



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

August 6, 2018

CERTIFIED MAIL # 7016 3010 0001 0575 1140

Howard Wall, Secretary
Capella Healthcare, Inc.
103 Continental Place, #200
Brentwood, Tennessee 37027

Dear Mr. Wall:

RE: CN Application #17-37 – Lourdes Counseling Center

We have completed review of the Certificate of Need application submitted by RCCH/Capella that proposes the purchase of Lourdes Counseling Center located in Richland within Benton County. Enclosed is a written evaluation of the application.

For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided RCCH/Capella agrees to the following in its entirety.

Project Description

This certificate approves the purchase of Lourdes Counseling Center by RCCH/Capella. There is no change in the number of approved beds. A breakdown of beds by type is shown below:

Bed Type	Current	Proposed
24 hr. assigned and set-up (Psychiatric)	22	22
24 hr. assignable-not set-up (Psychiatric) <i>These are spaces that meet licensure standards and the hospital has ready access to required movable equipment.</i>	10	10
Total Licensed Beds	32	32

Conditions

1. Approval of the project description as stated above. RCCH/Capella further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. RCCH/Capella will maintain its participation in the Medicare and Medicaid programs at Lourdes Counseling Center.

3. RCCH/Capella will continue providing the services identified in the application at Lourdes Counseling Center for a minimum of ten years. These services are restated below:

Psychiatric – Inpatient and Outpatient
Chemical Dependency - Outpatient
Outpatient Services – Transition Unit – 16 beds
Outpatient Services – Sub Acute Detox – 12 beds
Rehabilitation – Inpatient and Outpatient

4. Within 30 days of the acquisition, RCCH/Capella will submit to the department for review and approval the adopted copies of its admissions policy and non-discrimination policy for Lourdes Counseling Center. Each of these policies must be consistent with the drafts provided in the application.
5. Within 30 days of the acquisition, RCCH/Capella will submit to the Certificate of Need Program a copy of the adopted charity care policy for Lourdes Counseling Center that has been reviewed and approved by the Charity Care Program within the Department of Health.
6. RCCH/Capella will provide charity care at Lourdes Counseling Center in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. Lourdes Counseling Center will use reasonable efforts to provide charity care in an amount identified in the application. The amount identified in the application was 0.33% of gross revenue and 1.55% of adjusted revenue. RCCH/Capella will maintain records of charity care applications received at Lourdes Counseling Center and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.
7. Within 30 days of the acquisition, RCCH/Capella will submit to the department for review and approval the executed copy of the Asset Purchase Agreement. The executed copy must be consistent with the draft agreement provided in the application.
8. Within 30 days of the acquisition, RCCH/Capella will submit to the department for review and approval the executed copy of the Amended and Restated Master Lease Agreement. The executed copy must be consistent with the draft agreement provided in the application.
9. Within 30 days of the acquisition, RCCH/Capella will submit to the department for review and approval the executed copy of the Joinder Agreement. The executed copy must be consistent with the draft agreement provided in the application.
10. RCCH/Capella shall finance the project as described in the application.
11. RCCH/Capella must agree to the conditions outlined in the Non-Profit Conversion evaluation.

Howard Wall, Secretary
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Approved Costs

The approved capital expenditure for this project is \$3,435,600.

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

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

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

Mailing Address:

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

Physical Address:

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

If you have any questions, or would like to arrange for a meeting to discuss our decision, please contact the Certificate of Need Program at (360) 236-2955.

Sincerely,



Nancy Tyson, Executive Director
Health Facilities and Certificate of Need

Enclosure

EVALUATION DATED AUGUST 6, 2018 OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY CAPELLA HEALTHCARE, LLC PROPOSING TO PURCHASE LOURDES COUNSELING CENTER IN BENTON COUNTY

APPLICANT DESCRIPTION

RegionalCare Hospital Partners Holdings, Inc. (d/b/a RCCH HealthCare Partners) is a Delaware corporation that was formed in 2009. On a consolidated basis, RegionalCare Hospital Partners Holdings, Inc., through its subsidiaries, owns or leases and operates general acute care hospitals and other related health care organizations in the United States. On April 29, 2016, RegionalCare Hospital Partners Holdings, Inc. merged with Capella Health Holdings, LLC (Capella), which owned and operated eight general acute care hospitals in five states at the time of the merger. The RegionalCare/Capella Merger was effective May 1, 2016. [source: Application, p1; RCCH Press Release]

A further subsidiary of Capella is Lourdes Hospital, LLC, which is also incorporated in Delaware. An organizational chart showing the ownership and subsidiary structure is attached as Appendix A to this evaluation. [source: Application, Exhibit 2]

To summarize, Capella is owned 100% by RCCH. In turn, Lourdes Hospital, LLC is owned 100% by Capella. For ease of reference, this evaluation will refer to the applicant as “RCCH/Capella” rather than Lourdes Hospital, LLC.

As of the writing of this evaluation, RCCH/Capella owns one acute care hospital in Washington State, Capital Medical Center in Olympia. RCCH/Capella received recent Certificate of Need approval to acquire Trios Health in Kennewick, within Benton County.

BACKGROUND INFORMATION

On April 6, 1972, CN #032 was issued to Benton-Franklin Mental Health and Family Counseling Center, Inc. approving the establishment of a 22-bed inpatient psychiatric hospital. The psychiatric hospital was established at its current site of 1175 Carondelet Street in Richland, within Benton County.¹ On January 26, 1979, CN #423-377 was issued to the applicant approving the addition of 9 beds to the facility, for a facility total of 31. The hospital is currently licensed for 32 psychiatric beds.² The psychiatric hospital is known as Lourdes Counseling Center and operates as part of the Lourdes Health Network. [source: CN historical files]

Our Lady of Lourdes Hospital – now known as Lourdes Medical Center – was originally founded in 1916 by the Sisters of St. Joseph. In 1997 the organization came to be known as Lourdes Health Network, which included the medical center and Lourdes Counseling Center. Lourdes Health Network became a member of Ascension Health in 2002. [source: Lourdes website; CN historical files]

¹ When the Certificate of Need was issued, the address was 1175 Gribble Street. The address changed but the site of the psychiatric hospital has not changed.

² Certificate of Need historical files do not show when the hospital increased its beds from 31 to 32. However, the hospital has been licensed for 32 psychiatric beds for many years. This evaluation will not further address the gap in history.

As of the writing of this evaluation, Lourdes Counseling Center is owned by Ascension Health headquartered in St. Louis, Missouri. Ascension Health was formed in 2002 and operates acute care or psychiatric hospitals in 22 states and the District of Columbia.³ [source: Ascension Health website]

PROJECT DESCRIPTION

On May 2, 2017, RCCH/Capella submitted two separate Certificate of Need applications proposing to purchase the two Washington State hospitals from Ascension Health. One application proposes purchase Lourdes Medical Center and the other proposes purchase of Lourdes Counseling Center. These projects are part of a larger transaction that also includes the purchase of Ascensions interest in a number of joint ventures in the Tri-Cities area.

This application and evaluation focuses on Lourdes Counseling Center in Richland, within Benton County. The hospital’s licensee is “Our Lady of Lourdes Hospital at Pasco” and the facility is known as Lourdes Counseling Center. The current address of the psychiatric hospital is 1175 Carondelet Drive in Richland [99354], within Benton County. It is currently a Medicare and Medicaid provider and solely provides psychiatric services to the residents of Benton and Franklin counties and surrounding areas. [source: CMS Hospital Compare website, Washington State Department of Health website, August 7, 2017 supplemental information p3]

The current and proposed bed breakdown at Lourdes Counseling Center is shown below.

Bed Type	Current	Proposed
24 hr. assigned and set-up (Psychiatric)	22	22
24 hr. assignable-not set-up (Psychiatric) <i>These are spaces that meet licensure standards and the hospital has ready access to required movable equipment.</i>	10	10
Total Licensed Beds	32	32

The following services are currently offered at Lourdes Counseling Center, and would continue to be available following the transaction

- Psychiatric – Inpatient and Outpatient
- Chemical Dependency - Outpatient
- Outpatient Services – Transition Unit – 16 beds
- Outpatient Services – Sub Acute Detox – 12 beds
- Rehabilitation – Inpatient and Outpatient

[source: Application, p6]

The total estimated capital expenditure for the purchase of both Lourdes Medical Center and Lourdes Counseling Center is \$21,000,000, and of that amount, \$3,435,600 is for Lourdes Counseling Center. [source: Application p10]

³ Ascension Health operates in the following 22 states, plus the District of Columbia. Alabama, Arizona, Arkansas, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, New York, Oklahoma, Tennessee, Texas, Washington, and Wisconsin.

Agreements and Leases Provided in the Application

This project requests a change of ownership of two hospitals associated with Lourdes Health Network. The two hospitals are:

- Lourdes Medical Center an acute care hospital operating in Pasco, within Franklin County; and
- Lourdes Counseling Center, a psychiatric hospital operating in Richland, within Benton County.

RCCH/Capella submitted two separate Certificate of Need applications to acquire each hospital. However, all agreements, whether draft or executed, provided in each of the applications reference both hospitals as a single purchase. Below is a brief description of each agreement or lease that was submitted for this project.

Operating Agreement [source: Application, Exhibit 6]

Status of Agreement: Executed on September 22, 2016

Between: Lourdes Hospital, LLC and Lourdes Holdings, LLC (both Delaware limited liability companies)

Term: Begins September 22, 2016 and continues in perpetuity.

Additional Information: Limited liability companies do not have articles of incorporation or bylaws. Only corporations and non-profit corporations have articles of incorporation and bylaws. LLCs are distinct legal entities. By statute, LLCs have “operating agreements” or “LLC agreements”. The LLC operating agreements are, in effect, the same as articles of incorporation and bylaws for LLCs. This is the executed agreement for Lourdes Hospital, LLC and Lourdes Holdings, LLC. No costs are associated with this document.

Operating Agreement [source: August 7, 2017, screening response, Attachment 2]

Status of Agreement: Executed on December 31, 2016

Between: Capella Healthcare, LLC and Capella Holdings, Inc. (both Delaware limited liability companies)

Term: Begins December 31, 2016 and continues in perpetuity.

Additional Information: Limited liability companies do not have articles of incorporation or bylaws. Only corporations and non-profit corporations have articles of incorporation and bylaws. LLCs are distinct legal entities. By statute, LLCs have “operating agreements” or “LLC agreements”. The LLC operating agreements are, in effect, the same as articles of incorporation and bylaws for LLCs. This is the executed agreement for Capella Healthcare, LLC and Capella Holdings, Inc. No costs are associated with this document.

Master Lease Agreement [source: August 7, 2017, screening response, Attachment 4A]

Status of Agreement: Executed September 28, 2016

Between: Capella Healthcare, Inc. and Lourdes Hospital, LLC (Lessee) and MPT of Pasco-RCCH, LLC (MPT Owner)

Additional Information: This document is specific to the Lourdes Transaction in Pasco. It is the agreement whereby MPT agrees to be the bank and provide the financing to RCCH/Capella for the acquisition of the Lourdes Health Network, which includes both Lourdes Medical Center and Lourdes Counseling Center. This Master Agreement sets the terms for how these new assets will be included as part of the overall financing structure between RCCH/Capella and MPT. The Master Agreement was entered into contemporaneously with Capella’s execution of the Asset Purchase Agreement with the Lourdes Health Network. (September 28, 2016). The lease based amount for the “Pasco Property” is \$17,500,500.

