



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

May 3, 2019

CERTIFIED MAIL # 7018 2290 0001 8591 8322

John Wall, General Counsel  
Springstone, LLC  
101 South 5<sup>th</sup> Street, #3850  
Louisville, Kentucky 40202

RE: Certificate of Need Application #19-10

Dear Mr. Wall:

We have completed review of the Certificate of Need application submitted by Springstone, LLC. The application proposes to amend Certificate of Need #1590 by removing a condition attached to the approval. 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 Springstone, LLC agrees to the following in its entirety.

**Project Description**

This Certificate of Need approves the construction of a 72-bed psychiatric hospital that would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, adult and geropsychiatric services, and substance abuse treatment for patients 18 and older. The number of approved beds is below.

	<b>Number of Beds</b>
Psychiatric beds	72
<b>Total Licensed Beds</b>	<b>72</b>

**Conditions:**

1. Approval of the project description as stated above. Springstone, LLC 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. [**condition met on 10/02/15 and is ongoing**]
2. Prior to providing services at the hospital, Springstone, LLC will submit a copy of the adopted and approved Admission Policy for review and approval. The adopted policy must be consistent with the draft provided in the application. [**condition met on 07/31/18**]

3. Prior to providing services at the hospital, Springstone, LLC will submit a copy of the adopted Charity Care Policy approved by the Department of Health's Hospital and Patient Data System's office. **[condition met October 2018]**
4. The new 72-bed psychiatric hospital will provide charity care in compliance with its executed charity care policies reviewed and approved by the Department of Health, or any subsequent polices reviewed and approved by the Department of Health. The new 72-bed psychiatric hospital will use reasonable efforts to provide charity care equal to the amount identified in the application, but no less than the average amount of charity care provided by hospitals in the Southwest Region. Currently, this amount is 3.41% of gross revenue and 8.47% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies. **[condition met on 10/02/15 and is ongoing]**
5. Annual budgets, as required by WAC 246-454-030, submitted by the new 72-bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Southwest Region. **[condition met on 10/02/15 and is ongoing]**
6. Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval an executed transfer agreement between Rainier Springs, LLC and a local hospital. The executed agreement must be consistent with the draft agreement provided in the application. **[condition met on 07/31/18]**
7. Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director. **[condition met on 07/31/18]**
8. Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval a final listing of ancillary and support vendors for the 72-bed psychiatric hospital. **[condition met on 07/31/18]**
9. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act patients, Springstone, LLC will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at the psychiatric hospital at the time of referral or if such referral is clinically inappropriate. **[condition met on 10/02/15 and is ongoing]**

**Approved Costs:**

The approved capital expenditure for this project is \$26,843,706.

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.

John Wall, Springstone, LLC  
Certificate of Need Application #19-10  
May 3, 2019  
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Send your written response to the Certificate of Need Program, at one of the following addresses.

Mailing Address:

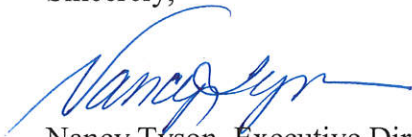
Department of Health  
Certificate of Need Program  
Mail Stop 47852  
Olympia, WA 98504-7852

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 MAY 3, 2019, OF THE CERTIFICATE OF NEED  
APPLICATION SUBMITTED BY SPRINGSTONE, LLC PROPOSING TO AMEND  
CERTIFICATE OF NEED #1590**

**APPLICANT DESCRIPTION**

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

<b>Name</b>	<b>Role</b>
Robert Maha, MD	President and Chief Executive Officer
Greg Miller	Executive Vice President and Chief Financial Officer
Jeremy Musher, MD	Chief Medical Officer and Chief Clinic Officer
John Wall	General Counsel
Deena Ombres	Chief Compliance Officer
Laura Hamrick	Chief Human Resources Officer
Ken Hoffman	Senior Vice President Development and Construction
Matthew Flynn	Senior Vice President Operations
Brent Nash	Vice President Strategic Planning and Development
Sheri Downer	Vice President Marketing and Communications

As of the writing of this amendment evaluation, Springstone owns, operates, or manages a total of 17 psychiatric hospitals in the following 9 states: Arizona (1), Colorado (1), Indiana (2); Kansas (1), North Carolina (1), Ohio (4), Oklahoma (1), Texas (5), and Washington (1). The 17 facilities are listed below. [source: Application, Exhibit 1]

