STATE OF WASHINGTON

DEPARTMENT OF HEALTH

Olympia, Washington 98504

October 3, 2022

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Providence Regional Medical Center Everett
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RE: Certificate of Need Application #21-81A2 Northwest Washington Rehabilitation Hospital, LLC and PMB Lynnwood, LLC

Dear Ms. Okazaki and Dr. Fox:

We have completed review of the Certificate of Need application submitted by joint applicants Northwest Washington Rehabilitation Hospital, LLC and PMB Lynnwood, LLC. The application proposes to establish a 40-bed level I rehabilitation hospital in Lynnwood, within Snohomish County. Attached is a written evaluation of the application.

For the reasons stated in the attached decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided joint applicants Northwest Washington Rehabilitation Hospital, LLC and PMB Lynnwood, LLC agrees to the following in its entirety.

Project Description:

This Certificate of Need approves the establishment of a rehabilitation hospital in a single phase. The new rehabilitation hospital will have 40 level I rehabilitation beds and be located at 12911 Beverly Park Road in Lynnwood, within Snohomish County.

Conditions:

1. The Joint Applicants agree with the project description as stated above. The Joint Applicants further agree 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 rehabilitation services at the hospital, the applicants will provide a copy of the executed Lease Agreement for the department's review. The executed agreement must be substantially consistent with the draft agreement provided in the application.
3. Prior to providing rehabilitation services at the hospital, the applicants will provide a copy of the executed Development Agreement for the department's review. The executed agreement must be substantially consistent with the draft agreement provided in the application.

4. Prior to providing rehabilitation services at the hospital, the applicants will provide a copy of the executed Admission and Patient Rights Policy for the department's review. The executed policy must be substantially consistent with the draft policy provided in the application.
5. Prior to providing rehabilitation services at the hospital, the applicants will provide a copy of the executed Non-Discrimination Policy for the department's review. The executed policy must be substantially consistent with the draft policy provided in the application.
6. Prior to providing rehabilitation services at the hospital, the applicants will provide a copy of the executed Financial Assistance/Charity Care Policy. The executed policy must receive prior approval from the Department of Health's Charity Care Program.
7. Prior to providing rehabilitation services at the hospital, the applicants will provide a copy of the executed Transition Planning Referrals Policy for the department's review. The executed policy must be substantially consistent with the draft policy provided in the application.
8. Prior to providing rehabilitation services at the hospital, the applicants will provide a copy of the executed Medical Director Agreement for the department's review. The executed agreement must be substantially consistent with the draft agreement provided in the application.
9. Prior to providing rehabilitation services at the hospital, the applicants will provide a copy of the executed Patient Transfer Agreement for the department's review. The executed agreement must be substantially consistent with the draft agreement provided in the application.
10. Prior to providing rehabilitation services at the hospital, the applicants will provide the name and professional license number of key staff for the department's review.
11. The Joint Applicants will use reasonable efforts to ensure the new rehabilitation hospital provides charity care consistent with the regional average, the amount identified in the application. The regional charity care average from 2018-2020 was 1.49% of gross revenue and 4.41% of adjusted revenue. The new rehabilitation hospital will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires that these records be available upon request.
12. The new rehabilitation hospital will obtain and maintain Medicare and Medicaid certification.

Approved Costs:

The approved capital expenditure associated with this project is $53,371,543. Northwest Washington Rehabilitation Hospital, LLC will fund $3,550,057 and PMB Lynnwood, LLC will fund $49,821,486 of the approved capital costs.

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

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

Send your written response to the Certificate of Need Program at this email address: FSLCON@doh.wa.gov.

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

Sincerely,

Eric Hernandez, Program Manager
Certificate of Need
Office of Community Health Systems

Attachment

EVALUATION DATED OCTOBER 3, 2022, FOR THE JOINT CERTIFICATE OF NEED APPLICATION SUBMITTED BY NORTHWEST WASHINGTON REHABILITATION HOSPITAL, LLC AND PMB LYNNWOOD, LLC PROPOSING TO ESTABLISH A 40-BED LEVEL I REHABILITATION HOSPITAL IN SNOHOMISH COUNTY

APPLICANT DESCRIPTION

The following two separate entities are associated with this project:

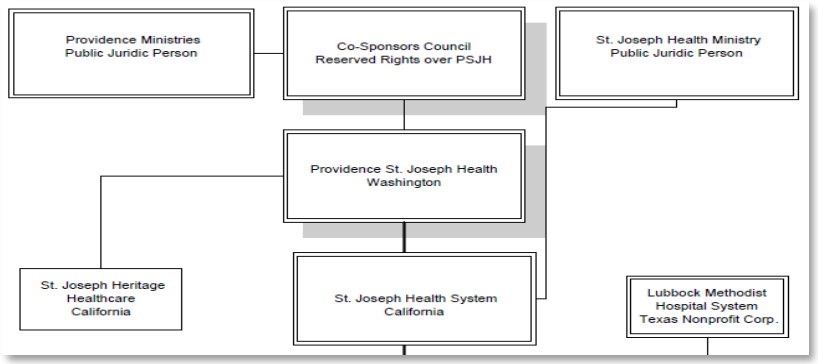
- Northwest Washington Rehabilitation Hospital, LLC
- PMB Lynnwood, LLC

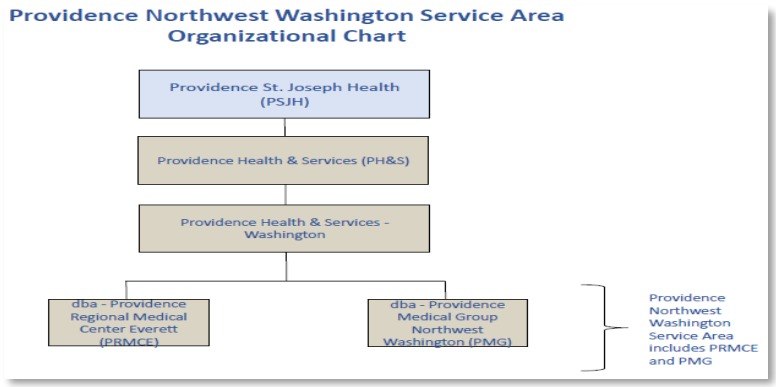
A description of each entity and its role in this project is below.

Northwest Washington Rehabilitation Hospital, LLC

Northwest Washington Rehabilitation Hospital, LLC (NWRH) is a joint venture between Providence Regional Medical Center Everett and Kindred Development 12, LLC/LifePoint. Northwest Washington Rehabilitation Hospital, LLC is a for-profit entity formed in November 2017[1] and is registered with the Washington State Secretary of State office.[2] The parent entities of both Providence Regional Medical Center Everett and Kindred Development 12, LLC/LifePoint operate healthcare facilities throughout the nation. [source: Application, pdf 7]

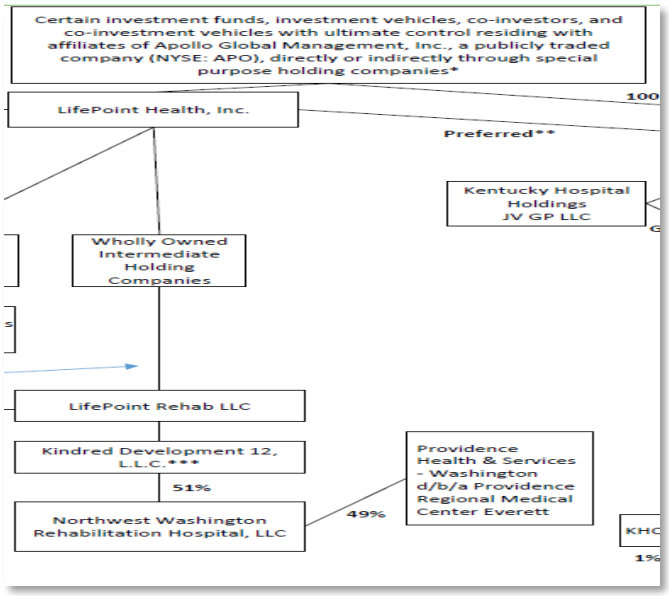
Providence Regional Medical Center Everett (PRMCE) is owned by Providence St. Joseph Health. The applicants provided two organizational charts. One to show the ownership structure of Providence St. Joseph Health and one to show where PRMCE fits into the ownership structure. The two charts are below. [source: Application, Exhibit 1A]





[1] NWRH, LLC was formed in November 2017 in preparation for submission of a Certificate of Need application in 2019. The application was submitted, then withdrawn and replaced by this application submitted in May 2022.
[2] Unified Business Identifier (UBI) 604 193 186.

To explain the ownership structure of Kindred Development 12, LLC, and its percentage of ownership of NWRH, the applicants provided another organizational chart. Below is a portion of that organizational chart. [source: Application, Exhibit 1A]



As shown in the organizational chart above, the ownership structure of NWRH is 51% Kindred Development 12, LLC and 49% PRMCE. The applicants provided the following clarification regarding 51% owner, Kindred Development 12. [source: Application, pdfs 11-12]
"In December 2021, LifePoint Health, Inc. ("LifePoint") acquired indirect ownership of KND12, which holds a 51% ownership interest in NWRH. Subsequent to the transaction, Kindred Healthcare, LLC is part of a separate organization, as shown on the attached organization chart (Exhibit 1).

LifePoint Rehab is an indirect, wholly-owned subsidiary of LifePoint Health, Inc. LifePoint Rehab operates 31 inpatient rehabilitation and behavioral health hospitals and units across the country, all of which are identified in the LifePoint facility list included in Exhibit 22. Additionally, LifePoint Rehab partners with over 100 hospitals by providing contract management services for existing acute rehabilitation units within these independent, third-party facilities. The financial statements for LifePoint Rehab included in Exhibit 19 include the revenues of both LifePoint Rehab service lines, i.e., direct facility ownership and operation, and contracted management services to third-party facilities."

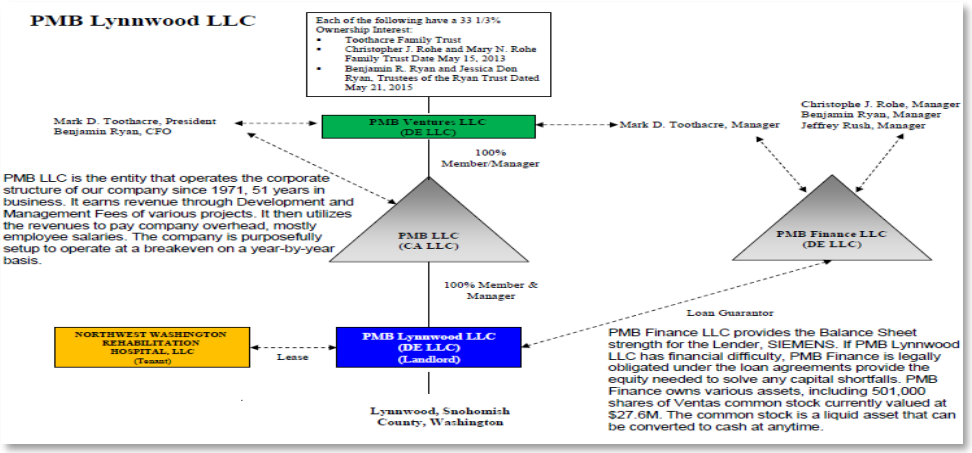
In addition to the ownership explanations above, the joint applicants also included the following footnote:
"Kindred Development 12, LLC will be renamed LPNT Development 12, LLC in late 2022, however it remains Kindred Development 12, LLC at the submission of this amended application. As such, we continue to refer to this entity as the JV partner for NWRH."

Northwest Washington Rehabilitation Hospital, LLC is one of the joint applicants for this project and will be referenced as 'NWRH' in this evaluation. In summary, NWRH is jointly owned by PRMCE (49%) and a subsidiary of the LifePoint Health known as Kindred Development 12 (51%). Kindred Development 12, LLC will be renamed in late 2022, however the change of ownership of the entity has already occurred and is recognized in the application and this evaluation. To avoid confusion, Kindred Development 12, LLC will be referenced as 'Kindred/LifePoint' to acknowledge its current ownership and to avoid confusion with references in the application of 'LifePoint Health.'

PMB Lynnwood, LLC

PMB Lynnwood, LLC is the other joint applicant for this project and is a for-profit entity formed in July 2019 and registered with the Washington State Secretary of State office.[3] PMB Lynnwood, LLC does not operate healthcare facilities. [source: Application, pdf 7] PMB Lynnwood, LLC will be referenced as 'PMB Lynnwood' in this evaluation.

To show the ownership structure of PMB Lynnwood, the applicants provided an organizational chart that includes a brief explanation of PMB Lynnwood's role in this project. The chart is below. [source: June 8, 2022, screening response, pdf 7]



In summary, the joint applicants for this project are NWRH (which includes the joint ownership between PRMCE and Kindred/LifePoint) and PMB Lynnwood as the owner of the land and building and is the primary funding source for this project.

PROJECT DESCRIPTION

NWRH and PMB Lynnwood propose to construct and operate a 40-bed level I rehabilitation hospital at 12911 Beverly Park Road in Lynnwood [98087] within Snohomish County. The new hospital will be Medicare and Medicaid certified and accredited by both The Joint Commission[4] and the Commission on Accreditation of Rehabilitation Facilities[5]. [source: Application, pdf 8]

PMB Lynnwood will purchase the land, develop, finance, construct, and own the building that will house the 40-bed inpatient rehabilitation hospital located in Lynnwood. Once complete, PMB Lynnwood will lease the building to NWRH. In turn, NWRH will equip the building to required standards, purchase and install all moveable equipment and obtain Washington State licensure as a 40-bed hospital, obtain both Medicare and Medicaid certifications, and the accreditations referenced above. [source: Application, pdf 7]

The rehabilitation hospital will house 40-level I rehabilitation beds. Inpatient physical rehabilitation services level I is a tertiary service defined in WAC 246-310-010(58) as *"a specialized service meeting complicated*

[3] UBI 604 484 523.

[4] The Joint Commission is an independent, not-for-profit group in the United States that administers voluntary accreditation programs for hospitals and other healthcare organizations. The Joint Commission standards function as the foundation for healthcare organizations to gauge and enhance their performance. [source: Joint Commission website]

[5] CARF International, a group of companies that includes CARF Canada and CARF Europe, is an independent, nonprofit accreditor of health and human services. CARF assists service providers in improving the quality of their services, demonstrating value, and meeting internationally recognized organizational and program standards. [source: CARF website]

medical needs of people and requires sufficient patient volume to optimize provider effectiveness, quality of service, and improved outcomes of care."