Under Washington law, any tenant under a lease is entitled to sole and exclusive possession of the leased buildings and property. That is the case here and set forth in the Master Lease Agreement with MPT. Under the Master Lease Agreement between Lourdes Hospital LLC and MPT of Pasco-RCCH, LLC Capella through its subsidiary Lourdes Hospital LLC will have complete control and possession of the Lourdes real property. Since the sale/leaseback transaction is a financing mechanism to finance the acquisition and MPT has no interest in the operations of LCC; the Lease grants this control to the Operator and license holder, Lourdes Hospital LLC.

MPT of Pasco-RCCH, LLC will purchase the Lourdes Real Property and then lease the Lourdes Real Property to Lourdes Hospital, LLC. Though MPT of Pasco-RCCH, the LLC will own the Lourdes Real Property, pursuant to the Master Lease Agreement, Lourdes Hospital, LLC will have the legal and contractual right to sole and exclusive possession of the Lourdes Real Property during the term of the lease.

Amended and Restated Master Lease Agreement [source: August 7, 2017, screening response, Attachments 4B]

Status of Agreement: Draft (unsigned)

Between: RCCH/Capella and MPT-Pasco

Additional Information: This is the primary controlling document between RCCH/Capella and MPT that provides for the lease/leaseback financing for all of the properties financed by MPT for RCCH/Capella. It covers multiple properties in multiple states. At the close of the Lourdes transaction, the Lourdes properties (*i.e.*, all of the properties owned and leased by Lourdes Medical Center and Lourdes Counseling Center) will become part of this Amended and Restated Master Lease Agreement. The Amendment and Restated Master Lease Agreement is an existing, operating document that is currently in effect and that will continue regardless of when or if the Lourdes transaction closes. MPT-Pasco will have no ownership in either the medical center or the psychiatric hospital or day-to day operations of them. Medical Properties Trust, Inc. and its affiliates do not operate hospitals or other health care facilities.

This is the lease document by which MPT leases the Lourdes properties back to RCCH/Capella. This is an existing and operating legal document. The Joinder Agreement (see below) of first screening response is a final document that has not been executed. It will be executed upon approval of the CN application and closing of the transaction.

Joinder Agreement [source: August 7, 2017, screening response, Attachment 4C]

Status of Agreement: Draft (unsigned)

Additional Information: The Joinder Agreement is the document that joins all of the Lourdes properties to the Amended and Restated Master Lease Agreement. The Joinder Agreement is only ever executed and signed if and when the Lourdes transaction closes. As discussed elsewhere, the parties anticipate that closing of the transaction would occur within 30 days of approval of the CN and Conversion applications.

Asset Purchase Agreement [source: August 7, 2017, screening response, Attachment 17]

Status of Agreement: Draft

Among: Lourdes Hospital, LLC, (Purchaser), Capella Healthcare, Inc., (Capella), and Our Lady of Lourdes Hospital at Pasco, d/b/a Lourdes Health Network, (Seller)

Term: Draft (Dated September 28, 2017, but unsigned)

Additional Information: This agreement identifies all Washington State assets included in the purchase, including Lourdes Medical Center, Lourdes Counseling Center, and Lourdes Occupational Health Center. The agreement also identifies certain percentage of interest for Tri-Cities Cancer Center, Tri-Cities

Laboratory, and BLT, LLC, a corporation that owns Burden Park Medical Center located in Pasco. The purchase price is defined as \$21,000,000 for this transaction.

For the draft agreements referenced above, the department would attach conditions if this project is approved. The conditions would require RCCH/Capella to provide executed versions of these draft agreements within thirty days of executing the agreements. The final executed agreements must be consistent with the drafts provided in the application.

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to review as the sale or purchase of a hospital under Revised Code of Washington 70.38.105(4)(b) and Washington Administrative Code 246-310-010(1)(b).

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); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment).

TYPE OF REVIEW

This application was reviewed along the same schedule as the non-profit conversion applications, outlined below.

APPLICATION CHRONOLOGY

Action	Date
Letter of Intent Submitted	November 2, 2016
Application Submitted	May 2, 2017
Beginning of Screening ⁴	June 1, 2017
Department’s pre-review activities <ul style="list-style-type: none"> • DOH’s 1st Screening Letter • Applicant’s Responses Received • DOH’s 2nd Screening Letter • Applicant’s Responses Received 	June 22, 2017 August 7, 2017 September 14, 2017 October 30, 2017
Beginning of Review	February 28, 2018
Public Comment <ul style="list-style-type: none"> • Public comments accepted through end of public comment • Public hearing conducted 	March 19, 2018 March 19, 2018
Rebuttal Comments Due	April 3, 2018
Department’s Scheduled Decision Date	August 6, 2018
Department’s Actual Decision Date	August 6, 2018

AFFECTED PERSONS

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

“...an “interested person” who:

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

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

- (a) The applicant;
- (b) Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;
- (c) Third-party payers reimbursing health care facilities in the health service area;
- (d) Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;

⁴ During the initial screening of this application, the department discovered that there was an apparent discrepancy between the letter of intent and the application. Therefore, consistent with WAC 246-310-080(3), the application served as the new letter of intent and was held for thirty days.

- (e) Health care facilities and health maintenance organizations which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;*
- (f) Any person residing within the geographic area to be served by the applicant; and*
- (g) Any person regularly using health care facilities within the geographic area to be served by the applicant.*

During the review of this project, a number of persons asked to receive updates on both applications during the course of review, but did not request interested person status. Only Providence Health & Services submitted a request for interested and affected person status. A brief description of Providence Health & Services is below:

Providence Health & Services

Two representatives from Providence Health & Services requested interested person status as defined above. One representative from the larger entity of Providence Health & Services; and one from Kadlec Regional Medical Center, a Providence facility located in Benton County. Kadlec Regional Medical Center is a 270-bed hospital located in Richland, within Benton County. Services provided by the hospital include acute care services typically provided by a hospital, plus open heart surgery and cardiac catheterization, levels II and III neonatal intensive care services, and a variety of outpatient services.

On March 19, 2018, Providence Health & Services provided public comments on behalf of Kadlec Regional Medical Center. Both Providence Health and Services and Kadlec Regional Medical Center meet the definition of an “interested person” under WAC 246-310-010(34)(b). As a result both Providence Health & Services and Kadlec Regional Medical Center qualify as an “affected person.”

SOURCE INFORMATION REVIEWED

- Capella Health Holdings, LLC’s Certificate of Need application for Lourdes Counseling Center received May 2, 2017
- Capella Health Holdings, LLC’s Lourdes Counseling Center screening response received August 7, 2017 and October 30, 2017
- Public comment received by 5:00 pm on March 19, 2018
- Hospital/Finance and Charity Care (HFCC) Financial Review dated August 2, 2018
- Comprehensive Hospital Abstract Reporting System (CHARS) Data 2013-2017
- Joint Commission website at www.jointcommission.org
- Lourdes Health Network website at <https://www.yourlourdes.com>
- Ascension Health website at www.ascension.org
- Certificate of Need historical files

CONCLUSIONS

For the reasons stated in this evaluation, the application submitted by RCCH/Capella proposing to purchase Lourdes Counseling Center from Ascension Health is consistent with the applicable review criteria of the Certificate of Need Program, provided that RCCH/Capella agrees to the following in its entirety.

Project Description

This certificate approves the purchase of Lourdes Counseling Center by RCCH/Capella. There is no change in the number of approved beds. A breakdown of beds by type is shown below:

Bed Type	Current	Proposed
24 hr. assigned and set-up (Psychiatric)	22	22
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Total Licensed Beds	32	32

Conditions

1. Approval of the project description as stated above. RCCH/Capella further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. RCCH/Capella will maintain its participation in the Medicare and Medicaid programs at Lourdes Counseling Center.
3. RCCH/Capella will continue providing the services identified in the application at Lourdes Counseling Center for a minimum of ten years. These services are restated below:
 - Psychiatric – Inpatient and Outpatient
 - Chemical Dependency - Outpatient
 - Outpatient Services – Transition Unit – 16 beds
 - Outpatient Services – Sub Acute Detox – 12 beds
 - Rehabilitation – Inpatient and Outpatient
4. Within 30 days of the acquisition, RCCH/Capella will submit to the department for review and approval the adopted copies of its admissions policy and non-discrimination policy for Lourdes Counseling Center. Each of these policies must be consistent with the drafts provided in the application.
5. Within 30 days of the acquisition, RCCH/Capella will submit to the Certificate of Need Program a copy of the adopted charity care policy for Lourdes Counseling Center that has been reviewed and approved by the Charity Care Program within the Department of Health.
6. RCCH/Capella will provide charity care at Lourdes Counseling Center in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. Lourdes Counseling Center will use reasonable efforts to provide charity care in an amount identified in the application. The amount identified in the application was 0.33% of gross revenue and 1.55% of adjusted revenue. RCCH/Capella will maintain records of charity care applications received at Lourdes Counseling Center and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.
7. Within 30 days of the acquisition, RCCH/Capella will submit to the department for review and approval the executed copy of the Asset Purchase Agreement. The executed copy must be consistent with the draft agreement provided in the application.

8. Within 30 days of the acquisition, RCCH/Capella will submit to the department for review and approval the executed copy of the Amended and Restated Master Lease Agreement. The executed copy must be consistent with the draft agreement provided in the application.
9. Within 30 days of the acquisition, RCCH/Capella will submit to the department for review and approval the executed copy of the Joinder Agreement. The executed copy must be consistent with the draft agreement provided in the application.
10. RCCH/Capella shall finance the project as described in the application.
11. RCCH/Capella must agree to the conditions outlined in the Non-Profit Conversion evaluation.

Approved Costs

The approved capital expenditure for this project is \$3,435,600.

CRITERIA DETERMINATIONS

A. NEED (WAC 246-310-210)

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Capella Health Holdings, LLC has met the applicable 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.*

In reviewing an application to acquire an existing healthcare facility such as these, the department does not complete a numeric need methodology. The numeric need for existing beds or services is considered met. WAC 246-310-210 does not provide specific review criteria with which to evaluate how existing facilities or services would be sufficiently available or accessible to absorb existing and projected volumes, in the event the project was not approved. Therefore, using its experience and expertise the department evaluates information from the application, as well as publically available hospital utilization and occupancy data from the Benton and Franklin County hospitals to assess this sub-criterion.

RCCH/Capella

RCCH/Capella provided five years of inpatient days and outpatient visits for Lourdes Counseling Center. The inpatient admissions and days are shown below. [source: Application, pp16-18]

Table 1
Lourdes Counseling Center
Inpatient Admissions and Days 2014-2017⁵

	2014	2015	2016	2017
Inpatient Admissions	571	571	542	548
Inpatient Days	5,563	5,576	5,912	5,980

Focusing on the hospital's overall utilization, RCCH/Capella provide the following historical information for outpatient visits for year 2014 through 2016.

Table 2
Lourdes Counseling Center
Outpatient Visits 2014-2016

	2014	2015	2016
Outpatient Visits	77,264	98,369	121,674

In addition to the data above, RCCH/Capella provided the following statements related to this sub-criterion specific to this hospital. [source: Application, p12]

“As outlined in the APA [Asset Purchase Agreement], Capella has agreed to continue to operate the hospital as a psychiatric hospital, to continue to provide inpatient and outpatient

⁵ This application was submitted in 2017, meaning that the most recently available historical data was from 2016. Year 2017 data is annualized.

behavioral health services, and not make any material reductions to, or changes in, the mix or levels of services offered for a period of at least 5 years from the date of acquisition.

