STATE OF WASHINGTON
DEPARTMENT OF HEALTH

August 31, 2012

CERTIFIED MAIL # 7011 1570 0002 7808 7303

Kristopher Kitz, Director
Strategic Planning and Business Development
MultiCare Health System
Post Office Box 5299
Mailstop: 315-L4-SBD
Tacoma, Washington 98415

Re: CN #12-40

Dear Mr. Kitz:

We have completed our review of the Certificate of Need application submitted by MultiCare Health System proposing to purchase the hospital facility assets of Auburn Regional Medical Center located in Auburn. Enclosed is a written evaluation of the application. For the reasons stated in this evaluation, the application submitted is consistent with applicable criteria of the Certificate of Need Program, provided MultiCare Health System agrees to the following in its entirety.

Project Description:

This certificate approves the purchase of Auburn Regional Medical Center by MultiCare Health System. Auburn Regional Medical Center provides general medical surgical services, intermediate obstetric services level II, rehabilitation services level II, and psychiatric services. Auburn Regional Medical Center also operates a joint PCI program with St. Francis Hospital, a Franciscan Health System hospital located in Federal Way. Auburn Regional Medical Center is currently a Medicare and Medicaid provider and holds a three-year accreditation from the Joint Commission. Auburn Regional Medical Center will continue participation in both the Medicare and Medicaid programs, and maintain services currently offered by the hospital after the purchase.

At the time of purchase, Auburn Regional Medical Center is licensed for 195 acute care beds. The type of license and number of beds are summarized below.

Type	**# of Beds**
Medical/Surgical	137
Level II Rehabilitation unit	14
PPS Exempt-Psychiatric	38
Level II-ICN	6
Total	**195**

Conditions:

1. Approval of the project description as stated above. MultiCare Health System 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. Under the MultiCare Health System ownership, Auburn Regional Medical Center will provide charity care in compliance with the charity care policies provided in this Certificate of Need application, or any subsequent polices reviewed and approved by the Department of Health. MultiCare Health System will use reasonable efforts to provide charity care at the Auburn Regional Medical Center in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the King County Region. Currently, this amount is 1.51% for gross revenue and 2.69% for adjusted revenue. Auburn Regional Medical Center will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.
3. By September 30, 2012, MultiCare Health System will provide to the department for review and approval copies of the signed exhibits listed below. The signed exhibit must be generally consistent with the draft exhibits attached to the Asset Purchase Agreement provided in the application.

Exhibit #	**Name of Exhibit**
Exhibit 1.3	Escrow Agreements
Exhibit 8(d)	Bill of Sale
Exhibit 8(e)	Assignment of Contracts and Assumption of Liabilities
Exhibit 8(f)	Assignment and Assumption of Real Estate Leases
Exhibit 8(g)	Assignment and Assumption of Personal Property Leases
Exhibit 8(l)	UHS Guaranty
Exhibit 8(m)	Environmental Disclosure Statement

Approved Costs:

The approved capital expenditure for the purchase of Auburn Regional Medical Center and its operations is $95,000,000.

You have two options, either accept or reject the above in its entirety. If you accept the above in its entirety, your application will be approved and a Certificate of Need sent to you. If you reject any provision of the above, you must identify that provision, and your application will be denied because approval would not be consistent with applicable Certificate of Need review criteria. Please notify the Department of Health within 20 days of the date of this letter whether you accept the above in its entirety. Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

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

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

Sincerely,

Steven M. Saxe, FACHE
Director, Health Professions and Facilities

Enclosure

cc: Department of Health, Investigations and Inspections Office

EVALUATION DATED AUGUST 31, 2012 OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY MULTICARE HEALTH SYSTEM PROPOSING TO PURCHASE AUBURN REGIONAL MEDICAL CENTER IN AUBURN

APPLICANT DESCRIPTION

MultiCare Health System is a not-for-profit health system serving the residents of southwestern Washington State. MultiCare Health System (MHS) includes four hospitals, nearly 20 physician clinics, six urgent care facilities, and a variety of health care services, including home health, hospice, and specialty clinics in Pierce and King counties. Below is a list of the three separately-licensed hospitals owned and/or operated by MHS. The other health care facilities are not listed below [source: CN historical files, MultiCare Health System website]

Tacoma General / Allenmore, Tacoma[1]
Mary Bridge Children's Hospital, Tacoma[2]
Good Samaritan Hospital, Puyallup

In addition to the hospitals listed above, on January 7, 2011, MHS received Certificate of Need approval to establish a new hospital in Covington, within King County. The hospital, to be known as Covington Medical Center, is not yet operational or licensed.

PROJECT DESCRIPTION

For this project, MHS proposes to purchase the facility and assets of Auburn Regional Medical Center (ARMC) from Universal Health Services, Inc. (UHS) one of the largest healthcare management companies in the United States. UHS is a publicly traded company and headquartered in King of Prussia, Pennsylvania. Through one of its subsidiaries, UHS operates acute care hospitals, behavioral health facilities, or ambulatory centers in 29 states, Puerto Rico, and the U.S. Virgin Islands. For Washington State, UHS operates two other healthcare facilities besides ARMC.[3] This project focuses on the purchase of ARMC by MHS. The other two healthcare facilities are not included in this purchase project.

