



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

June 6, 2012

CERTIFIED MAIL # 7011 1570 0002 7802 6128

Randall Stamper
Stamper Rubens, PS
720 West Boone, Ste. 200
Spokane, WA 99201

Re: CN #12-16

Dear Mr. Stamper:

We have completed review of the Certificate of Need application submitted on behalf of King County Public Hospital District #4 and Moreland Pacific regarding the replacement and leaseback arrangement of Snoqualmie Valley Hospital. For the reasons stated in this evaluation, the application submitted is consistent with applicable criteria of the Certificate of Need Program, provided King County Public Hospital District and Moreland Pacific agree to the following in its entirety.

Project Description:

The construction of a new hospital located at 34220 Southeast 99th Street in Snoqualmie, Washington. The facility will be built through a lease and operating agreements between King County Public Hospital District #4 and Moreland Pacific, LLC.

Conditions:

1. The applicants agree with the project description stated above.
2. Snoqualmie Valley Hospital will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. Snoqualmie Valley Hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by the applicable hospitals in the King County Region. Currently, this amount is 1.51% of gross revenue and 2.69% of adjusted revenue. Snoqualmie Valley Hospital will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

Approved Costs:

The approved capital expenditure for this project is \$38,587,094.



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

Mailing Address:

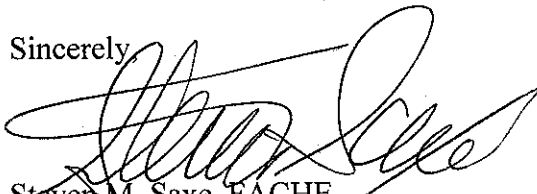
Department of Health
Certificate of Need Program
Mail Stop 47852
Olympia, WA 98504-7852

Other Than By Mail:

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

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

Sincerely



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

Enclosure

**EVALUATION DATED JUNE 6, 2012 OF THE CERTIFICATE OF NEED
APPLICATION SUBMITTED BY OF KING COUNTY PUBLIC HOSPITAL DISTRICT
#4 AND MORELAND PACIFIC, LLC PROPOSING REPLACEMENT AND LEASEBACK
OF SNOQUALMIE VALLEY HOSPITAL**

APPLICANTS DESCRIPTIONS

Co-applicant King County Public Hospital District #4 (District) currently owns and operates Snoqualmie Valley Hospital (SVH¹). The District is governed by a five-member board of elected commissioners. The District operates the hospital in addition to four clinics, all located in Snoqualmie, Washington. SVH is a designated critical access hospital² and is located at 9575 Ethan Wade Way Southeast in Snoqualmie within King County. SVH is currently licensed for 25 beds and operates them all as swing beds. [source: Application, p2]

Co-applicant Moreland Pacific, LLC (Moreland). Moreland is a commercial development firm located at 5060 California Avenue, Suite 1150 in Bakersfield, California. Moreland has experience in constructing medical facilities throughout the Western United States and will be the developer of the proposed hospital building. [source: Application, Exhibit 3, p197]

PROJECT DESCRIPTION

This application proposes the construction of a new hospital located at 34220 Southeast 99th Street in Snoqualmie, Washington. The district owns the real estate where the hospital is planned to be built. To accomplish the replacement of SVH, and to comply with the public hospital district debt limits, the District proposes to lease the site of the hospital to Moreland. [source: Application, p5, RCW 70.44.060(3)]

Moreland will, in turn, build the hospital and then enter into a leaseback and operating agreement with the district, thereby allowing the district to continue operations and oversight of the hospital. The current hospital will maintain operations as the replacement hospital is being built. [source: Application, p88]

The applicants provided the following rationale for building a replacement hospital. [source: Application, p8]

“Access to care will be greatly enhanced as a result of the District’s replacement facility. Within King County Public Hospital District No. 4’s service area is a large and growing population, especially the elderly, who need local access to healthcare.” And, “[The Hospital] will continue to offer all its current services to the community, including 24-hour emergency department, acute inpatient services, sub-acute rehabilitation services, outpatient primary and specialty care along with on site pharmacy, lab, endoscopy and inpatient and outpatient rehabilitation services.”

The new replacement hospital will be a 68,000 sf facility and will provide enough space for single occupancy rooms. The new hospital will improve on existing services, add programs like

¹ For ease of reading, unless otherwise noted, SVH throughout this analysis will be used to represent both co-applicants.