<b>Facility Name</b>	<b>City</b>	<b>State</b>
Copper Springs	Phoenix	Arizona
Denver Springs Hospital	Denver	Colorado
Brentwood Springs	Evansville	Indiana
Sycamore Springs	Lafayette	Indiana
Cottonwood Springs	Olathe	Kansas
Triangle Springs	Raleigh	North Carolina
Becket Springs	West Chester	Ohio
Dublin Springs	Dublin	Ohio
Highland Springs	Highland Hills	Ohio
Columbus Springs Dublin	Dublin	Ohio
Columbus Springs East	Columbus	Ohio
Oakwood Springs Hospital	Oklahoma City	Oklahoma
Carrollton Springs	Carrollton	Texas
Mesa Springs	Fort Worth	Texas

<b>Facility Name</b>	<b>City</b>	<b>State</b>
Westpark Springs	Richmond	Texas
Woodland Springs	Conroe	Texas
Rock Springs	Georgetown	Texas
<b>Rainier Springs</b>	<b>Vancouver</b>	<b>Washington</b>

This application focuses on Rainier Springs shown in bold in the table above.

**BACKGROUND INFORMATION AND INITIAL APPROVAL**

On September 23, 2015, the department approved Springstone’s Certificate of Need application to establish a 72-bed psychiatric hospital in Vancouver, within Clark County by issuing an “Intent to Issue a Certificate of Need.” On January 10, 2017, Springstone completed all of its land development requirements with the Clark County Community Development and CN #1590 was issued to Springstone.

The psychiatric hospital was built consistent with CN #1590 and is located at 2805 Northeast 129<sup>th</sup> Street in Vancouver [98686]. The psychiatric hospital was licensed by the Department of Health on September 28, 2018.

**AMENDMENT PROJECT DESCRIPTION**

CN #1590 was issued with ten conditions; of the ten conditions, nine have been met. Condition #6 has not been met and is restated below.

*Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval an executed lease agreement between Propstone, LLC and Rainier Springs, LLC. The executed agreement must be consistent with the draft agreement provided in the application.*

This amendment application proposes to amend condition #6 for the following reasons. [source: Application, p1]

*“When the CN application was submitted nearly four years ago, Springstone made the decision to have a sister company (Propstone, LLC) construct and own the property and building and lease it to Rainier Springs. Springstone subsequently decided to have Rainier Springs directly own the property. As a result, there will not be a lease between Rainier Springs and Propstone, LLC.*

*In early summer, Springstone reached out to the Certificate of Need Program (the Program) to advise them of the change, and on July 2, 2018, the Program confirmed that Springstone was required to submit an amendment application to modify or release the condition related to the lease agreement. The Program further advised that the amendment application must be submitted prior to the actual opening of Rainier Springs, but that this amendment application can proceed post-opening.”*

**APPLICABILITY OF CERTIFICATE OF NEED LAW**

This project is subject to review under Washington Administrative Code 246-310-570(1)(d) because Springstone requests to release condition #6 attached to the project.

## **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 the 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.”*

The review for an amendment project is limited to only those criteria that would be affected by the amendment, provided that the amendment does not significantly alter the project. Rainier Springs will directly own the property rather than leasing it from Propstone, LLC a subsidiary of Springstone. This amendment review will focus on the financial feasibility criteria, however, there is no increase in the capital expenditure for this project.

## **TYPE OF REVIEW**

As allowed under WAC 246-310-570, the department accepted this project as an amendment to an existing Certificate of Need. This application was reviewed under an expedited review timeline as outlined in WAC 246-310-150.

**APPLICATION CHRONOLOGY**

Action	Springstone, LLC
Letter of Intent Submitted	July 10, 2018
Application Submitted	August 27, 2018
Department’s pre-review activities <ul style="list-style-type: none"> <li>• DOH 1st Screening Letter</li> <li>• Applicant’s Responses Received</li> <li>• DOH 2nd Screening Letter</li> <li>• Applicant’s Responses Received</li> </ul>	September 19, 2018 October 26, 2018 N/A N/A
Beginning of Review	November 8, 2018
End of Public Comment	November 28, 2018
Rebuttal Comments Submitted <sup>1</sup>	December 12, 2018
Department's Anticipated Decision Date	January 2, 2019
Department’s Anticipated Decision Date with a 120-day Extension <sup>2</sup>	May 2, 2019
Department Actual Decision Date	May 3, 2019

**AFFECTED PERSONS**

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

“...an “interested person” who:

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

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

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

During the review of this project, two entities sought interested person status, and of those, one sought affected person status. A brief description of each entity is below.

