



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

February 4, 2021

John Solheim, CEO  
RCCH Trios Health, LLC dba Trios Health  
3810 Plaza Way  
Kennewick, WA 99338

RE: CN Application #20-52

Dear Mr. Solheim,

We have completed review of the Certificate of Need application submitted by RCCH Trios Health LLC dba Trios Health. The application proposes consolidation of all acute care beds onto one campus.

For the reasons stated in this evaluation, the application submitted by RCCH Trios Health LLC dba Trios Health is consistent with applicable criteria of the Certificate of Need Program. The approval requires agreement to the project description, conditions, and approved capital expenditure identified below.

**Project Description**

This certificate approves the consolidation of all beds on to the Southridge campus in two phases, outlined below. In the first phase of the project, only 94 beds will be operational.

<b>Current</b>			
<b>Campus</b>	<b>Southridge</b>	<b>Auburn</b>	<b>Total</b>
General Medical Surgical <sup>1</sup>	74	27	101
Intermediate Care Nursery – Level II	0	10	10
<b>Total</b>	<b>74</b>	<b>37</b>	<b>111</b>

<b>Proposed – At Phase 1 Completion</b>			
<b>Campus</b>	<b>Southridge</b>	<b>Auburn</b>	<b>Total</b>
General Medical Surgical	84	0	84
Intermediate Care Nursery – Level II	10	0	10
<b>Total</b>	<b>94</b>	<b>0</b>	<b>94</b>

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<sup>1</sup> General Medical Surgical beds are inclusive of obstetric beds – these beds were captured separately in the breakdown provided by Trios. The Certificate of Need program and facilities licensing do not differentiate between a general obstetric bed and a general medical surgical bed, so they are captured together in the tables above.

<b>Proposed – At Phase 2 Completion</b>			
<b>Campus</b>	<b>Southridge</b>	<b>Auburn</b>	<b>Total</b>
General Medical Surgical	101	0	101
Intermediate Care Nursery – Level II	10	0	10
<b>Total</b>	<b>111</b>	<b>0</b>	<b>111</b>

Conditions:

1. Approval of the project description as stated above. RCCH Trios Health LLC dba Trios Health 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. Trios Health will provide charity care 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. Trios Health will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Central Region. Currently, this amount is 1.31% gross revenue and 3.50% of adjusted revenue. Trios Health will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.
3. RCCH Trios Health LLC dba Trios Health will finance this project through its parent, LifePoint Health, consistent with the description in the application.

Approved Costs:

The approved capital expenditure for this project is \$27,036,801.

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

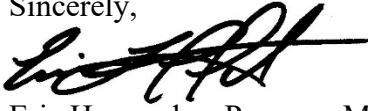
Physical Address:

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

If you have any questions, please contact the Certificate of Need Program at (360) 236-2955.

John Solheim, Trios Health  
Certificate of Need App #20-52  
February 4, 2021  
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Sincerely,

A handwritten signature in black ink, appearing to read "Eric Hernandez", with a stylized flourish at the end.

Eric Hernandez, Program Manager  
Certificate of Need

Enclosure

**EVALUATION DATED FEBRUARY 4, 2021 FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY RCCH TRIOS HEALTH LLC DBA TRIOS HEALTH FOR THE CONSOLIDATION OF BEDS ON THE SOUTHRIDGE CAMPUS**

**APPLICANT DESCRIPTION**

The applicant for this project is RCCH Trios Health LLC dba Trios Health. RCCH Trios Health, LLC is owned 100% by RCCH - UW Medicine Healthcare Holdings, LLC. RCCH - UW Medicine Healthcare Holdings, LLC is owned 96% by RCCH Northwest, LLC and 4% by the University of Washington, through its unincorporated division. RCCH Northwest LLC is 100% owned by RCCH Healthcare Partners, which has since merged with LifePoint Health and now does business as such. For this project, though RCCH Trios Health is the applicant, the parent is LifePoint Health. For reader ease, the applicant will be referred to as “Trios Health” or simply “Trios,” whereas the parent will be referred to as LifePoint Health. [source: Application, pdf4, Exhibit 1]

LifePoint Health, through its subsidiaries, owns or leases and operates general acute care hospitals and other related health care organizations in the United States. This includes four hospitals in Washington State: Trios Health, Lourdes Medical Center, Lourdes Counseling Center, and Capital Medical Center. [source: LifePoint Health website, CN historical files]

**PROJECT DESCRIPTION**

This project focuses on Trios Health, located in Kennewick. The hospital has been in operation since 1952 and provides a variety of healthcare services to the residents of Benton and Franklin Counties and the surrounding communities. As of the writing of this evaluation, Trios Health is licensed for a total of 111 beds. The hospital includes two inpatient campuses, which are identified below. [source: Application, pdf10, CN historical files, ILRS]

<b>Hospital Campus Name</b>	<b>Location</b>	<b># of Licensed Beds</b>
Trios Southridge Hospital	3810 Plaza Way, Kennewick/99338	74
Trios Women's & Children's Hospital	900 South Auburn Street, Kennewick/99336	37

As of the writing of this evaluation, Trios Health provides a variety of general medical surgical services, including intensive care, emergency services, and a Level II intermediate care nursery. The hospital is currently a Medicare and Medicaid certified hospital. [sources: ILRS, and CN historical files]

Trios Health submitted this application proposing to consolidate all hospital beds on the Southridge Campus in two phases, ultimately discontinuing use of the Auburn campus. The project would relocate the services provided at Trios Health but does not propose to increase the total number of acute care beds or change the services offered. The phases are summarized below. [source: Application, pdf10]

<b>Current</b>			
<b>Campus</b>	<b>Southridge</b>	<b>Auburn</b>	<b>Total</b>
General Medical Surgical <sup>1</sup>	74	27	101
Intermediate Care Nursery – Level II	0	10	10
<b>Total</b>	<b>74</b>	<b>37</b>	<b>111</b>

<sup>1</sup> General Medical Surgical beds are inclusive of obstetric beds – these beds were captured separately in the breakdown provided by Trios. The Certificate of Need program and facilities licensing do not differentiate between a general obstetric bed and a general medical surgical bed, so they are captured together in the tables above.

<b>Proposed – At Phase 1 Completion</b>			
<b>Campus</b>	<b>Southridge</b>	<b>Auburn</b>	<b>Total</b>
General Medical Surgical	84	0	84
Intermediate Care Nursery – Level II	10	0	10
<b>Total</b>	<b>94</b>	<b>0</b>	<b>94</b>

<b>Proposed – At Phase 2 Completion</b>			
<b>Campus</b>	<b>Southridge</b>	<b>Auburn</b>	<b>Total</b>
General Medical Surgical	101	0	101
Intermediate Care Nursery – Level II	10	0	10
<b>Total</b>	<b>111</b>	<b>0</b>	<b>111</b>

**APPLICABILITY OF CERTIFICATE OF NEED LAW**

This application is subject to review as the change in bed capacity of a health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

**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.

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.

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

**APPLICATION CHRONOLOGY**

<b>Action</b>	<b>TRIOS</b>
Letter of Intent Submitted	January 29, 2020
Application Submitted	March 9, 2020
Department’s pre-review activities <ul style="list-style-type: none"> <li>• DOH 1<sup>st</sup> Screening Letter</li> <li>• Applicant's Responses Received</li> </ul>	March 30, 2020 September 10, 2020 <sup>2</sup>
Beginning of Review	October 1, 2020
End of Public Comment/No Public Hearing Conducted <ul style="list-style-type: none"> <li>• Public comments accepted through end of public comment</li> </ul>	November 5, 2020

<sup>2</sup> Trios requested and received several extensions to their screening deadline but did not request a second screening of their application.

<b>Action</b>	<b>TRIOS</b>
Rebuttal Comments Due	November 19, 2020
Department's Anticipated Decision Date	January 4, 2020
Department's Actual Decision Date	February 4, 2020

**AFFECTED PERSONS**

“Affected persons” are defined under WAC 246-310-010(2). In order to qualify as an affected person, someone must first qualify as an “interested person,” defined under WAC 246-310-010(34).

During the review of this project, Kadlec Regional Medical Center qualified for affected person status – Kadlec is an acute care hospital providing similar services located in Benton County. Kadlec Regional Medical Center submitted comments and requested to be informed of the department’s decision.

