August 1, 2019

CERTIFIED MAIL # 7016 0910 0000 3454 9412

Theresa Boyle, SVP
MultiCare Health System
820 A Street
Tacoma, Washington 98402

RE: Certificate of Need Application #19-30

Dear Ms. Boyle:

We have completed review of the Certificate of Need application submitted by Alliance for South Sound Health. The application proposes to amend Certificate of Need #1563 by removing conditions and an increase in the approved capital expenditure beyond the allowable amount. Enclosed is a written evaluation of the application.

For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Alliance for South Sound Health agrees to the following in its entirety.

**Project Description**
This Certificate of Need approves the construction of a 120 bed psychiatric hospital that will provide crisis stabilization, inpatient, outpatient, and partial hospitalization for patients 18 and over. The number of approved beds is shown below.

<table>
<thead>
<tr>
<th>Beds dedicated to patients age 18 and older (Adult)</th>
<th>Number of Beds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Licensed Adult Psychiatric Beds</td>
<td>120</td>
</tr>
</tbody>
</table>

**Conditions:**
1. Approval of the project description as stated above. Alliance for South Sound 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. [condition met on 02/01/16 and is ongoing]
2. Prior to providing services at the hospital, Alliance for South Sound Health will submit a copy of the adopted and approved Admission Policy for review and approval. The final policy must be consistent with the draft provided in the application. [condition met on 02/20/19]
3. Prior to providing services at the hospital, Alliance for South Sound Health will submit a copy of the adopted Charity Care Policy approved by the Department of Health’s Hospital and Patient Data System’s office. [condition met on 02/20/19]

4. The new 120 bed psychiatric hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. The new 120 bed psychiatric hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.88% of gross revenue and 6.85% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies. [condition met on 02/01/16 and is ongoing]

5. Annual budgets, as required by WAC 246-454-030, submitted by the new 120 bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Puget Sound Region. [condition met on 02/01/16 and is ongoing]

6. Prior to providing services at the hospital, Alliance for South Sound Health will submit to the department’s Certificate of Need program for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director. [condition met on 02/20/19]

7. Prior to providing services at the hospital, Alliance for South Sound Health will submit to the department’s Certificate of Need program for review and approval a final listing of ancillary and support vendors for the 120 bed psychiatric hospital. [condition met on 02/20/19]

8. Prior to providing services at the hospital, Alliance for South Sound Health will submit to the department for review and approval an executed member agreement between MultiCare Health System and Catholic Health Initiative-Franciscan Health. The executed agreement must be consistent with the draft agreement provided in the application. [condition met on 11/26/18 – submitted with amendment application]

9. Prior to providing services at the hospital, Alliance for South Sound Health will submit to the department for review and approval an executed Management Services Agreement between Alliance for South Sound Health (“Company”) and MultiCare Health System (MultiCare or “Manager”). The executed agreement must be consistent with the draft agreement provided in the application. [condition met on 11/26/18 – submitted with amendment application]

10. Alliance for South Sound Health will submit to the department for review and approval an executed Lease Agreement between Alliance for South Sound Health and MultiCare Health System. The executed agreement must be consistent with the draft agreement provided in the amendment application.

11. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act (ITA) patients, Alliance for South Sound Health will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at Alliance at the time of referral or if such referral is clinically inappropriate. [condition met on 02/01/16 and is ongoing]
Approved Costs:
The approved capital expenditure for this project is $47,420,924.

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

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

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

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

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

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

Sincerely,

[Signature]

Nancy Tyson, Executive Director  
Health Facilities and Certificate of Need

Enclosure
APPLICANT DESCRIPTION
Alliance for South Sound Health (Alliance) is a not-for-profit corporation registered in the State of Washington. The corporation was established effective December 10, 2014, and its existence is perpetual.1 [source: Articles of Incorporation from Washington State Secretary of State]

Alliance has two corporate members: MultiCare Health System and Catholic Health Initiatives-Franciscan Health.2 Alliance is governed and funded on a 50-50 basis by each of its owners. Alliance was developed to establish and operate a psychiatric hospital in Pierce County. Alliance does not own or operate any other healthcare facilities in Washington State or any other state.

