



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

September 6, 2013

CERTIFIED MAIL # 7011 1570 0002 7802 6494

Christopher L. Howard
Vice President and Secretary
Acadia Healthcare
830 Crescent Centre Drive, Suite 610
Franklin, Tennessee 37067

Re: CN #13-39

Dear Mr. Howard:

We have completed review of the Certificate of Need application submitted by SW Behavioral proposing to establish a 135 bed psychiatric hospital in King County

For the reasons stated in this evaluation, the application submitted by SW Behavioral proposing to establish a new 135 bed inpatient psychiatric hospital in King County is consistent with applicable criteria of the Certificate of Need Program, provided SW Behavioral agrees to the following in its entirety.

Project Description

SW Behavioral proposes to establish a 135 bed inpatient psychiatric hospital in King County. This will be accomplished in three phases as follows.

Phase 1

SW Behavioral will acquire Highline Medical Center's Specialty Campus. Highline currently operates a 21 bed geropsychiatric unit, a 24 bed chemical dependency stabilization unit and an 18 bed detox unit for a total of 63 beds at its Specialty Campus. In phase 1, projected for January 1, 2014, SW Behavioral will establish its hospital by securing licensure under RCW 71.12 and operate the same three programs currently operated by Highline.

Phase 2

After the renovation of a vacant nursing unit, SW Behavioral will add 22 psychiatric beds, for a total of 85 beds. Phase 2 is expected to be operational by July 2014.

Phase 3

After remodeling and renovating two nursing units that are anticipated to be occupied by Regional Hospital (a tenant) until late 2014, SW Behavioral will add another 50 psychiatric beds and will be licensed for a total of 135 beds. Phase 3 is projected to be operational by July 2015.



The number of beds is summarized below.

	Phase 1	Phase 2	Phase 3
Chemical Dependency Beds	42	42	42
Adult Psychiatric beds	21	43	93
Total # of Licensed Beds	63	85	135

Conditions:

1. Approval of the project description as stated above. SW Behavioral, LLC further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. SW Behavioral LLC will provide charity care in compliance with the charity care policies provided in this Certificate of Need application, or any subsequent policies reviewed and approved by the Department of Health. SW Behavioral LLC will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in King County. Currently, this amount is 1.68 % of gross revenue and 3.07% of adjusted revenue. SW Behavioral LLC will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.
3. Prior to providing services, SW Behavioral will provide a Department of Health approved Charity Care policy consistent with the draft policy provided in the application.
4. SW Behavioral Health will allow Regional Hospital for Respiratory and Complex Care to continue to occupy their existing space in Specialty Campus until December 2014.
5. Highline Medical Center must reduce its licensed beds from 269 to 154 within 30 days of finalizing the sale of its Specialty Campus to SW Behavioral.

Approved Costs:

The estimated capital expenditure for this project \$43,323,000.

You have two options, either accept or reject the above in its entirety. If you accept the above in its entirety, your application will be approved and a Certificate of Need sent to you. If you reject any provision of the above, you must identify that provision, and your application will be denied because approval would not be consistent with applicable Certificate of Need review criteria. Please notify the Department of Health within 20 days of the date of this letter whether you accept the above in its entirety. Your written response should be sent to Janis Sigman in 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 SEPTEMBER 6, 2013 FOR THE CERTIFICATE OF NEED
APPLICATION SUBMITTED BY SW BEHAVIORAL LLC PROPOSING TO ADD
PYSCHIATRIC BED CAPACITY TO KING COUNTY:**

APPLICANT DESCRIPTION

SW Behavioral, LLC (SW Behavioral) is a wholly owned subsidiary of Acadia Healthcare Company, Inc. (Acadia). Acadia is a publicly traded company headquartered in state of Tennessee. Acadia operates a network of 44 behavioral health facilities with over 3,400 licensed beds in 21 states. SW Behavioral does not operate any other health care facilities. SW Behavioral will be licensed as a private psychiatric hospital under RCW 71.12 and will seek accreditation by Joint Commission.

Throughout the remainder of this evaluation, the department will use SW Behavioral when referring to the application submitted by Acadia Healthcare Company, Inc.