<sup>1</sup> There were no public comments received during the review; therefore, Springstone did not submit any rebuttal comments.

<sup>2</sup> Thirty day extension letters were sent to Springstone, LLC on January 2, 2019, February 5, 2019, March 5, 2019, and April 2, 2019.

### Providence Health & Services Washington

Providence Health & Services Washington submitted a request for interested and affected person status for this application. In Washington State, Providence Health & Services operates a variety of healthcare facilities. Providence Health & Services does not operate any healthcare facilities in Clark County, but does operate St. Peter Hospital in Lacey, within Thurston County. While Providence St. Peter Hospital may provide healthcare services to residents Clark County, this does not meet the interested person criteria outlined in WAC 246-310-010(34) above. Further, Providence Health & Services did not provide public comment on this project. As a result, neither Providence Health & Services nor Providence St. Peter Hospital qualifies as an interested person and cannot qualify as an affected person for this project.

### SEIU 1199NW

Two representatives from SEIU (Services Employees International Union) 1199NW requested interested person status. SEIU 1199NW is a statewide union of nurses and healthcare workers. According to its website, SEIU 1199NW represents more than 30,000 nurses and healthcare workers across Washington State. [source: SEIU 1199NW website] Though SEIU 1199NW may represent employees at United General Medical Center in Sedro Woolley, it is not located within the applicant's health service area. SEIU 1199NW meets the definition of an 'interested person,' but does not qualify as an "affected person." As an interested person, SEIU 1199NW could provide public comments on the application. Since SEIU 1199NW does not meet the definition of an affected person, it could not provide rebuttal comments. SEIU 1199NW did not submit either public comments or rebuttal comments for this project.

In summary, no entities qualify for affected person status for Springstone's amendment project in Clark County.

### **SOURCE INFORMATION REVIEWED**

- Springstone, LLC Certificate of Need application submitted August 27, 2018
- Springstone, LLC first screening responses received October 26, 2018
- Public comments received by the end of public comment on November 28, 2018<sup>3</sup>
- September 23, 2015, Intent to Issue a Certificate of Need for Springstone, LLC
- Certificate of Need #1590 issued on January 10, 2017
- The department's September 23, 2015, evaluation approving the Intent to Issue a Certificate of Need and Certificate of Need #1590
- Quarterly progress reports related to Certificate of Need #590
- Certificate of Need historical files
- Springstone, LLC's website at <https://www.springstone.com>

### **CONCLUSION**

For the reasons stated in this evaluation, the amendment application submitted by Springstone, LLC continues to be consistent with the applicable review criteria of the Certificate of Need Program, provided Springstone, LLC agrees to the following in its entirety.

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<sup>3</sup> There were no public comments submitted during the review of this project. As a result, no rebuttal comments were submitted by the applicant.



**Project Description:**

This Certificate of Need approves the construction of a 72-bed psychiatric hospital that would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, adult and geropsychiatric services, and substance abuse treatment for patients 18 and older. The number of approved beds is below.

	<b>Number of Beds</b>
Psychiatric beds	72
<b>Total Licensed Beds</b>	<b>72</b>

**Conditions:**

1. Approval of the project description as stated above. Springstone, LLC 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. **[condition met on 10/02/15 and is ongoing]**
2. Prior to providing services at the hospital, Springstone, LLC will submit a copy of the adopted and approved Admission Policy for review and approval. The adopted policy must be consistent with the draft provided in the application. **[condition met on 07/31/18]**
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4. The new 72-bed psychiatric hospital will provide charity care in compliance with its executed charity care policies reviewed and approved by the Department of Health, or any subsequent polices reviewed and approved by the Department of Health. The new 72-bed psychiatric hospital will use reasonable efforts to provide charity care equal to the amount identified in the application, but no less than the average amount of charity care provided by hospitals in the Southwest Region. Currently, this amount is 3.41% of gross revenue and 8.47% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies. **[condition met on 10/02/15 and is ongoing]**
5. Annual budgets, as required by WAC 246-454-030, submitted by the new 72-bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Southwest Region. **[condition met on 10/02/15 and is ongoing]**
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7. Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director. **[condition met on 07/31/18]**
8. Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval a final listing of ancillary and support vendors for the 72-bed psychiatric hospital. **[condition met on 07/31/18]**

9. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act patients, Springstone, LLC will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at the psychiatric hospital at the time of referral or if such referral is clinically inappropriate. **[condition met on 10/02/15 and is ongoing]**

**Approved Costs:**

The approved capital expenditure for this project is \$26,843,706.

**CRITERIA DETERMINATIONS**

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Springstone, LLC continues to meet 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.
- (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.
- (3) The applicant has substantiated any of the following special needs and circumstances the proposed project is to serve.
  - (a) The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both, to individuals not residing in the health service areas in which the entities are located or in adjacent health service areas.
  - (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.
  - (c) The special needs and circumstances of osteopathic hospitals and non-allopathic services.
- (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.
  - (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.
- (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.

### **Initial Evaluation Summary**

In its September 23, 2015, initial evaluation supporting the issuance of CN #1590, the department concluded that the sub-criterion under (1) and (2) above was met based on the following factors:

- 1) a review of Springstone's numeric methodology for the psychiatric beds in Clark County;
- 2) Springstone's demonstration of access to psychiatric care issues in Clark County;
- 3) A review of Springstone's draft Admission Policy and draft Charity Care Policy

The September 23, 2015 initial evaluation also concluded that the sub-criterion under (3), (4), and (5) did not apply to the initial project. [source: Initial evaluation, pp15-28]

### **Department Review**

This amendment application does not change the department's conclusion related to the criteria identified above. **The criteria under WAC 246-310-210 remains met.**

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department determines that Springstone, LLC continues to meet the financial feasibility criteria in WAC 246-310-220.

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

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

### **Initial Evaluation Summary**

In its September 23, 2015, initial evaluation supporting the issuance of CN #1590, the department concluded that this sub-criterion was met based on the following factors:

- 1) a review of Springstone's assumptions supporting its projected number of discharges, patient day, and outpatient visits for the new psychiatric hospital;
- 2) a review of Springstone's assumptions supporting its net revenue, total expenses, and net profit by the end of the third year of operation for the new psychiatric hospital;
- 3) the August 24, 2015, financial analysis provided by the Department of Health's Hospital/Finance and Charity Care (HFCC) office;
- 4) a review of Springstone's revenue and expense statements for projected years FY2018 through FY2020; and
- 5) the lease costs included in the pro forma financial statement for Propstone, LLC.

[source: Initial evaluation, pp28-34]

### **Amendment Application**

This application proposes to amend CN #1590 because rather than leasing the hospital from Propstone, LLC, Rainier Springs now owns the property for the hospital. Below is the

explanation for this change in business practice by Springstone, LLC. [source: October 26, 2018, screening response, pp1-2]

*“The rationale for the change is that Springstone, Inc., the parent company of Rainier Springs, LLC, entered into a significant renegotiation of its credit agreement in June 2018. In connection with the new companywide credit facility, it was determined that, for tax and other reasons, it would be more advantageous for all of the company’s hospital real estate, which was previously held by Propstone, LLC (a sister company of Rainier Springs), to be held directly by the companies that operate the hospitals rather than separately by Propstone, LLC.*

*Accordingly, and simultaneous with entering into the new credit facility, the real estate related to each of Springstone’s 17 operating hospitals was transferred from Propstone, LLC to the applicable hospital operating subsidiary pursuant to the attached Purchase and Sale Agreement dated June 29, 2018 (included in Attachment 1). The First Amendment to Purchase and Sale Agreement, also included in Attachment 1, lists a purchase price of \$158,891,729.49. This purchase price relates to all 17 of Springstone’s facilities and the pro rata share for Rainier Springs, LLC was estimated at \$24,000.00. No funds were exchanged related to the transfer of the property*

*Propstone, LLC owned the hospital property until June 29, 2018. Propstone, LLC constructed the hospital as planned in the initial application.*

