Eide Bailly feasibility study, p3]

As part of the application preparation process, Coulee Community Hospital and the Foundation contracted with Eide Bailly to prepare a feasibility study and provide forecasted

¹⁰ Year 2007 charity care data is not available as of the writing of this evaluation.

revenues and expenses for the hospital.¹¹ The Eide Bailly study does not specifically reach any conclusions regarding whether this project is the best option for the community. However, it does provide relevant financial projections based on historical activity at the hospital. [source: November 4, 2008, supplemental information, Eide Bailly study]

To determine whether the replacement hospital would meet its immediate and long range operating costs, the department evaluated projected balance sheets for the first three full years of operation, beginning with partial year 2010 through full year 2013. A summary of the balance sheets is shown in Tables 1 below. [source: November 4, 2008, supplemental information, Eide Bailly study, pp4-5]

Tables 1
Coulee Community Hospital Balance Sheet for Projected Years 2010-2013
Year 2010

Assets		Liabilities	
Current Assets	\$ 10,216,345	Current Liabilities	\$ 3,342,645
Fixed Assets	\$ 30,715,154	Other Liabilities	\$ 30,500,000
Other Assets	\$ 4,834,320	Total Liabilities	\$ 33,842,645
		Equity	\$ 11,923,174
Total Assets	\$ 45,765,819	Total Liabilities and Equity	\$ 45,765,819

Year 2011

Assets		Liabilities	
Current Assets	\$ 13,195,135	Current Liabilities	\$ 3,725,845
Fixed Assets	\$ 29,064,354	Other Liabilities	\$ 29,925,000
Other Assets	\$ 3,876,785	Total Liabilities	\$ 33,650,845
		Equity	\$ 12,485,429
Total Assets	\$ 46,136,274	Total Liabilities and Equity	\$ 46,136,274

Year 2012

Assets		Liabilities	
Current Assets	\$ 14,648,456	Current Liabilities	\$ 3,934,727
Fixed Assets	\$ 27,373,554	Other Liabilities	\$ 29,320,000
Other Assets	\$ 4,268,686	Total Liabilities	\$ 33,254,727
		Equity	\$ 13,035,969
Total Assets	\$ 46,290,696	Total Liabilities and Equity	\$ 46,290,696

Year 2013

Assets		Liabilities	
Current Assets	\$ 16,444,115	Current Liabilities	\$ 4,099,483
Fixed Assets	\$ 25,662,754	Other Liabilities	\$ 28,685,000
Other Assets	\$ 4,660,587	Total Liabilities	\$ 32,784,483
		Equity	\$ 13,982,973
Total Assets	\$ 46,767,456	Total Liabilities and Equity	\$ 46,767,456

¹¹ Eide Bailly was founded in 1917, and provides audit, accounting, tax, and consulting services from eleven offices in the western United States. Eide Bailly is the country's 18th largest certified public accounting firm.

In addition to the projected balance sheets summarized above, the applicant also provided its Statement of Operations for years 2010 through 2013. [source: November 4, 2008, supplemental information, Eide Bailly study, p6 & p36] A summary of the Statement of Operations is shown in Table 2 below.

Table 2
Applicant's Projected Statement of Operations Summary
Years 2010 through 2013

	Year 1 (2010)	Year 2 (2011)	Year 3 (2012)	Year 4 (2013)
# of Acute Care Beds	25	25	25	25
# of Hospital Patient Days*	5,250	5,250	5,250	5,250
% Occupancy of Hospital**	57%	57%	57%	57%
Net Revenue (includes outpatient)***	\$ 18,467,300	\$ 22,293,000	\$ 24,068,200	\$ 25,753,400
Total Expense (includes outpatient)	\$ 17,339,020	\$ 20,370,500	\$ 22,173,400	\$ 23,548,100
Net Profit or (Loss)	\$ 1,128,280	\$ 1,922,500	\$ 1,894,800	\$ 2,205,300
Net Revenue per patient per day	\$ 3,517.58	\$ 4,246.29	\$ 4,584.42	\$ 4,905.41
Total Expenses per patient per day	\$ 3,302.67	\$ 3,880.10	\$ 4,223.50	\$ 4,485.35
Net Profit or (Loss) per patient per day	\$ 214.91	\$ 366.19	\$ 360.91	\$ 420.06