In addition, Capella has committed to investing \$18 million in the aggregate, to be used for Lourdes and/or Lourdes Counseling. This financial commitment will further the long-term goal of LHN, as discerned by the Board, to be a community provider of unique high-quality healthcare services that are needed by the Benton/Franklin community.

Capella has also agreed to retain all employees in good standing at the time of acquisition.”

Public Comment

The department conducted two public hearings as required in the Acquisition of Nonprofit Hospital statute under RCW 70.45 and rules under WAC 246-312-070.⁶ Information provided at the public hearings are also incorporated into this Certificate of Need review. Not all of the public comment will be quoted or specifically referenced in this evaluation. However, the department notes that many community members attended the hearings or provided written comments in support of the acquisition of the two hospitals. Excerpts from letters of support specific to the Lourdes Counseling Center related to this sub-criterion are below.

Barbara Mead, RN (retired) former employee of Lourdes Counseling Center [source: March 19, 2018, public comment]

“Lourdes Counseling Center has grown to be the largest and most comprehensive behavioral health provider in the region. The scope of services range from traditional sessions with psychiatrists, nurse practitioners and counselors to in home visits for the seriously mentally ill, specialized children's day school program, services in jail and to the homeless, housing, crisis intervention services in the community to the most intensive service on the 16 bed crisis triage unit, 32 bed psychiatric hospital and 12 bed detoxification unit. During CY2016 over 5,235 adults and children received outpatient behavioral health services; over 500 people were treated in the psychiatric hospital and close to 1,000 people received services on the crisis triage unit upon admission. More than 75% of those people had Medicaid or were without any health care insurance. Our community needs Lourdes Counseling Center to continue to be the quality behavioral health provider and expand behavioral health services by moving to Capella-RCCH.”

Mary Dye, State Representative of 9th Legislative District [source: March 19, 2018, public comment]

“The health of our community is built upon important foundations - good schools, good businesses and good healthcare. We fully support the sale of Lourdes Health Network to Capella/RCCH. It is a crucial step to ensure our foundation is strong for the future.

The Tri-Cities community will benefit from the proceeds of the transaction which are dedicated to local charitable purposes. Lourdes will again have a local board of trustees with representation from the facilities' active medical staff and local community leaders.

⁶ WAC 246-310-070(1) states that the department must hold at least one public hearing in the county location of the hospital being acquired. Lourdes Medical Center is located in Franklin County and Lourdes Counseling Center is located in Benton County. Even though the two counties are adjacent and, for some healthcare services, considered one planning area, a public hearing was conducted in each county on March 19, 2018.

We have been assured that Capella/RCCH will continue to work with state and local governments to ensure Lourdes Medical Center in Pasco and Lourdes Counseling Center in Richland remain important cornerstones of healthcare delivery in the Tri-Cities.

Employers must have excellent healthcare resources to attract and maintain great employees. The acquisition of Lourdes by Capella/RCCH will infuse an additional \$18 million in capital improvements in the next five years. That means increased healthcare options for local businesses.

We are a diverse community with diverse cultural needs. Having diverse options for healthcare meets the demands of our growing population. The application for a Certificate of Need to allow the acquisition of Lourdes by Capella/RCCH should be approved and is supported throughout our community.”

In addition to the letters of support above, a representative from Lourdes Counseling Center provided a document with specific statistics related the facility and other mental health services available in the Tri-City area. The statistics include;

- 9,000 outpatient visits per month
- 1,693 crisis services visits per month
- 72 visits per month at Desert Hope ([a 24-hour detox center for people withdrawing from alcohol or drugs)
- 542 inpatient admissions annually
- 19,500 visits per year for PACT (**Patient Aligned Care Team**), a program focused on veterans, where each veteran works with health care professionals to plan for the whole-person care and life-long health and wellness.
- 24 students enrolled in the Children’s Day Program
- 30 individuals assisted annually by the Supported Living Program
- 360 visits per month for the Immediate Response Team
- 40 individuals each year receive mental health services from the Clullum House located in Richland

While Kadlec Regional Medical Center provided comments expressing concerns that after five years, RCCH/Capella could cease operating Lourdes Medical Center or LMC, those same concerns were not expressed for Lourdes Counseling Center.

Rebuttal Comment

None

Department Evaluation

In order to evaluate RCCH/Capella’s ability to meet this sub-criterion for Lourdes Counseling Center, the department analyzed the reasonableness of the statements within the application. Ordinarily, the department would complete an analysis of discharge patterns and occupancy statistics within the planning area to assess whether the existing healthcare system could support the community need if the project were not approved. However, Lourdes Counseling Center is the only psychiatric hospital in Benton County and the Tri-City area. The hospital is consistently used by residents of both Benton and Franklin counties and surrounding areas.

Below is a summary of years 2013 – 2017 discharge data for Lourdes Counseling Center located in Benton County. The data is broken down by the patient’s county.

Table 3
Lourdes Counseling Center
Inpatient Admissions and Days 2013-2017

Patient County	2013		2014		2015		2016		2017	
	Admits	Days	Admits	Days	Admits	Days	Admits	Days	Admits	Days
Benton	318	2,878	313	2,948	312	2,937	295	3,261	267	3,121
Franklin	88	929	91	891	77	896	86	1,094	99	1,240
Walla Walla	40	375	28	261	31	243	33	341	21	214
Okanogan	19	199	12	128	6	77	5	65	9	107
Grant	13	213	9	80	20	268	27	313	17	163
Yakima	11	100	12	120	10	65	9	75	17	148
Other*	83	831	92	1,129	79	951	65	811	67	907
Total	572	5,525	557	5,557	535	5,437	520	5,960	497	5,900

*Other includes the following Washington State counties: Adams, Chelan, Clark, Columbia, Douglas Grays Harbor, King, Kitsap, Kittitas, Klickitat, Lewis, Pacific, Pend Oreille, Pierce, Spokane, and Whitman. It also includes a number of patients from out of state.

As shown in the table above, Benton and Franklin County residents make up the majority of discharges from Lourdes Counseling Center. However, as the only psychiatric hospital in the Tri-City area, a significant number of patients come from outside the Benton and Franklin counties.

Within the application, RCCH/Capella provided historical utilization data for Lourdes Counseling Center, which is consistent with the data provided above. The historical information from the applicant can be substantiated.

As previously stated, Lourdes Counseling Center is the only psychiatric hospital located in the Tri-City area. If the facility was no longer available and accessible, patients would be required to travel some distance to receive both inpatient and outpatient psychiatric services.

Below is a summary of years 2013 – 2017 discharge data for Benton and Franklin County residents. The data is broken down by the hospital in the table on the following page.

Table 4
Benton and Franklin County Residents
Inpatient Admissions and Days for Years 2016 and 2017

Hospital/County Location	2016		2017	
	Admits	Days	Admits	Days
Lourdes Counseling Center/Benton	357	4,149	321	3,870
Kadlec Regional Medical Center/Benton	41	314	32	136
Trios Health/Benton	29	156	20	106
Virginia Mason Memorial/Yakima	16	182	6	45
Fairfax Behavioral Health/King	10	104	12	182
Providence Sacred Heart/Spokane	14	167	8	79
Other*	26	199	25	228
Total	493	5,271	424	4,646

*Other includes the following Washington State hospitals: Fairfax Behavioral Health-Everett, MultiCare Auburn Medical Center, Overlake Medical Center, Prosser Memorial Hospital, Pullman Regional Hospital, Seattle Children’s, Swedish Cherry Hill, Swedish Edmonds, UW Medicine Harborview Medical Center, and UW Medicine UWMC.

The table above substantiates RCCH/Capella’s assertion that the majority of Benton and Franklin County residents obtain psychiatric services at Lourdes Counseling Center. Further, public comment supports that the availability of Lourdes Counseling Center is necessary for the residents of the Benton and Franklin County planning area.

Based on the information above, the department concludes that **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-criterion, the department evaluates an applicant’s admission policies, willingness to serve Medicare and 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 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 applicant’s willingness to serve the elderly. With limited exceptions, Medicare is coverage for individuals age 65 and over. It is also recognized that women live longer than men and therefore more likely to be on Medicare longer.

Medicaid certification is a measure of an applicant’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, do not qualify for Medicaid, or are under insured.⁷ With the passage of the Affordable Care Act, the amount of charity care is expected to decrease, but not disappear.

RCCH/Capella

As a psychiatric hospital, Lourdes Counseling Center does not have certain policies, such as End of Life Policy or Reproductive Health Policy. RCCH/Capella provided copies of the policies that are currently in place at Lourdes Counseling Center, listed below:

- Admissions Policy [Application Exhibit 8]
- Patient Non Discrimination Policy [Application Exhibit 8]
- Charity Care Policy [August 7, 2017, Attachment 12]

Lourdes Counseling Center is currently Medicare and Medicaid certified. RCCH/Capella provided the hospital’s current revenue payer mix and the expected payer mix following the proposed transaction. The payer mix is expected to change slightly as a result of this transaction. [source: Application, p9] The payer mix is shown below.

**Table 5
Payer Mix Before and After Transaction**

	Ascension Health Ownership	Capella Ownership
Payer Source	Lourdes Counseling Center	
Medicare	17.5%	17.5%
Medicaid	60.9%	61.1%
Private (no insurance)	2.1%	2.1%
Insurance (other)	13.4%	13.1%
HMO	0.1%	0.0%
Other	6.0%	6.2%
Total	100.0%	100.0%

RCCH/Capella provided the following explanation for the expected slight change in payer mix. [source: August 7, 2017, screening response, p7]

“Table 5 of the application shows no change in Medicare. The change in Medicaid is insignificant (from 60.9% currently to 61.1% with the proposed acquisition). In the past several years, Medicaid (as a percentage of total revenue) has grown as a result of Medicaid expansion in our State.

We assumed that Medicaid would stay at virtually the same percentage. The ever so slight difference is simply a result of the rounding of the additional patient days assigned to the payer class.”

It is also noted that under the Ascension Health ownership, HMO was identified as a separate payer mix, while RCCH/Capella includes HMO in its “other” category, which slightly changes some of the percentages.

⁷ WAC 246-453-010(4)

In addition to the policies and payer mix information, RCCH/Capella provided the following information related to charity care provided by Lourdes Counseling Center. [source: Application, p11]

“Capella has also assumed the same level of charity care in its pro forma financials that Lourdes Counseling provided in 2016.”

Public Comment

Kadlec Regional Medical Center submitted comments related to this sub-criterion. The comments are restated below.

Kadlec Regional Medical Center [source: March 19, 2018, public comment]

“Capella Has Not Made A Long-Term Commitment To Continue Community Benefit Programs At LCC. Capella has only committed to continue LCC's current community benefit programs for 10 years after the acquisition takes place. In addition, Capella will have the ability to make "material changes" to LCC's community benefit policies and practices during that time. Section 6.21(c) of the Asset Purchase Agreement provides:

For a period of ten (10) years after the Effective Time, Purchaser shall implement reasonable policies for the Businesses' community benefit programs in a manner generally consistent with the Business' community benefit policies and practices in effect immediately prior to the Effective Time; provided, that, material changes to such policies made by Purchaser (other than those that are required by, or are a reasonable response to, changes in applicable Law or policies of any Governmental Authority) shall be subject to approval of the Local Board.