BACKGROUND INFORMATION AND INITIAL APPROVAL
On December 16, 2014, Alliance submitted a CN application proposing to establish a 120-bed psychiatric hospital to be located on MultiCare Health System’s Allenmore Hospital campus at 3402 South 19th Street in Tacoma [98405] within Pierce County. [source: CN Application #15-15]

On February 1, 2016, CN #1563 was issued to Alliance approving the establishment of the psychiatric hospital as described in the application. On April 30, 2019, Alliance was issued a psychiatric hospital license for the operation of the 120-bed psychiatric hospital known as Wellfound Behavioral Health Hospital.3 [source: Department of Health internal database (ILRS)]

While the psychiatric hospital was built consistent with CN #1563, some changes in the project have occurred. Those changes are the focus of this amendment application.

AMENDMENT PROJECT DESCRIPTION
This amendment application proposes to amend CN #1563 for the following three reasons. [source: Application, Introduction and Reasons for the Amendment Section]

- change of ownership;
- change in the Management Agreement; and
- an increase in capital expenditure beyond the 12% allowable amount.

Below is a summary of each reason.

Change of Property Ownership and Change in the Management Agreement
In the initial application, the owner of Wellfound Behavioral Health Hospital was proposed to be Alliance. The owner of Alliance was proposed to be MultiCare Health System and CHI Franciscan Health in equal percentages. The applicant references a ‘change of ownership’ however, this amendment does not propose to change the ownership of either Alliance or Wellfound Behavioral Health Hospital. Rather, subsequent

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1 Alliance for South Sound Health’s UBI #603 458 691.
2 In year 2017, Catholic Health Initiatives and Dignity Health affiliated and in 2019 they formed CommonSpirit Health. Quoting from the CommonSpirit Health website, it was created to “serve the common good delivered through the dedicated work of thousands of physicians, advanced practice clinicians, nurses, and staff; through clinical excellence delivered across a system of hospitals and other care centers covering 21 states, and accessible to nearly one in four U.S. residents; and through more than $4 billion annually in charity care, community benefits, and government program services.”
3 HPSY.FS.60919628.
to the issuance of CN #1563, Alliance determined that MultiCare would develop the new hospital and lease it back to Alliance. This specific change, while not a change of ownership, affects three conditions attached to CN #1563.

CN #1563 was issued with 12 conditions; of the 12 conditions, 9 have been met. Conditions #9, #10, and #11 cannot be met with the change in structure described above. The conditions are restated below with information on the respective changes based on this amendment application.

- **Condition #9**
  Prior to providing services at the hospital, Alliance for South Sound Health will submit to the department for review and approval an executed Real Estate Purchase and Sale Agreement between MultiCare Health System as Seller and Alliance for South Sound Health as Buyer. The executed agreement must be consistent with the draft agreement provided in the application.

  This Real Estate Purchase and Sale Agreement is no longer applicable to this project. Rather, MultiCare Health System will own the property and build the hospital, then will lease the completed hospital to Alliance for South Sound Health. This condition will be replaced with a Lease Agreement between MultiCare Health System and Alliance for South Sound Health.

- **Condition #10**
  Prior to providing services at the hospital, Alliance for South Sound Health will submit to the department for review and approval an executed Management Services Agreement between Alliance for South Sound Health ("Company") and MultiCare Health System (MultiCare or "Manager"). The executed agreement must be consistent with the draft agreement provided in the application.

  The Management Agreement referenced in Condition #10 continues to be applicable to this project; however, it must be revised because of the draft Lease Agreement between MultiCare Health System and Alliance for South Sound Health.

- **Condition #11**
  Prior to providing services at the hospital, Alliance for South Sound Health will submit to the department’s Certificate of Need program for review and approval an executed condominium agreement. The executed agreement must be consistent with the draft agreement provided in the application.

  The Condominium Agreement in Condition #11 is no longer applicable to the project. It is replaced with a Lease Agreement between MultiCare Health System and Alliance for South Sound Health.

**Increase in Capital Expenditure beyond the 12% Allowable Amount**

CN #1563 was issued with an approved capital expenditure of $40,642,925. As development of the hospital progressed, the capital expenditures totaled $47,420,924. This amount is 16.6% more than the approved costs for CN #1563.