*Patient days include both acute care and swing (nursing home) patient days. **Occupancy includes both acute care and nursing home patients. ***Includes deductions for charity care, bad debt, and contractual allowances

Eide Bailly based its projections shown in Table 2 on the assumptions summarized below. [source: November 4, 2008, supplemental information, Eide Bailly study, pp26-34]

- Historical trends for the hospital will continue, however, an increase in inpatient and outpatient services will occur, resulting in increased utilization at the hospital.
- The hospital's services will shift to more outpatient services.
- Two new physicians will be added to the hospital staff.
- No change in the service area or market share for the hospital.
- No change in payer mix for the hospital.
- Volumes are held flat to be conservative.

With the assumptions above, the applicants anticipate Coulee Community Hospital will operate the new hospital at a profit in the first partial year of operation (2010), which is expected to continue through year 2013.

As part of its study, Eide Bailly also provided an historical and projected debt service analysis for the hospital.¹² A summary of the projected analysis is shown in Table 3 on the following page. [source: November 4, 2008, supplemental information, Eide Bailly study, p9]

¹² A debt service is the cash required in a given period, usually one year, for payments of interest and current maturities of principal on outstanding debt. [source: Dictionary of Finance and Investment Terms]

**Table 3
Coulee Community Hospital Debt Service Analysis**

	Projected Financials			
	2010	2011	2012	2013
Total Income Available for Debt Service	\$ 2,929,900	\$ 4,326,764	\$ 4,324,950	\$ 4,712,664
Total Debt Service	\$ 135,779	\$ 2,177,110	\$ 2,414,229	\$ 2,416,104

Based on Coulee Community Hospital’s pro forma statements, Eide Bailly projects the hospital will have the funds available to pay down the debt obligation.

HPDS provided the following analysis related to the funding of the project. [source: December 19, 2008, HPDS analysis, p2]

“Coulee [Community] Hospital’s capital expenditure is projected to be \$29,493,573 or 253% of 2007 fye total assets. The applicant indicates it will finance this project with a Red Mortgage Capital, Inc mortgage backed by the United States Department of Housing and Urban Development (HUD) using Section 242 (242 program) of the Title II National Housing Act. Due to rules of the 242 program, Coulee Community Hospital must receive approval of the project from certain legal entities which includes Certificate of Need, before the 242 program can be used. Thus there is no approval from HUD that can be included in the discussion. The Red Mortgage has not finalized this application either. The applicant, based on their balance sheet projections, will retain the assets within the hospital district, rather than the Coulee Foundation non profit corporation. The applicant plans to use Coulee Foundation as a carrier of the debt and little else. The hospital district will make lease payments to Coulee Foundation that equal the debt payment. Coulee Foundation will make the debt payment. Review shows that while this project will have a considerable impact to the hospital, it will not adversely impact the financial health of the hospital if the patient volume is realized.¹³”

To analyze short- and long-term financial feasibility of hospital projects and to assess the financial impact of a project on overall facility operations, the department uses financial ratio analysis. The analysis provided by HPDS assesses the financial position of an applicant both historically and prospectively. The financial ratios utilized are **1)** long-term debt to equity ratio; **2)** current assets to current liabilities ratio; **3)** assets financed by liabilities ratio; **4)** total operating expense to total operating revenue ratio; and **5)** debt service coverage ratio. If a project’s ratios are within the expected value range, the project can be expected to be financially feasible.

For Certificate of Need applications, HPDS compares the projected ratios with the most recent year’s financial ratio guidelines for hospital operations. For this project, HPDS used

¹³ This is a new form of financing for public hospital districts. This analysis assumes the financing will be approved by HUD.