**SOURCE INFORMATION REVIEWED**

- TRIOS’s Certificate of Need application
- TRIOS’s screening responses
- Department of Health’s Hospital and Patient Data Systems’ Comprehensive Hospital Abstract Reporting System (CHARS) data
- OFM Population Projections – Medium Series for 2017
- Claritas Population Projections for 2017
- Hospital/Finance and Charity Care (HFCC) Financial Review
- Department of Health Integrated Licensing and Regulatory System database [ILRS]
- Licensing and/or survey data provided by the Department of Health’s Investigations and Inspections Office
- Licensing data provided by the Medical Quality Assurance Commission, Nursing Quality Assurance Commission, and Health Systems Quality Assurance Office of Customer Service
- Department of Health’s Emergency Medical Services and Trauma designation dated October 2015
- Trios Health’s website at [www.trioshealth.org](http://www.trioshealth.org)
- Joint Commission website at [www.qualitycheck.org](http://www.qualitycheck.org)
- Certificate of Need historical files

**CONCLUSIONS**

For the reasons stated in this evaluation, the application submitted by RCCH Trios Health LLC dba Trios Health is consistent with applicable criteria of the Certificate of Need Program. The approval requires agreement to the project description, conditions, and approved capital expenditure identified below.

**Project Description**

This certificate approves the consolidation of all beds on to the Southridge campus in two phases, outlined below. In the first phase of the project, only 94 beds will be operational.

<b>Current</b>			
<b>Campus</b>	<b>Southridge</b>	<b>Auburn</b>	<b>Total</b>
General Medical Surgical <sup>3</sup>	74	27	101
Intermediate Care Nursery – Level II	0	10	10
<b>Total</b>	<b>74</b>	<b>37</b>	<b>111</b>

<b>Proposed – At Phase 1 Completion</b>			
<b>Campus</b>	<b>Southridge</b>	<b>Auburn</b>	<b>Total</b>
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<b>Campus</b>	<b>Southridge</b>	<b>Auburn</b>	<b>Total</b>
General Medical Surgical	101	0	101
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**Conditions:**

1. Approval of the project description as stated above. RCCH Trios Health LLC dba Trios Health 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 Trios Health LLC dba Trios Health will provide charity care 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. Trios Health will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Central Region. Currently, this amount is 1.31% gross revenue and 3.50% of adjusted revenue. Trios Health will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.
3. RCCH Trios Health LLC dba Trios Health will finance this project through its parent, LifePoint Health, consistent with the description in the application.

**Approved Costs:**

The approved capital expenditure for this project is \$27,036,801.

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<sup>3</sup> General Medical Surgical beds are inclusive of obstetric beds – these beds were captured separately in the breakdown provided by Trios. The Certificate of Need program and facilities licensing do not differentiate between a general obstetric bed and a general medical surgical bed, so they are captured together in the tables above.

## **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 determines that Trios Health **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.*

As stated above in the Evaluation Criteria section of this evaluation, numeric need is deemed met for this project because the hospital has been operational at its current site for many years. The availability and accessibility review under this criterion will focus on the services proposed to be provided by the hospital at the new site.

### **Trios Health**

Trios provided the following rationale and description of the relocation and consolidation of inpatient beds. [source: Application pdf9-10]

*“This application proposes to consolidate all 111 of Trios Health's beds on the Southridge campus. This includes 27 acute (Obstetric) beds and 10 Level II neonatal beds. The project will be undertaken in two phases. At project completion, the Trios Southridge campus will house 100% of Trios Health's inpatient beds.*

*Prior to the opening of the Southridge Campus in 2014, all 111 beds were housed at the Auburn campus, which, today, is nearly 70 years old. The goal of Kennewick Public Hospital District #1, the owner/operator of Trios Health, at that time, was to open Southridge with all 111 beds. However, when it submitted a CN application in 2008 to establish the Southridge campus, the application stated:*

*The Auburn campus simply lacks the space, infrastructure and acreage to provide adequately-sized services and facilities to residents of KPHD. The existing Auburn campus is "landlocked"; meaning expansion of this campus would be costly and disruptive. In addition to acquiring land to expand, massive retrofitting and upgrading of the current infrastructure and buildings would be required.*

*....Given the extreme limitations of the current hospital campus, coupled with unabated population growth and increasing preference for KGH within the Tri-Cities, the Board of Commissioners and leadership team spent nearly six months evaluating all available opportunities. We have concluded that while total replacement would be preferred, the capital does not exist to do so. As such, we are, within this current application, proposing to relocate 74 beds of our existing licensed acute care capacity to our Southridge campus. The new campus, known as KGH Southridge, will provide inpatient medical/surgical and intensive care services, emergency services, and a full complement of ancillary services. Obstetrical and pediatric care will continue to be provided at the existing Auburn campus.*

*While the decision was made to operate two campuses on an interim basis, the ultimate goal of consolidation remained. When RCCH Trios Health, LLC became the owner/operator in 2018, its analysis found that the cost of the duplication associated with operating two inpatient campuses exceeds \$3 million annually. The Auburn campus' age, coupled with the fact that certain required services such as pharmacy, lab and phlebotomy, CS and social services are based at Southridge*



*increases costs and requires ongoing diligence around access and quality. Based on all of the above, RCCH Trios Health, LLC has committed to undertaking and completing the consolidation in a timely manner. The consolidation will allow all patient services to be provided on one campus, reduce duplicative expenses, and improve patient safety.*

*The consolidation project will be undertaken in two phases. Phase 1 is the construction of a 24,000 square foot, two story addition over the existing surgery suite (the new construction is floor 2 and floor 3). In Phase 1, the second floor will be completed and the 3rd floor will be shelled. The newly constructed addition to the 2nd floor, along with the conversion of some existing medical/surgical beds contiguous to the new space will house a new 17 bed OB unit and a 10-bed level 2 nursery. As a result of the new OB unit, seven existing medical surgical beds will be relocated to existing licensable spaces at Southridge and seven will be taken off- line until Phase 2. The Auburn campus will close and no hospital services will remain at that location immediately after the new OB unit and Level II nursery are made operational in January of 2023.*

*In Phase 2, the shelled space located on the 3rd floor will become a new 18 bed medical surgical unit. These new beds will return Trios to 111 beds; specifically, the 12 beds not operational and six beds that will be relocated from other existing units. Phase 2 is scheduled to be operational in January 2025.*

*No new services or beds are proposed.”*

#### Public Comment

The department received a number of letters of support for this project – a representative example is below:

#### Lori Mattson, President and CEO of the Tri-City Regional Chamber of Commerce

*“As the region’s largest business organization, the Tri-City Regional Chamber of Commerce is dedicated to economic and community vitality and every day, we are a CHAMPION for a stronger community. It is within this context that I offer our full support to the Trios Health (Trios) pending certificate of need application which seeks approval to consolidate all its inpatient services at Trios Southridge. The consolidation will save health care dollars and provide for a better health care experience for mothers, families, and newborns.*

*When the new hospital was being designed, the intent was to consolidate all services and beds at Southridge, but finances ultimately precluded this option and hospital leadership at that time made the decision to retain obstetrics at the Auburn campus. Today, the Auburn campus is more than 70 years old. While Trios has done an exceptional job in assuring that families using the Birthing Center have great care and outcomes, the physical age and isolation of the Auburn campus to other services increases costs and requires extraordinary diligence around access and quality. When RCCH Trios Health, LLC became the owner/operator in 2018, an analysis it conducted found that the cost of the duplication associated with operating two inpatient campuses exceeded \$3 million annually.*

*Eliminating the current \$3 million price tag will reduce duplicative expenses, more easily support patient safety, and provide a higher patient experience of care. Our community continues to be one of the fastest growing in the State and the two County region will exceed 300,000 residents in the next few years. We also have one of the fastest growing population of females of childbirth age, meaning that we will need strong birthing options for years to come.*

*The consolidation is the right move for the community, and I urge your timely approval.”*

## Rebuttal

None

## Department Evaluation

Trios has been operating in Kennewick for many years and provides acute care services to the residents of Benton and Franklin Counties and surrounding communities.

Public comments in support of this project expressed the desire for the hospital’s continued operation and the necessity for the hospital to continue operations within the existing healthcare infrastructure.

Based on the information provided in the application, including public comments, the department concludes that Trios provided sufficient documentation to demonstrate consolidated operations on their newer Southridge Campus, foregoing continued operations at the outdated Auburn campus. **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 willingness 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.<sup>4</sup>

## Trios Health

Trios provided copies of the following policies currently in used at the hospital on both campuses.