PROJECT DESCRIPTION

SW Behavioral proposes to establish a 135-bed inpatient psychiatric hospital in King County. This will be accomplished in three phases as follows.

Phase 1

SW Behavioral will acquire Highline Medical Center’s Specialty Campus. Highline currently operates a 21 bed geropsychiatric unit, a 24 bed chemical dependency stabilization unit and an 18 bed detox unit for a total of 63 beds at its Specialty Campus. In phase 1, projected for January 1, 2014, SW Behavioral will establish its hospital by securing licensure under RCW 71.12 and operate the same three programs (63 beds) currently operated by Highline.

Phase 2

After the renovation of a vacant nursing unit, SW Behavioral will add 22 psychiatric beds, for a total of 85 beds. Phase 2 is expected to be operational by July 2014.

Phase 3

After remodeling and renovating two nursing units that are anticipated to be occupied by Regional Hospital (a tenant) until late 2014, SW Behavioral will add another 50 psychiatric beds and will be licensed for a total of 135 beds. Phase 3 is projected to be operational by July 2015.

The number of beds is summarized below.

	Phase 1	Phase 2	Phase 3
Chemical Dependency Beds	42	42	42
Adult Psychiatric beds	21	43	93
Total # of Licensed Beds	63	85	135

The capital expenditure associated with this project \$43,323,000.

APPLICABILITY OF CERTIFICATE OF NEED LAW

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

EVALUATION CRITERIA

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

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

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

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

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

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

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

APPLICATION CHRONOLOGY

Action	
Application received as LOI	April 10, 2013
Application Submitted	May 10, 2013 ¹
Department's pre-review activities including screening and responses	May 11, 2013 to June 6 2013
Beginning of Review <ul style="list-style-type: none">• No public hearing conducted• public comments accepted throughout review	June 7, 2013
End of Public Comment	July 11, 2013
Rebuttal Comments Submitted	July 25, 2013
Department Anticipated Decision Date	September 9, 2013
Department's Actual Decision Date	September 6, 2013

TYPE OF REVIEW

This application was submitted under the regular review process and was reviewed under the timeline described in WAC 246-310-160.

AFFECTED PERSONS

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

"...an "interested person" who:

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

During the review of this application three entities sought affected person status under WAC 246-310-010. The three entities are listed below.

- Regional Hospital for Respiratory and Complex Care- a 40 bed Long Term Care Acute Hospital located on the Highline Specialty Campus in King County.
- US HealthVest a corporation located in New York City in the state of New York.
- BHC Fairfax a psychiatric hospital operating in Kirkland within King County.

Throughout the review of this project, the following entity sought and received affected person status under WAC 246-310-010(2).

- BHC Fairfax a psychiatric hospital operating in Kirkland within King County.

SOURCE INFORMATION REVIEWED

- SW Behavioral's Certificate of Need application submitted May 10, 2013
- SW Behavioral's supplemental information received June 3, 2013
- Public comments received by July 7, 2013
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office

¹ When an application is submitted as an LOI, application is held for 30 days before processing

- Population data obtained from the Office of Financial Management based on year 2010 census Published May 2012.
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Office of Hospital and Patient Data Systems (August 29, 2013)
- Historical charity care data obtained from the Department of Health's Office of Hospital and Patient Data Systems (2009, 2010, 2011 summaries)
- Certificate of Need historical files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by SW Behavioral proposing to establish a new 135 bed inpatient psychiatric hospital in King County is consistent with applicable criteria of the Certificate of Need Program, provided SW Behavioral agrees to the following in its entirety.

Project Description

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Approved Costs:

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CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and the applicants' agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes SW Behavioral has met the 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.

WAC 246-310 does not contain a psychiatric bed forecasting method. The 1987 State Health Plan has a numeric methodology for projecting psychiatric bed need; however the department is unable to obtain the required data to apply this methodology. The department has historically used as the guideline of number of psychiatric beds per 100,000 to evaluate previous applications. As a result, the evaluation of the need criterion for psychiatric beds begins with an evaluation of the methodology provided by the applicant.