WAC 246-310-020(1)(d)(i)(F) defines inpatient physical rehabilitation level I as '*services for persons with usually nonreversible, multiple function impairments of a moderate-to-severe complexity resulting in major changes in the patient's lifestyle and requiring intervention by several rehabilitation disciplines. Services are multidisciplinary, including such specialists as a rehabilitation nurse; and physical, occupational, and speech therapists; and vocational counseling; and a physiatrist. The service is provided in a dedicated unit with a separate nurses station staffed by nurses with specialized training and/or experience in rehabilitation nursing. While the service may specialize (i.e., spinal cord injury, severe head trauma, etc.), the service is able to treat all persons within the designated diagnostic specialization regardless of the level of severity or complexity of the impairments and include the requirements as identified in chapter 246-976 WAC relating to level I trauma rehabilitation services;...*"

Currently Providence Regional Medical Center Everett (PRMCE) is licensed to operate a 19-bed level II rehabilitation unit. If this project is approved, PRMCE intends to close the rehabilitation unit approximately three months after the new rehabilitation hospital is operational. NWRH and PMB Lynnwood provided the following description of the process to be used to close the 19-bed rehabilitation unit at PRMCE. [source: Application, pdf 8]

> *"The net bed request should thus be considered 21 rehab beds (40-19=21). The Acute Rehabilitation Unit (ARU) within PRMCE will continue to operate until Northwest Rehabilitation Hospital opens and is accredited by CMS. Once NWRH achieves its Certificate of Occupancy from the City of Lynnwood and Washington Department of Health, we will begin to transition some of the ARU staff to the new facility to prepare for the "test period." This test period will consist of admission and discharge of approximately 20 patients at NWRH prior to receiving CMS accreditation. Once CMS accreditation is received, the NWRH will be able to receive patients that would typically be sent to the ARU at PRMCE. At that time, any patients currently being treated in the ARU at PRMCE will remain until the conclusion of their care, but new admits will be sent to NWRH. We do not plan to transfer existing patients in the PRMCE ARU to NWRH. As patients are discharged from the PRMCE ARU, those beds will be taken off-line in favor of the new beds licensed at NWRH. We will "balance the patient load" between the PRMCE ARU and NWRH (admits and discharges) so as not to utilize more beds than allowed by the CN approval. Following CN approval, PRMCE will file documentation with the Department of Health to remove the 19 acute rehabilitation beds from the PRMCE hospital license after NWRH opens and is accredited by CMS, and all existing patients are discharged from the PRMCE ARU. If PRMCE determines that there is community need for additional acute care beds or the use of the vacated acute rehabilitation space is used for a service that requires a certificate of need, PRMCE will take the necessary steps, including filing a CN application, as required."*

The applicants also clarified that the new rehabilitation hospital will have separate units for stroke and traumatic brain injury patients. The hospital will also seek level I trauma designation from the Department of Health's Emergency Medical Services and Trauma Care office. [source: Application, pdf 62]

If this project is approved, the applicants anticipate that construction of the new hospital will commence in January 2023 and the 40-bed rehabilitation hospital will be licensed and operational in March 2024. Based on that timeline, year 2024 is a partial year of operation and 2025 is the first full calendar year of operation; 2027 is year three. [source: Application, pdf 18]

The total estimated capital expenditure for this project is $53,371,543. PMB Lynnwood proposes to fund approximately 93% of the costs ($49,821,486) and NWRH would fund the remaining 7% ($3,550,057). [source: Application, pdf 39]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This application is subject to review as the establishment of a new healthcare facility and a new tertiary health service under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and (e) Washington Administrative Code (WAC) 246-310-020(1)(a) and (d)(i)(F).

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

TYPE OF REVIEW

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

APPLICATION CHRONOLOGY

Action	Joint Applicants: NWRH, LLC & PMB Lynnwood, LLC
Letter of Intent Submitted	April 2, 2021
Initial Application Submitted	June 14, 2021
Department's pre-review activities DOH 1st Screening Letter Applicant's Responses Received DOH 2nd Screening Letter	 July 13, 2021 October 1, 2021[6] October 22, 2021
First Amendment Application Submitted	December 2, 2021
Department's pre-review activities DOH 1st Screening Letter Applicant's Responses Received DOH 2nd Screening Letter	 December 28, 2021 January 13, 2022 February 4, 2022[7]
Second Amendment Application Submitted	May 5, 2022
Department's pre-review activities DOH 1st Screening Letter Applicant's Responses Received DOH e-mail of No 2nd Screening	 May 27, 2022 June 8, 2022 June 24, 2022
Beginning of Review	June 30, 2022
End of Public Comment/No Public Hearing Conducted Public comments accepted through end of public comment	August 4, 2022
Rebuttal Comments Received	August 18, 2022
Department's Decision Due	October 3, 2022
Department Decision Date	October 3, 2022

As noted in the chronology above, the department received an initial application, a first amendment application, and a second amendment application. Since the second amendment application replaces the initial application and first amendment application, only the second amendment application is reviewed, referenced, and discussed in this evaluation.

[6] The applicants' first screening response was due on August 27, 2021. The applicants were granted a 45-day extension to respond to the first screening of the initial application.

[7] The applicants' second screening response was due on March 21, 2022. The applicants were granted a 45-day extension to respond to the department's second screening of the first amendment application.

AFFECTED PERSONS

"Affected persons" are defined under WAC 246-310-010(2). In order to qualify as an affected person someone must first qualify as an "interested person" defined under WAC 246-310-010(34). For this project, no entities requested affected person status.

During the review of this project, the department received three letters of support for the project and no letters of opposition. For that reason, the applicant did not provide rebuttal comments. This fact is stated here and not repeated throughout the evaluation.

SOURCE INFORMATION REVIEWED

- Northwest Washington Rehabilitation Hospital and PMB Lynnwood joint second amendment application received on May 5, 2022
- Northwest Washington Rehabilitation Hospital and PMB Lynnwood's first screening responses received June 8, 2022
- Public comments received on or before August 4, 2022
- Hospital Finance and Charity Care Program's (HFCCP) Financial Review received on September 27, 2022
- Quality Certification and Oversight Reports (QCOR) data website: https://qcor.cms.gov
- DOH Provider Credential Search website: www.doh.wa.gov/pcs
- Joint Commission website at https://www.jointcommission.org/about-us
- Commission on Accreditation of Rehabilitation Facilities website at https://www.carf.org

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Joint Applicants Northwest Washington Rehabilitation Hospital and PMB Lynnwood, LLC proposing to establish a 40-bed level I rehabilitation hospital in Lynnwood, within Snohomish County is consistent with the applicable criteria of the Certificate of Need Program, provided the Joint Applicants agree to the following in its entirety.

Project Description:

This Certificate of Need approves the establishment of a rehabilitation hospital in a single phase. The new rehabilitation hospital will have 40 level I rehabilitation beds and be located at 12911 Beverly Park Road in Lynnwood, within Snohomish County.

Conditions:

1. The Joint Applicants agree with the project description as stated above. The Joint Applicants further agree 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 rehabilitation services at the hospital, the applicants will provide a copy of the executed Lease Agreement for the department's review. The executed agreement must be substantially consistent with the draft agreement provided in the application.
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11. The Joint Applicants will use reasonable efforts to ensure the new rehabilitation hospital provides charity care consistent with the regional average, the amount identified in the application. The regional charity care average from 2018-2020 was 1.49% of gross revenue and 4.41% of adjusted revenue. The new rehabilitation hospital will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires that these records be available upon request.
12. The new rehabilitation hospital will obtain and maintain Medicare and Medicaid certification.

Approved Costs:

The approved capital expenditure associated with this project is $53,371,543. Northwest Washington Rehabilitation Hospital, LLC will fund $3,550,057 and PMB Lynnwood, LLC will fund $49,821,486 of the approved capital costs.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed, the department determines that the joint applicants' project meets the applicable need criteria in WAC 246-310-210.

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

Chapter 246-310 WAC does not contain a rehabilitation bed need forecasting method. The 1987 Washington State Health Plan (SHP) that was "sunset" has a numeric methodology for projecting general acute care bed need. Rehabilitation beds are included in the list of general acute care beds in the state health plan. As a result, applicants typically use the Hospital Bed Need Forecasting Method contained in the SHP to demonstrate numeric need for dedicated level I rehabilitation beds. The acute care bed methodology is used because the rehabilitation beds are licensed acute care beds that are dedicated to a specific use.[8]

The 1987 methodology is a twelve-step process of information gathering and mathematical computation. This forecasting method is designed to evaluate need for additional capacity in general, rather than identify need for a specific project.

[8] The acute care bed methodology in the 1987 SHP divides Washington State into four separate health service areas (HSAs) that are established by geographic regions appropriate for effective health planning. Snohomish County is located in HSA #1, which includes the following ten counties: Clallam, Island, Jefferson, King, Kitsap, Pierce, San Juan, Skagit, Snohomish, and Whatcom.

Since the applicants propose to add level I rehabilitation bed capacity to Snohomish County, the application includes a modified version of the acute care bed methodology that focuses on rehabilitation patients and associated patient days. Level I rehabilitation services are considered tertiary services and the planning area for tertiary services is typically much larger than the hospital's general acute care planning area. As a level I provider, the rehabilitation hospital is expected to also provide level II and level III rehabilitation services, which are not considered tertiary services. Therefore, the resulting numeric need presented by the applicants is considered conservative.

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC

Before providing its numeric methodology, the joint applicants provided the following information on the utilization of PRMCE's 19 dedicated rehabilitation beds and the numeric methodologies applied for this project. [source: Application, pdfs 21-22]

"PRMCE, with its 19 beds, is the only planning area provider of inpatient rehabilitation services for the 822,000 Snohomish County Residents. We present historical utilization over the last five years for PRMCE in Table 1.

Applicant's Table

Table 1: PRMCE Use and Occupancy, 2017 to 2021

Providence Regional Medical Center Everett	2017	2018	2019	2020	2021
Admissions	443	376	460	479	530
Patient Days	4,581	4,546	4,256	5,695	5,610
ADC	12.6	12.5	11.7	15.6	15.4
Beds	19	19	19	19	19
Occupancy	66%	66%	61%	82%	81%

Source: PRMCE Internal Data

Over the last five years, PRMCE has averaged an occupancy of about 71%, indicating significant use by planning area residents despite the limitations of an integrated rehabilitation unit within an acute care hospital which we detail below.

The proposed NWRH freestanding rehabilitation hospital will serve as a regional destination for high quality inpatient rehabilitation care for patients throughout Snohomish County, as does CHI Franciscan Rehabilitation Hospital in Pierce County and St. Luke's Rehabilitation Institute in Spokane County. There appears to be significant community demand for dedicated rehabilitation hospitals. CHI Franciscan Rehabilitation Hospital opened in May 2018, and experienced rapid increases in utilization. Average occupancy equaled about 45% in 2019, about 53% in 2020, and by the end of 2021 was over 60%.

We note that Pierce County has a population of about 905,000, a number 10% greater than that of Snohomish County. Based on this alone, it is reasonable to expect Snohomish County resident population to support a 40-bed rehabilitation hospital when the Pierce County population clearly supports a 60-bed rehabilitation hospital.

As documented in Exhibit 9, national-level rehabilitation trends have diverged from those in Washington State. Although rehabilitation use has declined in Washington State, between 2010 and 2019, the national utilization of rehabilitation services increased about 1.35% on average each year. In addition to the Department's acute care bed model limited to inpatient rehabilitation facilities, we also provide an alternative rehabilitation bed methodology ("Alternative Model") based upon sound planning assumptions that reflect documented national and state practice patterns for inpatient rehabilitation. The Alternative Model forecasts Snohomish County residents will need approximately 64 to 73 beds by 2035, which we believe more accurately reflects community need and Snohomish resident demand for

rehabilitation services than does the DOH methodology. However, as noted above, we provide both models.

The Department Numeric Need Methodology shows very little future need for additional rehabilitation services in Snohomish County beyond the existing 19-bed unit at PRMCE. However, there are factors that influence this forecast lack of need. First, the Need Methodology bases estimates of demand on residents' historical utilization of inpatient care, including inpatient rehabilitation beds, in a "planning area" such as Snohomish County. Residents' historical utilization is impacted by the existing planning area supply. Second, and in our opinion more importantly, Snohomish County residents' use of rehabilitation appears to reflect lack of access to comprehensive rehabilitation services, such as those available at freestanding rehabilitation hospitals. We address this more fully in our discussion of the Alternative Model in Exhibit 9. We summarize the Department's Numeric Need Methodology below, which we present fully in Exhibit 10."

As described above, the applicants provided two separate methodologies for this project. One methodology (Methodology #1) follows each step in the SHP and the second methodology (Methodology #2) focuses on other factors that are explained below. This evaluation will review both methodologies provided by the applicants. For brevity, the review below will identify the factors used in each methodology and then, rather than showing the results of each step individually, only the final step is shown.

Methodology #1:
Below are the assumptions and factors used in the methodology that focuses on rehabilitation patients and patient days. [source: Application, pdfs 21-29]

- Rehabilitation Planning Area – Snohomish County planning area
- CHARS Data – Historical years 2011 through 2020[9]
- Focused on DRGs[10] 945-946 – patients, patient days, and DRGs for rehabilitation
- Use Rate – The slope of the HSA #1 ten-year use rate trend was the smallest in overall magnitude, therefore, as directed in the SHP [step 7A] was applied to the forecasted population. The table below shows the use rates applied.

Table 4: Planning Area Use Rates by Age Group

	Snohomish County	All Other Washington Counties
USE RATES		
15-64	6.09	7.18
65+	28.82	38.08

Source: CHARS 2019

- Projected Population – Age 15 and older based on Office of Financial Management medium series data for Health Service Area (HSA) #1, Snohomish County, and statewide figures. Both historical and projected intercensal and postcensal estimates were calculated.
- Planning Horizon – Because this project proposes a new hospital, the joint applicants projected from year 2020 (base year) through year 2035 (target year), equaling a 15-year planning horizon.
- Weighted Occupancy – Calculated consistent with the State Health Plan, across all hospitals in the planning area, as the sum of each hospital's occupancy rate times that hospital's percentage of total beds in the area. NWRH and PMB Lynnwood's methodology calculated a weighted occupancy of 55.0%.

[9] At the time of application submission, 2021 CHARS Data was not available.
[10] DRG=Diagnosis Related Group

- Existing Rehabilitation Bed Capacity – PRMCE is the only acute care hospital in Snohomish County with level I rehabilitation beds.

The results of Methodology #1 are shown in the two tables below. [source: Application, pdfs 28-29]

Applicant's Table 7: Planning Area Rehabilitation Bed Need Forecast for Adults age 15+, 2020-2027

Gross Bed Need (TPD/365/Occupancy)--Demand	28.8	28.8	28.8	28.7	28.7	28.6	28.5	28.3
Bed Supply	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Net Bed Need/Surplus (Demand - Supply)	**9.8**	**9.8**	**9.8**	**9.7**	**9.7**	**9.6**	**9.5**	**9.3**

Sources: (1) Population Sources: OFM SADE; OFM Medium Series Projections (2017 Release); OFM Forecast of the State Population by Age and Sex; (2) Resident (Age 15 and older) Use Rate Data Source: CHARS and 2015 Oregon Hospital Discharge Data. See Steps 5 & 6. Future use rates adjusted per slope trends from Step 4; (3) Bed supply sources: Certificate of Need #1602 issued to Providence Regional Medical Center Everett; (4) Weighted Occupancy: Calculated per 1987 Washington State Health Plan as the sum, across all hospitals in the planning area, of each hospital's occupancy rate times that hospital's percentage of total beds in the area.

Applicant's Table 8: Planning Area Rehabilitation Bed Need Forecast for Adults age 15+, 2028-2035

Gross Bed Need (TPD/365/Occupancy)--Demand	28.1	27.9	27.6	27.2	26.7	26.2	25.7	25.2
Bed Supply	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Net Bed Need/Surplus (Demand - Supply)	**9.1**	**8.9**	**8.6**	**8.2**	**7.7**	**7.2**	**6.7**	**6.2**

Sources: (1) Population Sources: OFM SADE; OFM Medium Series Projections (2017 Release); OFM Forecast of the State Population by Age and Sex; (2) Resident (Age 15 and older) Use Rate Data Source: CHARS and 2015 Oregon Hospital Discharge Data. See Steps 5 & 6. Future use rates adjusted per slope trends from Step 4; (3) Bed supply sources: Certificate of Need #1602 issued to Providence Regional Medical Center Everett; (4) Weighted Occupancy: Calculated per 1987 Washington State Health Plan as the sum, across all hospitals in the planning area, of each hospital's occupancy rate times that hospital's percentage of total beds in the area.

Below is the applicants' discussion and conclusion regarding the results of Methodology #1. [source: Application, pdf 29-31]

"Table 7 and Table 8 indicate a current shortage of 9.8 rehab beds (Table 7), given the 19-bed supply at PRMCE, which is then forecast to shrink to 6.2 beds in 2035 (Table 8). This negative trend is driven by the negative slope coefficients calculated in Step 4. Oddly, this forecast methodology predicts that Snohomish County, the third most populous county in Washington State, will struggle to support even the 19 rehabilitation beds at PRMCE. This differs from Washington State counties with dedicated rehabilitation hospitals such as Spokane County. The population of Spokane County, with about 60% of the population of Snohomish County, supports a 72-bed rehabilitation hospital in St. Luke's. It is for this reason we rely on the Alternative Model detailed in Exhibit 9.

