



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH

January 15, 2016

CERTIFIED MAIL # 7015 0640 0000 6441-5768

P Blair Stam  
Executive Vice President  
Signature Healthcare Services, LLC  
4238 Green River Road  
Corona, California, 92880

RE: Certificate of Need Application #15-15A

Dear Mr. Stam:

We have completed review of the Certificate of Need (CN) application submitted by Signature Healthcare Services, LLC proposing to construct a new 174 bed psychiatric hospital in the city of Tacoma in Pierce County. Enclosed is a written evaluation of the application.

For the reasons stated in this evaluation, the department has concluded that the project is not consistent with Certificate of Need criteria identified below, and a Certificate of Need is denied.

Cost Containment	WAC 246-310-240
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This decision may be appealed. The two appeal options are listed below.

Appeal Option 1:

You or any person with standing may request a public hearing to reconsider this decision. The request must state the specific reasons for reconsideration in accordance with Washington Administrative Code 246-310-560. A reconsideration request must be received within 28 calendar days from the date of the decision 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

P Blair Stam  
Executive Vice President  
Signature Healthcare Services, LLC  
January 15, 2016  
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Appeal Option 2:

You or any person with standing may request an adjudicative proceeding to contest this decision within 28 calendar days from the date of this letter. The notice of appeal must be filed according to the provisions of Revised Code of Washington 34.05 and Washington Administrative Code 246-310-610. A request for an adjudicative proceeding must be received within the 28 days at one of the following addresses:

Mailing Address:

Department of Health  
Adjudicative Service Unit  
Mail Stop 47879  
Olympia, WA 98504-7879

Physical Address

Department of Health  
Adjudicative Clerk Office  
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 Janis Sigman with the Certificate of Need Program at (360) 236-2955.

Sincerely,



Steven M. Saxe, FACHE  
Director, Community Health Systems

Enclosure

**EXECUTIVE SUMMARY**  
**EVALUATION DATED JANUARY 15, 2016 OF THE FOLLOWING**  
**CERTIFICATE OF NEED APPLICATIONS PROPOSING TO ADD**  
**PSYCHIATRIC BEDS TO PIERCE COUNTY:**

- **SIGNATURE HEALTH CARE SERVICES d/b/a TACOMA BEHAVIORAL HEALTHCARE HOSPITAL PROPOSING TO ESTABLISH A 174 BED PSYCHIATRIC HOSPITAL IN TACOMA**
- **MULTICARE HEALTH SYSTEM/CHI-FRANCISCAN-HEALTH d/b/a/ as ALLIANCE FOR SOUTH SOUND HEALTH PROPOSING TO ESTABLISH A 120 BED PSYCHIATRIC HOSPITAL IN TACOMA**

**BRIEF PROJECT DESCRIPTIONS**

**Signature Health Care Services, LLC**

Signature Health Care Services, LLC (Signature) is a for profit corporation owned by Falmouth, Inc. and Mr. Soon K. Kim. Falmouth, Inc. has a 20% ownership and Mr. Kim has an 80% ownership. Signature is proposing to establish up to a 174 bed or as few as a 120 bed new psychiatric hospital in space leased from Tacoma Life properties, LLC; which Mr. Kim has 100% ownership. The facility will be known as Tacoma Behavioral Healthcare Hospital (TBHH). Signature proposes to service both voluntary and in-voluntary (Involuntary Treatment Act-ITA) patients. Signature anticipates most ITA patients would be assigned to two 22 bed adult units. Patients to be served by this facility are persons age 12 and older. Programs designed specifically for geriatric patients, patients with co-morbidities, and patients with dual diagnosis (chemical dependency and psychiatric) will be provided by Signature. The primary service area is Pierce County.

The capital expenditure associated with this project is \$42,565,367. Of that total amount 9.66% is related to land purchase, 3.82% to site preparation, 65.19% is related to construction, 2.86 % to moveable equipment, 7.00% to Architect/Engineering Fees, 3.09% to costs associated with financing, and 8.41% to Washington State sales tax.

Signature anticipates the 174 bed psychiatric hospital would become operational on January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three.

**Alliance for South Sound Health**

Alliance for South Sound Health (Alliance) is a joint venture by MultiCare Health System (MHS) and Catholic Health Initiative-Franciscan Health (CHI-FH). MHS will have a 50% ownership of Alliance and CHI-FH will also have a 50% ownership of Alliance. Alliance is proposing to establish a 120 bed psychiatric hospital in space provided by MHS on their Allenmore campus. Alliance will build and own the hospital, which will be structured either in a lease or commercial condominium arrangement. Alliance will provide crisis stabilization, inpatient, outpatient, and partial hospitalization requiring psychiatric services.

The capital expenditure associated with this project is \$40,642,925. Of that total amount, 78.67% is related to construction, 4.22 % to moveable equipment, 7.70% to Architect/Engineering Fees, 1.57% to supervision and inspection, and 7.87% to Washington State sales tax.

Alliance anticipates the 120 bed psychiatric hospital would become operational on January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three.

### **APPLICABILITY OF CERTIFICATE OF NEED LAW**

These projects are subject to review as the construction, development, or other establishment of new health care facility under Revised Code of Washington 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1)(a).

### **CONCLUSIONS**

#### **Signature Healthcare Services, LLC**

For the reasons stated in this evaluation, the application submitted by Signature Health to establish a 174 bed or as few as a 120 bed new psychiatric hospital located in Tacoma within Pierce County is not consistent with applicable criterion and a Certificate of Need Is denied.

#### **Alliance for South Sound Health**

For the reasons stated in this evaluation, the application submitted by Alliance for South Sound Health to construct a 120 bed Psychiatric Hospital in Tacoma within Pierce County is consistent with applicable criterion, providing Alliance 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.

	<b>Number of Beds</b>
Beds dedicated to patients age 18 and older (Adult)	120
<b>Total Licensed Adult Psychiatric Beds</b>	<b>120</b>

#### **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.
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.
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.
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.

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.
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.
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.
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.
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.
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.
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.
12. 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.

**Approved Costs:**

The approved capital expenditure for this project is \$40,642,925.

**EVALUATION DATED JANUARY 15, 2016 OF THE FOLLOWING  
CERTIFICATE OF NEED APPLICATIONS PROPOSING TO ADD  
PSYCHIATRIC BEDS TO PIERCE COUNTY:**

- **SIGNATURE HEALTH CARE SERVICES d/b/a TACOMA BEHAVIORAL HEALTHCARE HOSPITAL PROPOSING TO ESTABLISH A 174 BED PSYCHIATRIC HOSPITAL IN TACOMA**
- **MULTICARE HEALTH SYSTEM/CHI-FRANCISCAN-HEALTH d/b/a/ as ALLIANCE FOR SOUTH SOUND HEALTH PROPOSING TO ESTABLISH A 120 BED PSYCHIATRIC HOSPITAL IN TACOMA**

**APPLICANTS DESCRIPTION**

**Signature**

Signature Health Care Services, LLC (Signature) is a proprietary corporation that is a subsidiary of Farmouth, Inc. and Mr. Soon K. Kim. Farmouth, Inc. has a 20% ownership and Mr. Kim has an 80% ownership. Signature is based in Corona, California and is one of the largest privately held psychiatric hospital companies in the country. Signature has been registered with the Washington State Secretary of State office since September 2, 2014. Tacoma Behavioral Healthcare Hospital, LLC (TBHH) is a subsidiary of Signature and is not registered as a Washington Corporation. Signature subsidiaries own and operate 13 behavioral health hospitals in five states. The 13 facilities are listed below:

<b>Facility Name</b>	<b>City</b>	<b>State</b>
Aurora Behavioral Health Systems, LLC	Glendale	Arizona
Aurora Behavioral Healthcare-Tempe, LLC	Tempe	Arizona
Aurora Charter Oak, Los Angeles, LLC	Covina	California
Aurora Los Encinas, LLC	Pasadena	California
Aurora-San Diego, LLC	San Diego	California
Aurora Behavioral Healthcare-Santa Rosa, LLC	Santa Rosa	California
Vista Del Mar, LLC	Ventura	California
Aurora Chicago Lakeshore Hospital, LLC	Chicago	Illinois
Desert Parkway Behavioral Healthcare Hospital, LLC	Las Vegas	Nevada
Dallas Behavioral Healthcare Hospital, LLC	De Soto	Texas
Georgetown Behavioral Health Institute, LLC	Georgetown	Texas
Houston Behavioral Healthcare Hospital, LLC	Houston	Texas
San Antonio Behavioral Healthcare Hospital, LLC	San Antonio	Texas

Signature intends to operate a variety of programs in this facility including inpatient, outpatient, and partial hospitalization requiring psychiatric services. After meeting with existing community providers Signature is proposing the following specific services:

- A crisis stabilization and evaluation unit for both voluntary and involuntary patients ages 18 and older;
- A general behavioral health unit for continued treatment of patients ages 18 and older, who have received evaluation, crisis stabilization, and initial treatment services;
- Based on discussions with Western State Hospital leadership. Additional adult programs across our continuum of inpatient, partial hospitalization, and intensive outpatient programs are being considered to address the special needs of Pierce County patients to address conditions that can lead to avoidable state hospitalization;

- Detoxification and treatment for patients with co-occurring addiction and psychiatric diagnoses for adults ages 18 and older;
- A military services program to meet the needs of active military and their families as well as retired military and other Tri-Care enrollees that have a relationship with Joint Base Lewis-McChord;
- Geriatric treatment for assessment, stabilization, and treatment of patients, typically ages 65 and older, who are experiencing common challenges such as depression and anxiety but also may be challenged by dementia or chronic medical conditions; and
- An adolescent treatment program providing unique inpatient and outpatient treatment for adolescents and young adults, ages 12 through 18, and their families facing the challenges of severe mental illness symptoms, addiction, and adjustment issues.

If this project is approved, Signature would operate the hospital under the name of Tacoma Behavioral Healthcare Hospital, LLC. [Source: Application, p3]

For this project, Signature Healthcare Services, LLC is the applicant and, if this project is approved, would be the certificate holder. The hospital license would be issued to Tacoma Behavioral Healthcare Hospital, LLC.

### **Alliance for South Sound Health**

Alliance for South Sound Health is a not-for-profit corporation registered in the State of Washington. The two corporate members of the board for Alliance are MultiCare Health System and Catholic Health Initiative-Franciscan Health. Alliance will be governed and funded on a 50-50 basis by CHI-FH and MHS. Alliance has been developed to establish and operate a 120 bed psychiatric hospital to be located on the MHS Allenmore campus in the city of Tacoma within Pierce County. Alliance will be the owner/ operator of the psychiatric hospital. Alliance is proposing the following services at its new psychiatric hospital.

- A crisis stabilization unit able to serve both voluntary and involuntary patients, ages 18 and older. This service will be designated as an emergency receiving site which will allow for EMS drop off directly to the site;
- General inpatient psychiatric services for voluntary and involuntary adults, certified to provide Evaluation and Treatment;
- Intensive outpatient and partial hospitalization services;
- Outpatient services for mental health, chemical dependency, and co-occurring problems;
- A co-occurring inpatient program to provide targeted services to people with both psychiatric and chemical dependency problems; and
- A military services program to meet the needs of active military as well as retired military. [Source: Application, p23]

### **Catholic Health Initiatives-Franciscan Health**

Franciscan Health System (CHI-FH) is part of Catholic Health Initiatives, one of the largest not-for-profit health care systems in the United States. Through one of its subsidiaries, Catholic Health Initiatives operates 118 health care facilities in 22 states. For Washington State, CHI-FH is the subsidiary that owns or operates a variety of health care facilities including hospitals, dialysis centers, a skilled nursing facility, ambulatory surgery centers, a Medicare certified hospice agency, and a hospice care center. Only the seven CHI-FH licensed hospitals in Washington State are listed below. [Source: CN historical files]

Highline Medical Center, Burien  
Harrison Medical Center, Bremerton  
Enumclaw Regional Hospital, Enumclaw  
St Francis Hospital, Federal Way

St. Anthony Hospital, Gig Harbor  
St. Joseph Medical Center, Tacoma  
St. Clare Hospital, Lakewood

### **MultiCare Health System**

MultiCare Health System (MHS) is a not-for-profit health system serving the residents of southwestern Washington State. MultiCare Health System 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]

Multicare Tacoma General / Allenmore, Tacoma<sup>1</sup>  
MultiCare Mary Bridge Children's Hospital, Tacoma<sup>2</sup>  
MultiCare Good Samaritan Hospital, Puyallup  
MultiCare Auburn Medical Center, Auburn

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 MultiCare Covington Medical Center, is not yet operational or licensed. On April, 21, 2015, MHS also received approval to convert 30 existing acute care beds to child/adolescent psychiatric beds (CN 1543) to Tacoma General Hospital under the exemption from Certificate of Need addressed in SSSB 6312 enacted on April 4, 2014.