**APPLICABILITY OF CERTIFICATE OF NEED LAW**

This project is subject to review under Revised Code of Washington 70.38.115(11) and Washington Administrative Code 246-310-570 because Alliance for South Sound Health requests to modify three conditions attached to CN #1563.
EVALUATION CRITERIA
WAC 246-310-200(1)(a)-(d) identifies the four determinations that the department must make for each application. WAC 246-310-200(2) provides additional direction in how the department is to make its determinations. It states:

“Criteria contained in this section and in WAC 246-310-210, 246-310-220, 246-310-230, and 246-310-240 shall be used by the department in making the required determinations.

(a) In the use of criteria for making the required determinations, the department shall consider:

(i) The consistency of the proposed project with service or facility standards contained in this chapter;
(ii) In the event the standards contained in this chapter do not address in sufficient detail for a required determination the services or facilities for health services proposed, the department may consider standards not in conflict with those standards in accordance with subsection (2)(b) of this section; and
(iii) The relationship of the proposed project to the long-range plan (if any) of the person proposing the project.”

In the event the WAC 246-310 does not contain service or facility standards in sufficient detail to make the required determinations, WAC 246-310-200(2)(b) identifies the types of standards the department may consider in making its required determinations. Specifically WAC 246-310-200(2)(b) states:

“The department may consider any of the following in its use of criteria for making the required determinations:

(i) Nationally recognized standards from professional organizations;
(ii) Standards developed by professional organizations in Washington state;
(iii) Federal Medicare and Medicaid certification requirements;
(iv) State licensing requirements;
(v) Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and
(vi) The written findings and recommendations of individuals, groups, or organizations with recognized expertise related to a proposed undertaking, with whom the department consults during the review of an application.”

The review for an amendment project is limited to only those criteria that would be affected by the amendment, provided that the amendment does not significantly alter the project. For CN #1560, the following three changes have occurred:

- MultiCare Health System will directly own the property and lease it to Alliance for South Sound Health;
- the financial statements relied on in the initial approval will change as a result of the lease arrangement above; and
- the approved capital expenditure of the project increased beyond the 12% allowable.

The focus of this amendment review is the financial feasibility criteria under WAC 246-310-220.

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

<table>
<thead>
<tr>
<th>Action</th>
<th>Alliance for South Sound Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter of Intent Submitted</td>
<td>September 5, 2018</td>
</tr>
<tr>
<td>Application Submitted</td>
<td>November 26, 2018</td>
</tr>
<tr>
<td>Department’s pre-review activities</td>
<td></td>
</tr>
<tr>
<td>• DOH 1st Screening Letter</td>
<td>December 17, 2018</td>
</tr>
<tr>
<td>• Applicant’s Responses Received</td>
<td>January 15, 2019</td>
</tr>
<tr>
<td>• DOH 2nd Screening Letter</td>
<td>N/A</td>
</tr>
<tr>
<td>• Applicant’s Responses Received</td>
<td>N/A</td>
</tr>
<tr>
<td>Beginning of Review</td>
<td>February 8, 2019</td>
</tr>
<tr>
<td>End of Public Comment</td>
<td>February 28, 2019</td>
</tr>
<tr>
<td>Rebuttal Comments Submitted⁴</td>
<td>March 14, 2019</td>
</tr>
<tr>
<td>Department's Anticipated Decision Date</td>
<td>April 3, 2019</td>
</tr>
<tr>
<td>Department’s Anticipated Decision Date with a 120-day Extension⁵</td>
<td>August 1, 2019</td>
</tr>
<tr>
<td>Department Actual Decision Date</td>
<td>August 1, 2019</td>
</tr>
</tbody>
</table>

AFFECTED PERSONS

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

“...an “interested person” who:

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

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

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

During the review of this project, one entity—Providence Health & Services-Washington—sought affected person status. A brief description of Providence Health & Services-Washington is below.

⁴ There were no public comments received during the review; therefore, Alliance did not submit any rebuttal comments.
⁵ Thirty day extension letters were sent to Alliance for South Sound Health on April 3, 2019, May 3, 2019, June 3, 2019, and June 19, 2019.
Providence Health & Services Washington
Providence Health & Services Washington submitted a request for interested and affected person status for this application. In Washington State, Providence Health & Services operates a variety of healthcare facilities. Providence Health & Services does not operate any healthcare facilities in Pierce County, but does operate hospitals in the adjacent Snohomish and Thurston counties. Providence Health & Services did not provide public comment on this project. As a result, Providence Health & Services-Washington qualifies as an interested person, but does not qualify as an affected person for this project.