² 42 U.S.C. 1395i-4

nutritional services, and include information technology improvements that would enable the facility to fully participate in health information exchanges and telemedicine initiatives. It is expected that the additions will improve access to, and the quality of, care delivered. [source: Application, p9]

The estimated capital expenditure for the project reported on the cover of the application is \$38,500,000. A review of the information included with the application more accurately establishes the guaranteed maximum price as \$38,587,094. This un-rounded total will be applied in the review of this application. The project is expected to be completed by October 2013. [source: Application, p7 & 33]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need (CN) review because it is the lease of an existing hospital under Revised Code of Washington (RCW) 70.38.105(4)(b) and Washington Administrative Code (WAC) 246-310-020(1)(b).

CRITERIA EVALUATION

To obtain Certificate of Need approval, the applicants must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).³

APPLICATION CHRONOLOGY

Letter of Intent Submitted	October 20, 2011
Application Submitted as Letter of Intent ⁴	November 29, 2011
Application Received	December 29, 2011
Department Screening activities	December 30, 2011 through February 9, 2012
Department Begins Review; no Public Hearing Requested or Conducted	February 10, 2012
End of Public Comment	March 1, 2012
Rebuttal Documents Received	March 16, 2012
Department's Anticipated Decision Date	April 5, 2012
Department's Updated Decision Date	May 7, 2012
Department's Decision Date	June 6, 2012

³ Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(1), (3), (4), (5), (6) & WAC 246-310-240(3).

⁴ The application submitted was determined to be substantially different from the associated Letter of Intent. The application served as a new LOI and was held for 30 days.

AFFECTED AND INTERESTED PERSONS

Two individuals sought and received affected person status under WAC 246-310-010.

- Gene Pollard – Community Member and King County Public Hospital District #4 Commissioner
- Herschel Backues – Community Member

SOURCE INFORMATION REVIEWED

- King County Public Hospital District and Moreland Pacific Certificate of Need application submitted December 29, 2011
- King County Public Hospital District and Moreland Pacific supplemental information dated February 7, 2012
- Public comment submitted (No public hearing conducted)
- Rebuttal comment received March 16, 2012
- Historical charity care data obtained from the Department of Health's Hospital and Patient Data Systems (2008, 2009, and 2010 summaries)
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems (HPDS) received February 29, 2012
- Department of Health's Investigation and Inspection's Office (IIO) files
- November 3, 2011 Washington State Auditors Report for Snoqualmie Valley Hospital
- Revised Code of Washington 70.44 "Public Hospital Districts"
- Revised Code of Washington 39.36 "Limitation of Indebtedness of Taxing Districts"
- Published Summary of 63-20 Corporations program
- Internet data for Snoqualmie Valley Hospital (www.snoqualmiehospital.org)
- Certificate of Need historical files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by King County Public Hospital District #4 and Moreland Pacific, LLC is consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need should be issued provided the applicant agrees to the following in its entirety.

PROJECT DESCRIPTION

The construction of a new hospital located at 34220 Southeast 99th Street in Snoqualmie, Washington. The facility will be built through a lease and operating agreements between King County Public Hospital District #4 and Moreland Pacific, LLC.

CONDITIONS

1. The applicants agree with the project description stated above.
2. Snoqualmie Valley Hospital will provide charity care in compliance with the charity care policies reviewed and approved by the Department of Health. SVH will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by the applicable hospitals in the King County Region. Currently, this amount is 1.51% of gross revenue and 2.69% of adjusted

revenue. Snoqualmie Valley Hospital will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

The approved capital expenditure for this project is \$38,587,094.

A. Need (WAC 246-310-210)

Based on the source information reviewed, and provided that the applicant agrees to the condition identified in the ‘conclusion’ section of this evaluation, the department determines that the applicant has met the applicable need criteria in WAC 246-310-210(2).

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

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

To demonstrate compliance with this sub-criterion, SVH provided a copy of its current admission policy and swing-bed admission criteria that would continue to be used at the replacement hospital. The admission policy outlines the process/criteria that SVH uses to admit patients for treatment or care at the hospital. The policy also states that any patient requiring care is accepted for treatment at SVH without regard to race, color, religion, creed, ancestry, national origin, gender, sexual orientation, and on the basis of age, disability or source of payment. This policy is consistent with Certificate of Need requirements. [source: Application, Exhibit 4; Supplemental Information, Exhibit B]

To determine whether low-income residents would have access to the proposed services, the department uses the facility’s Medicaid eligibility as the measure to make that determination.