### **PROJECT DESCRIPTIONS**

#### **Signature Health Care Services, LLC**

Signature proposes to establish up to a 174 bed or as few as a 120 bed new psychiatric hospital in Tacoma, within Pierce County. Signature provided an executed purchase and sales agreement for a total of 4.97 acres. While the site address for the property is 4100 South 19<sup>th</sup>, the parcel of land where the hospital will be located has not been assigned an address. Signature also provided parcel numbers for the site. If the project is approved, the application states a conditional use permit (CUP) will be required from the city of Tacoma and an existing Wetland Permit may have to be modified.<sup>3</sup> [Source: Application, pp9-11, and November 18, 2015, PUI information, Attachment F]

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<sup>1</sup> 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."

<sup>2</sup> Mary Bridge Children's Hospital is located within Tacoma General Hospital; each facility is licensed separately.

<sup>3</sup> WAC 246-03-030 states, in part, that Certificate of Need applications are subject to State Environmental Policy Act (SEPA) requirements whenever the applicant proposes to construct a new hospital or to construct major additions to the existing service capacity of such an institution. The rule further states that the Department of Health shall not issue a Certificate of Need approving hospital construction until the applicant has supplied it with a determination of non-significance or a final environmental impact statement (EIS), and until seven days after the issuance by the lead agency of any final EIS. Nothing in WAC 246-03-030 precludes the Department of Health from making a commitment to issue a Certificate of Need to an applicant, then issuing the Certificate of Need after receipt of an appropriate environmental impact statement or determination of non-significance.



Signature is proposing to construct the new psychiatric hospital in space leased from Tacoma Life properties, LLC which Dr. Kim has 100% ownership. The facility will be known as Tacoma Behavioral Healthcare Hospital. Signature proposes to service both voluntary and in-voluntary (Involuntary Treatment Act-ITA) patients. Signature anticipates most ITA patients would be assigned to two 22 bed adult units. Patients to be served by this facility are persons age 12 and older. Programs designed specifically for geriatric patients, patients with co-morbidities, and patients with dual diagnosis (chemical dependency and psychiatric). The primary service area is Pierce County.

The line drawings provided clearly show a two-story building that would house 174 beds broken into six 22-bed patient care units and two 21-bed units. Each of the patient care units will have its own patient common areas.

The capital expenditure associated with this project is \$42,565,368. Of that total amount 9.66% is related to land purchase, 3.82% to site preparation, 65.19% is related to construction, 2.88 % to moveable equipment, 7.00% to Architect/Engineering Fees, 3.09% to costs associated with financing, and 8.41% to Washington State sales tax.

Signature anticipates the 174 bed psychiatric hospital would become operational on January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three.

#### **Alliance for South Sound Health**

Alliance for South Sound Health (Alliance) is a joint venture by MHS and CHI-FH. MHS will have a 50% ownership of Alliance and CHI-FH will also have a 50% ownership of Alliance. Alliance is proposing to establish a 120 bed psychiatric hospital in space provided by MHS on their Allenmore campus. Alliance will build and own the hospital, which will be structured either in a lease or commercial condominium arrangement.

The line drawings provided clearly show a four-story building that would house 120 beds broken into six 20-bed patient care units. Each of the patient care units will have its own patient common areas.

The capital expenditure associated with this project is \$40,642,925. Of that total amount, 78.67% is related to construction, 4.22 % to moveable equipment, 7.70% to Architect/Engineering Fees, 3.09% to 1.57% to supervision and inspection, and 7.87% to Washington State sales tax.

Alliance anticipates the 120 bed psychiatric hospital would become operational on January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three.

#### **APPLICABILITY OF CERTIFICATE OF NEED LAW**

These projects are subject to review as the construction, development, or other establishment of new health care facility under Revised Code of Washington 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1)(a).

#### **EVALUATION CRITERIA**

WAC 246-310-200(1)(a)-(d) identifies the four determinations that the department must make for each application. WAC 246-310-200(2) provides additional direction in how the department is to make its determinations. It states:

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

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

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

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

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

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).<sup>4</sup>

## **TYPE OF REVIEW**

While not submitted under a published concurrent review cycle, these applications were reviewed concurrently. The concurrent review process promotes the expressed public policy goal of RCW 70.38 that the development or expansion of health care services is accomplished in a planned, orderly fashion and without unnecessary duplication. For hospital services, concurrent review allows the department to review applications proposing to serve the same planning area (Pierce County) as defined in WAC 246-310-290 and simultaneously to reach a decision that serves the best interests of the planning area's residents.

For these two projects, the concurrent review allows the department to review applications proposing to serve the same planning area—Pierce County—simultaneously to reach a decision that serves the best interests of the planning area's residents. In the case of these projects, the department will issue one evaluation regarding whether both, one or none of the projects should be issued a Certificate of Need.

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<sup>4</sup> 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(3), (4), (5), and (6).

In a concurrent review, the department issues one single evaluation regarding whether either or both of the projects should be issued a Certificate of Need. The review timeline for the Signature and Alliance applications is summarized below.

### **APPLICATION CHRONOLOGY**

<b>Action</b>	<b>Signature</b>	<b>Alliance</b>
Letter of Intent Submitted	October 3, 2014	November 14 2014
Application Submitted	November 10, 2014	December 16, 2014
Amended Application Submitted	February 23, 2015	N/A
Department's pre-review activities <ul style="list-style-type: none"> <li>• DOH 1<sup>st</sup> Screening Letter</li> <li>• Responses Received</li> <li>• DOH 2<sup>nd</sup> Screening Letter</li> <li>• DOH Supplemental Screening Letter</li> <li>• Responses Received</li> </ul>	December 4, 2014 January 20, 2015 March 13, 2015 April 27, 2015 May 7, 2015	January 8, 2015 February 23, 2015 March 13, 2015 April 27, 2015 May 7, 2015
Beginning of Review	May 13, 2015	
End of Public Comment <ul style="list-style-type: none"> <li>• Public comments accepted through</li> <li>• Public hearing conducted<sup>5</sup></li> </ul>	July 16, 2015 July 16, 2015	
Rebuttal Comments	July 31, 2015	
Department Declares Pivotal Unresolved Issue (PUI)	October 5, 2015	
Applicants submit PUI documents	November 19, 2015	
Public Comments on PUI Documents	December 4, 2015	
Rebuttal Comments Submitted for Public Comments	December 21, 2015	
Department's Anticipated Decision Date	January 20, 2016	
Department's Actual Decision Date	January 15, 2016	

### **AFFECTED PERSONS**

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

“...an “interested person” who:

- Is located or resides in the applicant's health service area;*
- Testified at a public hearing or submitted written evidence; and*
- 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:

- The applicant;*
- Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;*
- Third-party payers reimbursing health care facilities in the health service area;*
- 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;*

<sup>5</sup> Public hearing was delayed at the request of both applicants to accommodate schedules

- (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.*

Under concurrent review, each applicant is an affected person for the other application(s). Additionally, one other entity sought affected person status, and qualified for the status under the definitions above. Below is a summary of the organization and a determination of its status regarding these applications.

Pierce County Community Health Alliance is a community organization made up of community members who are seeking a healthier community that has equal access to affordable health care. This organization requested to be recognized as an interested person for the Alliance project and to be informed of the department's decision. During the public hearing Pierce County Community Healthcare Alliance submitted public comment and therefore met the qualifications to be recognized as an affected person.

#### **SOURCE INFORMATION REVIEWED**

- Signature Health Care Services, LLC's Amended Certificate of Need application submitted February 23, 2015
- MultiCare Health System/CHI Franciscan Health/Alliance for South Sound Health's Certificate of Need application submitted December 16, 2014
- Signature's supplemental material received, January 20, 2015; May 7, 2015
- Alliance's supplemental material received February 23, 2015 and May 11, 2015
- Public comments received by the department by July 16, 2015
- Comments from Public Hearing held on July 16, 2015
- Signature's rebuttal documents received July 31, 2015
- Alliance's rebuttal documents received July 31, 2015
- Signature PUI Documents received November 20, 2015
- Alliance PUI Documents received November 19, 2015
- Signature Public Comment on PUI documents received on December 4, 2015
- Alliance Public Comment on PUI documents received on December 4, 2015
- Signature Rebuttal to Public Comments on PUI documents received on December 21, 2015
- Alliance Rebuttal to Public Comments on PUI documents received on December 21, 2015
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Department of Health's Hospital and Patient Data Systems financial feasibility and cost containment analyses dated August 16, 2015.
- Historical charity care data for years 2011, 2012, and 2013 obtained from the Department of Health Hospital and Patient Data Systems office
- Department of Health internal database-Integrated Licensing & Regulatory System (ILRS)
- Joint Commission quality check website at [[www.qualitycheck.org](http://www.qualitycheck.org)]

- Department of Health Quality of Care Surveys
- Certificate of Need historical files

## **CONCLUSIONS**

### **Signature**

For the reasons stated in this evaluation, the application submitted by Signature Health to establish a 174 bed or as few as a 120 bed new psychiatric hospital located in Tacoma within Pierce County is not consistent with applicable criterion and a Certificate of Need Is denied.

### **Alliance**

For the reasons stated in this evaluation, the application submitted by Alliance for South Sound Health to construct a 120 bed adult psychiatric Hospital in Tacoma within Pierce County is consistent with applicable criterion, providing Alliance 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.

	<b>Number of Beds</b>
Beds dedicated to patients age 18 and older (Adult)	120
<b>Total Licensed Adult Psychiatric Beds</b>	<b>120</b>

### **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.
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.
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.
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.
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.

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.
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.
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.
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.
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.
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.
12. 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.

**Approved Costs:**

The approved capital expenditure for this project is \$40,642,925.

## **CRITERIA DETERMINATIONS**

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

Based on the source information reviewed, and provided the applicant agrees to the conditions stated in the 'conclusion' section of this evaluation, the department concludes, Signature has met the need criteria in WAC 246-310-210(1) and (2).

Based on the source information reviewed, and provided the applicant agrees to the conditions stated in the 'conclusion' section of this evaluation, the department concludes, Alliance for South Sound Health has met the need criteria in WAC 246-310-210(1) and (2).

### **Analysis**

Certain actions have occurred prior to and after the submission of these two Certificate of Need projects that affect the need for psychiatric beds in Pierce County.

On April 4, 2015, the Washington State legislature passed Second Substitute Bill 6312 which included a temporary change in Certificate of Need requirements for hospitals licensed under RCW chapter 70.41. The change suspended the review requirement for acute care hospitals to change the use of existing licensed beds to psychiatric care that includes involuntary treatment services. On April 21, 2015, the department issued CN#1543 to MultiCare Health Systems approving the conversion of 30 acute care licensed beds to psychiatric beds at Tacoma General Hospital. The psychiatric beds will be used for the development and operation of a child/adolescent mental health services program.

*(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.*

WAC 246-310 does not contain a psychiatric hospital bed forecasting method. The 1987 Washington State Health Plan (SHP), which has been "sunset", has a numeric methodology for projecting psychiatric bed need. However, unlike the acute care bed need method from the same document the department is unable to obtain all the required data to apply this methodology. Therefore, the department has concluded that the psychiatric bed need method from the 1987 SHP is not a reliable tool for forecasting psychiatric bed need. As a result, the evaluation of need for psychiatric beds begins with an evaluation of the methodology provided by an applicant.

### **Signature**

Prior to applying its Pierce County need methodology Signature identified five steps they followed to determine need. [Source: Application, pp 28 & 29]

- Selection of psychiatric bed need methodology-Signature chose a bed to population ratio approach also used by the department. This methodology has been chosen because the state hospital data is not available and utilization rates could under represent the demand for psychiatric services.
- Signature has chosen the mid range population forecast for the years 2018 through 2029. Signature identified the adolescent population range as ages 12-18, the adult population range as 19-64, and the geriatric population range as 65+.
- Signature identified the current psychiatric hospital bed supply as 23 adult beds.
- Signature discussed a variety of utilization rates but chose to use a utilization rate of 27.25 beds per 100,000 persons for its psychiatric bed needs. Signature calculated psychiatric bed need calculations for the period 2018 through 2029.

### Signature's Bed Need Projections

The applicant provided a four step methodology to support its request for psychiatric beds. The applicant calculated a “low” and “high estimate of the number of adult psychiatric hospital beds for Pierce County. The high estimate used by the applicant is 27.25/100,000 population.