ARMC is an acute care hospital located at 202 North Division Street in Auburn, within King County. ARMC provides general medical surgical services, intermediate obstetric services level II, rehabilitation services level II, and psychiatric services. ARMC also operates a joint PCI program with St. Francis Hospital, a Franciscan Health System hospital located in Federal Way. The hospital is currently a Medicare and Medicaid provider, holds a three-year accreditation from the Joint Commission on Accreditation of Health Care Organizations, and is designated as a level III trauma hospital for Washington State. ARMC is currently licensed for 195 acute care

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[1] While Tacoma General Hospital and Allenmore Hospital are located at two separate sites, they are operated under the same hospital license of "Tacoma General/Allenmore Hospital."

[2] Mary Bridge Children's Hospital is located within Tacoma General Hospital; each facility is licensed separately.

[3] The other two facilities are Fairfax Hospital, which operates with two separate licenses—one license for 133-bed psychiatric hospital and the other license for a 24-bed alcohol treatment hospital.

beds, which are broken down by type in the table below. [source: July 10, 2012, supplemental information, p2 and Department of Health, ILRS database]

Table 1
ARMC Licensed Beds as of August 31, 2012

Type	# of Beds
Medical/Surgical	137
Level II Rehabilitation unit	14
PPS Exempt-Psychiatric	38
Level II-ICN	6
Total	**195**

If this project is approved, MHS intends that ARMC would continue participation in both the Medicare and Medicaid programs, and maintain all services currently offered by the hospital after the purchase. Further, ARMC would be fully integrated into the MHS health system, which includes patient information and technology services currently in use at all MHS facilities. ARMC would continue to operate at its current site in Auburn, within King County. [source: Application, pp7-8]

The estimated capital expenditure for the purchase of ARMC and its related clinics is $95,000,000. MHS states that the capital expenditure includes the purchase of ARMC and its "operations," which also includes interest in a medical office building, a parking garage, and a small (less than 12 physician) medical group practice. MHS states that these additional assets add a negligible amount to the enterprise value of ARMC's hospital assets. Therefore the $95,000,000 may slightly overstate the value of the hospital for Certificate of Need review purposes. [source: July 10, 2012, supplemental information, p5]

During the review of this project, UW Medicine-Valley Medical Center (UW-VMC) provided comments related to the number of ARMC's acute care beds that are available to be sold to MHS. Specifically, on March 7, 2012, the department issued CN #1465 to ARMC approving the addition of 51 acute care beds to the hospital.[4] UW-VMC asserts that MHS does not have the authority to implement CN #1465 at ARMC before the purchase because it is not the certificate holder.

Upon review of the application materials submitted by ARMC that resulted in the issuance of CN #1465, UW-VMC further asserts that ARMC cannot complete or substantially complete the project as described by ARMC in its application [CN Application #10-23] before it can be transferred to MHS. Since MHS cannot implement CN #1465 after the purchase of ARMC, ARMC must relinquish CN #1465, resulting in the total number of beds to be purchased by MHS to be 162. [source: UW-VMC August 2, 2012, public comments, pp2-3]

In response to UW-VMC's assertions regarding the number of beds that are available for purchase at ARMC, MHS states that the transfer of a CN under WAC 246-310-500(7) does not apply to this project. Instead, the sale of an existing hospital [WAC 246-310-020(1)(b)] is the appropriate review criteria that should be used by the department. MHS further states that

[4] Based on the Adjudicative Services Unit Final Order #M2011-253.

ARMC intends to implement all or a portion of CN #1465 before the transaction is complete. [source: MHS August 17, 2012, rebuttal documents, pp1-3]

Department's Review

On March 7, 2012, CN #1465 was issued to ARMC approving the addition of 51 acute care beds to the hospital. At that time, ARMC was a subsidiary of Universal Health Services, Inc. a Pennsylvania based company. Universal Health Services, Inc will continue to own and operate ARMC up to the date the department would approve a change of ownership. UW-VMC is correct that MHS does not have the authority to implement CN #1465 at ARMC before this decision is released. UW-VMC is also correct that CNs are not transferrable, except under very limited circumstances. The change of ownership or sale of a hospital is not one of the circumstances that allow transfer of a CN.

MHS is correct in its statement that ARMC has the authority to implement CN #1465 by adding up to 51 acute care beds to the hospital until the date this decision is released. In the department's 'Beginning of Review' letter dated July 12, 2012, the department provided the following guidance related to ARMC's implementation of CN #1465:

"ARMC's request to modify its hospital license must be received at the Department of Health's Hospital Licensure Office no later than 5:00pm Friday, August 31, 2012."

The August 31, 2012, deadline ensures that the number of beds licensed at ARMC as of the next working day (September 4, 2012), can be incorporated into this decision, and relied upon by the purchaser (MHS), seller (UHS), and all affected persons as the number of licensed beds at ARMC. This number is shown in Table 1 of this evaluation.

