STATE OF WASHINGTON

DEPARTMENT OF HEALTH

Olympia, Washington 98504

April 24, 2017

CERTIFIED MAIL # 7016 0910 0000 3454 9269

Ron Escarda, Executive Officer
BHC Fairfax Hospital, Inc.
10200 Northeast 132nd Street
Kirkland, Washington 98034

RE: Certificate of Need Application #16-40

Dear Mr. Escarda:

We have completed review of the joint Certificate of Need application submitted by Providence Health & Services dba Providence St. Peter Hospital and Universal Health Services, Inc. - BHC Fairfax Hospital, Inc. The joint application proposes to establish an 85-bed psychiatric hospital located in Thurston County. Enclosed is a written evaluation of the application.

For the reasons stated in this evaluation, the department has concluded that the project is not consistent with the Certificate of Need review criteria identified below, and a Certificate of Need is denied.

Washington Administrative Code 246-310-220	Financial Feasibility
Washington Administrative Code 246-310-230	Structure and Process of Care
Washington Administrative Code 246-310-240	Cost Containment

This decision may be appealed. The two appeal options are listed below.

Appeal Option 1:
You or any person with standing may request a public hearing to reconsider this decision. The request must state the specific reasons for reconsideration in accordance with Washington Administrative Code 246-310-560. A reconsideration request must be received within 28 calendar days from the date of the decision at one of the following addresses:

Mailing Address:	Physical
Department of Health	Department of Health
Certificate of Need Program	Certificate of Need Program
Mail Stop 47852	111 Israel Road SE
Olympia, WA 98504-7852	Tumwater, WA 98501

Appeal Option 2:
You or any person with standing may request an adjudicative proceeding to contest this decision within 28 calendar days from the date of this letter. The notice of appeal must be filed according to the provisions of Revised Code of Washington 34.05 and Washington Administrative Code 246-310-610. A request for an adjudicative proceeding must be received within the 28 days at one of the following addresses:

Mailing Address:	Physical Address
Department of Health	Department of Health
Adjudicative Service Unit	Adjudicative Service Unit
Mail Stop 47879	111 Israel Road SE
Olympia, WA 98504-7879	Tumwater, WA 98501

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,

Steve Bowman, PhD, MHA
Director, Office of Community Health Systems

Enclosure

STATE OF WASHINGTON

DEPARTMENT OF HEALTH

Olympia, Washington 98504

April 24, 2017

CERTIFIED MAIL # 7016 0910 0000 3454 9276

Medrice Coluccio, Chief Executive
Providence Health & Services dba
Providence St. Peter Hospital
413 Lilly Road Northeast
Olympia, Washington 98506

RE: Certificate of Need Application #16-40

Dear Ms. Coluccio:

We have completed review of the joint Certificate of Need application submitted by Providence Health & Services dba Providence St. Peter Hospital and Universal Health Services, Inc. - BHC Fairfax Hospital, Inc. The joint application proposes to establish an 85-bed psychiatric hospital located in Thurston County. Enclosed is a written evaluation of the application.

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Sincerely,

Steve Bowman, PhD, MHA
Director, Office of Community Health Systems

Enclosure

EVALUATION DATED APRIL 24, 2017, OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY PROVIDENCE HEALTH & SERVICES-WASHINGTON DBA ST. PETER HOSPITAL AND UNIVERSAL HEALTH SYSTEMS-BHC FAIRFAX, INC. ON BEHALF OF OLYMPIA BEHAVIORAL HEALTH, LLC PROPOSING TO CONSTRUCT AN 85-BED PSYCHIATRIC HOSPITAL IN THURSTON COUNTY

APPLICANTS DESCRIPTION

Providence Health & Services Washington d/b/a St. Peter Hospital (PSPH)

Providence St. Joseph Health is the parent organization of Providence Health & Services and St. Joseph Health, enabling the family of organizations to work together to meet the needs of its communities, both today and into the future. Formed in 2016, the Providence St. Joseph Health family includes the founding organizations, and in: Texas, Covenant Health and Covenant. Providence St. Joseph Health is committed to improving the health of the communities it serves, especially those who are poor and vulnerable. With 50 hospitals. 829 physician clinics, senior services. supportive housing and many other health and educational services, the health system and its partners employ more than 100,000 caregivers (employees) serving communities across sewn states -Alaska, California, Montana, New Mexico, Oregon, Texas and Washington. With system offices based in Renton, Wash. and Irvine, Calif. [source: Providence St. Joseph Health website] Providence Health & Services is the third largest not-for-profit health system in the United States, with facilities located in Alaska, Washington, Montana, Oregon and California. within the Providence Health & Services system, PSPH is a not-for-profit hospital located in Olympia that has been serving the Southwest Washington community since 1887. PSPH is currently licensed for 390 acute care beds, which includes 20 psychiatric beds dedicated to adult patients 18 years of age and older. PSPH offers comprehensive behavioral health, medical and surgical services, specializing in orthopedic, cancer, heart and neurological care. The hospital is designated within the state's EMS and trauma system as a Level III adult trauma provider and a Level II adult trauma rehabilitation provider. [source: Application, pg. 11]

Universal Health Systems (UHS)

UHS is one of the largest and most respected hospital management companies in the nation, with a mission to provide superior quality health care services. As of February 25, 2016, UHS subsidiaries owned and/or operated 24 acute care hospitals and 213 inpatient and 16 outpatient behavioral health centers in 37 states, Washington, D.C., Puerto Rico, the U.S. Virgin Islands and the United Kingdom. As of December 31, 2015, UHS operated 21,202 licensed behavioral health beds, providing 5,835,134 patient days in that year.

UHS is the largest facility-based behavioral health provider in the country. In 1983, UHS began providing behavioral health care through the acquisition of four behavioral health facilities, establishing a philosophy of caring for patients who need mental health services with kindness, dignity, and respect, while providing a supportive environment and treatment to help them heal. Among the services UHS offers are acute inpatient behavioral health care, partial hospitalization, outpatient and residential treatment programs dedicated to addiction and chemical dependency, bipolar disorders, depression, geriatric needs, post-traumatic stress, and psychotic diagnoses. UHS also offers specialty programs for autism spectrum disorders.

UHS has five psychiatric facilities in the Pacific Northwest: Fairfax Behavioral Health in Kirkland, Washington; Fairfax Behavioral Health Everett, a 30-bed adult psychiatric hospital located in Everett, Washington; Fairfax Behavioral Health Monroe, a 34-bed adult psychiatric hospital located in

Monroe, Washington; Schick Shadel Hospital, an alcohol and drug rehabilitation hospital in Seattle, Washington; and Cedar Hills Hospital located in Beaverton, Oregon. [source: Application, pgs. 14-15] [1]

BHC Fairfax Hospital (Fairfax) was established in the 1930's. On August 25, 2011 Certificate of Need #1451 was issued to UHS for the purchase of BHC Fairfax Hospital.[2] Fairfax is a private, freestanding facility that specializes in psychiatric and chemical dependency treatment. Fairfax is licensed as a 157-bed Psychiatric and Substance Abuse Hospital by the Washington Department of Health. It also provides partial hospitalization services, assessment and referral services, and a clinical [source: Application, pg. 5][3] In addition, Fairfax in recent years has received approval from the Department to operate a 30-bed psychiatric hospital located on the Providence Regional Medical Center Everett campus ("Fairfax Behavioral Health Everett"), which has been operational since September 2014, and a 34-bed psychiatric hospital located on the Valley General Hospital campus ("Fairfax Behavioral Health Monroe"), which opened in January 2016. A joint venture between Fairfax and Providence Health & Services dba Providence Sacred Heart Medical Center received a Certificate of Need in February 2016 to establish a 100-bed freestanding psychiatric hospital in Spokane. [source: Application, pg. 15]

Olympia Behavioral Health, LLC (OBH)

Olympia Behavioral Health, LLC is to be a joint venture between Providence Health & Services – Washington ("Providence") dba Providence St. Peter Hospital ("PSPH") and BHC Fairfax Hospital, Inc. ("Fairfax"). OBH is to be a operated as a for-profit corporation. [source: Application, pg. 2] The Statement of Mutual Intent & Term Sheet for Olympia Behavioral Health to jointly develop and operate a psychiatric hospital. It is anticipated that the parties shall enter into final definitive agreements upon issuance of the Certificate of Need for this project. [source: Application, pg. 9]

For reader, OBH will be used to refer the proposed hospital or the joint applicants. When necessary UHS will be used for Universal Health Systems, PSPH will be used for Providence Health & Services Washington d/b/a Providence St. Peter Hospital, and Fairfax will be used for BHC Fairfax, Inc. and PSPH will be used for Providence Health & Services Washington d/b/a Providence St. Peter Hospital.

PROJECT DESCRIPTION

PSPH and Fairfax are jointly seeking a Certificate of Need to establish Olympia Behavioral Health, a new, 85-bed freestanding psychiatric hospital, which will be located in Thurston County. The site for the new hospital is identified as Thurston County parcel number 118-02-310200 located at 3100 Marvin Road NE. Lacey Washington. [source: Screening Responses, Exhibit 37-Signed Purchase & Sale Agreement-exhibit A Legal Description, pg. 85] Combined with the projected net need for 65 beds in year 2031, the project would transition up to 20 inpatient psychiatric beds from PSPH to Olympia Behavioral Health, for a total of 85 beds at the new psychiatric hospital. Olympia Behavioral Health will serve both voluntary and involuntary patients ages five years and older. Among its services, Olympia Behavioral Health will provide acute inpatient behavioral health care, partial hospitalization, outpatient and residential treatment programs dedicated to addiction and chemical dependency, bipolar disorders, depression, geriatric needs, post-traumatic stress and psychotic diagnoses. [source: Application, pg. 17]

[1] Schick Shadel Hospital is licensed as an Alcohol and Chemical Dependency Hospital license number HALC.FS.60238024. [source: DoH Integrated Licensing & Regulatory System (ILRS)]

[2] Certificate of Need historical records.

[3] Fairfax Hospital is licensed as a 133 psychiatric hospital license number HPSY.FS.00000004. Fairfax also is licensed as a 24 bed Alcohol and Chemical Dependency Hospital license number HALC.FS.00000009. [source: DoH ILRS]

The capital expenditure associated with this project is $33,525,300. [source: Screening Responses, pg. 10] Of that amount 83% is related to land purchase, land improvements, site preparation, construction and fixed equipment; 1.3% for moveable equipment; and the remaining 11.7% is related to fees, permits, and state taxes. [source: Screening Responses, pg. 10]

OBH is scheduled to open in January 2018. [source: Application pg. 26-footnote 16, pg. 34, pg. 40, and pg. 71] Under this timeline, year 2018 is full year one and year 2020 is full year three.

APPLICABILITY OF CERTIFICATE OF NEED LAW

OBH's application is subject to review as the construction, development, or other establishment of new health care facility under Revised Code of Washington (RCW) 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, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need) including applicable portions of the 1987 Washington State Health Plan; 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).

TYPE OF REVIEW

This application was reviewed under the regular review timeline outlined in WAC 246-310-160, which is summarized below.

APPLICATION CHRONOLOGY

Action	OBH
Letter of Intent Submitted	April 22, 2016
Application Submitted	June 21, 2016
Department's Pre-review Activities	
• Department's 1st Screening Letter	July 13, 2016
• Applicant's Responses Received to 1st Screening Letter	September 21, 2016[4]
• Department's 2nd Screening Letter	N/A-Applicant requested the review begin w/o 2nd screening
• Applicant's Responses Received to 2nd Screening Letter	N/A
Beginning of Review	September 28, 2016
End of Public Comment	
• Public comments accepted through the end of Public comment period	November 16, 2016
• Public hearing conducted	November 16, 2016
Rebuttal Comments Received	December 1, 2016
Department's Anticipated Decision Date	January 17, 2017
Department's Actual Decision Date	April 24, 2017

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."

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

[4] The applicant requested a 30 day extension to respond to screening questions.

(g) Any person regularly using health care facilities within the geographic area to be served by the applicant.

For this application eight individuals or entities sought interested person status. Of those three also requested affected person status. The following individuals or entities asked for "*interested*" and/or "*affected person*" status.

- MultiCare Health System
- Cascade Behavioral Health
- US HealthVest-Vest Thurston, LLC
- SEIU Healthcare 1199NW
- Health Facilities Planning and Development
- The Olympian

MultiCare Health Systems

MultiCare Health Systems requested interested person status and to be informed of the department's decision. MultiCare Health Systems does not have an acute care hospital located in Olympia or Thurston County. Nor does MultiCare Health Systems have a psychiatric hospital located in Thurston County. MultiCare Health Systems does not meet the definition of an "*interested person*" under WAC 246-310-010(34). Because MultiCare Health Systems does not meet the definition of an "*interested person*", it cannot qualify as an "*affected person*" as it relates to this application.

Cascade Behavioral Health (Cascade)

Cascade requested interested person status. Cascade is a psychiatric hospital located in Tukwila, Washington within King County. Cascade does not have an acute care hospital located in Olympia or Thurston County. Nor does Cascade does not have a psychiatric hospital located in Thurston County. Therefore Cascade does not meet the definition of an "*interested person*" under WAC 246-310-010(34). Because Cascade does not meet the definition of an "*interested person*", it cannot qualify as an "*affected person*" as it relates to this application.

US HealthVest-Vest Thurston, LLC (US HealthVest)

US HealthVest-Vest Thurston, LLC requested interested person status and requested to be informed of the department's decision. US HealthVest had received a Certificate of Need for the construction of an new 75-bed psychiatric hospital to be located in Lacey, Washington within Thurston County on July 6, 2016. US HealthVest provided comments during the public hearing held on November 16, 2016. The department concludes US HealthVest meets the definition of an "*interested person*" under WAC 246-310-010(34). The department also concludes US HealthVest qualifies as an "*affected person*" as it relates to this application.

SEIU Healthcare 1199NW (SEIU 1199)

SEIU 1199 is a statewide union of nurses and healthcare workers. SEIU 1199 is also a part of Service Employees International Union. SEIU 1199 requested interested person status. That request asked for a copy of the application when it was submitted and then register as an interested party. The request did not ask to be notified of the department decision. SEIU does not own or operate an acute care or psychiatric hospital located in Olympia or Thurston County. SEIU 1199 does however represent employees working within Providence Health System-St. Peter Hospital. SEIU 1199 provided comments during the public hearing held on November 16, 2016. The department concludes SEIU 1199 meets the definition of an "*interested person*" under WAC 246-310-010(34). Although SEIU

1199 meets the definition of an "*interested person*", it's interested person request failed to ask to be informed of the department's decision (WAC 246-310-010(2)(c)), therefore SEIU 1199 does not qualify as an "*affected person*" as it relates to this application.

Health Facilities Planning and Development (HFPD)
Health Facilities Planning and Development requested to be an interested person and receive all correspondence regarding this application. HFPD is a healthcare consulting firm located in Seattle, Washington within King County. HFPD does not own or operate an acute care or psychiatric hospital located in Olympia or Thurston County. HFPD does not meet the "*interested person*" qualifications identified in WAC 246-310-010(34).

SOURCE INFORMATION CONSIDERED

- OBH's Certificate of Need application submitted June 21, 2016
- OBH's Screening Responses received September 28, 2016
- Public comments received by the department through the close of business November 16, 2016
- Public hearing comments received at the public hearing conducted on November 16, 2016
- OBH rebuttal documents received December 1, 2016
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Department of Health's Charity Care Program financial feasibility and cost containment analysis
- Historical charity care data for years 2013, 2014, and 2015 obtained from the Department of Health Charity Care Program
- Department of Health internal database-Integrated Licensing & Regulatory System (ILRS)
- Joint Commission quality check website at [www.qualitycheck.org]
- Certificate of Need historical files
- Providence St. Joseph Health Website (http://www.psjhealth.org/about-us)
- Universal Health Services, Inc. Website (http://www.uhsinc.com/)
- Cedar Hill Hospital Website (http://cedarhillshospital.com/)
- Washington State Secretary of State-Corporation Registration
- Thurston GeoData Center-parcel lookup
- Google Maps-hospital site information
- Office of Financial Management-Population data-Washington State Growth Management Population Projections for Counties 2010-2040 (2012 County age and sex projections, five-year intervals and age groups-Medium series (http://www.ofm.wa.gov/pop/gma/projections12/projections12.asp)
- Department of Health Year End Financial Statements

Change in Applicant Determination

During the review of this application, the issue of whether one of the applicant's changed during the course of the review. The department asked whether the department's understanding was correct that Providence Health & Services merged with St. Joseph Health and that a new organization is Providence St. Joseph. If the department's understanding was incorrect, the screening question asked for an explanation. [screening question 1] In response, OBH provided the following:

> *"The recent transaction between Providence Health & Services and St. Joseph Health is not a merger, but an affiliation. The new affiliation creates a new "super-parent," Providence St. Joseph Health, which will become the sole corporate member of Providence Health & Services. It is important to note that Providence Health & Services remains a viable corporation as well as any and all subsidiaries and D/B/As that fall under that corporate umbrella. This new affiliation between Providence Health & Services and St. Joseph Health does not change the name or corporate structure of Providence Health & Services."* [source: Rebuttal, pg. 2]

Public Comment

- *"…Subsequent to the filing of the application, PHSW underwent a fundamental change in its corporate structure such that a change of control has occurred. In July 2016, PHSW's sole corporate member, Providence Health & Services (PH&S), adopted a new corporate parent—Providence St. Joseph Health. Previously, PHSW reported solely to PH&S, but it now has an added layer of corporate oversight in the form of Providence St. Joseph Health. Providence St. Joseph Health's Articles specifically outline systemic oversight over PH&S entities, including PHSW. Attachment A (Articles of Incorporation), Article 4 (new parent operates " for the benefit of, to perform the functions of, or to carry out the purposes of" the lower-level entities including PHSW). Such control makes it likely the Combination will have practical power over PHSW's practices, principles, and/or priorities. In Washington State, the CN Program has consistently found that a change of control occurring mid-course in a CN review invalidates the CN application and requires a "restart".*

  The Program should be aware that the State of California vetted the merger and found the change to constitute a change in governance and control requiring the consent of the California Attorney General. Attachment B.[2] As part of its application for that approval, Providence submitted the Health System Combination Agreement between PH&S and St. Joseph Health System that created Providence St. Joseph Health.[3] The Combination Agreement states that: "The Parties desire to unite SJHS and PH&S as a fully integrated, Catholic-sponsored, nonprofit, charitable health care system (the 'Combination')." Attachment C (Combination Agreement), p. l. The Combination is a "permanent relationship between the Parties." Combination Agreement p. 2. It has immediate consequences for the operations and structure of Providence, including the replacement of PH&S's board with the board members of the new oversight entity. Combination Agreement pp. 4-5.

  Beyond doubt, this is more than the loose "affiliation" that the applicants suggested in their response to screening. This is a fusion of oversight, governance and finance that has both direct or indirect impacts across Providence entities, including PHSW.

  An affiliation or membership restructuring of this sort constitutes a change in control such that the new corporate parent is an applicant for purposes of WAC 246-310-010(6). The

application does not contain adequate information about the new parent entity for the Program to fully determine the new parent's role in the joint venture; and the new entity is not reflected in the Providence organizational chart offered by the joint venture in its CN application.

The applicant carries the burden of explaining how changes to PHSW's corporate structure in the form of a new parent company and an affiliation or combination with an out-of-state nonprofit corporation do not amount to a change in control, especially in light of the State of California's review and conditional approval of the transaction as a change in control and governance.

The applicant carries the burden of explaining how changes to PHSW's corporate structure in the form of a new parent company and an affiliation or combination with an out-of-state nonprofit corporation do not amount to a change in control, especially in light of the State of California's review and conditional approval of the transaction as a change in control and governance. [source: Public Comment US HealthVest, Martina Sze, Executive Vice President]

Rebuttal

- *"Providence Health & Services ("PH&S"), a Washington non-profit corporation and sole corporate member of Providence Health & Services - Washington ("Providence"), provides health care services to communities across Alaska, Washington, Montana, Oregon and California.*

  Recently, Providence and St. Joseph Health System, a California non-profit corporation, became affiliated. The new affiliation creates a new "super-parent," Providence St. Joseph Health, a Washington non-profit corporation, which will become the sole corporate member of PH&S. It is important to note that PH&S remains a viable corporation, as well as any and all subsidiaries and D/B/As that fall under that corporate umbrella. This new affiliation between PH&S and St. Joseph Health System does not change the name or corporate structure of PH&S or Providence." [source: Rebuttal, pg. 12]

Department Evaluation

Included with Ms. Sze's comments was a copy of the Articles of Incorporation for Providence St. Joseph Health filed with the Washington State Secretary of State on December 2, 2015 and a letter from the California Department of Justice. [source: Public Comment US HealthVest, Martina Sze, Executive Vice President and Washington State Secretary of State website.]