SOURCE INFORMATION REVIEWED
• Alliance for South Sound Health’s Certificate of Need application submitted November 26, 2018
• Alliance for South Sound Health’s first screening responses received January 15, 2019
• Public comments received by the end of public comment on February 28, 20196
• Hospital Charity Care and Financial Data Analysis received July 23, 2019
• Certificate of Need #1563 issued on February 1, 2016
• The department’s January 15, 2016, evaluation associated with the issuance of Certificate of Need #1563
• Quarterly progress reports related to Certificate of Need #1563
• Certificate of Need historical files
• MultiCare Health System website at https://www.multicare.org
• CHI Franciscan website at https://www.chifranciscan.org
• CommonSpirit Health website at https://commonspirit.org
• Wellfound Behavioral Health Hospital website at https://southsound.wa.networkofcare.org
• Washington State Secretary of State website at https://sos.wa.gov

CONCLUSION
For the reasons stated in this evaluation, the amendment application submitted by Alliance for South Sound Health continues to be consistent with the applicable review criteria of the Certificate of Need Program, provided Alliance for South Sound Health agrees to the following in its entirety.

Project Description:
This Certificate of Need approves the construction of a 120 bed psychiatric hospital that will provide crisis stabilization, inpatient, outpatient, and partial hospitalization for patients 18 and over. The number of approved beds is shown below.

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2. Prior to providing services at the hospital, Alliance for South Sound Health will submit a copy of the adopted and approved Admission Policy for review and approval. The final policy must be consistent with the draft provided in the application. [condition met on 02/20/19]

6 There were no public comments submitted during the review of this project. As a result, no rebuttal comments were submitted by the applicant.
3. Prior to providing services at the hospital, Alliance for South Sound Health will submit a copy of the adopted Charity Care Policy approved by the Department of Health’s Hospital and Patient Data System’s office. [condition met on 02/20/19]

4. The new 120 bed psychiatric hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. The new 120 bed psychiatric hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.88% of gross revenue and 6.85% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies. [condition met on 02/01/16 and is ongoing]

5. Annual budgets, as required by WAC 246-454-030, submitted by the new 120 bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Puget Sound Region. [condition met on 02/01/16 and is ongoing]

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Approved Costs:
The approved capital expenditure for this project is $47,420,924.
CRITERIA DETERMINATIONS
A. Need (WAC 246-310-210)

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department determines that the Alliance for South Sound Health project continues to meet the applicable need criteria in WAC 246-310-210.

(1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.

(2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

(3) The applicant has substantiated any of the following special needs and circumstances the proposed project is to serve.
   (a) The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both, to individuals not residing in the health service areas in which the entities are located or in adjacent health service areas.
   (b) The special needs and circumstances of biomedical and behavioral research projects designed to meet a national need and for which local conditions offer special advantages.
   (c) The special needs and circumstances of osteopathic hospitals and non-allopathic services.

(4) The project will not have an adverse effect on health professional schools and training programs. The assessment of the conformance of a project with this criterion shall include consideration of:
   (a) The effect of the means proposed for the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.
   (b) If proposed health services are to be available in a limited number of facilities, the extent to which the health professions schools serving the area will have access to the services for training purposes.

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

Initial Evaluation Summary
In its January 15, 2016, initial evaluation supporting the issuance of CN #1563, the department concluded that the sub-criterion under (1) and (2) above was met based on the following factors:
   1) a review of Alliance’s numeric methodology for the psychiatric beds in Pierce County;
   2) Alliance’s demonstration of access to psychiatric care issues in Pierce County;
   3) A review of Alliance’s draft Admission Policy and draft Charity Care Policy

The January 15, 2016, initial evaluation also concluded that the sub-criterion under (3), (4), and (5) did not apply to the initial project. [source: Initial evaluation, pp13-24]

Department Review
This amendment application does not change the department’s conclusion related to the criteria identified above. The criteria under WAC 246-310-210 remains met.
B. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department determines that Alliance for South Sound Health continues to meet the financial feasibility criteria in WAC 246-310-220.