<b>Assumption</b>	<b>Data Used</b>
Planning Area	Pierce County
Forecast Years	2018 through 2029
Population Forecasts	Adolescents 12-18 Adults age 19-64 Geriatric 65+ from OFM 2012 medium series forecasts for Pierce County for selected years.
Use Rate	27.25 per 100,000 population
Current Capacity	23 adult psychiatric beds at CHI-FH St Joseph (Tacoma)

The need methodology is provided in the following steps:

**STEP 1:** Obtain Pierce County adolescent and adult population estimates and projections. For residents ages 12 and older, for the base year (2014) and projections through the 15-year forecast (through 2029).

**Table 1**  
Signature's Population Projections Selected Years

<b>Operational Year</b>		<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>10 years From Filing Date</b>	<b>15 Years From Filing Date</b>
<b>Calendar Year</b>		<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2024</b>	<b>2029</b>
Population						
Ages 12 through 18		77,379	77,872	78,366	81,288	86,403
Ages 19-64		524,104	526,522	528,939	536,948	543,695
65 and older		117,781	122,464	127,147	151,579	179,868
<b>Ages 12 and Older</b>		<b>719,264</b>	<b>726,858</b>	<b>734,452</b>	<b>769,816</b>	<b>809,966</b>

Application: p21

**STEP 2:** For the high estimate projections, multiply the average bed ratio of all other Northwest States (less Washington)—27.25 beds per 100,000 by the Pierce County population estimates and projections compiled in Step 1. Undertake this for selected years of the forecast

**STEP 3:** Compile a list of all current Pierce County providers. Count the total number of psychiatric beds operated in each hospital, and sum those counts. This is the supply, which has been explained above.

**STEP 4:** Subtract the supply determined in Step 3 from the “gross demand” estimates determined in step 2. This represents the estimate of net need for Pierce County adult residents and adolescents ages 12 through 18.



Tables two through four provides the summary of the Signature’s bed need methodology for the Pierce County adolescent population using the high ratio beds per 100,000 for selected years.  
[Source: Application: p22

**Table 2**  
**Signature Bed Need Projections Ages 12 through 18**

<b>Pierce County</b>	<b>6 Years*</b>	<b>7 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>20 Years</b>
<b>Calendar Year</b>	<b>2020</b>	<b>2021</b>	<b>2024</b>	<b>2029</b>	<b>2034</b>
Ages 12 through 18	78,366	79,279	881,288	86,403	89,501
Bed Need @ 27.25	21	22	22	24	24
Existing Bed Capacity	0	0	0	0	0
Net Bed Need @ 27.25	21	22	22	24	24

\*Years from application submission date (Source: Application p22)

**Table 3**  
**Signature Bed Need Projections ages 19 through 64**

<b>Pierce County</b>	<b>6 Years*</b>	<b>7 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>20 Years</b>
<b>Calendar Year</b>	<b>2020</b>	<b>2021</b>	<b>2024</b>	<b>2029</b>	<b>2034</b>
Ages 19 through 64	528,939	530,402	534,792	543,695	558,391
Bed Need @ 27.25	144	145	146	148	152
Existing Bed Capacity	23	23	23	23	23
Net Bed Need @ 27.25	121	122	123	125	129

\*Years from application submission date (Source: Application: p23)

**Table 4**  
**Signature Bed Need Projections Ages 65 and Older**

<b>Pierce County</b>	<b>6 Years*</b>	<b>7 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>20 Years</b>
<b>Calendar Year</b>	<b>2020</b>	<b>2021</b>	<b>2024</b>	<b>2029</b>	<b>2034</b>
Ages 65 and Older	127,147	133,255	151,579	179,868	199,862
Bed Need @ 27.25	35	36	41	49	54
Existing Bed Capacity	0	0	0	0	0
Net Bed Need @ 27.25	35	36	41	49	54

Years from application submission date (Source: Application: p24)

**Table 5**  
**Signature Bed Need Projections Ages 12 and Older**

<b>Pierce County</b>	<b>6 Years</b>	<b>7 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>20 Years</b>
<b>Calendar Year</b>	<b>2020</b>	<b>2021</b>	<b>2024</b>	<b>2029</b>	<b>2034</b>
Ages 12 and Older	734,452	751,564	769,616	809,966	847,754
Bed Need @ 27.25	200	205	210	221	231
Existing Bed Capacity	23	23	23	23	23
Net Bed Need @ 27.25	177	182	187	198	208

Years from application submission date (Source: Application: p25)

The ‘net bed need’ line item in table 5 shows that 177 psychiatric beds are needed for the ages 12 and over population in the Pierce County planning area in 2020, which increases to more than 198 psychiatric beds for the 12 and older population in 2029. The applicant is proposing 21 beds for adolescents and 153 psychiatric beds for adults for a total of 174 psychiatric beds.

## Alliance

Prior to applying its Pierce County need methodology, Alliance reviewed the historical use of psychiatric care in Pierce County. Alliance stated the adult psychiatric patient days for Pierce County residents have increased steadily over the past few years, after decreasing somewhat in 2011. However Alliance also stated *“It should be noted that CHARS<sup>6</sup> is not a good indicator of total demand for psychiatric utilization and/or need for psychiatric services for two reasons: (1) CHARS does not provide statistics for state psychiatric hospitals, thus under reporting actual inpatient psychiatric utilization outright; and (2) CHARS only identifies inpatient utilization for those who actually receive care, not those who need care and don’t seek it or those who need care but are unable to utilize existing services due to lack of sufficient capacity.”* [Source: Application pgs. 34-35]

## Alliance’s Numeric Need Methodology

The applicant’s numeric need methodology was based on the following factors: planning area, population estimates and forecasts, use rate, and current capacity. Table 6 shows the factors used by Alliance.

**Table 6**  
**Alliance’s Methodology Assumptions and Data**

<b>Assumption</b>	<b>Data Used</b>
Planning Area	Pierce County
Population Forecasts	Office of Financial Management Population Data released May 2012. Age group of 18 years and older. Forecast years 2014 through 2029.
Target Bed Ratio (NW Average less WA)	27.3 per 100,000 population.
Current Capacity	23 beds-CHI-FH St. Joseph (Tacoma)

Source: Application, pp33-40

The need methodology is provided in the following steps:

STEP 1: Obtain Pierce County adult population estimates and projections. For residents ages 18 and older, for the base year (2014) and every year through the 15-year forecast (through 2029). *Psychiatric bed ratios are provided for each year as a reference, although they reflect all planning area beds per adult population only.*

STEP 2: For the estimate projections, multiply the target ratio (i.e. the average bed ratio of all other Northwest States less Washington) of 27.3 beds per 100,000, as defined in the 2009 National Report Card on the State of Emergency Medicine- by the Pierce County adult population estimates and projections compiled in Step 1. Undertake this for each year of the forecast.

STEP 3: Compile a list of all current Pierce County providers. Count the total number of psychiatric beds operated in each hospital, and sum those counts. This is the supply.

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<sup>6</sup> Comprehensive Hospital Abstract Reporting System (CHARS)

**STEP 4:** Subtract the supply determined in Step 3 from the “gross demand” estimates determined in step 2. This represents the net need for Pierce County adult residents.

Based on the assumptions and data above as they were when the application was submitted, Alliance projected the number of psychiatric beds needed in Pierce County for years 2014 through 2029. Table 7 shows years 2014 through 2021. The year 2018 is the expected first full year of operation for Alliance.

**Table 7**  
**Alliance’s Pierce County Adult Psychiatric Bed Need Projections**

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Planning Area Population 18 +	623,621	629,929	636,560	643,378	650,390	657,600	665,548	672,910
Target Bed Ratio	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3
Gross Bed Need	170.25	171.97	173.78	175.64	177.56	179.52	181.69	183.70
Minus Current Supply	23.0	23.0	23.0	23.0	23.0	23	23	23
<b>Net Bed Need</b>	<b>147.25</b>	<b>148.97</b>	<b>150.78</b>	<b>152.64</b>	<b>154.56</b>	<b>156.52</b>	<b>158.69</b>	<b>160.70</b>

Source: Application, p39 &40

**Table 8**  
**Alliance’s Pierce County Adult Psychiatric Bed Need Projections Continued**

	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
Planning Area Population 18 +	680,400	688,023	695,781	704,029	711,291	718,648	726,100	733,650
Planning Area Psy. Beds	23	23	23	23	23	23	23	23
Psy. Bed Ratio/100,000	3.38	3.34	3.31	3.27	3.23	3.20	3.17	3.14
Target Bed Ratio	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3
Gross Bed Need	185.75	187.83	189.95	192.20	194.18	196.19	198.23	200.29
Minus Current Supply	23.0	23.0	23.0	23.0	23.0	23	23	23
<b>Net Bed Need</b>	<b>162.75</b>	<b>164.83</b>	<b>166.95</b>	<b>169.20</b>	<b>171.18</b>	<b>173.19</b>	<b>175.23</b>	<b>177.29</b>

Source: Application, p39 &40

The ‘net bed need’ line item shows that 147.25 adult psychiatric beds are needed in the Pierce County planning area in 2014, which increases to more than 178 adult psychiatric beds in 2029.

#### **Department’s Numeric Psychiatric Bed Need Methodology**

The assumptions used by the department to project psychiatric bed need in Pierce County is shown Table 10.

**Table 10**  
**Department Assumptions Used In Bed Need Methodology**

<b>Assumption</b>	<b>Data Used</b>
Planning Area	Pierce County
Population Forecasts	OFM 2012 medium series forecasts age 12 – 17 and 18+.
Use Rate	27.25 beds per 100,000 population. This is based on the Northwest states <sup>7</sup> listed in <u>The National Report Card on the State of Emergency Medicine, 2009 Edition.</u>
Current Capacity	53 psychiatric beds <ul style="list-style-type: none"> <li>• CHI-FH St. Joseph (Tacoma)-23 adult psychiatric beds</li> <li>• MHS TGH-C of N for 30 adolescent psychiatric beds</li> </ul>

The department used a 4 step methodology to project psychiatric patient days and bed need for Pierce County.

Step 1: The department obtained Pierce County population estimates and projections, for residents 18 and older for the base year (2014) and every year through the ten year forecast (through 2024).

STEP 2: For the estimate projections, multiply the target ratio (i.e. the average bed ratio of all other Northwest States less Washington) of 27.3 beds per 100,000, as defined in the 2009 National Report Card on the State of Emergency Medicine- by the Pierce County adult population estimates and projections compiled in Step 1. Undertake this for each year of the forecast.

STEP 3: Compile a list of all current Pierce County providers. Count the total number of psychiatric beds operated in each hospital, and sum those counts. This is the supply.

STEP 4: Subtract the supply determined in Step 3 from the “gross demand” estimates determined in step 2. This represents the net need for Pierce County adult residents.

Based on the assumptions and data above as they were when the Department’s evaluation was prepared, the Department projected the number of adult psychiatric beds needed in Pierce County for years 2014 through 2029. Table 11 shows years 2014 through 2021. The year 2018 is the expected first full year of operation for both projects.