The Department's Bed Need Methodology was initially defined in the State Health Plan, which was sunset in 1989. Within the sunset State Health Plan, in Volume 2, Section C, Chapter 4, Hospital Bed Need Forecasting Method, subchapter c—Criteria and Standards for Evaluation and Use of Method, Criterion (3) Criteria and Standards, Sub-criterion (2) Need for Multiple Criteria, it states:
Under certain conditions, institutions may be allowed to expand even though the bed need forecasts indicate that there are underutilized facilities in the area. The conditions might include the following:

- *The proposed development would significantly improve the accessibility or acceptability of services for underserved groups; or*

- *The proposed development would allow expansion or maintenance of an institution which has staff who have greater training or skill, or which has a wider range of important services, or whose programs have evidence or better results than neighboring and comparable institutions; …*
  In such cases, the benefits of expansion are judged to outweigh the potential costs of possible additional surplus.

Thus, the Department Bed Need Methodology contains provisions that allow project approval where the Acute Care Bed Need Methodology does not demonstrate quantitative bed need for a proposed project such as this CN request.

As discussed above, in our opinion, the application of the Department's bed need model, applied to inpatient rehabilitation beds in Snohomish County, forecasts of net bed need are biased downward. Specifically, the rehabilitation bed model indicates need for 9.8 inpatient rehabilitation beds in Snohomish County in 2020 (Table 7), decreasing to a bed need of only 6.2 additional inpatient rehabilitation beds in 2035 (Table 8). In other words, this bed need methodology shows that, over and above the 19 beds at PRMCE, the additional demand for rehabilitation beds in the county will decrease over time; the 21 additional rehabilitation beds requested in this application are not supported by this methodology.

As stated above, in our opinion, this methodology, developed in 1987, does not reflect current and forecasted rehabilitation utilization patterns. On this basis and supported by the State Health Plan's Need for Multiple Criteria statements, we have developed an Alternative Model for the Department's consideration. The Alternative Model more accurately reflects recent utilization trends for the rehabilitation industry and, most importantly, the unmet rehabilitation needs of Snohomish County residents and the needs of surrounding counties."

Methodology #2:
Below is the applicants' discussion of the five factors used in this alternative methodology. [source: Application, pdfs 31-32]
"The Alternative Model evaluates five factors, which in our opinion, raise this rehabilitation bed need question to the level as outlined in the State Health Plan's Need for Multiple Criteria, particularly access and availability of specialized rehabilitation care available at dedicated, freestanding rehabilitation hospitals, as we have proposed. The factors include:

1. *National Inpatient Rehabilitation Trends*
   - *National rehabilitation utilization has been consistently increasing for the last 10 years. This contrasts with state trends showing downturns in rehabilitation bed utilization.*
   - *Between 2010 and 2019, the national utilization of rehabilitation increased between one and two percent per year, and 13.5 percent overall during this period.*
2. *Medicare Utilization of Inpatient Rehabilitation*
   - *Medicare beneficiaries represent of 74% of all rehabilitation admissions annually, thus Medicare enrollee utilization trends are very important.*
   - *The number of Medicare Fee-For-Service (Medicare FFS/traditional Medicare) discharges from inpatient rehabilitation increased 13.8% over the 2010-2019 period.*
   - *Further, the percentage of Medicare FFS patients discharged from acute care to inpatient rehabilitation facilities increased from 3.3% to 3.9% over this same period, indicating increased utilization of inpatient rehabilitation by the Medicare population.*
3. *Site of Care Changes for Inpatient Rehabilitation*
   - *Inpatient rehabilitation care is increasingly being provided in freestanding rehabilitation hospitals as compared to hospital-based rehabilitation units.*

- *This trend has occurred due to: (1) greater program specialization possible in freestanding hospitals; and (2) lower costs that are achievable in freestanding hospitals through higher utilization and greater efficiency.*

4. *Washington State Utilization of Inpatient Rehabilitation*
   - *In comparison to national figures, Washington appears to provide less access to inpatient rehabilitation services than most other states.*
   - *In 2019, Washington had the fifth lowest rehabilitation bed-to-population ratio in the country.*
   - *Additionally, in 2019, Washington had the fourth lowest rehabilitation utilization, with a discharge rate per 100,000 residents that was just over one-third the national average. Limited access to rehabilitation beds in Washington State appears to have negatively impacted utilization.*
   - *There is evidence within eastern Washington that demonstrates rehabilitation utilization can be positively impacted by access to specialized rehabilitation beds and comprehensive rehabilitation programs.*
5. *Snohomish County Demographic Trends*
   - *For the next 15 years, the fastest growing segment of Snohomish County is the 65+ age cohort, which represents the primary group of users of rehabilitation services.*
   - *While the total Snohomish population is projected to increase 6.8% over the 2020–2025 period and 6.3% over the 2025–2030 period, the 65+ age cohort is projected to increase 27.0% and 20.5%, respectively. Virtually all population growth in the county is projected from the 65+ age cohort.*
   - *The aging county population and known Medicare trends of greater rehabilitation usage suggests the need for rehabilitation services will increase, not fall, in Snohomish County at least through the year 2030.*

Please see Exhibit 9 for detailed analysis supporting the Alternative Model and supporting qualitative need criteria for additional inpatient rehabilitation beds—our requested project for a 40-bed freestanding, Level I rehabilitation hospital in Snohomish County. As stated above, our request is for a net increase of 21 inpatient rehabilitation beds."

Below are the results of the final step shown for Methodology #2 summarized by the applicants and detailed in Exhibit 9 of the application.

Figure 18

NWRH Est. 2020 - 2035 IRF Bed Need - v2

IRF Need Projections	2020 Low	2020 High	2025 Low	2025 High	2030 Low	2030 High	2035 Low	2035 High
I. Projected Snohomish County IRF Bed Need	41	47	50	57	58	66	64	73
II. PRMCE 2019 Snohomish Mkt Shr (a) 66%								
III. NWRH Bed Need for Snohomish County Residents	27	31	33	37	38	43	42	48
IV. Out-of-County Residents (b)	12	13	14	16	16	18	18	21
V. Total Bed Need	39	44	47	53	54	61	60	69

(a) Source: CHARS 2019 data. Market shaer reflects inpatient rehabilitaiton services only.

(b) Source: CHARS 2019 data shows that 30% of all PRMCE inpatient rehabilitation admits were from residents outside of Snohomish County.

"As can be seen, both the baseline version and this second assessment utilizing different assumptions result in findings that suggest NWRH should be able to support the proposed 40 inpatient rehabilitation beds in 2020, increasing to more than 60 beds by 2035."

In addition to the numeric methodologies identified above, the applicants provided the following information regarding any factors in the planning area that currently restrict patient access to rehabilitation services. [source: Application, pdfs 34-36]

"The deficient supply of inpatient rehabilitation beds in Snohomish County negatively impacts Snohomish resident access to rehabilitation services. We present inpatient rehabilitation bed-to-population ratios by county, among counties with inpatient rehabilitation services, in Table 11.

Applicant Table

Table 11: Inpatient Bed-to-Population Ratios by County, 2020

County	IRF Beds	Population, 2020	Bed Ratio	Rank
Benton	12	201,800	5.95	7
Chelan	9	78,420	11.48	4
Clark	14	488,500	2.87	9
Franklin	10	94,680	10.56	5
King	99	2,226,300	4.45	8
Pierce	108	888,300	12.16	3
Skagit	10	129,200	7.74	6
Snohomish	19	818,700	2.32	10
Spokane	72	515,250	13.97	1
Walla Walla	8	62,200	12.86	2
Total	361	6,349,880	5.69	
Washington State Total	361	6,724,540	5.37	

Sources: Population from Washington State population by county from the Washington State OFM Small Area Demographic Estimates (SADE) by Age, Sex, Race and Hispanic Origin, Version: 20191224_R01; Bed counts from Washington State 2020 Year End Reports and 2019 Acute Care Bed Survey.

Notes: Since these bed totals are based on the 2019 Washington State Acute Care Bed Survey, the totals will differ slightly from the bed totals presented in Exhibit 9.

From Table 11, among counties with inpatient rehabilitation services, the bed-to-population ratio in Snohomish County ranks last. We note that this group of 10 counties accounts for 94% of Washington State residents and includes all Washington State counties with a population over 300,000 persons as of 2019.

Many Snohomish County residents in need of rehabilitation services out-migrate to other planning areas, use substitutes for inpatient rehabilitation care, or perhaps forego inpatient rehabilitation care. These three alternatives all point to lack of access in Snohomish County.

Since 2015, a large and growing proportion of Snohomish County residents have out-migrated to other planning areas, from about 30% in 2015 to 36% in 2020.[11] These individuals must contend with variable and potentially high travel times resulting from traffic patterns along the I-5 corridor, as well as relatively limited supply in neighboring King and Skagit counties. For comparison, in 2020 about 6% of Pierce County residents and less than 1% of Spokane County residents received inpatient rehabilitation services at an inpatient rehabilitation provider outside their county of residence.[12] Both Pierce County and Spokane County have freestanding dedicated rehabilitation hospitals.

[11] Applicant's footnote #17: "*CHARS 2015 and CHARS 2020.*"

[12] Applicant's footnote #18: "*CHARS 2020. Of the 545 Snohomish County rehabilitation discharges, we observe 347 from PRMCE and 198 from IRFs or ARUs outside Snohomish County. Of the 901 Spokane County discharges, we observe 893 from St. Luke's and 8 from IRFs or ARUs outside Spokane County. Of the 955 Pierce County discharges,*

The limited rehabilitation bed supply and lack of a dedicated rehabilitation hospital has resulted in low conversion rates between acute care discharges and inpatient rehabilitation admissions. As shown Figure 9 in Exhibit 9, 5.5% of Medicare discharges from Providence Sacred Heart Medical Center were discharged to an inpatient rehabilitation facility. For PRMCE, this number was 1.7%.

Snohomish County residents are clearly underserved. This is observed through the low bed-to-population ratio, the high rates of planning area outmigration, and the low acute care to rehabilitation conversion rates. These are all evidence of barriers to access, which will be felt most acutely by the poor and elderly who often must rely on public transportation and/or family support and so are likely to face additional challenges receiving care outside their county of residence."

The applicants provided the following information describing how the new rehabilitation hospital would be available to underserved groups. [source: Application, pdf 36]
"PRMCE and LifePoint Rehab are committed to providing high quality patient-centered care. We are committed to serve all patients, including those who, due to a lack health insurance coverage or other reasons, cannot pay for all or part of the essential care they receive. We have attached a copy of our financial assistance/charity care policy in Exhibit 11."

Even though this project proposes the establishment of a new 40-bed rehabilitation hospital, the applicants acknowledge that the 19-bed rehabilitation unit at PRMCE is expected to close once the new rehabilitation hospital is operational. For that reason, the applicants provided the following information regarding limitations of the 'current location' and benefits of this project. [source: Application, pdf 36-39]

Current Site Limitations
"The proposed project is not a relocation but rather a new freestanding inpatient rehabilitation facility which will be followed by the closure of the 19 rehabilitation beds at PRMCE.

However, given the concurrent closure of PRMCE's 19 rehabilitation beds, this project does contain the spirit of a relocation, and it is thus appropriate to discuss the limitations of the current PRMCE rehabilitation unit, as it is these limitations which motivate PRMCE's participation in the proposed project. Summarily, the 19,000 square feet of space for PRMCE's rehabilitation unit is simply not sufficient to allow an expansion beyond its current 19 beds, and therefore it is not able to provide dedicated areas for specialty services or expand the number and diversity of onsite providers and therapists. We outline the specific benefits of the proposed hospital below. Many of the specialty services and features we plan to provide in the proposed hospital simply cannot be accommodated within the existing facilities at PRMCE.

In addition, there are specific space-related limitations to the current PRMCE Rehabilitation Unit which impact the patient care experience and the ability to provide additional services. These include:

- *The current patient room and bathroom configuration consists of 19 private rooms with two rooms sharing bathrooms. This limits access to patients that can be cared for due to gender or isolation precautions.*
- *Patient rooms are outdated, which negatively affects patient experience.*
- *Patient bathrooms are not adequate for providing rehab services to patients i.e., no shelving for Activities of Daily Living ("ADL") management, size constraints for patients requiring wheelchairs and walkers or to complete any training with family.*

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we observe 409 from CHI Franciscan, 487 from MultiCare Good Samaritan, and 59 from IRFs or ARUs outside Pierce County. We note this does not capture utilization at locations outside Washington State, so Spokane County outmigration may be higher if individuals receive rehab care in Idaho, for example."

- *Cubicles for therapy documentation are located in the main gym, which limits space and patient privacy.*
- *The therapists are currently required to provide therapy in multiple, smaller gyms that were not designed for inpatient rehabilitation services and contain outdated therapy equipment.*
- *The current call light system needs modernization throughout the Unit in order to promote increased patient safety and satisfaction.*
- *The unit does not have a negative pressure room to accommodate isolation patients.*
- *The second patient gym has an ADL kitchen that is also being utilized for therapy desks and documentation cubicles along with the social worker in a converted closet.*
- *Social workers are unable to have in-office family/patient meetings due to space limitations, so private family meetings are held in other spaces (i.e., patient room, conference room, or other space not in patient care use).*
- *Limited storage in the Unit necessitates borrowing space on an adjacent Unit to store therapy equipment and other items.*
- *Other offices on an adjacent Unit are required for ancillary staff and for nurses to perform follow up calls to patients.*
- *There is no room in the staff lounge for employee lockers or safe space to store personal valuables.*
- *There is no outdoor space for multi-surface training with patients.*
- *No rooms are acceptable for providing in-room dialysis.*

The proposed project would address the above limitations of the current PRMCE Rehabilitation Unit."

Benefits of Relocation

"As stated above, the proposed project is not a relocation but rather a new freestanding inpatient rehabilitation facility which will be followed by the closure of the 19 rehabilitation beds at PRMCE.

However, given the concurrent closure of PRMCE's 19 rehabilitation beds, this project does contain the spirit of a relocation, and it is thus appropriate to discuss the benefits of the location of the proposed project.

A dedicated rehabilitation hospital will allow NWRH to create an exceptional healing environment for rehabilitation patients. The all-private room facility configuration allows space for each patient's comfort and treatment needs. The room design enables nurses and therapists the sufficient space for treatment and equipment while also providing space for the patient's family to be present. Rooms are designed to optimally meet the needs of each patient and enhance their quality of care.

The main therapy suite is located on the first floor, complete with a therapy gym, rooms for multiple therapy protocols, private therapy rooms, cooking therapy room, and an ADL therapy suite. The outdoor courtyard adjacent to the therapy suite also allows for therapy to take place outdoors, to include maneuvering sidewalks, greenspace, and other outdoor areas. These specialized therapy areas provide patients with the opportunity to receive extensive, high quality targeted rehabilitation therapy to help them to maximize functionality in order to return to everyday activities and enhance quality of life.

This suite includes a full range of therapy equipment tailored to each patient's unique needs. It also incorporates state-of-the-art technology such as Ekso GT™ exoskeleton that augments strength to help patients stand and relearn to walk, improving their step patterns, weight shifting and posture. In addition, it mobilizes patients earlier in their rehabilitation. Research studies show that this breakthrough technology helps improve walking distance, balance, and overall patient satisfaction.

The proposed rehabilitation hospital provides a designated area on the second floor for stroke and traumatic brain injury patients. This specific facility design includes separate dining and therapy areas

that have minimal sensory stimulation to address the specific needs of these patient populations. In addition, the facility layout enables the nurses to more effectively care for each of these special patient populations. Isolation and special care rooms are placed within each of these wings to better serve patients requiring enhanced care or infection control protocols.

This facility design has been implemented at several LifePoint Rehab rehabilitation hospitals throughout the country with significant success in enhancing patient outcomes and improving quality of life."

Public Comment

During the review of this project, the department received three letters of support for this project and no letters of opposition. Each of the three letters of support provide a different perspective of need for the rehabilitation facility. Excerpts from each of the letters of support are restated below.