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

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

Initial Evaluation Summary

In its January 15, 2016, initial evaluation supporting the issuance of CN #1563, the department concluded that this sub-criterion was met based on the following factors:

1) a review of Alliance’s assumptions supporting its projected number of discharges, patient days, and outpatient visits for the new psychiatric hospital;
2) a review of Alliance’s assumptions supporting it net revenue, total expenses, and net profit by the end of the third year of operation for the new psychiatric hospital;
3) the August 16, 2015, financial analysis provided by the Department of Health’s Hospital/Finance and Charity Care (HFCC) office; and
4) a review of Alliance’s revenue and expense statements for projected calendars years 2018 through 2020.

[source: Initial evaluation, pp25-31]

Amendment Application

This application proposes to amend CN #1563 because rather than Alliance building and owning the new hospital, MultiCare built the new hospital and is leasing it back to Alliance. This structural change affects three conditions attached to CN #1563. Further the costs of the project increased approximately 16.6% above the approved costs of $40,652,925.

Below is the explanation for this change in ownership/lease structure. [source: Application, p2 and January 15, 2019, screening response, p2]

“Subsequent to approval, the Alliance determined that MultiCare would be the developer of the new hospital, it would own it and lease it back to the Alliance. It was determined the MultiCare Allenmore campus did not have a legally divisible property boundary to separately convey the Alliance hospital building and land. To undertake necessary changes to allow a condominium development on the Allenmore campus would have required significant time and cost for legal teams to reconfigure ownership to allow for property transfer, to include surveying and development/recordation of definitive condominium agreements, as well as ongoing condo association management and operations. These findings were confirmed, post-approval by the Department. As a result, the parties concluded the more cost- and time-effective solution was to utilize a landlord/tenant approach, whereby MultiCare retained land ownership and the Alliance was a tenant and could still have long-term possessory rights in the building.”

Department Review

Alliance provided a copy of the revised executed Member Agreement and the draft Lease Agreement between MultiCare Health System and Alliance for South Sound Health. These two documents affect
the revised financial statements provided in this amendment application. [source: Application, Exhibit 2 and January 15, 2019, screening response, Exhibit 4 and Exhibit 6]

Alliance provided an amended pro forma revenue and expense statement for the psychiatric hospital. Alliance asserted that its projected number of patients, patient days, and revenue would not change because of the lease changes and maintained those numbers from the initial application. [source: January 15, 2016, initial evaluation, p30]

For the gross revenue section of the statement, Alliance updated the Medicaid per diem rate to reflect current reimbursement rates. The rate was updated from $800 to $829. This change in rates, affects the net revenue line item in the statement.

For this amendment application, a lease expense line item was included with annual costs consistent with the draft Lease Agreement. No other changes were made to the Revenue and Expense statements provided in the initial application. Given that the hospital was operational in late April 2019, the amended Revenue and Expense Statement was updated to reflect partial year 2019 and full years 2020 through 2022. [source: Initial Application, Exhibit 15 and January 15, 2019, screening response, pp15-16 and Exhibit 4]

The table below show a comparison of the Revenue and Expense Statement provided in the initial application and the revised statement provided in the amended application. Comparison years are full years one through three.

<table>
<thead>
<tr>
<th>Department’s Table 1</th>
<th>Alliance Psychiatric Hospital</th>
<th>Revenue and Expense Statement Comparison</th>
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<tbody>
<tr>
<td></td>
<td>Initial Application</td>
<td>Amendment Application</td>
</tr>
<tr>
<td></td>
<td>Full Year 1 2018</td>
<td>Full Year 2 2019</td>
</tr>
<tr>
<td>Net Patient Revenue</td>
<td>$31,557,000</td>
<td>$38,350,000</td>
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<tr>
<td>Total Expenses</td>
<td>$35,228,000</td>
<td>$35,580,000</td>
</tr>
<tr>
<td>Net Profit /(Loss)</td>
<td>($3,671,000)</td>
<td>$2,770,000</td>
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</tbody>
</table>

The ‘Net Patient Revenue’ line item is gross revenue minus any deductions for charity care, bad debt, and contractual allowances. The ‘Total Expenses’ line item includes salaries and wages, all allocated costs, and depreciation. With the change in this amendment application, Alliance continues to project to operate at a profit in years two and three.

Based on the above information, the department concludes that Alliance’s projected revenues and expenses are reasonable and can be substantiated for this amendment application. The department concludes that the immediate and long-range operating costs of the project can be met. This sub-criterion is met.