Below is a summary of SW Behavioral's need methodology.²

Overview

The applicant contends that the following conditions exist in Washington State & King County in relation to inpatient psychiatric services:

- There is an undersupply of psychiatric beds in both Washington State and King County. This is acknowledged by State policy makers, providers, and various recent publications.
- Statewide between 2000 & 2006 inpatient mental health capacity dropped from 799 to 657 total psychiatric beds. As of today 637 beds are available statewide. Of these 637 beds only 361 are certified by the Washington State Division of Mental Health for involuntary treatment admissions. [Source: Application, p19]

Population Statistics

The applicant provided population figures for 2000 to 2020 by age groups for King County. The applicant used OFM 2012 medium series forecasts which indicate a higher growth for the King County 65+adult population.. The average annual growth rate is for this population is 21.8% for the years 2015 -2020. This population will be targeted by the applicant in maintaining the geropsychiatric program.

The applicant provided two methodologies in the application to support its request for additional psychiatric beds. The two methodologies are summarized below.

- The 1987 SHP methodology which forecasts for short-stay psychiatric hospital bed need are calculated so that the total short-stay beds available for state residents would equal a desired statewide normative bed-to-population ratio of 13 beds per 100,000 persons and;
- The northwest average ratio which forecasts short-stay psychiatric bed need at a ratio of 27.3 beds per 100,000. This ratio is taken from the 2009 National Report Card on the State of Emergency Medicine.

² Source: Application, pp23-31

Method #1: Statewide normative bed-to-population ratio of 13 beds per 100,000 persons

Calculate the psychiatric hospital bed need in order to achieve the desired normative bed-to-population ratio of 13 beds per 100,000 persons in the target year.

The table below calculates the normative ratio-meaning that it is intended that the rate be 13 beds per 100,000 statewide. In order, for the statewide ratio to be 13, King County would presumably have considerably more beds to account for the many areas of the State with no capacity and to recognize the significant in-migration of both persons diagnosed with mental illness and for care to King County psychiatric providers.

**Table 1
Estimated Washington State and King County
Psychiatric Bed Need using Normative Bed Ratio
2018 and 2021**

	Washington State ³		King County	
	2018	2021	2018	2021
Population (Age 18+)	7,253,535	7,486,695	1,636,357	1,684,388
Beds Needed at 13 beds/100,000 population	943.0	973.3	212.7	219.0
Bed Supply ⁴	771.3	771.3	365	365
Net Need (surplus)	171.7	202.0	(152.3)	(146.0)

Source: Application, p30

Method #2: Northwest average ratio which forecasts short-stay psychiatric bed need at a ratio of 27.3 per 100,000 persons.

The table below calculates the Northwest Average for King County>

**Table 2
Estimated king County Psychiatric Bed Need
Using Northwest Average Ratio
2018 and 2021**

	2018	2021
Population (Age 18+)	1,636,357	1,684,388
Beds Needed at 27.3 beds/100,000 population	446.7	459.8
Bed Supply (Fairfax at set up)	305	305

³ Washington State is at total population; SW Behavioral used the bed ratio data from the October 2012 Certificate of Need Decision proposing to establish new psychiatric hospitals in Snohomish County. SW Behavioral is unable to verify the bed numbers and assumed it was based on total Washington State population.

⁴ Excludes beds at Highline Medical Center’s Specialty Campus but includes all Fairfax Hospital’s licensed psychiatric bed capacity.

Net Need (surplus)	141.7	154.8
Bed Supply (Fairfax at licensed)	365	365
Net Need (surplus)	81.7	94.8

Source: Application, p31

While Table 2 suggests that King County is above the normative ratio for adult psychiatric beds, the ratio is not intended to be applied in isolation to a single county. It is also important to remember that 30% of the existing King County beds serve residents from outside of King County. If 30% of the beds are excluded, King County would only be above the normative ratio if all of Fairfax’s licensed bed capacity is included. If the Western States average is used, King County has a documented need for additional psychiatric beds even without an adjusting for King County residents.

This calculation excludes in migration. Currently 30% of the patient days occurring in King County inpatient psychiatric units are generated by residents of counties other than King and 48% of Highline’s existing programs volume is generated by residents of other counties, of which 20% were from Pierce County.