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<sup>7</sup> Alaska, Idaho, Montana, and Oregon. Excludes Washington

**Table 11**  
**Department's Pierce County Adult Psychiatric Bed Need Projections**

	2014	2015	2016	2017	2018	2019	2020	2021
Planning Area Population 18 +	624,463	629,929	636,560	643,378	650,390	657,600	665,548	672,910
Target Bed Ratio	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	170.5	171.7	173.5	175.3	177.2	179.2	181.4	183.4
Minus Current Supply	23	23	23	23	23	23	23	23
<b>Net Bed Need</b>	<b>147.5</b>	<b>148.7</b>	<b>150.5</b>	<b>152.3</b>	<b>154.2</b>	<b>156.2</b>	<b>158.4</b>	<b>160.4</b>

**Table 12**  
**Department's Pierce County Adult Psychiatric Bed Need Projections Continued**

	2022	2023	2024	2025	2026	2027	2028	2029
Planning Area Population 18 +	682,298	690,012	697,725	705,439	712,957	719,697	726,436	733,176
Target Bed Ratio	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	185.9	188.0	190.1	192.2	194.2	196.1	198.0	199.8
Minus Current Supply	23.0	23.0	23.0	23.0	23.0	23	23	23
<b>Net Bed Need</b>	<b>162.9</b>	<b>165.0</b>	<b>167.1</b>	<b>169.2</b>	<b>171.2</b>	<b>173.1</b>	<b>175.0</b>	<b>176.8</b>

**Table 13**  
**Department's Pierce County Adolescent Psychiatric Bed Need Projections**

	2014	2015	2016	2017	2018	2019	2020	2021
Planning Area Population 12-17	65,533	65,247	65,714	66,181	66,648	67,115	67,582	68,352
Target Bed Ratio	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	17.9	17.8	17.9	18.0	18.2	18.3	18.4	18.6
Minus Current Supply	30	30	30	30	30	30	30	30
<b>Net Bed Need</b>	<b>-12.1</b>	<b>-12.2</b>	<b>-12.1</b>	<b>-12.0</b>	<b>-11.8</b>	<b>-11.7</b>	<b>-11.6</b>	<b>-11.4</b>

**Table 14**  
**Department's Pierce County Adolescent Psychiatric Bed Need Projections Continued**

	2022	2023	2024	2025	2026	2027	2028	2029
Planning Area Population 12-17	69,123	69,894	70,664	71,435	72,190	72,944	73,699	74,454
Target Bed Ratio	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	18.8	19.0	19.3	19.5	19.7	19.9	20.1	20.3
Minus Current Supply	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
<b>Net Bed Need</b>	<b>-11.2</b>	<b>-11.0</b>	<b>-10.7</b>	<b>-10.5</b>	<b>-10.3</b>	<b>-10.1</b>	<b>-9.9</b>	<b>-9.7</b>

The central issue in this comparative review is the psychiatric bed need for residents of Pierce County and more specifically what beds should be counted in the psychiatric bed supply. As noted previously in this evaluation, the legislature has made changes to the laws relating to the review process used by the department. The changes directly affect the bed supply for Pierce County and thus what the department has determined as the psychiatric bed supply for Pierce County.

The department calculated the bed need projections for adolescents and adults separately. This is done because youth/adolescent inpatients should not be mixed with adult inpatients. It is

reasonable to identify a number of beds for adolescents separately from the beds to serve adult patients.

As shown previously, MHS has a CN approved 30 bed adolescent psychiatric unit. Using Signature's bed need projection or the department's projection there is a surplus of adolescent psychiatric beds in 2029 of either 6 or 10 beds respectively. There is no demonstrated additional adolescent bed need for Pierce County.

The department projected an adult psychiatric bed need of 177 in year 2029. If the Signature project is approved for 153 adult psychiatric beds the unmet bed need for 2029 would be 24 adult psychiatric beds. If the Alliance project is approved for 120 beds the unmet adult psychiatric bed need for 2029 would be 57 adult psychiatric beds. These projections support the approval of one project but not both projects.

#### Public Comment

The department accepted public comment prior to the public hearing held on July 16, 2015. The department received approximately 33 letters of support for the Alliance project prior to the public hearing. At the public hearing the department received approximately 85 letters of support from police, fire, local government, other agencies and community residents of Pierce County for the Alliance project. These letters addressed the history of MHS and CHI-FH providing medical services to the community, the established relationship between the two organizations and other providers in Pierce County, the established relationships with governmental organizations in the county and Washington State. They also described the relationships with other organizations in the community important to providing community services and recognized the experience CHI-FH has providing in-patient services in their existing psychiatric unit.

#### Signature

Based on evaluation of the source documents, need for a 153 bed adult psychiatric hospital located in Pierce County has been demonstrated. **This sub-criterion is met**

#### Alliance

Based on evaluation of the source documents, need for a 120 bed adult psychiatric hospital located in Pierce County has been demonstrated. **This sub-criterion is met**

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

#### Signature

##### Admission Policy

To determine whether all residents of Pierce County would have access to the 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. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

Signature provided a copy of the draft Admission Policy to be used at their psychiatric hospitals in Washington State. The policy outlines the criteria that will be used at its hospitals to admit patients for psychiatric treatment. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, color, religion, sex, or national origin. [Source: Application, Appendix 14] Because Tacoma Behavior Health Hospital (TBHH) is a new hospital, the Admission Policy submitted is considered a draft. Therefore, if this project is approved a condition would be necessary, that requires a policy be adopted consistent with the draft.

#### Medicare and Medicaid Programs

The department uses Medicare certification to determine whether the elderly would have access or continue to have access to the proposed services. To demonstrate compliance with this sub-criterion, Signature provided its projected source of revenues by payer for the psychiatric hospital. Medicare revenues are projected to be 26.6% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues

The department uses the facility's Medicaid certification or contracting with Medicaid to determine whether low-income residents would have access to the proposed services. To demonstrate compliance with this sub-criterion, Signature also provided its projected percentage of Medicaid revenues at 18.7% for the psychiatric hospital. Additionally, the financial data provided in the application shows Medicaid revenues. [Source: Application p48 and Attachment 11]

#### Charity Care Policy

For hospital projects, the department must determine whether the proposed hospital is projecting to meet or exceed the regional average level of charity care.<sup>8</sup> 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.

To demonstrate compliance with this sub-criterion, Signature provided a copy of its charity care policy proposed to be used at TBHH. The policy outlines the process one must follow to obtain charity care. The draft policy has not been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. Therefore prior to providing services Signature will need to submit a department approved charity care policy consistent with the draft policy provided in the application.

For charity care reporting purposes, HPDS divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Signature's psychiatric hospital would be located in Snohomish County within the Puget Sound Region. Currently there are 19 operating hospitals located within this region and two recently approved, yet not operational hospitals in the region. The 19 operating hospitals are general acute care hospitals, and with the exception of Swedish-Edmonds, typically provide psychiatric services to a small number of patients in the planning area. Swedish Edmonds has a 23-bed psychiatric unit and provides more psychiatric patient days than the other acute care hospitals in the region. Table 15 shows the three-year average of charity care provided by the 19 licensed hospitals in the Puget Sound region and the three year average of charity care projected to be provided at Signature's psychiatric hospital. [Source: Application: Attachment 11, p2 and HPDS 2011-2013 charity care summaries]

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<sup>8</sup> RCW 70.38.115(2)(j) and WAC 246-310-210(2)

**Table 15**  
**Signature Charity Care Percentage Comparisons<sup>9</sup>**

	<b>% of Total Revenue</b>	<b>% of Adjusted Revenue</b>
Puget Sound Region	2.88%	6.85%
Signature	3.33%	5.97%

As shown in Table 15, Signature intends to provide charity care above the regional averages, based on a percent of total revenues. Based on a percent of adjusted revenues Signature is below the regional averages. To ensure the new hospital meets its charity care obligations, if approved, the department concludes that a charity care condition is necessary to ensure compliance with this sub-criterion. **This sub-criterion is met.**

### **Alliance**

#### **Admission Policy**

To determine whether all residents of Pierce County would have access to the 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. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status. Alliance provided a copy of the draft Admission Policy to be used at the psychiatric hospital. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, color, religion, sex, national origin, or ability to pay. Therefore, if this project is approved a condition would be necessary, that requires a policy be adopted consistent with the draft. [Source: Application, Exhibit 12]

#### **Medicare and Medicaid Programs**

The department uses Medicare certification to determine whether the elderly would have access or continue to have access to the proposed services. To demonstrate compliance with this sub-criterion, Alliance provided its projected source of revenues by payer for the psychiatric hospital. Medicare revenues are projected to be 26.6% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues

The department uses the facility's Medicaid certification or contracting with Medicaid to determine whether low-income residents would have access to the proposed services. To demonstrate compliance with this sub-criterion, Alliance also provided its projected percentage of Medicaid revenues at 18.7% for the psychiatric hospital. Additionally, the financial data provided in the application shows Medicaid revenues. [Source: Application p18 and Exhibit 19]

#### **Charity Care Policy**

For hospital projects, the department must determine whether the proposed hospital is projecting to meet or exceed the regional average level of charity care.<sup>10</sup> A facility's charity care policy should

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<sup>9</sup> The department acknowledges that the Affordable Care Act will likely have a long-term impact on the amount of charity care provided by facilities. The regional average used to measure an applicant's compliance with the charity care standard is a self-correcting three year average. The department expects the applicant to make documented reasonable efforts to meet that level of charity care.



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.

To demonstrate compliance with this sub-criterion, Alliance provided a copy of its draft charity care policy proposed to be used at their Tacoma psychiatric Hospital. The policy outlines the process one must follow to obtain charity care. The draft policy has not been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. Therefore prior to providing services Alliance will need to submit a department approved charity care policy consistent with the draft policy provided in the application.

For charity care reporting purposes, HPDS divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Alliance's psychiatric hospital would be located in Pierce County within the Puget Sound Region. Currently there are 19 operating hospitals located within this region and two recently approved, yet not operational hospitals in the region. The 19 operating hospitals are general acute care hospitals, and with the exception of Swedish-Edmonds, typically provide psychiatric services to a small number of patients in the planning area. Swedish Edmonds has a 23 bed psychiatric unit and provides more psychiatric patient days than the other acute care hospitals in the region. Table 16 shows the three-year average of charity care provided by the 19 licensed hospitals in the Puget Sound region and the three year average of charity care projected to be provided at Alliance's psychiatric hospital. [Source: Application Exhibit 15 HPDS 2010-2012 charity care summaries]

**Table 16**  
**Alliance Charity Care Percentage Comparisons<sup>11</sup>**

	<b>% of Total Revenue</b>	<b>% of Adjusted Revenue</b>
Puget Sound Region	2.88%	6.85%
Alliance Projected	3.00%	5.49%

As shown in Table 16, Alliance intends to provide charity care above the regional averages, based on a percent of percent of total revenues and below the regional average on a percent of adjusted revenues. To ensure the hospital meets its care obligations, if approved, the department concludes that a charity care condition is necessary to ensure continued compliance with this sub-criterion. **This sub-criterion is met.**

#### Involuntary Treatment Services

Both applicants state they intend to provide both voluntary and involuntary (ITA) treatment. Currently Washington has a recognized shortage of access to ITA services throughout the state. The department recognizes that the state contracts with providers to provide ITA services. Since both applicants stated their services would include involuntary treatment the department would add a condition to both projects to ensure these patients have access to ITA services in Pierce County.

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<sup>10</sup> RCW 70.38.115(2)(j) and WAC 246-310-210(2)

<sup>11</sup>The department acknowledges that the Affordable Care Act will likely have a long-term impact on the amount of charity care provided by facilities. The regional average used to measure an applicant's compliance with the charity care standard is a self-correcting three year average. The department expects the applicant to make documented reasonable efforts to meet that level of charity care.

Based on the source information evaluated and with Signature's agreement to the conditions related to the admission policy, charity care and ITA services the department concludes, **this sub-criterion is met.**

Based on the source information evaluated and with Alliance's agreement to the conditions related to the admission policy, charity care and ITA services; the department concludes **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 Signature Healthcare services, LLC has met the financial feasibility criteria in 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 Alliance for South Sound Health 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.

#### **Signature**

If this project is approved, Signature expects to begin providing psychiatric services in Pierce County in January 2018. [Source: Application, p23] Based on this timeline, year 2018 would be full calendar year one with the 174 bed hospital and 2020 would be year three.

To evaluate this sub-criterion, the department first reviewed the assumptions used by Signature to determine the projected number of patients for the new hospital. The assumptions are summarized below. [Source: Application, pp 45 & 46]

VOLUME	
Discharges:	Discharges based on forecasts using Blader use rates from a national study based on OFM age-specific rates
Length of Stay	Weighted length of stay of 8.1 days per patient stay based on Blader study
Patient Days	Age-specific lengths of stay applied to projected discharges and compared with bed need ration approach
PHP Visits	Based on Signature Healthcare Services Experience
IOP Visits	Based on Signature Healthcare Services Experience

Based on the assumptions above, Signature projected the following patient days and occupancy percentages for the 174 bed facility.

- Year 1 (2018) – 11,707 (18%)
- Year 2 (2019) – 33,721 (53%)
- Year 3 (2020) – 40,256 (63%)

Signature also provided revenue and expense assumptions for the proposed 174 bed hospital. These assumptions are shown below.