SVH currently provides services to Medicaid eligible patients. Details provided in the application demonstrate that SVH intends to maintain this status. A review of the anticipated revenue indicates that the facility expects to continue to receive Medicaid reimbursements. [source: Application, p11]

To determine whether the elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination.

SVH currently provides services to Medicare eligible patients. Details provided in the application demonstrate that SVH intends to maintain this practice. A review of the anticipated revenue indicates that the facility expects to continue to receive Medicare reimbursements. [source: Application, p11]

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

SVH’s current financial assistance policy has been approved by the department and outlines the process a patient would use to access this service. Further, the applicants included a ‘charity care’ line item as a deduction from revenue within the pro forma financial documents for the hospital. [source: Application, p18, Exhibit 5]

For charity care reporting purposes, the Department of Health’s Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. SVH is located in King County and is one of 20 hospitals located within the region. According to 2008-2010 charity care data obtained from HPDS, SVH has provided more than the average charity care provided in the region. The percentages of charity care for gross and adjusted revenues are detailed below. [source: HPDS 2008-2010 charity care summaries]

Table 1
SVH Charity Care Comparison

	3-Year Average for King County Region ⁵	3-Year Historical Average for SVH
% of Gross Revenue	1.51 %	2.04 %
% of Adjusted Revenue	2.69 %	4.12 %

SVH’s pro forma revenue and expense statements indicate that the hospital will provide charity care at approximately 1.44% of gross revenue and 3.39% of adjusted revenue. RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. SVH has exceeded this requirement in the past, but the amount of charity care projected to be provided at SVH is below the regional averages. The department concludes that a condition related to the percentage of charity care to be provided at SVH is necessary if this project is approved. [source: Application, p17]

With agreement to the charity care condition, the department concludes that all residents, including low income, racial and ethnic minorities, handicapped, and other under-served groups would have access to the services provided by the hospital. **This sub-criterion is met.**

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

Based on the source information reviewed, and provided that the applicant agrees to the condition identified in the ‘conclusion’ section of this evaluation, the department determines that the applicant has met the financial feasibility criteria in WAC 246-310-220(1), (2), and (3).

⁵ Harborview Medical Center is subsidized by the state legislature to provide charity care services. Charity care percentages for Harborview make up almost 50% of the total percentages provided in the King County Region. Therefore, for comparison purposes, the department excluded Harborview Medical Center's percentages.

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

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

This project involves a lease and leaseback arrangement between the District and Moreland. The lease costs and payments will be amortized over 30 years at an interest rate of 7.98%. The cost is repaid through a Triple-Net lease and the applicants project a monthly lease payment of \$280,000. [source: Application, p33; February 7, 2012 Supplemental Information, p3]

To determine whether the replacement hospital would meet its immediate and long range operating costs, HPDS and the program evaluated balance sheets for 2010 and the first full year of operation of the new facility in 2014. A summary of the balance sheets is shown below. [source: HPDS analysis, p2, Application, p17g]

**Table 2
Snoqualmie Valley Hospital Balance Sheet for 2010**

Assets		Liabilities	
Current Assets	\$ 4,900,336	Current Liabilities	\$ 6,090,837
Fixed Assets	\$ 1,571,954	Other Liabilities	\$ 63,802,707
Prop/Plant/Equip	\$ 18,469,497	Total Liabilities	\$ 69,893,544
Other Assets	\$ 29,523,244	Equity	\$ (15,427,513)
Total Assets	\$ 54,465,031	Total Liabilities and Equity	\$ 54,466,031

Projected Snoqualmie Valley Hospital Balance Sheet for 2014

Assets		Liabilities	
Current Assets	\$ 3,708,512	Current Liabilities	\$ 13,826,535
Board Assets	\$ 1,600,000	Other Liabilities	\$ 78,552,073
Prop/Plant/Equip	\$ 16,835,210	Total Liabilities	\$ 92,378,608
Other Assets	\$ 57,651,249	Equity	\$ (12,583,637)
Total Assets	\$ 79,794,971	Total Liabilities and Equity	\$ 79,794,971