In addition to projecting community need, this question also asks applicants to provide underlying assumptions related to its internal patient day projections. SW Behavioral’s underlying assumptions are summarized below.

- SW Behavioral will assume Highline’s current patients at the time of acquisition. The 63(department’s count is 62) existing psychiatric and CD beds average about 45 patients per day and this was assumed to be our Phase 1 opening census.
- Average length of stay is 9.7 days, based upon Highline Medical Center’s historical operation.
- King County residents will comprise 52% of the projected patient days (consistent with the historic percent for Highline) and another 20% from Pierce County initially with the percent growing to 35% by 2018. The remaining patient days are assumed to come from outside of King and Pierce Counties. [Source: Application, pp29-32]

Specific utilization projections are contained in the table below.

**Table 3
SW Behavioral Utilization Projections**

	2014	2015	2016	2017	2018
No of Discharges	1,652	3,060	3,498	3,987	4,409
ALOS	9.7	9.7	9.7	9.7	9.7
Patient Days	16,097	29,802	34,014	38,773	42,884
ADC	44.1	81.6	93.2	106.2	117.5

Department Methodology

Population

The department used OFM 2012 medium series forecasts removing the under 18 population group from the total population.

Bed Supply

The department evaluated current bed supply numbers supplied by the applicant and BHC Fairfax and selected the numbers to use based on definitions in the department’s bed survey.

	Beds Applicant	Beds BHC Public Comment	Beds DOH
ARMC	38	38	38
BHC Fairfax	73	133	83
Harborview	61	61	61
Highline Medical Center	0	20	20
Navos	40	72	40
Northwest Medical Center	27	27	27
Overlake Medical Center	14	34	14
UWMC	16	16	16
Swedish Medical Center	36	36	36
Total	305	437	335

The department uses the criteria established in the acute care bed survey to determine the bed counts for evaluating Certificate of Need proposals.

Projected Bed Need

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

Step 1: Obtain King County adult population estimates and projections, for residents 18 and older for the base year (2014) and every year through the seven year forecast (through 2021).

Step 2: For the low estimate projections, the department used 19 beds per 100,000 persons (the highest ratio of beds approved in recent projects) by the King County adult population estimates and projections compiled in Step 1. Undertake this for each year of the forecast. This is the “low” gross estimate of need.

For the high estimate projections, multiply the average bed ratio of all other Northwest States (less Washington) 27.3 beds per 100,000, as defined in the 2009 National Report Card on the State of Emergency Medicine, by the King County adult population estimates and projections compiled in Step 1. Undertake this for each year of the forecast. This is the “high” gross estimate of need.

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

Step 4: Subtract the supply determined in Step 3 from the low and high “gross demand” estimates determined in Step 2. This represents the low and high estimates of net need for King County adult residents. The table below shows the results of this methodology.

	2014	2015	2016	2017
King County Adult Population	1,529,455	1,590,558	1,606,732	1,619,671
SHP target Ratio	19.0	19.0	19.0	19.0
Gross Bed Need	290	302	305	308
Current Supply	325	325	325	325
Net Psych. Bed Need	(35)	(23)	(20)	(17)
NW Aver. Target Ratio	27.25	27.25	27.25	27.25
Gross Bed Need	417	434	438	441
Current Supply	325	325	325	325
Net Psych. Bed Need	92	109	113	116

	2018	2019	2020	2021
King County Adult Population	1,636,357	1,652,531	1,671,427	1,684,388
SHP target Ratio	19.0	19.0	19.0	19.0
Gross Bed Need		314	317	320
Current Supply	325	325	325	325
Net Psych. Bed Need		(11)	(8)	(5)
NW Aver. Target Ratio	27.25	27.25	27.25	27.25
Gross Bed Need	446	450	455	459
Current Supply	325	325	325	325
Net Psych. Bed Need	121	125	130	134

As shown in the table above, there is no numeric need for psychiatric beds using the 19.0 beds per 100,000 population. At 27.25 beds per 100,000, the methodology shows a numeric need for 121 beds in 2018 and 134 beds in 2021 based on King County residents only. The applicant is proposing 135 licensed psychiatric beds by 2015; however the applicant is proposing to maintain 42 of these beds as chemical dependency beds and is only proposing to increase the psychiatric bed supply by 93 beds.