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

WAC 246-310 does not contain specific WAC 246-310-220(2) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what an unreasonable impact on costs and charges would be for a project of this type and size. Therefore, using its experience and expertise the department compared the proposed project’s costs with those previously considered by the department.
Initial Evaluation Summary
In its January 15, 2016, initial evaluation supporting the issuance of CN #1563 the department concluded that this sub-criterion was met based on the following factors:

1) a review of Alliance’s capital expenditure breakdown associated with the 120-bed psychiatric hospital;
2) a review of Alliance’s projected sources and percentages of revenue by payer;
3) a review of the following documents provided in the application:
   - Deed of Ownership (Attachment 9);
   - Zoning for the Site (Exhibit 5); and
   - Draft Condominium Agreement (Exhibit 22).

[source: Initial evaluation, pp33-34]

Amendment Application
This application proposes to amend CN #1563 because the costs for the project increased beyond the 12% allowable. Alliance provided a comparison table showing the capital costs identified in the initial application and this amendment application. [source: January 15, 2016, initial evaluation, p33 and Application, p26]

<table>
<thead>
<tr>
<th>Department’s Table 2</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Item</td>
<td>Initial Cost</td>
</tr>
<tr>
<td></td>
<td>Building Construction</td>
<td>$31,975,110</td>
</tr>
<tr>
<td></td>
<td>Fixed Equipment</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Moveable Equipment</td>
<td>$1,715,107</td>
</tr>
<tr>
<td></td>
<td>Architect/Engineering/Consulting Fees</td>
<td>$3,112,635</td>
</tr>
<tr>
<td></td>
<td>Other Fees (permits, real estate fees, etc.)</td>
<td>$639,502</td>
</tr>
<tr>
<td></td>
<td>Sales Tax</td>
<td>$3,200,571</td>
</tr>
<tr>
<td></td>
<td>Total Costs</td>
<td>$40,642,925</td>
</tr>
</tbody>
</table>

In its amendment application, Alliance also points out that
- In initial application, fixed and moveable were combined;
- Changes in amendment capital expenditure focus on both fixed and moveable equipment and state sales tax; and
- Construction costs did not change significantly.

Department’s Review
The Condominium Agreement relied upon in the initial application is no longer applicable and is replaced by the draft Lease Agreement provided in this amendment application. The costs associated with the draft Lease Agreement are addressed in the previous sub-criterion.

As stated in the project description section of this evaluation, Alliance had an increase in the capital costs of the project beyond the allowable 12%. For this amendment application review, the department’s Hospital Charity Care and Financial Data (HCCFD) reviewed the amended Revenue and Expense Statement and calculated operating revenues and expenses per admission. Staff from HCCFD concluded that the rates are similar to the Washington statewide averages. [source: HCCFD analysis, p3]
Based on the information provided above, the department concludes that the cost of this project will not result in an unreasonable impact on the costs and charges for health services within the service area. **This sub-criterion remains met.**

(3) **The project can be appropriately financed.**

WAC 246-310 does not contain specific source of financing criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how a project of this type and size should be financed. Therefore, using its experience and expertise the department compared the proposed project’s source of financing to those previously considered by the department.

**Initial Evaluation Summary**

In its January 15, 2016, initial evaluation supporting the issuance of CN #1563, the department noted that Alliance’s funding was 100% from MultiCare Health System and CHI Franciscan Health in equal amounts. The department concluded that this sub-criterion was met based on the following factors:

1) a review of MultiCare Health System’s historical and current financial health;
2) a review of CHI Franciscan Health’s historical and current financial health.

[source: Initial evaluation, pp35-36]

**Amendment Application**

By the time this amendment application was submitted and reviewed, the entire hospital was already funded by the two owners of Alliance—MultiCare Health System and CHI Franciscan Health. The 120-bed psychiatric hospital is licensed and operational. The project was funded as described in the application. [source: January 15, 2019, screening response, p3 and HCCFD analysis p3]

**Department’s Review**

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

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department determines that the Alliance for South Sound Health’s project continues to meet the structure and process of care criteria in WAC 246-310-230(3), (4), and (5).