Revenue	
Payor Mix	Based on area study
Deductions	Estimates by payor category
Other Adjustments	Estimated denials by payment providers. Based on applicant experience
Net Revenue	Formula calculation using deductions from revenue
Expense	
Salary and Wages	Wage range by position using propriety survey information
Benefits	17% of salaries and wages
Contract Labor	Includes clerical and business office personnel
Rent	Facility rent to Tacoma Life Properties LLC: Triple net based on expenditure (interest projected @5%, payoff 25 years
Utilities	Based on size and use of facility by year
Professional Fees	Stipends to Medical Directors for admin duties, 1 Hospital Medical Director and 4 Program Medical Director
Purchased Services	Lab fees, pharmacy, services, telephone services, software fees, landscaping, and janitorial services.
Supplies	Estimated at \$33.76 per equivalent patient day plus 17 K per month
Lease/Rentals	Equipment lease expenses
Insurance	General/Professional liability expense @ 2.1% of salary expense
Other Direct	Central business office costs
Management Fees	Fees paid to Signature Healthcare services to cover corporate overhead expenses and for the provision of hospital CEO compensation, legal support, corporate risk management, compliance and corporate personnel
Non-operating Expenses	1.5% of net revenues for unanticipated start-up costs
Income Tax	Calculated at 35% of taxable income per year

Source: Application, pp 46 & 47

Using the assumptions above, table 17 shows the projected revenue, expenses, and net income for CY 2018 through 2020 for Signature's 174 bed psychiatric hospital. Source: Application, Attachment 11]

**Table17**  
**Signature 174 bed Psychiatric Hospital**  
**Projected Revenue and Expenses for Calendar Years 2018 - 2020**

	<b>2018</b> <b>1st Full Year</b>	<b>2019</b> <b>2<sup>nd</sup> Full Year</b>	<b>2020</b> <b>3<sup>rd</sup> Full Year</b>
Net Revenue	\$8,826,814	\$27,822,673	\$33,209,296
Total Expenses *	\$13,184,559	\$24,632,085	\$28,122,382
Operating Income	(\$4,357,745)	\$3,190,589	\$5,086,914
Non-Operating Expense	\$153,049	\$459,979	\$549,042

Income Taxes	(\$1,578,778)	\$955,713	\$1,588,255
Net Profit or (Loss)	(\$2,932,016)	\$1,774,896	\$2,949,617

\*Includes management fee

The 'Net Revenue' line item above includes both inpatient and outpatient gross revenue, minus any deductions for bad debt, charity care, and contractual allowances. 'Total Expenses' include all operating expenses, and corporate allocated costs. This net profit or loss does include income tax expense.

As shown in the table 17, Signature projects the new psychiatric hospital would operate at a loss in years one and operate at a profit in year two and year three.

Signature, the owner of the property, proposes that the building will be owned by Tacoma Life Properties, LLC, a yet to-be-formed wholly owned subsidiary of Signature, LLC and created specifically for this project. Tacoma Life Properties, LLC's will receive initial capitalization of \$14,897,476 from owner Soon K. Kim, who owns all real estate corporations associated with the Signature hospitals. Tacoma Life Properties, LLC's role in this project is to build the hospital and then lease it back to Tacoma Behavioral Healthcare Hospital--licensee of the hospital--at fair market rates. In addition to the capitalization of Tacoma Life Properties, LLC Dr. Kim will provide \$500,000 in pre-opening working capital and \$5,000,000 in initial capitalization for the hospital.

To demonstrate compliance with this sub-criterion, Signature provided a copy of the Purchase and Sale Agreement and Receipt for Earnest Money for the site between Signature Healthcare Services, LLC [buyer] and Jemstone, LLC [seller]. [Source: Application, Attachment 9] Signature also provided a copy of the draft Facility Lease and Security Agreement between Tacoma Life Properties, LLC [landlord] and Tacoma Behavioral Healthcare Hospital [tenant]. [Source: November 18, 2015, PUI information, Attachment F].<sup>12</sup>

To assist in the evaluation of this sub-criterion, the department's Hospital and Patient Data Systems (HPDS) office reviewed a historical balance sheet for Signature Healthcare Services, LLC. The capital expenditure for this project is projected to be \$42,565,367. The funding will come from a commercial bank loan (65% or 27.6 million) and a cash investment from a real estate subsidiary wholly owned by Dr. Soon K. Kim (35% or \$14.9 million). The historical balance sheet information is shown in the Table 18. [Source: August 16, 2015, HPDS analysis, p2]

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<sup>12</sup> The department's review of the purchase and sale agreement and the lease agreement is in the sub-criterion of WAC 246-310-220(2).

**Table 18**  
**Signature Healthcare, LLC. Balance Sheet**  
**Historical Year 2013**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$33,646,170	Current Liabilities	\$26,593,108
Board Designated Assets	\$0	Long Term Debt	\$0
Fixed Assets	\$7,085,459	Other Liabilities	\$5,513,753
Other Assets	\$30,518,517	<b>Equity</b>	<b>\$39,143,285</b>
<b>Total Assets</b>	<b>\$71,250,146</b>	<b>Total Liabilities and Equity</b>	<b>\$71,250,146</b>

The application notes “*In the last two years, Signature Healthcare Services and its related entities has funded 6 new hospitals through real estate partnerships that effectively own 100% of each hospitals fixed assets which are then leased back to the individual hospitals at fair market rates.*”

In the balance sheet below for the third year of Tacoma Behavioral Health Hospital, the hospital only has current assets, current liability, and member’s equity. All property, plant, and equipment, all long term financials such as board designated assets and long term debt are held by other entities. [Source: August 16, 2015, HPDS analysis, p2]

**Table 19**  
**Tacoma Behavioral Healthcare Hospital Projected Balance Sheet**  
**Certificate of Need Year 3 (2020)**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$9,668,479	Current Liabilities	\$751,132
Board Designated Assets	\$0	Long Term Debt	\$0
Fixed Assets	\$0	Other Liabilities	\$0
Other Assets	\$0	<b>Equity</b>	<b>\$8,917,347</b>
<b>Total Assets</b>	<b>\$9,668,479</b>	<b>Total Liabilities and Equity</b>	<b>\$9,668,479</b>

[Source: August 16, 2015, HPDS analysis, p2]

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 compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2013 data for comparison with projected years 2018 through 2020. The ratio comparisons are shown in Table 20. [Source: August 16, 2015, HPDS analysis, p3]

**Table 20**  
**Current and Projected HPDS Debt Ratios for Signature**

<b>Signature Ratio Category</b>	<b>Trend*</b>	<b>State 2013</b>	<b>Projected 2018</b>	<b>Projected 2019</b>	<b>Projected 2020</b>
Long Term Debt to Equity	B	0.483	N/A	N/A	N/A
Current Assets/Current Liabilities	A	2.481	4.353	7.695	12.872
Assets Funded by Liabilities	B	0.400	0.230	0.130	0.078
Operating Expense/Operating Revenue	B	0.945	1.456	0.833	0.789
Debt Service Coverage	A	5.977	N/A	N/A	N/A
<b>Definitions:</b>	<b>Formula</b>				
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 if above the ratio, and B is better if below the ratio

Signature Health Service, LLC Tacoma Behavioral Healthcare Hospital does not yet exist. Because of this, the financial ratios are only from the proposal. Because of the structure of the deal, the hospital has no physical assets and no debt. The facility is leased from the real estate subsidiary wholly owned by Dr. Soon K. Kim. Because of this, two ratios are not used. The ones that can still be calculated are strong.

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

### **Alliance**

If this project is approved, Alliance expects to begin providing psychiatric services in the 120 beds in January 2018. Based on this timeline, year 2020 would be full calendar year one with the 120 bed hospital.

A key element of a psychiatric hospital project's financial feasibility is its assumptions used to develop its financial projections. Alliance provided its pro forma revenue and expense statements using the assumptions summarized below. [Source: Application, pp59 & 60]

Based on the assumptions above, Alliance projected the following occupancy percentages for the 120 bed facility.

- Year 1 – 29,913 (68%)
- Year 2 – 36,353 (83%)
- Year 3 – 38,087 (87%)

Alliance also provided revenue and expense assumptions for the proposed 120 bed hospital. These assumptions are shown below.

- Payer mix for voluntary patients is 33.5% Medicare; 21.8% Medicaid, 27% commercial 7.2% HMO, 6.5% other, and 4% private pay. Payer mix for involuntary patients is 28.2% Medicare; 55.3% Medicaid, 13.4% commercial 0.1% HMO, 2.8% other, and 0.2% private pay.

- Payer mix assumed constant over the forecast period.
- Pro forma does not include any inflation
- Charity care is calculated at 3.0 % of gross patient revenue.
- Staffing calculated based on experience and benefits are built in at 28% of salaries.
- Other costs and charges calculated off of historical experience.
- A management fee of 7.5% net revenue is incorporated to reflect purchasing services from administration
- Initial operating losses will be funded by MHS and CHI-FH on an equal basis.

Using the assumptions above, table 21 illustrates the projected revenue, expenses, and net income for CY 2018 through 2020 for the Alliance 120 bed psychiatric hospital. [Source: August 16, 2015, HPDS analysis, p 2]

**Table 21**  
**Alliance 120 beds- Psychiatric Hospital**  
**Projected Revenue and Expenses for Calendar Years 2018 - 2020**

	<b>2018 1st Full Year</b>	<b>2019 2nd Full Year</b>	<b>2020 3rd Full Year</b>
Net Revenue	\$31,557,000	\$38,351,000	\$40,180,000
Total Expenses*	\$35,228,000	\$35,580,000	\$36,999,000
Net Profit or (Loss)	(\$3,671,000)	\$2,771,000	\$3,181,000

\* Includes depreciation and allocated costs

The ‘Net Revenue’ line item above includes both inpatient and outpatient gross revenue, minus any deductions for bad debt, charity care, and contractual allowances. ‘Total Expenses’ include all operating expenses, corporate allocated costs, and depreciation.

As shown in the table 21, Alliance’s new psychiatric hospital would operate at a loss in year one and operate at a profit in year two and three. The net profit or loss for each year is dependent on Alliance being able to achieve the projected patient days.

To assist in the evaluation of this sub-criterion, the department’s Hospital and Patient Data Systems (HPDS) office reviewed the current balance sheets for MHS and CHI-FH. The 2013 Balance Sheets Total Assets for MHS (\$3.1 Billion) and CHI-FH (\$19.3 Billion) show that they have the assets to fund their portion of the project (\$20.3 million) from reserves.

**Table 22**  
**Alliance Balance Sheet**  
**Certificate of Need Year 5 (2022)**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$15,881,000	Current Liabilities	\$746,000
Board Designated Assets	\$0	Long Term Debt	\$0
Fixed Assets	\$35,689,000	Other Liabilities	\$0
Other Assets	\$0	<b>Equity</b>	<b>\$50,824,000</b>
<b>Total Assets</b>	<b>\$51,570,000</b>	<b>Total Liabilities and Equity</b>	<b>\$51,570,000</b>

[Source: August 16, 2015, HPDS analysis, p2]



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 compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2013 data for comparison with projected years 2018 through 2020. The ratio comparisons are shown in table 23. [Source: August 16, 2015, HPDS analysis, p 2]

**Table 23**  
**Current and Projected HPDS Debt Ratios for Alliance**

Alliance Ratio Category	Trend*	State 2013	Projected 2018	Projected 2019	Projected 2020
Long Term Debt to Equity	B	0.483	N/A	N/A	N/A
Current Assets/Current Liabilities	A	2.481	0.659	1.057	2.611
Assets Funded by Liabilities	B	0.400	0.207	0.150	0.065
Operating Expense/Operating Revenue	B	0.945	1.116	0.928	0.921
Debt Service Coverage	A	5.977	N/A	N/A	N/A
<b>Definitions:</b>	<b>Formula</b>				
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 if above the ratio, and B is better if below the ratio

In 2015 Alliance for South Sound Health was created by a joint agreement of MHS and CHI-FH. Since this hospital does not yet exist the financial ratios are only from the proposal. Because of the financial strength of MHS and CHI- FH the three ratios not involving debt are strong. Two of the ratios are not relevant since there is no long term debt.

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

### **Signature**

The capital expenditure associated with the construction of this 100,000 square foot, 174 bed psychiatric hospital is \$42,565,368. A breakdown of the costs is shown in Table 24. [Source: Application, p 39]

**Table 24**  
**Signature Capital Cost Breakdown**

<b>Item</b>	<b>Cost</b>	<b>% of Total</b>
Land Purchase	\$4,113,267	9.66%
Site Preparation	\$1,627,750	3.82%
Construction Costs	\$27,747,115	65.19%
Moveable Equipment	\$1,218,000	2.88%
Architect/Engineering Fees	\$2,966,039	7.00%
Financing Fees	\$1,314,340	3.09%
Sales Tax	\$3,578,856	8.41%
<b>Total</b>	<b>\$42,565,367</b>	<b>100.00%</b>

Signature proposes the new 174 bed psychiatric hospital will be located at 4100 S 19<sup>th</sup> Street in the city of Tacoma, within Pierce County. To demonstrate compliance with this sub-criterion, Signature provided an executed Commercial and Investment Real Estate Purchase and sales agreement. related to the site. A summary of this document is provided below. [Source: Application, Attachment 9]

- **Purchase and Sale Agreement**

This agreement is between Signature HealthCare Services, LLC [purchaser] and Jemstone LLC [seller]. The agreement identifies the location of the site, purchase price, and certain regulatory requirements that must be obtained by the purchaser. The agreement outlines roles and responsibilities of both purchaser and seller. Since the agreement is in a 30 month feasibility period, if this project is approved, the department would attach a condition requiring Signature to provide a copy of the final, executed agreement.