Public Comment

The department received a number of letters of support from existing providers supporting this application to acquire the existing assets of the Highline Specialty Campus and to expand the supply of psychiatric beds. Most of the providers commented on the increasing number of psychiatric patients that were being “boarded” in emergency rooms awaiting availability of an inpatient bed. One provider also commented that this procedure is no longer legal in Pierce County and that Pierce County has a shortage of inpatient psychiatric beds.

The department also received public comment from an existing psychiatric hospital service provider stating that based on their calculations there is no numeric need for psychiatric beds in King County. They contend that the existing psychiatric units mostly have very low census and have available capacity.

Rebuttal

The applicant submitted data on current utilization using a bed count similar to that used by the department which shows a much higher occupancy level. This data used a psychiatric bed count of 336 which is slightly higher than the 325 used by the department.

In conclusion, SW Behavioral has demonstrated a numerical need for addition adult psychiatric beds for King County. **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.

SW Behavioral is not currently a provider of health care services to residents of Washington State. To determine whether all residents of the service area would 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, the applicant provided a copy of the Admission Policy currently proposed for the SW Behavioral hospital. The policy outlines the process/criteria that the hospital would use to admit patients for voluntary or involuntary psychiatric treatment or care at the hospital. The policy demonstrates patients would be admitted to the facility for treatment without regard to, race, religion, ethnicity, culture, language, socioeconomic status, sex or sexual orientation, national origin, or gender identity expression and will be treated with respect and dignity. [Source: Application, Exhibit 7]

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. Documents provided in the application demonstrate that SW Behavioral intends to be Medicare certified at the new hospital. For this project, a review of the policies and data provided for SW Behavioral confirms that the facility's financial pro forma includes Medicare revenues. [Source: Application, p40, March 14, 2012 & Exhibit 8]

To determine whether low-income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. Documents provided in the application demonstrate that SW Behavioral intends to be Medicaid certified at the new hospital. For this project, a review of the policies and data provided for SW Behavioral confirms the facility's financial pro forma includes Medicaid revenues [Source: Application, p40 & Exhibit 8]

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

To demonstrate its intent to continue to provide charity care to residents, SW Behavioral submitted its proposed charity care policy that outlines the process a patient uses to access this service. Prior to providing services, SW Behavioral will need to provide a Department of Health approved Charity Care policy. Further, the applicant included a 'charity care' line item as a deduction from revenue within the pro forma financial documents for SW Behavioral. [Source: Application, Exhibit 7 & 8]

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. Since SW Behavioral is a new hospital, if this application is approved the department would attach a charity care condition requiring the hospital to meet the three year average for its region which is the King County Region.

The pro forma revenue and expense statements submitted by Acadia for SW Behavioral indicate that the hospital will provide charity care at approximately 1.6% of gross revenue. RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. The three year King County Region average (2009, 2010, & 2011) for gross revenue is 1.68 and for adjusted revenue are 3.07.

Based on the information provided in the application and with SW Behavioral's agreement to the conditions related to charity care the department concludes, **this sub-criterion is met.**

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes that Fairfax North has met the financial feasibility criteria in WAC 246-310-220.

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

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

The estimated capital expenditure for SW Behavioral is \$43,323,000. The project is being funded by reserves provided by the parent company Acadia.