Under this provision, Capella will have the authority to discontinue or alter any of LCC's community benefit programs after 10 years. Again, the fact that the Local Board must approve any "material changes" proposed by Capella places little, if any, limitation on Capella's ability to discontinue or alter the programs given that Capella will likely control the Board and that the Board will at some point cease to exist. Accordingly, Capella will, after a relatively short period of time, have the ability to significantly change or eliminate LCC's historical commitment to supporting community benefit programs.

Capella Has Not Made A Long-Term Commitment To Provide Charity Care

Capella has not made a commitment to provide charity care at the levels previously maintained by LCC. Section 6.21(a) of the Asset Purchase Agreement provides:

(i) Purchaser shall implement reasonable policies for treatment of indigent patients at the Business in a manner generally consistent with the Business' charity care policies and practices in effect immediately prior to the Effective Time; provided, that, material changes to such policies made by Purchaser (other than those that are required by, or are a reasonable response to, changes in applicable Law or policies of any Governmental Authority) shall be subject to approval of the Local Board and (ii) Purchaser shall provide the same general levels of charity care at the Business as provided by Seller and its Affiliates prior to the Closing Date.

First, the provision only requires Capella to implement policies for the treatment of indigent patients that are "generally consistent" with LCC's current charity care policies. The use of this phrase provides Capella with a great deal of leeway to make changes to those policies.

Second, and more importantly, the provision grants Capella the authority to make "material changes" to the policies provided (1) that the Local Board approves the "material changes" and (2) that Capella "shall provide the same general levels of charity care" currently provided by LCC.

However, these provisos place little limitation upon Capella's ability to make "material changes" to the policies. As discussed in the Kadlec LMC Public Comments, Capella will likely control the Local Board, and, moreover, the Local Board will at some point cease to exist. Further, Capella is required only to maintain "the same general levels of charity care" that have historically been provided by LCC. The use of this phrase, as with the use of the phrase "generally consistent" in the first clause of the provision, gives Capella the discretion to make significant adjustments to the level of charity care provided at LCC.

Capella's ability to make "material changes" to LCC's charity care policies must be considered in the context of its history of providing charity care in Washington and Oregon, as examples, which is discussed in Sections 5 and 6.

Capella's History In The State Of Washington Raises Significant Concerns About Its Commitment To Serving All Residents Of The Service Area

The fact that Capella has not made a long-term commitment to (1) continue to operate LCC, (2) continue LCC's participation in the Medicaid and Medicare programs, (3) provide charity care at LCC's existing levels, and (4) maintain LCC's community benefit programs is enough in itself to justify a finding by the Department that Capella's CON application to acquire LCC does not satisfy the CON need criterion requiring that "all residents of the service area" are "likely to have access" to LCC after the acquisition takes place. However, this finding is further supported and confirmed by a consideration of Capella's operating history in Washington.

...Capital Medical Center ("Capital") in Olympia is owned by Capella HealthCare, LLC and RCCH. As previously noted, on September 21, 2017, the Attorney General of Washington filed a Complaint for Injunctive and Other Relief under the Consumer Protection Act ("Complaint") against Capital. The Complaint alleges:

1.2 Capital undermined the purpose of the Charity Care Act, RCW 70.170, and violated the Washington Consumer Protection Act, RCW 19.86, when it pressured thousands of its low-income patients to pay for their treatment upfront and prevented them from accessing charity care from at least 2012 until 2016.

The Complaint further alleges:

1.11 Capital's practices deceived low-income patients about their liability for medical expenses, misled patients about their payment and financial assistance options, and unfairly prevented them from accessing care. Without information about and access to charity care, Capital's low income patients paid for medical expenses they should not have been

responsible for, took on medical credit cards, incurred medical debts, and deferred medical care.

1.12 These practices caused Capital to provide charity care at one of the lowest rates in the Southwest Washington Region and the State of Washington. In 2014 Southwest Washington Region hospitals provided an average of 5.93 percent of their adjusted revenue in charity care. In contrast, Capital provided just 0.37 percent of its adjusted revenue in charity care that year. This trend continued in 2015, when Southwest Washington Region hospitals provided an average of 3.18 percent of their adjusted revenue in charity care and Capital provided only 0.44 percent. In both years, Capital provided the lowest rate of charity care in the Southwest Washington Region and in the State of Washington.

Kadlec recognizes the Attorney General's Complaint and the Office of the Attorney General's press release contain allegations. It also recognizes Capital is contesting the Attorney General's legal action. To the best of Kadlec's knowledge, the action has not yet been resolved. However, we presume the Attorney General commenced the action only after conducting an extensive investigation, as is supported by the evidence presented in the Complaint. Accordingly, we believe it is appropriate for the Department to take the Attorney General's action (and Capital's and Capella's responses to the action) into account when evaluating Capella's CON application to acquire LCC.

The Attorney General's action is not the first time that concerns have been raised about Capital's charity care practices. In November 2009, the Department issued CN #1410 to Capital authorizing it to establish an elective percutaneous coronary interventions ("PCI") program. The Department approved the application with three conditions, which Capital accepted; these included:

“Capital Medical Center will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Capital Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the regional average amount of charity care provided by hospitals in the Southwest Washington Region. Currently, this amount is 2.4% of gross revenue and 6.16% of adjusted revenue. Capital Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

Providence Health & Services - Washington dba Providence St. Peter Hospital ("PSPH") commenced an adjudicative proceeding challenging the issuance of CN #1410 to Capital. The Department, Capital, and PSPH agreed to a settlement, pursuant to which Capital retained its CN. As part of the settlement, Capital agreed to "fulfill its ongoing obligation to provide charity care by using reasonable efforts to provide an amount of charity care comparable to or exceeding a percentage of the regional average amount of charity care provided by hospitals in the Southwest Washington Region." The Stipulation and Agreed Order implementing the settlement states: "Capital recognizes that its failure to meet the requirements of this stipulation and agreed order constitute cause for suspension or revocation of CN #1410."

Ultimately, Capital failed to comply with the charity care commitments made by it in the Stipulation and Agreed Order. Accordingly, on September 19, 2014, the Department issued a "Notice of Suspension of CN #1410" to Capital. The Notice states:

[The charity care] data indicates that from 2010 to 2012 Capital failed to make reasonable efforts to meet the charity care requirements of the Agreed Order. Under Paragraph 8 of the Agreed Order, this failure is grounds for the Department to suspend or revoke CN # 1410. Accordingly, the Department hereby suspends CN # 1410.

On October 17, 2014, Capital requested an adjudicative proceeding to contest the suspension, which, ultimately, led to the Health Law Judge approving a revised Stipulation for Dismissal that outlined new settlement terms. The settlement included the following terms:

- 5. CMC [Capital] will provide not less than the charity care average by June 2017 for the proceeding [sic] 12 months, and each June thereafter, for all hospitals in Thurston, Mason, Grays Harbor, and Lewis Counties.*
- 6. By September 1 of each year, if CMC has failed to meet the requirement in Paragraph 5, CMC will pay an amount calculated by the formula in Attachment 2 to this Stipulation to one or more local organizations that provides medical care to indigent persons. The organizations must be unaffiliated with CMC in terms of ownership or governance and be approved by the Department. The Department will consult with Providence St. Peter Hospital prior to approving a recipient organization.*

On November 17, 2017, Providence was notified that Capital - during its very first reconciliation period under the terms of the Order and Stipulation - had failed to meet the charity care requirements. For the reporting period of June 2016 - May 2017, the charity percentage for Capital was a mere 0.27%. As of March 2018, the Department is continuing to work with Capital to complete the first reconciliation. Overall, Capital failed to provide charity care at a level anywhere close to the targets in the Order and Stipulation. This demonstrates its perception of making "reasonable efforts" to provide charity care should raise significant concerns.

The track record of Capella in Olympia should raise significant concerns and cast doubt about what it looks like for Capella to provide charity care and treatment of indigent patients at levels "generally consistent" or at "the same general levels of charity care" as LCC. If the situation at Capital Medical Center in Olympia is any indication, then reasonable efforts mean many patients in the community will be left without appropriate access to charity care. Overall, the Attorney General's recent legal action and the Department's suspension of CN #1410 raise troubling questions about Capital's commitment to providing charity care. Given Capella's ownership of Capital, the history of Capital's charity care issues is something that the Department must take into account when assessing Capella's representations regarding its post-acquisition operation of LCC, and when evaluating whether Capella's CON application satisfies the need criteria."

Rebuttal Comment

In response to Kadlec Regional Medical Center's comments regarding RCCH/Capella's commitment to continue the community benefits, including charity care at Lourdes Counseling Center, RCCH/Capella provided the following rebuttal comments. [source: April 3, 2018, rebuttal comments]

“Providence’s Concerns About Charity Care Are Misplaced

“Providence expresses that “Lourdes has been a valuable partner in making certain all members of the community have adequate access to health care.” Providence goes on to state that a change in their traditional role will have a substantial impact on Kadlec, but absolutely no data to substantiate this claim is included in the record. Based on the most current charity care data (2015) available from the Department, Lourdes and Lourdes Counseling’s combined charity care as a percentage of adjusted patient services revenue (3.922%) is nearly 45% higher than Kadlec’s (2.710%). See DOH “Total Patient Service Revenue, Adjusted Patient Service Revenue, and Amount of Charity Care as a Percent” attached as Attachment 2; also <https://www.doh.wa.gov/Portals/1/Documents/2300/HospPatientData/CharityCare2015-2006.xlsx>.

Providence also raises the issue of Columbia Capital Medical Center’s (another subsidiary of Capella) lawsuit with the AG regarding the functioning of the charity care program at Capital Medical Center (CMC).

First, we note that Providence itself has recently been sued over charity care issues: Hofstader v. Emergency Physicians Services, P.S., Providence Holy Family Hospital and Providence Health and Services (copy included in Attachment 3). The Complaint states, among other things that:

Plaintiff is informed and believes, and thereon alleges, that Defendants have engaged, and continue to engage, in a pattern and practice of collecting or seeking to collect from patients without first affirmatively screening them to determine whether they qualify for charity care based on their income.

Hofstader Complaint, Paragraph 6, pp. 2- 3.

This factual allegation is very similar to the factual allegations the AG has made regarding CMC’s practices. Capella recognizes that the complaint contains allegations. Capella also assumes that Providence will contest the complaint. To the best of Capella’s knowledge, the action has not yet been resolved. However, we presume the complainant conducted an investigation and has a good faith belief that the facts alleged in the complaint are true in order to avoid sanctions from the court for filing a frivolous action.

We raise the existence of this lawsuit to demonstrate that many hospital operators may be alleged to have issues in complying with the requirements of the Washington charity care law, including Providence. But this fact alone is not overly relevant to the review of the Applications, let alone dispositive.

Regarding the CMC lawsuit, in 2016, the AG began an investigation into CMC’s charity care program, policies and procedures. Capella and CMC cooperated with the AG in the investigation. CMC and Capella had a good faith belief that they were on the path to a settlement that might

have included a corrective action plan for alleged violations of the state charity care law, as well as monetary penalties. Independently, during 2016, CMC reviewed all of its charity care policies and procedures and made changes necessary to bring CMC's policies and practices into conformity with the AG's interpretation of the charity care law. Despite these good faith efforts on the part of CMC and the AG, the AG chose to file a law suit, alleging violations of the state Consumer Protection Act (CPA) based on failure to follow the AG's interpretation of the charity care law. The alleged violations in the law suit involve conduct from 2012 until 2016.