[source: Application Exhibit 8]

- Patient Nondiscrimination Policy
- Charity Care Policy
- Hospital Admission Process

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<sup>4</sup> WAC 246-453-010(4)

- Reproductive Health Policy
- Access to End-of-Life Care

Trios is currently Medicare and Medicaid certified. Trios provided its current source of revenues by payer and stated that it is not expected to change. [source: Application pdf5, 13]

Current and projected hospital-wide payer mix is shown below. As noted in the project description, the services offered at the Auburn and Southridge campuses are different. Upon project completion, the projected payer mix is not expected to differ from the current combined operations.

***Applicant's Table***  
**Trios Health**  
**Existing and Proposed Sources of Revenue by Payer**

Payer	Current			Proposed Southridge At Completion of Phase 2
	Southridge	Auburn	Total	
Medicare	45.52%	0.06%	45.58%	45.58%
Medicaid:	18.80%	4.05%	22.85%	22.85%
Commercial/HMO	22.31%	2.20%	24.51%	24.51%
Other Govt.	4.60%	0.03%	4.63%	4.63%
Other	2.32%	0.11%	2.43%	2.43%
<b>Total</b>			<b>100.00%</b>	<b>100.00%</b>

*Source: Applicant*

In addition to the policies and payer mix information, Trios provided the following information related to charity care. [source: Screening Response, pdf4-5]

*“As noted in LifePoint’s CN application proposing acquisition, and with the Department’s concurrence, LifePoint initially adopted the KPHD charity care policy. In about mid-2019, LifePoint looked closely at the amount of charity care being provided and found that it was still lower than the regional average. This review resulted in LifePoint proactively modifying the policy to align with that of our sister hospital more closely, Capital Medical Center (Capital). Capital’s policy had been revised in December 2018 and includes a presumptive eligibility process at the outset. Although Capital’s policy had not been in place very long before our review, there was an increase in charity care in terms of both dollars and percentages. By the end of 2019, and in comparison to 2018, Capital provided \$1,638,661 and +15.5% increase in the percentage, in charity care. Trios’ revised policy now includes the same process. Trios’ revised policy was submitted and approved by the Department in October 2019.*

*In late fall 2019, Trios purchased the Pelitas software and began to implement the presumptive eligibility process. This process was fully implemented in April 2020. Trios expects that 2020 charity care will be higher than 2019, in terms of actual dollars provided, but we do not expect to see the full impact of the changed process until 2021. Further, it is not yet clear what impact COVID-19 will have, as the new process was implemented during the time period that elective procedures were suspended per the Governor’s order.*

*As evidenced by our proactive steps, Trios takes seriously its commitment to charity care. We are confident that the changes made will ultimately result in an increase in charity care in both dollars and percentages.”*

**Public Comments**

Kadlec Regional Medical Center raised concerns related to this sub-criterion, shown below:

**“Trios’ payor mix projections raise significant questions as to whether it will provide “adequate access” to community residents in accordance with the requirements of WAC 246-310-210(2).**

*In order for its application to be approved, Trios must demonstrate that its proposal satisfies the “adequate access” need subcriterion: “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 to the proposed health service or services.” The Department’s evaluation of whether Trios’ application satisfies this subcriterion is required to include an “assessment” of “[t]he extent to which Medicare, Medicaid, and medically indigent patients are served by the applicant.” As discussed below, the payor mix projections provided by Trios in its application, when compared to Trios’ actual 2019 payor mix, raise significant questions as to whether its proposal will satisfy the “adequate access” requirement of WAC 246-310-210(2).*

*Table 4 in Trios’ application indicates that Trios’ projected sources of gross revenue by payor (as used in its pro forma financial statements) will remain constant at “current” levels.” In its screening questions, the Department asked Trios to “clarify what ‘current’ means in the context of Table 4.” Trios responded: “In the context of Table 4, ‘current’ means the year 2019.” For ease of reference, Table 4 is set forth below.*

**Applicant’s Table  
Trios Health  
Existing and Proposed Sources of Revenue by Payer**

Payer	Current			Proposed Southridge At Completion of Phase 2
	Southridge	Auburn	Total	
Medicare	45.52%	0.06%	45.58%	45.58%
Medicaid:	18.80%	4.05%	22.85%	22.85%
Commercial/HMO	22.31%	2.20%	24.51%	24.51%
Other Govt.	4.60%	0.03%	4.63%	4.63%
Other	2.32%	0.11%	2.43%	2.43%
<b>Total</b>			<b>100.00%</b>	<b>100.00%</b>

*Source: Applicant*

*“Based on data from the Department’s CHARS Quarterly Reports for Hospitals (2019), Trios’ 2019 actual payor mix varies greatly from its stated “current” 2019 payor mix in Table 4, which is used to drive its pro forma financial modeling. As shown in Table 1 below, full-year 2019 Medicare actual data for Trios was reported as 39.78%, versus 45.58% as modeled in the pro forma. Medicaid actual data for 2019 for Trios was reported as 19.27%, versus 22.85% as modeled in the pro forma. Finally, the “Other” payor category actual 2019 data for Trios was*

reported as 40.96%, versus 31.57% as modeled in the pro forma. payor mix as shown in Table 4 is not consistent with actual 2019 CHARS data as reported in CHARS Quarterly Reports.

These variations are significant, as they strongly suggest that Trios has overestimated the revenue from Medicare and Medicaid payors and underestimated the revenue from Commercial payors in its pro forma financial statements. This raises questions regarding the extent to which Trios will provide “adequate access” to Medicare and Medicaid patients, as required under WAC 246-310-210(2)(c). Given that Trios has requested the Department to commence review of its application without further screening, the Department will not have the opportunity to ask clarifying questions with respect to these critical discrepancies.

Table 1 also shows Trios’ payor mix varies from the Benton County and Franklin County average payor mix. As discussed above, Condition 10 of CN #1740 requires Trios to “maintain its participation in the Medicare and Medicaid program[s] at a rate that is consistent with the payer mix in the Benton and Franklin County planning area.” The CHARS data shows that, in 2019, Trios’ Medicare and Medicaid participation rates were not “consistent with” the planning area rate. Accordingly, Trios does not appear to be in compliance with Condition 10. This should be taken into account by the Department in evaluating whether Trios will provide “adequate access” to Medicare and Medicaid patients.

### ***Applicant’s Table***

**Table 1: Trios Versus Benton-Franklin Planning Area Payor Mix<sup>26</sup>**

	1Q2019	2Q2019	3Q2019	4Q2019	FY2019	Pro Forma (2020-2027)
<b>Benton-Franklin Planning Area</b>						
Medicare	41.26%	41.30%	40.62%	41.82%	41.24%	
Medicaid	20.98%	20.62%	20.52%	20.43%	20.64%	
Self-Pay	2.12%	1.94%	3.03%	1.88%	2.24%	
Other	35.64%	36.15%	35.83%	35.87%	35.87%	
<b>Trios Health, LLC</b>						
Medicare	40.17%	39.31%	37.84%	41.61%	39.78%	45.58%
Medicaid	19.83%	19.00%	19.96%	18.39%	19.27%	22.85%
Self-Pay						
Other	40.00%	41.70%	42.20%	40.00%	40.96%	31.57%

**Trios’ historical performance and projections with respect to the provision of charity care raise questions as to whether its application satisfies the “adequate access” requirements of WAC 246-310-210(2).**

The level of charity care provided by a CN applicant in the past, together with the projected level of charity care contained in an application’s pro forma financial statements, are key factors considered by the Department when determining whether the applicant’s project will provide “adequate access” to low-income persons and other underserved persons and groups in accordance with the requirements of WAC 246-310-210(2). As discussed below, Trios’ historical performance and projections with respect to the provision of charity care raise questions as to whether its application satisfies the “adequate access” subcriterion.