Dara Headrick, DO, Medical Director Inpatient Rehabilitation at Providence Regional Medical Center Everett

"As the medical director of the PRMCE acute inpatient rehabilitation unit, I'm writing to express my support for the certificate of need application submitted by Northwest Washington Rehabilitation Hospital to develop a 40-bed freestanding Level I inpatient rehabilitation facility in Snohomish County.

As a physiatrist, I have more than 25 years of experience working with patients with musculoskeletal and neurological issues, including those with trauma, spinal cord injuries, stroke, and brain injuries. I believe the approval of this certificate of need is essential for the continued provisions of inpatient rehabilitation services for the community.

I see firsthand that there is need for additional inpatient rehabilitation services in Snohomish County. Washington State has one of the lowest rehabilitation bed-to-population ratios in the nation, and Snohomish County the lowest in Washington State. The Acute Rehabilitation unit at PRMCE is limited in its ability to expand beyond its current 19,000 square feet of space, and thus in its ability to provide specialty and other additional services to Snohomish County residents. The proposed addition of a new 40-bed inpatient rehabilitation facility, a net increase of 21 new rehabilitation beds in Snohomish County, responds to current utilization trends and addresses residents' increasing health care needs.

Establishing a new, freestanding, Level I inpatient rehabilitation hospital in Snohomish County will improve access for Snohomish County residents requiring general and specialty inpatient rehabilitation services. Patients and their families will no longer have to endure a lengthy drive from Snohomish County to Seattle and will be able to get care close to home.

Providence is a trusted provider of high-quality medical care in Snohomish County, and LifePoint Rehab is an experienced provider of inpatient rehabilitation services with proven success in local community partnerships and a history of service to Western Washington. I support this joint effort to improve access to rehabilitation services through the establishment of Northwest Rehabilitation Hospital."

Joel Wassermann, MD, Chief Medical Officer at Swedish Edmonds

"As the Chief Medical Officer of Swedish Edmonds, I am writing to express my support for the certificate of need application submitted by Providence and Lifepoint Rehab to establish Northwest Rehabilitation Hospital, a 40-bed freestanding Level I inpatient rehabilitation facility in Snohomish County.

Swedish Edmonds, a 217 licensed bed hospital, has been providing care to the people of Southwest Snohomish County since 1964. I believe the approval of this certificate of need is essential for the continued provisions of inpatient rehabilitation services for the community. In Snohomish County, we are fortunate to have a quality medical community committed to providing great care. However, one of the challenges

is to ensure that there is adequate inpatient rehabilitation capacity to keep up with a rapidly growing population especially in the age 65+ cohort, the primary users of rehabilitation services.

There is need for rehabilitation services in Snohomish County. Washington State has one of the lowest rehabilitation bed-to-population ratios in the nation, and Snohomish County the lowest in Washington State. Providence Everett is the only provider of acute inpatient rehabilitation services in Snohomish County and is limited in its ability to expand its current unit. Establishing a new, freestanding, Level I inpatient rehabilitation hospital in Snohomish County will improve access for Snohomish County residents requiring general and specialty inpatient rehabilitation services. The distance to Harborview in King County, the closest Level I Rehabilitation unit, is a barrier to Snohomish County residents who would have to drive a significant distance out of their own community for care.

This expansion will help to accommodate patients who live in Snohomish County needing long-term inpatient rehabilitation care. We value Providence/LifePoint/Kindred's commitment to quality, service, and access and appreciate that they will continue to serve all patients in need."

In addition to the two separate letters above, the department received a joint letter of support from three physicians at Providence Medical Group:

- Tarvinder Singh, MD, Medical Director of Neurosciences and Neurology Co-Lead
- James Jordan, MD, EEG Medical Director and Neurology Co-Lead
- Nick Freeburg, MD, Stroke Medical Director

Excerpts from the joint letter of support are below.
"We write to express our support for the proposal by Providence and Lifepoint Rehab to establish Northwest Rehabilitation Hospital, a 40-bed freestanding Level I inpatient rehabilitation facility in Snohomish County.

There exists current need for rehabilitation services in Snohomish County. Washington State has one of the lowest rehabilitation bed-to-population ratios in the nation, and Snohomish County the lowest in Washington State. Furthermore, the closest Level 1 Rehabilitation unit to Snohomish County residents is Harborview Medical Center, a 30- to 60-minute drive from Southwest Snohomish depending on traffic levels and time of day. This creates a barrier for Snohomish residents requiring both general and specialty rehabilitation services.

Establishing a new, freestanding, Level I inpatient rehabilitation hospital in Snohomish County will improve access for Snohomish County residents requiring general and specialty inpatient rehabilitation services. In addition, the proposed facility's inclusion of a designated patient area for stroke and traumatic brain injury patients will enable clinical staff to optimize care for these patients' unique and medically complex needs.

While Snohomish County residents have need for additional rehabilitation services, the Acute Rehabilitation Unit at PRMCE is limited in its ability to expand beyond its current 19,000 square feet of space, and thus in its ability to provide specialty and other additional services to Snohomish County residents. The proposed addition of a new 40-bed inpatient rehabilitation facility-a net increase of 21 rehabilitation beds in Snohomish County--responds to current utilization trends and addresses residents' increasing health care needs.

Providence is a trusted provider of high-quality medical care in Snohomish County, and LifePoint Rehab is an experienced provider of inpatient rehabilitation services with proven success in local community

partnerships and a history of service to Western Washington. I support their joint effort to improve access to rehabilitation services through the establishment of Northwest Rehabilitation Hospital."

Department Evaluation

As shown in the applicants' Tables 7 and 8, Methodology #1 calculated by the applicants shows a gross need for dedicated 28.8 rehabilitation beds in year 2020, which declines to 28.3 by the end of year 2027, and further declines to 25.2 by the end of year 2035. When the 19 existing rehabilitation beds are subtracted from the gross need, net need for year 2020 is 9.3 which declines to 6.2 by the end of year 2035. The applicants concede that Methodology #1 does not support this project and suggest that since Snohomish County does not have a dedicated rehabilitation hospital, the numeric methodology is not reliable. In fact, the applicants note that "*this forecast methodology predicts that Snohomish County, the third most populous county in Washington State, will struggle to support even the 19 rehabilitation beds at PRMCE."* The department concurs that this methodology does not project enough numeric need to approve this project. The department also accepts the applicants' assertion that Methodology #1 '*does not reflect current and forecasted rehabilitation utilization patterns.'*

As shown in the applicants' Figure 18 above, Methodology #2 calculated by the applicants shows a range of need for 39 – 44 dedicated rehabilitation beds in year 2020, which increases to a range of 60.0 to 69.0 by the end of year 2035. Methodology #2 numerically supports this 40-bed rehabilitation project. The applicants assert that this methodology is a more reliable tool for this project to be located in Snohomish County because it takes into account both national trends and current rehabilitation utilization for Washington State and compares them to Snohomish County and its demographics.

As previously stated, the department does not have a numeric methodology for dedicated rehabilitation beds or for dedicated rehabilitation hospitals. For this reason, the information and rationale provided by the applicants that resulted in reliance on Methodology #2 is reasonable. The department also considered information provided in support of this project that focus on the need for dedicated rehabilitation bed capacity in the county.

Since the applicants propose a new 40-bed rehabilitation hospital, the methodology projects to year 2035 or 15-year horizon. This approach is acceptable for a new hospital. This sub-criterion is met.

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

To evaluate this sub-criterion, the department evaluates an applicant's admission policies, willingness to serve Medicare and Medicaid patients, and to serve patients that cannot afford to pay for services.

The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

Medicare certification is a measure of an applicant's willingness to serve the elderly. With limited exceptions, Medicare is coverage for individuals age 65 and over. Medicaid certification is a measure of an applicant's willingness to serve low income persons and may include individuals with disabilities.

Charity care shows a willingness of a provider to provide services to individuals who do not have private insurance, do not qualify for Medicare, do not qualify for Medicaid, or are underinsured.

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC

If this project is approved, the applicants anticipate an operational date of March 2024. As a new hospital, executed policies and procedures have not yet been created. The joint applicants provided copies of the following draft policies to be used at the new rehabilitation hospital. [source: Application, Exhibits 11, 12, 13, and 23]

Financial Assistance/Charity Care Policy (draft)

Purpose statement: *"The purpose of this policy is to ensure a fair, non-discriminatory, effective, and uniform method for the provision of Financial Assistance (charity care) to eligible individuals who are unable to pay in full or part for medically necessary emergency and other hospital services provided by Northwest Washington Rehabilitation Hospital (NWRH). It is the intent of this policy to comply with all federal, state, and local laws. This policy and the financial assistance programs herein constitute the official Financial Assistance Policy ('FAP")."*

The draft policy also includes the following non-discrimination language: "*NWRH will not discriminate on the basis of age, race, color, creed, ethnicity, religion, national origin, marital status, sex, sexual orientation, gender identity or expression, disability, veteran or military status, or any other basis prohibited by federal, state, or local law when making financial assistance determinations.*"

The draft policy includes the process one would follow to obtain charity care and a 'Dispute Resolution Section' if charity care is denied.

Admissions and Patient Rights & Responsibilities Policy (draft)

Scope statements: *"This policy applies to all members of the Northwest Washington Rehabilitation Hospital (NWRH) workforce, including caregivers, medical staff members, contracted service providers, and volunteers. It also applies to all vendors, representatives, and any other individuals providing services to or on behalf of Northwest Washington Rehabilitation Hospital. All of these groups will be referenced in this policy as "caregivers and representatives."*

Purpose statements: "*To outline the accountability of NWRH caregivers and representatives to ensure that all patients are informed of their rights and responsibilities*."

This draft policy outlines roles and responsibilities for both the rehabilitation hospital and the patient. The policy includes the following specific non-discrimination language: "*As a patient at Northwest Washington Rehabilitation hospital, you have the following rights:… To no discrimination against you or your visitors based on race, color, religion, sex, age, national origin, sexual orientation, disability, source of payment and other factors in admission, treatment or participation in NWRH's programs, services, activities and visitation*."

The draft policy also includes the process one would follow to file a grievance.

Non-Discrimination Policy (draft)

Scope statements: *"This policy applies to Northwest Washington Rehabilitation Hospital (NWRH) and its caregivers (employees); employees of affiliated organizations; members of community ministry and foundation boards; volunteers; trainees; independent contractors; and others under the direct control of NWRH (collectively referred to as workforce members), with respect to their involvement in the provision of health program and/or activities offered by NWRH. This policy does not apply to nondiscrimination in employment or in the provision of employee benefits by NWRH which are covered by other policies."*

Purpose Statement: *"To establish NWRH's level policy and procedures prohibiting discrimination against individuals accessing any Health Program and/or Activity (defined below) provided by NWRH, designating caregivers responsible for implementation and monitoring of this policy, and establishing the internal grievance procedure for complaints alleging discrimination related to a NWRH Program or Activity.*

In addition to this policy, NWRH is committed to nondiscrimination in employment and in the provision of benefits to caregivers of NWRH. These commitments are more fully outlined in NWRH's applicable Human Resources policies and benefit plan documents. This policy is not intended to replace, substitute or modify: (1) NWRH's and Affiliates' policies that prohibit discrimination in employment and provide for an internal grievance procedure for employment-related disputes; (2) any grievance procedure set forth in the applicable summary plan description for individuals participating in a NWRH benefit plan; or (3) policies governing nondiscrimination and associated grievance procedures in its health-related insurance activities."

This draft policy includes a section that defines various types of discrimination that will not be tolerated, including discrimination based on, disability, gender identity, English proficiency, national origin, and stereotypes.

Transition Planning Referrals Policy (draft)

Purpose Statement: *"To define the multidisciplinary process for the development of a transition plan responsive to both the clinical and social needs of the patient, family and caregivers involved in care of the patient. Care Management is a collaborative process that assesses, plans, implements, coordinates, monitors, and evaluates the options and services required to meet the patients' health and human service's needs. Care management is characterized by advocacy, communication, and resource management and promotes quality and cost-effective interventions and outcomes.*

Care Managers shall assist patients and families in obtaining appropriate post-hospital level of care while assuring continuity of care and safe discharge planning to the community. The Care Management Department has an open referral policy. Referrals will be accepted for care managers from physicians, hospital personnel, community agencies, the patient, family or friends."

This draft policy outlines the roles and responsibilities of the rehabilitation hospital and the receiving facility, which could include acute care hospital, nursing home, home health agency, or hospice agency. The policy also includes a discharge Prerequisite Information section to ensure a patient is discharged to an appropriate healthcare facility.

The new rehabilitation hospital will be both Medicare and Medicaid certified. The joint applicants provided its projected payer mix for the 40-bed rehabilitation hospital. [source: June 8, 2022, screening response, pdf 2]

Applicant's Table

Payer Mix	Percentage by Gross Revenue	Percentage by Net Revenue	Percentage by Patient Days
Medicare	70.6%	77.4%	70.6%
Medicaid	9.0%	3.1%	9.0%
Commercial	17.6%	18.2%	17.6%
Self-Pay/Other	2.8%	1.2%	2.8%
Total	100.0%	100.0%	100.0%

Department Evaluation

All policies provided by the joint applicants are in draft format. Focusing on admission of patients to the new rehabilitation hospital, the applicants provided three separate policies that are used in conjunction with one another to fully meet the requirements of this sub-criterion.

The Admission and Patient Rights Policy provides the admission criteria and includes specific non-discrimination language.

The Non-Discrimination Policy also includes specific non-discrimination language and provides the grievance process to be followed by the hospital if needed.

The Financial Assistance/Charity Care Policy ensures each patient is accepted for admission, regardless of ability to pay. It also includes specific non-discrimination language. The policy includes the process one would follow to obtain charity care and a 'Dispute Resolution Section' if charity care is denied. Financial data provided in the application also includes charity care as a 1.5% deduction from gross revenue.

Since these three policies are in draft format, if this project is approved, the department would attach conditions requiring the applicants to provide a copy of each executed policy that is substantially consistent with the draft policies provided in the application.

Focusing on patient transition and referral, the applicants provided a draft Transition Planning Referrals Policy that outlines the process the new rehabilitation hospital would use to discharge a patient to the next appropriate level of care. The policy also outlines the role and responsibility of the receiving facility. Since this policy is also in draft format, if this project is approved, the department would attach a condition requiring the applicants to provide a copy of the executed policy that is substantially consistent with the draft policy provided in the application.

In addition to the draft policies discussed above, information provided in the application demonstrates that the new rehabilitation hospital intends to serve both Medicare and Medicaid eligible patients. The financial data provided in the application shows 79.6% of the hospital's patients would be Medicare or Medicaid eligible. The department concludes that the new rehabilitation hospital intends to be accessible and available to Medicare and Medicaid patients based on the information provided.

Charity Care Percentage Requirement

For charity care reporting purposes, Washington State is divided into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. The new rehabilitation hospital would be located in Snohomish County, within the Puget Sound Region. Currently there are 25 hospitals operating within the region. Of the 25 hospitals, not all reported charity care data for the years three reviewed: 2018, 2019, and 2020.[13]

The table on the following page compares the three-year historical average of charity care provided by the hospitals currently operating in the Puget Sound Region with the proposed rehabilitation hospital's projected charity care percentages for full year three (2027). [source: Application, Exhibit 14 and HFCCP 2018-2020 charity care summaries]

[13] Wellfound Behavioral Health did not report charity care dollars in year 2019. Fairfax Monroe, Fairfax North, and CHI/Franciscan Rehabilitation Hospital did not report charity care dollars in year 2020.

Department's Table 1
Charity Care Percentage Comparisons

	Percentage of Total Revenue	Percentage of Adjusted Revenue
Puget Sound Region Historical 3-Year Average	1.49%	4.41%
New Rehabilitation Hospital Projected Average	1.57%	7.70%

As noted in the table above, the applicants project to provide charity care at levels higher than the three-year regional average. Given that the rehabilitation hospital would be a new provider in the region, if this project is approved, the department would attach a condition that requires the joint applicants to agree to provide charity care at an amount consistent with the regional averages.

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

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

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

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

Department Evaluation

WAC 246-310-210(3), (4), and (5) do not apply to this project.