A review of the projected balance sheets show the new lease included as a capital lease and as long term debt. The effect of the additional liability is partially off-set by gains from the sale of the existing hospital, in which they realize \$21.8M, and expected reductions in unrelated long-term debt. [source: Application, p17h; Rebuttal, p7]

In addition to the projected balance sheets summarized above, the applicant also provided its projected patient days and associated revenues and expenses. A summary of the Statement of Operations is shown below. [source: Application, p11; HPDS analysis, p2]

Table 3
Applicant's Projected Statement of Operations Summary

	Partial Year 2013	Year 1 2014	Year 2 2015	Year 3 2016
# of Acute Care Beds	25	25	25	25
# of Hospital Patient Days*	3,965	7,930	7,930	7,930
% Occupancy of Hospital**	43%	87%	87%	87%
Net Revenue (includes outpatient)***	\$8,519,736	\$34,567,367	\$34,807,259	\$35,163,105
Total Expense (includes outpatient)	\$8,480,498	\$34,275,327	\$34,245,769	\$34,268,299
Net Profit or (Loss)	\$39,238	\$292,040	\$561,490	\$894,806
Net Revenue per patient per day	\$2,148.74	\$4,359.06	\$4,389.31	\$4,434.19
Total Expenses per patient per day	\$2,138.84	\$4,322.24	\$4,318.51	\$4,321.35
Net Profit or (Loss) per patient per day	\$9.90	\$36.83	\$70.81	\$112.84

*Patient days include both acute care and swing (nursing home) patient days. **Occupancy includes both acute care and nursing home patients. ***Includes deductions for charity care, bad debt, and contractual allowances

To analyze short- and long-term financial feasibility of hospital projects and to assess the financial impact of a project on overall facility operations, the department uses financial ratio analysis. The analysis provided by HPDS assesses the financial position of an applicant both historically and prospectively. The financial ratios utilized are **1)** long-term debt to equity ratio; **2)** current assets to current liabilities ratio; **3)** assets financed by liabilities ratio; **4)** total operating expense to total operating revenue ratio; and **5)** debt service coverage ratio. If a project's ratios are within the expected value range, the project can be expected to be financially feasible.

For Certificate of Need applications, HPDS compares the projected ratios with the most recent year's financial ratio guidelines for hospital operations. For this project, HPDS used 2010 data for comparison. The ratio comparisons are shown below. [source: HPDS analysis, p3]

The A means it is better if the number is above the state number and B means it is better if the number is below the state number. Those figures outside of the preferred range are in bold.

**Table 4
Current and Projected HPDS Debt Ratios for King County Public Hospital District #4**

Category	Trend*	State 2010	PHD4 2010	Projected 2014	Projected 2015	Projected 2016
Long Term Debt to Equity	B	0.555	(2.566)	(4.508)	5.118	4.635
Current Assets/Current Liabilities	A	2.278	0.805	0.268	4.860	5.223
Assets Funded by Liabilities	B	0.434	0.839	0.884	0.845	0.831
Operating Exp. to Operating Rev.	B	0.947	0.922	0.992	0.984	0.975
Debt Service Coverage	A	5.894	0.986	0.252	1.573	1.906

Upon review of these results, HPDS notes that the District for 2010 is out of range for four of the five ratios. Specifically, *“only Operating Expense/Operating income is reasonable. The weakest points are equity and debt. The equity is negative which means the hospital owes more to debtors (long term debt and other liabilities) than the book value of the assets are worth.”* The analysis also notes that, in a positive light, the ratios improve in 2016 and that the District received \$3.3 million in tax revenue in 2010. [source: HPDS analysis, p 3]

The three ratios that remain out of range in 2016 are due to the large amount of debt the hospital will still carry even after it has received the funds for the sale of its current site in 2014. HPDS also states, *“It is important to note that the 2016 long term debt was incurred separately from this project”* and that the hospital is breaking even by the end of the third year. [source: HPDS analysis, p3]

In summary, HPDS writes, *“Review of the financial and utilization information show that the immediate and long-range capital expenditure can be met because the project is financed through a lease to buy option.”* Though HPDS acknowledges the operating costs for the whole hospital are weak and that the paying down of long term debt is very slow, the analysis shows the hospitals financial projections do show the hospital improving its financial position. [source: HPDS analysis, p 3]