- **Zoning Information**

Signature provided an email from the city of Tacoma Planning Division regarding the use of the proposed site. Their preliminary recommendation is that the land use approval will present fairly low risk. The project will require the following permits for the site.

- Reclassification/rezone
- SEPA Determination
- Conditional Use Permit

This permit package would change the site zoning from R-2/C-1/T to C-1 or C-2 Commercial. Additionally, a Conditional Use Permit will be required to allow a hospital in the C-1 or C-2 District. [Source: Application, Attachment 12]

If this project is approved, the department would attach a condition requiring Signature to provide a copy of the final documentation of the land use approval for this site.

Signature provided a non-binding construction cost estimator letter from In2it Architecture indicating that the project cost is \$42,565,368. [Source: Application, Attachment 8]

New hospital construction is funded through real estate subsidiaries wholly owned by Dr. Soon K. Kim, which in turn leases the facility to each hospital LLC such as TBHH. Tacoma Life Properties will not require repayment of its investment costs by TBHH. The hospital as a tenant of the real property will make lease payments on a Triple-Net basis as projected in the revenue and expense statements which will support both the required debt service and acceptable fair market rates of return to the shareholders of Tacoma Life Properties, LLC. The draft agreement identifies roles and responsibilities of both the lessor and the lessee. The agreement is for lease of the property, the hospital and all other buildings, structures, and other improvements [including landscaping/parking], and all permanently fixed equipment. The agreement is for 10 years with two five year options for renewal. The annual rent expense included in the revenue and expense statement is \$2,856,385. [Source: Application, pp 43 & 44, Attachment 11 and November 19, 2015 PUI Supplemental Materials] If this project is approved the department will condition the project to require the applicant to submit an executed lease between Tacoma Life Properties, LLC and Tacoma Behavioral Health, LLC. The executed lease shall include the identity of all entities referenced in the agreement, outline the roles and responsibilities of all entities, identify all costs associated with the agreement, and include all exhibits that are referenced in the agreement.

The costs of the project, including construction costs, will probably not result in an unreasonable impact on the costs and charges for health services. As evaluated in the need section of this analysis, the department concluded that Pierce County could support additional adult psychiatric beds. Based on the source documents evaluated, the department concludes **this sub-criterion is met.**

### Alliance

The capital expenditure associated with the construction of this 88,000 square foot 120 bed psychiatric hospital is \$40,642,925. A breakdown of the costs is shown in Table 25.

**Table 25**  
**Alliance Capital Cost Breakdown**

<b>Item</b>	<b>Cost</b>	<b>% of Total</b>
Construction Costs	\$31,975,110	78.67%
Moveable Equipment	\$1,715,107	4.22%
Architect/Engineering Fees	\$3,112,635	7.70%
Supervision & Inspection	\$639,502	1.57%
Sales Tax	\$3,200,571	7.87%
<b>Total</b>	<b>\$40,642,925</b>	<b>100.00%</b>

- **Deed of Ownership**  
Alliance proposes the new 120 bed psychiatric hospital will be located on the MultiCare Allemore campus at 1901 South Union Avenue in the city of Tacoma, within Pierce County. To demonstrate compliance with this sub-criterion, Alliance provided the Allenmore property deed documenting their ownership of the property. [Source: Application, Attachment 9]
- **Zoning Information**

Alliance is proposing to establish the 120 bed psychiatric hospital in space provided by MHS on their Allenmore campus located at 1901 South Union Avenue in the city of Tacoma. Alliance has provided a copy of a letter from the city of Tacoma confirming the projects consistency with the existing zoning for the property. [Source: Application, Exhibit 5]

Alliance provided a non-binding construction cost estimator letter from Sellen Construction Company. They indicated that based upon their experience in construction projects and cost estimation, the following construction cost estimate provided for this project.

120 Adult Psychiatric Inpatient Unit Beds	\$31,975,110
Supervision and Inspection of the Site	\$639,502
Tax on Construction Cost	\$3,037,635
<b>Total Construction Costs</b>	<b>\$35,652,247</b>

Supervision and Inspection of the site includes anticipated fees and inspection costs, but not construction administration by the architect. Tax on construction does not include expected tax on furniture and equipment. [Source: Application, Exhibit 13]

Alliance will be the owner and operator of the Alliance for South Sound Psychiatric Hospital. The hospital will be developed as a commercial condominium and the Corporation will own a real property interest in the Allenmore Campus. The annual condominium dues included in the revenue and expense statement is \$324,000. [Source: Application, Exhibit 15 & May 12, 2015 Supplemental Materials, Exhibit 22] If this project is approved the department will condition the project to require the applicant to submit an executed condominium agreement between Alliance and MHS/CHI-FH. The executed agreement shall include the identity of all entities referenced in the agreement, outline the roles and responsibilities of all entities, identify all costs associated with the agreement, and include all exhibits that are referenced in the agreement.

The costs of the project, including construction costs, will probably not result in an unreasonable impact on the costs and charges for health services. As evaluated in the need section of this analysis, the department concluded that Pierce County could support additional adult psychiatric beds. Based on the source documents evaluated, the department concludes **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.

**Signature**

The capital expenditure associated with the establishment of the 174 bed psychiatric hospital is \$42,565,368. The costs include purchase of the land, constructing and equipping the building, all construction and consultant fees, financing and interim financing costs, plus Washington State sales tax. [Source: Application, p40]

Signature intends to fund the project using two sources. The majority of the funding, \$27,667,489 will be from bank loans at 5% interest for 25 years. To demonstrate a financial commitment to this portion of the funding, Signature provided a letter of financial commitment from its chief financial officer and an amortization schedule showing the annual payments. It is noted that the borrower is the 100% owner of Signature, Soon K. Kim. [Source: Application, p44 & Attachment 10]

The remaining \$14,897,368 will be funded from the real estate company known as Tacoma Life Properties, LLC, a to-be-formed wholly owned subsidiary of Signature, LLC and created specifically for this project. Tacoma Life Properties, LLC will receive initial capitalization of \$14,897,476 from owner Soon K. Kim, who owns all real estate corporations associated with the Signature hospitals. [Source: Application p42 and Attachment 10]

To demonstrate access to the funds, Signature provided letters of financial interest from three separate banks: Pacific Western Bank located in Irvine, California; Torrey Pines Bank located in Los Angeles, California; and Wells Fargo Bank located in Santa Fe, California. All three letters confirm past lending services with Soon K. Kim and express an interest, but not a commitment, to continue the lending services in the future.<sup>13</sup> [Application, p43 & Attachment 10].

In addition to the capital expenditure of \$42,565,994, Signature's 100% owner, Soon K. Kim, will also fund the startup costs for the hospital. Startup costs are non-recurring costs necessary to begin providing services, such as recruitment/staff training. Startup costs for this project are identified at \$500,000. Signature has provided documentation of withdrawals of equity sufficient to fund Dr. Kim's portion of the project and Signature as a corporation still retains \$39,143,285 in Member's equity. Signature also provided audited financial statements for the corporation for the years 2013, 2012, and 2011. [Source: Application, Attachment 18]

Signature has provided documentation of funds sufficient to finance this project. Signature has demonstrated an interest by the three banks to finance a portion of this project.

Based on the source documents evaluated relating to the financing commitment, the department concludes **this sub-criterion is met.**

### **Alliance**

Alliance for South Sound Health's capital expenditure is projected to be \$40,642,925. The costs include construction costs and equipment. The funding will come evenly from the reserves of MultiCare Health System and CHI FH. MultiCare Health System and CHI-FH have the reserves to fund this project. The financing method is an appropriate business practice.

To demonstrate the financial commitment to this funding, MultiCare Health System and CHI-FH provided letters of financial commitment from their chief financial officers [Source: Application, Exhibit 14]

To demonstrate they have the funds to support the financing, they provided their current [year 2013] and historical [2011 and 2012] audited financial statements for each corporation. The 2013 balance sheets total assets for MultiCare Health System (\$3.1 billion) and CHI-FH (\$19.3 billion) show that they have the assets to fund their portion of the project (\$20.3 million) each from

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<sup>13</sup> The department does not expect a bank to provide a written commitment to funding without first completing its internal loan processes.

reserves. [Source: Application, Exhibit 16 & August 16, 2015, HPDS analysis, p 2]] The documents demonstrate that the funds necessary to finance the project are available. **This criterion is met.**

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

Based on the source documents evaluated, and provided the applicant agrees to the conditions stated in the 'conclusion' section of this evaluation, the department concludes: Signature Healthcare Services, LLC has met the structure and process of care criteria in WAC 246-310-230.

Based on the source documents evaluated, and provided the applicant agrees to the conditions stated in the 'conclusion' section of this evaluation, the department concludes Alliance for South Sound Health 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.

#### **Signature**

The hospital is expected to become operational in January 2018 with all 174 psychiatric beds. Under this timeline, full calendar year one is 2018 and full year three is 2020. Staffing for the psychiatric hospital is based on the projected occupancy of 18% in year one, 53% in year two, and 63% in year three. Projected staffing is shown in Table 26. [Source: April 23, 2015 Supplemental Material, p10]

**Table 26**  
**Table 26 Signature 174 bed Psychiatric Hospital**

	<b>2018</b>	<b>2019 Increase</b>	<b>2020 Increase</b>	<b>Total</b>
RN s	11.91	21.47	6.74	40.12
LVNs	4.87	8.82	2.77	16.46
MHWs	19.80	35.62	11.31	66.73
<b>Total Nursing</b>	<b>36.58</b>	<b>65.91</b>	<b>20.82</b>	<b>123.31</b>
Inpatient Clinical				
Social Services	4.96	8.89	2.69	16.54
Activity Therapy	1.98	2.64	0.89	5.51
Nursing Admin	3.52	5.64	0.64	9.80
<b>IP Clinical Subtotal</b>	<b>10.46</b>	<b>17.17</b>	<b>4.22</b>	<b>31.85</b>
Outpatient				
Transportation	1.67	0.33	0.00	2.00
Psych. Partial Hospitalization Program	1.88	3.66	1.08	6.62
Psych Intensive Outpatient Program	0.83	0.44	0.25	1.52
<b>Outpatient Subtotal</b>	<b>4.38</b>	<b>4.43</b>	<b>1.33</b>	<b>10.14</b>

	2018	2019 Increase	2020 Increase	Total
Admin & support staff				
Accounting	2.00	0.00	0.00	2.00
Central Business Office	1.50	0.00	0.00	1.50
Admitting	2.93	5.38	1.61	9.92
Communications	2.43	1.26	0.72	4.41
Dietary	3.52	5.71	1.80	11.03
Housekeeping	3.80	6.36	1.97	12.13
Plant Ops	2.00	0.77	0.54	3.31
Needs Assessment	5.86	10.76	3.23	19.85
Administration	2.00	0.00	0.21	2.21
Human Resources	1.76	2.22	0.02	4.00
Marketing	2.00	0.00	0.21	2.21
Quality Assurance	1.50	0.35	0.36	2.21
Medical Records	2.04	3.50	1.08	6.62
Utilization Review	3.24	5.99	1.80	11.03
<b>Support Staff Subtotal</b>	36.58	42.3	13.55	92.43
<b>Total FTEs</b>	<b>88.00</b>	<b>129.81</b>	<b>39.92</b>	<b>257.73</b>

Signature is proposing to initially staff the hospital with 88.0 FTEs in 2018, add 129.81 FTEs in 2019, and add another 39.92 FTEs in 2020 for a total of 257.73 FTEs at the end of 2020. [Source: April 23, 2015 Supplemental Material, p10]

Signature reports their start up team for this facility will include operations specialists able to direct existing resources of Signature to develop and implement the staffing plan and human resources for the hospital. The process will start at the beginning of the design development and construction period. The following specific recruitment and retention strategies will include.

- Inter facility transfers of key, experienced staff
- Competitive wages and benefits
- Establishing relationships with area college and university health care personnel educational programs
- Ongoing continuing education
- Employee referral program for employees referring friends and family
- Nationwide recruitment through posting on website, national recruiting websites, and local community online postings
- Attending local and Puget Sound metropolitan area job fairs in order to reach out to potential candidates [Source: Application p50]

The number of FTEs and recruitment approaches outlined above appear to be a reasonable approach to securing needed staffing for the 174 bed facility.