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

Based on the source information reviewed, the department determines that the joint applicants' project meets the applicable financial feasibility criteria in WAC 246-310-220.

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

Chapter 246-310 WAC 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 applicants' 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.

To evaluate this sub-criterion, the department reviews the assumptions provided by an applicant, projected revenue and expense (income) statements, and projected balance sheets. The assumptions are the foundation for the projected statements. The income statement is a financial statement that reports a company's financial performance over a specific period—either historical or projected. Projected financial performance is assessed by giving a summary of how the business expects its revenues to cover its expenses for both operating and non-operating activities. It also projects the net profit or loss incurred over a specific accounting period.[14]

The purpose of the balance sheet is to review the financial status of company at a specific point in time. The balance sheet shows what the company owns (assets) and how much it owes (liabilities), as well as the amount invested in the business (equity). This information is more valuable when the balance sheets for several consecutive periods are grouped together, so that trends in the different line items can be viewed.

As a part of its review, the department must determine that a project is financially feasible – not just as a stand-alone entity, but also as an addition to its own existing operations, if applicable. To complete its review, the department may request an applicant to provide projected financial information for the parent corporation if the proposed hospital would be operated under the parent.

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC

If this project is approved, the applicants anticipate the proposed 40-bed rehabilitation hospital would be operational in March 2024. Based on that timeline, partial year one is 2024, and full calendar year one is 2025; year three is 2027.

The joint applicants provided the following assumptions used to project the utilization of the new rehabilitation hospital. [source: Application, pdf 33]

"The NWRH utilization forecast is based on the bed need methodology presented in the Alternative Model in Figure 14 and Figure 17 in Exhibit 9. This methodology calculates ranges of bed need based on variations in assumptions resulting in "low" and "high" estimates. The utilization forecast presented below is based on the low estimates. These estimates are calculated equivalently in both Figure 14 and Figure 17 in Exhibit 9 and equal an ADC of 34.8 (12,702 patient days) in 2020. This need is assumed to grow parallel to the Snohomish County resident population, weighted by the IRF utilization rates presented in Figure 12 in Exhibit 9. Once NWRH opens, it will be the only provider of inpatient rehabilitation services in Snohomish County, and we assume it will serve 65% of Snohomish resident rehabilitation patient days. Our utilization forecast over the period 2024 to 2029 is presented in Table 9, and over the period 2030 to 2034 is presented in Table 10."

[14] One purpose behind the income statement is to allow key decision makers to evaluate the company's current situation and make changes as needed. Creditors use these statements to decide on loans it might make to the company. Stock investors use these statements to determine whether the company represents a good investment.

Applicant Tables

Table 9: NWRH Utilization Forecast, 2024 to 2029

NWRH Utilization Forecast	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Year	2024	2025	2026	2027	2028	2029
Months	9	12	12	12	12	12
Admissions	561	772	797	822	846	871
ALOS	12.9	12.9	12.9	12.9	12.9	12.9
Patient Days	7,237	9,959	10,281	10,604	10,913	11,236
ADC	26.32	27.28	28.17	29.05	29.82	30.78
Occupancy Rate (40 Beds)	65.8%	68.2%	70.4%	72.6%	74.5%	77.0%

Sources: Exhibit 9 and Self-Calculations

Table 10: NWRH Utilization Forecast, 2030 to 2034

NWRH Utilization Forecast	Year 6	Year 7	Year 8	Year 9	Year 10
Year	2030	2031	2032	2033	2034
Months	12	12	12	12	12
Admissions	896	915	934	953	972
ALOS	12.9	12.9	12.9	12.9	12.9
Patient Days	11,558	11,804	12,049	12,294	12,539
ADC	31.67	32.34	32.92	33.68	34.35
Occupancy Rate (40 Beds)	79.2%	80.8%	82.3%	84.2%	85.9%

Sources: Exhibit 9 and Self-Calculations

Even though this project proposes a new rehabilitation hospital, the joint applicants also provided the following information regarding historical patient origin and utilization of the 19-bed rehabilitation unit at PRMCE. [source: Application, pdfs 21 and 34]

"PRMCE, with its 19 beds, is the only planning area provider of inpatient rehabilitation services for the 822,000 Snohomish County Residents. We present historical utilization over the last five years for PRMCE in Table 1."

Table 1: PRMCE Use and Occupancy, 2017 to 2021

Providence Regional Medical Center Everett	2017	2018	2019	2020	2021
Admissions	443	376	460	479	530
Patient Days	4,581	4,546	4,256	5,695	5,610
ADC	12.6	12.5	11.7	15.6	15.4
Beds	19	19	19	19	19
Occupancy	66%	66%	61%	82%	81%

Source: PRMCE Internal Data

"Over the last five years, PRMCE has averaged an occupancy of about 71%, indicating significant use by planning area residents despite the limitations of an integrated rehabilitation unit within an acute care hospital which we detail below."

The applicants provided the following assumptions used to prepare the projected Revenue and Expense Statement for the new rehabilitation hospital. [source: Application, Exhibit 14]

NORTHWEST WASHINGTON REHABILITATION HOSPITAL

REVENUE & EXPENSE ASSUMPTIONS

Line Item	Assumption
Revenue:	
Inpatient Revenue	The revenue is based on the payer mix and utilization projections detailed in earlier sections of this application. Charges and reimbursement calculations were based on the experience of Providence operating its acute rehabilitation service at PRMCE. There is no revenue inflation assumed.
Other Operating revenue	Revenue from Dining services, vending machines, etc
Deductions From Revenue	
Provision for Bad Debt	Equal to about 0.533% of Total Patient Revenue
Charity Care	1.57% of Total Patient Revenue
Contractual Allowances	Details provided in Exhibit
Operating Expenses	
Salaries, Wages and Employee Benefits	Staffing detail by FTE is provided in Application Table 12. Salaries are based on NWRH current rates and benefits are assumed to be 19% of salaries. Benefits in the pre-operating period are assumed to equal 25% of salaries based on the pre-opening positions
Management Fees	5% of net revenues paid to manager for cost incurred to manage and operate daily activities of JV facility
Medical Director Fee	Equal to $207/hr times 50 hours per month.
Professional fees	Costs typically associated with 'Professional fees' are provided to NWRH by CHC Management Services
Supplies	$75.5 per patient day, based on Kindred historical experience with similar sized facilities
Purchased Services - Utilities	$200,000 per annum in fixed expenses plus $5 per patient day, based on Kindred historical experience with similar sized facilities
Purchased Services - Other	$52 per patient day, based on Kindred historical experience with similar sized facilities
Depreciation	Depreciation based on straight line method, for equipment only, calculated monthly, and assumes 7-year useful life. Equipment expenditures include the initial $3.4M, as well as additional equipment expenditures of $20,000 in 2025, $60,000 in 2026, and $60,000 in 2027, distributed monthly.
Building Lease	Based on annual rent of $3,786,396 which increases by 2.25% in July 2025, July 2026, and July 2027.
Equipment Lease	Annual equipment rental equal to $1,800 per bed, or $72,000 per year

Line Item	Assumption
Licenses and Taxes	Includes Property Taxes, Provider Taxes, B&O Taxes, and Sales/Use Taxes. Property Taxes assumed to equal 0.85% of the value of the building, or about $423,483 per year. Provider Taxes are assumed to equal about $21.75 per patient day. B&O Taxes are assumed to equal 1.5% of Total Net Revenue. Sales/Use Taxes are assumed to equal 7% of 'Other Operating Revenue.'
Insurance	$35,000 per annum in fixed costs plus $12 per patient day in variable costs
Other Direct Expenses	$107,000 per annum in fixed expenses plus $36 per patient day, based on Kindred historical experience with similar sized facilities. 2024 includes $294,500 in startup expenses.
Allocated Expenses	Costs typically associated with 'Allocated Expenses' are provided to NWRH by CHC Management Services.
Balance Sheet	
Intangible and other assets	This line item reflects the contribution of the 19-bed ARU by Providence, valued at $6.63 million. This contribution is reflected as goodwill on the balance sheet of NWRH as the contribution does not include any tangible assets.
Partner equity	Partner's equity is equal to the beginning contributions made to NWRH by each partner, less cash distributions plus additional contributions.
Cash Flow Statement	
Contributions/Draws	Based on the NWRH Operating Agreement, cash distributions to Kindred and Providence are based on Cash Available for Distribution, equal to beginning cash, plus cash from operating activities, less investment and accounts payable. In 2026, for example, these amounts equaled $627,574 + $2,693,301 - $50,000 - $638,815 = $2,632,060

In addition to the assumptions identified above, the applicants provided the following clarification on specific line items above. [source: Application, Exhibit 26]

Executed Management and Administrative Services Agreement

"Annual costs associated with the Management and Administrative Services agreement between Northwest Washington Rehabilitation Hospital, LLC ("NWRH") and CHC Management Services, LLC are "equal to five percent (5%) of the Company's net patient service revenue." Net Patient Service Revenue, in this Management and Administrative Services agreement, "means the gross revenue of the Company from the provision of inpatient and related services in connection with the Business, less contractual allowances and bad debt, and excluding charity care revenue as computed in accordance with GAAP." Within the NWRH Pro Forma, these fees are included under the Expense line-item "Management Fees." We present calculations of these management fees in Table 1."

Table 1: Management and Administrative Services Fees

	Row	PY 2024	2025	2026	2027
Total Gross Patient Service Revenue	1	30,588,671	42,984,701	44,374,507	45,768,628
Deductions From Revenue	2	(17,051,998)	(23,962,304)	(24,737,066)	(25,514,235)
Total Net Patient Service Revenue ([1]+[2])	3	13,536,673	19,022,398	19,637,440	20,254,393
Other Operating Revenue	4	67,683	95,112	98,187	101,272
Total Net Revenue ([3]+[4])	**5**	**13,604,357**	**19,117,510**	**19,735,628**	**20,355,665**
CHC Management Fee %	6	5%	5%	5%	5%
CHC Management Fee $ ([5]*[6])	**7**	**680,218**	**955,875**	**986,781**	**1,017,783**

Sources: NWRH Amended Application, Exhibit 11, p. 188.

Professional Fees

"Costs typically associated with Professional Fees are not included in the Professional Fees line item but are instead captured in the Management Fee line item. This is because professional fees services such as legal, consulting, accounting are services provided by CHC Management Services as part of the Management Fee charged to NWRH."

Allocated Costs

"Costs typically associated with Allocated Expenses are not included in the Allocated Expenses line item but are instead captured in the Management Fee line item. This is because typical allocated expenses such as billing, compliance, and general corporate overhead are services provided by CHC Management Services as part of the Management Fee charged to NWRH."

Purchased Services

- *Procedural Services*
- *Diagnostic Radiology*
- *Laboratory*
- *EKG*
- *After-Hours Pharmacy*

Other Direct Expenses

- *Continuing Education*
- *Recruiting*
- *Repairs and Maintenance*
- *Patient Transport*
- *Collection Agency*
- *Printing*
- *Bank Fees; Service Charges*
- *Utilities*
- *Malpractice Insurance*

Draft Lease Agreement

"The NWRH draft lease included in Exhibit 16A outlines an initial rent amount based on project costs. As specified within the draft lease, "Initially, the Monthly Rent shall be one-twelfth (1/12th) of the product obtained by multiplying the Adjusted Project Costs by _____ percent (____%)." Furthermore, the draft lease indicates an annual rent increase of 2.25%. The initial rent is not identified in the draft lease, but rather given in the signed Term Sheet, included as Exhibit 16C. As given in the Term Sheet, based on Project Costs of $49,821,486, the initial rent is $3,786,396 per annum, or $315,533 per month.

Given an expected project completion date of March 2024, payment of monthly rent is assumed to start in April 2024. We present the monthly building lease amount calculations for the Pro Forma forecast period in Table 2."

Applicant Table

Table 2: Building Lease Amounts ($)

Month	2024	2025	2026	2027
January		315,533	322,632	329,892
February		315,533	322,632	329,892
March		315,533	322,632	329,892
April	315,533	322,632	329,892	337,314
May	315,533	322,632	329,892	337,314
June	315,533	322,632	329,892	337,314
July	315,533	322,632	329,892	337,314
August	315,533	322,632	329,892	337,314
September	315,533	322,632	329,892	337,314
October	315,533	322,632	329,892	337,314
November	315,533	322,632	329,892	337,314
December	315,533	322,632	329,892	337,314
Total	2,839,797	3,850,292	3,936,923	4,025,504

Source: Exhibit 16C – PMB Lynnwood LLC Term Sheet

Draft Development Agreement

"The draft Development Agreement is between PMB Lynnwood and NWRH pursuant to which PMB Lynnwood shall develop the building that will be leased to NWRH for operation of the IRF.

Exhibit C of the Development Agreement includes items that are excluded from the calculation of Project Costs, which drive lease amount calculations, and are the responsibility of PMB Lynnwood.

Exhibit C-1 of the Development Agreement is the budget for the development of the building and those costs are the responsibility of PMB Lynnwood.

Exhibit D of the Development Agreement is the lease that is part of Exhibit 16A. Lease amount payments are the responsibility of NWRH.

Exhibit E of the Development Agreement is a budget for those expenses for which PMB Lynnwood would be reimbursed by NWRH if the development is terminated prior to the 'closing.'

Exhibit K of the Development Agreement are the predevelopment costs incurred by NWRH with respect to the building that PMB Lynnwood is responsible for reimbursing upon the 'closing.'"

Based on the assumptions above, the applicants provided a projected Revenue and Expense Statement, Cash Flow Statement, and Balance sheet showing partial year 2024, and full years 2025 through 2027. Each statement is below. [source: Application, Exhibit 14]

Applicant Table – Pro Forma Revenue and Expense Statement

	2024	2025	2026	2027
OPERATING REVENUE:				
Inpatient Revenue	30,588,671	42,984,701	44,374,507	45,768,628
Outpatient Revenue	0	0	0	0
TOTAL PATIENT SERVICES REVENUE	30,588,671	42,984,701	44,374,507	45,768,628
DEDUCTIONS FROM REVENUE:				
Provision for Bad Debt	(162,995)	(229,049)	(236,454)	(243,883)
Contractual Adjustments	(16,408,760)	(23,058,395)	(23,803,932)	(24,551,784)
Charity and Uncompensated Care	(480,242)	(674,860)	(696,680)	(718,567)
TOTAL DEDUCTIONS FROM REVENUE	(17,051,998)	(23,962,304)	(24,737,066)	(25,514,235)
NET PATIENT SERVICE REVENUE	13,536,673	19,022,398	19,637,440	20,254,393
OTHER OPERATING REVENUE				
Other Operating Revenue	67,683	95,112	98,187	101,272
Tax Revenues	0	0	0	0
TOTAL OTHER OPERATING REVENUE	67,683	95,112	98,187	101,272
TOTAL OPERATING REVENUE	13,604,357	19,117,510	19,735,628	20,355,665
OPERATING EXPENSES				
Salaries and Wages	5,643,163	7,209,793	7,316,932	7,429,108
Employee Benefits	1,099,754	1,369,861	1,390,217	1,411,531
Management Fees	680,218	955,875	986,781	1,017,783
Medical Director Fee	93,150	124,200	124,200	124,200
Professional Fees	0	0	0	0
Supplies	746,394	751,905	776,216	800,602
Purchased Services - Utilities	186,185	249,795	251,405	253,020
Purchased Services - Other	376,324	517,868	534,612	551,408
Depreciation	364,286	486,607	491,190	499,643
Building Lease	2,839,797	3,850,292	3,936,923	4,025,504
Equipment Lease	54,000	72,000	72,000	72,000
Insurance	113,094	154,508	158,372	162,248
License and Taxes	683,800	933,484	949,974	966,515
Interest	0	0	0	0
Other Direct Expenses	635,282	465,524	477,116	488,744
Allocated Expenses				
TOTAL OPERATING EXPENSES	13,515,447	17,141,712	17,465,939	17,802,306
NET INCOME	88,910	1,975,798	2,269,689	2,553,359