In its screening questions, the Department sought clarity with respect to Trios’ commitment to providing charity care by asking it to “[e]xplain what ‘reasonable efforts’ Trios will use to increase charity care to ensure the amounts are at or above the regional average.” The question was

*prompted by the large discrepancy between Trios’ projected 2020 charity care rate of 1.12% of total revenue, versus Trios’ actual 2018 charity care rate of 0.34% of total revenue as reported in the Charity Care in Washington Hospitals 2016-2018 report. In response, Trios stated:*

*In about mid-2019, LifePoint looked closely at the amount of charity care being provided and found that it was still lower than the regional average. This review resulted in LifePoint proactively modifying the policy to align with that of our sister hospital more closely, Capital Medical Center (Capital).*

*Trios’ response is troubling given that Trios only began to examine its charity care performance in “about mid-2019,” even though it had approximately ten months to do so after RCCH received CN approval for the purchase of Trios on August 2, 2018. Importantly, as discussed above, Condition 9 of CN #1740 requires Trios to “use reasonable efforts to provide charity care in an amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Central Region — whichever is greater.” Thus, it is not clear why it took Trios ten months to “modify” its charity care policy, which in turn raises questions as to Trios’ commitment to providing charity care at the Central Region average.*

*Finally, Trios’ historical charity care performance does not align with its projected charity care performance in its pro forma financial statements, and, in addition, is far lower than the Central Washington Region averages. As shown in Table 2 below, in 2018 Trios provided charity care at a rate of 0.34% of total patient revenue, while the Central Washington Region average was 1.36% of total patient revenue. In 2019, Trios provided charity care at a rate of 0.43% of total patient revenue, while the Central Washington Region average was 1.43%. In addition, Trios models charity care in its pro forma financial statements at a rate of 1.12% annually through 2027, but it does not provide any justification as to how it intends to increase its current charity care rate by over 300% in order to match the 2018 Central Washington Region average of 1.36%.*

***Applicant’s Table***

**Table 2: Trios and Central Washington Region Charity Care Rates, 2018-2019**

	2018	2019
<b>Central Washington Region</b>	1.36%	1.43%
<b>Trios Health, LLC</b>	0.34%	0.43%

*Accordingly, Trios’ historical performance and projections with respect to the provision of charity care raise questions as to whether its application satisfies the “adequate access” requirements of WAC 246-310-210(2).”*

**Rebuttal Comments**

Trios provided the following rebuttal:

***“All Patients Regardless of Payer Are, and Will Continue to Be Served.*** *Again, consistent with the conditions placed on CN #1740 and its existing operations, Trios Health’s policies assure we are serving all patients regardless of payer.*

*As Kadlec notes, Table 4 of the application has a slightly different payer mix than the data it presented using quarterly reports. This is because Table 4 of our application is the payer mix for hospital operations only (it does not include the clinic operations). The quarterly report data includes all Trios Health services. As detailed in the underlying assumptions included in the pro*

*forma financials we submitted with screening, we used the year-end report filed with the Department of Health for our payer mix (so, hospital plus clinic operations) and matches exactly with payer mix in our 2019 year-end report.*

*Finally, and as was discussed in earlier sections of this response, Trios Health has proactively made changes to its charity care policy to ensure that all patients eligible for charity care are identified.*

### **Department Evaluation**

Trios Health has been providing healthcare services to the residents of Benton and Franklin Counties for many years. The policies in use at the hospital indicate that services should be available to low-income, racial and ethnic minorities, handicapped and other underserved groups. [source: Application Exhibit 8]

Kadlec provided comments calling into question whether Trios is sufficiently available and accessible under this sub-criterion.

The Admission Policy describes the process Trios uses to admit a patient; Trios also included a nondiscrimination policy.

Trios currently provides services to both Medicare and Medicaid patients and does not anticipate any changes in Medicare or Medicaid percentages resulting in approval of this project.

Trios' current Medicare revenues are approximately 46% of total revenues, which may increase slightly; likewise, Medicaid revenues are currently 22%. Commercial and other revenues are expected to remain consistent as well. Financial data provided in the application also shows both Medicare and Medicaid revenues. The department validated that the percentages are consistent with year-end reports.

The Financial Assistance Policy (Charity Care) provided in the application has been reviewed and approved by the Department of Health's Hospital Financial/Charity Care Program (HFCCP). The policy outlines the process one would use to obtain financial assistance or charity care. The policy was approved in 2018. This is the same policy posted to the department's website. The pro forma financial documents provided in the application include a charity care 'line item' as a deduction of revenue

### **Charity Care Percentage Requirement**

For charity care reporting purposes, Washington State is divided into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. This project proposes relocation of beds in Benton County within the Central Region. Currently there are 20 hospitals operating within the region. Of the 20 hospitals, some did not report charity care data for years reviewed, and one closed.<sup>5</sup>

The table below compares the three-year historical average of charity care provided by the hospitals currently operating in the Central Region and Trios' historical charity care percentages for years 2016-2018. The table also shows the projected percentage of charity care. [source: Application pdf20, HFCCP 2017-2019 charity care data]

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<sup>5</sup> In 2018, none of the three Astria hospitals reported data. In 2017, Astria Sunnyside failed to report. Astria Regional closed in 2020.

**Table 1  
Charity Care Percentage Comparisons**

	<b>Percentage of Total Revenue</b>	<b>Percentage of Adjusted Revenue</b>
Central Region Historical 3-Year Average	1.31%	3.50%
Trios Health Historical 3-Year Average	0.40%	1.08%
Trios Health Projected Average	1.12%	--

As noted in the table above, the three-year historical average shows Trios has been providing charity care below both the total and adjusted regional averages. For this project, Trios projects they will provide charity care at the regional average, reflecting years 2016-2018. Charity care data for 2019 became available during the review, and is reflected above. Trios’ commitment in their application was consistent with the averages at the time of application and screening response. It should be noted that the majority of Trios’ history is under previous ownership and reflects a downward trend. Year-end financial reporting for 2019 indicates some improvement.

Trios has been providing health care services for many years. Charity care is health care provided through the hospital at no cost or reduced cost to low income patients. The 2017 Report of Charity Care in Washington Hospitals<sup>6</sup> offers the following analysis of decreased charity care across Washington State Hospitals with the introduction of the Affordable Care Act (ACA):

*“Uncompensated care includes both charity care and bad debt. Looking at uncompensated care gives us a bigger picture of the impact of the ACA and a way to compare Washington to other states.*

*In 2017, the amount of charity care increased for the first time since implementation of the ACA, bad debt continued to decline. Both charity care and bad debt had been increasing over the decade previous to implementation of the ACA. In recent years, charity care was rising faster than bad debt (Figure 2). Both had more than doubled between FY 2004 and FY 2013.”* [source: 2017 Washington State Charity Care in Washington Hospitals – January 2019]

The Certificate of Need program recognizes that charity care in Washington State is affected by the ACA, and charity care may continue to decline as more individuals receive healthcare coverage under the ACA, but charity care is not expected to reach zero.

The focus of this sub-criterion is charity care percentages specific to Trios. In past hospital CN applications, the department has been attaching a charity care condition to the approvals, based, in part, on the fluctuation of charity care percentages since the passage of the Affordable Care Act in March 2010.

If this project is approved, the department concludes that Trios must agree to the charity care condition stated below.

Trios Health will provide charity care 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. Trios Health will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Central Region. Currently, this amount is 1.31% gross revenue

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<sup>6</sup> Released January 2019.



and 3.50% of adjusted revenue. Trios Health will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.

As noted above, Kadlec voiced concerns with the levels of charity care provided at Trios. While it is true that Trios has not met the regional average, their performance is trending towards compliance. Furthermore, this project does not propose the expansion of services which might strain their ability to provide uncompensated care; rather this proposes a relocation and consolidation of resources that should contribute to greater efficiency. Kadlec's concerns are noted, but do not rise to the level of a denial under this sub-criterion.

Based on the information provided in the application and with Trios' agreement to the condition, the department concludes **this sub-criterion is met.**

- (3) The applicant has substantiated any of the following special needs and circumstances the proposed project is to serve.
  - (a) The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both, to individuals not residing in the health service areas in which the entities are located or in adjacent health service areas.
  - (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.

### **Department Evaluation**

These sub-criteria are 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 determines that Trios Health 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.