To demonstrate that the hospital would generate the revenue necessary to meet immediate and long range capital and operating costs for this project, Acadia provided pro forma financial statements for years 2015 - 2018 showing the hospital's first three complete calendar years of operation. [Source: Application, Exhibit 8]

Table 2
SW Behavioral
Projected Revenue and Expenses for Years 2015 through 2018

	2014	2015	2016	2017	2018
# Admissions	1,652	3,060	3,498	3,987	4,409
# Patient Days	16,097	29,802	34,014	38,773	42,884
Average Daily Census	44.1	81.6	93.2	106.2	117.5
Gross Revenue	\$17,904,876	\$32,512,860,	\$37,129,320	\$42,254,340	\$46,708,395
Net Patient Revenue*	\$12,718,190	\$24,012,668	\$27,412,519	\$31,185,332	\$34,466,629
Other Oper. Revenue	0	0	0	0	0
Total Revenues	\$12,718,190	\$24,012,668	\$27,412,519	\$31,185,332	\$34,466,629
Minus Expenses	\$15,028,938	\$23,284,521	\$26,541,514	\$28,785,356	\$30,832,834
Net Profit or (Loss)	(\$2,310,748)	\$728,147	\$871,005	\$2,399,976	\$3,633,795

*Includes inpatient and outpatient revenue, deductions for charity care and contractual allowance

SW Behavioral based its projections shown in the table above on the key assumptions summarized below.

- The proposed project will establish 135 licensed, adult psychiatric beds in a new hospital on the Highline Specialty Campus.
- Pro Formas assume inpatient care is expected by January, 2014.
- Charity Care forecasted at 1.6%.
- The pro forma includes revenues from professional services provided by physicians who would be employed by the Hospital.
- The pro forma includes management fees.

SW Behavioral is expected to operate at loss for 2014 and at a profit for the years following to include 2016 which is the third full year of operation.

To determine whether Acadia could meet its immediate and long range capital costs, the department's Hospital and Patient Data Systems (HPDS) reviewed 2012 historical balance sheet for Acadia as a whole and the 2018 projected balance sheet for SW Behavioral. The information is shown in Tables 3A and 3B shown below and on the following page. [Source: HPDS analysis, p2]

Table 3A
Acadia Balance Sheet for Year 2012

Assets		Liabilities	
Current Assets	\$140,981,000	Current Liabilities	\$71,851,000
Fixed Assets	\$236,942,000	Long Term Debt	\$465,638,000
Board Designated Assets	\$0	Other Liabilities	\$13,374,000
Other Assets	\$605,490,000	Equity	\$432,550,000
Total Assets	\$983,413,000	Total Liabilities and Equity	\$983,413,000

Source: 2012 SEC Filing

Table 3B
SW Behavioral's Balance Sheet for Year 2018

Assets		Liabilities	
Current Assets	\$3,397,100	Current Liabilities	\$5,267,062
Fixed Assets	\$33,625,136	Long Term Debt	\$0
Board Designated Assets	\$0	Other Liabilities	\$0
Other Assets	\$0	Equity	\$31,755,174
Total Assets	\$37,022,236	Total Liabilities and Equity	\$37,022,236

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

“The Acadia balance sheet shows a strong position and that it has the assets to easily handle this project. SW Behavioral shows board designated assets are zero as the company is for-profit and any extra funds are treated as equity.

Acadia would be able to meet the immediate and long term capital needs.

To assist the department in its evaluation of this sub-criterion, HPDS also provided a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are **1)** long-term debt to equity; **2)** current assets to current liabilities; **3)** assets financed by liabilities; **4)** total operating expense to total operating revenue; and **5)** debt service coverage. If a project's ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, HPDS reviews a project's projected statement of operations to evaluate the applicant's immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compared the projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2011 data for comparison with historical year 2012 for Acadia. Year 2011 data was also used as comparison for projected years 2015 through 2018 for the SW Behavioral. The ratio comparisons are shown in table below. [Source: HPDS analysis, p3]

Table 4
Current and Projected HPDS Debt Ratios for Acadia and SW Behavioral

Category	Trend ⁵	State 2011	Acadia 2012	SW 2014	SW 2015	SW 2016	SW 2017
Long Term Debt to Equity	B	0.561	1.076	N/A	N/A	N/A	N/A
Current Assets/Current Liabilities	A	2.042	1.962	0.729	1.762	0.200	0.299
Assets Funded by Liabilities	B	0.440	0.547	0.120	0.062	0.378	0.283
Operating Expense/Operating Revenue	B	0.966	0.921	1.182	0.970	0.968	0.923
Debt Service Coverage	A	4.370	1.954	N/A	N/A	N/A	N/A
Definitions:	Formula						
Long Term Debt to Equity	Long Term Debt/Equity						
Current Assets/Current Liabilities	Current Assets/Current Liabilities						
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets						
Operating Expense/Operating Revenue	Operating expenses / operating revenue						
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp						

⁵ A is better if above the ratio, and B is better if below the ratio.