2007 data for comparison. The ratio comparisons are shown below. [source: December 19, 2008, HPDS analysis, p3]

**Table 4
Current and Projected HPDS Debt Ratios for Coulee Community Hospital**

Category	Trend*	State 2007	Current 2007	Projected 2011	Projected 2012	Projected 2013
Long Term Debt to Equity	B	0.527	0.072	2.397	2.249	2.051
Current Assets/Current Liabilities	A	2.135	2.785	3.542	3.723	4.011
Assets Funded by Liabilities	B	0.420	0.264	0.729	0.718	0.701
Operating Exp. to Operating Rev.	B	0.948	0.973	0.993	0.997	0.984
Debt Service Coverage	A	6.199	3.670	1.779	1.778	1.936

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

For 2007, the debt service coverage is the only ratio outside the normal range. This ratio reflects any construction, remodel, or upgrade projects that have occurred at the hospital. Coulee has engaged in a variety of these types of projects in the most recent years, which is demonstrated in the debt service coverage ratio.

After evaluating the hospital’s projected ratio’s for years 2011-2013, staff from HPDS provided the following analysis. [source: HPDS analysis, p3]

“Coulee is projected to have 1.6% profit margin in Year 3, which is acceptable. Any large construction project will skew certain ratios like long term debt to equity. This is normal and Coulee [Community Hospital’s] ratios show improvement each CON year of the review. Coulee [Community Hospital’s] financial health overall is average compared to other hospitals in Washington State.

Based on the information above, the department concludes that the immediate and long-range operating costs of the project can be and 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.

As stated in the project description section of this evaluation, the applicants intend to maintain all services at Coulee Community Hospital during and after the replacement facility is built and operational. As shown in Table 2 and further demonstrated within the application, the hospital’s charges are not projected to make a substantial net profit. Rather, the applicants propose that the new replacement hospital will continue to attract patients by offering its services in a modern atmosphere, with updated equipment. Staff from HPDS compared the proposed costs for services to the costs for services of existing, similar hospitals after the replacement hospital is completed. HPDS determined the costs and charges are reasonable and comparable. [source: HPDS analysis, p4]

Based on the information provided above, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health services within the service area. This sub-criterion is met.

(3) The project can be appropriately financed.

The estimated capital expenditure for the project, which includes both phases, is \$29,443,573. A breakdown of the costs is shown below. [source: Application, p12]

Table 5
Coulee Community Hospital Projected Capital Expenditures

Item	Amount
Site Acquisition	\$ 1,354,903
Building & Equipment Acquisition Costs	23,279,988
Other Acquisition Costs	4,858,682
TOTAL	\$ 29,493,573

Included in the “other acquisition costs” lines item is permits, fees, insurance, capitalized interest, and FHA required working capital.

Financing for the replacement facility will be obtained through a lease of the site of the hospital from the hospital district to the Foundation. The Foundation then enters into a leaseback and operating agreement with the hospital district for the hospital and the clinics. This arrangement allows the hospital district to continue operations and oversight of the hospital and the two clinics. The lease arrangement also allows the Foundation to obtain funding for the project from Red Mortgage Capital, an authorized FHA lender. Under this arrangement, the funds would be FHA insured during the duration of the loan.

In addition to evaluating whether the project can be appropriately funded as required under this sub-criterion, an evaluation of whether the proposed funding arrangements are appropriate is also necessary.

Revised Code of Washington (RCW) 70.44.240 allows a hospital district to enter into a contract with another entity to acquire, own, operate, manage, or provide hospital services. If this type of contract is executed, it must do so through a legally established non-profit corporation. The governing body of the non-profit corporation must include representation from the hospital district, which may include commissioners. Further, if this type of contract is executed, the non-profit entity may sell or lease property to another legal entity to carry out the hospital’s mission.