The department reviewed Attachment A to Articles of Incorporation of Providence St. Joseph Health.

Article 4 Purposes state the following:
"…Further, the
Corporation is organized and shall be operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of those specified organizations listed on Exhibit A, all of which are organizations described in the Code and other than private foundations by reason of their being described in Section 509(a)(l) or Section 509(a)(2) of the Code. Consistent with the foregoing, the Corporation has been formed to directly conduct activities that will achieve the following purposes:

(a) To serve as the parent corporation for Providence Health & Services, a Washington nonprofit corporation ("PH&S") and St. Joseph Health System, a California nonprofit public benefit corporation ("SJHS"); …

(c) To facilitate the establishment, operation, management and maintenance for charitable purposes of, hospitals, nursing homes, and other health care, educational, and social service facilities and programs designed to meet the health, educational and social needs of the communities served by the Corporation;…

Exhibit A

1. Providence Health & Services- Washington
2. Providence Health System - Southern California
3. Providence Health & Services - Oregon
4. Providence Health & Services - Montana
5. Mission Hospital Regional Medical Center
6. Queen of the Valley Medical Center
7. St. Joseph Hospital of Orange
8. St. Joseph Hospital of Eureka
9. St. Jude Hospital
10. Santa Rosa Memorial Hospital
11. St. Mary Medical Center
12. Redwood Memorial Hospital of Fortuna
13. St. Jude Hospital Yorba Linda"

The department also reviewed the State of California Department of Justice (CA-DOJ) June 21, 2016 letter regarding *"Proposed change in control and governance of Providence Health & Services and St. Joseph Health System"* and the Health System Combination Agreement attached to that letter.

The letter CA-DOJ letter provides the following statements.

> *"Pursuant to Corporations Code section 5920 et seq., the Attorney General hereby conditionally consents to the proposed change in governance and control of St. Joseph Health System, a California nonprofit public benefit corporation, and Providence Health & Services, a Washington nonprofit corporation, pursuant to the terms of the Health Services Combination Agreement dated November 23, 2015 and Supplemental Agreement dated September 30, 2015."* [source: State of California Department of Justice June 21, 2016 letter]

Health System Combination Agreement

Recitals (g)

"The Parties desire to unite SJHS and PH&S as a fully integrated, Catholic sponsored, nonprofit, charitable health care system (the "Combination")."

Article 2-The Combination Structure

'Corporate Structure. The Parties intend to form a fully integrated, Catholic sponsored, nonprofit charitable health care system (the "New System"), through which their respective ministries and operations will be combined as follows:

(a) Formation of NewCo. Prior to the Closing Date, the Parties shall form Providence St. Joseph Health, a new Washington nonprofit corporation to become the sole corporate member of each of the Parties effective as of the Closing Date (as hereinafter defined) ("NcwCo"). The purposes of NewCo shall include: (i) serving as the corporate member of PH&S and SJHS; and (ii) maintaining the relationships the Parties have established with like-minded faith-based and secular organizations. In such capacity, NewCo shall provide overall mission, vision, strategic, financial and operational direction for such ministries and organizations. As soon as possible following the Execution Date, the Parties shall apply for federal income tax exempt status for NewCo."

Washington Administrative Code (WAC) 246-310-010(6) defines "*Applicant*" to mean:

"Applicant, means:

a) Any person proposing to engage in any undertaking subject to review under chapter 70.38 RCW; or

b) Any person or individual with a ten percent or greater financial interest in a partnership or corporation or other comparable legal entity engaging in any undertaking subject to review under chapter 70.38 RCW." Emphasis added.

WAC 246-310-010(42) defines person for Certificate of Need purposes. Person is defined as follows:

"Person" means an individual, a trust or estate, a partnership, a corporation (including associations, joint stock companies, and insurance companies), the state, or a political subdivision or instrumentality of the state, including a municipal corporation or a hospital district."

For this evaluation, the department focused on WAC 246-310-010(6)(b). The department also reviewed its past decisions concerning this issue. In 2012 the department there had been the a change in the applicant as a result of the Ascend Health Corporation sale to UHS. The North Pointe Behavioral Health, LLC, which was a wholly owned subsidiary of Ascend Health Corporation when this application was submitted, would no longer exist. In that decision, North Pointe argued that the applicant hadn't changed because every individual/partnership with a ten percent or greater financial interest in Ascend Health Corporation would continue at the same level of financial interest in North Pointe. [source: CoN Decision CN12-12] In this application Providence argues "*PH&S remains a viable corporation, as well as any and all subsidiaries and D/B/As that fall under that corporate umbrella."* Although the corporation still exists, the Providence Health & Services organization is not the same today as the organization at the time the application was submitted. A new organization Providence St. Joseph now has a 100 percent financial interest. Therefore, based on the information considered, the department concludes one of the co-applicants has changed.

CONCLUSIONS

For the reasons stated in this evaluation, the application submitted by Providence Health System-St. Peter Hospital and Universal Health Systems-BHC Fairfax, Inc. on behalf of Olympia Behavioral Health, LLC proposing to construct an 85-bed psychiatric hospital located Lacey, within Thurston County, is not consistent with applicable criteria of the Certificate of Need Program and a Certificate of Need is denied.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and Providence Health System-St. Peter Hospital and Universal Health Systems-BHC Fairfax, Inc. on behalf of Olympia Behavioral Health, LLC agreement to the conditions identified in the conclusion section of this evaluation, the department concludes Providence Health System-St. Peter Hospital and Universal Health Systems-BHC Fairfax, Inc. on behalf of Olympia Behavioral Health, LLC has 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 an acute care bed forecasting method. The determination of numeric need for acute care hospital beds is performed using the Hospital Bed Need Forecasting method contained in the 1987 Washington State Health Plan (SHP). Though the SHP was "*sunset*" in 1989, the department has concluded that this methodology remains a reliable tool for predicting baseline need for acute care beds. The 1987 SHP also has a numeric methodology for projecting psychiatric bed need; however the department is unable to obtain the required data to apply this methodology. 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.

OBH—Numeric Need Methodology

- "*Given the limited number of psychiatric beds for a population the size of Thurston County, residents are forced to out-migrate to receive needed inpatient psychiatric services.*" [source: Application, pg. 30]
- *"By adopting the most conservative forecast that excludes the effects of net in-migration into the planning area, there is net need for 65 beds in the year 2031 (a 15-year forecast period). As part of our joint venture, we propose to relocate up to 20 inpatient psychiatric beds at PSPH when Olympia Behavioral Health becomes operational, such that net need is at least 85 beds in 2031 (65+20). This proposed reduction of inpatient psychiatric beds at PSPH is part of the joint venture proposal and would only take place if our Certificate of Need application is approved."* [source: Application, pg. 31]
- *"As shown below, there is current and forecast need for inpatient psychiatric beds in Thurston County. This project will help address that current and forecast need by providing the following services:*
  - *Adult inpatient crisis stabilization and mental health programs*
  - *Inpatient child and adolescent psychiatric services for patients five to seventeen years old*
  - *Patriot Support Program to provide veterans with behavioral and mental health services*
  - *Intensive outpatient and partial hospitalization services "*[source: Application, pg. 33]
- *"Table 12. Thurston County Psychiatric Bed Need Projections*

	2016	2017	2018	2019	2020	2021	2022	2023
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
5 to 17 Year Old Model								
Thurston County Population, Ages 5 to 17 Year Olds	44,030	44,575	45,127	45,686	46,269	46,769	47,274	47,785
Target Bed Ratio (NW Average Less WA)	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3

	2016	2017	2018	2019	2020	2021	2022	2023
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Gross Bed Need at Target Ratio	12.00	12.15	12.30	12.45	12.61	12.74	12.88	13.02
Current supply	0	0	0	0	0	0	0	0
Net Psych Bed Need, 5 to 17 Years Old	**12.0**	**12.1**	**12.3**	**12.4**	**12.6**	**12.7**	**12.9**	**13.0**
18+ Year Old Model								
Thurston County Population, Ages 18+ Year Olds	210,565	214,111	217,716	221,382	225,268	228,477	231,732	235,033
Target Bed Ratio (NW Average Less WA)	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3
Gross Bed Need at Target Ratio	57.38	58.35	59.33	60.33	61.39	62.26	63.15	64.05
Current supply	20	20	20	20	20	20	20	20
Net Psych Bed Need, 18+ Years Old	**37.4**	**38.3**	**39.3**	**40.3**	**41.4**	**42.3**	**43.1**	**44.0**
Summary Net Need, 5+								
Net Psych Bed Need, 5+ Years Old	**49.4**	**50.5**	**51.6**	**52.8**	**54.0**	**55.0**	**56.0**	**57.1**

Population Source: OFM Medium Series Estimates, 2010-2040 (2012 release); Small Area Demographic Estimates (SADE) 2014 Bed Supply Source: 2012 Acute Care Bed Survey [source: Application, pg. 50]

Thurston County Psychiatric Bed Need Projections (Continued)

	2024	2025	2026	2027	2028	2029	2030	2031
	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
5 to 17 Year Old Model								
Thurston County Population, Ages 5 to 17 Year Olds	48,302	48,838	49,233	49,632	50,034	50,439	50,856	51,126
Target Bed Ratio (NW Average Less WA)	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3
Gross Bed Need at Target Ratio	13.16	13.31	13.42	13.52	13.63	13.74	13.86	13.93
Current supply	0	0	0	0	0	0	0	0
Net Psych Bed Need, 5 to 17 Years Old	**13.2**	**13.3**	**13.4**	**13.5**	**13.6**	**13.7**	**13.9**	**13.9**
18+ Year Old Model								
Thurston County Population, Ages 18+ Year Olds	238,382	241,899	245,020	248,181	251,382	254,625	258,016	260,857
Target Bed Ratio (NW Average Less WA)	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3
Gross Bed Need at Target Ratio	64.96	65.92	66.77	67.63	68.50	69.39	70.31	71.08
Current supply	20	20	20	20	20	20	20	20
Net Psych Bed Need, 18+ Years Old	**45.0**	**45.9**	**46.8**	**47.6**	**48.5**	**49.4**	**50.3**	**51.1**
Summary Net Need, 5+								
Net Psych Bed Need, 5+ Years Old	**58.1**	**59.2**	**60.2**	**61.2**	**62.1**	**63.1**	**64.2**	**65.0**

Population Source: OFM Medium Series Estimates, 2010-2040 (2012 release); Small Area Demographic Estimates (SADE) 2014 Bed Supply Source: 2012 Acute Care Bed Survey [source: Application, pg. 51]

- "***Table 1. Thurston-Lewis-Mason-Grays Harbor Service Area Psychiatric Bed Need Projections for Patients 5-17 Years Old, 2016-2031***

	2016 Year 0	*2021 Year 5*	*2026 Year 10*	*2031 Year 15*
5 to 17 Year Old				
Planning Area Population, Ages 5 to 17 Year Old	*77,658*	*81,285*	*85,353*	*88,889*
Target Bed Ratio (NW Average Less WA)	*27.3*	*27.3*	*27.3*	*27.3*
Gross Bed Need at Target Ratio	*21.6*	*22.15*	*23.26*	*24.22*
Current supply	*10*	*10*	*10*	*10*
Net Psych Bed Need, 5-17 Year	***11.2***	***12.2***	***13.3***	***14.2***

**Includes US HealthVest's recently approved psychiatric beds dedicated to patients 5-17 years old.*
Population Source: OFM Medium Series Estimates, 2010-2040 (2012 release)
Small Area Demographic Estimates (SADE) 2014" [source: Screening Responses, pg. 4]

- ***"Table 2. Pacific County Service Area Psychiatric Bed Need Projections for Patients 5-17 Years Old, 2016-2031***

	2016 Year 0	*2021 Year 5*	*2026 Year 10*	*2031 Year 15*
5 to 17 Year Old				
Planning Area Population, Ages 5 to 17 Year Old	*2,581*	*2,597*	*2,705*	*2,825*
Target Bed Ratio (NW Average Less WA)	*27.3*	*27.3*	*27.3*	*27.3*
Gross Bed Need at Target Ratio	*0.70*	*0.71*	*0.74*	*.077*
Current supply	*0*	*0*	*0*	*0*
Net Psych Bed Need, 5-17 Year	***0.7***	***.07***	***.07***	***0.8***

Population Source: OFM Medium Series Estimates, 2010-2040 (2012 release)
Small Area Demographic Estimates (SADE) 2014" [source: Screening Responses, pg. 4]

- "***Table 3. Thurston-Lewis-Mason-Grays Harbor Pacific Service Area Psychiatric Bed Need Projections for Patients 5-17 Years Old, 2016-2031***

	2016 Year 0	*2021 Year 5*	*2026 Year 10*	*2031 Year 15*
5 to 17 Year Old				
Planning Area Population, Ages 5 to 17 Year Old	*80,239*	*83,883*	*88,058*	*91,713*
Target Bed Ratio (NW Average Less WA)	*27.3*	*27.3*	*27.3*	*27.3*
Gross Bed Need at Target Ratio	*21.87*	*22.86*	*24.00*	*24.99*
Current supply	*10*	*10*	*10*	*10*
Net Psych Bed Need, 5-17 Year	***11.9***	***12.9***	***14.0***	***15.0***

**Includes US HealthVest's recently approved psychiatric beds dedicated to patients 5-17 years old.*
Population Source: OFM Medium Series Estimates, 2010-2040 (2012 release)
Small Area Demographic Estimates (SADE) 2014

The revised model in Table 3 shows current (CY2016) need for 11.9 beds, increasing to 15 beds by Year 15 (CY2031) for patients 5 to 17 years old, even when accounting for US Health Vest's 10 beds." [source: Screening Responses, pgs. 4-5]

- ***"Table 6 Thurston-Lewis-Mason-Grays Harbor- Pacific Service Area Psychiatric Bed Need Projections (5+ Years Old), 2016-2036 (Reproduced)***

	2016 Year 0	*2021 Year 5*	*2026 Year 10*	*2031 Year 15*	*2036 Year 20*
5 to 17 Year Old					
Planning Area Population, Ages 5 to 17 Year Old	*80,239*	*83,883*	*88,058*	*91,713*	*94,666*
Target Bed Ratio (NW Average Less WA)	*27.3*	*27.3*	*27.3*	*27.3*	*27.3*
Gross Bed Need at Target Ratio	*21.87*	*22.86*	*24.00*	*24.99*	*25.80*
Current supply	*10*	*10*	*10*	*10*	*10*
Net Psych Bed Need, 5-17 Year	***11.9***	***12.9***	***14.0***	***15.0***	***15.8***
18+ Year Old Model					
Planning Area Population, Ages 5 to 17 Year Old	*397,825*	*422,381*	*444,969*	*466,299*	*485,490*
Target Bed Ratio (NW Average Less WA)	*27.3*	*27.3*	*27.3*	*27.3*	*27.3*
Gross Bed Need at Target Ratio	*108.41*	*115.10*	*121.25*	*127.07*	*132.30*
Current supply	*65*	*65*	*65*	*65*	*65*
Net Psych Bed Need, 5-17 Year	***43.4***	***50.1***	***56.3***	***62.1***	***67.3***
Summary Net Need, 5+					
Net Psych Bed Need, 5+ Year	***55.3***	***63.0***	***70.2***	***77.1***	***83.1***

Population Source: OFM Medium Series Estimates, 2010-2040 (2012 release)
Small Area Demographic Estimates (SADE) 2014
Bed Supply Source: 2012 Acute Care Bed Survey

Table 6 shows that there is need for 15 pediatric beds and 62 adult beds by Year 15 (CY2031), increasing to 15.8 pediatric and 67.3 adult beds by Year 20 (CY2036), or 83.1 inpatient beds, which approximates our 85-bed request across this primary and secondary service area" [source: Screening Responses, pg. 8]

Public Comment

- *"I write also to stress the critical and urgent need this community has for the additional mental health services outlined in the proposal, especially from the perspective of a criminal justice professional. … I cannot stress enough, however, the urgency of this need. Every day, we have people incarcerated in our county jail who should be in a mental health facility instead of a corrections facility. As I understand it, OBH has already acquired property rights which would allow it to proceed on a construction schedule for a facility that opens its doors by January 1, 2018. In my view, the acquisition of property demonstrates the commitment OBH has to meeting this goal."* [source: Jon Tunheim, Thurston County Prosecuting Attorney, support letter]

- *"I am an assistant professor of geriatric mental health nursing at the University of Washington School of Nursing; a psychiatric consultant to the North West Hospital outpatient palliative care team; and an on-call attending at the Fairfax Hospitals in Kirkland and Monroe….As a practicing clinician, I can testify that It is crucial for psychiatric beds to be available for patient stabilizations in cases when: patient is acutely ill and not responding to outpatient interventions, patient is experiencing an exacerbation of his/her mental illness and requires around the clock care and support, and when patient is experiencing suicidal ideations. We are fortunate to have several inpatient facilities in King and Snohomish counties, but even in these resource rich locations, it is not always possible to secure an inpatient bed for a patient who is in crisis. This puts great burden on the patient, their family, emergency room staff and outpatient clinicians, and results in potentially poor patient outcomes and higher healthcare costs."* [source: Tatiana Sadak, PhD. PMHNP, ARNP, support letter]
- *"Over the past several years, USHV has met with and talked to more than 100 behavioral health and addiction professionals, other hospitals, law enforcement, schools, nursing homes, the local BHO, managed care organizations, and social service agencies about the need for behavioral health services in the South Sound. …By Providence's own calculations, the need for its beds is not fully supported until 2036."* [source: Larisa Klein,VP, US HealthVest opposition letter]
- *"…Several years ago, after an in-depth analysis, USHV identified the South Sound area as significantly underserved for behavioral health. In response to that need we filed and secured a Certificate of Need earlier this year. We are actively moving forward to implement our project, and expect it to be operational-opening and serving patients-- in early 2018."* [source: Randy Kaniecki, US HealthVest opposition letter]
- *"There is no need for a second hospital at this time. In fact, the applicant's own data shows that the full need for their beds does not materialize until 2036."* [source: US HealthVest opposition letter]
- *"The need for additional capacity in this community is clear and well documented. My family recently experienced this as a close family friend needed psychiatric hospitalization and had to be transferred to an available bed out of town."* [source: John Masterson, support letter]
- *"First, it's clear that we urgently need to act on our community's lack of psychiatric beds. It is my belief that our need is severe and is hurting patients in our community."* [source: Gary Holland, SEIU letter]
- *"We believe a Thurston County inpatient behavioral health hospital will better serve not only Thurston, Peirce and counties to the south who currently have to travel to King and Snohomish Counties for a psych bed. Furthermore, it will help King and Snohomish County patients in psychiatric crisis that now can't gain access to an inpatient psychiatric bed when people from other counties have taken them."* [source: Puget Sound Psychiatric Center support letter]

<u>OBH Rebuttal</u>

- "*HealthVest inaccurately asserts there is no need for OBH's project. The Department's need projection based on Health Vest's CN application using a primary service area of Thurston County, and secondary service area of Lewis, Mason and Grays Harbor Counties, identified very significant unmet need. Even assuming HealthVest does build out its approved 75-bed project, there is current (2016) need for 551 more beds, comprising approximately 12 child and adolescent and 43 adult inpatient psychiatric beds. The unmet need projections increase from 55 to 70 beds by 2026, 77 beds by 2031, and finally 83 beds by 2036. Thus, HealthVest's*

assertion that there is not a significant amount of unmet need still existing in the community over the forecast period is unfounded and incorrect."