The matter is on-going and trial is expected to take place sometime in 2019. CMC intends to defend the matter vigorously. In the interim, CMC and Capella will continue to monitor their practices to ensure they are performing their obligations, at a minimum, in compliance with state law. Capella remains open to settlement possibilities with the AG if such should arise. Capella is committed to providing charity care to those in all communities served by Capella, and to do so in a manner that conforms with best practices as well as Washington State law."

Department Evaluation

Within the application, RCCH/Capella stated it would adopt the following policies currently in place Lourdes Counseling Center and provided copies of the policies currently in use. The policies are the same for both Lourdes Medical Center and Lourdes Counseling Center because they are Lourdes Health Network Policies.

- Admissions Policy
- Non-Discrimination Policy
- Charity Care Policy

Until the policies are adopted, they are considered drafts for the purpose of this evaluation.

The draft Admission Policy outlines the process Lourdes Health Network will use to admit patients into either Lourdes Medical Center or Lourdes Counseling Center. The Admission Policy includes the following language:

"In compliance with the DOH requirements, as part of every Inpatient, Observation, and Same day surgery registration each patient is queried about Advance Directives. Responses are documented in the Meditech system. Upon request, patients are provided information for Advance Directives, POLST, Living Will, Healthcare Proxy and Healthcare Power of Attorney.

As a Catholic hospital, Lourdes Health adheres strictly to a non-discrimination policy. Ethics/Values Statements are posted at every major entrance point. We do not discriminate based on age, race, color, creed, ethnicity, religion, national origin, marital status, sex, sexual orientation, gender identity or expression, disability, veteran or military status, or any other basis prohibited by federal, state or local law. Race and religion are documented on each account for reporting purposes. If no payment source is available, appropriate application of uninsured discount is automated through our billing system. Financial counseling is available M-Sat 9a-930p.

Given that the policy references Catholic affiliation of the hospitals, the policies must be revised to for consistency to RCCH/Capella requirements. The Admission Policy is used in conjunction with the patient Non-Discrimination Policy. The draft Patient Non-Discrimination Policy includes the following language:

“This policy applies to all members of Lourdes Health Network including employees, medical staff members, contracted service providers, and volunteers, and to all vendors, representatives, and any other individuals providing services to or on behalf of Lourdes Health Network.”

The draft policy ensures that all patients will be treated with dignity and without regard to age, race, color, creed, ethnicity, religion, national origin, marital status, sex, sexual orientation, gender identity or expression, disability, veteran or military status, or any other basis prohibited by federal, state, or local law.

The draft Charity Care Policy includes roles and responsibilities for both the hospital and the patient related to charity care. The hospital’s roles and responsibilities include informing the patient about charity care, identifying the process one must use to obtain charity care, and providing the process Lourdes Health Network would use to determine charity care eligibility. Patient roles and responsibilities outlined in the draft policy include documentation that must be provided to the hospital to obtain charity care and the percentages of Federal Poverty Guidelines used by hospitals to assist in determining eligibility.

Since all policies are in draft format, if this project is approved, the department would attach conditions requiring that RCCH/Capella provide copies of all final policies within 30 days of the change of ownership. Specific to the Charity Care Policy, the condition would specify that the policy be approved by the Department of Health’s Hospital Charity Care and Financial Data office.

Medicare and Medicaid

RCCH/Capella projects that Medicare revenues will make up 17.5% of total revenues and Medicaid revenues will make up 61.1% of total revenues at Lourdes Counseling Center. These figures are generally consistent with the current payer mix, and financial data within the application support these projections. Commercial and other revenues are also expected to remain generally the same. Within the application and within rebuttal, RCCH/Capella asserted that they will continue to participate in the Medicare and Medicaid programs. As noted in the previous section, this project is approved, the department would attach a condition requiring continued participation in both programs.

Charity Care Requirement

For charity care reporting purposes, Washington State is divided into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Lourdes Counseling Center is located in Benton County, within the Central Region. Currently there are 21 hospitals operating within the region. In this section of the evaluation, the department compares historical three-year average of charity care provided by the hospitals currently operating in the planning area. For the three-years reviewed, three of the 21 hospitals did not report charity care for year 2014. The three hospitals are Quincey Valley Hospital, Sunnyside Community Hospital, and Confluence Wenatchee Valley Hospital. All 21 hospitals reported data for years 2015 and 2016.

Table 6 compares the historical three-year (2014-2016) average of charity care provided by the hospitals currently operating in the Central Region, Lourdes Counseling Center’s historical charity care, and the projected amounts of charity care at Lourdes Counseling Center.

**Table 6
Charity Care Comparison**

	Percentage of Total Revenue	Percentage of Adjusted Revenue
Central Region Historical Average ⁸	1.08%	2.73%
Historical Average – Lourdes Counseling Center	0.33%	1.70%
Projected Average – Lourdes Counseling Center	0.33%	1.55%

As shown above, the three year historical average of charity care provided by Lourdes Counseling Center is below the regional average. Lourdes Counseling Center is a licensed psychiatric hospital. For this reason, the department also compared the hospital’s current and projected charity care percentages to psychiatric hospital’s currently operating in Washington State.

As of the writing of this evaluation, there are a total of five psychiatric hospitals operating in Washington State, including Lourdes Counseling Center. However, for years 2014 through 2016—which is the charity care data range—there were four operational. For the four facilities, only three consistently reported charity care data. The table below shows the three-year average comparison for the three psychiatric hospitals.

**Table 7
Psychiatric Hospital Charity Care Comparison**

	Percentage of Total Revenue	Percentage of Adjusted Revenue
Lourdes Counseling Center – Benton County	0.33%	1.70%
Cascade Behavioral Health – King County	0.11%	0.44%
NAVOS – King County	2.78%	15.72%

RCCH/Capella projects that following the change of ownership, the hospital would provide charity care at the year 2016 level, which is 0.33% of gross revenue and 1.55% of adjusted revenue. When compared to the Central Regional acute care hospitals, the projections are lower than the three-year average. However, when compared to the operational psychiatric hospitals throughout the state, the projections are higher than Cascade Behavioral Health and lower than NAVOS. Based on the two comparisons in the tables above, the projected charity care provided in the application is reasonable. If this project is approved, the department would include a condition requiring Lourdes Counseling Center to provide at least the projected percentages of charity care identified in the application.

Based on the above information, the department concludes that RCCH/Capella **meets this sub-criterion provided it agrees to the conditions identified in the conclusion section of this evaluation.**

- (3) The applicant has substantiated any of the following 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

⁸ As of the writing of this evaluation, 2016 is the most recent year for which there is charity care data.

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 sub-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 sub-criterion is not applicable to this application

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

Department Evaluation

This sub-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 sub-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 sub-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 sub-criterion is not applicable to this application.

B. FINANCIAL FEASIBILITY (WAC 246-310-220)

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Capella Health Holdings, LLC has met the applicable 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.

RCCH/Capella

RCCH/Capella provided the following assumptions that were used to determine the projected number of discharges, patient days, and occupancy at Lourdes Counseling Center.

“Given the current uncertainty in the healthcare climate, a projection beyond one-year is challenging (e.g. what will happen with the ACA in congress). However, we do feel a linear approach, which is what we selected, is best given Washington has expanded Medicaid and has a more robust individual exchange market than most states today.

In other words, we based growth on population change. We did not include any market share gains given that we have not yet had the opportunity to conduct an in-depth strategic analysis with the Board and leaders of LHN, and will not until the transaction is closed.

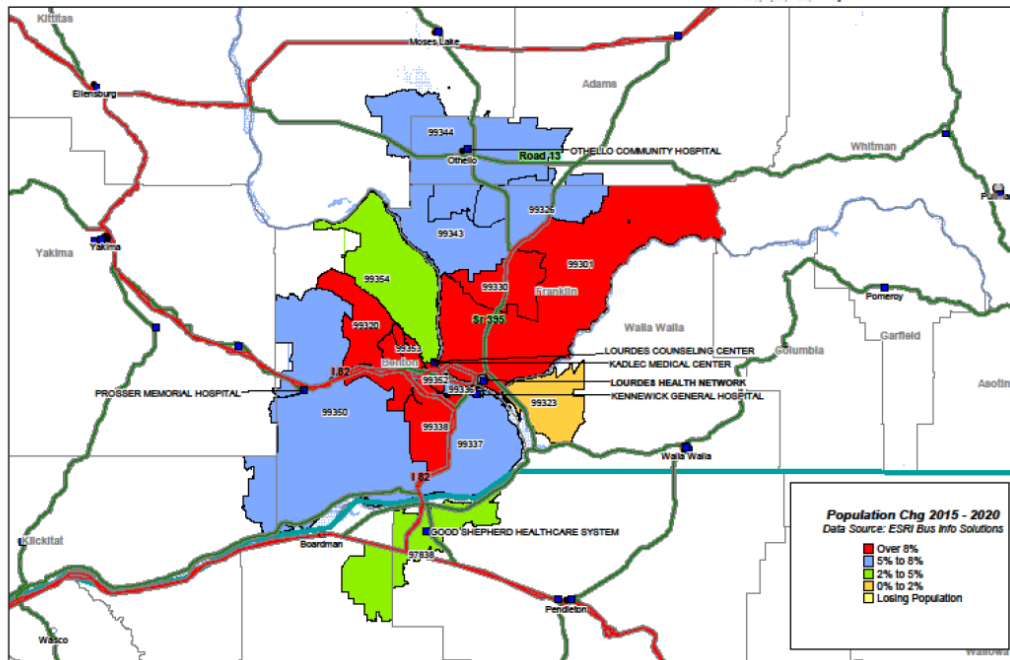
Our pro forma statistics are very conservative and we anticipate outperforming these initial budgets as we build our annual strategic plans.”

[source: August 7, 2017, screening response, p26]

“At the time the financial projections were developed, the historical operating experience for the period of 2014-2016 was reviewed. Capella also reviewed budget projections prepared by LHN for 2017 (the base year), and used these projections for the Year 1 estimates. For the period of 2018-2020 (and now 2021), we assumed an average volume growth rate of approximately 1% per year. The 1% assumed a slightly higher growth rate for Medicaid (approximately 1.5% per year) and slightly less for commercial patients (less than 1%, on average, per year).

The population predominantly served by LHN is depicted in Figure 1 and it includes approximately 273,000 residents in the Tri-Cities including portions of Franklin and Benton Counties. According to OFM, between 2010-2017, Franklin County was the fastest growing County in the State (16.5%) and Benton was the fifth fastest growing County in the State (10.5%).

*Lourdes Health Network
Service Area-Defined by Discharges*



Prepared By: iVantage Health Analytics, Inc. www.iVantageHealth.com
09/08/2015



Please note, we are confident that the financial performance of LHN will improve each year of operation with Capella. As we discussed with the Program, once we have the benefit of access to hospital management, Board and the Senior Leadership team, we will prepare an in-depth strategic plan (as noted in our response to question #5, this will happen post close of the transaction).

This strategic plan will consider market factors and capital investment initiatives, among other factors that will further refine our projections and lead to sustained growth and improved financial performance.