To comply with RCW 70.44.240 above, the hospital district entered into a contract with the Foundation. The Foundation was established shortly after the hospital became operational in the early 1960s. [source: Application, Appendix 1] The Foundation is a non-profit entity governed by a three-member board of directors. The Foundation seeks to involve as many citizens as possible throughout the community to participate as members. Each of the five hospital district commissioners is a member of the Foundation.

The department obtained documentation from the Grant County Assessor’s office demonstrating hospital district ownership of the site. The hospital district entered into a leaseback and operating agreement with the Foundation for the hospital and clinics, thereby

allowing the hospital district to continue operations and oversight of the hospital and clinics. [source: Application, Appendix 2]

To further assist in its review of whether the proposed funding arrangements are appropriate, the department also obtained documentation submitted during the review of a similar project in Benton County.¹⁴ The documents provided by that applicant's attorney discuss whether hospital districts have the authority to execute the lease and leaseback transaction. That documentation focuses on the similar project; however, it also provides a summary that is pertinent to this Coulee Hospital project. A portion of the summary pertinent to this project is restated below. [source: Letter dated October 29, 2008, addressed to Richard McCartan, AAG for Certificate of Need Program from Lori Nomura, attorney representing Kennewick General Hospital, p5]

“The district has determined that it is in the best interests of the residents of the district to modernize and expand the hospital. In order to complete the project in the most economical manner while protecting district assets, the district intends to lease the land and existing improvements to [Mid Columbia], which will mortgage its leasehold interest in order to finance and build the needed improvements. The District and [Mid Columbia] have the explicit authority to execute these transactions pursuant to Revised Code of Washington 70.44.240 and 24.03.035 respectively.”

In order to obtain financing for the Coulee replacement hospital and continue operations with oversight by the hospital district, several documents were established. The following documents were provided in draft form as part of the application.

Site Lease Agreement (Appendix 1)

This draft agreement is between Public Hospital District No. 6 Douglas, Grant, Lincoln, and Okanogan counties (lessor) and Coulee Medical Foundation (lessee). This draft agreement outlines the roles and responsibilities of each entity related to the lease of the hospital site to the Foundation. The duration of the lease is 50 years and the lease amount is one dollar (\$1.00) in total for the duration of the lease. This draft document is reasonable.

Lease Purchase Agreement (Appendix 2)

This draft agreement is between Coulee Medical Foundation (lessor) and Public Hospital District No. 6 Douglas, Grant, Lincoln, and Okanogan counties (lessee). This is the leaseback agreement between the two entities. The leaseback agreement allows the hospital district to maintain operations and oversight of the hospital. It further allows the hospital district to repay the amount borrowed to fund the replacement hospital. The duration of the lease is 50 years, however, the repayment schedule provided as an attachment to the draft agreement (Exhibit B) projects the payoff date in 25 years. Payments begin after the replacement facility is built, approximately year 2010. The repayment schedule includes estimated principal, interest, and mortgage insurance premium amounts. This draft document is reasonable.

¹⁴ Kennewick General Hospital, CN Application #09-01.

Regulatory Agreement–US Department of Housing and Urban Development (Appendix 7)

The draft Regulatory Agreement is used by US Department of Housing and Urban Development (HUD) as a loan application and is required by HUD to be completed before borrowing any funds. It outlines the roles and responsibilities of the borrower (Foundation) and lender (HUD). The final document is notarized and filed by the Federal Housing Commission. This draft document is reasonable.

Approval Covenants for HUD Section 242 Mortgage Insurance (Appendix 8)

The Covenants Approval document is used by HUD as an attachment to the Regulatory Agreement (above). It further outlines the roles and responsibilities of the borrower (Foundation) and lender (HUD). Attachments to the document include the hospital's 2008 balance sheet and statement of operations. Both of these financial documents are provided in the application and used by the applicant as a basis for preparing pro forma documents. This draft document is reasonable.

Rider to Regulatory Agreement for HUD Section 242 Mortgage Insurance (Appendix 8)

The draft Rider document is required to be added to the Regulatory Agreement (above) and outlines further responsibilities of the borrower (Foundation). It provides direction to the borrower for subsequent mergers, any affiliate transactions, and requires the establishment of a mortgage reserve fund. It further requires submission of specific annual financial reports, biannual business plan/consultant reports, quarterly construction reports, and annual independent audit reports. This draft document is reasonable.