APPLICABILITY OF CERTIFICATE OF NEED LAW

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

CRITERIA EVALUATION

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 the sale of a hospital is limited to only those criteria that would be affected by the sale. As a result, the department's review will focus on applicable portions of need (WAC 246-310-210), financial feasibility (WAC 246-310-220), structure and process of care (WAC 246-310-230), and cost containment (WAC 246-310-240).[5]

APPLICATION CHRONOLOGY

Action	MultiCare Health System
Letter of Intent Submitted	May 9, 2012
Application Submitted	June 12, 2012
Department's pre-review activities including screening and responses	June 13, 2012, through July 12, 2012
Beginning of Review • public comments accepted throughout review; • no public hearing conducted under the expedited review rules	July 13 2012
End of Public Comment	August 2, 2012
Rebuttal Comments Submitted	August 17, 2012
Department's Anticipated Decision Date	September 6, 2012
Department's Actual Decision Date	August 31, 2012

[5] Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(1), (3), (5), and (6); WAC 246-310-240(2) and (3).

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."

Throughout the review of this project, one hospital sought and received affected person status under WAC 246-310-010(2):

- UW Medicine-Valley Medical Center – an acute care hospital located at 400 South 43rd Street in Renton, within King County.

SOURCE INFORMATION REVIEWED

- MultiCare Health System's Certificate of Need application submitted June 12, 2012
- MultiCare Health System's supplemental information received July 10, 2012
- UW Medicine-Valley Medical Center public comments received August 2, 2012
- Rebuttal comments from MultiCare Helath System received on August 17, 2012
- Department of Health Hospital and Patient Data Systems Analysis dated August 21, 2012
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- MultiCare Health System's website at www.multicare.org
- Auburn Regional Medical Center's website at www.auburnregional.com

CONCLUSIONS

For the reasons stated in this evaluation, the application submitted by MultiCare Health System proposing to purchase Auburn Regional Medical Center in King County is consistent with applicable criteria of the Certificate of Need Program, provided MultiCare Health System agrees to the following in its entirety.

Project Description:

This certificate approves the purchase of Auburn Regional Medical Center by MultiCare Health System. Auburn Regional Medical Center provides general medical surgical services, intermediate obstetric services level II, rehabilitation services level II, and psychiatric services. Auburn Regional Medical Center also operates a joint PCI program with St. Francis Hospital, a Franciscan Health System hospital located in Federal Way. Auburn Regional Medical Center is currently a Medicare and Medicaid provider and holds a three-year accreditation from the Joint Commission. Auburn Regional Medical Center will continue participation in both the Medicare and Medicaid programs, and maintain services currently offered by the hospital after the purchase.

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Conditions:

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3. By September 30, 2012, MultiCare Health System will provide to the department for review and approval copies of the signed exhibits listed below. The signed exhibit must be generally consistent with the draft exhibits attached to the Asset Purchase Agreement provided in the application.

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Exhibit 8(l)	UHS Guaranty
Exhibit 8(m)	Environmental Disclosure Statement

Approved Costs:

The approved capital expenditure for the purchase of Auburn Regional Medical Center and its operations is $95,000,000.

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 concludes that MultiCare Health System has met the need criteria in WAC 246-310-210(2).

(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.

ARMC is currently a provider of health care services to residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. ARMC currently participates in the Medicare and Medicaid programs. To determine whether all residents of the service area would continue to have access to a hospital's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment.

To demonstrate compliance with this sub-criterion, MHS provided a copy of the Admission Policy currently used at all MHS facilities. This policy would also be used at ARMC. The policy completed its administrative review in June 2012, and is considered by MHS to be in effect at all MHS hospitals. The policy outlines the process/criteria that the hospitals use to admit patients for acute care services. The policy also includes the necessary language to ensure all residents of the service area would have access to services at all MHS hospitals, include ARMC. [source: July 10, 2012, supplemental information, Revised Exhibit 10]

To determine whether the elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination. ARMC currently provides services to Medicare eligible patients. Documents provided in the application demonstrate that MHS intends to maintain this status at the hospital. For this project, a review of the policies and data provided for ARMC identifies the facility's financial pro forma includes Medicare revenues. [source: July 10, 2012, supplemental information, Exhibit 21]

To determine whether low-income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. ARMC also provides services to Medicaid eligible patients. Documents provided in the application demonstrate that MHS intends to maintain this practice. For this project, a review of the policies and data provided for ARMC identifies the facility's financial pro forma includes Medicaid revenues [source: July 10, 2012, supplemental information, Exhibit 21]

A facility's charity care policy should confirm that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to healthcare services of the applicant. The policy should also include the process one must use to access charity care at the facility.

MHS provides the following statements regarding charity care at ARMC.

> *"It is recognized that ARMC has provided charity care below the King County regional average, as measured by the department for a number of years. With the purchase of ARMC, MultiCare will implement the same charity care policy that applies to all existing MultiCare hospitals and facilities. This will result in substantial changes and improvements to the current charity care system at ARMC, which are expected to result in increased charity care expenditures."*

To demonstrate its intent to continue to provide charity care to residents, MHS submitted its Department of Health approved charity care policy that outlines the process a patient uses to access this service. Further, MHS included a 'charity care' line item as a deduction from revenue within the pro forma financial documents for ARMC. [source: Application, Exhibit 11; HPDS website; and July 10, 2012, supplemental information, 16]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. ARMC is one of 20 hospitals located in King County within the King County Region. According to 2008 - 2010[6] charity care data obtained from HPDS, ARMC has historically provided less than the average charity care provided in the region.[7] ARMC's most recent three-year (2008 - 2010) percentages of charity care for gross and adjusted revenues are detailed in the table below.