Applicant Table – Pro Forma Cash Flow Statement

	2024	2025	2026	2027
Operating Activities:				
Net Income(Loss)	$ 88,910	$ 1,975,798	$ 2,269,689	$ 2,553,359
Depreciation and Amortization	364,286	486,607	491,190	499,643
Change in Accounts Receivable	(2,568,688)	162,257	(77,806)	(78,048)
Change in Accounts Payable	651,623	(24,049)	11,241	11,368
Other Changes	(42,987)	2,112	(1,013)	(1,016)
Total Operating	**(1,506,857)**	**2,602,726**	**2,693,301**	**2,985,307**
Investing Activities:				
Capital Expenditures	(3,400,000)	(15,000)	(50,000)	(60,000)
Other Investing	(6,629,412)	-	-	-
Total Investing	**(10,029,412)**	**(15,000)**	**(50,000)**	**(60,000)**
Financing Activities:				
Borrowings	-	-	-	-
Repayments	-	-	-	-
Providence Contributions/Draws	6,629,412	(1,937,114)	(1,289,710)	(1,427,830)
Kindred Contributions/Draws	6,900,000	(2,016,180)	(1,342,351)	(1,486,109)
Total Financing	**13,529,412**	**(3,953,295)**	**(2,632,060)**	**(2,913,938)**
Net Change in Cash	$ 1,993,143	$ (1,365,569)	$ 11,241	$ 11,368
Beginning Cash	-	1,993,143	627,574	638,815
Ending Cash	$ 1,993,143	$ 627,574	$ 638,815	$ 650,183

Applicant Table – Pro Forma Balance Sheet

	2024	2025	2026	2027
ASSETS:				
Current Assets:				
Cash	$ 1,993,143	$ 627,574	$ 638,815	$ 650,183
Accounts Receivable	2,568,688	2,406,431	2,484,237	2,562,285
Inventories/Prepaid/Other	42,987	40,875	41,888	42,904
Total Current Assets	4,604,818	3,074,880	3,164,940	3,255,372
Property, Plant, & Equipment:				
Property, Plant & Equipment	3,400,000	3,415,000	3,465,000	3,525,000
Less: Accumulated Depreciation	(364,286)	(850,893)	(1,342,083)	(1,841,726)
Total Fixed Assets	3,035,714	2,564,107	2,122,917	1,683,274
Other Assets				
Intangible and Other Assets, Net	6,629,412	6,629,412	6,629,412	6,629,412
Total Assets	**14,269,944**	**12,268,399**	**11,917,268**	**11,568,057**
LIABILITIES & EQUITY:				
Current Liabilities:				
Accounts Payable	$ 651,623	$ 627,574	$ 638,815	$ 650,183
Current Portion LTD	-	-	-	-
Total Current Liabilities	651,623	627,574	638,815	650,183
Total Liabilities	**651,623**	**627,574**	**638,815**	**650,183**
Partner's Equity				
Providence	6,629,412	4,692,297	3,402,588	1,974,758
Kindred	6,900,000	4,883,820	3,541,469	2,055,360
Retained Earnings	88,910	2,064,707	4,334,396	6,887,756
Total Partner's Equity	**13,618,322**	**11,640,824**	**11,278,453**	**10,917,874**
Total Liabilities & Equity	**14,269,944**	**12,268,399**	**11,917,268**	**11,568,057**

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by the applicants to determine the projected patient volumes and patient mix for the new rehabilitation hospital. The projections are based upon the three main factors:

- the modified numeric methodology;
- Snohomish County population growth trends; and
- historical utilization of the rehabilitation unit at PRMCE.

As previously stated, the department does not have a numeric methodology for dedicated rehabilitation beds or for dedicated rehabilitation hospitals. In the 'need' section of this evaluation, the department concluded that the information and rationale provided by the applicants that resulted in reliance on Methodology #2 is reasonable. Methodology #2 prepared by the applicants projects need for additional dedicated rehabilitation beds through years 2035. After reviewing the utilization assumptions described above, the department concludes that they are reasonable.

The joint applicants based, in part, its projected revenues and expenses for the new 40-bed rehabilitation hospital using historical operations of the PRMCE as a baseline. Additional assumptions used to project revenues and expenses include draft agreements provided in the application. The department concludes this approach is also reasonable.

Below is a table summarizing the projected revenue and expenses for the new 40-bed rehabilitation hospital. [source: Application Exhibit 14]

Department's Table 2
Summary of Revenue and Expense Statement

	Partial Year 2024	Full Year 1 2025	Full Year 2 2026	Full Year 3 2027
Net Revenue	$13,604,357	$19,117,509	$19,735,628	$20,355,666
Expenses	$13,515,447	$17,141,712	$17,465,938	$17,802,306
Net Profit / (Loss)	**$88,910**	**$1,975,797**	**$2,269,690**	**$2,553,360**

For the summary above, net revenues include gross revenues, minus deductions for contractual allowances, bad debt, and charity care. Expenses include all costs associated with the rehabilitation hospital, including wages and benefits. It also includes costs associated with draft documents, including the Management Agreement, building lease, and Medical Director Agreement.

As summarized above, the joint applicants project that revenues will cover expenses beginning in partial year 2024 and through the first three full calendar years of operation (2025 through 2027).

For this sub-criterion, the department also completes a focused financial and cost containment review (WAC 246-310-220 and WAC 246-310-240, respectively) that includes review of pro forma financial statements submitted in the application, including screening responses and rebuttal documents, and historical data reported to the data collection office within the Department of Health. A portion of the focused review is restated below. [source: September 27, 2022, Hospital Finance and Charity Care Program's (HFCCP) analysis, pdf 3]

"Because PMB Lynnwood, LLC is an entity create solely to build own the physical plant, construction will more than double its total assets. Because of this complex relationship, I reviewed the ratios for the hospital and PMB Lynnwood in the two tables below. In the first table, I also display the 2020 ratios for PMB Finance, LLC and LifePoint Rehab, LLC, and the 2021 ratios for PMB, LLC.

I reviewed various ratios' that can give a snapshot of the financial health of the various entities for the various provided base years. State 2021 is included as a comparison and is calculated from all community hospitals in Washington State whose fiscal year ended in 2021[15]. The data is collected by the Washington State Dept. of Health Community Health Systems section of the Health Systems Quality Assurance division. Below are the tables showing the results. The A means it is better if the row result is above the State number and B means it is better if the row result is below the state number."

Focused Financial Analysis

NW Rehab			LifePoint Rehab, LLC	Northwest Washington Rehabilitation Hospital			
Ratio Category	Trend	State2021	2020	2024 CONy1	2025 CONy2	2026 CONy3	2027 'CONy4
Long Term Debt to Equity	B	0.471	1.074	-	-	-	-
Current Assets/Current Liabilities	A	2.254	1.969	7.067	4.900	4.954	5.007
Assets Funded by Liabilities	B	0.410	0.410	0.046	0.051	0.054	0.056
Operating Expense/Operating Revenue	B	1.000	0.722	0.993	0.897	0.885	0.875
Debt Service Coverage	A	6.243	6.157	-	-	-	-
Long Term Debt to Equity	Long Term Debt/Equity						
Current Assets/Current Liabilities	Current Assets/Current Liabilities						
Assets Funded by Liabilities	Current Liabilities+Long term Debt/Assets						
Operating Expense/Operating Revenue	Operating Expense/Operating Revenue						
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp						

[15] Financial reports for 2021 are incomplete as of the writing of this evaluation, however the hospitals comprising the vast majority of financial activity in the state have reported, thus the ratios are not expected to change a great deal as additional hospital reports are processed.

The focused review includes the following conclusions.
"The ratios that can be calculated for the hospital are all within appropriate range of the state 2021 figures. The new hospital is better than break-even each year during the projection period. The ratios for the landlord entity, are generally not within the appropriate range for 2021 hospital financials, but it is a sole-purpose real estate entity, not a hospital. The financial projections provided for the hospital and landlord demonstrate that the immediate and long-range capital and operating costs of the project can be met. This criterion is satisfied."

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

(2) The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.
Chapter 246-310 WAC 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.

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC
As previously stated, the total capital expenditure for this project is $53,371,543. The applicants provided the following statements in response to this sub-criterion. [source: Application, pdfs 44-45]
"The capital expenditures by NWRH are modest since PMB Lynnwood will build and lease the building to NWRH. The capital expenditures associated with the inpatient rehabilitation hospital construction are estimated to equal about $49.821M (Table 12), which will be paid back through the lease payments over the lease term.

Importantly, NWRH will be principally reimbursed by payers, most notably Medicare, which is its largest payer, based on patient days, based on set fee schedules which are not affected by project capital expenditures. NWRH will be reimbursed by commercial payers, based on negotiated rates, which are not affected by capital costs."

The applicants also provided a letter and Budget Proposal and Clarifications from Aldrich, the construction contractor, located in Bothell, Washington. Aldrich provided its assumptions used to determine the construction costs of $40,502,486, which includes the building, site work, and state sales tax. [source: Application, Exhibit 20]

Department Evaluation
The estimated capital expenditure associated with this project is $53,371,543, and of that amount, co-applicant PMB Lynnwood is responsible for approximately 93% ($49,821,486) and co-applicant NWRH, LLC is responsible for approximately 7% ($3,550,057).

The focused financial review concluded that the rehabilitation hospital's rates are similar to the Washington statewide averages and concluded the project would have no unreasonable impact on the hospital or the community.

The department concludes this project would not result in an unreasonable impact on the costs and charges for health services. **This sub-criterion is met**.

(3) The project can be appropriately financed.

Chapter 246-310 WAC 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.

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC

The total estimated capital expenditure for this project is $53,371,543. Co-applicant PMB Lynnwood proposes to fund approximately 93% of the costs ($49,821,486) and co-applicant NWRH would fund the remaining 7% ($3,550,057). The table below shows a breakdown of the costs broken down by each funding source. [source: Application, pdf 39]

Item	NWRH, LLC	PMB Lynnwood, LLC	Total
Land Purchase	$0	$2,630,000	$2,630,000
Utilities to Property Line	$0	$250,000	$250,000
Land/Building Improvements	$0	$4,967,082	$4,967,082
Building Construction (tenant improvements)	$0	$31,686,751	$31,686,751
Moveable Equipment	$3,123,640	$0	$3,123,640
Architect/Engineering Fees	$0	$1,203,000	$1,203,000
Consulting Fees	$150,000	$486,000	$636,000
Supervision/Inspection	$0	$1,451,000	$1,451,000
Costs of Securing Financing	$0	$1,234,000	$1,234,000
Washington Sales Tax (building)	$0	$3,848,653	$3,848,653
Washington Sales Tax (tenant)	$276,417	$0	$276,417
Washington Sales Tax (landlord)	$0	$2,065,000	$2,065,000
Total Capital Costs	**$3,550,057**	**$49,821,486**	**$53,371,543**

The applicants provided the following clarification regarding the calculations of Washington State sales tax identified above. [source: Application, pdf 42]

"We note that Washington State sales tax as presented above is calculated at 10.5%, net of shipping/installation and warehouse costs. These amounts are equal to $27,500 in warehouse costs and $463,593 in shipping/installation."

Start-up costs are estimated at $1,068,525 based on Kindred/LifePoint's experience with pre-opening expenses needed for a 40-bed rehabilitation hospital. The applicants provided the following breakdown of the start-up costs. [source: Application, pdf 43]

Applicant's Table

Table 13: Pre-Opening Expenses

Pre Opening Expenses	Cost
Salaries and Wages	459,220
Benefits	114,805
Recruiting and Relocation	125,000
Legal and Consulting	100,000
Supplies	200,000
Other	69,500
Total	**1,068,525**

Source: Applicant. Amounts based on LifePoint Rehab experience for pre-opening expense needs for a 40-bed facility

For NWRH's portion of the funding, the applicants provided the following information. [source: Application, pdf 42]
"LifePoint Rehab will cover all project-related capital expenditures, including equipment expenditures and start-up expenses, from its corporate reserves. …"

Included in Exhibit 18 of the application is a letter of financial commitment from LifePoint Health, Inc. The letter includes references to the available case of $540 million as of February 28, 2022.

Also included in Exhibit 18 is a letter of financial commitment from PRMCE. This letter clarifies that PRMCE's financial commitment is the value of $9,576,000 by terminating operation of the 19-bed rehabilitation unit at PRMCE and states that "*the value represents the goodwill of the unit as a going concern as estimated by VMG Health*."

For PMB Lynnwood's portion of the funding, the applicants clarify that "*…PMB Lynnwood will finance the build-out of the hospital using a combination of reserves (30%) and a construction loan from Siemens (70%)."* In addition, the applicants provided a loan term sheet with Siemens Financial Services that would finance the build-out of the rehabilitation hospital. Exhibit 19C of the application is the financials for PMB Lynnwood's guarantor, PMB Finance LLC. [source: Application, pdf 42 and June 8, 2022, screening response, Revised Exhibit 9C]

The joint applicants also provided audited financial statements for both LifePoint Rehab, LLC, for year-end December 2020 and Providence St. Joseph Health for year-end December 2020. Historical financial statements (not audited) were provided for both PMB Finance, LLC and its parent, PMB, LLC. The applicants also clarified the relationship between joint applicant, PMB Lynnwood, LLC and PMB Finance. [source: June 8, 2022, screening response, pdf 4]
"PMB Finance LLC provides the Balance Sheet strength for the Lender, SIEMENS. If PMB Lynnwood LLC has financial difficulty, PMB Finance is legally obligated under the loan agreements provide the equity needed to solve any capital shortfalls. PMB Finance owns various assets, including 501,000 shares of Ventas common stock currently valued at $27.6M. The common stock is a liquid asset that can be converted to cash at any time. Revenue source of PMB Finance LLC is the dividends from holding the stock of the healthcare real estate firm Ventas.

PMB LLC is the entity that operates the corporate structure of our company since 1971, 51 years in business. It earns revenue through Development and Management Fees of various projects. It then utilizes the revenues to pay company overhead, mostly employee salaries. The company is purposefully setup to operate at a breakeven on a year-by-year basis."

Department Evaluation
To determine whether the applicants could meet the immediate and long-range capital costs, the department reviewed the funding information provided in the application. Further, a focused financial review is for this sub-criterion is below. [source: September 27, 2022, focused financial HFCCP analysis]
"Review of this application is unusual because of the corporate structure of the parent organization of the landlord/builder and owner of the physical plant. PMB Lynnwood, LLC, will be the landlord for this project and Northwest Washington Rehabilitation Hospital, LLC, will be the tenant and operator of the hospital business. The loan for 70% of the construction cost will be guaranteed by PMB Finance LLC, which will also fund the remaining 30% itself. PMB Finance, LLC, is an entity owned by PMB LLC and created to fill the loan guarantor roll for various real estate projects. The profits from PMB Lynnwood, PMB Finance, and other subsidiaries rolls upward through PMB, LLC and, ultimately, PMB Ventures LLC.

The two applicants will finance their portions of the total expenditure in different ways. For the equipment and startup costs attributed to LifePoint, corporate reserves will be utilized. For PMB Lynnwood, 70% of the capital expenditure will be funded by a construction loan from Siemens Financial Services, and the remaining 30% will come from reserves of PMB Finance.

The costs and interest rates of the loan were provided in projected financial statements. The applicants provided sufficient information about the loan including amortization schedules, for the program to conclude that there is a reasonable probability of securing financing as proposed.

LifePoint Rehab 2020			
Assets		Liabilities	
Current	786,200,000	Current	399,300,000
Board Designated	-	Other	419,700,000
Property/Plant/Equipment	257,700,000	Long Term Debt	785,500,000
Other	951,300,000	Equity	390,700,000
Total	1,995,200,000	Total	1,995,200,000
from CN application			

¶

PMB Finance LLC 2020			
Assets		Liabilities	
Current	46,765	Current	-
Board Designated	-	Long Term Debt	-
Property/Plant/Equipment	-	Other	-
Other	34,688,882	Equity	34,735,647
Total	34,735,647	Total	34,735,647
from CN application			

"Each applicant is responsible for a different portion of the total costs. The comparison of each applicant's costs in relation to its assets is displayed in the following tables."