- *" In his public comment, Mr. Kaniecki, a HealthVest spokesperson, stated: "There is no need for a second hospital at this time. "[11] HealthVest's assertion is simply untrue and self-serving. The Department's need projection based on HealthVest's CN application using a primary service area of Thurston County and secondary service area of Lewis, Mason and Grays Harbor Counties, identified need for 119 inpatient psychiatric beds today, which need grows to 141 beds in 2030.[12] Even if we assumed for the sake of argument that HealthVest opened its proposed 75-bed hospital immediately, there would be need for approximately 45 to 55 more inpatient psychiatric beds today. While HealthVest would benefit from an underbedded market and no competition, its statement that there is no current need for a second hospital is simply disingenuous."*
- "*Our need models, set forth below, clearly demonstrate that there is strong support for OBH, even when accounting for all HealthVest's expected bed supply.*"
- *"Table 1 below presents the bed need projections of the 5-County planning area by age cohort. Please note that the need model below fully accounts for HealthVest's future supply of ten child and adolescent beds and 65 adult beds, as well as recognizes the potential relocation of up to 20 inpatient psychiatric beds from PSPH to the new OBH facility when CN approval is obtained for the project.*

Table 1. Thurston-Lewis-Mason-Grays Harbor-Pacific Service Area Psychiatric Bed Need Projections (5+ Years Old), 2016-2036. (Reproduced)

	2016 Year 0	**2021** Year 5	**2026** Year 10	**2031** Year 15	**2036** Year 20
5 to 17 Year Old					
Planning Area Population, Ages 5 to 17 Year Olds	*80,239*	*83,883*	*88,058*	*91,713*	*94,666*
Target Bed Ratio (NW Average Less WA)	*27.3*	*27.3*	*27.3*	*27.3*	*27.3*
Gross Bed Need at Target Ratio	*21.87*	*22.86*	*24.00*	*24.99*	*25.80*
Current supply	*10*	*10*	*10*	*10*	*10*
Net Psych Bed Need, 5 to 17 Years Old	***11.9***	***12.9***	***14.0***	***15.0***	***15.8***
18+ Year Old Model					
Planning Area Population, Ages 18+ Year Olds	*397,825*	*422,381*	*444,969*	*466,299*	*485,490*
Target Bed Ratio (NW Average Less WA)	*27.3*	*27.3*	*27.3*	*27.3*	*27.3*
Gross Bed Need at Target Ratio	*108.41*	*115.10*	*121.25*	*127.07*	*132.30*
Current supply	*65*	*65*	*65*	*65*	*65*
Net Psych Bed Need, 18+ Years Old	***43.4***	***50.1***	***56.3***	***62.1***	***67.3***

Population Source: OFM Medium Series Estimates, 2010-2040 (2012 release); Small Area Demographic Estimates (SADE) 2014. Bed Supply Source: Department Review of Certificate of Need Application #16-23. July 5,2016."

- *"In its public comments, HealthVest criticizes PSPH for a supposed unwillingness to expand "behavioral health services to the most vulnerable members of the community: the unfunded, children, adolescent and older adults." [16] However, actual data in Table 1 shows that HealthVest is the one attempting to block appropriate access to care for child and adolescents, as there is current unmet need for approximately 12 beds for planning area residents 5 to 17 years old today. Table 1 shows there is a gross bed need of 22 beds by the*

child/adolescent age cohort. ***Therefore, even with Health Vest's 10 additional beds, over half of the estimated current demand for psychiatric beds is not met for the child and adolescent planning area population."***

- *"The Olympia Behavioral Health project will provide substantial access to address an immediate and existing need in the community. The same is true for persons 18+ years of age-there is a current unmet need for 43 inpatient psychiatric beds-even with the HealthVest project."*

Department Evaluation

OBH proposes a service area to include Thurston, Grays Harbor, Lewis, Mason and, Pacific counties. In the department's evaluation of US HealthVest's 75-bed hospital in July 2016, the department considered Thurston County as US HealthVest's primary service area with Grays Harbor, Lewis, and Mason, counties as its secondary service area. To assist the department in determining the reasonableness of that proposed service area, the following factors were considered:

- Past Certificate of Need decision for psychiatric beds in Thurston County. and
- Number of beds dedicated to in-patient psychiatric services in Thurston County and HealthVest's other service area counties.

According to department records at the time of that evaluation the only psychiatric beds reported as being set-up and staffed in Thurston County is 18 at Providence St. Peter Hospital. This number of beds had been reported since 2003. There were no psychiatric beds reported as being set-up and staffed in Lewis, Mason, or Grays Harbor counties. [source: Hospital Financial Year End Reports]

Additionally, the department records showed the last Certificate of Need for psychiatric beds in Thurston County occurred in September 1981. A Certificate of Need was issued to Providence St. Peter Hospital for the addition of 18 beds to their existing 8 psychiatric beds for a total of 26. The service area identified in that evaluation was Thurston, Lewis, Mason, Grays Harbor, and Pacific counties. [source: 1981 Certificate of Need staff analysis CN#638-0] The department concluded in that evaluation the proposed service area was reasonable.

Based on the above factors the department considers Thurston County as OBH's primary service area. Their secondary service area is considered to be Grays Harbor, Lewis, Mason, and Pacific counties.

In July 2016 the department approved US HealthVest's application for the construction of a 75-bed psychiatric hospital. Of those 75 beds, 10 are dedicated to patients 5-17 years of age. The remainder are for patients 18 and over. At the time of the US HealthVest's application Providence St. Peter had been reporting 18 psychiatric beds set-up and staffed since 2003. [source: DoH Year End Financial Reports] In its 2015 year-end financial report to the department, Providence St. Peter Hospital reported 19 psychiatric beds set-up and staffed. As with the other evaluations performed for psychiatric applications, the department will count 19 beds at Providence St. Peter. The total number of psychiatric beds used for the numeric bed need projection for the primary and secondary service areas is 94 or 10 for patients ages 5-17 and 84 for patients age 18 and older.

The department performed separate bed projections for the adult population (18+) for the primary and secondary planning areas separately. The department performed separate bed projections for child/adolescents for the primary and secondary planning areas separately.[5] Consistent with the projection horizon used for US HealthVest application the department used a 15-year projection horizon (2017 to 2031). Office Of Financial Management Population Data-medium series was used and a use rate of 27.25 beds per 100,000 population. Tables 1,2,3,4, and 5 present a summary of those projections. The department's complete projections are contained in Appendix A.

Table 1
DOH Psychiatric Bed Need Projections
Thurston County-Population Age 5-17

Children & Adolescent	2017	2018	2019	2020	2021	2022	2025	2030	2031	2032
Population 5-17	44,613	45,169	45,724	46,280	46,794	47,308	48,849	50,868	51,142	51,417
Use Rate	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	12	12	12	13	13	13	13	14	14	14
Minus Current Supply	10	10	10	10	10	10	10	10	10	10
Net Bed Need	**2**	**2**	**2**	**3**	**3**	**3**	**3**	**4**	**4**	**4**

Table 2
DOH Psychiatric Bed Need Projections
Thurston County-Population 18 and Over

Age 18+	2017	2018	2019	2020	2021	2022	2025	2030	2031	2032
Population 18+	214,344	217,982	221,619	225,257	228,583	231,909	241,888	258,004	260,925	263,845
Use Rate	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	58	59	60	61	62	63	66	70	71	72
Minus Current Supply	84	84	84	84	84	84	84	84	84	84
Net Bed Need	**-26**	**-25**	**-24**	**-23**	**-22**	**-21**	**-18**	**-14**	**-13**	**-12**

Table 3
DOH Psychiatric Bed Need Projections
Grays Harbor, Lewis, Mason, and Pacific Counties-Population Age 5-17

Children & adolescent	2017	2018	2019	2020	2021	2022	2025	2030	2031	2032
Population 5-17	36,013	36,159	36,305	36,451	36,786	37,122	38,127	39,886	40,225	40,564
Use Rate	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	10	10	10	10	10	10	11	11	11	11
Minus Current Supply	0	0	0	0	0	0	0	0	0	0
Net Bed Need	**10**	**10**	**10**	**10**	**10**	**10**	**11**	**11**	**11**	**11**

[5] Consistent with its Snohomish decision, child/adolescent is considered ages 5 to 17.

Table 4
DOH Psychiatric Bed Need Projections
Grays Harbor, Lewis, Mason, and Pacific Counties-Population 18 and Over

Age 18+	2017	2018	2019	2020	2021	2022	2025	2030	2031	2032
Population 18+	188,988	190,337	191,686	193,035	194,268	195,500	199,199	204,845	205,832	206,820
Use Rate	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	51	52	52	53	53	53	54	56	56	56
Minus Current Supply	0	0	0	0	0	0	0	0	0	0
Net Bed Need	**51**	**52**	**52**	**53**	**53**	**53**	**54**	**56**	**56**	**56**

Table 5
DOH Psychiatric Bed Need Projections
Combined-Population Age 5 and Older

	2017	2018	2019	2020	2021	2022	2025	2030	2031	2032
Thurston County-Population Age 5-17	2	2	2	3	3	3	3	4	4	4
Grays Harbor, Lewis, Mason, and Pacific Counties-Population Age 5-17	10	10	10	10	10	10	11	11	11	11
Sub-Total	**12**	**12**	**12**	**13**	**13**	**13**	**14**	**15**	**15**	**15**
Thurston County-18+ and older	-26	-25	-24	-23	-22	-21	-18	-14	-13	-12
Grays Harbor, Lewis, Mason, and Pacific Counties-Population Age 18+	51	52	52	53	53	53	54	56	56	56
Sub-Total	**26**	**27**	**29**	**30**	**31**	**32**	**36**	**42**	**43**	**44**
Combined Total for All Counties	**38**	**39**	**41**	**43**	**44**	**45**	**50**	**57**	**58**	**59**

A minus = surplus

As shown in Table 5, in 2017 Thurston County is projected to have a need for 2 beds increasing to 4 beds for the 5-17 age population through 2031. For population age 18 and over there is a projected surplus of 26 beds in 2017 decreasing to a surplus of 13 beds in 2031. Using just Thurston County, the number of beds proposed by OBH would not be supported. However, when the expanded service area is included in year 2031 there is a projected need for 15 beds for patients 5-17 and 43 beds for patients 18 and older for a total of 58 new beds.

When the department compared its numeric bed need projections with those presented by OBH in its application, there are two significant differences. First is the projection year. OBH presented a bed need projection to 2036. Even if the department used a 20 year horizon as suggested by OBH, there is still a need for only 4 beds in the Thurston County 5-17 age range for in 2036. The 18 and older Thurston County population there would still be a projected surplus of 9 beds. Including the other four counties with Thurston results in a total bed need of 16 beds for patients in the 5-17 age range and 48 beds for patients age 18 and older for a total of 64 new beds.

The second significant difference is the number of beds included in current capacity used to project need. In its projections, OBH included only the beds recently approved for the HealthVest proposed hospital. OBH chose not to include the beds at Providence St. Peter hospital currently

CoN approved for psychiatric care. If these beds are not included in current supply, the total projected bed in 2031 for patients age 5-17 is 15 and for patients 18 and older the bed need is projected at 62 for a total of 77. Attachment B show the results of excluding the existing PSPH psychiatric beds. OBH did not present convincing information for the department to change from a 15-year projection horizon to a 20-year. Even if 20 beds are to be closed at PSPH if this project is approved, excluding them from the bed need projection is not appropriate.

Using the department's 2031 projections and counting 19 psychiatric beds at PSPH, the projected need for new beds is 15 beds for patients ages 5-17 and 58 beds for patients 18 years and older. Considering that PSPH expects to close its psychiatric unit in the hospital which it identifies at as 20 beds, the department concludes the five county planning area would justify a 77 bed new hospital. If approved, a condition would be placed on the Certificate of Need limiting the number of beds to 77, of which 15 would be dedicated to patients 5-17 years of age.

In addition to the numeric need, the department must determine whether other services and facilities of the type proposed are not or will not be sufficiently available and accessible to meet that need.

OBH

- "Under-bedding in the planning area adds to the barriers faced by patients and limits access to needed psychiatric services. A 2008 report by The Substance Abuse and Mental Health Services Administration reported that *just over half of those with a serious mental illness received treatment for a mental health problem*.[42] While this reflects both patients who do not seek care as well as those who are unable to get care, it does suggest that current data do not accurately estimate *need* for psychiatric services." [source: Application, pg. 52]
- *Given the limited number of psychiatric beds for a population the size of Thurston County, residents are forced to out-migrate to receive needed inpatient psychiatric services. Table 4 below provides actual utilization by Thurston County residents in 2015 receiving psychiatric care and demonstrates that over 40% of patient days were provided in hospitals or psychiatric units outside of the planning area. Further, given the lack of psychiatric providers in Grays Harbor, Lewis, and Mason Counties, there also is considerable in-migration to the planning area's only psychiatric unit at PSPH. As Table 4 below shows, a third of all patient days occurring at PSPH's psychiatric unit are from patients outside of Thurston County. Table 4 below shows PSPH's relative market share for Thurston County and the surrounding counties of Grays Harbor, Mason, and Lewis. This demonstrates PSPH is a relied upon source of psychiatric care for residents in those counties.*

  Table 4. 2015 In/Out-Migration to and from Thurston County (Ages 5+) and Providence St. Peter Hospital Market Share in Thurston, Mason, Lewis, and Grays Harbor Counties (2015) Reproduced

	Discharges	*Patient Days*
Providence St. Peter (Psych Unit) – Regardless of Patient Residence	*680*	*5,695*
Providence St. Peter (Psych Unit) – Thurston County Residents	*460*	*3,902*
Thurston County Residents- All WA State Providers	*771*	*6,754*
In-Migration	*32.4%*	*31.5%*

	Discharges	*Patient Days*
Out-Migration	*40.3%*	*42.2%*

**MDC 19 (Psychiatric Services) Utilization Only*
***Ages 5 Years and Older*
Source: CHARS 2015

County	*Total Psychiatric Patient Days by County Residents*	*County Resident Days at PSPH*	*PSPH Market Share*
Thurston	*6,754*	*4,231*	*62.6%*
Mason	*1,006*	*371*	*36.9%*
Lewis	*1,626*	*425*	*26.1%*
Grays Harbor	*2,959*	*358*	*12.1%*

**MDC 19 (Psychiatric Services) Utilization Only*
***Ages 5 Years and Older*
Source: CHARS 2015" [source: Application, pg. 30]

- ***Table 10. Thurston County Resident (Ages 5+) Inpatient Psychiatric Utilization by Hospital, 2015 (Reproduced)***

Hospital	***Discharges***	***% of Total***	***Patient Days***	**% of Total**	**County Added by Department**
Providence St. Peter Hospital	*492*	*63.8%*	*4,231*	62.6%	Thurston
BHC Fairfax Hospital	*110*	*14.3%*	*892*	13.2%	King
Seattle Children's Hospital	*37*	*4.8%*	*273*	4.0%	King
Cascade Behavioral Center	*15*	*1.9%*	*221*	3.3%	King
MultiCare Auburn Regional	*14*	*1.8%*	*211*	3.1%	King
BHC Fairfax Hospital- North	*12*	*1.6%*	*150*	2.2%	Snohomish
St. Joseph Medical Center -Tacoma	*23*	*3.0%*	*119*	1.8%	Pierce
Harborview Medical Center	*11*	*1.4%*	*110*	1.6%	King
All Other Providers with <100 Days	*57*	*7.4%*	*547*	8.1%	
Grand Total	***771***	***100.0%***	***6,754***	**100%**	

**MDC 19 (Psychiatric Services) Utilization Only*
***Ages 5 Years and Older*
****Thurston County Residents Only*
Source: CHARS 2015" [source: Application, pg. 44]

Public Comment

- None

OBH Rebuttal

- None

Department Evaluation

Typically, the department would use historical CHARS data to determine whether current services and facilities of the type proposed are sufficiently available and accessible. With psychiatric beds that evaluation is only partially helpful. The CHARS data only represents those that were able to access services. In its evaluation for the US HealthVest application, the department concluded

that about 50% of the patients in the Thurston, Grays Harbor, Lewis and Mason counties had to access psychiatric services outside of their county of residence. Patients had to travel to King, Pierce, Cowlitz, and even Snohomish and Franklin counties. OBH provided information that also showed Thurston County residents are currently receiving inpatient psychiatric care in hospitals in King, Pierce, and Snohomish counties. The earlier conclusion reached by the department has not changed since the US HealthVest decision. Even with the US HealthVest project, the current and approved services and facilities of the type proposed are not sufficiently available and accessible to meet the projected need for psychiatric beds in Thurston County and neighboring counties.

Based on the information reviewed the department concludes need for additional psychiatric beds to be located in Thurston County has been demonstrated. **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.

To evaluate this sub-criteria, the department evaluates an applicant's Admission policies, willingness to serve Medicare patients, Medicaid patients, and to serve patients that cannot afford to pay for services.

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. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed 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 certification is a measure of an agency's willingness to serve the elderly. With limited exceptions, Medicare is coverage for individuals age 65 and over. It is also well recognized that women live longer than men and therefore more likely to be on Medicare longer.

Medicaid certification is a measure of an agency's willingness to serve low income persons and may include individuals with disabilities.

Charity care shows a willingness of a provider to provide services to individuals who do not have private insurance, do not qualify for Medicare, or do not qualify for Medicaid. With the passage of the Affordable Care Act, the amount of charity care is expected to decrease, but not disappear.

OBH

OBH is not currently a provider of health care services to the residents of Washington State. The application states, *"Our application to develop and operate an 85-bed freestanding psychiatric hospital for child, adolescent, and adult populations recognizes both elements of demand for voluntary and involuntary inpatient care. We also have planned an innovative, robust and well-coordinated treatment model involving a partnership between private mental health/medical practitioners and inpatient psychiatric providers (such as ourselves) to deliver seamless professional care, subsequent to Certificate of Need approval."* [source: Application, pg. 9] The application states *"Olympia Behavioral Health will begin operations by January 1, 2018 and will serve both voluntary and involuntary patients ages five years and older. The 85 beds will become*

operational at the same time and will not be incrementally added in phases." [source: Application, pg. 17]

The admission policy states, "*Ensure admissions to all inpatient and partial levels of care at NewCo are clinically and medically screened and approved prior to admission to the hospital. NewCo considers the admission of patients regardless of race, religion, ethnicity, culture, language, socioeconomic status, sex, or sexual orientation or gender identifying expression.* [source: Screen Responses, Exhibit 19-Revised ,pg. 26]

OBH stated *"We intend to license a percentage of our beds through DBHR (Washington Division of Behavioral Health and Recovery) as ITA (E& T) beds consistent with all of our other behavioral health facilities in the state."* [source: Screening Responses, pg. 2]

OBH's estimated payor mix by percentage of gross revenues, all hospital patients, year 4. These percentages are shown in reproduced table 21 from the application below.

Table 21 (Reproduced)
OBH Payor Mix By Percentage

Payor	Percentage
Medicare	36.4%
Medicaid	32.9%
Commercial/Health Care Contractor	16.2%
HMO	4.3%
Other Government	3.2%
Self-Pay	6.6%
L&I	0.4%
Total, All Payers	100%

[source: Application, pg. 69]

OBH also provided a copy of its draft charity care policy to be used at the psychiatric hospital. The policy is draft policy outlines the process one must follow to obtain charity care. The draft policy states:

"DEFINITION:
"Indigent persons" refers to those patients who have exhausted any third party resources, including Medicare and Medicaid, and whose income is equal to or below 250% of the federal poverty standards, adjusted for family size (see attachment A), or is otherwise not sufficient to enable them to pay deductibles or coinsurance amounts required by a third party.