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

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

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

4. **The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.**

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

In its January 15, 2016, initial evaluation supporting the issuance of CN #1563, the department concluded that this sub-criterion was met based on the following factors:

1. Alliance’s demonstration of adequate staffing for the 120-bed psychiatric hospital and its ability to recruit and retain staff;
2. Alliance’s demonstration of its ability to establish appropriate healthcare ancillary and support relationships in Pierce County;
3. A review of MultiCare Health System’s quality of care history in Washington State;
4. A review of CHI Franciscan Health’s quality of care history in both Washington State and out-of-state; and
5. Alliance’s demonstration of its ability to promote continuity in the provision of the care services within Pierce County.

[source: Initial evaluation, pp37-47]

**Department’s Review**

There were no public comments submitted during the review of this amendment application. The structural changes provided in the amendment application do not affect the department’s review of sub-criterion (1), (3), (4), and (5) above. These sub-criterion remain met.

The structural changes referenced in the application affect three of the conditions attached to CN #1563. The conditions are reviewed under sub-criterion (2) above. Below is a discussion each of the three existing conditions.

- **Condition #9**
  
  Prior to providing services at the hospital, Alliance for South Sound Health will submit to the department for review and approval an executed Real Estate Purchase and Sale Agreement between MultiCare Health System as Seller and Alliance for South Sound Health as Buyer. The executed agreement must be consistent with the draft agreement provided in the application.

  This Real Estate Purchase and Sale Agreement is no longer applicable to this project. Rather, MultiCare Health System will own the property and build the hospital, then will lease the completed hospital to Alliance for South Sound Health. This condition will be replaced with a Lease Agreement between MultiCare Health System and Alliance for South Sound Health. A draft Lease Agreement was provided in this amendment application.

  The draft Lease Agreement is valid for 40 years, beginning with year 2019. The costs identified in the lease agreement are consistent with the costs identified in the Revised Pro Forma Revenue and Expense Statement provided in this amendment application.

  When this amendment application was submitted in November 2018, the hospital was not yet operational; therefore the Lease Agreement was submitted as a draft. If this amendment application is approved, the department would attach a condition to the approval requiring Alliance to provide a copy of the executed lease agreement consistent with the draft provided in the application.

- **Condition #10**
  
  Prior to providing services at the hospital, Alliance for South Sound Health will submit to the department for review and approval an executed Management Services Agreement between Alliance for South Sound Health (“Company”) and MultiCare Health System (MultiCare or
The executed agreement must be consistent with the draft agreement provided in the application.

The Management Agreement referenced in Condition #10 continues to be applicable to this project; however, it must be revised because of the draft Lease Agreement between MultiCare Health System and Alliance for South Sound Health. The revised Management Agreement was provided in this amendment application.

- **Condition #11**
  
  Prior to providing services at the hospital, Alliance for South Sound Health will submit to the department’s Certificate of Need program for review and approval an executed condominium agreement. The executed agreement must be consistent with the draft agreement provided in the application.

  The Condominium Agreement in Condition #11 is no longer applicable to the project.

Information provided in this amendment application does not change the department’s conclusion related to the sub-criterion identified above. Provided that the applicant agrees to the condition regarding the draft Lease Agreement, **sub-criterion WAC 246-310-230(2) is met.**

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department determines that the Alliance for South Sound Health’s project continues to meet the cost containment criteria in WAC 246-310-240.

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

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

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

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

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

**Initial Evaluation Summary**

In its January 15, 2016, initial evaluation supporting the issuance of CN #1563, the department concluded that this sub-criterion was met based on the following factors:

1) Alliance’s demonstration of an adequate internal review of other options before submitting the application for the 120-bed psychiatric hospital;

2) Alliance’s demonstration that its costs for construction are reasonable and would not have an unreasonable impact of costs and charges to the public; and

3) Alliance’s demonstration that it would include any appropriate improvements in the delivery of health care services.

[source: Initial evaluation, pp48-51]

**Amendment Application**

In this amendment evaluation review, Alliance provided the following rationale for submission of the application. [January 15, 2019, screening response, pp11-12]

“Regarding ownership of the Alliance hospital facility, as stated in response to question #1, it was determined that to undertake necessary changes to allow a condominium development on the Allenmore
campus would have required significant time and cost for legal teams to reconfigure ownership to allow for property transfer, to include surveying and development/recordation of definitive condominium agreements, as well as ongoing condo association management and operation costs. Once confirmed, the parties concluded the more cost- and time-effective solution was to utilize a landlord/tenant approach, whereby MultiCare retained land ownership and the Alliance was a tenant and could still have long-term possessory rights in the building. However, as also stated in response to question #3, the initial application and subsequent filings always contemplated site control for the Alliance either through purchase or lease.