**Trios Health**

Trios Health relied primarily on historical experience for their volume projections, revenue, expenses, and net income described below. [source: Screening Response 1 pdf58-59]

***“Financial Assumptions:***

- *Patient days, with and without the project, are the same and were detailed in Table 1.*
- *Gross patient revenue was calculated using the same rates and utilization of services as in the baseline period of 2019. Payer mix associated with existing volumes was kept constant. No reimbursement changes were used in the pro forma. Thus, the net patient revenue per case is the same as the baseline period of 2019.*
- *Charity care: assumed to be 1.12% of gross revenue (with the project).*
- *Bad debt: assumed to be: 1.19% of gross revenue (with the project).*
- *Salary expense corresponds to the FTEs needed to provide acute care services. FTEs increase in accordance with the increase in patient days. This level of productivity is based upon the productivity that occurred in 2019. The statement does not include any compensation increases. However, with the consolidation of the two campuses, staffing redundancies were eliminated and this reduced overall FTEs by 24.*
- *Employee benefits are kept at the same percentage of salary as 2019 or 22.8% throughout the projection period.*
- *Professional Fees – Support provided for Hospital based physician services such as Anesthesia, Hospitalist, Intensivists, Cardiology, Medical Director Fees and On-Call Fees. Professional Fee assumptions based on estimated costs going forward for these services based on contractual rates currently in place.*
- *Supplies expense increases proportionate to the increase in patient days. There is no inflation associated with this expense or any expenses in the statement.*
- *Assumptions for the remainder of the operating expenses were:*
  - *Utilities expense are assumed to decrease by \$78,000 with the project due to the closure of the Auburn campus.*
  - *Purchased Services-Other includes security services and is projected to decrease by \$144,000 primarily, with the project, with the elimination of security costs associated with the Auburn campus.*
  - *Rentals and leases are for medical and office equipment. Assumed a 2% yearly increase annually due to volume.*
  - *Insurance: includes malpractice and liability insurance and is not assumed to change with the project.*
  - *License and taxes: are primarily property taxes and are assumed to decrease slightly with the project due to closure of the Auburn campus.*
  - *Medical Office Building Expense: This line is the expense related to the Medical Office Building on the amortization schedule provided*
  - *Hospital Building Expense – This line is the expense related to the hospital on the amortization schedule provided*

- *Management fee: 2% of net revenue*
- *Other Direct Expenses: This line item includes such items as bank fees, marketing, travel, dues and subscriptions, legal fees, etc. Assumed a 3% yearly increase in costs due to volumes.*
- *Depreciation: The project anticipates capital spending of \$26,937,623 with an associated annual depreciation expense of \$654,268 in years 2023-2024 and \$866,227 for the years 2025-2027. The combined assets of the project have a 40 year depreciable life. For the “without project” pro forma, no additional capital expending or associated depreciation expense was assumed.*
- *Accelerated depreciation for Auburn Campus: depreciation expense for the Auburn campus is accelerated with the project such that the building and equipment are fully depreciated by 2023 (the first year of consolidation). The balance sheet also assumes that the Auburn campus is sold by 2023 and any Auburn assets in Land, buildings and equipment are removed.*
- *Construction in Progress: the dollars move to land, buildings and equipment at the end of each phase. In 2023, Phase 1 Construction in Progress moves to the land, buildings and equipment line on the balance sheet. And, in 2025, Phase 2 Construction in Progress moves to the land, buildings and equipment line.*

*Included as part of the financial assumptions, is the ‘project’ which details the incremental savings and expenses associated with the project.”*

The proposed census for the entire hospital is shown below. [source: Application pdf12]

***Applicant’s Table***  
**Project Patient Discharges and Patient Days by Phase**

<b>Year</b>	<b>Discharges</b>	<b>Patient Days</b>
2023 (Phase 1 Complete)	5,544	19,430
2024	5,655	19,819
2025 (Phase 2 Complete)	5,768	20,215
2026	5,883	20,620
2027	6,001	21,032

*Source: Applicant*

Based on the assumptions above, Trios Health provided the following revenue and expense statement. The projection period is shown below – years 2023-2027. [source: Screening Response pdf70]

**Department’s Table 2**  
**Trios Health**  
**Projections for Years 2023 through 2027**

	<i>Phase 1 Complete</i>		<i>Phase 2 Complete</i>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
Net Revenue	\$166,906,101	\$171,413,565	\$176,047,342	\$180,811,077	\$185,708,522
Total Expenses	\$161,407,522	\$163,536,800	\$166,124,725	\$168,735,149	\$171,414,279
Net Profit/(Loss)	<b>\$5,498,579</b>	<b>\$7,876,765</b>	<b>\$9,922,617</b>	<b>\$12,075,928</b>	<b>\$14,294,243</b>

The 'Net Revenue' line item is gross inpatient and outpatient hospital revenue, plus any non-operating revenue. The 'Total Expenses' line item includes all expenses related to hospital operations.

Public Comments

None

Rebuttal Comments

None

**Department Evaluation**

To evaluate this sub-criterion, the department first reviewed the assumptions used by Trios Health to determine the projected number of admissions, patient days, and occupancy of the hospital with the proposed consolidation. Trios assumed growth in utilization consistent with past performance, with length of stay held at 2019 actuals. The department can reasonably substantiate Trios Health's assumptions. The costs tied to contracts in the application can be substantiated in the pro forma.

For this sub-criterion, the department also completes a focused financial and cost containment review (WAC 246-310-220 and WAC 246-310-240, respectively) that includes pro forma financial statements submitted in the application, including screening responses and rebuttal documents, and historical data reported to the data collection office within the Department of Health.

This included a review of the pro forma financial statements submitted by Trios Health

**Department's Table 3  
Trios Health Balance Sheet for Year 2019**

LifePoint 2019			
Assets		Liabilities	
Current	2,406,800,000	Current	1,175,800,000
Board Designated	-	Long Term Debt	7,106,200,000
Property/Plant/Equipment	3,859,400,000	Other	509,200,000
Other	3,414,700,000	Equity	889,700,000
Total	9,680,900,000	Total	9,680,900,000
from screening responses			
Trios 2019			
Assets		Liabilities	
Current	30,407,112	Current	18,585,176
Board Designated	-	Long Term Debt	156,553,425
Property/Plant/Equipment	95,281,123	Other	371,922
Other	22,498,372	Equity	(27,323,916)
Total	148,186,607	Total	148,186,607
from Trios's FY 2019 year-end report			
UW/Valley Medical Center			
Assets		Liabilities	
Current	226,526,231	Current	144,491,384
Board Designated	-	Long Term Debt	293,468,348
Property/Plant/Equipment	379,539,703	Other	5,793,939
Other	95,267,806	Equity	257,580,069
Total	701,333,740	Total	701,333,740
from UW/Valley's FY 2018 year-end report			

For hospital projects, the department performs a financial ratio analysis to assess the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. Historical and projected balance sheet data is used in the analysis. Trios Health's balance sheet was used to review applicable ratios and pro forma financial information.

Table 4 compares statewide data for historical year 2019 and projected years 2021 through 2027.

**Department's Table 4  
Current and Projected Financial Ratios  
Trios Health and LifePoint Health**

Trios Consolidation			LifePoint	Trios	CONy1	CONy2	CONy3	CONy4	CONy5
Ratio Category	Trend	State19	2019	2019	2023	2024	2025	2026	2027
Long Term Debt to Equity	B	0.426	7.987	(5.730)	0.187	(4.663)	(5.936)	(9.749)	(166.481)
Current Assets/Current Liabilities	A	3.287	2.047	1.636	2.064	2.034	2.014	1.990	1.977
Assets Funded by Liabilities	B	0.370	0.855	1.182	1.298	1.241	1.177	1.098	1.002
Operating Expense/Operating Revenue	B	0.973	0.984	1.105	0.967	0.954	0.944	0.933	0.923
Debt Service Coverage	A	6.123	1.411	0.058	N/A	N/A	N/A	N/A	N/A
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								

\*

A is better if above the ratio; and B is better if below the ratio.

After reviewing the financial ratios above, staff provided the following statements.