POLICY:
Olympia Behavioral Health LLC ("OBH") is committed to the provision of health care services regardless of ability to pay. Medically indigent patients or those with special catastrophic circumstances may be granted charity. Charity care will be granted without regard to race, color, sex, religion, age, or national origin as required by law (WAC-261-14). [source: Application, Exhibit 18]

Public Comment

- *"Providence and Fairfax have claimed that they have charity care levels that exceed regional standards.[7] This is false for both hospitals in the most recent year of available*

data (2014), while non-profit mental health provider Navos exceeded regional levels in 2014. Additionally Fairfax has failed to meet regional levels of charity care for the most recent 4 years, which also covers the same period that UHS has owned Fairfax.[8] *Of note, since UHS was approved to buy Fairfax in August 2011, charity care levels have declined, even before Medicaid expansion in 2014."* [source: Gary Holland, SEIU letter]

- *"Fairfax Hospital itself had $5.6 million in total profit in 2015, and its parent UHS had $151.9 million in total profit in the most recent quarter alone. Based on its profit, Fairfax should have the resources to improve its charity care investment.*

Charity Care / Total Patient Service Revenue	***2011***	***2012***	***2013***	***2014***
Fairfax-Kirkland	*2.47%*	*1.94%*	*1.96%*	*0.98%*
King County Average	*2.83%*	*2.98%*	*2.92%*	*1.95%*
Providence St. Peter Hospital	*3.71%*	*3.54%*	*4.41%*	*1.40%*
SW WA Average	*3.37%*	*3.52%*	*3.32%*	*2.11%"*

[source: Gary Holland, SEIU letter]

OBH Rebuttal

- *"Ms. Klein , a HealthVest representative, incorrectly accused PSPH's behavioral health unit of serving "only patients with private insurance" during the public comment hearing held on November 16, 2016.21 Health Vest provides no evidence whatsoever to support its inaccurate claim. The reason why HealthVest did not, and cannot, support its claim , is because the claim is patently false and the actual evidence shows exactly the opposite of what HealthVest has accused PSPH of."* [source: Rebuttal, pg. 19]

- *"In response to HealthVest's accusation, we are providing historical data reported in the Department of Health's inpatient database known as the Comprehensive Hospital Abstract Reporting System ("CHARS"). The CHARS dataset provides patient counts by hospital, as well as data about each patient's insurance status. To address HealthVest's claim, we analyzed the number of discharges, patient days, and charges by the patients' primary payer class for CY2015. The findings of this analysis are presented in Table 2 below.*

Table 2. PSHS Psychiatric (MDC 19) Payer Mix by Discharges, Patient Days, and Charges 18+ Years Old, CY2015 (Reproduced)

PSPH Psychiatric Patients (MDC 19), 18+ Years Old				*% of Total*		
Primary Payer	*Discharges*	*Patient Days*	*Charges*	*Discharges*	*Patient Days*	*Charges*
Medicaid	*272*	*2,161*	*$7,018,449*	*40%*	*38%*	*37%*
Medicare	*174*	*1,792*	*$5,974,609*	*26%*	*31%*	*32%*
Comm	*78*	*599*	*$1,971,193*	*11%*	*11%*	*11%*
HSC	*56*	*401*	*$1,320,557*	*8%*	*7%*	*7%*
Self-Pay	*45*	*335*	*$1,095,320*	*7%*	*6%*	*6%*
HMO	*35*	*252*	*$837,801*	*5%*	*4%*	*4%*
OtherGov	*19*	*147*	*$481,560*	*3%*	*3%*	*3%*
L&I	*1*	*8*	*$29,115*	*0%*	*0%*	*0%*
Subtotal	*680*	*5,695*	*$18,728,604*	*100%*	*100%*	*100%*

Source: CHARS 2015

Table 2 clearly demonstrates that, regardless of the metric used (e.g. discharges, patient days, charges), PSPH serves patients with all types of insurance coverage, including those who are uninsured. In fact, a majority of discharges, days, and charges were provided to patients with public insurance (e.g. Medicaid, Medicare). It is evident based on the actual review of PSPH's actual utilization data that Health Vest's claim made by Ms. Klein that PSPH serves "only patients with private insurance" is false." [source: Rebuttal, pgs. 19-20]

- *"Table 3 below, shows PSPH's psychiatric unit and Fairfax Hospital's (Kirkland) payer mix, as a percent of their respective patient count, in comparison to the statewide payer mix average for psychiatric inpatients in CY2015. Similar to Table 2, Table 3 provides evidence that both PSPH and Fairfax are "payer-blind" and will continue to provide care to all patients at our proposed OBH project.*

Table 3. PSPH Psychiatric Unit, Fairfax Hospital (Kirkland), and Statewide Average Payer Mix for Psychiatric Inpatients (MDC 19), 18+ Years Old, CY2015 (Reproduced)

PSPH				*Fairfax Hospital (Kirkland)*				*Statewide Average*		
Primary Payer	*Discharges*	*% of Total*		*Primary Payer*	*Discharges*	*% of Total*		*Primary Payer*	*Discharges*	*% of Total*
Medicaid	*272*	*40%*		*Medicaid*	*1,444*	*53%*		*Medicaid*	*6,040*	*38%*
Medicare	*174*	*26%*		*Self-Pay*	*347*	*13%*		*Medicare*	*4,530*	*28%*
Comm	*78*	*11%*		*Comm*	*338*	*12%*		*Comm*	*2,825*	*18%*
HSC	*56*	*8%*		*HSC*	*246*	*9%*		*HSC*	*983*	*6%*
Self-Pay	*45*	*7%*		*Medicare*	*187*	*7%*		*Self-Pay*	*741*	*5%*
HMO	*35*	*5%*		*HMO*	*95*	*3%*		*HMO*	*598*	*4%*
OtherGov	*19*	*3%*		*OtherGov*	*44*	*2%*		*OtherGov*	*311*	*2%*
L&I	*1*	*0%*		*Charity*	*16*	*1*		*L&I*	*22*	*0%*
Subtotal	*680*	*100%*		*L&I*	*3*	*0%*		*Charity*	*19*	*0%*
				Subtotal	*2,720*	*100%*		*Subtotal*	*16,069*	*100%*

**Psychiatric Patients (MDC 19) Only*
***18+ Years Old*
Source: CHARS 2015" [source: Rebuttal, pg. 20]

- *"In his written public comment, Gary Holland of SE IU Healthcare states that PSPH's claim of exceeding regional care standards is false:*

  Providence and Fairfax have claimed that they have charity care levels that exceed regional standards. This is false for both hospitals in the most recent year of available data.[23]

  However, SEIU 's claim is misleading as it simply takes one year (2014) of data where PSPH was below the Southwest regional average, but ignores the previous two years (2012-2013) where PSPH was above. (Please see Table 4 below for a breakdown of this data.) Using a more expansive analysis examining the previous three years of charity care provision, it is clear PSPH exceeded the Southwest regional average. Specifically, on average, over 2012-2014, PSPH provided 3.09% and 8.76% of its total revenue and adjusted revenue , both figures that were greater than the Southwest regional averages of 2.96% and 7. 76%. In Mr. Holland's written public comment, he contradicts himself by presenting a table that shows PSPH having higher charity care than the regional average for an even longer time horizon (2011-2013). [24]

Table 4. Providence St. Peter Hospital and Southwest Washington Regional Charity Care Statistics, 2012-2014 (Reproduced)

% of Total Revenue					% of Adjusted Revenue				
Lic. No.	*Region/Hospital*	*2012*	*2013*	*2014*	*3 Year Average, 2012-2014*	*2012*	*2013*	*2014*	*3 Year Average, 2012-2014*
159	*Providence/Saint Peter Hospital*	*3.54%*	*4.41%*	*1.40%*	*3.09%*	*9.41%*	*12.06%*	*4.40%*	*8.76%*
	SOUTHWEST WASH REGION TOTALS	*3.52%*	*3.32%*	*2.44%*	*2.96%*	*8.66%*	*8.59%*	*5.93%*	*7.76%*

Source: Department's Charity Care Reports 2012-2014" [source: Rebuttal, pgs. 20-21]

- *"SEIU's criticism of Fairfax regarding charity care is also misplaced. Fairfax continues to provide care to psychiatric patients regardless of the patients' ability to pay and is the largest non-state provider of psychiatric services to Medicaid and ITA patients, which typically have the lowest rates of payment or no payment. While coverage in this state has expanded under the Affordable Care Act ("ACA") and the mental health parity laws have resulted in greater coverage for mental health services, more psychiatric services have moved from the no pay category (charity) to the low pay category. We believe these market changes have impacted psychiatric hospitals' charity care differently than that of the acute care providers, which is the data primarily reported in the State's CHARS database, and feel strongly that Fairfax's track record for charity care is exceptional, particularly when compared against other psychiatric hospital operators in the state."* [source: Rebuttal, pg. 21]

Department Evaluation

OBH provided a draft Admission Policy. The draft policy states admission will be based upon clinical need. It also states *"All patients will be accepted for treatment without regard to race, color, religion, sex, or national origin"*. The draft policy also states *"All patients will be accepted regardless of ability to pay."* If OBH's project is approved, the department would attach a condition requiring OBH to provide a copy of its final Admission Policy for department review and approval.

Information presented within the application stated the applicant would seek Medicaid certification. Anticipated revenue sources shows that OBH expects 32.9% to be from Medicaid. [source: Application, pg. 69] Based on the information reviewed, the department concludes OBH will serve low income patients as evidenced by its willing to become Medicaid certified.

Information presented within the application stated the applicant would seek Medicare certification. Anticipated revenue sources shows that OBH expects 36.4% to be from Medicare. [source: Application, pg. 69] Based on the information reviewed, the department concludes OBH will serve elderly patients as evidenced by its willingness to become Medicare certified.

OBH provided a copy of its draft charity care policy to be used at the psychiatric hospital. 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 Charity Care Program in the Office of Community Health Services (CCP)[6].

Using the information contained in OBH's pro forma income statement, the department calculated OBH's projected charity care at 2.96% of total revenue and 9.56% of adjusted revenue. [source:

[6] On July 1, 2016 the Charity Care functions of the Hospital and Patient Data Systems [HPDS] office were moved to the office of Community Health Systems.

Screening Responses, Exhibit 10 (revised)] Based on the information reviewed, the department concludes OBH will provide charity care.

To determine whether OBH's level of charity care is comparable to other hospitals the department uses department Charity Care Program (CCP) report data. For charity care reporting purposes, CCP divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. OBH's psychiatric hospital will be located in Thurston County within the Southwest Region. There are a total 14 general acute care hospitals within the Southwest Region.

Table 6 shows the three-year average of charity care provided by the hospitals in the Southwest region and the three year average of charity care projected to be provided at OBH[7] [source: Screening Responses Exhibit 10 (revised) and CCP 2013-2015 charity care summaries]

Table 6
Charity Care Percentage Comparisons

	% of Total Revenue	% of Adjusted Revenue
Southwest Region 3-yr. average	2.16%	5.90%
OBH—Projected	2.96%	9.56%[8]

As shown in Table 6, OBH projects to provide charity care above the regional average. Questions were raised about the historical levels of charity care provided by both Providence St. Peter Hospital and BHC Fairfax. To address this issue the department looked at each hospital separately and compared it the respective charity care comparison region. Table 7 shows Providence St. Peter Hospital compared to the Southwest Region 3-year average.

Table 7
Charity Care Percentage Comparisons
Providence St. Peter Hospital (Years 2013-2015)

	% of Total Revenue	% of Adjusted Revenue
Southwest Region 3-yr. average	2.16%	5.90%
Providence St. Peter-Historical	2.29%	6.67%

Table 8 shows BHC Fairfax Hospital compared to the King County (less Harborview)[9] 3-year average.

[7] 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.

[8] OBH did not provide projected revenue by payor source, separately, in its Statement of Revenues and Expenses. Therefore Program staff used the percentages identified on page 69 of the application to calculate the Medicare and Medicaid revenue in order to calculate adjusted revenue.

[9] UW Medicine/Harborview has historically been excluded from this calculation because of it being the state's designated Level I trauma center and receives trauma patients from all areas of the state. UW Medicine/Harborview's charity care level has historically been in the 8 to 12 % range for total revenue and 20% to 23% of adjusted revenue. In comparison, the King County region is between 1.95% to 2.9% for total revenue and 4.0% to 5.4% for adjusted revenue. For 2015 there was a dramatic drop in the amount of charity care provided at UW Medicine/Harborview. This is attributed the Affordable Care Act and the expansion of Medicaid. If this trend continues, removing UW Medicine/Harborview from the charity care calculation may not be necessary.

Table 8
Charity Care Percentage Comparisons
BHC Fairfax Hospital (Years 2013-2015)

	% of Total Revenue	% of Adjusted Revenue
King County (less Harborview) 3-yr. average	1.33%	2.62%
BHC Fairfax-Historical	1.18%	2.02%

As shown in table 7, Providence St. Peter Hospital has provided charity care above the Southwest regional average as a percent of total revenue and as a percent of adjusted revenue. As shown in table 8, BHC Fairfax has not provided charity care at or above the King County regional average. The department also looked at the individual years that comprise this three year average. Table 9 presents that comparison.

Table 9
Charity Care Percentage Comparisons
BHC Fairfax Hospital (Years 2013-2015)

	BHC Fairfax - % of Total Revenue	King County (less Harborview) % of Total Revenue	BHC Fairfax -% of Adjusted Revenue	King County (less Harborview) % of Adjusted Revenue
2013	1.98%	1.98%	3.04%	3.62%
2014	0.98%	1.27%	2.01%	2.65%
2015	0.59%	0.73%	1.00%	1.58%

As shown in table 9, with the exception of 2013 for charity care as a percent of total revenue, BHC Fairfax Hospital has not met or exceeded the regional average of charity care. This alone would not be grounds to deny the application. Consistent with other Certificate of Need decisions, to ensure the new psychiatric hospital would meet it charity care obligations, if approved, the department would attach a charity care condition requiring the hospital to budget and provide charity care at a minimum of 2.96% of total revenue as stated in the application.

OBH has stated it intends to license a percentage of its beds through DBHR as ITA (E&T) beds. Consistent with other Certificate of Need decisions, to ensure access to OBH by ITA patients, if approved, the department would attach a condition requiring ongoing contracting for ITA patients.

Based on the information reviewed and with OBH's agreement to the conditions as identified above, the department concludes **this sub-criterion is met.**

(3) The applicant has substantiated any of the following special needs and circumstances the proposed project is to serve.

(a) The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both, to individuals not residing in the health service areas in which the entities are located or in adjacent health service areas.

Department Evaluation
This criterion is not applicable to this application.

(b) The special needs and circumstances of biomedical and behavioral research projects designed to meet a national need and for which local conditions offer special advantages.

Department Evaluation
This criterion is not applicable to this application.

(c) The special needs and circumstances of osteopathic hospitals and non-allopathic services.

Department Evaluation
This criterion is not applicable to this application.

(4) The project will not have an adverse effect on health professional schools and training programs. The assessment of the conformance of a project with this criterion shall include consideration of:

(a) The effect of the means proposed for the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.

Department Evaluation
This criterion is not applicable to this application.

(b) If proposed health services are to be available in a limited number of facilities, the extent to which the health professions schools serving the area will have access to the services for training purposes.

Department Evaluation
This criterion is not applicable to this application.

(5) The project is needed to meet the special needs and circumstances of enrolled members or reasonably anticipated new members of a health maintenance organization or proposed health maintenance organization and the services proposed are not available from nonhealth maintenance organization providers or other health maintenance organizations in a reasonable and cost-effective manner consistent with the basic method of operation of the health maintenance organization or proposed health maintenance organization.

Department Evaluation
This criterion is not applicable to this application.

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

Based on the source information reviewed the department concludes Providence Health System-St. Peter Hospital and Universal Health Systems-BHC Fairfax, Inc. on behalf of Olympia Behavioral Health, LLC has not 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.

OBH

OBH states it expects to begin providing psychiatric services in Thurston County in January 2018.

OBH projected its patient days through the fourth full year of operation. OBH's Table 17 (reproduced) shows those projections.

Table 17 (Reproduced)
OBH Total Projections

	Year 1 2018	Year 2 2019	Year 3 2020	Year 4 2021
Admissions	584	1,605	2,608	2,687
Adjusted Admissions	668	1,834	2,979	3,069
Total Patient Days	5,616	15,444	25,088	25,845
Adjusted Patient Days	6,422	17,646	28,654	29,524
Average Daily Census (365 days)	15.4	42.3	68.5	70.8
Average Length of Stay (ALOS)	9.62	9.62	9.62	9.62
OP ADC (254 days)	6.2	16.9	27.4	28.3
Outpatient Visits	1,563.2	4,298.9	6,964.3	7,194.1
Occupancy (%)	18.1%	49.8%	80.6%	83.3%
Available Beds	85	85	85	85

[source: Application, pg. 58]

Key assumptions used by OBH to make these projections include:

- *"Admissions were driven off the operating experience of one of UHS's Pacific Northwest psychiatric hospitals, Cedar Hills Hospital in Oregon, which began operations in 2010. It is assumed the "ramp rate" will be consistent with that actually experienced at Cedar Hills, where Cedar Hills had 1,511 admissions in year one (2010), increasing to 2,290 in year two (2011).Average length of stay is estimated at 9.1. This is based on the Service Area's resident actual ALOS per CHARs for 2014.*
- *The admissions and patient day growth, particularly in the early years, will also reflect utilization that would have otherwise occurred at PSPH. As discussed above, PSPH will move up to 20 licensed psychiatric beds when Olympia Behavioral Health begins operations.*
- *Adjusted admissions were calculated by multiplying admits by the ratio of gross revenues to inpatient revenues.*
- *Outpatient ("OP") visits were calculated as follows: inpatient ADC was multiplied by 20%, yielding OP ADC, which was then multiplied by 254, the presumed number of days the OP clinics would be open.*
- *Length of stay ("LOS") is assumed constant at 9.6 days, slightly lower than Cedar Hills' 11.2 LOS in 2014, but slightly above the LOS of 8.76 days for Thurston County residents ages five and older for inpatient psychiatric care in 2015 (Table 10).*
- *Patient days are the product of admissions multiplied by LOS. Again, in comparison to Cedar Hills, the patient day growth is conservative; Cedar Hills had 19,871 days in year one (2010) and 27,421 days in year two (2011).*

- *Adjusted patient days were calculated in the same manner as adjusted admits.*
- *The average daily census and occupancy figures are calculations. Occupancy calculations use 85 available beds.*
- *Table 18 calculates Olympia Behavioral Health's projected patient days and admissions as a percentage of planning area "Net Need". First, planning area patient day and admissions projections must be prepared and discussed. These projections were developed as follows: (1) The upper portion of Table 18 repeats Table 12 bed need projections for the planning area. (2) In Step 1, the bed need figures are multiplied by 365, the theoretical number of days a bed could be occupied per year. This Step provides projections of net patient days associated with net bed need. In this regard, it must be noted these net bed need figures in Table 18 account for the closure of current planning area supply (i.e., PSPH's 20 beds), post Certificate of Need approval. (3) Step 2 simply shows Thurston County residents' actual 2015 average length-of-stay—8.76 days for psychiatric (MDC 19) inpatients ages five years and older (Table 10). (4) Step 3 calculates admissions, which is total patient days divided by LOS. These steps, thus, provide planning area projected inpatient psychiatric net bed need, translated into patient days and admissions.*

Table 18. Olympia Behavioral Health. Patient Days and Admissions as Percentage of Projected "Net Need". (Reproduced)

Thurston County	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*
Forecasted Psychiatric Bed Need						
Gross Bed Need at Target Ratio, Persons 5+ Years Old	*69*	*70*	*72*	*73*	*74*	*75*
Supply of Psychiatric Beds, Post Certificate of Need Approval of Olympia Behavioral Health (emphasis added)	*0*	*0*	*0*	*0*	*0*	*0*
Net Bed Need, Persons 5+ Years Old	*69.4*	*70.5*	*71.6*	*72.8*	*74.0*	*75.0*
*Step 1: Patient days calculated from Net Need Figures above (bed need figure *365)*	*25,322.7*	*25,729.6*	*26,143.1*	*26,563.3*	*27,007.7*	*27,376.7*
Step 2: Current Thurston County ALOS, MDC 19 (2015)	*8.76*	*8.76*	*8.76*	*8.76*	*8.76*	*8.76*
Planning Area Admissions (patient days divided by ALOS)	*2,890.7*	*2,937.2*	*2,984.4*	*3,032.3*	*3,083.1*	*3,125.2*
Olympia Behavioral Health LLC Patient Days and Admissions as a Percentage of Thurston County Figures, Residents 5+ Years Old						
	2016	*2017*	*2018*	*2019*	*2020*	*2021*
Olympia Behavioral Health Patient Days			*5,616*	*15,444*	*25,088*	*25,845*
Olympia Behavioral Health Patient Days as a % of Net Need Patient Days in Step 1			*21.5%*	*58.1%*	*92.9%*	*94.4%*
Olympia Behavioral Health Admissions			*584*	*1,605*	*2,608*	*2,687*
Olympia Behavioral Health Admissions as a % of Net Need Admissions in Step 3 in Step 1			*19.6%*	*52.9%*	*84.6%*	*86.0%*

- *The lower portion of Table 18 includes Olympia Behavioral Health days and admissions (Table 17), and then calculates what these Olympia Behavioral Health figures are as a percentage of the future unmet need in terms of patient days and admissions, as discussed above.*
- *These percentages are a measure of Olympia Behavioral Health's share of otherwise unmet, net demand for inpatient psychiatric care in the planning area. Table 18 shows Olympia Behavioral Health patient days, as a percent of this unmet patient day demand, would grow to 94.4% in 2021, and 86.0% of admissions. These percentages are not market share figures as that term is typically thought of, however. Olympia Behavioral Health's market share of total provider days would be less. The point is that Olympia Behavioral Health's patient days and admissions forecasts are very reasonable when compared to planning area incremental, unmet demand, measured either in patient days or admissions. Further, as noted above, the planning area psychiatric bed need model includes only Thurston County resident population, thus excluding in-migration."* [source: Application pgs. 58-60]
- *"There is not expected to be a material financial impact from the approval of the US HealthVest application for 75 beds. The psychiatric bed need model, as prepared by the Department in its decision, identified a sufficient number of inpatient beds for both the US HealthVest project and Olympia Behavioral Health. Additionally, it must be noted, if our request is approved, Providence will close up to 20 inpatient psychiatric beds at Providence St. Peter Hospital. Those inpatients will represent additional demand for beds over and above the net need for beds identified by the Department in its analysis. The utilization projections for Olympia Behavioral Health, provided on pages 58-60 of our Application, stated the utilization forecasts were driven off the start-up experience at Cedar Hills Hospital, a UHS facility in Oregon, which began operations in 2010. Approval of the US Health Vest application would not change these projections."* [source: Screening Responses, pgs. 12-13]