Key staff, including the Medical Director, have not yet been identified for the new hospital. Since the Medical Director, will be under contract and Signature did provide a draft Medical Director's agreement that outlined the role and responsibilities of the Medical Director. If this project is approved, the department would attach a condition requiring Signature to provide the department with the completed Medical Director agreement prior to opening the hospital.

If this project is approved, the department would attach a condition requiring Signature to provide the department with a listing of key staff for the hospital. Key staff includes all credentialed or management staff, including the director of nursing and Medical Director.

Based on the source documents evaluated and with Signature's agreement to the condition relating to the Medical Director and Director of Nursing, the department concludes **this sub-criterion is met.**

### **Alliance**

The hospital is expected to become operational in January 2018 with all 120 psychiatric beds. Under this timeline, full calendar year one is 2018 and full year three is 2020. Staffing for the psychiatric hospital is based on the projected occupancy of 68% in year one, 83% in year two, and 87% in year three. Projected staffing is shown in table 27. [Source: Application p24 & February 23, 2015 Supplemental Material, p8]

**Table 27**  
**Alliance 120 bed Psychiatric Hospital**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
Psychiatrist	5.0	1.1	0.3	6.4
ARNP	5.8	1.2	0.3	7.3
Nurse Manger	3.2	0	0	3.2
Charge Nurse	6.3	1.5	0.3	8.1
Registered Nurse	49.3	11.3	3.0	63.6
LPN	27.8	6.4	1.7	35.9
Social Work	16.3	0.0	0.0	16.3
Therapy Staff	8.3	0.0	0.0	8.3
Petitioner	1.5	0.0	0.0	1.5
Outpatient Tech.	15.0	0.0	0.0	15.0
CNA	58.3	13.3	3.5	75.1
Health Unit Coordinator	5.3	1.2	0.3	6.8
Security	4.7	0.0	0.0	4.7
Maintenance	9.9	0.0	0.0	9.9
Supply	1.0	0.0	0.0	1.0
Public Relations	1.0	0.0	0.0	1.0
Hospital Supervisors	4.7	0.0	0.0	4.7
<b>Total</b>	<b>223.4</b>	<b>36.0</b>	<b>9.4</b>	<b>268.8</b>

Alliance is proposing to initially staff the hospital with 223.4 FTEs in 2018, add 36.0 FTEs in 2019 and add another 9.4 FTEs in 2020 for a total of 268.8 at the end of 2020. [Source: February 23, 2015 Supplemental Materials, p8]

MHS and CHI-FH report an excellent record in recruiting and retaining qualified staff to meet the employee needs for both systems. They are recruiting staff for multiple hospitals and outpatient facilities. They do this by partnering with local universities and colleges, supporting employee career development, and utilizing a broad range of local, regional, and national recruiting strategies.

The recruitment resources available to both organizations include a Talent Acquisition team and a Provider services team. The Talent Acquisition team includes full time recruiters (including RNs) an agency staffing specialist and employment coordinators. The Provider Services team includes full-time recruiters and support team members.

The number of FTEs and recruitment approaches outlined above appear to be a reasonable approach to securing needed staffing for the 120 bed facility.

Key staff, including the Medical Director, have not yet been identified for the new hospital. Since the physicians, including the Medical Director, will be employees of Alliance a job description was provided in the February 23, 2015 supplemental material.

If this project is approved, the department would attach a condition requiring Alliance to provide the department with a listing of key staff for the hospital. Key staff includes all credentialed or management staff, including the Director of Nursing and Medical Director.

Based on the source documents evaluated and with Alliance's agreement to the condition relating to the Medical Director and Director of Nurses, the department concludes **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 no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet regarding appropriate relationships with ancillary and support services. Therefore, using its experience and expertise the department assesses this sub-criterion.

### **Signature**

Signature expects the new psychiatric hospital to become operational in January 2018. As a result, formal and informal working relationships with area healthcare providers have not yet been established. TBBH will be a large hospital facility capable of providing many ancillary services directly. The psychiatric hospital will provide both inpatient and outpatient psychiatric services. Signature intends to establish formal and informal working relationships with community healthcare providers to ensure continuity of care for the patients after discharge. Community providers include mental health providers, hospitals, physicians, community health clinics and the Regional Support Network. [Source: Application, p51]

TBBH will develop transfer agreements with general medical and surgical hospitals as well as develop specialty contracts for laboratory and radiology services in the medical services area. There also will be contractual relationships for telecommunications and other support services.

Given that Signature has not yet established ancillary and support agreements for the new hospital, if this project is approved, the department would attach a condition requiring Signature to provide a final listing of ancillary and support vendors for the 174 bed psychiatric hospital.

Based on the source documents evaluated and with Signature's agreement to the condition relating to ancillary and support services, the department concludes **this sub-criterion is met**

### **Alliance**

The proposed new hospital will be able to utilize existing ancillary and support services from both MHS and CHI-FH. The Alliance facility will be located on the Allenmore hospital campus and will be able to secure some services from Allenmore hospital. Services such as plant operations, dietary, security for example may be obtained this way. Alliance has not yet determined who specifically will be providing these services.

More importantly the MHS and CHI-FH are currently and have been delivering medical services in multiple locations to residents of Pierce County. They have existing relationships with the community clinics and independent providers. They have existing relationships with the existing medical groups in Pierce County. The relationships were validated by the letters submitted at the public hearing in support of the Alliance project.

Given that Alliance has not yet established ancillary and support agreements for the new hospital, if this project is approved, the department would attach a condition requiring Alliance to provide a final listing of ancillary and support vendors for the 120 bed psychiatric hospital.

Based on the source documents evaluated and with Alliance's agreement to the condition relating to ancillary and support services, the department concludes **this sub-criterion is met**

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

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

### **Signature**

Since this project requests the establishment of a new hospital, the hospital itself does not have a history of Medicare certification or inspections by the Department of Health. While Signature is not a new corporation, it does not have any facilities within Washington State. Signature was established in 2000 in Southfield Michigan. Signature Healthcare Services, LLC has been registered in Washington State since September 2, 2014. As of the writing of this evaluation Signature or one of its subsidiaries, operates a total of 13 psychiatric hospitals in the following five states. [Source: Application, p1 & Attachment 2]

- Arizona
- California
- Illinois

- Nevada
- Texas

Since Signature does not currently operate any facilities in Washington State, the department surveyed the other states where Signature currently operates facilities. The department sent surveys to four states covering 12 facilities. The State of Illinois did not respond to attempted contacts by the department. The department had a 69.2% response rate on the 12 facilities surveyed. There were no adverse licensing actions reported on the surveys returned to the department. [Source: DOH Surveys]

The department reviewed the accreditation information on the Joint Commission<sup>14</sup> website for the out-of-state behavioral health hospitals owned and operated by Signature. Twelve of the 13 hospitals were considered comparable to the national patient safety and quality improvement goals identified on the website and there were no adverse licensing actions as a result of the surveys for the 12 hospitals. One facility in Glendale Arizona was determined to be below the national average during its 2013 survey.<sup>15</sup> There were no adverse licensing actions as a result of these surveys. [Source: Joint Commission compare website]

Based on the compliance history of Signature's hospitals, the department concludes there is reasonable assurance that TBHH would operate in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met.**

### **Alliance**

Since this project requests the establishment of a new hospital, the hospital itself does not have a history of Medicare certification or inspections by the Department of Health. Since the parent corporations for Alliance are MultiCare Health Systems and CHI-Franciscan Health, the department reviewed licensing and accreditation information for the Washington hospitals operated by these two health care corporations. [Source: Application, pp 15-18]

The applicants also submitted licensing and accreditation information on their respective hospitals in the application. Neither MHS or CHI-FH have any history of criminal convictions related to ownership/operation of a health care facility, licensure revocations or other sanctions described in WAC 246-310-230(5)(a).

Of the 15 hospitals operated by the applicants, only one hospital does not have Joint Commission accreditation. St. Elizabeth, a critical care hospital, has a hospital license issued by the state of Washington on January 1, 2013 and was last surveyed on May 28, 2015. The hospital has some deficiencies and a plan of correction was approved on July 6, 2015. There were no adverse licensing actions as a result of these surveys.

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<sup>14</sup> The Joint Commission is an independent, not-for-profit organization that accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards.

The department also reviewed the accreditation information on the Joint Commission<sup>16</sup> website for the Washington State hospitals owned and operated by MHS and CHI-Franciscan.  
[Source: Joint Commission compare website]

Based on the recent compliance history of the MHS and CHI-Franciscan Hospitals, the department concludes there is reasonable assurance that the new 120 bed psychiatric hospital located in Pierce County will be operated 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.

### **Signature**

The applicant states that TBBH as 174 bed hospital is intended to be large enough to offer inpatient services across a broad array of patient care needs as well as providing partial hospitalization and outpatient services reducing fragmentation of behavioral health services through this concentration of specialty resources. Through the three year development process, the applicant plans to continue to meet with existing health care providers to develop the appropriate formal relationships with the existing healthcare systems. Signature will support the integration of physical and behavioral healthcare programs as they develop in Pierce County.

Signature is currently operating 13 hospitals in five different states. Given the experience and expertise of the current management team, Signature does not anticipate any difficulty establishing the necessary formal and informal agreements with the community providers.

Based on the source documents evaluated, the department concludes **this sub-criterion is met**

### **Alliance**

As previously stated, the new psychiatric hospital would become operational in January 2018 and working relationships with area healthcare providers have already been established by MHS and CHI-FH due to their current health care activities in Pierce County. [Source: Historical Department Records]

Given the experience and expertise of the current management team of MHS and CHI-FH, the applicant does not anticipate any difficulty continuing the necessary formal and informal agreements with the community providers. Various Pierce County organizations have responded in public comment to the existing relationships with both these organizations and the long history

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<sup>16</sup> The Joint Commission is an independent, not-for-profit organization that accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards. [Source: Joint Commission website]

of services to the citizens of Pierce County. These local agencies have expressed their full support to the Alliance project to develop the psychiatric hospital in Pierce County.

Based on the source documents evaluated, the department concludes that approval of this project is not expected to result in unwarranted fragmentation in the community. **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.*

During the review of this project, Alliance provided extensive information related to Signature's quality of care history. A summary of Alliance's comments is included in this evaluation. [Source: July 16, 2105 public comment from Alliance/MHS/CHI-FH]

#### Alliance Public Comment

##### *"Comparative Quality of Care Experience"*

*The issue of transparency has become a paramount issue amongst all levels of the healthcare sector. Quality outcomes are continually becoming more forward facing and are used as comparative tool among organizations. For any organization to thrive in the future, the organization must be able to demonstrate consistent commitment to quality care that patients and the community can trust.*

*Particularly alarming is the discovery of Signature's past experience which illustrates it has struggled with repeated episodes of misconduct and substandard patient care. A summary and analysis of this issue is provided below, with supporting documentation in Exhibit 2. [Source: July 16, 2105 public comment from Alliance/MHS/CHI-FH]*

##### *Signature Quality of Care Issues*

*Our own research of public documents has led to this discovery. We have no reason to assume these documents are not correct.*

*Signature and its owner, Dr. Soon Kim, have a reputation for misconduct at their facilities in other states. Most troubling, Signature has a well-documented history of providing substandard patient care.*

##### *Patient-care failures at Signature's facilities*

*In 2010, celebrity psychiatrist Dr. Drew Pinsky (host of TV reality show, *Celebrity Rehab* with Dr. Drew) resigned as head of the chemical dependency unit at Signature's "high-end psychiatric hospital" in Pasadena, California, after four patients died and a 14-year old patient was raped in her hospital room while staff was asleep.*

*These high-profile incidents are part of a pattern of patient-care deficiencies at Signature's California facilities. CMS reports from 2008 through 2010 contain "troubling findings about substandard care and failure to ensure patient safety" at Signature's hospital in Pasadena. The Los Angeles Times reported in 2010 that [f]ederal officials have found the problems [at Signature's facility] so serious that they are allowing state inspectors to enter the facility at any time to check on its compliance with regulations. Indeed, CMS officials in California twice sought to decertify Signature's Pasadena facility from participation in the Medicare and Medicaid programs. CMS also reported "serious deficiencies" relating to patient care at Signature's hospital in San Diego, during a 2006 recertification inspection.*

### Signature's dysfunctional corporate culture

*These incidents are indicative of what the Department should expect from a signature facility in Washington. In 2011, an independent review by the University of Illinois at Chicago, on behalf of the Illinois Department of Children and Family Services [DCFS], determined that Signature has "corporate level quality of care issues." The University study found that Signature's facilities suffer from inadequate staffing, sexual assaults among patients, mishandling of medication, and poor oversight of patients. The study concluded that the "root cause" of these problems "can likely be attributed in large part to a dysfunctional corporate context. In other words, the fundamental problem is Signature itself.*

### Rebuttal

Signature disagrees with public comments submitted by the other applicant regarding quality of care issues attributed to several of the psychiatric hospitals owned and operated by Signature. The standard for Certificate of Need applications under WAC 246-320230(5)(a) is that an applicant must report a history of a criminal conviction, denial or revocation of a license to operate a healthcare facility.