LifePoint Rehab 2020	
Capital Expenditure	$ 3,550,057
Percent of Total Assets	0.18%
Percent of Equity	0.91%
PMB Lynwood LLC	
Capital Expenditure	$ 49,821,486
Percent of Total Assets	101.75%
Percent of Equity	343.40%

"Because PMB Lynnwood, LLC is an entity create solely to build own the physical plant, construction will more than double its total assets."

The financing method used is appropriate business practice. This criterion is satisfied."

The department concludes this project could be appropriately financed by the two funding entities. **This sub-criterion is met**.

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

Based on the source information reviewed, the department determines that the joint applicants' project meets the applicable cost containment 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.

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

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC

As previously stated, if this project is approved, the applicants anticipate an operational date of March 2024. In response to this sub-criterion, the joint applicants provided a staffing table showing projected full time equivalents (FTEs) for partial year 2024 and full years 2025 through 2027. The staff table is recreated below and continued on the following page. [source: June 8, 2022, screening response, pdfs 3-4]

Department's Table 3
Projected FTEs for Partial Year 2024 and Full Years 2025 through 2027

FTE Type	Year 2024 Partial Year	Year 2025 Increase	Year 2026 Increase	Year 2027 Increase	Total
Registered Nurses	17.9	0.69	0.68	0.69	**19.93**
Licensed Practical Nurses	7.7	0.29	0.30	0.29	**8.54**
Nursing Aide	17.0	0.65	0.66	0.65	**18.98**
Physical Therapists	3.0	0.00	0.00	0.00	**3.00**
PT Assistant	2.2	0.20	0.20	0.20	**2.80**
PT Technicians	1.5	0.00	0.00	0.00	**1.50**
Occupational Therapists	3.0	0.00	0.00	0.00	**3.00**
Certified OT Assistant	2.2	0.20	0.20	0.20	**2.80**
OT Technicians	1.5	0.00	0.00	0.00	**1.50**
Speech Therapists	2.0	0.00	0.00	0.00	**2.00**
Respiratory Therapists	0.0	0.00	0.00	0.00	**0.00**
Pharmacist	1.4	0.00	0.00	0.00	**1.40**
Pharmacy Technician	1.0	0.00	0.00	0.00	**1.00**
Case Manager/Social Worker	2.0	0.00	0.00	0.00	**2.00**
Central Supply/Purchasing	1.0	0.00	0.00	0.00	**1.00**
Dietary Supervisor	1.0	0.00	0.00	0.00	**1.00**
Registered Dietician	1.0	0.00	0.00	0.00	**1.00**
Cooks	2.5	0.00	0.00	0.00	**2.50**
Dietary Aides	2.5	0.00	0.00	0.00	**2.50**
Dietary Clerks	1.0	0.00	0.00	0.00	**1.00**
Maintenance Supervisor	1.0	0.00	0.00	0.00	**1.00**
Housekeeper Supervisor	1.0	0.00	0.00	0.00	**1.00**
Housekeepers	4.0	0.00	0.00	0.00	**4.00**
Switchboard Operators	2.1	0.00	0.00	0.00	**2.10**
Accounting Clerk	1.0	0.00	0.00	0.00	**1.00**
Business Office Coordinator	1.0	0.00	0.00	0.00	**1.00**
Admissions Coordinator	1.0	0.00	0.00	0.00	**1.00**

FTE Type	Year 2024 Partial Year	Year 2025 Increase	Year 2026 Increase	Year 2027 Increase	Total
Medical Records Director	1.0	0.00	0.00	0.00	**1.00**
Medical Records Coders	1.0	0.00	0.00	0.00	**1.00**
Director of Nursing	1.0	0.00	0.00	0.00	**1.00**
Nurse Manger	1.0	0.00	0.00	0.00	**1.00**
Nurse Coordinator (PPS)	1.0	0.00	0.00	0.00	**1.00**
Unit Secretary	2.8	0.00	0.00	0.00	**2.80**
Chief Executive Officer	1.0	0.00	0.00	0.00	**1.00**
Controller	1.0	0.00	0.00	0.00	**1.00**
HR Director	1.0	0.00	0.00	0.00	**1.00**
Director CQPI	1.0	0.00	0.00	0.00	**1.00**
Director of Therapy	1.0	0.00	0.00	0.00	**1.00**
Administrative Secretary	1.0	0.00	0.00	0.00	**1.00**
Director Business Development	1.0	0.00	0.00	0.00	**1.00**
Business Development Liaisons	4.0	0.00	0.00	0.00	**4.00**
Total FTEs	**101.25**	**2.03**	**2.04**	**2.03**	**107.35**

The joint applicants provided the following information regarding the assumptions used to project the staffing identified above. [source: Application, pdfs 48-49]
"Based on the prior experience of LifePoint Rehab, NWRH projects staffing based on the projected ADC over the forecast, rounded down to the nearest integer. This rounded ADC is presented in the first row of Table 15. Staffing for nurses (including the occupational categories Registered Nurse, Licensed Practical Nurse, and Nursing Aide) is determined based on calculated ratios, while staffing across the other occupational categories is based on a proprietary staffing matrix, developed by LifePoint Rehab based on its historical experience operating rehabilitation facilities. FTE requirements for each of the occupational categories is calculated each month of the forecast, and then averaged across months to obtain the annual counts.

*Staffing for nursing positions is calculated based on the expected number of hours per day nursing services are required. Based on LifePoint Rehab's historical experience and industry standards, NWRH anticipates 8.5 hours of nursing services per patient day. Of these 8.5 hours, 42% are assumed to be filled with RNs, 18% with LPNs, and 40% with Nursing Aides. An ADC of 25, for example, would imply 212.5 hours of nursing services (25*8.5) each day. Of these 212.5 hours, there would then be 89.25 by RNs (212.5*42%), 38.25 by LPNs (212.5*18%), and 85.0 by Nursing Aides (212.5*40%). Adding in 10% of non-productive time and dividing by the ratio of 40/7 (full time hours over a 7-day week) results in, for an ADC of 25, 17.18 RN FTEs, 7.36 LPN FTEs, and 16.36 Nursing Aide FTEs."*

The applicants provided the following information regarding recruitment and retention of staff for the new 40-bed rehabilitation hospital. [source: Application, pdfs 45-50]
"NWRH recognizes that the healthcare industry is facing unprecedented times. The impact of the pandemic has been devastating to front line healthcare workers as they face increasingly long hours and a constant crisis mode resulting in stress, burnout, and physical and mental challenges. Among other pressures, this has manifested itself in the form of workforce shortages in many health care settings. In light of these challenges, both Providence and LifePoint have enhanced their efforts on recruiting, retaining and supporting nursing and therapy staff.

Throughout the pandemic, PRMCE has maintained its ARU nursing and therapy staffing to continue to serve up to 19 patients. Staff retention and coverage has remained consistent when staff have been out for vacations, personal illness, or family needs. Providence also has national contracts in place to secure

additional nursing and therapy staff when needed. LifePoint also has a national account with a staffing firm (Health Trust) to supply contracted therapists and nurses as needed. Additionally, LifePoint has adjusted wages and other benefits, including sign on and retention bonuses, to maintain appropriate staffing levels.

In speaking with LifePoint's IRF in Tacoma, while it has faced staffing challenges through the pandemic, it has had strong retention and secured agency coverage when necessary. Through CY 2021, its ADC was 36.

In summary, NWRH does not anticipate staffing challenges. It will rely on both Providence and LifePoint resources available to assist with the identification and recruitment of appropriate and qualified personnel. This includes the use of experienced local recruitment teams as well as outside recruitment agencies for critical-to-fill positions to offer support on a local and national level. Providence also posts career listings on the Providence web site and job postings on multiple search engines and listing sites. It provides educational programs with local colleges and universities as well as the Providence University in Great Falls, MT. Additionally, PRMCE is actively involved in the training of future health care personnel and partners with many educational institutions throughout the Northwest to serve as a training site for students from various disciplines who wish to prepare themselves for a future in a healthcare related field. These training programs provide a large pool of new health care professionals to the community and will serve as an ongoing source for recruiting new personnel to NWRH.

NWRH will continue to implement these types of recruitment strategies and build on established affiliations with area schools to continue to provide clinical rotations for these students. As a result of these partnerships, NWRH is prepared and capable of staffing the proposed project. With that said, we acknowledge that unexpected circumstances related to patient demand and/or staff turnover occur and will rely on contract nursing services to fill gaps in clinical staff when needed."

Department Evaluation

This section of the evaluation focuses on the staffing of the proposed project. Given that the rehabilitation hospital is not yet operational, the joint applicants provided detailed information regarding staffing and recruitment strategies it would use to ensure appropriate staff, including key staff, is available. This approach is acceptable for a new healthcare facility.

If this project is approved, the department would attach a condition requiring the applicants' to provide the names and professional license numbers for key staff.

Information provided in the application demonstrates that the applicants have the ability and expertise to recruit and retain a sufficient supply of qualified staff for this project. With agreement to the staffing condition, **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.

Chapter 246-310 WAC does not contain specific WAC 246-310-230(2) as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what relationships, ancillary and support services should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials contained in the application.

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC

The joint applicants provided the following information related to this sub-criterion. [source: Application, pdfs 50-51]

"NWRH plans to purchase the following services from PRMCE:

- *Laboratory*
- *Medical imaging*
- *Non-invasive cardiac testing/EKG*
- *Wound care*
- *GI Lab/Endoscopy*
- *Pastoral care*
- *After hours pharmacy*

Northwest Washington Rehabilitation Hospital does not anticipate purchasing any ancillary or support services outside of the Providence network.

As a joint venture between KND12 and PRMCE, NWRH will have working relationships with other facilities within the Providence network. This includes PRMCE, which will refer patients requiring rehabilitation services to NWRH, as well as accept patients from NWRH requiring acute care services. Please see Exhibit 25 for a draft transfer agreement between NWRH and PRMCE. Furthermore, NWRH will have a working relationship with Swedish Edmonds, as Swedish is also part of the Providence network."

Management of the Rehabilitation Hospital

The joint applicants clarify that the rehabilitation hospital will be managed by CHC Management Services, LLC, a subsidiary of LifePoint Rehab, and provided a copy of the Management and Administrative Services Agreement that was executed on December 20, 2017. Since the agreement was executed prior to LifePoint Health's acquisition of Kindred, the applicants also included a Joinder Agreement to the agreement. [source: Application, Exhibit 5] Below are the particulars of the agreement.

The agreement is between Northwest Washington Rehabilitation Hospital, LLC (company) and CHC Management Services, LLC (manager). The agreement identifies the following purpose:
"In accordance with Article 7 of the Operating Agreement, the Company desires to engage Manager to provide management and administrative services with respect to the operation of the Business by contracting with the Manager and Manager desires to provide such services to the Company under the terms and conditions hereinafter set forth in exchange for the consideration hereinafter set forth."

The executed agreement outlines roles and responsibilities for both the company and the manager and clarifies that the hospital license, permits, certifications, and accreditations would be maintained by the company. The agreement identifies all costs associated with the management services (5% of net revenue). The agreement is ongoing in perpetuity unless terminated for reasons set forth in Article 5 of the agreement.

Medical Director Agreement (Draft) and Signed Letter of Intent to Execute

The draft agreement is between NWRH (company) and Dara L. Headrick, DO, PLC (group). As a draft the agreement does not identify the name of the rehabilitation hospital, but does provide the street address at 12911 Beverly Park Road in Lynnwood [98087]. The agreement identifies roles and responsibilities for both the company and the group. Section 3 of the agreement identifies compensation for services at $207/hour. Section 4 of the agreement outlines the terms that are restated below.
"This Agreement has an initial term commencing as of the Effective Date and continuing in effect for one year ("Initial Term"). At the end of the Initial Term, the term of this Agreement will automatically renew for successive one year periods (each, a "Renewal Term"), unless earlier terminated as provided in this Agreement. The Initial Term and any Renewal Term is collectively referred to herein as "Term."

Also included is a letter signed by Dara L. Headrick, DO and a representative of NWRH, Sharon Smeltzer, Division Vice President of Kindred Rehabilitation Services. [source: Application, Exhibit 24]

(Patient) Transfer Agreement (Draft)
This agreement is a draft between Providence Regional Medical Center Everett, and Northwest Washington Rehabilitation Hospital, LLC. The agreement identifies roles and responsibilities of both entities and is ongoing in perpetuity. There are no costs associated with the agreement. [source: Application, Exhibit 25]

Department Evaluation
While the 40-bed rehabilitation hospital will be new to Washington State, one of the joint applicants, NWRH, LLC is made up of two healthcare providers with healthcare experience in Washington State and across the nation. Specifically, Kindred/LifePoint operates more than 30 inpatient rehabilitation and behavioral health hospitals and units across the country. This application also includes two separate agreements: Management Agreement and Operational Agreement. Below are the particulars of each agreement.

Management Agreement-Executed
This agreement was executed on December 20, 2017, between CHC Management Services LLC (manager) and NWRH, LLC (company). The agreement outlines roles and responsibilities for both entities and identifies a compensation of 5% of net patient services revenues to be paid to the manager. The agreement is effective in perpetuity.

Operational Agreement-Executed
This agreement was executed on December 20, 2017, and provides the following information:

> This **OPERATING AGREEMENT** (this "***Agreement***") of **Northwest Washington Rehabilitation Hospital, LLC,** a Washington limited liability company (the "***Company***"), is made and entered into effective as of December 20, 2017 (the "***Effective Date***"), by and between **Kindred Development 12, L.L.C.**, a Delaware limited liability company and a wholly-owned subsidiary of Kindred Healthcare Operating, Inc. ("***Kindred***"), and **Providence Health & Services-Washington d/b/a Providence Regional Medical Center Everett**, a Washington non-profit corporation exempt from federal income tax as an organization described in Section 501(c)(3) of the Code ("***Providence***"). **Kindred Healthcare Operating, Inc.** ("***KHOI***") joins in this Agreement solely for the purpose of agreeing to be bound by Section 14.16.

[source: Application, Exhibit 15]

The applicants also provided a Joinder Agreement associated with the executed Operating Agreement that provides the following clarification and connection. [source: Application, Exhibit 15]

> This Joinder Agreement (this "Agreement") is made as of May 4, 2022 (the "Effective Date") by and among LifePoint Rehab LLC, a Delaware limited liability company ("Guarantor"); Northwest Washington Rehabilitation Hospital, LLC, a Washington limited liability company (the "Company"); Kindred Development 12, L.L.C., a Delaware limited liability company ("Kindred"); and Providence Health & Services-Washington, a Washington non-profit corporation exempt from federal income tax as an organization described in Section 501(c)(3) of the Code ("Providence"). Capitalized terms used but not otherwise defined have the meaning set forth in the Company's Operating Agreement, dated December 20, 2017 (the "Operating Agreement").

The Operating Agreement outlines roles and responsibilities for both entities. The agreement identifies ownership interest of both Providence (49%) and Kindred/LifePoint (51%) and provides clarification of the process each would use if additional capital contributions are required. The agreement is also effective in perpetuity.

The proposed hospital will be exclusively dedicated to acute rehabilitation and will not provide emergency services. Therefore, the application included a draft Patient Transfer Agreement between NWRH, LLC and PRMCE. The agreement outlines the conditions for patient transfer, procedures, and financial responsibilities. There are no costs associated with the agreement. If this project is approved, the department would attach a condition requiring submission to the department the executed Patient Transfer Agreement that is substantially similar to the draft reviewed and approved by the department.

Based on the information reviewed in the application and agreement to conditions identified above, the department concludes that there is reasonable assurance that the new hospital will have the necessary relationships with ancillary and support services to provide level I rehabilitation healthcare services at the new 40-bed rehabilitation hospital. **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.

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

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC

The joint applicants provided the following information to demonstrate compliance with this sub-criterion. [source: Application, pdf 52]

"Neither NWRH nor its members, Providence Health & Services-Washington and KND12, nor KND12's immediate parent LifePoint Rehab, nor the co-applicant PMB Lynnwood has a history of the actions described in WAC 246-310-230(5)(a). Patient care at NWRH will be provided in conformance with all applicable federal and state requirements."