Table 10 is OBH's projected revenue, expenses, and net income for 2018 through 2021 for the 85-bed hospital. [source: Screening Responses, Exhibit 10 Revised]

Table 10
OBH 85-bed Psychiatric Hospital
Projected Revenue and Expenses for Calendar Years 2018 - 2021

	Year 1 2018	***Year 2 2019***	***Year 3 2020***	***Year 4 2021***
PATIENT REVENUE	*$ 17,957,717*	*$ 49,383,772*	*$ 80,206173*	*$82,641,932*
Deductions from Revenue	*$12,911,295*	*$33,015,241*	*$53,627,436*	*$55,229,382*
Net Patient Revenue	***$5,046,422***	***$16,368,481***	***$26,578,737***	***$27,412,550***
Other Revenue	*$24,000*	*$24,000*	*$24,000*	*$24,000*
Total Net Revenue	***$5,070,422***	***$16,392,481***	***$26,602,737***	***$27,436,550***
CONTROLLABLE COSTS				
Salaries & Bonuses	*$4,621,250*	*$7,555,116*	*$10,400,833*	*$10,638,764*
Employee Benefits	*$997,639*	*$1,571,312*	*$2,163,164*	*$2,212,649*
Professional Fees	*$805,580*	*$1,669,380*	*$2,516,998*	*$2,583,523*
Supplies	*$252,600*	*$694,650*	*$**1,**128,424*	*$1,162,473*
Travel/Education	*$48,000*	*$48,000*	*$48,000*	*$48,000*

	Year 1 2018	***Year 2 2019***	***Year 3 2020***	***Year 4 2021***
Maintenance	*$50,673*	*$163,925*	*$266,027*	*$274,366*
Purchased Services	*$516,614*	*$852,377*	*$1,182,702*	*$1,207,682*
Other Expenses	*$664,635*	*$664,635*	*$664,635*	*$664,635*
Insurance	*$52,838*	*$145,182*	*$235,752*	*$242,909*
Non-Allocated Other	*$314,760*	*$489,328*	*$660,628*	*$674,074*
Lease/Rental Expense	*$48,000*	*$48,000*	*$48,000*	*$48,000*
Total Controllable Cost	*$8,352,590*	*$13,901,906*	*$19,315,164*	*$19,757,074*
Contribution Margin (EBITDA)	*($3,282, 168)*	*$2,490,575*	*$7,287,573*	*$7,679,477*
FIXED COSTS				
Management Fee	*$126, 761*	*$409,812*	*$665,068*	*$685,914*
Depreciation	*$1,800,223*	*$1,823,641*	*$1,861,644*	*$1,900,840*
Total Fixed Costs	***$1,926,983***	***$2,233,453***	***$2,526,713***	***$2,586,753***
Income Before Taxes	***($5,209, 152)***	***$257,122***	***$4,760,860***	***$5,092,723***
(1) Other Deductions include contractual allowances on physician professional fee charges and denials. Source: Applicant: 2016"				

OBH provided its assumptions used to make these financial projections and are summarized below. [source: Application, pgs. 67-72]

- *"Where feasible, Fairfax Hospital year-to-date ("YTD") 2016 (January 1, 2016 - April 30, 2016) actuals were used as the basis for revenue and expense elements, where revenues or expenses per patient day were calculated, then used for Olympia Behavioral Health projections. Thus, Olympia Behavioral Health projections are driven off actual utilization and financial data from a provider of services similar to those proposed by Olympia Behavioral Health and in the Western Washington marketplace.*
- *There is no inflation of either revenues or expenses. UHS uses a conservative financial model, where revenues and costs are driven off actuals, generally on a per patient day basis, then projects revenues and expenses forward based on projected volume growth multiplied by the actual per patient day. This approach eliminates the uncertainty of reimbursement or other revenue changes and expense increases, not driven by volume.*
- *Movable equipment is depreciated using straight-line depreciation with a 7-year amortization period.*
- *Fixed equipment and the physical plant also are depreciated using straight line depreciation with a 20-year amortization period.*
- *Inpatient gross revenue is calculated off Fairfax YTD 2016 actuals per patient day.*
- *Outpatient gross revenue is calculated off Fairfax YTD 2016 actuals per visit.*
- *Professional fees for physician employees have been "rolled up" into gross revenue calculations, consistent with Fairfax.*
- *Reimbursement is based on Fairfax YTD 2016 actuals on a per patient day basis for inpatients and per visit basis for outpatients. The UPL/DSH reimbursement is based on Fairfax YTD 2016 actuals per patient day. Payer mix assumptions are provided below. These percentages are driven off CY2015 payer mix data (i.e. the most recent year of CHARS available at the time the financial pro forma was produced) and consistent with*

CY2015 Thurston County resident (ages 5+) inpatient psychiatric cases, based on total charges as seen in Figure 1."

- ***"Table 12. Olympia Behavioral Health. Payer Mix As a Percentage of Gross Revenues, All Hospital Patients, Year 4. (Reproduced)***

Payor	*Percentage*
Medicare	*36.4%*
Medicaid	*32.9%*
Commercial/Health Care Contractor	*16.2%*
HMO	*4.3%*
Other Government	*3.2%*
Self-Pay	*6.6%*
L&I	*0.4%*
Total	*100%"*

- *Bad debt is assumed 0.4% of gross revenue per year.*
- *Charity care is assumed 2.96% of gross revenues per year.*
- *Other deductions (denials) are assumed 0.9% of gross revenues per year.*
- *There is no reimbursement for the first five (5) months of operations given the assumption of a required Medicare Survey/Joint Commission accreditation. This is modeled as "Medicare Impact" and included within Contractual Allowances in the Income Statement.*
- *Full time equivalent ("FTE") employees, by class, are provided below, in Table 22. These FTEs are based on Fairfax YTD 2016 actuals, adjusted for the assumed patient mix and ramp rates of patient days and outpatient visits. As seen in the table, direct patient care FTEs, given minimum staffing requirements, flex with volumes (e.g. nursing and therapy staff). Because the proposed facility is not anticipated to be operational until January 1, 2018, recruitment and hiring decisions have not been made. The names and professional license numbers for key staff (e.g. credentialed or licensed management staff) can be provided to the Department prior to the facility commencing with operations.*
- *It should be noted physician professional fee revenues, compensation, malpractice insurance costs and other related physician costs are included in the financial pro forma included in Exhibit 10, but physician expenses are modeled separately and included in Professional Fees (compensation and related expenses) and Insurance (malpractice expenses). Thus, Table 22 does not include physician employee expenses.*
- *Wages and salaries have been calculated from hourly rates, by FTE class, based on Fairfax YTD 2016 actuals. As noted above, there is no wage and salary inflation.*
- *Benefits are modeled at 18.0% of wages and salaries, based on Fairfax YTD 2016 actuals.*
- *Professional fees include Medical Director stipends, medical staff compensation (salaries) and compensation for physicians' call coverage, performance of H&Ps (history and physicals for patients), patient followups, consults and compensation for uncompensated care. These are based on Fairfax YTD 2016 actuals. At this time, Olympia Behavioral Health anticipates there will be one medical director employed by the facility. Because the proposed facility is scheduled to begin operations on January 1, 2018, a decision has not been made regarding who will serve as the medical director, but a draft*

Medical Director Agreement has been prepared (see Exhibit 24). If our request is approved, we will provide the name and license number of the selected director.

- *Supply operating expense includes pharmacy; food; nursing units; dietary-non-food; plant operations; housekeeping and other non-revenue departments. Each of these cost elements were estimated on a per patient day basis from Fairfax YTD 2016 actuals. Olympia Behavioral Health figures were the product of the per statistic figure multiplied by patient day projections.*
- *Travel/education is assumed constant over time, based on Fairfax YTD 2016 actuals.*
- *Maintenance is calculated at 1% of net revenue, based on Fairfax YTD 2016 actuals.*
- *Purchased Services include: pharmacy; laboratory; ambulance/taxi; radiology; linen; medical records; patient accounts; plant operations; and grounds. These costs are based on Fairfax YTD 2016 actuals per patient day, multiplied by Olympia Behavioral Health forecast patient days. Olympia Behavioral Health will have the benefit of being located in proximity to ancillary and support services at PSPH. Olympia Behavioral Health will identify the ancillary and support services that may be purchased from existing vendor relationships and/or Providence. The common ancillary and support services necessary for a psychiatric hospital of Olympia Behavioral Health's size include clinical lab, imaging / radiology, ED transfer agreement and evaluation agreement, ambulance transport agreement, secure transport of patients, ground maintenance, dietary, linens, telecommunications, information technology and pharmacy.*
- *Other Expenses include utilities and plant maintenance, all based on square footage of the proposed facility for Olympia Behavioral Health. These are based on Fairfax YTD 2016 actuals.*
- *Insurance includes malpractice and general insurance, and is based on Fairfax YTD 2016 actuals, based on adjusted patient days.*
- *Non-Allocated Expenses include estimated legal/consulting and property taxes, based on Fairfax Hospital YTD 2016 actuals.*
- *Management Fees have been estimated at 2.5% of net revenues."*
- *"As noted above, in the event the Department were to approve a number of beds less than our requested 85-bed project, even at 72-75 beds, occupancy constraints would not be reached through at least year three, and financial performance would not be impacted. The model would still demonstrate financial viability."* [source: Screening Responses, footnote 7, pg. 9]

Public Comment

- *"In addition to unanswered questions regarding ownership and control of the applicants, the application is based on an overly aggressive schedule that jeopardizes not just this project but also Health Vest's previously-approved project. The applicants project that Olympia Behavioral Health will be operational in January 2018, and base their capital costs, financial projections, patient census, and other projections on that timeline."* [source: Public Comment US HealthVest, Martina Sze, Executive Vice President]
- *"Even if accurate, the timeline the applicants offer is identical to the proposed opening date of our new hospital. This timeline means that the two proposed new psychiatric hospitals (Vest Thurston and Olympia Behavioral Health) would come online at exactly*

the same time. In other words, potentially 160 new psychiatric beds would open in January 20 18. Such a simultaneous opening would raise significant questions about the viability of this project, and would significantly impact Health Vest's recently approved CN." [source: Public Comment US HealthVest, Martina Sze, Executive Vice President]

- *"In their response to screening question # 19 the applicants shrug off any financial impact from the simultaneous opening of both projects, and they decline to revise their financial projections in the least to adjust to that reality."* [source: Public Comment US HealthVest, Martina Sze, Executive Vice President]
- *"Patient day projections, even for the applicants' proposed 5-county service area, do not show significant bed need to fill 160 beds until sometime beyond even the 20-year horizon suggested in the screening response. The low net bed need during both projects' initial operating period makes it likely that neither of the hospitals would achieve their census targets; making both financially vulnerable and the community at risk of losing the psychiatric beds. The application shows that the applicants have no strategy for addressing the vulnerabilities to their own project due to the planned simultaneous openings, much less any plan to minimize the negative impacts of their project timeline on existing projects."* [source: Public Comment US HealthVest, Martina Sze, Executive Vice President]

OBH Rebuttal

- *"Providence Health & Services ("PH&S"), a Washington non-profit corporation and sole corporate member of Providence Health & Services - Washington ("Providence"), provides health care services to communities across Alaska, Washington, Montana, Oregon and California.*

  Recently, Providence and St. Joseph Health System, a California non-profit corporation, became affiliated. The new affiliation creates a new "super-parent," Providence St. Joseph Health, a Washington non-profit corporation, which will become the sole corporate member of PH&S. It is important to note that PH&S remains a viable corporation, as well as any and all subsidiaries and D/B/As that fall under that corporate umbrella. This new affiliation between PH&S and St. Joseph Health System does not change the name or corporate structure of PH&S or Providence." [source: Rebuttal, pg. 11]
- *"HealthVest goes on to criticize OBH for striving to open new behavioral beds as quickly as possible.[7] OBH is committed to complete its project expeditiously, which we view as a positive attribute due to the significant need for more behavioral beds. Unlike HealthVest, which received a CN in January 2014 and, almost three years later, has still only partially constructed the facility. UHS expeditiously completes its projects and expands access to needed psychiatric services. In fact, UHS is the only behavioral provider to actually open new psychiatric hospitals in this state in recent years."* [source: Rebuttal, pg. 12]

Department Evaluation

As part of the department's evaluation of this sub-criterion, the department's CCP reviewed the 2015 historical financial information of both Universal Health Systems and Providence Health Services. The CCP also provided a financial ratio analysis. The conclusions reached by the CCP were based on the financial information, as presented, in the application and screening responses.

CCP 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, CCP 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, CCP compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, CCP used 2015 data for comparison with projected years 2018 through 2021. The ratio comparisons are shown in the Table 12.

Table 12
Projected CCP Debt Ratios for OBH

Category	Trend*	State 2015	Year 1 2018	Year 2 2019	Year 3 2020	Year 4 2021
Long Term Debt to Equity	B	0.461	N/A	N/A	N/A	N/A
Current Assets/Current Liabilities	A	3.201	0.146	0.100	0.737	4.781
Assets Funded by Liabilities	B	0.387	0.022	0.038	0.055	0.048
Operating Expense/Operating Revenue	B	0.943	2.027	0.984	0.821	0.814
Debt Service Coverage	A	5.408	N/A	N/A	N/A	N/A

Definitions:	Formula
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+Depreciatioon and Interest Expense/Current Mat. LTD and Interest Expense

* A is better if above the ratio, and B is better if below the ratio [source: CCP analysis, pgs. 3-4]

"Olympia Behavioral Health, LLC, hospital does not yet exist. Because of this, the financial ratios are only from the proposal. 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 strong and demonstrate trends in the appropriate directions." [source: CCP analysis, pg. 4].

The department's CCP reviewed the 2015 historical financial information of both Universal Health Systems and Providence Health Services. The information is shown in the tables 11A and 11B. OBH's Balance Sheet for the third year of operation is presented in table 11C. [source: CCP analysis, pg.3]

Table 11A
Universal Health Services
2015 Balance Sheet

Assets		Liabilities	
Current	$1,718,304,000	Current	$1,100,406,000
Board Designated	$0	Long Term Debt	$3,387,303,000
Property/Plant/Equipment	$3,835,978,000	Other	$837,243,000
Other	$4,079,831,000	**Equity**	$4,309,161,000
Total Assets	**$9,634,113,000**	**Total Liabilities and Equity**	**$9,634,113,000**

Table 11B
Providence Health & Services
2015 Balance Sheet

Assets		Liabilities	
Current	$3,288,885,000	Current	$2,328,030,000
Board Designated	$5,297,564,000	Long Term Debt	$3,729,795,000
Property/Plant/Equipment	$6,580,860,000	Other	$1,646,804,000
Other	$572,968,000	**Equity**	**$8,035,648,000**
Total Assets	**$15,740,277,000**	**Total Liabilities and Equity**	**$15,740,277,000**

Table 11C
Olympia Behavioral Health
2020 Balance Sheet

Assets		Liabilities	
Current	$1,226,999	Current	$1,665,019
Board Designated	$0	Long Term Debt	$,0
Property/Plant/Equipment	$29,039,792	Other	$,0
Other	$0	**Equity**	**$28,601,772**
Total Assets	**$30,266,791**	**Total Liabilities and Equity**	**$30,266,791**

After reviewing the balance sheets above, CCP provided the following statement.

"Providence Health & Services and UHS/Fairfax partnership Olympia Behavioral Health LLC CN capital expenditure is projected to be $33,525,300. The funding will come from each partner in an amount to be determined. Part of Providence's contribution will be existing licensed bed capacity. Both parent partners have the financial capacity to fund the entire project on their own."

If the above analysis was the only department financial analysis, the department's conclusion would be that the project has met this sub-criterion. However, part of the financial feasibility analysis also includes a review of the assumptions or basis used by an applicant to project its financials in areas such as patient days and revenue and expense components. As the department reviewed the assumptions for OBH's project conflicting information between the application, screening responses, and rebuttal need or lack of a response to requested information were identified. Those items are discussed below.

Operational Date of the Hospital

The date the hospital is stated to be operational is January 2018. References to this opening date can be found in Application on page 26-footnote 16, page 34, page. 40, and page 71. The occupancy date is also described as Spring 2018 in the 2016 Community Behavioral Health Beds-Acute & Residential Grant Application and 2016 Community Behavioral Health Beds-Acute & Residential Grant Application-State Mental Hospital Diversion Projects submitted as Exhibit 33 to the departments screening questions. In response to department screening questions its stated "*we are a few years away from opening the hospital*". Emphasis added. [source: Screening Responses, pg. 14]. Even if the department had made the decision by the anticipated decision date of January 17, 2017, that timeframe is less than a year to complete:

- Conditional use permitting processes

- Construction Review plan review process
- County/City permitting processes
- Hospital construction
- Survey and Licensing requirements.

Therefore, the department concludes it is unlikely OBH would be operational in January 2018.

Impact of Previously Approved US HealthVest 75-bed Hospital

When the OBH application was submitted on June 21, 2016 the department had US HealthVest's 75-bed psychiatric hospital proposal already under consideration with a decision date of July 5, 2016. OBH was aware of the application as representatives from both Providence and Fairfax spoke against the US HealthVest project. The OBH application did not acknowledge the US HealthVest's application and any impact approval of that application might have on its operation. The department can understand why OBH did not account for US HealthVest's 75-beds in its initial application, however the department requested OBH to address the anticipated impact on the financial feasibility of its proposed project during screening after the US HealtVest decision had been made. OBH provided the following response:

> *"There is not expected to be a material financial impact from the approval of the US HealthVest application for 75 beds. …. Additionally, it must be noted, if our request is approved, Providence will close up to 20 inpatient psychiatric beds at Providence St. Peter Hospital. Those inpatients will represent additional demand for beds over and above the net need for beds identified by the Department in its analysis. The utilization projections for Olympia Behavioral Health, provided on pages 58-60 of our Application, stated the utilization forecasts were driven off the start-up experience at Cedar Hills Hospital, a UHS facility in Oregon, which began operations in 2010. Approval of the US Health Vest application would not change these projections."* Emphasis added. [source: Screening Responses, pgs. 12-13]

The department acknowledges it is appropriate for an applicant to use its past experience in developing hospitals as a starting point for preparing projections for other new hospital proposals. However, those projections must also be adjusted based on location of the new proposed hospital and any recent changes in the proposed service area. OBH has stated its utilization forecasts were driven off the start-up experience at Cedar Hills Hospitals in Oregon and that "*Approval of the US Health Vest application would not change these projections*." Emphasis added.

To assist in determining the reasonableness of this statement, the department researched the Cedar Hills Hospital. The Cedar Hills Hospital, is an 89-bed hospital located in Portland Oregon. *"Cedar Hills Hospital has been dedicated to helping people with mental illness and/or addition to drugs and alcohol since 2009….We offer a continuum of inpatient, partial hospitalization and intensive outpatient programs for mental health and substance abuse treatment for adults, 18 and older"* [source: Cedar Hills Hospital website-About Us] The department also notes that *"Cedar Hills Hospital does not accept the Oregon Health Plan or Medicaid."* [source: Cedar Hills Hospital website-Insurance]

Based on the department's research there appears to be a total of four hospitals that provide psychiatric care with Cedar Hills Hospital being the only licensed psychiatric hospital. There is no evidence that at the time the Cedar Hills Hospital began operations in either 2009 or 2010, another new psychiatric hospital was also beginning operation in the Portland area that would have had an impact on the start-up experience of the Cedar Hills Hospital.

OBH presented Table 18, presented on page 27 of this application, OBH's projected patient days and admission as a percentage of planning area "Net Need" for Thurston County. OBH states:

> *"These percentages are a measure of Olympia Behavioral Health's share of otherwise unmet, net demand for inpatient psychiatric care in the planning area. Table 18 shows Olympia Behavioral Health patient days, as a percent of this unmet patient day demand, would grow to 94.4% in 2021, and 86.0% of admissions. These percentages are not market share figures as that term is typically thought of, however. Olympia Behavioral Health's market share of total provider days would be less. The point is that Olympia Behavioral Health's patient days and admissions forecasts are very reasonable when compared to planning area incremental, unmet demand, measured either in patient days or admissions."* Emphasis added. [source: Application, pg. 60]

The department notes that in table 18, OBH identifies the supply of psychiatric beds, post certificate of need approval of OBH as zero. Even if the department were to accept the information in Table 18 as presented, OBH's projected patient days and admissions would be 94.4% unmet patient day demand in 2021 and 86% of admissions would likely be reasonable if OBH was the only new hospital in the planning area. However, the department has previously approved a 75-bed psychiatric hospital therefore the department does not agree with OBH when it states "*There is not expected to be a material financial impact from the approval of the US HealthVest application for 75 beds" and "Approval of the US Health Vest application would not change these projections*."