Because the market is growing so rapidly, it is important to note that simply assuming population growth (no efficiencies, no new programing, no new provider recruitment, etc.) is sufficient to produce a sustainable forecast for LHN.”

[source: October 30, 2017, screening response, pp2-3]

“The projections shown in Tables 12-14 assume 22 set up and available beds, but as demand is more fully quantified through strategic planning, we may opt to set up more or all of our 32 licensed beds.”

[source: August 7, 2017, screening response, p15]

Further, RCCH/Capella states that the current services are expected to remain consistent with those offered currently under Ascension ownership. The services are shown in the table below. [source: Application, p6]

- Psychiatric – Inpatient and Outpatient
- Chemical Dependency - Outpatient
- Outpatient Services – Transition Unit – 16 beds
- Outpatient Services – Sub Acute Detox – 12 beds
- Rehabilitation – Inpatient and Outpatient

RCCH/Capella states that the projections provided in the application assume 32 licensed beds, with 22 set up and operational. In response to the department’s request to clarify whether the 10 remaining beds meet licensing standards, RCCH/Capella provided the following statements. [source: August 7, 2017, screening response, p3]

“We understand that the 10 beds meet licensing requirements. The beds were removed from patient rooms to convert semi-private rooms to private². The space has been in continuous operation and the rooms are easily able to be converted back to semi-private use. The Hospital has ready access to required movable equipment to do so.”

Using the assumptions stated above, RCCH/Capella projected the number of inpatient admissions, patient days, and average length of stay at Lourdes Counseling Center. The projections are summarized in the table below beginning with year 2018. [source: October 30, 2017, screening response, Attachment 1]

Table 8
Lourdes Counseling Center
Inpatient Projections for Years 2018-2020

	CY 2018	CY 2019	CY 2020	CY 2021
Total Licensed Beds	32	32	32	32
Total Admissions	554	560	567	574
Total Patient Days	6,048	6,117	6,185	6,256
Average Length of Stay	10.92	10.92	10.91	10.90
Occupancy Percentage ⁹	51.78%	52.37%	52.95%	53.56%

The assumptions RCCH/Capella used to project revenue, expenses, and net income for Lourdes Counseling Center for projection years 2018 through 2020 are below. [source: October 30, 2017, screening response, pp3-4]

“As noted in response to Question 4, the financial projections were prepared based on historical financials and the 2017 budget of LHN. The 1% growth rate used is lower than the population growth in the Service Area. For the very reason that we have not had a chance to undertake a strategic plan, we were conservative. By using the term “very conservative” we simply meant that projected growth was based on population growth only and did not include any growth assumptions for new services, new patient access points (service locations) or new providers

⁹ The department calculated the average occupancy based on 32 licensed beds, rather than 22 set up beds.

Additional assumptions include:

- The revenue and expense statements includes both inpatient and outpatient revenue
- Revenue rates per inpatient and outpatient volumes are shown below:

Payer	2018 Percentage	2019 Percentage	2020 Percentage	2021 Percentage
Medicare	17.4%	17.4%	17.4%	17.3%
Medicaid	61.3%	61.5%	61.7%	61.9%
Private-no insurance	2.0%	2.0%	2.0%	1.9%
Insurance	13.0%	12.9%	12.8%	12.7%
Other (includes HMO)	6.3%	6.2%	6.2%	6.1%
Total	100.0%	100.0%	100.0%	100.0%

- Other includes self-insurance, grants, CHAMPUS, HMO, & Smart Health.
- Charity care is calculated at 1.55% of gross patient revenue and 0.33% of adjusted revenue.
- Other adjustments identified in the deductions from revenue category include uninsured discounts, prompt pay discounts, small balance write-offs, and other operating and administrative adjustments.
- Other operating revenues include auxiliary gift shop income, revenues from cafeteria, vending machines, retail sales, unrestricted donations, and other miscellaneous revenue.
- Supply expense includes general medical supplies, pharmaceuticals, food supplies, environmental services supplies, linen and bedding supplies, and office supplies.
- Purchased Services – Other includes pest control, security services, and water service.
- Depreciation represents the cost of property plant and equipment allocated over its estimated useful life for land improvements, service equipment, lease improvements, fixed equipment, automobiles, computer hardware, and moveable equipment.
- Under current ownership, the rentals and leases line item included equipment (\$9,434) and Building (\$35,598). In the Pro forma, the entire MPT lease has been reflected in a separate line item on the LMC entity (again, one singular Tax Identification number covering LCC and all related entities).
- Licenses and taxes line item includes federal and state taxes. Post closing, as a for-profit, RCCH/Capella will pay state and local taxes (property, B&O), etc.
- RCCH/Capella does not have a line item for “allocated expenses” and thus reflects any services provided in each line item (e.g. insurance, employee benefits, purchased services, other direct expenses – management fees).

Based on the assumptions described above, RCCH/Capella provided actual (2017), annualized (2018) and projected revenues, expenses, and net income for Lourdes Counseling Center. A summary of the information is shown below.

Table 9
Lourdes Counseling Center
Actual, Annualized, and Projected Revenues and Expenses for Years 2017-2021

	Actual	Annualized	Projected		
	2017	2018	2019	2020	2021
Net Revenue	\$19,415,010	\$19,673,661	\$19,901,942	\$20,133,354	\$20,367,939
Total Expenses	\$19,875,113	\$19,095,788	\$19,357,667	\$19,622,638	\$19,890,742
Net Profit or (Loss)	(\$460,103)	\$577,873	\$544,275	\$510,716	\$477,197

The ‘Net Revenue’ line item is gross inpatient and outpatient hospital revenue, minus deductions for contractual adjustments, bad debt, charity care, and other adjustments. The ‘Total Expenses’ line item includes all expenses related to hospital operations, including all staff salaries/wages and allocated costs as described above.

In response to the department’s request to explain the projected decreases in net profit for each of the years, shown, RCCH/Capella provided the following statements. [source: October 30, 2017, screening response, pp8-9]

“Capella/RCCH has made a significant capital investment commitment to LHN to help position the organization for success. These capital expenditure funds will, among other things, be used to recruit new physicians to the community and to add new or enhance existing service lines. In addition, Capella will utilize our corporate contracts to reduce cost on supplies, insurance, third party contracts, continually improve quality through our corporate resources and tools (which enhances revenue through Value Based Purchasing with CMS and other payers), and drive better financial performance.

Capella is confident that based on our current and past record of operating successful hospitals, we will achieve a similar level of operating success for LHN.”

Public Comment

None

Rebuttal Comment

None

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by RCCH/Capella to determine the projected number of admissions, patient days, and occupancy of Lourdes Counseling Center under new ownership. Historical and projected figures are shown below, with the first three quarters of 2016 data annualized, and partial year 2017 annualized. [sources: Application, pp16-18 and October 30, 2017, screening response, Attachment 1]

Table 10
Historical and Projected
Lourdes Counseling Center Admissions, Patient Days, and Occupancy Percentage

	LCC Historical and (2018) Annualized				LCC Projected		
	CY2015	CY2016	CY2017	CY2018	CY2019	CY2020	CY2021
Total Licensed Beds	32	32	32	32	32	32	32
Total Admissions	571	542	548	554	560	567	574
Total Patient Days	5,576	5,912	5,980	6,048	6,117	6,185	6,256
Average Length of Stay	9.77	10.91	10.91	10.92	10.92	10.91	10.90
Occupancy Percentage	47.7%	50.6%	51.2%	51.8%	52.4%	53.0%	53.6%

When compared to historical data (years 2015-2017) provided within the application, the department notes that admissions have increased at Lourdes Counseling Center. This is consistent with year-end financial data. For projection years, RCCH/Capella took what they described as a “conservative approach,” and used a growth rate of 1.0% for year 2019 and each year thereafter. The assumed average length of stay is 10.92 days consistent with historical year 2017. These assumptions are reasonable.

RCCH/Capella based its revenue and expenses for Lourdes Counseling Center on the assumptions referenced above. Projected years 2019-2021 show a net profit in each of the three years, however, the profits are declining. RCCH/Capella provided its strategies to prevent the decline in future years.

As previously stated, RCCH/Capella provided draft agreements for this project. Two agreements have costs associated with them. Since all agreements were identified in detail in the project description section of this evaluation, they will not be discussed in detail here. The two agreements with costs associated are:

- Asset Purchase Agreement [source: August 7, 2017, screening response, Attachment 17]
- Amended and Restated Master Lease Agreement [source: August 7, 2017, screening response, Attachment 4B]. The costs are identified in the lease are substantiated in the pro forma financial statements.

To assist the program in its evaluation of this sub-criterion, staff from the Department of Health’s HFCC Program also provided a financial analysis. To determine whether RCCH/Capella would meet its immediate and long-range capital costs, the HFCC Program reviewed RCCH/Capella’s historical and projected financial statements. The information is shown below. [source: HFCC Program analysis, p2]

“I have also reviewed various ratios’ that can give a snapshot of the financial health of RCCH and MPT as of 2017. Also detailed are the three years following completion of the project. The data was collected from the application and screening responses, information obtained from MPT’s website, and financial information submitted to the Department by Lourdes as a part of its required annual financial and utilization reports. The resulting table is on the following page. The A means it is better if the number is above the State number and B means it is better if the number is below the state number.

RCCH/Capella						2018	2019	2020
Ratio Category	Trend	State-17	MPT-17	RCCH-17	Lourdes 17	CONyr1	CONyr2	CONyr3
Long Term Debt to Equity	B	0.446	1.277	6.474	(1.436)	1.611	0.904	0.544
Current Assets/Current Liabilities	A	3.396	2.065	1.462	0.446	1.500	1.496	1.497
Assets Funded by Liabilities	B	3.730	0.566	0.820	2.020	0.741	0.639	0.548
Operating Expense/Operating Revenue	B	0.978	0.598	1.021	0.964	0.971	0.973	0.975
Debt Service Coverage	A	4.906	3.353	1.231				
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 Expense/Operating Revenue							
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp							

After reviewing the ratios above, staff from the department’s HFCC Program provided the following information. [source: HFCC Program analysis, p3]

“All of the current-year ratios for RCCH are outside the preferred ranges. The projected ratios for the hospital after purchase are also outside the preferred ranges, with the exception of operating expense to operating revenue and assets funded by liabilities. Operating expense to operating revenue is within the preferred range during the projection period. Debt service coverage is not calculated because no interest expense or current maturities of long-term debt will be assigned to this new LLC. The remaining two ratios are outside the preferred range, but demonstrate improvement in the projection period. The ratios that are not particularly strong may indicate that the hospital might not have capacity to incur much new debt in the future, the applicant does not project acquiring additional debt for renovation or operation of the facility. The applicant states that it intends to invest an additional \$18 million between Lourdes Counseling Center and Lourdes Counseling Center during the first five years of ownership. The source of that additional \$18 million is not identified, but we note that RCCH currently has over \$383 million in current assets. Unless significant amounts of borrowing are necessary in the near future, it appears that RCCH should have the ability to complete the purchase of Lourdes, make its planned capital investments, and remain financially viable.

Review of the financial and utilization information show that the immediate and long-range capital expenditure as well as the operating costs can be met. This criterion is satisfied.”

Based on the information provided in the application and the financial analysis provided by the department’s HFCC Program, the department concludes that Lourdes Counseling Center, under new ownership, will be financially viable, but expects to operate with an undesirably high debt to equity ratio that could prevent RCCH/Capella from incurring additional debt in the short term.