Given that the five documents provided above are in draft format, if this project is approved, the department will require the applicants to provide a copy of all five final, signed documents.

Based on the documentation provided by the applicants and documentation obtained during the review of this project, the following conclusions can be reached related to this sub-criterion.

- The Foundation is a non-profit corporation as required under RCW 70.44.240.
- The Foundation governing board includes representatives of the hospital district.
- The draft lease and leaseback agreements between the hospital district and the Foundation are structured to ensure the districts ownership interest in the land and the new replacement hospital are protected.
- The district will maintain operational authority of the Coulee Community Hospital.

Based on the information provided above and with the applicants' agreement to the terms outlined on pages 4 and 5 of this evaluation, the department concludes that the 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, the department determines that the applicant has met the structure and process (quality) of care criteria in WAC 246-310-230(1), (2), (3), (4), and (5).

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

Coulee Community Hospital will continue operations while the replacement hospital is being built. All hospital employees will be offered continued employment, including those on statutory family or medical leave or other short-term leave. Additionally, all privileges for medical staff members will continue. [source: Application, p39]

Based on documents provided in the application, the department determines 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.

As an operating facility, Coulee Community Hospital has long-established and well functioning relationships with health and social service providers in the area. The applicants do not anticipate any new working relationships at this time, but will consider additional relationships as opportunities arise. [source: Application, p39]

The department concludes that there is reasonable assurance that Coulee Community Hospital will continue to maintain the necessary relationships with ancillary and support services to provide healthcare in the surrounding communities. Approval of this project would not negatively affect these relationships. 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.

Coulee Community Hospital will continue to provide Medicare and Medicaid services to the residents of Grant, Okanogan, Lincoln, and Douglas counties and surrounding communities.

The Department of Health's Office of Health Care Survey (OHCS) has completed two surveys at the hospital for year 2007 and 2008.¹⁵ There was no adverse licensing action as a result of these surveys. [source: facility survey data provided by the Office of Health Care Survey]

Based on the historical compliance history of Coulee Community Hospital, there is reasonable assurance that the replacement hospital would continue to operate in conformance with applicable state and federal licensing and certification requirements. This sub-criterion is met.

¹⁵ Surveys completed April 2007 and September 2008.

- (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.

Coulee Community Hospital is a 25-bed critical access hospital (CAH) and a designated as a level 4 adult trauma facility. The hospital provides acute care and skilled nursing services to the surrounding communities in Grant, Okanogan, Lincoln, and Douglas counties.

Continuity in the provision of health care will be accomplished with the replacement of Coulee Community Hospital because it will continue operating as the replacement facility is being built. Further continuity will be accomplished after the replacement facility is operational because it will offer the same services in an updated environment.

Based on the above information, the department concludes that Coulee Community Hospital will continue to promote continuity in the provision of health care services in the community, and 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.

This sub-criterion is addressed in sub-section (3) above and is met.

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

Based on the source information reviewed, the department determines that the applicant has met the cost containment criteria in WAC 246-310-240 (1).

- (1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.

The applicants provided the background information related to the proposed lease of Coulee Community Hospital to allow the replacement facility to be built. After reviewing the process undertaken by the hospital to build the replacement hospital and continue to maintain operational responsibilities by the hospital district, the department concludes that the project described as a lease and leaseback of Coulee Community Hospital is the best available alternative for the community. 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;

As stated in the project description portion of this evaluation, this project involves construction. This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined the sub-criterion was met, therefore, this sub-criterion would also be considered 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.

This sub-criterion is also evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined the sub-criterion was met, therefore, this sub-criterion would also be considered met.

Based on the above evaluation, the department concludes that costs, scope, and methods of construction and energy conservation are reasonable, and this sub criterion is met.