Medicare and Medicaid Revenue

As part of its assumptions presented in the application, OBH states its payor mix as a percentage of gross revenues, include Medicare at 36.4% and Medicaid at 32.9%. OBH states: "*Payer mix assumptions are provided below. These percentages are driven off CY2015 payer mix data (i.e. the most recent year of CHARS available at the time the financial pro forma was produced) and consistent with CY2015 Thurston County resident (ages 5+) inpatient psychiatric cases, based on total charges as seen in Figure 1."* The department reviewed the Medicare and Medicaid revenue reported by BHC Fairfax existing hospitals for the years 2012, 2013, 2014, and 2015 as reported in the year-end financial reports submitted to the department. The department reviewed BHC Fairfax because based on the information presented in the application, BHC Fairfax would oversee the operation of OBH. The department then calculated the Medicare and Medicaid revenues as a percent of total revenue. Table 12 presents that information.

Table 12
Comparison of Medicare and Medicaid Revenue As A Percent of Total Revenue
For Yeas 2012-2015

BHC Fairfax-Kirkland	**2012**	**2013**	**2014**	**2015**
Medicare revenue	$12,707,731	$14,120,918	$18,121,200	$21,297,700
Medicaid revenue	$29,667,265	$31,331,440	$45,634,400	$55,879,600
Total revenue	$86,514,407	$98,966,959	$124,861,266	$135,717,138
Medicare as a % of total revenue	14.69%	14.27%	14.51%	15.69%
Medicaid as a % of total revenue	34.29%	31.66%	36.55%	41.17%
BHC Fairfax-North- Licensed 9/22/14	**2012**	**2013**	**2014**	**2015**
Medicare revenue				$5,227,600

Medicaid revenue				$8,803,200
Total revenue				$27,817,904
Medicare as a % of total revenue				18.79%
Medicaid as a % of total revenue				31.65%

The department notes the application submitted by BHC Fairfax to establish BHC Fairfax-North in Everett represented the revenue by payor source to be Medicare-32.5% and Medicaid-30.1% [source: CN12-13 Application-BHC Fairfax-North, pg. 46] As shown in table 12 above, while Medicaid as a percent of total revenue is comparable to the amounts projected in the previous CoN application or actuals as reported in the hospital's year-end financial reports. However, Medicare revenue as a percent of total is significantly lower. While it is reasonable to conclude Medicare patients will have access to services at OBH, the department cannot conclude it's at the level stated in the application.

Management Fees/Agreement

In the projected revenue and expenses statement a line item identified Management Fees. The application included a draft Management Services Agreement-Exhibit 27 between OBH and BHC Fairfax Hospital, Inc.

The department requested OBH provide a copy of the executed management agreement or a draft management agreement. A draft is acceptable provided the draft:

a. identifies all entities/persons referenced in the agreement,
b. outlines all roles and responsibilities of all entities/persons,
c. identifies all terms and conditions,
d. identifies all costs associated with the agreement, and
e. includes all exhibits that are referenced in the agreement.

Instead of submitting a revised Exhibit 27 which was a draft Management Services Agreement that included the costs OBH stated the following:

"There is no plan for a management service agreement. When there is a relationship between subsidiary and parent, there are standard overhead, allocated costs not directly attributable to operations. [9] *The Management Fee, referenced by the Department, which has been calculated at 2.5% of net revenues, is intended to capture such anticipated costs, which at this time are not defined, but are nonetheless expected. Such costs might include costs of corporate staff activities for Human Resources, Legal, Financial Services, Planning/Marketing, etc."*

OBH further stated in footnote 9 on page 18 of their screening responses:

"While Olympia Behavioral Health will be independent of UHS and Providence, there will likely be some allocated costs. This does not mean, however, there will be a management agreement."

This is a change in what was represented in the initial application. In the department's experience specific agreements such as management agreements and leases are entered into between a corporation's independent subsidiaries. OBH is not a typical parent-subsidiary relationship. As stated in the footnote in OBH's screening responses, OBH "*will be independent of UHS and Providence.*"

Physician Employees and Other Employed Staff

OBH stated "…physician professional fee revenues, compensation, malpractice insurance costs and other related physician costs are included in the financial pro forma included in Exhibit 10, but physician expenses are modeled separately and included in Professional Fees (compensation and related expenses) and Insurance (malpractice expenses). Thus, Table 22 does not include physician employee expenses." The department requested OBH identify the number and type of physicians to be employed by the hospital. OBH did not provide the information requested. Instead OBH stated:

> *"This question is premature as we are a few years away from opening the hospital. We assure the Department that we will employ enough physicians to provide excellent, high-quality treatment for our patients."* [source: Screening Responses, pg. 14]

OBH's response further stated:

> *"It should be understood, based on our experience operating psychiatric hospitals, we have modeled an appropriate level of physician employee costs, but we have not modeled these costs based on FTE projections."* [source: Screening Responses, pg. 14]

In addition to the employed physicians, OBH provided *"Table 22, which lists staff FTEs for Olympia Behavioral Health, on page 70 of our Application, includes FTE ("full-time equivalent") employees in the following categories: direct clinical (nursing); direct, non-clinical (e.g., PT, OT, speech therapists); indirect, clinical (e.g., dietary); and indirect, non-clinical (e.g., plant operations, patient transport, utilization review, finance, administration, etc.). Indirect, non-clinical staff would include administration and other support staff. Physician professional fee revenues, compensation, malpractice and other related physician* costs *are included in the financial pro forma included in Exhibit 10. Physician revenues are included "Patient Revenues" in the Statement of Revenues and Expenses, and physician expenses, e.g., compensation, are modeled separately and included in Professional Fees (compensation and related employment expenses) and Insurance (malpractice expenses).* Emphasis Added [source: Screening Responses, pg. 14]

It is not clear from OBH's responses and table 22 the actual projected number of FTEs other than by general category expected to be employed by OBH.

Purchased Services

On page 71 of the application OBH described the what was included in the purchase services line item in its pro forma revenue and expenses. OBH states:

> *"Purchased Services include: pharmacy; laboratory; ambulance/taxi; radiology; linen; medical records; patient accounts; plant operations; and grounds. These costs are based on Fairfax YTD 2016 actuals per patient day, multiplied by Olympia Behavioral Health forecast patient days. Olympia Behavioral Health will have the benefit of being located in proximity to ancillary and support services at PSPH. Olympia Behavioral Health will identify the ancillary and support services that may be purchased from existing vendor relationships and/or Providence."*

Also as part of the application, OBH provided a draft Purchased Services Agreement-Exhibit 25 between OBH and PSPH. However, the draft failed to identify the services to be provided by

PSPH. The department requested OBH to provide a revised purchase services agreement. The department stated:

A draft purchased services agreement is acceptable provided the draft:

a. identifies all entities/persons referenced in the agreement,
b. outlines all roles and responsibilities of all entities/persons,
c. identifies all terms and conditions
d. identifies all costs associated with the agreement, and
e. includes all exhibits that are referenced in the agreement.

In response to the department's request OBH stated:

> *"The DRAFT Purchased Services Agreement, submitted as part of the certificate of need application, is not finalized because the parties will not know what types of services will be provided. The types of services that may be purchased by the hospital include: pharmacy, laboratory, ambulance/taxi, radiology, linen, medical records, patient accounts, plant operations, and ground maintenance."*

OBH did not provide the requested information. The department notes that several of the types of services OBH now states may be included in purchased services (i.e. plant operations, medical records, patient accounts) are also identified as OBH hospital employed FTEs in Table 22 ("*Olympia Behavioral Health. Projected Number of Full-Time Equivalent Employees*")

With the inconsistencies identified above or lack of response to the department's questions the department cannot conclude the projected financial revenue and expense information provided in the application is reliable. Therefore, based on the source information reviewed, the department concludes that the immediate and long-range operating costs of the project cannot be met. **This sub-criterion is not 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.

OBH

OBH proposes to locate the new 85-bed hospital at Thurston County parcel number 118-02-310200 located at 3100 Marvin Road NE. Lacey Washington within Thurston, County. [source: Screening Responses, Exhibit 37-Signed Purchase & Sale Agreement-exhibit A Legal Description, pg. 85]

OBH identified the capital expenditure associated with the construction of the 85-bed psychiatric hospital is $33,525,300. A non-binding cost estimate from William Bouten, President of Bouten Construction Company was provided. [source: Screening Responses, Exhibit 20-Revised] A breakdown of the costs is shown in Table 13. [source: Screening Responses, pg. 10]

Table 13
OBH Bed Psychiatric Hospital

Item	Cost	% of Total
Land	$1,250,000	4%
Land Improvements	$4,201,327	13%
Building Construction	$20,112,700	60%
Fixed Equipment	$1,505,000	4.5%
Moveable Equipment	$425,000	1.3%
Architect/Engineer Fees	$2,585,561	7.7%
Consulting Fees	$215,000	0.6%
Site Preparation	$920,253	2.7%
Supervision & Inspection	$215,000	0.6%
Sales Tax	$2,095,459	6.3%
Total	**$33,525,300**	**100.0%**

OBH states *"Following the issuance of a Certificate of Need for its proposed project, Olympia Behavioral Health will complete the essential public facility siting process that is required by the City of Lacey and will work with the City to complete the applicable environmental review. A copy of the documentation associated with the applicable reviews will be provided to the Department prior to opening the new facility."* [source: Application, pg. 27]

OBH also stated it *"will submit a SEPA checklist to the City will determine whether to issue a Determination of Non-Significance (DNS) or whether an Environmental Impact Statement (EIS) is required. The applicant will submit the SEPA checklist to the local agency with the conditional use application. The City indicated in its letter (see application at Exhibit 15) that the review process will take between 90 to 120 days."* [source: Screening Responses, pg. 6]

Public Comment

- None

OBH Rebuttal

- None

Department Evaluation

OBH identified the location of the proposed hospital at Thurston County parcel number 118-02-310200 located at 3100 Marvin Road NE. Lacey Washington within Thurston, County. OBH provided a copy of the signed purchase agreement between Olympia Behavioral Health, LLC and Hill-Betti Business Park. [source: Screening Responses, Exhibit 37] The land purchase identified in the revised cost estimates are consistent with the purchase price in the purchase agreement.

OBH identified an alternative site for the proposed hospital. CoNs when issued are site specific. Any change in the approved site requires a CoN review as identified in WAC 246-310-570(1)(f). Therefore, it was not necessary to assess the alternative site in this evaluation.

The applicant must also provide documentation that the proposed site may be used for that purpose. OBH provided a letter from Rick Walk, Director of Community Development for the City of Lacey. Mr. Walk confirmed that the site (parcel number 118-02-310200) was permitted as an essential public facility through a Conditional Use Permit (CUP). [source: Application, Exhibit

15] In addition to the information concerning the CUP. OBH stated that it intended to "*submit a SEPA checklist to the City will determine whether to issue a Determination of Non-Significance (DNS) or whether an Environmental Impact Statement (EIS) is required. The applicant will submit the SEPA checklist to the local agency with the conditional use application."* WAC 246-03-030(4)(b) states:

> *"…the department shall not issue a certificate of need approving this hospital construction until the applicant has supplied it with a determination of nonsignificance or a final EIS, and until seven days after the issuance by the lead agency of any final EIS. Nothing in this subsection shall preclude the department from making a commitment to issue a certificate of need to an applicant subject to the timely receipt of an appropriate environmental impact statement or determination of nonsignificance."*

Therefore, if this project were approved, the department would issue an "*intent to issue*" commitment letter. Then once the department received either a determination of nonsignificance or a final EIS a Certificate of Need would be issued.

A non-binding cost estimate from William Bouten, President of Bouten Construction Company was provided. The estimate provided was consistent with the project's estimated costs. The department reviewed the cost of previous psychiatric hospital projects. The costs proposed by OBH are comparable to those projects.

Based on the information reviewed and with HealthVest's agreement to the conditions identified above, the department concludes the cost of the project will probably not result in an unreasonable impact on the costs and charges for health services. **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.

OBH

The capital expenditure associated with the 85-bed psychiatric hospital is $33,525,300. OBH states it intends to fund the project using accumulated reserves. [source: Application, pg. 64] Letters from the Chief Financial Officers of each JV member demonstrating financial commitment to this project was included in Exhibit 21 of the application. Additionally, OBH states:

> *"Providence Health Care and Fairfax Behavioral Health, under Olympia Behavioral Health LLC., have applied for two Department of Commerce grants. Please see Exhibit 33. We remain committed to funding this project, regardless of the outcome of either or both the grants. Grant funding would not change our ability and commitment to fund this project."* [source: Screening Responses, pg. 12]

Exhibit 33 of the application contained two separate grant applications. One is a 2016 Community Behavioral Health Beds-Acute & Residential Grant Application and the other is a 2016 Community Behavioral Health Beds-Acute & Residential Grant Application-State Mental Hospital Diversion Projects. Each request $2,000,000 for the project.

Public Comment

- *"…the proposed project involves the establishment of Olympia Behavioral Health, LLC. According to page 18 of the application, the LLC is comprised of Providence Health & Services-Washington dba Providence St. Peter Hospital (PHSW) and BHC Fairfax Hospital, Inc. PHSW is intended to own "10-20% of the LLC" and BHC Fairfax Hospital, Inc. comprises the remaining 80-90%. The lack of ownership percentage at this time in an application is highly unusual; but what is concerning is that according the September 2016 screening response, as of today, BHC Fairfax Hospital, Inc. is currently the sole member of the LLC."* [source: Public Comment US HealthVest, Martina Sze, Executive Vice President]

OBH Rebuttal

- *"In its November 16, 2016, public comment letter,[2] HealthVest quotes a portion of the PSPH/Fairfax CON application which states: "The proposed ownership range [of Olympia Behavioral Health] will be 10%-20% for PSPH and 80%-90% for Fairfax. "[3] Based upon this text, HealthVest asserts: "The lack of ownership percentage at this time in an application is highly unusual. "[4]*

  However, HealthVest's assertion that the ownership percentages have not yet been determined is incorrect. HealthVest has failed to refer to the Term Sheet executed by Providence and UHS, which was submitted as Exhibit 1 to the CON application. Section 3 ("Contributions and Initial Capitalization") of the Term Sheet states that the ownership percentages of the Providence member and the UHS member of OBH are "anticipated to be approximately 10% and 90% respectively. "[5] The application text quoted by HealthVest was drafted prior to the execution of the Term Sheet by Providence and UHS on May 27, 2016. The text should have been corrected to read: 'The ownership percentage will be approximately 10% for PSPH and 90% for Fairfax."[6]

  Accordingly, HealthVest's assertion that the relative ownership percentages in Olympia Behavioral Health have not been decided is not accurate. Those percentages are in fact identified in the executed Term Sheet that was submitted with the CON application. Even if the relative ownership percentages were not defined in advance, however, having an estimated or range of ownership percentage is neither unusual as a general business matter nor problematic for purposes of CN approval." Emphasis added [source: Rebuttal, pgs. 11-12]

- *"[4] Health Vest raises another red herring about OBH having one member. Creating a shell entity for a project, particularly one requiring regulatory approval, is common practice in the business world and is addressed through the Term Sheet (attached to the CN application as Exhibit 1), which identifies the two members and the principal business terms."* [source: Rebuttal, Footnote 4, pg. 11]

Department Evaluation

As noted earlier, the capital expenditure associated with this of the 85-bed psychiatric hospital is $33,525,300. OBH states it intends to fund the project using accumulated reserves. [source: Application, pg. 64] OBH also stated that two Department of Commerce grants had been applied for to partially fund the project. According to the department's research, neither of OBH's grant proposals received funding. When the applicant is a single entity (not a JV) a letter from the organization's CFO or board resolution identifying the amount of funding and commitment to the

project along with a review of the organization's Balance Sheet is generally sufficient for the department to conclude this sub-criterion is met. However, when the applicant involves more than one organization, additional information is necessary.

Letters from the Chief Financial Officers of each JV member demonstrating financial commitment to this project was included in Exhibit 21 of the application. A review of the letters reveals the following:

Letter from Denise Marroni, Chief Financial Officer, Providence St. Peter Hospital

- *"Providence is pleased to commit the necessary resources to fund its share of the intended project."*

Letter from Cheryl Ramagano, Vice President and Treasurer, UHS

- *"Please accept this letter as evidence of financial support by Fairfax Behavioral Health, an operating subsidiary of Universal Health Services, Inc. for its share of the certificate of need application by Fairfax and Providence for approval to establish an 85-bed psychiatric hospital in Thurston County ("Psychiatric Hospital"). This new Psychiatric Hospital will be operated by a Washington limited liability company ("Newco")."*

Neither letter identifies the amount of to be contributed by each organization to this project. The department requested OBH identify the amount of accumulated reserves that is to be contributed by each partner (screening question 15). In response to the department's request submitted September 21, 2016, OBH provided the following:

> *"The proposed ownership range will be 10%-20% for Providence and 80%-90% for Fairfax, tor a total of 100% between the two parties. Providence will contribute up to 20 of its existing inpatient psychiatric beds and cash, if necessary to meet its ownership percentage. The parties are conducting a third-party valuation of Providence's inpatient business. However, due to the competitive and proprietary nature of that information, the parties have not disclosed the specifics of the valuation in a public document, such as this CN application. Furthermore, as is typical in many transactions, business valuations are time sensitive and are often updated with the most recent data available at the time of closing. This may result in adjustments to the valuation.*
>
> *Based on a capital expenditure figure of $33,525,300, the respective capital contributions would be:*
> - *Fairfax Behavioral Health, given a contribution range of 80%-90%: $26,820,240-$30,172,770*
> - *Providence, given a contribution range of 10%-20%: $3,352,530-$6,705,060."* Emphasis added. [source: Screening Responses, pgs. 11-12]

As stated earlier, OBH's response to HealthVest public comment stated "*HealthVest has failed to refer to the Term Sheet executed by Providence and UHS, which was submitted as Exhibit 1 to the CON application. Section 3 ("Contributions and Initial Capitalization") of the Term Sheet states that the ownership percentages of the Providence member and the UHS member of OBH are "anticipated to be approximately 10% and 90% respectively. "*[5] *The application text quoted by HealthVest was drafted prior to the execution of the Term Sheet by Providence and UHS on*

May 27, 2016. The text should have been corrected to read: 'The ownership percentage will be approximately 10% for PSPH and 90% for Fairfax." Emphasis Added.

The executed Term Sheet OBH asks the department to rely on to counter US HealthVest's comments was reviewed. The Term Sheet states:

"The terms and conditions set forth herein are expected to be subsequently reflected in certain definitive agreements, including an operating agreement and a contribution agreement (collectively, the "Definitive Agreements"), to be negotiated by the Parties, subject to such additional or other terms and conditions as the Parties may therein agree." Emphasis Added.

The department asked OBH to :

> "*Provide either copies of either the executed definitive agreements or a draft definitive agreements that include at least the following:*
>
> *a. Contribution Agreement. A draft is acceptable provided the draft:*
> *i. identifies all entities/persons referenced in the agreement,*
> *ii. outlines all roles and responsibilities of all entities/persons,*
> *iii. identifies all terms and conditions*
> *iv. identifies all costs associated with the agreement, and*
> *v. includes all exhibits that are referenced in the agreement.*
>
> *b. Operating Agreement. A draft operating agreement is acceptable provided the draft:*
> *i. identifies all entities/persons referenced in the agreement,*
> *ii. outlines all roles and responsibilities of all entities/persons,*
> *iii. identifies all terms and conditions*
> *iv.. identifies all costs associated with the agreement, and*
> *v. includes all exhibits that are referenced in the agreement.*
>
> *c. Any other agreements that are anticipated to be included in the "Definitive Agreements." A drafts are acceptable provided the drafts:*
> *i. identifies all entities/persons referenced in the agreement,*
> *ii. outlines all roles and responsibilities of all entities/persons,*
> *iii. identifies all terms and conditions*
> *iv.. identifies all costs associated with the agreement, and*
> *v. includes all exhibits that are referenced in the agreement*." [source: Screening Question 27]

In response OBH stated:

> *"The parties will not be entering into a Contribution Agreement for this joint venture and the reference to such in the Term Sheet was in error; therefore, there isn't a DRAFT to submit. The parties already submitted a DRAFT Operating Agreement as part of our certificate of need application. Please see Exhibit 28 to the Application. Besides the DRAFT definitive agreements that were submitted with the Application, the parties do not intend to enter into any other agreements."* [source: Screening Responses, pg. 17]

The draft Operating Agreement-Exhibit A provided in the initial application does not identify the initial capital contribution to be made by each member. There are two footnotes on Exhibit A that state:

"[1] PHS intends to contribute to the Company the value of a portion of its existing inpatient unit, which will be determined by independent valuation firm following receipt of relevant state regulatory approvals that the parties have requested, and, as necessary, cash. Its percentage of total Membership Units held is anticipated to be 10%.