*“Review of the financing and ratios makes it difficult to conclude that the immediate and long range capital needs of the hospital can be met, however the proposed project is reasonably projected to contribute to better financial outcomes for the hospital than if Trios continued operating two separate facilities. The applicant’s financial projections provided in screening reasonably project savings due to decreased operating expenses of between \$1.7 million and \$1.9 million in each of the five projected years. Trios is reasonably projecting operating revenue to exceed operating expenses with this project.*

*The total capital expenditure for this relocation of services is approximately \$27 million and is funded through an internal loan from one entity owned by LifePoint to Trios. No new debt from entities outside LifePoint will be incurred. Upon completion of the project, the applicant notes facility being vacated may be sold. This analyst notes that the Auburn property has most recently been assessed at a value of approximately \$5.4 million. Liquidation of this facility by sale, or revenue generated by lease of some or all of the property, should defray some of the costs of the bed relocation.*

*This analyst has cautioned in recent evaluations for this applicant that projects that require significant capital expenditure might be unlikely to gain approval, however Trios has demonstrated that this project can likely be properly funded and this criterion is met, contingent upon a finding of need for the relocation.*

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

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

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

**Trios Health**

Between two phases, Trios identified a total capital expenditure of \$27,036,801 for this project, detailed below:

*Applicant's Table*

		Phase 1	Phase 2	Total
a	Land Purchase			-
b	Land Improvements			-
c	Building Purchase			-
d	Residual Value of Replaced Facility			-
e	Construction Costs	13,150,000	3,095,000	16,245,000
f	Moveable Equipment	2,761,355	747,790	3,509,145
g	Fixed Equipment (not included in construction contract)			-
h	Architect & Engineering Fees	1,436,513	279,000	1,715,513
i	Consulting Fees	350,000	55,000	405,000
j	Site Preparation			-
k	Supervision and Inspection			-
l	Costs Associated with Financing to Include Interim Interest			-
m	Cost of financing to include interim interest during construction			-
n	Sales Tax:	1,401,967	355,705	1,757,672
o	Other Project Costs: Please detail			-
	Testing	100,000	25,000	125,000
	Building & Impact Fees:	159,613	31,000	190,613
	IT/security	696,942	498,510	1,195,452
<b>p.</b>	<b>Total Capital Expenditure</b>	<b>20,056,390</b>	<b>5,087,005</b>	<b>25,143,395</b>
	<b>Capitalized Interest</b>	<b>1,697,499</b>	<b>195,907</b>	<b>1,893,406</b>

**Public Comments**

None

**Rebuttal Comments**

None

**Department Evaluation**

Trios stated under WAC 246-310-220(1) that the payer mix is not expected to change with the relocation of these beds. Further, Trios stated that all assumptions related to costs and charges are based on current rates with no proposed changes.

In its financial review, department staff provided the following information and review regarding the rates proposed by Trios Health.

*“The costs of the project are the costs and charges the patients and community actually see come out of their pocketbook. Trios’s rates are below:*

*I have reviewed similar projects and find variation in the costs and charges for acute care services among those projects due to the distinctions between particulars of each project. The projections provided by Trios are, however, reasonable and within scope of similar projects. It is further noted that the decreased operating expenses should result in lower total costs per unit of service than the alternatives, contributing a positive impact on the cost of providing services.*

**Department's Table 5  
Project Charges**

Trios Health and LifePoint Health

Trios	2023	2024	2025	2026	2027
Rate per Various Items	CONyr1	CONyr2	CONyr3	CONyr4	CONyr5
Admissions	5,544	5,655	5,768	5,883	6,001
Patient Days	19,430	19,819	20,215	20,620	21,032
Gross Revenue	559,346,739	574,452,512	589,981,886	605,947,096	622,360,744
Deductions From Revenue	395,514,079	406,195,372	417,176,191	428,465,192	440,071,282
Net Patient Billing	163,832,660	168,257,140	172,805,695	177,481,904	182,289,462
Other Operating Revenue	3,073,442	3,156,425	3,241,648	3,329,173	3,419,060
Net Operating Revenue	166,906,102	171,413,565	176,047,343	180,811,077	185,708,522
Operating Expense	161,407,522	163,536,800	166,124,725	168,735,149	171,414,279
Operating Profit	5,498,580	7,876,765	9,922,618	12,075,928	14,294,243
Other Revenue	-	-	-	-	-
Net Profit	5,498,580	7,876,765	9,922,618	12,075,928	14,294,243
Operating Revenue per Admission	\$ 29,551	\$ 29,754	\$ 29,959	\$ 30,169	\$ 30,377
Operating Expense per Admission	\$ 29,114	\$ 28,919	\$ 28,801	\$ 28,682	\$ 28,564
Net Profit per Admission	\$ 992	\$ 1,393	\$ 1,720	\$ 2,053	\$ 2,382
Operating Revenue per Patient Day	\$ 8,590	\$ 8,649	\$ 8,709	\$ 8,769	\$ 8,830
Operating Expense per Patient Day	\$ 8,307	\$ 8,252	\$ 8,218	\$ 8,183	\$ 8,150
Net Profit per Patient Day	\$ 283	\$ 397	\$ 491	\$ 586	\$ 680
Operating Revenue per Adj Admissions	\$ 10,730	\$ 10,729	\$ 10,730	\$ 10,730	\$ 10,730
Operating Expense per Adj Admissions	\$ 10,571	\$ 10,428	\$ 10,315	\$ 10,201	\$ 10,089
Net Profit per Adj Admissions	\$ 360	\$ 502	\$ 616	\$ 730	\$ 841
Operating Revenue per Adj Pat Days	\$ 3,119	\$ 3,119	\$ 3,119	\$ 3,119	\$ 3,119
Operating Expense per Adj Pat Days	\$ 3,016	\$ 2,976	\$ 2,943	\$ 2,911	\$ 2,879
Net Profit per Adj Pat Days	\$ 103	\$ 143	\$ 176	\$ 208	\$ 240

*The hospital is breaking event through the entire projection period.*

*Contingent upon a demonstration of need, this project should not result in an unreasonable impact on the costs and charges for health services."*

Based on the above information, the department concludes that Trios' consolidation would probably not have an unreasonable impact on the costs and charges for healthcare services in Benton County and surrounding communities. **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.

### **Trios Health**

Trios identified that LifePoint Health will provide the financing for this project, and provided a letter in response to screening that details how LifePoint Health will provide the loan to Trios Health, charge interest for construction, but ultimately absorb the cost of the project without passing on costs to Trios Health. This is described below:

*“The selected financing for this project is consistent with how LifePoint and other for-profit health care providers finance major projects. It is an efficient means that does not increase costs. This means of financing was discussed with Program staff on July 9, 2020 and staff concurred that this explanation was sufficient.*

*As outlined in the letter from LifePoint's Senior Vice President and Chief Accounting Officer (Attachment 4), Trios Health is being charged a rate of interest that is consistent with LifePoint's borrowing rate. As the letter notes, LifePoint can and fully intends to waive the scheduled repayment of the principal and capitalized interest and anticipates that the cost of the project will be repaid via a positive net income generated by Trios Health beginning in 2022. As such, and as indicated in Attachment 4, there are no mandatory or scheduled principal or interest payments.”* [source: Screening Response pdf11, Attachment 4

### **Public Comment**

Kadlec provided the following comments related to this review criterion:

**“Trios' descriptions of the method of financing the \$25.1 million capital expenditure required for the project are ambiguous and contradictory, thus raising questions which preclude the Department from evaluating whether the project is financially feasible.**

*The proposed capital expenditure for the consolidation of beds at Trios' Southridge campus is \$25,143,395. Given the large size of the expenditure, it is critical that Trios provides complete and clear information to the Department regarding (1) the proposed method of paying for the capital expenditure and (2) the cost of any financing associated with the payment of the expenditure. However, the information provided by Trios regarding the method and cost of financing the \$25.1 million capital expenditure is ambiguous and contradictory. Accordingly, the Department lacks sufficient reliable information upon which to make a determination as to whether Trios' project is financially feasible.*

*In its application, Trios states: “LifePoint Corporate Services General Partnership, an indirect affiliate of LifePoint Health, will provide Trios Health with a construction loan as the source of financing for this project.” Trios also states: “The construction loan is assumed to have an interest rate of 8.0%.” Later in the application, Trios states that the “assumed interest rate is 8.0% and the total expense is estimated to be approximately \$1.7 million.”*

*However, Table 9 (“Estimated Capital Expenditure”) of the application indicates that there are no “Costs Associated with Financing” and no “Cost of Financing” related to the \$25.1 million capital expenditure. Further ambiguity is created by Trios' statements in the application that “[t]here is no debt financing for this project” and that “there is no long-term financing for this project.” All of these statements directly contradict Trios' assertions that the capital expenditure will be financed with a construction loan, which will have an 8% interest rate.*

*The Department is fully aware of the internal inconsistencies and ambiguities in Trios' application, and has attempted to obtain clarification from Trios in several of its application screening questions. However, Trios' responses to the Department's questions fail to resolve the inconsistencies and ambiguities. Thus, for instance, Trios states: "For this loan, Trios Health will be charged a rate of interest commensurate with LifePoint's incremental borrowing rate at the time the revolving loans are made. For planning purposes, we have assumed this rate will be approximately 8.0% per annum." However, Trios then directly contradicts this response in its response to another of the Department's screening questions: "In addition, no loans are proposed for this project, therefore, there are no terms or amortization schedules." These two contradictory statements cannot be reconciled.*