Table 2
Auburn Regional Medical Center Three-Year Charity Care Comparison

	3-Year Average King County Region	3-Year Average ARMC
Percentage of Gross Revenue	1.51%	0.78%
Percentage of Adjusted Revenue	2.69%	2.69%,

The pro forma revenue and expense statements submitted by MHS for ARMC indicate that the hospital will provide charity care at approximately 1.50% of gross revenue and 3.02% of adjusted revenue. RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. The department acknowledges that ARMC's three-year historical average is significantly below that for the region and MHS projects to begin providing charity care at or above the regional average. However, to ensure that the charity care averages will be consistent with the regional averages under new ownership, the department concludes that a condition related to the percentage of charity care to be provided at ARMC is necessary if this project is approved.

During the review of this project, UW-VMC also provided comments related to the charity care percentages currently provided at ARMC. Specifically, UW-VMC asserts that ARMC's charity care percentages are well below the regional average, and if this project is approved,

[6] Year 2011 charity care data is not available as of the writing of this evaluation.

[7] Harborview Medical Center is subsidized by the state legislature to provide charity care services. Charity care percentages for Harborview make up almost 50% of the total percentages provided in the King County Region. Therefore, for comparison purposes, the department excluded Harborview Medical Center's percentages.

the department should impose a condition related to charity care percentages at ARMC. [source: UW-VMC August 2, 2012, public comments, pp4-5]

In response to UW-VMC comments regarding the charity care condition, MHS asserts that the department attached a charity care condition when it issued CN #1465, and MHS would be obligated to comply with the condition. [source: MHS August 17, 2012, rebuttal documents, pp4-5]

Department's Review

As previously stated, ARMC's charity care dollars and percentages are significantly below the regional average when calculating historical years 2008, 2009, and 2010. Since year 2009, ARMC has been issued three separate CNs, and each has a charity care condition requiring ARMC to provide charity care at the three-year regional average.[8] Historical data indicates that ARMC's charity care percentages are improving.

If this project is approved, ARMC would be operated under the new ownership of MHS. It is the practice of the department to attach a charity care condition for hospitals undergoing a sale/purchase/lease. The condition ensures that the new owner is informed of the Washington State charity care requirements before accepting responsibility of ownership and management of the hospital. Even though MHS is fully aware of Washington State charity care requirements, the department concludes the charity care condition is necessary for this project.

With agreement to the condition regarding the charity care percentages, the department concludes that all residents, including low income, racial and ethnic minorities, handicapped, and other under-served groups would continue to have access to the services provided by ARMC. **This sub-criterion is 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 concludes that MultiCare Health System has met the financial feasibility criteria in WAC 246-310-220.

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

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

[8] CN #1402 issued on September 24, 2009; CN #1407 issued on November 13, 2009; and CN #1465 issued on March 7, 2012.

To evaluate this sub-criterion, the department first reviewed the assumptions used by MHS to determine the projected number of admissions, patient days, and occupancy of ARMC after the purchase. The assumptions used by MHS are summarized below. [source: July 10, 2012, supplemental information, pp8-9]

- Based on historical [2009-2011] years, inpatient and outpatient statistics were compiled by 27 separate service line groups.[9] This historical data was then used to estimate 2011 data and project for years 2012 through 2015. Preparing the forecasts at the service line level was necessary because ARMC's growth characteristics across service lines were different. Further, while there had been consistent growth through 2010, historical ARMC data indicated a downturn in discharges and patients days for 2011.
- Each service line was evaluated separated for growth or decline in discharges and patient days over the period of 2007–2010. Where clear trends emerged, the trends were extrapolated forward using discharges as the forecast variable. Forecast discharges were then multiplied by length of stay to determined projected patient days.
- For service lines where there was no clear trend or there were very few discharges (such as dentistry or dermatology), discharges were held constant in the projection years.
- For services where MHS managers' opinions indicated no incremental growth, the discharges were held constant in the projection years.
- In most cases, the length of stay (LOS) was also held constant. In some services lines, the LOS was declining and the projection years continued with the decline [subject to reasonableness]. Overall, the LOS across all services lines were forecast to decline 1.5% per year for years 2013 through 2015.
- Based on the historical data, overall, patient day growth is forecast at 3.5% per year for years 2013 – 2015. This growth is based on historical data at ARMC and factoring in MHS managers' opinions regarding future growth opportunities at ARMC once part of MHS.

Using the assumptions stated above, MHS's projected number of inpatient admissions and patient days, and emergency room visits for ARMC as a whole. The projections are shown in the table on the following page. [source: Application, Exhibit 17]

[9] The 27 separate service line groups are: intensive care, semi-intensive care, acute care, physical rehabilitation, psychiatric care, surgical services, recovery room, anesthesiology, central services, laboratory, electro-diagnosis, magnetic res imaging, scanning, radiology-diagnostic, nuclear medicine, pharmacy, respiratory therapy, dialysis, physical therapy, psychiatric day-care visits, emergency room, short stay, occupational therapy, speech therapy, clinics, lithotripsy, and other ancillary services.