Not a single Signature hospital has ever lost any licenses or any federal, state, or Joint Commission Accreditation. Signature provided detailed responses to the hospitals identified by Alliance in their public comment.

*"In regard to ASSH's (Alliance's) outrageous and unsubstantiated conclusion citing a history of providing substandard care, we note that eight of our thirteen hospitals are on track to be TJC "Top performers on Key Quality Indicators." [Source July 31, 2015 Supplemental Materials p16-17]*

Signature further responded to Alliance's public comments by submitting the following rebuttal.

*"The report listed concerns in four areas that led to a conclusion that problems were related to dysfunction or corporate quality of care issues rather than facility-based problems: Those problems were:*

- *Inadequate staffing*
- *Sexual assaults among patients*
- *Mishandling of medication*
- *Poor oversight of patients*

***Inadequate staffing:*** *Chicago Lakeshore Hospital (CLH) reached out to the UIC surveyors (The Report authors) several times to ascertain what staffing levels they deemed appropriate based on any accepted benchmark, standards, or regulations. However, those surveyors were not able to provide that data or point to how CLH's staffing levels were inadequate. Signature efforts to establish benchmarks unfortunately contributed to a defensive tone throughout the Report, which lead to the alleged problems to be identified as Signature top level management problems instead of appropriately identifying them a potential Chicago Lakeshore Hospital problems;*

***Sexual Assaults Among Patients:*** *The report references four alleged incidents at CLH reported over the course of three years based on the admissions of a specifically targeted sample of highly complex, treatment resistant, and recidivistic youth. While no sexual incident is acceptable and CLH works diligently to mitigate the risk of the occurrence of any harmful incident to its patients, it is impossible to eliminate all risk; especially considering the population served by CLH. CLH reported each alleged incident (promptly) and operated with the utmost transparency in connection with all regulatory agencies and DCFS. There has never been a suspension, revocation, or disciplinary action against CLH by any governmental agency or TJC. CLH's contract with DCFS*

*was never suspended or terminated. CLH has a long-standing history with DCFS and continues to carry out its mission to treat, strengthen, and raise awareness for the mental health of children and adolescents in and around Chicago. Furthermore, UIC and CLH have very strong affiliations.*

***Mishandling of Medications:*** *The third concern was CLH's medication doses. However, CLH's Medication Error Report provided to UIC reflected total hospital medication error rates of less than 0.006 which is well within industry standards.*

***Poor Oversight of Patients:*** *The fourth and last concern raised by the surveyors mentioned bedside documenting during supervision leading to poor oversight. Yet, bedside documentation is an industry standard practice that allows behavioral healthcare workers to document patient activity during supervision. These isolated incidents did not accurately represent any systemic problem at CLH in 2011 and they do not today.*

***Results of the Report:*** *Despite disagreement by Signature Healthcare with the methodology employed in the study, the results, and the tone of the Report, Signature was diligent in developing a response plan to the conclusions. CLH's contract with DCFS was never suspended or terminated. CLH has a long-standing history with DCFS and continues to carry out its mission to treat, strengthen, and raise awareness for the mental health of children and adolescents in and around Chicago. Furthermore, UIC and CLH have very strong affiliations. In fact, UIC and CLH have academic affiliation agreements, whereby CLH provides training and clinical preparation to UIC's residents and other students. At the July 16, 2015 public hearing Dr. Nierman, the Medical Director of Chicago Lakeshore and a Child and Adolescent Psychiatrist specialist spoke about the residency training as well as nursing and other health professional training relationships with the University of Chicago Medical School, and the University of Illinois-Chicago Medical School.*

#### Department's Review

As previously stated, this sub-criterion requires the department to review historical quality of care and assess whether the applicant's history is a positive indicator of the future. In its rebuttal, Signature appears to assert that it is obligated to provide information under this sub-criterion only if it has a criminal conviction, has had a license denied or revoked, or any of its facilities was decertified from either the Medicare or Medicaid programs. Yet, Signature provided information related to a 2006 settlement agreement that has since expired. The 2006 agreement did not result in criminal conviction, license denial or revocation, or Medicare or Medicaid decertification. In public comment Alliance

It is unclear why Signature chose to alert the department about the 2006 settlement and corporate compliance agreement, yet made no mention of the review conducted by the University of Illinois at Chicago (UIC) by the Mental Health Policy Program (MHPP) and the resulting report. The report was completed in 2011. The 2011 review and associated report were first raised by Alliance, not Signature.

The quality of care issues identified in the 2011 MHPP report also focus on different incidences in the states of California, Michigan, and Illinois. For California and Michigan, the incidences occurred in 2008 – 2009. Signature's rebuttal responses demonstrate that the issues were associated with their hospital, but the incidences were not directly connected to Signature's ownership or operations of the facilities.



For Chicago Lakeshore Hospital (CLH) in Illinois, the 2011 review conducted by the University of Illinois at Chicago on behalf of the Illinois Department of Children and Family Services found issues related to inadequate staffing; sexual assaults among patients; mishandling of medication doses, and poor oversight of patients.

In its rebuttal, Signature focused on assuring the department that its license was not suspended or revoked and there was no disciplinary action against CLH by any governmental agency or Joint Commission. Signature also asserts throughout its rebuttal that the incidents at CLH are not systemic. Signature did claim to develop a plan to address the adolescent issues. Signature did not provide documentation to show what procedures, practices, standards, or any other changes it incorporated to ensure the issues are not repeated at the Illinois facility or any of its other hospitals or that the issues do not become systemic. However, given Signature did not lose licensure or Joint Commission accreditation; it is reasonable for the department to conclude the plan was acceptable.

In summary, the department acknowledges that the 2011 report is four years old and all of Signature's hospitals have undergone at least one quality of care review by the state licensing agency or the Joint Commission. As a result, Signature's quality of care history at its other facilities and its recent history at CLH demonstrates a acceptable indicator of the future. **This sub-criterion is met.**

#### **Alliance**

This sub-criterion is addressed in sub-section (3) above. NO additional issues were identified that required further evaluation. **This sub-criterion is met.**

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

Based on the source information reviewed, the department concludes Signature Healthcare Services, LLC has not met the cost containment criteria in 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 Alliance for South Sound Health 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. First the department determines if the application has met the other criteria of WAC 246-310-210 thru 230. If the project has failed to meet one or more of these criteria then the project cannot be considered to be the best alternative in terms of cost, efficiency, or effectiveness as a result the application would fail this sub-criterion.

If the project has met the applicable criteria in WAC 246-310-210 through 230 criteria, the department then assesses the other options considered by the applicant. If the department determines the proposed project is better or equal to other options considered by the applicant and the department has not identified any other better options this criterion is determined to be met unless there are multiple applications.

If there are multiple applications, the department's assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type. The superiority criteria are objective measures used to compare competing projects and make the determination between two or more approvable projects which is the best alternative. If WAC 246-310 does not contain any service or facility type superiority criteria as directed by WAC 246-310-200(2) (a)(i), then the department would look to WAC 246-310-240(2)(a)(ii) and (b) for criteria to make the assessment of the competing proposals. If there are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b), then using its experience and expertise, the department would assess the competing projects and determine which project should be approved.

##### Step One

The department in this evaluation concluded Signature met the applicable review criteria under WAC 246-310-210 (need), WAC 246-310-220 (financial feasibility), WAC 246-310-230 (Structure and Process of Care). The department also concluded Alliance met the applicable review criteria under WAC 246-310-210 (need), WAC 246-310-220 (financial feasibility), and WAC 246-310-230 (Structure and Process of Care). Therefore neither of the applications was failed because of its failure to meet other review criteria.

##### Step two

Both applicants considered and rejected other options before submitting the current applications.

##### Signature

Signature considered and rejected the options listed below before submitting the current application. [Source: Application p58-61]

Alternative A 194 bed psychiatric hospital: Signature rejected this alternative due to the higher overall capital cost per bed and the amount of time necessary to achieve optimum utilization.

Alternative B 145-154 bed psychiatric hospital: Signature rejected this alternative due to this alternative not being able to meet overall bed need even during the opening period of this smaller hospital project.

Alternative C 90-120 bed psychiatric hospital: Signature rejected this alternative due to this alternative not being able to meet the overall bed need unless a significant project was approved by the Department and the South Sound Alliance actually built a project approved by the Department. Even if the South Sound Alliance project was built, it still would not represent the best alternative for their two systems because co-morbid patients presenting in the MultiCare Health System emergency rooms would still be treated in a freestanding hospital versus an acute care-based unit.

### **Alliance**

Alliance considered and rejected the options listed below before submitting the current application. Option One: Convert inpatient acute care beds to psychiatric beds was not an acceptable alternative because there is not enough beds to meet the total psychiatric bed need for Pierce County.

Option Two: Joint venture 120 bed hospital on the Allenmore Campus: This is the project therefore is not an alternative.

Option Three: A 60-bed hospital on the Allenmore Hospital campus: This is an improvement in bed supply but does not provide the total number of beds projected as needed.

Option four: a 150 bed hospital on the Allenmore Hospital campus: This project will be more costly to operate and would result in idle capacity.

Option five: No Project: There Is a need for beds, therefore not doing a project does not resolve the need for beds.

### **Step Three**

#### **Department's Superiority Analysis**

In reviewing the materials submitted by the applicants and information provided during the public comment, the department concludes that the following summarized points support approval of the Alliance application as the superior alternative.

1. The existing inpatient medical and psychiatric services provided by MHS/CHI-FH will enable Alliance to more immediately develop relationships in the community to contribute to more efficient and effective development of the necessary inpatient medical and behavioral health support services. Alliance contends this is a strength of their application, and this contention is supported by the public testimony submitted by independent organizations and interested persons in the community.
2. The existing medical and psychiatric outpatient services provided by MHS/CHI/FH will enable Alliance to more immediately develop relationships that will promote continuity in the delivery of outpatient services. Alliance contends this is a strength of their application, and this contention is supported by the public testimony submitted by independent organizations and interested persons in the community.

3. The location of the Alliance project on an existing hospital campus will promote more immediate development of their project and provides superior access to medical services over the Signature project.

Based on the documentation evaluated, the department concludes that the Alliance 120 bed psychiatric hospital project is the best available alternative for the residents Pierce County and surrounding communities. **This sub-criterion is met for Alliance.**

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

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

WAC 246-310 does not contain specific WAC 246-310-240(2)(a) criteria as identified in WAC 246-310-200(2)(a)(i). There are known minimum building and energy standards that healthcare facilities must meet to be licensed or certified to provide care. If built to only the minimum standards all construction projects could be determined to be reasonable. However, the department, through its experience knows that construction projects are usually built to exceed these minimum standards. Therefore, the department considered information in the application that addressed the reasonableness of the construction project that exceeded the minimum standards.

**Signature**

In response to this sub-criterion, Signature states it has developed a total of 12 hospitals, and has opened two in the last year. For this project, Signature states that the space allocation and the development of functional relationships within the proposed hospital will be guided by industry standards, by Washington State licensing and construction review requirements for new facilities, and by CMS certification requirements for new facilities. [Source: Application, p62]

After reviewing the information summarized above, the department concludes Signature, while not specifically stating how it will meet the sub-criterion, is fully aware of the specific requirements for Washington State, CMS, and the local authority construction and energy conservation codes. Based on the information, the department concludes **this sub-criterion is met.**

**Alliance**

In response to this sub-criterion, Alliance stated the project will be constructed to meet the Washington State Building Code and the Washington Energy Code and made the following commitments.

- 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.

Based on the documentation evaluated, the department concludes that **this sub-criterion has been met.**

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

**Signature**

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concluded **this sub-criterion is met.**

**Alliance**

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concluded **this sub-criterion is met.**

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

**Signature**

Signature is proposing to finance this project using internal financing and a bank loan. The applicant has not proposed any innovation in financing for this project. **This sub-criterion is not applicable.**

**Alliance**

Alliance is proposing to finance this proposal using reserves. The applicant has not proposed any innovation in financing for this project. **This sub-criterion is not applicable.**