Regarding financing, as stated above, there have been no changes to the scope of the project, nor have there been changes to the approved funding sources. Both MultiCare and CHI-FH remain committed to their 50% share of project funding, as approved by the Department. However, over this four-year period since the project was approved, there have been public and private grants and donations that have been received, the result of widespread desire for improved access and care for inpatient and outpatient mental health for community and Pierce County residents. These grants and donations also reflect public support for or recognition of the joint commitment made by MultiCare and CHI-FH.

Questions 3 and 4 in the Amendment refer to capital expenditures. Question 17 refers to construction costs themselves. As stated above, it was determined to be more cost- and time-effective for MultiCare to build the hospital and the Alliance to lease it from MultiCare. In this regard, given the build-out was undertaken by MultiCare, not the Alliance, we stated in the Amendment application that this question was not applicable. However, as stated in the Application approved by the Department, we stated the following in response to Question 3:

The proposed design solution follows the Washington State licensing rules based on Facility Guidelines Institute’s Guidelines for Design and Construction of Hospitals and Outpatient Facilities. The proposed plans employ a very efficient and judicious use of space to achieve a cost-efficient solution, as well as an economical site development approach:

Placement of the new psychiatric hospital, adjacent to MultiCare Allenmore Hospital and approximately 2 miles from both Franciscan’s St. Joseph Medical Center and MultiCare Tacoma General Hospital, will allow easy access to excellent support services from both entities. It has been determined that support services will be provided by the entity with the lowest cost for each service. The following are expected to lead to cost savings and improvements in efficiency:

- A compact and highly efficient floor plan will provide for staff efficiency
- We will deploy a flexed approach to staffing. This volume based approach will enhance staffing productivity.
- Repetitive inpatient units will be utilized for cost reduction.
- Multi-use spaces within inpatient units will reduce overall size.
- Site development costs are minimized, since the new psychiatric hospital is being constructed on the site of an abandoned medical office building. Over 150 parking stalls already exist, reducing the expense of construction.

MultiCare has followed these same standards and actions.

Similarly, regarding Question 4, as referenced by the Department, this, too, refers to facility construction, but in terms of energy efficiency. As stated above, the Alliance did not build out the hospital. However, as stated in the Application approved by the Department, we stated the following in response to Question 4:
Since the proposed new psychiatric hospital is a new freestanding structure, it will be constructed to meet the Washington State Building Code, and the Washington Energy Code.

- We will endeavor to exceed the energy code in any way where it is affordable to do so, in the interest of reducing ongoing operating cost.
- We plan to apply for all available utility incentives which will reduce operating expenses, including Puget Sound Energy.
- The proposed design employs very compact massing to create energy efficiency. Exterior materials and glazing will be selected to create energy efficiency, optimized through energy modeling studies.

MultiCare has followed these same standards and actions.”

Department’s Review
Given that Certificate of Need rules require applicants to submit an amendment application to change or modify a condition or if there is an increase in the capital expenditure beyond the allowable 12%, there was no other option available to Alliance other than submitting this amendment.

In its January 15, 2016, evaluation, the department concluded that Alliance met the review criteria in the applicable sections of WAC 246-310-210, WAC 246-310-220, and WAC 246-310-230. The project reviewed and approved in January 2016 to establish a 120-bed psychiatric hospital in Pierce County was the best available alternative to meeting the identified need.

Specific to WAC 246-310-240(1), Alliance provided the rationale for changing the ownership/lease structure for the hospital. Specifically, the applicants determined it would be more cost-effective for MultiCare to build the new hospital and lease it to the Alliance, rather than create the various legal and land-use agreements necessary to execute the original project. The department concurs with the rationale for changing the structure.

Once the structure is changed, Alliance must submit an amendment application to release the conditions specific to the former structure and sale arrangements. Even with the changes as described in the application, the department concludes that the revised ownership and lease as described in the amendment application is an appropriate option. The criteria under WAC 246-310-240 remains met.