[2] Fairfax intends to contribute cash. Its percentage of total Membership Units held is anticipated to be 90%."

The term sheet that OBH encourages the department to rely is also states:

"Each of the Parties has executed this non-binding Term Sheet as of the dates set forth below." [source: Application, Exhibit 1]

The department does not agree with OBH's assertion that "*Even if the relative ownership percentages were not defined in advance, however, having an estimated or range of ownership percentage is neither unusual as a general business matter nor problematic for purposes of CN approval."*

The department requested more than once within its screening for the members of OBH to specifically identify the amounts each were to contribute to this project. OBH failed to provide the requested information. Without this information the department doesn't know how much each of the JV members are contributing. It may be just the amounts to equal the cost of the proposed project or it could be something different. Without this information the department cannot adequately evaluate this sub-criterion. Therefore the department concludes this sub-criterion is **not met**.

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

Based on the source information reviewed the department concludes the application submitted by Providence Health System-St. Peter Hospital and Universal Health Systems-BHC Fairfax, Inc. on behalf of Olympia Behavioral Health, LLC has not 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.

OBH

- OBH identified the FTE staffing in table 22.

"Table 22 (Reproduced)
Olympia Behavioral Health. Projected Number of Full-Time Equivalent Employees, 2018 through 2022

Olympia Behavioral Health, LLC	*2018*	*2019*	*2020*	*2021*	*2022*
Total Paid FTEs	*76.22*	*119.98*	*162.61*	*166.85*	*169.40*
Total Paid Hours	*158,532*	*249,556*	*338,231*	*348,392*	*352,346*

Olympia Behavioral Health, LLC	*2018*	*2019*	*2020*	*2021*	*2022*
Average Hourly Wage	*$29.94*	*$30.79*	*$31.01*	*$31.03*	*31.04*
Total Salaries & Wages	*$4,621,250*	*$7,555,116*	*$10,400,833*	*$10,638764*	*$10,807,476*
Employee Benefits	*977,639*	*1,571,312*	*2,163,164*	*2,212,649*	*2,247,737*
Benefits as % Salaries % Wages	*21.2%*	*20.8%*	*20.8%*	*20.8%*	*2038%*

Labor Distribution		*2015*	*2016*	*2017*	*2018*	*2019*
FTEs	*Direct Clinical (Nursing, including Nursing Administration)*	*30.1*	*60.0*	*88.9*	*91.3*	*93.3*
	Direct, Non-Clinical (PT, OT, Speech, etc.)	*5.3*	*12.4*	*19.0*	*20.4*	*20.7*
	Indirect, Clinical (Pharmacy, Dietary)	*8.0*	*8.0*	*8.0*	*8.0*	*8.0*
	Indirect, Non-Clinical (Plant Operations, Patient Transport, Utilization Review, Finance, etc.)	*32.8*	*39.6*	*46.8*	*47.1*	*47.4*
	Total	*76.2*	*120.0*	*162.6*	*166.9*	*169.4*
Hours	*Direct Clinical (Nursing, including Nursing Administration)*	*62,559*	*124,807*	*184,831*	*190,006*	*194,055*
	Direct, Non-Clinical (PT, OT, Speech, etc.)	*11,093*	*25,802*	*39,511*	*42,414*	*43,058*
	Indirect, Clinical (Pharmacy, Dietary)	*16,640*	*16,640*	*16,640*	*16,640*	*16,640*
	Indirect, Non-Clinical (Plant Operations, Patient Transport, Utilization Review, Finance, etc.)	*68,239*	*82,307*	*97,249*	*97,997*	*98,592*
	Total	*158,532*	*249,556*	*338,231*	*347,057*	*352,346*
Salaries & Wages	*Direct Clinical (Nursing, including Nursing Administration)*	*$2,343,871*	*$4,469,539*	*$6,550,447*	*$6,702,591*	*$6,841,285*
	Direct, Non-Clinical (PT, OT, Speech, etc.)	*$335,352*	*$795,452*	*$1,218,217*	*$1,301,236*	*$1,321,023*
	Indirect, Clinical (Pharmacy, Dietary)	*$149,739*	*$149,760*	*$150,336*	*$149,760*	*$149,760*
	Indirect, Non-Clinical (Plant Operations, Patient Transport, Utilization Review, Finance, etc.)	*$1,792,288*	*$2,140,365*	*$2,481,833*	*$2,485,177*	*$2,495,408*
	Total	*$4,621,250*	*$7,555,116*	*$10,400,833*	*$10,638,764*	*$10,807,476*
Employee Benefits	*Direct Clinical (Nursing, including Nursing Administration)*	*$495,853*	*$929,574*	*$1,362,361*	*$1,394,004*	*$1,422,850*

Labor Distribution		*2015*	*2016*	*2017*	*2018*	*2019*
	Direct, Non-Clinical (PT, OT, Speech, etc.)	*$70,945*	*$165,438*	*$253,365*	*$270,631*	*$274,746*
	Indirect, Clinical (Pharmacy, Dietary)	*$31,678*	*$31,147*	*$31,267*	*$31,147*	*$31,147*
	Indirect, Non-Clinical (Plant Operations, Patient Transport, Utilization Review, Finance, etc.)	*$379,164*	*$445,153*	*$516,171*	*$516,867*	*$518,995*
	Total	*$977,639*	*$1,571,312*	*$2,163,164*	*$2,212,649*	*$2,247,737*
The FTE and Total Hours Worked figures include 2.0 FTE contract Pharmacy FTEs. These contract employees are not included in the expense figures, however, since their cost is included in Purchased Services.						
Indirect, Non-clinical includes: Plant Operations; Housekeeping; Patient Transport; Intake; Financial Counseling; Quality Assurance; Utilization Review; Medical Records; Communications; Patient Accounts; Fiscal Accounting-CFO and AP/Payroll; Purchasing; Data Processing; Administration-CEO & Assistant; Marketing; and Human Resources." [source: Application, pg. 70]						

- *"With respect to the availability of qualified health manpower and management personnel, the new facility will offer an attractive work environment for inpatient and outpatient psychiatric care, thus attracting local area residents who are qualified for the new positions. At this time, we do not expect any significant staffing challenges that would disrupt the ability to achieve the objectives and goals of the established facility."* [source: Application, pg. 74]
- *"It is anticipated that there may be a decrease in the number of behavioral health staff needed at PSPH. However, the opening of Olympia Behavioral Health will create even more jobs in the community and enable current PSPH staff to transition to positions with Olympia Behavioral Health."* [source: Application, pg. 74]
- *"Staffing decisions, including transfers, will be evaluated as part of the operational plans to open the 85-bed psychiatric hospital."* [source: Application, pg. 74]
- *"PSPH and Fairfax have multiple resources available to assist with the identification and recruitment of appropriate and qualified personnel. These resources include but are not limited to the following:*

  Web Sites
  Career listings are made available on the Providence Web site and Fairfax Web site, which is linked to the UHS corporate sites. The postings are placed on multiple search engines and listing sites (e.g. Indeed, Career Builders, Monster, NW Jobs).

  Providence & Fairfax Recruiters
  Providence and Fairfax will utilize the collective expertise of their recruitment teams to recruit qualified health manpower and management personnel. Both organizations have strong success in recruiting for hundreds of open, critical-to-fill positions on an annual basis. The recruiters offer support on a national level, as well as a local level, with hard-to-fill positions. In addition, both organizations have internal physician recruitment teams who actively evaluate and identify physicians seeking employment opportunities in the PSPH and Fairfax markets.

  Nursing Schools
  Fairfax is host to eight nursing schools in the Puget Sound region. Approximately 130 nursing school students complete their psychiatric rotation throughout the year at

Fairfax. Fairfax currently averages five new graduate nurse hires a year coming from these rotations." [source: Application, pg. 74-75]

Public Comment

- *"Opening two new hospitals simultaneously will cause problems in staffing for both, and will also mean that both operate at low occupancies."* [source: US HealthVest, Larisa Klein, VP-Public Comment]
- *"In their response to screening question # 19 the applicants shrug off any financial impact from the simultaneous opening of both projects, and they decline to revise their financial projections in the least to adjust to that reality. Nor do the application or screening response provide any indication of how the applicants will recruit adequate qualified staff for their new hospital in light of the competition for those same licensed workers from another new facility just down the road. In fact; the simultaneous opening of two new hospitals would make recruiting difficult and likely require both hospitals to offer higher salaries to recruit adequate staff. Moreover, the proposed simultaneous opening of all 160 beds would necessarily alter the startup period and patient days for each."* [source: Public Comment US HealthVest, Martina Sze, Executive Vice President]

Rebuttal

- *"In its November 16, 2016, public comment letter, HealthVest asserts that the opening of the PSPH/Fairfax facility and the HealthVest facility within similar time frames will make staff recruitment "difficult." However, PSPH and Fairfax foresee no such difficulties given their extensive, well-established recruitment systems. Given the fact that HealthVest currently operates only a single psychiatric hospital (which is not located in the State of Washington), its comment reflects its own limited recruitment expertise, and its lack of a recruitment network and experience in Washington."* [source: Rebuttal, pg. 29]
- *"PSPH and Fairfax, and their parent companies, Providence and UHS, have a demonstrated ability to recruit qualified clinical staff and management personnel given their operations in the planning area, the State of Washington, the Pacific Northwest, and across the nation. They are already in Washington's labor market, have existing relationships with schools and training institutes, and can use that experience to successfully recruit, employ, and train staff for OBH. Moreover, given that PSPH currently provides inpatient and outpatient psychiatric services, it has experience in recruiting and training clinical and administrative psychiatric personnel in the planning area."* [source: Rebuttal, pg. 29]
- *"PSPH, Providence, Fairfax, and UHS have multiple resources available to them to assist with the identification and recruitment of qualified personnel to staff the new hospital."* [source: Rebuttal, pg. 30]
- *"...HealthVest's concerns are unfounded. Providence and Fairfax anticipate no problems in fully staffing their new hospital, regardless of whether Health Vest opens its facility within a similar time frame."* [source: Rebuttal, pg. 30]
- *"Staffing levels at Fairfax Behavioral Health are well within industry and regional standards. Additional personnel are regularly staffed in instances of high acuity to maintain the highest levels of patient and staff safety. The Pacific Northwest is experiencing a nursing shortage across the region. Due to the nursing shortage, Fairfax Behavioral Health has responded by recruiting nurses outside of the region to ensure*

adequate staffing levels. It is regular and common practice across all hospital systems in the Puget Sound region to utilize agency and travel nurses. Fairfax has experienced a higher than normal turnover in the last year. However, it is well below the 80% asserted by SEIU . In conjunction with the regional nursing shortage, Puget Sound hospital systems have also been experiencing higher than normal turnover and this is again a regional issue." [source: Rebuttal, pg. 30]

Department Evaluation

OBH states the hospital is become operational in January 2018 with all 85 psychiatric beds. Under this timeline, full calendar year one is 2018 and full year three is 2020. Both PSPH and Fairfax are existing provider of services within Washington. The strategies identified by OBH to recruit staff are consistent with those of other applicants reviewed and approved by the department.

Key staff, including the medical director, have not yet been identified for the new hospital. The department asked OBH to clarify an inconsistency staff identified that stated the medical director will be employed by the facility and the draft Medical Director Agreement-Exhibit 24 identifying the medical director as an independent contractor. In response, OBH stated the Medical Director will be an employee and provided a revised Exhibit 24 that is form employment agreement currently used by BHC Fairfax. [source: Screening Responses, pg. 13] All areas of proposed compensation for the Medical Director have been left blank. Examples include annual gross salary, weekend on-call rate, and admitting physician fee. There appears to other explanations besides the amount that have also been blanked out.

The application also indicates physicians at the hospital will also be employed. The department requested OBH to provide a copy of the proposed job description for these physicians. [screening question 24] OBH did not provide the requested information. Instead the following response was given.

*"This question is premature as we are a few years away from opening the hospital. We can assure the Department that UHS and Providence will use our cumulative best-practices with respect to staffing to attract and employ physicians to provide excellent, high-quality treatment for our patients. If this project is approved, the department would attach a condition requiring HealthVest 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***."** [source: Screening Responses, pg. 14]

The department also asked OBH to identify the number and types of physicians are the be employed by the hospital. [screening question 25]. OHB did not provide the information requested. Instead the following response was given.

"This question is premature as we are a few years away from opening the hospital. We assure the Department that we will employ enough physicians to provide excellent, high-quality treatment for our patients..

It should be understood, based on our experience operating psychiatric hospitals, we have modeled an appropriate level of physician employee costs, but we have not modeled these costs based on FTE projections. Table 22, which lists staff FTEs for Olympia Behavioral Health, on page 70 of our Application, includes FTE ("full-time equivalent") employees in the following categories: direct clinical (nursing); direct, non-clinical

(e.g., PT, OT, speech therapists); indirect, clinical (e.g., dietary); and indirect, non-clinical (e.g., plant operations, patient transport, utilization review, finance, administration, etc.). Indirect, non-clinical staff would include administration and other support staff. Physician professional fee revenues, compensation, malpractice and other related physician costs are included in the financial pro forma included in Exhibit 10. Physician revenues are included "Patient Revenues" in the Statement of Revenues and Expenses, and physician expenses, e.g., compensation, are modeled separately and included in Professional Fees (compensation and related employment expenses) and Insurance (malpractice expenses)…" Emphasis added. [source: Screening Responses, pg. 14]

In the financial feasibility section of this analysis noted that several of the types of services OBH has stated may be included in purchased services (i.e. plant operations, medical records, patient accounts) are also identified in OBH hospital employed FTEs Table 22 (*"Olympia Behavioral Health. Projected Number of Full-Time Equivalent Employees"*)

While the department would expect OBH to be able to recruit staff based of the JV members history of doing so, the inconsistencies in application materials and lack of response to the department's questions about the number of employees, the department cannot conclude the hospital will have a sufficient number of qualified staff.

The department concludes, **this sub-criterion is not 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.

OBH

- *"In addition, Olympia Behavioral Health has drafted the following collaborative agreements: Purchased Services Agreement (Exhibit 25); Management Services Agreement (Exhibit 27); Operating Agreement (Exhibit 28); Patient Transfer Agreement (Exhibit 29); and Utilization Management Plan (Exhibit 30). It is anticipated that the parties shall enter into final definitive agreements upon issuance of the Certificate of Need for this project. Upon approval of this Certificate of Need application, the draft agreements will be finalized and submitted to the Department of Health; the executed agreements will be consistent with the draft agreements provided with this application."* Emphasis added. [source: Application, pg. 77]

Public Comment

- None

Rebuttal

- None

Department Evaluation

OBH states the new psychiatric hospital to become operational in January 2018 although elsewhere its stated it will be several years. As a result, final formal and informal working relationships with area healthcare providers are not expected to have been finalized yet. However, since both PSPH and Fairfax are existing Washington providers the department would expect them to be identify the formal and informal working relationships expected. For this reason, the department was not surprised when OBH provided several draft "*collaborative agreements*" to demonstrate the proposed hospital will have appropriate organizational relationship, to ancillary and support services. Those included:

- Purchased Services Agreement
- Management Services Agreement
- Operating Agreement
- Patient Transfer Agreement
- Utilization Management Plan

OBH states *"Upon approval of this Certificate of Need application, the draft agreements will be finalized and submitted to the Department of Health; the executed agreements will be consistent with the draft agreements provided with this application."* [source: Application, pg. 77]

The patient transfer agreement is between Providence Health & Services-Washington d/b/a Providence St. Peter Hospital and Olympia Behavioral Health, LLC. This is a typical type Transfer Agreement the department has seen in other applications.

OBH included a draft Management Services Agreement-Exhibit 27 between OBH and BHC Fairfax Hospital, Inc. During screening, the department requested OBH provide a copy of the executed management agreement or a draft management agreement that corresponded with the line item expense in the pro forma revenue and expense statement related to the Management fees. Screening question 32 stated *"A draft is acceptable provided the draft:*

a. identifies all entities/persons referenced in the agreement,
b. outlines all roles and responsibilities of all entities/persons,
c. identifies all terms and conditions,
d. identifies all costs associated with the agreement, and
e. includes all exhibits that are referenced in the agreement."

Instead of submitting a revised Exhibit 27 that included the costs and a more complete description of the types of servicer to be provided through the Management Service Agreement, OBH stated the following:

> *"There is no plan for a management service agreement. When there is a relationship between subsidiary and parent, there are standard overhead, allocated costs not directly attributable to operations.[9] The Management Fee, referenced by the Department, which has been calculated at 2.5% of net revenues, is intended to capture such anticipated costs, which at this time are not defined, but are nonetheless expected. Such costs might include costs of corporate staff activities for Human Resources, Legal, Financial Services, Planning/Marketing, etc."* Emphasis added [source: Screening Responses, pg. 18]

OBH also included a draft Purchased Services Agreement [Exhibit 25]. The draft agreement was between OBH and PSPH. The draft provided in the application failed to identify the services to be provided by PSPH. The department requested OBH to provide a revised purchase services agreement. Screening question 39 in part stated:

"A draft purchased services agreement is acceptable provided the draft:
a. identifies all entities/persons referenced in the agreement,
b. outlines all roles and responsibilities of all entities/persons,
c. identifies all terms and conditions
d. identifies all costs associated with the agreement, and
e. includes all exhibits that are referenced in the agreement."

In response to the department's request OBH stated:

"The DRAFT Purchased Services Agreement, submitted as part of the certificate of need application, is not finalized because the parties will not know what types of services will be provided. The types of services that may be purchased by the hospital include: pharmacy, laboratory, ambulance/taxi, radiology, linen, medical records, patient accounts, plant operations, and ground maintenance."

OBH did not provide the requested information. The department notes that several of the types of services OBH now states <u>may</u> be included in purchased services (i.e. plant operations, medical records, patient accounts) are also identified as OBH hospital employed FTEs in Table 22 ("*Olympia Behavioral Health. Projected Number of Full-Time Equivalent Employees")*

OBH is correct that generally the department would condition a new hospital that submitted "*draft agreements*" to submit its finalized agreements once executed consistent with the drafts provided in the application. In this instant such a condition would have no value because the information submitted cannot be relied on. When the department requested revised agreements to include information necessary for the department to consider the provided agreements drafts which would allow the department to include a condition of any issued CoN, OBH did not provide the requested information. OBH changed its position now stating there would be no Management Agreement and for the Purchased Services Agreement OBH stated didn't know what services would be included in it. Without the information requested any condition the department would place on an approved CoN would be meaningless.

Based on the information reviewed the department concludes, **this sub-criterion is not met**.

(3) <u>*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.*</u>
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.