The program and HPDS also considered a report issued by the Washington State Auditor’s Office. The Accountability Audit Report found that the District has complied with the relevant state laws and with its own policies and procedures. The report also included reference to concern over the District being at risk of not meeting the financial obligations or providing services at current levels. [source: Washington State Auditors Report, p1]

The audit report did not alter the sub-sections reviewed by HPDS. With the capital lease accounted for in the lease payments of the application’s proforma, the costs are covered by the projected revenues. The projected balance sheets summarized above also appear to account for the costs of the capital lease in the balances. Further, the reports concerns on the ability to maintain current services may be improved if the District is able to better distribute resident care needs within a larger facility.

Also benefiting the District in this project is an opportunity to reclaim up to \$1.5 million in pre-construction costs, which will be disbursed by Morehead as part of the Developers first draw of

the loan proceeds used for the construction of the facility. The District will receive these funds to reimburse the costs associated with clearing the site and initial design costs. [source: Application, p12 & 44]

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

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

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

To assist the department in its evaluation of this sub-criterion, HPDS provides a summary of the reasonableness of building construction costs in relation to the potential impact on revenue and charges. The following page contains a summary of the HPDS review. [source: HPDS analysis, p4]

**Table 5
King County Public Hospital District No.4 Rates**

Snoqualmie	2014	2015	2016
Rate per Various Items	CONyr1	CONyr2	CONyr3
Admissions	585	585	585
Patient Days	8,395	8,395	8,395
Gross Revenue	44,015,867	45,510,259	47,090,605
Deductions From Revenue	12,941,000	14,267,000	15,564,000
Net Patient Billing	31,074,867	31,243,259	31,526,605
Other Operating Revenue	37,500	40,000	42,500
Net Operating Revenue	34,567,367	34,807,259	35,163,105
Operating Expense	34,275,327	34,245,769	34,268,299
Operating Profit	292,040	561,490	894,806
Net Profit	292,040	561,490	894,806
Operating Revenue per Admission	\$ 59,089	\$ 59,500	\$ 60,108
Operating Expense per Admission	\$ 58,590	\$ 58,540	\$ 58,578
Net Profit per Admission	\$ 499	\$ 960	\$ 1,530
Operating Revenue per Patient Day	\$ 3,702	\$ 3,722	\$ 3,755
Operating Expense per Patient Day	\$ 4,083	\$ 4,079	\$ 4,082
Net Profit per Patient Day	\$ 35	\$ 67	\$ 107

The costs of the project are the costs and charges the patients and community actually see come out of their pocketbook. As shown above, the hospital’s charges are projected to steadily improve, primarily through increases in revenue and maintaining flat expenses. HPDS determined, “*King County Public Hospital District No. 4 rates are similar to the Washington statewide averages.*” [source: HPDS analysis, p4]

The applicants support the projected patient days, and the resulting revenue, through the creation of 25 private rooms and the expected increases in out-patient volumes that will come with a more central location. Contrary to comments regarding a low hospital census of approximately 15%, the reported 2009 and 2010 in-patient data produces occupancy rates of 45% and 60% respectively. This is due, in large part, to the hospital’s newly available swing beds. The 2010 hospital data produces an average length of stay of 14.7 days with Medicare accounting for 70% of the admissions. A review of the projected in-patient days for 2014 through 2016 shows a steady occupancy rate of 87%. Patient day and admission projections identify increases in the non-Medicare sources, made possible with the larger facility, as the primary drivers for the hospital’s growth. [source: Application, p7, 10, & 11; February 7, 2012 Supplemental Information, p2; March 16, 2012 Rebuttal, p4; Public Comment]

Based on the information provided above, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health services within the service area. **This sub-criterion is met.**

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

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

The estimated capital expenditure is determined by the projected Guaranteed Maximum Price (GMP) cited in the Development Agreement and is reported to be \$38,587,094. Of that amount, \$30,287,094 accounts for 78% of the total costs. The remainder is related to professional fees and financing. [source: Application, p33]