*Given the inconsistent and ambiguous information provided by Trios regarding the method and cost of financing the \$25.1 million capital expenditure required to implement the Southridge bed consolidation, the Department does not have sufficient information to enable it to determine whether (1) "the immediate and long-range capital and operating costs of the project can be met" and (2) "the project can be appropriately financed." Moreover, because Trios has elected to have the Department commence review of its application without further screening, the contradictory and ambiguous information provided by Trios cannot be clarified, corrected, or supplemented."*

#### Rebuttal

Trios provided the following response:

***"Trios Health's Capital Expenditure and Method of Financing is Clear and Unambiguous. Sufficient Information Exists in the Record for Finding that the Immediate and Long-Range Capital and Operating Costs can be Met and that the Project is Being Appropriately Financed. The Application Meet the Applicable Financial Feasibility Criteria in WAC 246-310-220.***

*Kadlec's efforts to question the application's capital expenditure and financing plan confirms their lack of understanding of a financing of this type.*

***Trios Health Has Addressed the Method of Financing the Project and the Interest Consistent with GAAP.***

*During the construction period, Trios Health will have a construction loan and the associated interest will be capitalized, consistent with GAAP<sup>1</sup>. After construction, the interest expense will be amortized as described in Question 15 of the screening response:*

*For this loan, Trios Health will be charged a rate of interest commensurate with LifePoint's incremental borrowing rate at the time the revolving loans are made. For planning purposes, we have assumed this rate will be approximately 8.0% per annum. Consistent with GAAP, the interest will be capitalized during the construction phase of the project. For CN Program ease, Trios has provided a separate line item in the revenue and expense statement with the amortization of the capitalized interest expense for each year. Normally this would be in the depreciation line item.*

*Attachment 4 of the screening response described the post-project completion financing of the project and the required payment terms. Contrary to the suggestions of Kadlec, this letter was forwarded to, and then reviewed and discussed with CN Program staff prior to the screening response being submitted. On July 9, 2020 we were advised by Program staff that the letter would be fully responsive to the screening questions. Specifically, Attachment 4 states:*

*The Program also permits LifePoint, at its discretion, to waive scheduled repayment of the principal and capitalized interest. For this project, we have waived the scheduled repayments and instead, anticipate that the cost of the project will be repaid via the positive net income generated by Trios Health beginning in 2022. For the avoidance of doubt, there are no mandatory or scheduled principal or interest payments that will be required.*

*Kadlec's comments are simply inaccurate. The capital expenditure breakout contained in the application provided all the costs of the project, including the capitalized interest. The capitalized interest was documented consistent with the CN Program's past practice and was reported separately from all the other capital expenditures. Contrary to Kadlec's comment, no capital or financing cost was omitted.*

### ***Use of the Term "Loan" May Have Been Confusing***

*At page 10 of its letter, Kadlec suggests internal inconsistencies and ambiguities in the Trios Health application because it indicates that at certain places in the application, we note that there will be a loan, and at others we indicate no loan. As restated above, this is because there is a loan during the construction period, but, after the newly expanded Southridge campus opens, LifePoint Corporate Services General Partnership will not require any loan repayment."*

### **Department Evaluation**

As noted above, Trios has clearly identified the source and methods of the financing of this project through their parent organization, LifePoint Health. It is not clear what is ambiguous about this method, as described in Kadlec's public comments. The department is satisfied from the letter of financial commitment that the only costs associated with the financing of this project are reflected in the construction loan. The department considers the letter of financial commitment in Attachment 4 of the screening response binding – if this project is approved, it will be contingent on financing as described in the application. As noted in the attachment, LifePoint Health has reserves that are more than sufficient for the proposed project. With agreement to the financing condition, 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 determines that Trios Health met the applicable structure and process of care criteria in WAC 246-310-230.

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

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of FTEs [full time equivalents] 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.

### **Trios Health**

Trios currently operates 111 acute care beds, including a 10-bed Level II Intermediate Care Nursery. The hospital currently operates all beds which are set up and staffed across two campuses. [source: Application pdf33, ILRS]

Trios provided the following statement related to this sub-criterion, along with a staffing table:

*“Because this project proposes only the relocation of existing services, the staffing needs noted in Table 13 are relatively small (and due only to projected volume growth, adjusted for efficiencies associated with consolidation)*

*Please note that the incremental staff is associated with patient care only-other staffing is projected to decrease or remain flat as we realize economies of consolidating campuses.*

*At this time, Trios Health expects about a 24 FTE savings in support and non-patient care areas.*

*Trios Health offers a competitive wage and benefit package as well as numerous other recruitment and retention strategies.” [source: Application pdf33]*

**Applicant’s Table**

	Actual 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024	Projected 2025	Projected 2026	Projected 2027
All									
Management	66.69	66.69	67.69	67.69	67.95	67.95	67.95	68.95	68.95
RN	171.95	179.68775	187.7736988	196.2235152	176.35	184.27	194.31	202.66	212.95
LPN	14.48	14.87096	15.27247592	15.68483277	15.19	15.6	16.03	16.48	16.92
Mid-Level	27.01	27.5	28.2425	29.0050475	28.33	29.1	29.89	30.73	31.57
Tech/Prof	253.03	255	263.925	273.162375	259.1	269.97	279.43	290.87	301.21
Svc/Support	213.7	213.7	214.7685	215.8423425	214.14	215.5	216.68	217.86	218.92
MD	45.65	45.65	45.65	45.75	45.88	47.18	48.52	49.95	51.35
<b>Total FTEs</b>	<b>792.51</b>	<b>803.09871</b>	<b>823.3225247</b>	<b>843.358113</b>	<b>806.94</b>	<b>829.58</b>	<b>852.81</b>	<b>877.5</b>	<b>901.87</b>
Salaries & Wages	\$69,498,992	\$70,541,477	\$71,599,599	\$72,673,593	\$72,230,509	\$73,313,967	\$74,413,676	\$75,901,950	\$77,419,989
Employee Benefits	\$15,928,467	\$16,083,457	\$16,324,709	\$16,569,579	\$16,468,556	\$16,715,584	\$16,966,318	\$17,457,448	\$17,806,597
S&W & Benefits	\$85,427,459	\$86,624,934	\$87,924,308	\$89,243,172	\$88,699,065	\$90,029,551	\$91,379,994	\$93,359,398	\$95,226,586
S&W & Benefits/ FTE	\$107,790	\$107,863	\$106,792	\$105,819	\$109,920	\$108,520	\$107,150	\$106,390	\$105,590

[source: Screening response pdf206]

**Public Comments**

Kadlec provided some comments related to this review criterion:

*“The structure and process of care section of the Department’s certificate of need application form requires applicants to provide information regarding the staffing levels required for a proposed project. In this section of its application, Trios states: “At this time, Trios Health expects about a 24 FTE savings in support and non-patient care areas.” The Department did not ask Trios any screening questions about this unsupported assertion, nor did it seek additional information to evaluate whether Trios’ assumption about FTE savings is reasonable and, if a reduction in staffing is implemented, whether appropriate staffing levels will be available to support the 111-bed facility and its projected growth. Accordingly, there are questions regarding the reliability of the statement, and it would be inappropriate for the Department to rely upon it in evaluating the application. Further, due to Trios’ decision to forgo further screening of its application, Trios cannot now clarify or supplement the statement.”*

**Rebuttal Comments**

Trios provided a response to Kadlec’s comments, below:

*“Kadlec suggests that the proposed staffing decreases with consolidation will somehow impact patient care. This is simply not accurate. As noted in the financial assumptions contained in Attachment 3 of the screening response, Trios Health is projecting increased staffing due to the projected increase in patient days. The staffing reductions discussed in the application are due to the closure of the Auburn campus only and the elimination of some duplicative services. These reductions primarily include security, patient transport and ancillary support service staff because two campuses are operated.”*

### **Department Evaluation**

Trios is licensed for 111 acute care beds with all needed staff currently in place. Information provided in the application demonstrates that Trios Health is a well-established provider of healthcare services in Benton County.

This sub-criterion specifically addresses whether staff will be adequately available and accessible – Kadlec provided comments questioning the assumptions surrounding an initial reduction in staffing following Phase 1. Specifically, Kadlec criticized the department’s lack of questioning surrounding this issue. As the reduction of campuses results in a reduction in needed FTEs, the department did not deem any questions on this matter necessary.