*Rainier Springs did not lease the property following construction of the hospital. Just prior to the time that Rainier Springs would have entered into the lease, the decision was made to transfer the property to Rainier Springs and no lease was finalized.*

*As noted in the bill of sale, there was no monetary exchange that involved Rainier Springs in connection with the transfer. A copy of the bill of sale transferring the property is included in Attachment 2.*

*There were no costs associated with the transfer of the property to Rainier Springs. The impact of the transfer on the projected hospital operations is shown in the revenue and expense statement; with a decrease in the lease expense (to \$0) and an increase in depreciation. In addition, the balance sheet shows an increase in assets (the real estate) and a corresponding increase in paid in capital.”*

### **Department Review**

Springstone provided a copy of the “Bill of Sale” that explains the transfer of the property. The Bill of Sale was signed and executed June 29, 2018, between Propstone, LLC (seller) and Rainier Springs, LLC (purchaser). The Bill of Sale references the initial Purchase and Sale Agreement also executed on June 29, 2018. [source: October 26, 2018, screening response, Attachment 1 and Attachment 2]

Springstone asserted that its projected number of patients, patient days, and revenue would not change because of the lease changes and maintained those numbers from the initial application. Springstone provided an amended pro forma revenue and expense statement for the psychiatric

hospital. The anticipated gross revenues, deductions from revenues, and net revenues are the exactly the same as provided in the initial application. [source: September 23, 2015, initial evaluation, p32] The expense line item no longer includes a lease expense for the site. The table below show a comparison of the initial statement with the amended statement. [source: Application, Exhibit 3]

**Department's Table 1  
Rainier Springs Psychiatric Hospital  
Revenue and Expense Statement Comparison**

	Initial Application			Amendment Application		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
<b>Net Patient Revenue</b>	\$10,216,225	\$15,159,251	\$20,252,025	\$10,216,225	\$15,159,251	\$20,252,025
<b>Total Expenses</b>	\$12,259,927	\$14,022,686	\$17,591,719	\$10,563,879	\$12,326,638	\$15,895,670
<b>Net Profit /(Loss)</b>	<b>(\$2,043,702)</b>	<b>\$1,136,565</b>	<b>\$2,660,306</b>	<b>(\$347,654)</b>	<b>\$2,832,613</b>	<b>\$4,356,355</b>

The 'Net Patient Revenue' line item is gross revenue minus any deductions for charity care, bad debt, and contractual allowances. The 'Total Expenses' line item includes salaries and wages, all allocated costs, and depreciation. This is the line item that changed based on Rainier Springs owning the property rather an leasing the property.

As shown in the comparison table above, Rainier Springs continues to expect to operate at a net loss in year one, but the loss is significantly lower than projected in the initial application. With the change in this amendment application, Springstone continues to project to operate at a profit in years two and three.

Based on the above information, the department concludes that Springstone's projected revenues and expenses are reasonable and can be substantiated for this amendment application. 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.

**Initial Evaluation Summary**

In its September 23, 2015, initial evaluation supporting the issuance of CN #1590, the department concluded that this sub-criterion was met based on the following factors:

- 1) a review of Springstone's capital expenditure breakdown associated with the 72-bed psychiatric hospital;
- 2) a review of Springstone's anticipated funding sources; and
- 3) a review of Springstone's projected sources and percentages of revenue by payer
- 4) a review of the following documents provided in the application:

- Purchase and Sale Agreement (Attachment 4)
- Zoning for the Site (Attachment 5)
- Site Maps (Attachment 6 and Attachment 1)
- Cost Estimator Letter (Attachment 9)
- Single Line Drawings (Attachment 17 and Attachment 2)
- Clark County Assessor Office Documentation (Attachment 18)
- Draft Lease Agreement Between Propstone, LLC and Rainier Springs, LLC (Attachment 18)

[source: Initial evaluation, pp34-38]

**Amendment Application**

This application proposes to amend CN #1590 by removing condition #6 associated with the approval. Condition #6 focuses on the lease between Propstone, LLC and Rainier Springs, LLC. Since Rainier Springs, LLC will own the property, no lease agreement for the site is required.