Table 3
MultiCare-Auburn Regional Medical Center
Projected Years 2013 through 2015

	CY 2013 Full Year 1	CY 2014 Full Year 2	CY 2015 Full Year 3
Projected Number of Admissions*	7,830	8,181	8,557
Projected Number Patient Days*	36,176	37,328	38,546
Project Inpatient LOS	4.62	4.56	4.50
Emergency Department Visits	36,783	38,094	39,488

*Does not include normal newborn admissions or patient days

When compared to the three year historical data provided in the application, the department notes that overall admissions are expected to increase, while the projected LOS is expected to decrease, consistent with the assumptions stated above. After reviewing MHS's assumptions and projections stated above, the department concludes they are reasonable.

If this project is approved, MHS anticipates the purchase would close by the end of year 2012. Under this timeline, calendar year 2013 is ARMC's first full year of operation under MHS, and 2015 would be year three. MHS also provided its assumptions used to project revenue, expenses, and net income for ARMC. Those assumptions are summarized below.

- Based on historical [2009-2011] years, expenses, gross revenue, and key statistics were compiled by 46 separate service line groups.[10]
- Forecast years do not include inflation.
- FTEs are calculated at the cost center level using the assumption that only employees who provide direct patient care are 'flexed' with increase patient days.
- Wages per hour and annual salaries are assumed constant at 2011 figures. MHS anticipates greater efficiencies at ARMC through economies of scale and shared workforce. The greater efficiency is reflected in the calculated 'average hourly wage' figures.
- Net reimbursement is held constant at 24.1% over the forecast period, which is consistent with ARMC actuals.
- Charity care is set to equal the 2008-2010 average for the King County region of 1.5% gross revenues and 2.7% adjusted revenues.
- Bad debt is held constant at 3.7% of gross revenues.
- Contractual allowances are held constant at 70.7% of gross revenues.
- Projected revenue by payer is expected to change slightly—Medicare and Medicaid revenues are within 1% of historical years
- MHS corporate allocation for indirect expenses are added as a non-operating expense and set at 10% of total operating expenses. The percentage equates to approximately $11,000,000 in each of the three years.

[10] The 46 separate service line groups include the 27 used above, plus the following 19 non-direct patient care service lines: printing, dietary, laundry/linen, central transport, purchasing, plant operations, housekeeping, communication, data processing, accounting, patient accounts, admitting, hospital administration, public relations, personnel, medical records, utilization management, nursing administration, and other administrative services.

Using the assumptions stated above, MHS projected revenue, expenses, and net income for ARMC. The projections are shown in the table below. [source: Application, Exhibit 17]

Table 4
MultiCare-Auburn Regional Medical Center
Projected Years 2013 through 2015

	CY 2013 Full Year 1	CY 2014 Full Year 2	CY 2015 Full Year 3
Net Revenue	$ 119,167,000	$ 123,250,000	$ 127,583,000
Total Expense	$110,710,000	$113,803,000	$114,703,000
Net Profit /(Loss)	**$ 8,457,000**	**$ 9,447,000**	**$ 12,880,000**
Minus Corporate Allocations	$ 11,071,000	$ 11,380,000	$ 11,470,000
Net Profit / (Loss)	**($ 2,614,000**	**($ 1,933,000)**	**$ 1,410,000**

The 'Net Revenue' line item is gross inpatient and outpatient revenue, plus non-operating revenue, minus deductions for contractual allowances, charity care, and bad debt. The 'Total Expenses' line item includes salaries and wages, amortization, and depreciation. As shown above, MHS projected net profits in all years shown when allocated costs are not included. Once allocated costs are included at 10% of total operating expenses, MHS projects ARMC's revenues to cover expenses by year three.

To determine whether MHS would meet its immediate and long range capital costs, the department's Hospital and Patient Data Systems (HPDS) reviewed 2010 historical balance sheets for MHS as a whole. The information is shown in the table below. [source: HPDS analysis, p2]

Table 5
MultiCare Health System Balance Sheet for Year 2010

Assets		Liabilities	
Current Assets	$ 444,905,000	Current Liabilities	$ 204,302,000
Fixed Assets	$ 1,103,879,000	Long Term Debt	$ 764,833,000
Board Designated Assets	$ 78,410,000	Other Liabilities	$ 178,886,000
Other Assets	$ 605,778,000	**Equity**	**$ 1,084,951,000**
Total Assets	**$ 2,232,972,000**	**Total Liabilities and Equity**	**$ 2,232,972,000**

After reviewing the balance sheet above, HPDS provided the following statements.