Review shows that this project will have a significant impact on the 2018 current asset to current liabilities however this project will not adversely impact the financial health of the hospital if the patient volume is realized. There is no debt assigned to SW Behavioral. The 2018 current assets to current liabilities is the only ratio for Acadia that is out of range. However, that ratio is improving. All the ratios are improving each year. Some ratios are normally going to be out of range for a new project due to the nature of start-ups. The hospital is breaking even by the end of the third year.

Review of the financial and utilization information show that the immediate and long-range capital expenditure as well as the operating costs for the whole hospital can be met if the patient volume is realized. **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.

The capital expenditure associated with the establishment of the SW Behavioral is \$43,323,000. The complete capital cost breakdown is shown in the table below. [Source: Application, p34]

**Table 5
SW Behavioral Construction Costs**

Item	Cost	% of Total
Purchase Specialty Campus	\$20,000,000	46%
Site Preparation	\$407,217	1%
Construction Costs	\$16,225,105	37%
Moveable Equipment	\$1,881,844	5%
A & E Fees	\$2,728,674	6%
Surveys	\$360,000	1%
Sales Tax	\$1,720,160	4%
Total	\$43,323,000	100%

The applicant is proposing to acquire the Highline Specialty Campus. Acadia has provided an asset purchase agreement between Highline Medical Center and SW Behavioral/Acadia. Acadia has provided a signed asset purchase agreement with the closing to be accomplished upon satisfaction of the presales conditions, one of which is Acadia obtaining a Certificate of Need from the State of Washington. The purchase price in this agreement is \$20,000,000, which agrees with the amount referenced in the rest of the application.

Based on the information provided in the application, 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 capital expenditure associated with the establishment SW Behavioral is \$43,323,500. The applicant states the project will be funded from reserves from Acadia. To demonstrate compliance with this sub-criterion, the applicant provided a letter from the Chief Financial Officer demonstrating the financial commitment to establish SW Behavioral. The letter assured financial support for the new psychiatric hospital through cash reserves available from the organization [Source: Supplemental Material, Attachment 2]. Acadia provided its most recent audited financial statements for years 2011, 2010, and 2009. A review of Acadia's audited statements and cash flow statement shows the funds necessary to finance the project are available. [Source: Application, Appendix 8 & Supplemental Materials, Attachment 3]

The department reviewed Acadia's most recent financial data submitted to the department's Hospital and Patient Data Systems office. The historical financial data covers full year 2011. Based on Acadia's historical financial review Acadia continues to be in strong financial health. [Source: Full year 2011 financial reports obtained from HPDS] **This sub-criterion is met.**

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department concludes Fairfax North has met the structure and process of care criteria in WAC 246-310-230.

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

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

**Table 6
SW Behavioral FTEs**

Position	2014	2015	2016	2017	2018	Total
RN	40.0	33.0	5.0	9.0	11.0	98.0
Mental Health Tech.	40.1	22.9	6.0	7.0	0.0	76.0
Employed Physicians	3.0	2.6	0.0	0.0	0.4	6.0
Therapist	5.0	3.0	0.0	1.0	1.0	10.0
Billing	4.0	1.0	2.0	2.0	1.0	10.0
CEO/CFO	2.0	0.0	0.0	0.0	0.0	2.0
Business Dev.	3.0	1.0	1.0	0.0	0.0	5.0
HIM	2.0	1.0	1.0	0.0	1.0	5.0
Housekeeping	10.0	2.0	4.0	2.0	1.0	19.0
Plant Ops.	4.0	2.0	2.0	0.0	0.0	8.0
Dietary	10.0	1.0	2.0	0.0	1.0	14.0
Total	123.1	69.5	23.0	21.0	16.4	253.0

SW Behavioral is proposing to initially staff the hospital with 123.1 FTEs in 2014 and add 69.5 FTEs in 2015, 23.0 FTEs in 2016, 21.0 FTEs in 2017, and 16.4 FTEs in 2018 for a total of 253.0 FTEs at the end of 2018. [Source: Application p41]

To start the project, SW Behavioral will acquire Highline Medical Center’s Specialty Campus, including the existing staff. Unlike most new hospitals, this ‘acquisition’ will provide SW Behavioral with a group of experienced, highly qualified staff and an opening census of patients.