There is no change in capital expenditure for this project because the change in the lease agreement does not affect the capital costs. The table below shows the capital costs identified in the initial application and this amendment application. [source: September 23, 2015, evaluation, p37; Application, p18; and October 26, 2018, screening response, p3]

**Department’s Table 2  
Springstone, LLC Capital Expenditure Breakdown**

<b>Item</b>	<b>Cost</b>
Land Purchase	\$3,484,800
Construction Costs (includes fixed equip)	\$16,430,000
Moveable Equipment	\$844,000
Fixed Equipment	\$556,000
Architect/Engineering/Consulting Fees	\$2,100,000
Site Preparation	\$1,110,000
Sales Tax	\$2,328,906
<b>Total Costs</b>	<b>\$26,853,706</b>

**Department’s Review**

As stated in the project description section of this evaluation, the only reason Springstone submitted this amendment application is because of the change in the lease arrangements. The lease arrangements do not affect the capital expenditure or have an impact on costs and charges for health services.

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

### **Initial Evaluation Summary**

In its September 23, 2015, initial evaluation supporting the issuance of CN #1590, the department noted that Springstone's funding was 100% from the investment company Welsh, Carson, Anderson, & Stowe, XI, LP. The department concluded that this sub-criterion was met based on the following factors:

- 1) a review of Welsh, Carson, Anderson, & Stowe's historical and current financial health.  
[source: Initial evaluation, pp38-40]

### **Amendment Application**

By the time this amendment application was submitted and reviewed, the entire hospital has been funded by the investment company and is operational. The project was funded as described in the application. [source: October 26, 2018, screening response, p3]

### **Department's Review**

Based on the above information, the department concludes that Springstone's source of financing continues to be appropriate for this project. **This sub-criterion is met.**

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department determines that Springstone, LLC continues to meet the structure and process of care criteria in WAC 246-310-230(3), (4), and (5).

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

### **Initial Evaluation Summary**

In its September 23, 2015, initial evaluation supporting the issuance of CN #1590, the department concluded that this sub-criterion was met based on the following factors:

- 1) Springstone's demonstration of adequate staffing for the 72-bed psychiatric hospital and its ability to recruit and retain staff;

- 2) Springstone's demonstration of its ability to establish appropriate healthcare ancillary and support relationships in Clark County;
  - 3) a review of Springstone's quality of care history since its establishment in 2010; and
  - 4) Springstone's demonstration of its ability to promote continuity in the provision of the care services within Clark County.
- [source: Initial evaluation, pp40-51]

### **Department's Review**

There were no public comments submitted during the review of this amendment application. This amendment application does not change the department's conclusion related to the sub-criterion identified above. **The criteria under WAC 246-310-230 remains met.**

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department determines that Springstone, LLC continues to meet the cost containment criteria in WAC 246-310-240.

- (1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.
- (2) In the case of a project involving construction:
  - (a) The costs, scope, and methods of construction and energy conservation are reasonable;
  - (b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.
- (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.

### **Initial Evaluation Summary**

In its September 23, 2015, initial evaluation supporting the issuance of CN #1590, the department concluded that this sub-criterion was met based on the following factors:

- 1) Springstone's demonstration of an adequate internal review of other options before submitting the application for the 72-bed psychiatric hospital;
- 2) Springstone's demonstration that its costs for construction are reasonable and would not have an unreasonable impact of costs and charges to the public; and
- 3) Springstone's demonstration that it would include any appropriate improvements in the delivery of health care services.

[source: Initial evaluation, pp52-55]

### **Amendment Application**

In this amendment evaluation review, Springstone provided the following rationale for submission of the application. [Application, p28]

*"Given that CN rules require applicants to submit an amendment application to change or modify a condition, there was no other option available to Springstone other than submitting this amendment. Beyond any doubt, the proposal we put forth in 2014 to establish a psychiatric hospital in Clark County was the best available alternative to meeting the identified need. The Program itself concurred with this determination in its September 2015 evaluation. As depicted in the pro forma financials included within this amendment*



*application, the decision to have Rainier Springs own the property and building directly reduces operating costs.”*

**Department’s Review**

In its September 23, 2017 evaluation, the department concluded that Springstone met the review criteria in the applicable sections of WAC 246-310-210, WAC 246-310-220, and WAC 246-310-230. This amendment application does not change the conclusion. **The criteria under WAC 246-310-240 remains met.**