> *"The 2010 audited MultiCare Health System shows high long term debt as compared to equity. However this is adequately offset by the healthy debt service coverage ratio. The current assets to current liabilities slight shortfall are offset by a large number in investments (Assets-Other) which is not reflected in the ratios. MultiCare's capital expenditure for Auburn Regional Medical Center is projected to be $95,000,000 in cash. MultiCare has the cash available according to the 2010 audited report."*

To assist the department in its evaluation of this sub-criterion, HPDS also provided a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt

to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. If a project's ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, HPDS reviews a project's projected statement of operations to evaluate the applicant's immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compared the projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2010 data for comparison with historical year 2010 for MHS. Year 2010 data was also used as comparison for projected years 2013 through 2015 for ARMC. The ratio comparisons are shown in the table below. [source: HPDS analysis, p3]

Table 6
Current and Projected HPDS Debt Ratios for MHS and Auburn Regional Medical Center

Category	Trend *	State 2010	MHS 2010	ARMC 2013	ARMC 2014	ARMC 2015
Long Term Debt to Equity	B	0.554	0.705	0.657	0.586	0.5.24
Current Assets/Current Liabilities	A	2.283	2.178	1.535	1.557	1.581
Assets Funded by Liabilities	B	0.434	0.434	0.413	0.391	0.370
Operating Expense/Operating Revenue	B	0.947	0.931	1.022	1.016	0.989
Debt Service Coverage	A	5.876	10.237	N/A	N/A	N/A
Definitions:	**Formula**					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets					
Operating Expense/Operating Revenue	Operating expenses / operating revenue					
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp					

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

Comparing MHS's year 2010 ratios with the most current statewide ratios revealed that the long term debt to equity ratio is slightly out of range, however, the board designated assets are very strong, which offset this ratio.

After evaluating the hospital's projected ratios and statement of operations, staff from HPDS provided the following analysis. [source: HPDS analysis, pp2-3]

> *"The pro-forma for MultiCare Auburn Medical Center is composed of the income statement for Auburn [Regional Medical Center] and the Balance Sheet for MultiCare [Health System] since Auburn will be a wholly owned entity. The Debt Service ratio is not useful due to the mix of sources for the income statement and balance sheet. The other ratios are appropriate by the third year except current assets to current liabilities which has a shortfall [that] is offset by a large number in investments (Assets-Other) which is not reflected in the ratios. The projections show the hospital will break even in the third year of operation."*

No public comments were submitted for this sub-criterion. 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.

As stated in the project description section of this evaluation, MHS intends to maintain all current services at ARMC. As indicated in the pro forma projections and further demonstrated within the application, MHS does not intend to increase charges for health services or change the payer mix to make a net profit. [source: July 10, 2012, supplemental information, Exhibit 21]

No public comments were submitted for this sub-criterion. Based on the information provided above, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health services within the service area. **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.

The estimated capital expenditure for the purchase of ARMC and its operations is $95,000,000. MHS intends to fund the purchase through the cash reserves. [source: Application, p25 and July 10, 2012, supplemental information, p5]

MHS provided a copy of the draft Asset Purchase Agreement dated May 1, 2012. [source: Application, Exhibit 15 and July 10, 2012, supplemental information, Exhibit 22] The agreement acknowledges that working capital will be required post-transaction for immediate operating expenses prior to receipt of revenue from operations. MHS intends to fund the short term working capital from MHS's cash reserves. [source: Application, p25]

To demonstrate a financial commitment to the project, MHS provided a copy of the Resolution of the Board of Directors of MultiCare Health System signed and dated April 27, 2012. [source: Application, Exhibit 22] The document confirms financial support for the purchase of ARMC. MHS also provided a copy of its 2010 audited financial statements. [source: Application, Exhibit 19]

During the review of this project, UW-VMC provided comments related to this sub-criterion. The comments focus on recent projects undertaken by MHS that may not be reflected in the 2010 audited financial statements.[11]

- Renovation of MHS-Good Samaritan Hospital in Puyallup at $400,000,000; and
- Establishment of MHS-Covington Medical Center in Covington at $175,000,000.

UW-VMC asserts that if the information above is not reflected in any historical financial statements, the department would be unable to review this sub-criterion and must conclude that MHS's project fails. [source: UW-VMC August 2, 2012, public comments, p4].

In response to the comments provided by UW-VMC, MHS states that the 'Consolidated Balance Sheet' provided as Exhibit 17 in the application reflects the financial impact of all MHS capital expenditures referenced above by UW-VMC. MHS provides the following clarification regarding the balance sheet provided. [source: MHS August 17, 2012, rebuttal documents, pp3-4]

- *The balance sheet reflects financial ratios ...which clearly demonstrate that MHS exceeds state benchmark financial ratios for long term debt to equity; assets financed by liabilities; and operating expense to operation revenue.*
- *The debt service coverage ratio is not meaningful at the MHS level since it includes only ARMC financial projections.*
- *The only benchmark that MHS does not exceed is the current assets to current liabilities ratio, and that, alone, is not a measure of financial strength, since it excludes the very significant, growing asset base at MHS.*
- *A better measure of financial strength is net assets (also known as owner equity), which is the remainder when liabilities are subtracted from assets. In 2012, MHS net assets were $1.2 billion. By 2015, net assets are forecast to increase to $1.7 billion, an increase of 41.7%."*

Department's Review

The department acknowledges that the costs for renovation of Good Samaritan Hospital and the establishment of a new hospital in Covington must be included in the projected balance sheets for this project to ensure an accurate financial picture and review of MHS's financial viability. MHS provided the information in its Exhibit 17. HPDS review of MHS's 2010 quarterly financial documents reported to the department support the claim by MHS that the costs for both Good Samaritan and Covington are included.