Department Evaluation

As a part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.[16] For hospital projects, the department reviews two different areas when evaluating this sub-criterion. One is a review of the Centers for Medicare and Medicaid Services (CMS) "Terminated Provider Counts Report" covering years 2019 through 2022.[17] The department uses this report to identify facilities that were involuntarily terminated from participation in Medicare reimbursement.

The department also reviews an applicant's conformance with Medicare and Medicaid standards, with a focus on Washington State facilities. The department uses the CMS 'Survey Activity Report' to identify facilities with a history of condition level findings.

For CMS surveys, there are two levels of deficiencies: standard and condition.[18]

- Standard Level
  A deficiency is at the Standard level when there is noncompliance with any single requirement (or several requirements) within a particular standard that is not of such character as to substantially limit

[16] WAC 246-310-230(5).
[17] Reports are all current as of September 27, 2022.
[18] Definitions of standard and condition level surveys: https://www.compass-clinical.com/deciphering-tjc-condition-level-findings/

a facility's capacity to furnish adequate care, or which would not jeopardize or adversely affect the health or safety of patients if the deficient practice recurred.

- Condition Level
  Deficiency at the Condition level may be due to noncompliance with requirements in a single standard that, collectively, represent a severe or critical health or safety breach, or it may be the result of noncompliance with several standards within the condition. Even a seemingly small breach in critical actions, or at critical times, can kill or severely injure a patient, and such breaches would represent a serious or severe health or safety threat.

The two healthcare systems associated with this project are: Providence Health & Services and Kindred/LifePoint. Both own and/or operate a variety of healthcare facilities in Washington and across the nation. Since the proposed project is for a rehabilitation hospital, the focus of this review will be historical hospital and rehabilitation hospital operations as they are functionally similar to the type of facility proposed in this project.

Terminated Provider Counts Report
Focusing on years 2019 through 2022, neither Providence Health & Services nor Kindred/LifePoint associated facilities were involuntarily terminated from participation in Medicare reimbursement.

CMS Survey Data
Using the Center for Medicare and Medicaid Services Quality, Certification & Oversight Reports (QCOR) website, the department reviewed the available historical survey information for both Providence Health & Services and Kindred/LifePoint hospitals focusing on years 2019 through 2022.

Providence Health & Services
Providence operates 51 acute care hospitals in six states and all hospitals provide general acute care services. Of the 51 facilities, 20 hospitals were not surveyed during the timeframe reviewed—full years 2019 through 2021, plus year 2022 as of September 27, 2022. The table below shows the number of hospitals operated by Providence Health & Services broken down by state.

Department's Table 4
Providence Health & Services Hospitals

State	Number of Providence Hospitals	Number Not Surveyed
Alaska	4	3
California	19	7
Montana	2	1
Oregon	8	4
Texas	5	2
Washington	13	3
Total	**51**	**20**

For the remaining 31 hospitals that were surveyed, most of the surveys resulted in either no deficiencies or identification of minor deficiencies that did not require a follow up survey to ensure the facility's compliance. All Providence Health & Services hospitals are noted to be in compliance as of the writing of this evaluation.

Kindred/LifePoint
Kindred/LifePoint operates 31 hospitals in 17 states and of those 29 are dedicated rehabilitation hospitals and 2 are psychiatric/behavioral health hospitals. Of the 31 facilities, 4 were not surveyed during the

timeframe reviewed—full years 2019 through 2021, plus year 2022 as of September 27, 2022. The table below shows the number of hospitals operated by Kindred/LifePoint broken down by state.

Department's Table 5
Kindred/LifePoint Hospitals

State	Number of Kindred/ LifePoint Hospitals	Number Not Surveyed
Arizona	1	0
Arkansas	1	0
California	1	0
Illinois	1	0
Indiana	2	1
Iowa	2	0
Missouri	2	0
Montana	1	0
New Jersey	1	0
Ohio	2	1
Oklahoma	2	1
Pennsylvania	2	0
Rhode Island	1	1
Tennessee	2	0
Texas	7	0
Washington	1	0
Wisconsin	2	0
Total	**31**	**4**

For the remaining 27 rehabilitation hospitals surveyed, all noted either no deficiencies or identification of minor deficiencies that did not require a follow up survey to ensure the facility's compliance. For the two behavioral health (psychiatric) hospitals surveyed, both identified non-compliance issues and follow up surveys were required to ensure the facility's compliance. All Kindred/LifePoint hospitals are noted to be in compliance as of the writing of this evaluation.

In addition to the facility review, the joint applicants provided the name and license number for the proposed medical director, Dara Headrick, OP. The review revealed no sanctions related to the license which is currently active. No other staff, including key staff, were identified for this project. As previously stated, if this project is approved the department would attach a condition requiring the applicants to provide the names and professional license numbers of key staff

Based on the above information, the department concludes that joint applicants demonstrated reasonable assurance that the proposed rehabilitation hospital would operate in compliance with state and federal guidelines if this project is approved. **With agreement to the condition, 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.

Chapter 246-310 WAC 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 direct the department 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.

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC

The applicants provided the following discussion to demonstrate compliance with this sub-criterion. [source: Application, pdf 51]

"As a joint venture between KND12 and PRMCE, NWRH will utilize the relationships of both organizations in developing collaborative relationships with providers to expand program offerings and ensure access and continuity of appropriate care for residents of Snohomish County. NWRH will coordinate patient access to Providence and other planning area entities and community providers to ensure continuity of care during hospital discharge to other levels of care as well as when other facilities need to transfer patients to NWRH for more advanced rehab care. Those providers include hospitals, e, home care, long-term care facilities, psychiatric care, assisted living and other providers."

Department Evaluation

This section of the evaluation takes into consideration the letters of support submitted for the project and also notes that no letters of opposition were received for the project. It also takes into consideration the calculated numeric methodology prepared and relied on by the applicant, and rules related to adding new beds to a planning area.

As noted in the need section of this evaluation, the department concluded sufficient need for 40 rehabilitation beds is demonstrated by the applicants. The department also notes that there was no opposition submitted for this project.

The new rehabilitation hospital would represent a new dedicated rehabilitation facility to Snohomish County and surrounding communities. The new hospital is to be CARF accredited which requires extensive referral relationships to fully ensure a continuum of care necessary for rehabilitation patient recoveries. With CARF accreditation, the department expects the new hospital to have these relationships. If this project is approved, the department would attach a condition requiring the hospital to obtain and maintain CARF accreditation for the hospital.

For those reasons, the department concludes that approval of this project is not expected to result in unwarranted fragmentation of acute care services in the Southwest King planning area. **This sub-criterion is met.**

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

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

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

Based on the source information reviewed, the department determines that the joint applicants' project meets the applicable cost containment criteria in WAC 246-310-240.

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

To determine if a proposed project is the best alternative, in terms of cost, efficiency, or effectiveness, the department takes a multi-step approach. First the department determines if the application has met the other criteria of WAC 246-310-210 through 230. If the project has failed to meet one or more of these criteria, 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. No competing application were submitted for review.

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC

Step One

The joint applicants demonstrated that this application met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two

Below is a discussion and table of the alternatives considered and rejected by the joint applicants. [source: Application, pdf 53]

"Prior to submitting this application, as amended, two alternatives to the proposed project were considered. These included (1) doing nothing and keeping the 19-bed rehabilitation unit at PRMCE and (2) constructing a second 21-bed rehabilitation unit in addition to the unit at PRMCE. We have provided a comparison of these alternatives to the proposed project in our response to the question below.

In an earlier version of this application (CN 19-72), an additional alternative of expanding PRMCE to a 40-bed unit was proposed. Furthermore, in the screening responses to CN 19-72, the Department requested NWRH also consider the conversion of PRMCE into a Level I provider with 19 beds and implementing the proposed project in phases. None of these potential alternatives are functionally or financially feasible, so were not considered as realistic alternatives to the proposed project. As discussed elsewhere in the application, space constraints prevent financially prudent expansion of the existing PRMCE rehabilitation unit. Given its existing size, it is not possible for PRMCE to be a Level I provider. Level I certification requires specific physician subspecialties on location, which is not functionally feasible in a 19-bed unit. Lastly, implementing the proposed project in phases, rather than minimizing initial operating losses, would instead result in a longer period over which operating losses would be incurred."

Below is a recreation of the comparison table provided in the application and used by the joint applicants to evaluate each of the two options identified above and compare the options with the project as submitted. [source: Application, pdfs 53-56]

Applicants Table 16: Alternatives Analysis: Promoting Access to Healthcare Services	
Option:	***Advantages/Disadvantages***
No project –Continuation of 19-Bed PRMCE Unit	• *There is no advantage to continuing as presently in terms of improving access. (Disadvantage ("D"))* • *Snohomish County will continue to have the lowest bed-to-population ratio among counties with rehabilitation services in Washington State, which itself has one of the lowest bed-to-population ratios in the United States. (D)*
CN Approval for 21-Bed Rehab Hospital	• *Allows for a 21-bed rehabilitation hospital in Snohomish County, in addition to the 19-bed rehabilitation unit at PRMCE. This would increase the number of rehabilitation beds available in Snohomish County and improve resident access. (Advantage ("A"))*

	• *Neither the 19-bed rehabilitation unit at PRMCE nor the 21-bed rehabilitation hospital would be large enough to support the staffing necessary for a Level I Rehabilitation designation, so Snohomish County residents would continue with deficient access to Level I rehabilitation services. (D)* • *Neither the 19-bed rehabilitation unit at PRMCE nor the 21-bed rehabilitation hospital would be large enough to support a separate unit for stroke and traumatic brain injury patients, so Snohomish County residents needing such services would continue with deficient access to the specialty services possible within such a unit. (D)*
CN Approval for 40-Bed Rehab Hospital (Requested project)	• *Allows for a 40-bed rehabilitation hospital in Snohomish County which would coincide with the closing of the PRMCE rehabilitation unit. This would increase the number of rehabilitation beds available in Snohomish County and improve resident access. (A)* • *The proposed 40-bed rehabilitation hospital would be large enough to support the staffing necessary for a Level I Rehabilitation designation, so Snohomish County residents would have improved access to Level I rehabilitation services. (A)* • *The proposed 40-bed rehabilitation hospital will contain a separate unit for stroke and traumatic brain injury patients, so Snohomish County residents needing such services would have improved access to the specialty services possible within such a unit. (A)*

Applicants Table 17: Alternatives Analysis: Promoting Quality of Care	
Option:	***Advantages/Disadvantages***
No project –Continuation of 19-Bed PRMCE Unit	• *Continuing as presently conveys no advantages or disadvantages from a quality-of-care perspective. (Neutral ("N"))*
CN Approval for 21-Bed Rehab Hospital	• *CN Approval for a new 21-bed rehabilitation hospital, together with the 19-bed rehabilitation unit at PRMCE, would allow an expansion of rehabilitation services within Snohomish County, thereby improving planning area access to rehabilitation services. This improves quality of care for planning area residents. (A)* • *A new rehabilitation hospital would incorporate state-of-the-art technology and reflect the developments in rehabilitation care. (A)* • *A 21-bed hospital, relative to a 40-bed hospital, would be limited in its ability to provide specialty rehabilitation services and offer a separate unit for stroke and traumatic brain injury patients. (D)*
CN Approval for 40-Bed Rehab Hospital (Requested project)	• *CN Approval for a new 40-bed rehabilitation hospital would allow an expansion of rehabilitation services within Snohomish County, thereby improving planning area access to rehabilitation*

	services. This improves quality of care for planning area residents. (A) • *A new rehabilitation hospital would incorporate state-of-the-art technology and reflect the developments in rehabilitation care. (A)* • *The proposed 40-bed hospital will provide specialty rehabilitation services and offer a separate unit for stroke and traumatic brain injury patients. (A)*

Applicants Table 18: Alternatives Analysis: Promoting Cost and Operating Efficiency	
Option:	***Advantages/Disadvantages***
No project –Continuation of 19-Bed PRMCE Unit	• *Under this option, there would be no impacts on costs or efficiency of the existing PRMCE rehabilitation unit—the unit would continue as present. (N)* • *However, as described elsewhere in the application, without the project Snohomish County residents will continue to out-migrate to providers in King and other counties. This requires otherwise unnecessary travel to obtain needed rehabilitation services at out-of-area providers. (D)*
CN Approval for 21-Bed Rehab Hospital	• *A new 21-bed rehabilitation hospital, together with the 19-bed rehabilitation unit at PRMCE, would improve planning area access to rehabilitation services, reducing resident outmigration for needed rehabilitation services. (A)* • *Establishment of a new hospital, separate from the rehabilitation unit at PRMCE, would require significant capital expenditure and duplicative services to meet the inpatient rehabilitation needs of the patients at each location. This would create inefficiencies in care delivery and unnecessary expense. (D)*
CN Approval for 40-Bed Rehab Hospital (Requested project)	• *A new 40-bed rehabilitation hospital would improve planning area access to rehabilitation services, reducing resident outmigration for needed rehabilitation services. (A)* • *A 40-bed hospital will allow economies of scale in the provision of inpatient rehabilitation care. This eliminates the need to create duplicative services across multiple sites improving efficiency and reducing unnecessary expense. (A)*

Applicants Table 19: Alternatives Analysis: Legal Restrictions	
Option:	***Advantages/Disadvantages***
No project –Continuation of 19-Bed PRMCE Unit	• *There are no legal restrictions to continuing operations as presently at PRMCE. (A)*
CN Approval for 21-Bed Rehab Hospital	• *Requires certificate of need approval. This requires time and expense. (D)*
CN Approval for 40-Bed Rehab Hospital (Requested project)	• *Requires certificate of need approval. This requires time and expense. (D)* • *The time and expense required for CN approval are equal across both the requested project and the alternative of "CN Approval for21-Bed Rehab Hospital." (N)*

Department's Evaluation

The department reviewed the options identified and rejected by the applicants and found the conclusions to be reasonable. Further, the department did not identify any other alternatives that could be considered superior related to cost, efficiency, or effectiveness that is available or practicable.

In the need section of this evaluation, the applicants demonstrated need for at least 40 dedicated rehabilitation beds in Snohomish County. This project proposes to add 21 new level I rehabilitation beds to Snohomish County and relocate 19 level II rehabilitation beds from PRMCE to the new hospital. Once the project is complete, PRMCE will no longer provide level II rehabilitation services on site.

Based on the information provided in the application, the department concludes that the project as submitted by the joint applicants is the best available option for the planning area. **This sub-criterion is met.**

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

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

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

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC

The applicants provided the following information in response to this sub-criterion. [source: Application, pdf 57]

"Within the prototypical facility design, the developer will incorporate numerous energy saving practices. All glass is high density Low E Glass that is hermetically sealed in the frames which minimizes heat loss. The heating, ventilation and air conditioning units are all Intellipack packaged air units with internal reheat devices that allow a greater use of outside air, which keeps the unit operation low. The building itself is oriented to maximize the daylight and heat load from the sun. This cuts down on heating costs in the winter and allows for more natural light to enter the areas of care. While initial cost is a factor, the long-term operational costs are also considered. For instance, it is more costly on the front end to utilize LED lamps in the light fixtures, however, the lower heat load and lower electrical costs yield a 3-5 year payback which offsets the higher upfront costs."

Department Evaluation

This project involves construction of a new 40-bed level I rehabilitation hospital. The applicants provided information regarding the design of the facility and the standards that must be met for construction. Additionally, the department notes that the project proposes to relocate 19 level II rehabilitation beds from

PRMCE. The approach of relocating a portion of service specific beds from one facility to another, is one way to reduce costs for a project.

Further, the assumptions related to the costs and charges discussed under the Financial Feasibility section of this evaluation, the department does not anticipate an unreasonable impact on the costs and charges to the public as a result of providing rehabilitation services in a free-standing dedicated rehabilitation hospital. Therefore, the department concludes **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.

Joint Applicants: NWRH, LLC and PMB Lynnwood, LLC
Department Evaluation
This project has the potential to improve delivery of level I rehabilitation services to the residents of Snohomish County and surrounding communities with the establishment of a dedicated 40-bed rehabilitation hospital. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**