**Table 6
Breakdown of Estimated Capital Expenditure**

Cost Centers	Total	% Of Total
Land & Construction	\$ 30,287,094	78%
Architect / Consulting Fees	\$ 2,100,000	5%
Financing Costs	\$ 6,200,000	16%
TOTAL	\$ 38,587,094	100.00%

Financing for the replacement facility will be obtained by Moreland made possible through a lease of the hospital site from the District. Moreland then enters into a leaseback and operating agreement with the District for the hospital. This arrangement allows the District

to continue operations and oversight of the hospital services. The loan program⁶ Moreland is pursuing is highlighted for this type of project and is designed to provide additional financial liability insulation to public agency sponsors. [source: Application, Exhibit 7; Published Summary of 63-20 program]

The following documents were also provided as part of the application.

Hospital Development Agreement and Option to Purchase (Appendix 1)

This agreement is between King County Public Hospital District No. 4 (District) and Moreland Pacific, LLC (Developer). This agreement outlines the facility design, construction, party obligations, and details regarding the specifics of insurance, liabilities, and other terms that would be necessary in the development and construction of a new facility.

The obligations of each party are detailed and the process for design changes and establishing construction criteria are outlined. The issue of default from either party is also addressed. In the instance of default by Moreland, the District may assume the project. The District has an option to complete the construction and reclaim damages or terminate the agreement without liability. Independent of the agreement between the District and Moreland allowing the District to complete the project should Moreland default, additional prior Certificate of Need approval may be required before the District could proceed with the project without co-applicant Midland. [source: Application, p55]

This agreement also addresses the potential for default by the District. Once a default is established, the agreement simply states the “Developer shall be entitled to stop all work relating to the Facility,” and, “if the Developer so desires and shall further be entitled to pursue its rights and remedies at law and in equity.” Similarly, Moreland may need additional prior Certificate of Need approval in such an instance. [source: Application, p55]

Concerns raised in public comment included the potential for cost over-runs to increase the construction costs to well above the \$38.5M price estimate. According to provisions within this agreement, Moreland is accepting the obligation to design, finance and construct the building at its sole cost and expense. This is noted to include any loans necessary to complete the project. With the calculation of the Guaranteed Maximum Price (GMP), Moreland sets the cap for the District’s financial obligation and established the total to calculate the reported lease payment. [source: Application, p33 & 44]

Ground Lease Agreement (Appendix 2)

This agreement is between King County Public Hospital District No. 4 (lessor) and Moreland Pacific, LLC (lessee). This agreement outlines the intended use and the roles and responsibilities of each entity, the annual rent of \$1.00, and that the District assumes ownership of the property, and all its improvements, at the completion or buyout of the lease. This document has been signed and is reasonable. [source: Application, p70]

⁶ 63-20 Non-profit Corporation Facility Development program

Triple Net Lease (Appendix 2, p55 & 88)

This agreement is between Moreland Pacific, LLC (landlord) and King County Public Hospital District No. 4 (tenant). This is the leaseback agreement between the two entities. The leaseback agreement allows the District to maintain operations and oversight of the hospital. The duration of the lease is 30 years and the monthly lease amount and buy-out terms are outlined according to the GMP. The District has a lease buy-out opportunity after two years. This document has been signed and is reasonable.

In addition to evaluating whether the project can be appropriately funded as required under this sub-criterion, an evaluation of whether the proposed leasing arrangements are appropriate is also necessary.

Revised Code of Washington (RCW) 70.44.310 allows a hospital district to lease real property. The executed documents submitted for this project appear to cover the primary components of the Lease/Lease-back agreement between the District and Moreland. These, documents and the approved Board resolution⁷ approving the related agreements as specifically prescribed under RCW 70.44, appear to consider the project in conformance with the obligations of the Board to the taxpayers of the District.

Based on the information provided above, the department concludes that the project can be appropriately financed. **This sub-criterion is met.**

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

Based on the source information reviewed, and provided that the applicant agrees to the condition identified in the ‘conclusion’ section of this evaluation,, the department determines that the applicant has met the structure and process (quality) of care criteria in WAC 246-310-230(1), (2), (3), (4), and (5).