Further, HPDS staff reviewed the historical and projected financial data for MHS and concluded that the short- and long-range costs of the project could be met with approval of this project. Even with the $95,000,000 purchase of ARMC, HPDS concluded that MHS continues to be in strong financial health.

Based on the review above, the department concludes **this sub-criterion is met.**

[11] UW Medicine-Valley Medical Center also included the $95,000,000 commitment associated with this project. Since approval of the purchase of ARMC is the focus of this evaluation, MHS appropriately did not include the costs of this project in its historical documents.

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 concludes that MultiCare Health System has met the structure and process of care criteria in WAC 246-310-230.

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

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of FTEs that should be employed for projects of this type or size. Therefore, using its experience and expertise the department concludes that the planning would allow for the required coverage.

MHS states that there are no anticipated changes in hospital clinical staffing or physician privileges. The current ARMC medical staff will remain, although there may be some coordination of administrative functions. There are no immediate planned changes in staffing since the scope of services and projected number of admissions and patients days are not expected to significantly change. [source: Application, pp27-28]

MHS also provided its projected FTEs [full time equivalents] for ARMC in the first three calendar years of operation. MHS expects to add a total of 35 FTEs in the three year period. The table below provides a breakdown of FTEs. [source: July 10, 2012, supplemental information, Exhibit 24]

Table 7
MHS ASC Current and Proposed FTEs Years 2012-2015

FTE by Type	CY 2013 Full Year 1	CY 2014 Increase	CY 2015 Increase	Total
Management FTEs	98.0	0.00	0.00	98.0
Nursing FTEs	273.0	9.0	7.0	289.0
Other Patient Care FTEs	11.0	0.00	0.00	11.0
Tech/Professional FTEs	165.0	6.0	7.0	178.0
Support FTEs	141.0	3.0	3.0	147.0
Total FTEs	**688.0**	**18.0**	**17.0**	**723.0**

MHS has the majority of key staff in place and does not expect difficulty recruiting the additional staff needed in future years. [source: Application, pp27-28]

No public comments were submitted for this sub-criterion. Based on the information provided in the application, the department concludes that MHS provided documentation to demonstrate that it would continue to retain the necessary staff to provide the services at the hospital. **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(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.

MHS states that all existing relationships will continue and, in some instances, improve with the integration of ARMC into MHS. Specifically, ARMC would be integrated into MHS's existing infrastructure, including the technological leadership and innovations of health care delivery. MHS states it has experience with this type of integration since its recent integration of Good Samaritan Hospital in Puyallup with MHS. MHS provided a summary of its internal process it uses to cover the needs of the patients in its system from admission through discharge. Since ARMC already works with other community providers to ensure appropriate community-based care for patients, these relationships are also expected to continue. [source: Application, p27]

Documentation provided in the application demonstrates that MHS intends to continue working with existing providers to the betterment of the community. MHS does not intend to change the existing service area, community support partnerships, or ancillary relationships as a result of the ownership transaction, but may consider additional relationships as opportunities arise.

No public comments were submitted for this sub-criterion. The department concludes that there is reasonable assurance that MHS will continue to maintain the necessary relationships with ancillary and support services to provide healthcare in the communities. Approval of this project would not negatively affect these 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.

MHS owns and operates a variety of healthcare facilities in Washington State, including hospitals, home health, and hospice agencies. MHS does not own or operate any out-of-state facilities. The Department of Health's Investigations and Inspections Office (IIO) conducts quality of care and compliance surveys for the hospitals, home health, and hospice agencies.

Records indicate that since 2008, IIO completed a total of 9 compliance surveys for MHS owned or operated healthcare facilities.[12] None of the compliance survey revealed significant deficiencies for the facility. Additionally, all four MHS hospitals are accredited by the Joint Commission. [source: facility survey data provided by the Investigations and Inspections Office and Joint Commission website]

No public comments were submitted for this sub-criterion. Based on the compliance history of MHS owned and/or operated healthcare facilities, there is reasonable assurance that MHS would continue to operate ARMC in conformance with applicable state and federal licensing and certification requirements. **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.

MHS states that continuity in the provision of health care will be accomplished with the purchase of ARMC because it allows the facility to continue operating as a hospital in the planning area. Additionally, with this affiliation, ARMC would experience the benefits of being part of a larger, local healthcare system. MHS states it is a recognized national and statewide leader in implementing electronic health record technology, which is already in use at all of its south King County hospitals and clinics. Once ARMC is part of MHS, this would improve patient access and quality, as well as expand and improve working relationships between provides. [source: Application, p28]

To comply with this sub-criterion, MHS also provided a copy of the Asset Purchase Agreement for this transaction between the buyer and sellers identified below. [source: Application, Exhibit 15 and July 10, 2012, supplemental information, Exhibit 22]

Buyer	Seller
MultiCare Health System	Auburn Regional Medical Center, Inc Auburn Regional Medical Group South King Ambulatory Services, LLC UHS of Washington, Inc.