The department concludes that the immediate and long-range operating costs of the project can be met. **This sub-criterion is met.**

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

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

RCCH/Capella

The capital expenditure associated with the purchase of Lourdes Medical Center and Lourdes Counseling Center and a variety of healthcare facilities associated with Lourdes Health Network is \$21,000,000. Of that amount, \$3,435,600 is associated with the purchase of Lourdes Counseling Center. [source: Application, p10]

There are no traditional “start-up costs,” because both Lourdes Medical Center and Lourdes Counseling Center are fully operational. RCCH/Capella also identified approximately \$6,297,000 would be necessary for net working capital following the transaction. Of that amount, \$5,397,000 would be for Lourdes Medical Center and \$900,000 would be used for Lourdes Counseling Center. The funding source for the working capital is identified as “accounts receivable and inventory.” RCCH/Capella provided the following explanation of the funding for the working capital. [source: August 7, 2017, screening response, p18]

“Since Capella is acquiring accounts receivable that exist as of the close date, and the collections from those accounts receivable, there will be no interruption in cash flow to the facilities. The same is true for inventory, since we are acquiring inventory that exists at the facility as of the close date, there is no need to make a large expenditure to restock inventory. Capella does not anticipate needing to seek any other third-party financing to fund working capital.”

RCCH/Capella provided the following statements related to the project’s impact on costs and charges for healthcare services. [source: Application, p27]

“[The acquisition of Lourdes Counseling Center] provides a vision for the future, which is likely to assist with staff recruitment and retention. Capella has made a commitment to provide the same level of access to indigent patients as that provided by Lourdes Counseling.”

Public Comment

None

Rebuttal Comment

None

Department Evaluation

In the financial review, the HFCC Program confirmed that the rates proposed by RCCH/Capella for Lourdes Counseling Center are similar to Washington statewide averages, shown below. [source: HFCC Program analysis, p4]

**Table 11
 Lourdes Counseling Center Calculated Rates from HFCC Analysis**

Lourdes Couns Ctr	2018	2019	2020
Rate per Various Items	CONyr1	CONyr2	CONyr3
Admissions	554	560	567
Patient Days	6,048	6,117	6,185
Average Length of Stay	10.92	10.92	10.91
Gross Revenue	41,550,099	42,035,858	42,528,353
Deductions From Revenue	22,176,155	22,437,113	22,701,723
Net Patient Billing	19,373,944	19,598,745	19,826,630
Other Operating Revenue	299,719	303,197	306,723
Net Operating Revenue	19,673,663	19,901,942	20,133,353
Operating Expense	19,095,788	19,357,667	19,622,638
Operating Profit	577,875	544,275	510,715
Net Profit	577,875	544,275	510,715
Operating Revenue per Admission	\$ 35,512	\$ 35,539	\$ 35,509
Operating Expense per Admission	\$ 34,469	\$ 34,567	\$ 34,608
Net Profit per Admission	\$ 1,043	\$ 972	\$ 901
Operating Revenue per Patient Day	\$ 3,253	\$ 3,254	\$ 3,255
Operating Expense per Patient Day	\$ 3,157	\$ 3,165	\$ 3,173
Net Profit per Patient Day	\$ 96	\$ 89	\$ 83

RCCH/Capella stated under WAC 246-310-220(1) that the payer mix is not expected to change significantly as a result of this project. Further, RCCH/Capella stated that all assumptions related to costs and charges are based on actual performance at Lourdes Counseling Center.

Based on the above information, the department concludes that RCCH/Capella’s purchase of Lourdes Counseling Center would probably not have an unreasonable impact on the costs and charges for healthcare services in Benton County. **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.

RCCH/Capella

The capital expenditure associated with the purchase of Lourdes Medical Center and Lourdes Counseling Center and a variety of healthcare facilities associated with Lourdes Health Network is \$21,000,000. Of that amount, \$3,435,600 is associated with the purchase of Lourdes Counseling Center. [source: Application, p10]

RCCH/Capella provided a breakdown of the costs and funding sources specific to Lourdes Counseling Center. [source: Application, p21]

Table 12
Lourdes Counseling Center
Sources and Amounts of Financing

Source of Financing	Amount
MPT Purchase of Real Property	\$1,583,975
MPT Assignment Fee	\$1,279,025
RCCH Cash Reserves	\$572,600
Total	\$3,435,600

As previously stated, there are no traditional “start-up costs,” because both Lourdes Medical Center and Lourdes Counseling Center are fully operational. RCCH/Capella also identified approximately \$6,297,000 would be necessary for net working capital following the transaction. Of that amount, \$5,397,000 would be for Lourdes Medical Center and \$900,000 would be used for Lourdes Counseling Center. The funding source for the working capital is identified as “accounts receivable and inventory.” [source: August 7, 2017, screening response, p18]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Within its analysis, HFCC Program provided a summary of the purchase and lease configuration between RCCH/Capella and MPT. The summary is restated below. [source: HFCC Program, analysis, p2]

“RCCH’s CN capital expenditure for the purchase of the existing 32-bed Lourdes Counseling Center is projected to be \$3,435,600. At the closing of the purchase, RCCH will assign its rights to purchase the real property and certain equipment to MPT. MPT will provide a total of \$2,863,000 from its cash reserves, with the remaining \$572,600 to come from the cash reserves of RCCH. RCCH will lease the property from MPT as part of a master lease covering several other facilities operated by RCCH. (Application, pp 8-10). The cash outlays for the purchase of this facility represent less than one percent of total assets for each party.

Below are summaries of the most recent available balance sheets for RCCH and MPT.”

RCCH 2017			
2017 Audited Financials			
Assets		Liabilities	
Current	383,600,000	Current	262,400,000
Board Designated	20,000,000	Long Term Debt	1,424,200,000
Property/Plant/Equipment	951,500,000	Other	150,900,000
Other	702,400,000	Equity	220,000,000
Total	2,057,500,000	Total	2,057,500,000
MPT 2017			
2017 Audited Financials			
Assets		Liabilities	
Current	436,034,000	Current	211,188,000
Board Designated	-	Long Term Debt	4,898,667,000
Property/Plant/Equipment	7,965,551,000	Other	75,228,000
Other	618,703,000	Equity	3,835,205,000
Total	9,020,288,000	Total	9,020,288,000

After reviewing the balance sheets identified above, the HFCC Program provided the following statements. [source: HFCC Program analysis, p2]

“Both involved entities’ balance sheets indicate adequate reserves to fund their portions of this purchase.

As noted earlier in this review, the CN project capital expenditure for this purchase is \$6,435,600, divided between RCCH and MPT. Each party will use existing reserves for its portion. This investment represents less than one percent of total assets for each party. While neither RCCH nor MPT has a debt service coverage ratio at or above the state average, both parties’ ratios indicate sufficient cash flow to cover their debt. Use of reserves for the purchase of this facility will not increase debt for either party, nor will it significantly reduce either party’s available assets.

The financing methods used are appropriate business practice. This criterion is satisfied.

If this project is approved, the department would attach a condition requiring RCCH/Capella to fund the project consistent with the funding description in the application. With this condition, the department concludes **this sub-criterion is met.**

C. STRUCTURE AND PROCESS (QUALITY) OF CARE (WAC 246-310-230)

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Capella Health Holdings, LLC has met the applicable structure and process (quality) 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.

RCCH/Capella

RCCH/Capella provided the following statements related to this sub-criterion. [source: Application, p23]

“No change in hospital staffing is proposed as a result of this project. In fact, Capella has made a commitment to hire all employees in good standing at the time of acquisition. No change in physician privileges is proposed as a result of this project.”

RCCH/Capella also provided a staff table and explanation of job titles currently used at Lourdes Counseling Center. The table is shown below. [source: August 7, 2017, screening response, p20 and October 30, 2017, screening response, p6]

**Table 13
Lourdes Counseling Center – Current Staffing**

Type of Staff	Job Title Includes	Year 2017 and Projected
Management	Senior management including but not limited to: CEO, CFO, COO, DNS, Department managers, Program Directors, etc.	18.70
Nursing	Patient care: registered nurses, licensed nurses and nursing assistants	27.48
Tech/Professional	Allied health professionals (medical assistants, therapists, mental health professionals; social worker; etc.	95.44
Support Staff	Dietary, maintenance, central supply, supply distribution and other support staff	11.00
Other-Clerical/Administrative	Clerical and administrative support staff including business office functions	63.50
Psychiatrist	Physicians (MD, DO) and ARNP	6.50
Pharmacist	Pharmacists and licensed techs	4.40
TOTAL ALL FTES		227.02

Public Comment

None

Rebuttal Comment

None

Department Evaluation

This section of the evaluation focuses on staffing of the psychiatric hospital. RCCH/Capella identified the staff by type and states it anticipates no change in staff of Lourdes Counseling Center under the new ownership. As the new owner, RCCH/Capella intends to maintain current staff and physician privileges.

Information within the application demonstrates that the psychiatric hospital is a well-established provider of healthcare services in Washington State. The department is not aware of any staff shortage issues at Lourdes Counseling Center.

Based on the above information provided by the applicant, the department concludes that RCCH/Capella has the ability and expertise to recruit a sufficient supply of qualified staff for this project if necessary. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(2) 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 relationships, ancillary and support services should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials contained in the application.

RCCH/Capella

In response to this sub-criterion, RCCH/Capella provided the following statements. [Application, pp23-24]

*“**Lourdes Counseling is a behavioral health provider that primarily serves Benton and Franklin Counties. A little more than a quarter of Lourdes Counseling patients come from outside of Benton and Franklin Counties. Lourdes Counseling’s out of area relationships are largely limited to referrals of patients to other providers for services (or, admission of patients from other providers for services) and to community mental health centers and the Regional Support Network.***

In addition, RCCH has an affiliation agreement with UW Medicine. Under the affiliation, UW Medicine is the choice for complex tertiary and quaternary care for RCCH’s Capital Medical Center in Olympia’s patients. The affiliation supports the organizations in working together to continue improving the quality, safety and cost-effectiveness of care. Specific to psychiatry, UW’s Advancing Integrating Mental Health Solutions (AIMS) Center is nationally at the forefront of improving access to timely mental health support. Capella anticipates working closely with UW to deploy its solutions in Benton/Franklin.

While no new working relationships are contemplated as a direct result of this project, Lourdes Counseling will, following the change of ownership, begin to evaluate ways to strengthen and grow existing relationships to assure community needs continue to be addressed.”

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Lourdes Counseling Center is currently operational and has established ancillary and support agreements. RCCH/Capella provided copies of leases and agreements for the purchase of both Lourdes

Medical Center and Lourdes Counseling Center. Since the documents were identified in detail in the project description section of this evaluation, they will not be discussed in detail here.

The agreement relevant to this sub-criterion is the Asset Purchase Agreement, which states, among other information, that ancillary service agreements will continue following the transaction.

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that RCCH/Capella will maintain the necessary relationships with ancillary and support services at Lourdes Counseling Center following the transaction. No information was submitted to suggest ancillary and support agreements would not continue. Therefore, the department concludes these relationships will continue to be sufficient following the change of ownership. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare and Medicaid certified. 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.