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

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

SVH will continue operations while the replacement hospital is being built. With no added capacity in the new facility, the District does not anticipate any increases in hospital staffing to address the additional patient days. All privileges for medical staff members are also expected to continue. [source: Application, p13]

Based on documents provided in the application, the department determines **this sub-criterion is met.**

⁷ District #4 Board Resolution No. 414-1027

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

WAC 246-310 does not contain specific WAC 246-310-230(2) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

As an operating facility, SVH has long-established and well functioning relationships with health and social service providers in the area. The applicant states, “[source: SVH] will continue to expand its working relationships with the regions acute hospitals” and expects to, “develop and sustain collaborative relationships with its tertiary acute-care regional hospital partners.” [source: Application, p13]

The department concludes that there is reasonable assurance that SVH will continue to maintain the necessary relationships with ancillary and support services to provide healthcare in the surrounding communities. Approval of this project would not negatively affect these relationships. **This sub-criterion is met.**

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

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

SVH will continue to provide Medicare and Medicaid services to the residents of King County and surrounding communities. The department's Investigation and Inspection's Office (IIO) completed two surveys at SVH in the past five years.⁸ There were no adverse licensing actions as a result of the licensing surveys and plans of corrections were compiled and completed for issues that were identified in each instance. [source: Facility survey data provided by DOH Investigations and Inspections Office]

Based on SVH compliance history, the department concludes that there is reasonable assurance that the hospital would continue to operate in conformance with state and federal regulations. **This sub-criterion is met.**

⁸ Surveys completed in August 2007 and February 2011.

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

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how to measure unwarranted fragmentation of services or what types of relationships with a services area's existing health care system should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

SVH is a 25-bed critical access hospital. The hospital provides acute care and skilled nursing services to residents of east King County the surrounding communities. Continuity in the provision of health care will be accomplished with the replacement of SVH because it will continue operating as the replacement facility is being built. Further continuity will be accomplished after the replacement facility is operational because it will offer the same services in an updated environment.

The applicant projects an increase in annual patient days and the number of out-patient procedures. In anticipation of these increases, the application includes the functional program to be implemented in the new facility. The outline considers each department and items such as staffing, transportation, communications, storage, and security. [source: Application, p120]

Based on the above information, the department concludes that SVH will continue to promote continuity in the provision of health care services in the community, and **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 considered met**.

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

Based on the source information reviewed, and provided that the applicant agrees to the condition identified in the 'conclusion' section of this evaluation,, the department determines that the applicant has met the cost containment criteria in WAC 246-310-240 (1).

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

To determine if a proposed project is the best alternative, the department takes a multi-step approach. Step one determines if the application has met the other criteria of WAC 246-310-210 thru 230. If it has failed to meet one or more of these criteria, then the project is determined not to be the best alternative, and would fail this sub-criterion.

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

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

Step One

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

Step Two

The SVH (PHD) outlined two options that were considered as alternatives to the project proposed in this application. [source: Application, p14]

Remain at the existing facility

This option was dismissed due to the determination that the existing facility did not allow for the continued service to the community. Concerns regarding the geographic location, inadequate size, and the need to have a facility that would be able to provide the revenue that the District would require to maintain operations, all contributed to this conclusion. Further, historical information indicates that the District has agreed to sell the current facility to the local Native American tribe and will no longer be available for the District's operations.

Renovate existing facility

Consideration was given to expand the existing facility from approximately 25,000sf to 40,000sf facility. Reported environmental requirements limited the growth beyond this size. When the District considered the projected needs and services to best serve the community, it was determined a 40,000sf space would not be sufficient. And, as stated above, historical information indicates that the District has agreed to sell the current facility to the local Native American tribe and will no longer be available for the District's operations.

According to information supplied in the application, the project presented in this application would allow the construction of a 68,000sf facility that is more centrally located in the Snoqualmie community. Private rooms, additional rehabilitation space, and updated design elements are all expected to contribute to an improved and efficient operation of this critical access hospital.

Given the options considered, and the limited alternative with the pending loss of the current building, the department concludes that the project presented is the best available alternative for the community. **This sub-criterion is met.**

Step Three

This application was the only proposal under review. As a result, step three is not evaluated under this sub-criterion

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

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

As stated in the project description portion of this evaluation, this project involves construction. This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined the **sub-criterion was met.**

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

This sub-criterion is also evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined the **sub-criterion was met.**

Based on the above evaluation, the department concludes that costs, scope, and methods of construction and energy conservation are reasonable, and this **sub criterion is met.**