As we expand, we will recruit using Acadia’s successful and proven practices. Acadia is well aware that successful employee recruitment and retention is critical to the success of its facilities, and offers the following specific recruitment/retention strategies.

- Competitive wages and benefits
- On-going continuing education
- Employee referral program for employees for referring family and friends
- Nationwide recruitment through posting on website, national recruiting websites and local community online postings
- Attending local job fairs to be able to reach out to potential candidates in the local area

Given the above, we do not expect any significant problems recruiting and retaining needed staff.
[Source: Application, p42]

A Medical Director has not been identified for SW Behavioral. Acadia did provide a draft Medical Director’s job description. If this project is approved, S W Behavioral must provide the department with an approved copy of the Medical Director’s job description consistent with the draft job description. SW Behavioral must also provide the name of the Medical Director and his professional license number prior to providing services.

Based on the information provided in the application, and acceptance of the Medical Director condition, the department concludes there is a sufficient supply of staff available or staff can be recruited. **This sub-criterion is met.**

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

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

Highline’s Specialty Campus hospital currently has relationships with other organizations to provide services needed by their patients not provided by the hospital. SW Behavioral would either provide the services it would need or would contract with existing suppliers, with new suppliers, or contract with Highline for such services. The applicant did not identify which alternative would be used for specific services. [Source, Application, p44] **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.

Since SW Behavioral will be a new hospital, it does not have a history of Medicare certification or inspections by the Department of. Since Acadia does not currently operate any facilities in Washington State the, department surveyed other states where Acadia currently operates facilities. The department sent surveys to thirteen states. There were no adverse licensing actions reported on the surveys returned to the department. [Source: DOH surveys] SW Behavioral will seek joint Commission Accreditation.

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

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

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

SW Behavioral is proposing to continue to operate the existing psychiatric and chemical dependency services operated by Highline Medical Center at the Highline Specialty Campus. SW Behavioral is also proposing to retain the existing staff, who will already have knowledge of and working experience with other providers in the community. The applicant also feels that the improved availability of beds will also promote continuity of care. [Source: Application, p44]

Based on the above information, the department concludes that SW Behavioral will promote continuity in the provision of health care services in the community. **This sub-criterion is met**

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

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

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes that SW Behavioral has met the cost containment criteria in WAC 246-310-240.

- (1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.
To determine if a proposed project is the best alternative, the department takes a multi-step approach. Step one determines if the application has met the other criteria of WAC 246-310-210 thru 230. If it has failed to meet one or more of these criteria then the project is determined not to be the best alternative, and would fail this sub-criterion.

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

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

Step One

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

Step Two

Before submitting this application the applicant considered two other options. Application: p46]

- Build a new "green field" hospital
The applicant states this option was rejected because it is a costly and lengthy process due to the lack of sites large enough for the construction of a new hospital, land use issues, and the actual construction period. A new single story hospital would provide significant efficiencies but not to the extent that it would make this the best alternative.
- Acquire an existing hospital and convert its beds to psychiatric and chemical dependency
Acadia states that this was the original alternative when they submitted the first CN application for this project. During the screening process the department determined that the acquisition of all or part of a hospital was not the correct review category, therefore Acadia withdrew that application and resubmitted the application for 135 beds.

The department did not identify any other alternatives to those presented by the applicant.

Step Three

This step is used to determine between two or more approvable projects which is the best alternative..

SW Behavioral is the only applicant for a psychiatric hospital project in King County; therefor this step does not apply to this project.

Based on the information above, the department concludes this project continues to be the best available alternative for the residents King County and surrounding communities. **This sub-criterion is met.**