RCCH/Capella

RCCH/Capella provided the following table to demonstrate compliance with this sub-criterion. [source: August 7, 2017, screening response, pp21-22]

	Capella Healthcare Lourdes Hospital, LLC	RCCH HealthCare Partners	MPT of Pasco, RCCH, LLC, (MPT Pasco)
Decertification from Medicare	No	No	N/A
Decertification from Medicaid	No	No	N/A
Convictions related to the competency to practice medicine or own or operate a hospital	No	No	N/A
Denial of a license	No	No	N/A
Revocation of a license	No	No	N/A
Voluntary withdrawal from Medicare or Medicaid while decertification processes were pending	No	No	N/A
Ongoing or completed investigations concerning the operation of any or all of its health care facilities	*See response below table	No	N/A

“Affiliates of Capella and its parent RCCH are routinely subject audits, investigations and inquiries by state and federal regulatory agencies and accrediting bodies in the ordinary course of operating hospitals and health care systems. Capella, RCCH and their affiliates, including the entities listed are not currently subject to any such audit, inquiry or investigation in connection with any of its hospitals or health systems that are material or outside the ordinary course of business.”

Public Comment

None

Rebuttal Comment

None

Department Evaluation

As part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.¹⁰ To accomplish this task, the department reviewed the quality of care compliance history for all healthcare facilities owned, operated, or managed by RCCH/Capella in Washington State. The department also reviewed the compliance history of a random selection of facilities owned by, operated by, or affiliated with RCCH and RCCH/Capella outside of Washington State.

RCCH is based out of Brentwood, TN, and operates several healthcare facilities and services nationwide through a number of subsidiaries. Its Washington facilities are operated under the RCCH/Capella subsidiary. [source: Application, pp1-2 and Exhibits 2 and 3]

The current sole RCCH/Capella facility in Washington State is Capital Medical Center located in Olympia, within Thurston County. Using the department’s internal database, the department reviewed survey data for Capital Medical Center. Since 2015, CMC has had one survey which did not result in significant non-compliance issues. [source: Department of Health Office of Investigation and Inspection]

RCCH and its affiliates operate all across the United States. The department randomly selected RCCH and RCCH-affiliated facilities in Montana, Arizona, Alabama, and Texas to review for their compliance with state and federal standards, shown below.

**Table 14
RCCH and Affiliated Facilities Outside of Washington**

Facility Name	State	Joint Commission?	State Enforcement Action since 2015?
Community Medical Center	MT	yes	no
Canyon Vista Medical Center	AZ	yes	yes
Shoals Hospital	AL	yes	no
Eliza Coffee Memorial Hospital	AL	yes	no
Paris Regional Medical Center	TX	yes	no ¹¹

¹⁰ WAC 246-310-230(5)

¹¹ The Texas Enforcement Action lookup only retains enforcement action for the last year. No enforcement actions noted in the last year.

As shown above, out-of-state RCCH facilities have demonstrated compliance with applicable state and federal regulations. The one example of enforcement action in Arizona was resolved and the facility paid a \$1,750 civil penalty. No evidence on any of the state licensing websites indicated that any of the above facilities have ever been closed or decertified from participation in Medicare or Medicaid as a result of compliance issues.

Based on the above information, the department concludes that RCCH/Capella demonstrated reasonable assurance that Lourdes Counseling Center would continue to operate in compliance with state and federal requirements if this project is approved. **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 direct 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.

RCCH/Capella

"LHN has operated Lourdes Counseling since 1988. It provides behavioral health care services to Benton and Franklin County residents. This history has resulted in well-established working relationships with the other health care providers and community organizations. Lourdes Counseling has established relationships with acute and primary care providers, other behavioral health providers, schools, skilled nursing, police, jails and the courts. Each of these relationships will be maintained under Capella.

[source: Application, p23]

Public Comment

Nearly all of the letters of support received by the department stated that Lourdes Counseling Center is a valuable resource in the Benton and Franklin planning area, and surrounding communities. The letter below is an example of the themes provided in the letters of support for continued operation of Lourdes Counseling Center.

Earnest and Lillian Parra, community members

"Behavioral Health needs are high in our community. Lourdes is the largest, most comprehensive provider of behavioral health services in the region. Ensuring a healthy financial future for Lourdes Health will help strengthen our behavioral health services throughout the Tri-Cities region.

Lourdes is known for its compassionate care that helps solve problems faced by the community. The drug, alcohol, recovery and mental health counseling programs provided by Lourdes Counseling are critical to our community health. From our first responders to our local schools, these programs are important resources that must be continued. One in five adults and children are impacted by mental health every year. They need the excellent care of Lourdes Counseling to continue to provide these specialized services.

The doctors, nurses and other staff will remain the same but have access to additional resources to support ongoing operations. With Capella/RCCH's capital and operational expertise, Lourdes will be able to expand services, improve technology and attract new healthcare professionals to the community.

There is no downside to this transition for Lourdes, it only provides additional hope for patients addressing mental health issues.”

Rebuttal Comment

None

Department Evaluation

Many of the letter provided by local community members and healthcare entities provide a valuable perspective related to this sub-criterion. The excerpt above demonstrates the community’s intense interest in the continuing operation of Lourdes Counseling Center.

Information within the application demonstrates that Lourdes Counseling Center under RCCH/Capella ownership will continue to operate with the necessary relationships that will foster continuity in the provision of health care services in Benton and Franklin counties, and surrounding areas.

Based on the information provided in the application, the department concludes there is reasonable assurance that this project will continue to promote continuity in the provision of health care services in the community under RCCH/Capella’s ownership. **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.*

Department Evaluation

This sub-criterion is evaluated in sub-section (3) above, and is **met**.

D. COST CONTAINMENT (WAC 246-310-240)

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Capella Health Holdings, LLC has met the applicable cost containment criteria in WAC 246-310-240.

- (1) *Superior alternatives, in terms of cost, efficiency, or effectiveness, are 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.

RCCH/Capella

Step One:

The applicant met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two:

Within the application, RCCH/Capella identified only one option before submission of this project. The department, in its screening of the application, identified four other options for the applicant to discuss under this sub-criterion.

The applicant’s Table 16 below is the discussion of the option of no action (or do nothing) compared with submission of this project. [source: Application, p26]

Applicant’s Table 16-Advantages and Disadvantages

	<i>Acquisition of Lourdes Counseling</i>	<i>No Action</i>
<i>Advantages/Disadvantages</i>	<i>Provides for the continued operation of a high quality and needed resource.</i>	<i>Lourdes Counseling would not receive the needed investment and resources offered by a vested owner.</i>
<i>Impact on operating costs, staffing, and costs to patients</i>	<i>Provides a vision for the future, which is likely to assist with staff recruitment and retention. Capella has made a commitment to provide the same level of access to indigent patients as that provided by Lourdes Counseling.</i>	<i>The Benton/Franklin market is a growing market. Without the investments Capella is proposing, Lourdes Counseling would, over time, continue to experience higher costs associated with aging facilities. Staff turnover could also increase resulting in higher operating costs</i>
<i>Physical Hospital space</i>	<i>Capella has made a commitment to invest capital.</i>	<i>No commitment and continued aging of physical hospital space.</i>
<i>Legal</i>	<i>Requires prior CN review and approval.</i>	<i>None</i>

The applicant’s Table 7 below is the discussion of the four options identified by the department in its screening of the application. [source: August 7, 2017, screening response, p24]

*Applicant’s Table 7
Other Options Considered for Acquisition of Lourdes Counseling and Lourdes Medical Centers*

Option	Discussion
<i>Purchasing the hospital outright without a lease through MPT</i>	<i>Leasing the hospital through MPT allows Capella to use less cash reserves for this transaction. While Capella could have easily chosen to purchase outright, leasing from MPT means that Capella has additional reserves available for other uses.</i>
<i>A management agreement with LHN or another entity</i>	<i>Capella owns and operates hospitals and is not a hospital management company. The request for proposal from LHN was to acquire the facilities, not for management.</i>
<i>Different financial arrangements than described in the application</i>	<i>The transaction negotiated is a fair and reasonable transaction to all parties and provides significant ongoing commitments to LHN that are deemed important and valuable. From the beginning, this transaction was contemplated to be an acquisition of assets.</i>
<i>Co-ownership with another entity</i>	<i>The simplest and least complicated transaction is a single party transaction. We chose the simplest and least complicated transaction to expedite the process and timeframe to close.</i>

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Information provided in the application and within rebuttal comments demonstrate that RCCH/Capella intends to at least maintain the same level of care Lourdes Counseling Center. The alternatives analysis from completed by the applicant support that a “do nothing” option was appropriately rejected by the current owner-Ascension Health.

The options identified by the department and reviewed by RCCH/Capella demonstrated that there were no other alternatives available to RCCH/Capella that would be considered superior in terms of cost, efficiency, or effectiveness that is available or practicable. Furthermore, the department is not aware of any competing bids for the purchase of Lourdes Health Network, or Lourdes Counseling Center alone, from Ascension Health.

The department’s HFCC program provided the following analysis under this sub-criterion. [source: HFCC Program analysis, p4]

“The applicant considered only one alternative to the purchase of Lourdes Counseling Center: not purchasing it. RCCH concluded that the purchase of the two Lourdes facilities would provide the Benton/Franklin area with additional investment in healthcare services that would

likely not occur otherwise. RCCH also contends that its purchase of the hospital will result in improved workforce retention and recruitment.

Staff is satisfied that RCCH's assertions are reasonable and this purchase is an appropriate option. In addition, RCCH has also committed to maintaining charity care programs consistent with those provided by the current operators. This criterion is satisfied.

Taking all of this into account, the department concurs that the requested projects are reasonable and the best available options for the planning area and surrounding communities. **This sub-criterion is met.**

Step Three:

Though RCCH/Capella's applications to purchase Lourdes Medical Center and Lourdes Counseling Center were submitted at the same time and reviewed under the same timeline, the two applications are not competitive. Rather, they are a 'packaged deal' for RCCH/Capella's purchase of Lourdes Health Network. In other words, the purchase of both hospitals, would provide a range of benefits, services, and concessions, all of which need to be accepted or rejected in one transaction. As a result, this step does not apply.

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

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

Department Evaluation

There is no construction associated with this project – this sub-criterion is not applicable.

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

Department Evaluation

There is no construction associated with this project – this sub-criterion is not applicable.

(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.

RCCH/Capella

RCCH/Capella provided the following comments related to staff efficiency and productivity. [source: Application, p27]

"In the short term, no changes in staff efficiency or productivity are anticipated and Lourdes Counseling will continue 'business as usual'. In the long term, however, Capella Healthcare, Inc. and Lourdes Hospital, LLC will certainly evaluate opportunities to achieve additional economies of scale that could result as it becomes part of Capella and a regional health system. Overtime, system efficiencies are expected to increase as Lourdes Counseling is fully integrated into the larger Capella system."

Public Comment

None

Rebuttal Comment

None

Department Evaluation

As a part of its analysis, HFCC provided the following statement related to this sub-criterion. [source: HFCC Program analysis, p4]

“As noted in item 1 of Cost Containment, staff is satisfied that RCCH’s acquisition of Lourdes Counseling Center should not have an unreasonable impact of the costs and charges to the public of providing services by other persons.

Staff is satisfied the project is appropriate and needed.”

As stated under the analysis of WAC 246-310-220(2), this department does not expect either of these projects would have an unreasonable impact on costs and charges for healthcare services in the planning area. **This sub-criterion under WAC 246-310-240(3) is met.**

APPENDIX A