Based on the above information, the department concludes that Trios Health demonstrated adequate staffing is available or can be recruited. **This sub criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(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.

### **Trios Health**

Trios Health provided the following statements related to this sub-criterion. [source: Application pdf33]

*“This project proposes a consolidation of all the acute care services at the South ridge campus. This will allow for enhanced access to the full range of ancillary and support services at the Southridge campus for those patients currently being cared for at the Auburn campus. The ancillary and support service departments are already sufficiently sized to meet the demands of the additional beds at the Southridge campus.”*

### **Public Comments**

Anderson Grigg, the Chief of Staff for Trios Health provided the following comments related to this sub-criterion:

*“This project will have real and measurable benefits to our patients and the community and should be approved.*

*While the original intent was to relocate all of Trios' beds and services to its new Southridge campus at the time of opening, because of capital cost, OB and neonatal services were retained at the now*

70-year-old Auburn campus. The Family Birthing Center provides high quality care and is well regarded by the community. However, because of the age of the building and the fact that it is not co-located with the Southridge campus (where all ancillary and support services are based), care delivery is not as efficient as it could be, and patients and families are often required to travel between both locations for services. The challenges of operating on two campuses are a daily reality, with the most common concerns being high census and overflow at Auburn, and access to highly used ancillaries including pharmacy and lab. Importantly, a number of studies have concluded that the cost of the duplication associated with operating two inpatient campuses exceeds \$3 million annually.”

#### Rebuttal Comments

None

#### Department Evaluation

Trios has been in operation for many years across two campuses. All ancillary and support services are already in place. With the consolidation of campuses, Trios Health expects ancillary and support needs will not change and expects increased efficiencies. This is reasonable and supported by the public comments received by the department.

Based on the information reviewed, the department concludes that there is reasonable assurance that Trios Health will continue to maintain the necessary relationships with ancillary and support services. The department concludes that approval of this project would not negatively affect existing healthcare relationships. **This sub-criterion is met.**

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

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

#### Trios Health

Trios Health provided the following statements related to this sub-criterion. [source: Application, pdf35]

*“Neither Trios Health nor RCCH have any history with respect to the actions noted in Certificate of Need regulations WAC 248-19-390(5) (a) (now WAC 246-310-230).”*

#### Public Comments

None

#### Rebuttal

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.<sup>7</sup> To accomplish this task, the department reviewed the quality of care compliance history for Trios Health as well as other LifePoint Health facilities in Washington State.

### CMS and Washington State Survey Data

The department reviewed the compliance history for Trios as well as for the other three hospitals. The four facilities have been surveyed a total of seven times since 2017. No significant noncompliance was reported by the Office of Health Systems Oversight (OHSO). A review of federal survey data shows some surveys with deficiencies, but these were resolved, and follow-up surveys came back deficiency-free. All four hospitals are actively licensed and accredited. [source: OHSO, QCOR]

Based on the above information, the department concludes that Trios Health demonstrated reasonable assurance it 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 directs how to measure unwarranted fragmentation of services or what types of relationships with a services area's existing health care system should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

### **Trios Health**

Trios Health provided the following statements related to this review criterion. [source: Application, pdf34]

*“This project proposes to consolidate all beds on the Southridge Campus. Trios Health is not proposing any new services or beds. Trios Health does, and will continue to work closely with other providers throughout Benton and Franklin Counties to ensure that timely and seamless patient transitions continue to occur. No changes to these working relationships are proposed with the relocated bed capacity”*

### Public Comments

None

### Rebuttal Comments

None

## **Department Evaluation**

Information in the application demonstrates that as a current provider, Trios has the infrastructure in place to support their existing operations. Additionally, Trios Health provided information within

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<sup>7</sup> WAC 246-310-230(5).

the application to demonstrate it intends to continue existing relationships and establish new relationships as necessary. Trios provided information to support that the consolidation of campuses will ultimately reduce fragmentation of services in the planning area.

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 with the expansion. **This sub-criterion is met.**

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

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

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Trios Health 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.

#### **Trios Health**

##### **Step One**

For this project, Trios Health met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

##### **Step Two**

Trios provided the following related to this sub-criterion:



*“The decision to consolidate campuses was made after a comprehensive analysis of the incremental costs, challenges and benefits of operating on two campuses Options evaluated included:*

- 1) Status quo;*
- 2) Maintain two campuses, and make investments in Auburn campus to offset deferred maintenance and aging/obsolescence;*
- 3) Consolidate onto a single campus.*

*The "do nothing" option was ruled out because many portions of the Auburn campus are at or reaching the end of their useful life and need upgrade in order to assure that they meet Trios Health facility performance standards.*

*Importantly, Trios Health continues to operate with duplication because of the two-campus structure. The analysis conservatively identified that the duplication was adding about \$3 million in operating expenses annually. The greatest duplicative costs are being incurred in cost centers including radiology, security, administration, etc. For these reasons, option 2 was eliminated.”*  
[source: Application pdf36]

### Step Three

This step is applicable only when there are two or more approvable projects. Trios Health’s application proposes the consolidation of the two campuses but does not propose any expansion of services. It would not compete with an application to add capacity in the planning area, and was the only application submitted for Benton County. Therefore, this step does not apply.

### Public Comments

None

### Rebuttal Comments

None

### Department Evaluation

Information provided in the Trios Health application indicates duplication of costs associated with operating two separate campuses. As such, submission of this application is an appropriate option, appropriately rejecting the “do nothing” option and the refurbishment of Auburn campus option. Program staff provided the following comment in their analysis:

*“In its application, Trios noted that it considered two alternatives to this project – maintaining the status quo (operating two campuses) and maintaining the status quo plus making investments in the Auburn campus. The applicant discarded the first option because the Auburn campus is in need of significant upgrades if it is to continue to be used. The second option was analyzed by the applicant and found to result in an additional \$3 million operating expenses each year.*

*Trios also noted that consolidation of services on one campus will reasonably result in operating efficiencies by not having to maintain or staff multiple locations.*

*Finally, the site for the relocated beds is a building that is only five years old, built to more modern construction and energy standards than the aging Auburn Campus.*

*The applicant has demonstrated that the proposed project is appropriate and superior to the other alternatives presented. .”*

The department did not identify any alternative that was a superior alternative in terms of cost, efficiency, or effectiveness that is available or practicable.

The department concludes that the project as submitted by Trios Health is the best available option for the planning area and surrounding communities. **This sub-criterion is met.**

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

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

(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**

This sub-criterion was evaluated in conjunction with the financial feasibility criteria above and is considered **met**.

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

**Trios Health**

*“As discussed in earlier sections of this application, once all services are consolidated on a single campus, operating efficiencies in staffing and operations are expected. For example, an overall reduction annually of approximately \$3 million is expected due to elimination of duplicate services and staffing as well as a decrease in utility costs.*

*Trios Health's Southridge campus is only five years old. This project proposes to expand an existing building. This is a less costly alternative than to replace the aging Auburn campus. To the extent feasible, Trios Health will include the most efficient building design and construction.” [source: Application pdf37]*

**Public Comment**

Adam Smith, DO, provided the following comments related to this sub-criterion

*“While the Family Birthing Center consistently provides care that is at the top two percent of comparable birthing centers in the U.S, providers and staff encounter daily challenges at Auburn simply because the building has surpassed its useful life and its infrastructure and many of its spaces are outdated and ill-configured. For example, during high census, our patients must overflow to a unit located on the second floor, which is an old pediatric unit. This unit does not enjoy the same amenities as does the Family Birthing Center and patients are typically unhappy when they are moved. Support services including central sterile, pharmacy, lab, phlebotomy, and social services are based at Southridge, and depending upon the time of day, responses can be delayed. Even patients receiving prenatal care, frequently have to travel from the Auburn Campus, where the OB clinic is housed, to Southridge for various ancillary services such as laboratory and diagnostic imaging. This results in additional time, travel, and cost. The bottom line is that the current two campus delivery system is less than ideal, increases costs, confuses patients and results in inefficiencies for providers.*

*I encourage the Certificate of Need Program's timely approval of Trios' application to relocate OB and the Level II neonatal unit into the Southridge campus.”*

Rebuttal

None

**Department Evaluation**

As discussed throughout this evaluation, the Certificate of Need program agrees that this project has the potential to increase efficiency at Trios Health. Letters of support affirm that approval of this project has the potential to reduce travel time, costs, and may reduce any confusion from operating two campuses with some, but not all, duplicative services across campuses. **This sub-criterion is met.**