OBH

- *"Providence Health & Services-Washington meets the standards of WAC 248-19-390(5)(a)[10]."* [source: Application, pg. 21]
- *"With more than 235 facilities and 38 years of operating history, no UHS facility has had a criminal conviction or lost a hospital license nor, with the exception of one instance noted below, has any UHS facility been decertified from the Medicare program. In 2014, UHS treated more than 400,000 patients in its behavioral health division and had more than 5.5 million patient days. UHS operates a robust quality improvement program and tracks incidents that occur at its facilities. In 2014, the rate of serious incidents at UHS facilities was less than .003%, a rate that UHS believes compares favorably to other providers."* [source: Application, pg. 22]

Public Comment

- *"Between June 1, 2013 and May 18, 2016, Fairfax Hospital calls to 9-1-1 resulted in over 170 police incident reports by the Kirkland Police Department, with 77 of these reports involving assaults inside the facility, either between patients or between patients and staff members. For example, in July 2015 the Kirkland police department was called in response to an assault at Fairfax Hospital and found that a patient had punched an employee in the face. Fairfax reported another assault with the same patient against another employee who suffered a concussion. This same patient had threatened several staff members and attempted to attack other employees."* [source: SEIU public comment, pg. 1]
- *"UHS is also under investigation for billing fraud. The Department of Justice (DOJ) is investigating URS and 25 of its facilities for criminal and civil fraud related to fraudulently billing Medicare and Medicaid. 13 As part of this investigation, one of its facilities in Florida has actually been suspended from Medicare and Medicaid. In addition, the Department of Justice is investigating Stark Law violations at a facility in El Paso, based on agreements existing at the time of URS' acquisition in 2012, and a False Claims Act violation at UHS' South Texas Health System.[14] UHS has already paid millions to settle lawsuits that it billed for services it did not adequately provide."* [source: SEIU public comment, pg. 4]

Rebuttal

- *"SEIU criticizes Fairfax about the number of calls made to 911. Calls to Kirkland police dispatch for emergent and non-emergent purposes, to the fire department, and to other first responders are all routed through 911 . Fairfax staff have contact with police for multiple routine legal issues involving patients. Calls to 911 may also be related to patient medical issues, duty to warn notifications, or child custody issues. Staff also occasionally call Kirkland Police for situations in which the patient's violent behavior is determined to be volitional and intentional rather than related to their psychiatric symptomology.*

  Fairfax Kirkland is an inpatient psychiatric hospital with a patient population made up primarily of individuals with serious mental illness, many of whom are involuntarily committed. A number of factors contribute to violent behavior in this population. Many of the patients have a documented history of violence and law enforcement involvement prior

[10] This was Certificate of Need's previous WAC chapter prior to the formation of the Department of Health.

to admission, which is the primary risk factor for future violence. Many of Fairfax's patients also have issues with impulsivity, which is another common risk factor. Some of the patients are admitted primarily due to homicidal ideation (thoughts). While Fairfax does its best to care for these patients in an environment that is safe for patients and staff, violent behavior by some of its patient population is an unavoidable situation." [source: Rebuttal, pg. 24]

- *"SEIU also uses the CN public comment process to pressure UHS into cooperating with its unionizing efforts. The truth of the matter is, however, that Fairfax employees have rejected unionization notwithstanding SEIU's repeated efforts to unionize the staff at Fairfax."* [source: Rebuttal, pg. 24]
- *"As to the licensing surveys raised by SEIU , those were Department of Health annual unannounced surveys of Fairfax Kirkland and Everett in July 2016. There was also a Washington Fire Protection Bureau fire life safety inspection raised by HealthVest. As part of the routine process, surveyors identified deficiencies, which were outlined in the Statement of Deficiencies for each site. Fairfax timely submitted the plans of correction and those plans were approved. The subsequent progress reports verifying that all deficiencies were corrected were also timely submitted and accepted. Fairfax is in compliance with Chapter 246-320 WAC."* [source: Rebuttal, pgs. 24-25]
- *"HealthVest and SEIU raise allegations primarily relating to subpoenas and federal investigations of certain UHS affiliated facilities which are unrelated to Fairfax. The civil aspect of this investigation is a False Claim Act investigation. These matters are summarized in UHS's publicly available filing 39 and UHS has cooperated with the investigation by producing documents in response to the government's requests. 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. Regarding the notices of criminal investigations, the Department of Justice announced in 2014 a new policy in which all civil False Claims Act investigations would be referred to the Criminal Division for a parallel evaluation. UHS believes the recent expansion of the civil investigation is related, in part, to the Department of Justice's new policy and practice to conduct parallel criminal investigations.*

  Additionally, approximately half of the facilities identified as a part of the investigation were acquired by UHS from prior operators in the last several years and the government's records requests to those facilities seek documents which in part pre-date UHS's acquisition. When UHS acquires a new facility, it rigorously assesses the operation and, where needed, makes adjustments in procedures and practices to ensure compliance with UHS's proven protocols and high standards of care. In many circumstances, UHS believes that it will demonstrate that once UHS assumed ownership and management of the facilities, quality of care and operational compliance improved compared to situations under the prior owners." [source: Rebuttal, pgs. 25-26]
- *"Timberlawn Mental Health System ("Timberlawn"), operated by a UHS subsidiary, is a currently licensed psychiatric hospital located in Dallas, Texas. Timberlawn has been in operation since 1917 and, for nearly 100 years, Timberlawn has been an integral part of the mental health service delivery in Texas. Timberlawn was awarded Top Performer status in 2012 and 2013 by The Joint Commission. Due to an unfortunate patient suicide in December 2014 and subsequent CMS surveys which alleged failure to comply with*

Conditions of Participation, Timberlawn was terminated from the Medicare program effective as of August 14, 2015.

At the time of the incident, Timberlawn operated inpatient beds on two campuses: a main location in Dallas, Texas and a separate location in Garland, Texas ("Garland Location"). The Medicare termination affected both campuses even though the events and surveys occurred only at the main location. Timberlawn disputed the basis of the termination and filed litigation as well as an administrative appeal contesting the termination. Prior to concluding the litigation and in the interest of moving the process of recertification forward, Timberlawn and CMS entered into a settlement agreement pursuant to which CMS: (a) permitted the Garland Location to operate under a separate license from Timberlawn; and (b) provided an opportunity under an expedited reasonable assurance process for both the newly licensed Garland Location (now known as Garland Behavioral Hospital) and Timberlawn to re-enter the Medicare program. As a condition of the settlement agreement, Timberlawn dismissed its litigation as well as the administrative appeal.

By its own volition, Timberlawn and Garland hired independent quality consultants to review the facilities and assist with the development of corrective action plans. Garland Behavioral Hospital has received its separate hospital license from the State of Texas and has been granted participating provider status by Medicare.

Timberlawn successfully addressed the findings of the independent consultant who offered guidance on enhancements to the clinical care provided at the facility. Timberlawn remains licensed and was granted re-entry as a participating provider in the Medicare program on September 21 , 2016." [source: Rebuttal, pg. 28]

Department Evaluation

As a new hospital it does not have a history of Medicare certification or inspections by the Department of Health. However, each of the JV members do. Therefore, the department looked the quality of care provided through their respective organizations.

Providence Health & Services

Co-applicant Providence owns, manages, or operates 34 hospitals, 600 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, pg. 11 and Exhibit 4]

The department reviewed the quality of care compliance history for all Providence healthcare facilities and agencies operating in Washington State. The department also reviewed the compliance history of a random selection of facilities and agencies owned, operated by, or affiliated with Providence outside of Washington State.

Using the department's internal database, the department reviewed survey data for the 25 licensed facilities and agencies owned by, affiliated with, or operated by Providence in Washington State. This includes 13 hospitals, one ambulatory surgery center, and eleven in-home services agencies [source: Department of Health Office of Investigation and Inspection] These facilities are in substantial compliance with state regulations.

Assisted Living Facilities and Skilled Nursing Facilities are licensed through the Department of Social and Health Services Aging and Long-Term Support Administration (DSHS ALTSA). Using information from the DSHS ALTSA website, the department reviewed survey data for the five skilled nursing and four assisted living facilities owned by Providence in Washington State. According to the reports found on the website, all nine facilities are in substantial compliance with state regulations and have submitted applicable plans of correction to address survey deficiencies.

Providence and its affiliates operate all across the western United States. The department randomly selected Providence and Providence-affiliated facilities in Montana, California, and Texas to review for their compliance with state and federal standards. The compliance history for twenty-five facilities were reviewed. That reviewed showed out-of-state Providence facilities have demonstrated compliance with applicable state and federal regulations. No was evidence on any of the state licensing websites indicating that any of the above facilities have ever been closed or decertified from participation in Medicare or Medicated as a result of compliance issues.

Universal Health Services
Co-applicant UHS owns, operates, or manages 24 acute care hospitals and 213 inpatient and 16 outpatient behavioral health facilities in 37 states, Puerto Rico, the US Virgin Islands, the District of Columbia and the United Kingdom under one of many subsidiaries. [source: Application, pg. 14 and Exhibit 6] 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. 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. 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 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]

The department is aware of the False Claim Act investigation primarily relating to certain UHS affiliated facilities raised by HealthVest and SEIU. At the time of this evaluation, these issues were still under investigation. The Washington based facilities have been is substantial compliance with licensing and certification requirements. Therefore, the department concludes 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.

OBH

- *"Additional psychiatric beds will add to the overall behavioral health continuum of care for Thurston County. Additional inpatient services will improve access for residents and enable acute care behavioral health services closer to home. As stated above, there is significant unmet need for additional inpatient beds. This has already created a system that is fragmented, time-consuming and costly. Locally available care will be an outcome of this project."* [source: Application, pg. 76]
- *"PSPH Psychiatry Service has developed and maintains extensive community partnerships in order to work collaboratively to provide the community with the highest level of psychiatry services with the available resources. The well-established relationships of working with other providers, agencies and community partners have served to increase coordination and quality care. PSPH has established a number of community partnerships; these will be expanded upon with this project. Together we will work with multiple providers for discharge planning purposes to further continuity of care. Working together, PSPH and Fairfax will utilize our collective expertise to promote continuity of care and avoid unwarranted fragmentation of services."* [source: Application, pg. 76]
- *"In addition, Olympia Behavioral Health has drafted the following collaborative agreements: Purchased Services Agreement (Exhibit 25); Management Services Agreement (Exhibit 27); Operating Agreement (Exhibit 28); Patient Transfer Agreement (Exhibit 29); and Utilization Management Plan (Exhibit 30). It is anticipated that the parties shall enter into final definitive agreements upon issuance of the Certificate of Need for this project. Upon approval of this Certificate of Need application, the draft agreements will be finalized and submitted to the Department of Health; the executed agreements will be consistent with the draft agreements provided with this application."* [source: Application, pg. 77]

Public Comment

- None

Rebuttal

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Department Evaluation

The new hospital is stated to be operational January 1, 2018 although elsewhere its stated it will be several years. Regardless, working relationships with area healthcare providers have not been established yet. OBH's JV members currently have working relationships with community

healthcare providers that include mental health providers, hospitals, physicians, nursing homes, home care, and, when necessary, local schools. Nothing in the information reviewed by the department would suggest that OBH would not be able to develop these relationships.

Based on the information reviewed, the department concludes **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 concludes that Providence Health System-St. Peter Hospital and Universal Health Systems-BHC Fairfax, Inc. on behalf of Olympia Behavioral Health, LLC has not 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, in terms of cost, efficiency, or effectiveness, the department takes a multi-step approach. First the department determines if the application has met the other criteria of WAC 246-310-210 thru 230. If the project has failed to meet one or more of these criteria then the project cannot be considered to be the best alternative in terms of cost, efficiency, or effectiveness as a result the application would fail this sub-criterion.

If the project has met the applicable criteria in WAC 246-310-210 through 230 criteria, the department then assesses the other options considered by the applicant. If the department determines the proposed project is better or equal to other options considered by the applicant and the department has not identified any other better options this criterion is determined to be met unless there are multiple applications.

If there are multiple applications, the department's assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type. The adopted superiority 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 type superiority 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.

Department Evaluation

Step One

The department determined OBH did not meet the applicable review criteria under WAC 246-310-220 and 230. Therefore, the department cannot conclude the proposed project is the superior alternatives, in terms of cost, efficiency, or effectiveness. Evaluation of Steps 2 and 3 are not necessary. This sub-criterion is not met.

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

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

WAC 246-310 does not contain specific WAC 246-310-240(2)(a) criteria as identified in WAC 246-310-200(2)(a)(i). There are known minimum building and energy standards that healthcare facilities must meet to be licensed or certified to provide care. If built to only the minimum standards all construction projects could be determined to be reasonable.

OBH

- *"Since the proposed new 85-bed psychiatric hospital is a new freestanding structure, it will be constructed to meet the Washington State Building Code, and the Washington Energy Code. We will endeavor to exceed the energy code in any way where it is affordable to do so, in the interest of reducing ongoing operating cost."* [source: Application, pg. 86]

Public Comment

- None

Rebuttal

- None

Department Evaluation

The information reviewed by the department is consistent with similar hospital construction projects. Therefore, 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.

This project involves construction. In the need section of this analysis, the department concluded Thurston County had a need for 77 beds (15 beds dedicated to 5-17 year olds) and 64 beds for patients 18 years of age and older by 2031. The department does not anticipate an unreasonable impact on the costs and charges to the public of providing these type services by others. Therefore, the department concludes **this sub-criterion is met**.

(3) *The project will involve appropriate improvements or innovations in the financing and delivery of health services which foster cost containment and which promote quality assurance and cost effectiveness.*

OBH

- *"The proposed design will follow the Washington State licensing rules based on Facility Guidelines Institute's Guidelines for Design and Construction of Hospitals and Outpatient Facilities. The single-story design will attempt to optimize space to realize cost-efficiencies, capture economies of scale and promote staff efficiencies."* [source: Application, pg. 85]
- *"Olympia Behavioral Health's location will also allow for efficient operations, given the proximity of clinical and ancillary support staff and services at PSPH. In many cases, it may be more cost-effective for Olympia Behavioral Health to purchase services than produce them itself. Olympia Behavioral Health also will use a flexed staffing model. This volume-based approach will enhance staffing productivity."* [source: Application, pgs. 85-86]

Public Comment

- None

Rebuttal

- None

Department Evaluation

The department determined the OBH project failed to meet the Financial Feasibility and Structure and Process of Care criteria. These failures were due in part on OBH not providing department requested information necessary to evaluate its application and reach a favorable conclusion. Some that same information would be considered as part of the department's evaluation of this sub-criterion. Therefore, the department concludes this sub-criterion **is not met**.

APPENDIX A

APPENDIX A

Thurston County Inpatient Psychiatric Bed Projections

Children & Adolescent	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Population 5-17	44,613	45,169	45,724	46,280	46,794	47,308	47,821	48,335	48,849	49,253	49,657	50,060	50,464	50,868	51,142	51,417
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	27.25	27.25	27.25	27.25
Gross Bed Need	12	12	12	13	13	13	13	13	13	13	14	14	14	14	14	14
Minus Current Supply	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Net Bed Need	**2**	**2**	**2**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**4**	**4**	**4**	**4**	**4**	**4**

Age 18+	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Population 18+	214,344	217,982	221,619	225,257	228,583	231,909	235,236	238,562	241,888	245,111	248,334	251,558	254,781	258,004	260,925	263,845
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	27.25	27.25	27.25	27.25
Gross Bed Need	58	59	60	61	62	63	64	65	66	67	68	69	69	70	71	72
Minus Current Supply	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84
Net Bed Need	**-26**	**-25**	**-24**	**-23**	**-22**	**-21**	**-20**	**-19**	**-18**	**-17**	**-16**	**-15**	**-15**	**-14**	**-13**	**-12**
Grand Total-Thurston Co.	**-23**	**-22**	**-21**	**-20**	**-19**	**-18**	**-17**	**-16**	**-15**	**-14**	**-13**	**-12**	**-11**	**-10**	**-9**	**-8**

Grays Harbor, Lewis, Mason, and Pacific Counties Inpatient Psychiatric Bed Projections

Children & adolescent	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Population 5-17	36,013	36,159	36,305	36,451	36,786	37,122	37,457	37,792	38,127	38,479	38,831	39,183	39,534	39,886	40,225	40,564
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	27.25	27.25	27.25	27.25
Gross Bed Need	10	10	10	10	10	10	10	10	10	10	11	11	11	11	11	11
Minus Current Supply	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Bed Need	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**11**	**11**	**11**	**11**	**11**	**11**

Age 18+	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Population 18+	188,988	190,337	191,686	193,035	194,268	195,500	196,733	197,966	199,199	200,328	201,457	202,586	203,716	204,845	205,832	206,820
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	27.25	27.25	27.25	27.25
Gross Bed Need	51	52	52	53	53	53	54	54	54	55	55	55	56	56	56	56
Minus Current Supply	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Bed Need	**51**	**52**	**52**	**53**	**53**	**53**	**54**	**54**	**54**	**55**	**55**	**55**	**56**	**56**	**56**	**56**
Grand Total -Grays Harbor, Lewis, Mason, and Pacific Co.	**61**	**62**	**62**	**63**	**63**	**63**	**64**	**64**	**65**	**65**	**65**	**66**	**66**	**67**	**67**	**67**

APPENDIX A

Summary Thurston Grays Harbor, Lewis, Mason, and Pacific Counties Inpatient Psychiatric Bed Projections

Children & adolescent 5-17	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Thurston	2	2	2	3	3	3	3	3	3	3	4	4	4	4	4	4
Grays Harbor	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Lewis	3	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Mason	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Pacific	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Total Net Bed Need 5-17	12	12	12	13	13	13	13	13	14	14	14	14	15	15	15	15

Age 18+	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Thurston	-26	-25	-24	-23	-22	-21	-20	-19	-18	-17	-16	-15	-15	-14	-13	-12
Grays Harbor	16	16	16	16	16	16	16	16	16	16	16	16	16	16	17	17
Lewis	17	17	17	17	17	17	17	17	17	17	18	18	18	18	18	18
Mason	14	14	15	15	15	15	15	16	16	16	16	16	16	17	17	17
Pacific	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Total Net Bed Need 18+	**26**	**27**	**29**	**30**	**31**	**32**	**34**	**35**	**36**	**37**	**39**	**40**	**41**	**42**	**43**	**44**
Five County Grand Total	**38**	**39**	**41**	**43**	**44**	**45**	**47**	**48**	**50**	**51**	**53**	**54**	**55**	**57**	**58**	**59**

Number may not add due to rounding

APPENDIX B

Appendix B
w/o St. Peter's Psych Beds Included

Thurston County Inpatient Psychiatric Bed Projections

Children & Adolescent	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Population 5-17	44,613	45,169	45,724	46,280	46,794	47,308	47,821	48,335	48,849	49,253	49,657	50,060	50,464	50,868	51,142	51,417
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	27.25	27.25	27.25	27.25
Gross Bed Need	12	12	12	13	13	13	13	13	13	13	14	14	14	14	14	14
Minus Current Supply	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Net Bed Need	**2**	**2**	**2**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**4**	**4**	**4**	**4**	**4**	**4**

Age 18+	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Population 18+	214,344	217,982	221,619	225,257	228,583	231,909	235,236	238,562	241,888	245,111	248,334	251,558	254,781	258,004	260,925	263,845
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	27.25	27.25	27.25	27.25
Gross Bed Need	58	59	60	61	62	63	64	65	66	67	68	69	69	70	71	72
Minus Current Supply	65	65	65	65	65	65	65	65	65	65	65	65	65	65	65	65
Net Bed Need	**-7**	**-6**	**-5**	**-4**	**-3**	**-2**	**-1**	**0**	**1**	**2**	**3**	**4**	**4**	**5**	**6**	**7**
Grand Total-Thurston Co.	**-4**	**-3**	**-2**	**-1**	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**

Grays Harbor, Lewis, Mason, and Pacific Counties Inpatient Psychiatric Bed Projections

Children & adolescent	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Population 5-17	36,013	36,159	36,305	36,451	36,786	37,122	37,457	37,792	38,127	38,479	38,831	39,183	39,534	39,886	40,225	40,564
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	27.25	27.25	27.25	27.25
Gross Bed Need	10	10	10	10	10	10	10	10	10	10	11	11	11	11	11	11
Minus Current Supply	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Bed Need	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**11**	**11**	**11**	**11**	**11**	**11**

Age 18+	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Population 18+	188,988	190,337	191,686	193,035	194,268	195,500	196,733	197,966	199,199	200,328	201,457	202,586	203,716	204,845	205,832	206,820
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	27.25	27.25	27.25	27.25
Gross Bed Need	51	52	52	53	53	53	54	54	54	55	55	55	56	56	56	56
Minus Current Supply	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Bed Need	**51**	**52**	**52**	**53**	**53**	**53**	**54**	**54**	**54**	**55**	**55**	**55**	**56**	**56**	**56**	**56**
Grand Total -Grays Harbor, Lewis, Mason, and Pacific Co.	**61**	**62**	**62**	**63**	**63**	**63**	**64**	**64**	**65**	**65**	**65**	**66**	**66**	**67**	**67**	**67**

Appendix B
w/o St. Peter's Psych Beds Included

Summary Thurston Grays Harbor, Lewis, Mason, and Pacific Counties Inpatient Psychiatric Bed Projections

Children & adolescent 5-17	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Thurston	2	2	2	3	3	3	3	3	3	3	4	4	4	4	4	4
Grays Harbor	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Lewis	3	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Mason	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Pacific	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Total Net Bed Need 5-17	12	12	12	13	13	13	13	13	14	14	14	14	15	15	15	15

Age 18+	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Thurston	-7	-6	-5	-4	-3	-2	-1	0	1	2	3	4	4	5	6	7
Grays Harbor	16	16	16	16	16	16	16	16	16	16	16	16	16	16	17	17
Lewis	17	17	17	17	17	17	17	17	17	17	18	18	18	18	18	18
Mason	14	14	15	15	15	15	15	16	16	16	16	16	16	17	17	17
Pacific	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Total Net Bed Need 18+	**45**	**46**	**48**	**49**	**50**	**51**	**53**	**54**	**55**	**56**	**58**	**59**	**60**	**61**	**62**	**63**
Five County Grand Total	**57**	**58**	**60**	**62**	**63**	**64**	**66**	**67**	**69**	**70**	**72**	**73**	**74**	**76**	**77**	**78**

Number may not add due to rounding