The agreement outlines the roles and responsibilities of both the sellers and the buyer and identifies the land and buildings to be included in the agreement. It also identifies an escrow deposit of $5,000,000, and the closing cash payment of $94,250,000. MHS also provided a copy of the Amendment to Asset Purchase Agreement signed by both buyer and sellers. The

[12] Year 2008=1 survey; year 2009=3 surveys; year 2010=3 surveys; year 2011=2 surveys; and year 2012=0 surveys.

closing date identified in the Amendment to Asset Purchase Agreement is September 30, 2012.

Provisions in the Asset Purchase Agreement highlight MHS's intent to maintain the existing staff, including physicians under contract, and continue providing healthcare services in the community. The agreement also demonstrates MHS's intent to assume and honor existing contracts, including property leases, equipment leases, and ancillary contracts with community healthcare providers.

While the Asset Purchase Agreement is signed by both buyer and sellers, many of the exhibits attached to the agreement are un-signed. Below is a list of exhibits attached to the Agreement and a notation of whether the exhibit is signed or unsigned.

Exhibit #	**Name of Exhibit**	**Signed/Unsigned**
Exhibit 1.3	Escrow Agreements	Unsigned
Exhibit 8(d)	Bill of Sale	Unsigned
Exhibit 8(e)	Assignment of Contracts and Assumption of Liabilities	Unsigned
Exhibit 8(f)	Assignment and Assumption of Real Estate Leases	Unsigned
Exhibit 8(g)	Assignment and Assumption of Personal Property Leases	Unsigned
Exhibit 8(k)	Transition Services Management Agreement	Signed
Exhibit 8(l)	UHS Guaranty	Unsigned
Exhibit 8(m)	Environmental Disclosure Statement	Unsigned

Given that these unsigned exhibits are essential to the Asset Purchase Agreement, if this project is approved, the department would include a condition requiring MHS to provide signed copies of the unsigned exhibits identified above. Provided that MHS agrees to this condition, the department concludes that MHS will continue to promote continuity in the provision of health care services in the community with the purchase of ARMC. **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 the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes that MultiCare Health System has met the 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, the department takes a multi-step approach. Step one determines if the application has met the other criteria of WAC 246-310-210 thru 230. If it has failed to meet one or more of these criteria then the project is determined not to be the best alternative, and would fail this sub-criterion.

If the project met WAC 246-310-210 through 230 criteria, the department would move to step two in the process and assess the other options the applicant or applicants considered prior to submitting the application under review. If the department determines the proposed project is better or equal to other options the applicant considered before submitting their application, the determination is either made that this criterion is met (regular or expedited reviews), or in the case of projects under concurrent review, move on to step three.

Step three of this assessment is to apply any service or facility specific criteria (tie-breaker) contained in WAC 246-310. The tiebreaker 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 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.

Step One

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

Step Two

Before submitting this application to purchase ARMC, MHS and UHS discussed three other options. A summary of the three options and the rationale for rejecting them is below. [source: Application, pp29-31]

Do Nothing

While UHS has healthcare facilities across the nation, they are primarily psychiatric hospitals. UHS recognized the benefits of association with a larger system of care, but does not own other general acute care hospitals in Washington State. UHS also recognized that hospital costs were increasing and without a nearby affiliation, ARMC would soon be operating at a consistent loss. UHS expressed interest in divesting itself of ARMC. As a result, this option was rejected by UHS.

MHS would enter into a long-term lease of ARMC only, excluding its clinics.
Without the linkage of ARMC's clinics, MHS does not view this option as a benefit for the hospital. Excluding the physician clinics would also not allow complete linkage to MHS's system of care, and would not provide the utmost efficiency. While this option would not affect staffing of the hospital, both MHS and UHS agreed this option was not the preferred choice.

MHS would develop a non-purchase affiliation with ARMC
Both MHS and UHS recognized this option as a benefit to ARMC and its clinics; however, it would entail development of new shared protocols to allow ARMC to implement EPIC [MHS's electronic medical records technology] without being fully integrated into MHS. Both MHS and UHS agreed this option was preferred over the long-term lease option, but still not the best choice for continued operations of ARMC and the community.

Department's Review of Alternatives
Based on the discussion above, other than the option of 'do nothing,' UHS considered no other options before concluding that sale of ARMC was the preferred choice. Once the decision was made by UHS to sell ARMC, submission of a Certificate of Need application is the only option available to the purchasing entity.

For its part, MHS considered other affiliation arrangements before concluding that the outright purchase of ARMC and its associated clinics is the preferred choice. However, as with UHS, once MHS determined that the purchase of ARMC is the preferred choice, no other option is available to MHS.

MHS states there are no anticipated changes in the type or scope of services to be provided at ARMC post transaction. The changes in payer mix post transaction are not significant. MHS intends to increase the charity care percentages at ARMC and has submitted documentation to support this intention. While community members should see a seamless transition in ownership, MHS expects to improve coordination and consolidation of patient care due, in part, to the integration of ARMC into MHS and use of the electronic medical records system.

The department did not identify any other option than those stated by the applicant.

Step Three
This step is used to determine between two or more approvable projects which is the best alternative. This step does not apply to this project.

No public comments were submitted for this sub-criterion.

Based on the options considered and rejected by both MHS and UHS, the department concludes that moving forward with this application and the transaction is ultimately the best option for the residents of King County and surrounding communities. **This sub-criterion is met.**