



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

December 13, 2013

CERTIFIED MAIL # 7011 1570 0002 7802 6296

Randall Stamper, Attorney
Stamper Rubens, PS
720 West Boone, #200
Spokane, Washington 99201

RE: CN 14-09

Dear Mr. Stamper:

We have completed review of the Certificate of Need (CN) application submitted by co-applicants King County Public Hospital District #1 and Benaroya Capital Company, LLC. The application proposes to transfer Certificate of Need #1475 as allowed under Washington Administrative Code 246-310-500(7)(a). For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided co-applicants King County Public Hospital District #1 and Benaroya Capital Company, LLC agree to the following in its entirety:

Project Description:

This certificate approves the replacement of Snoqualmie Valley Hospital to a new site in King County. Snoqualmie Valley Hospital will continue to operate with 25 acute care beds. The facility will be built through ground lease and operating agreements between King County Public Hospital District #4 and Benaroya Capital Company, LLC.

Conditions:

1. Approval of the project descriptions as state above. Co-applicants King County Public Hospital District #4 and Benaroya Capital Company, LLC further agree that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. 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. For combined years 2009- 2011, this amount is 1.67% of gross revenue and 3.05% 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.

The co-applicants have two options, either accept or reject the above in its entirety. If they accept the above in its entirety, the application will be approved and a Certificate of Need sent to you. If they reject any provision of the above, they must identify that provision, and the 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 they accept the above in its entirety.

A written response from each co-applicant 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, Community Health Systems

Enclosure

**EVALUATION DATED DECEMBER 13, 2013, OF THE CERTIFICATE OF NEED
APPLICATION SUBMITTED BY KING COUNTY PUBLIC HOSPITAL DISTRICT #4
AND BENAROYA CAPITAL COMPANY, LLC PROPOSING TRANSFER OF
CERTIFICATE OF NEED #1475**

BACKGROUND INFORMATION

On November 29, 2011, co-applicants King County Public Hospital District #4 [District] and Moreland Pacific, LLC [Moreland] submitted a Certificate of Need application proposing the replacement of Snoqualmie Valley Hospital at a new site in Snoqualmie. Part of the replacement project included a lease and leaseback arrangement between the District and Moreland.

The district owns the real estate at 34220 Southeast 99th Street in Snoqualmie where the hospital is planned to be built. To accomplish the replacement of Snoqualmie Valley Hospital and to comply with the public hospital district debt limits, the District proposed to lease the site of the hospital to Moreland under a ‘Ground Lease.’ Moreland would build the hospital at the new site, and then enter into a leaseback and operating agreement for the hospital with the District, thereby allowing the District to continue operations and oversight of the hospital

Snoqualmie Valley Hospital would continue operations at its current site of 975 Ethan Way in Snoqualmie while the replacement hospital is being built. [source: June 6, 2012, initial evaluation, pp1-2]

On June 14, 2012, CN #1475 was issued to the co-applicants approving the project. The approved capital expenditure associated with CN #1475 is 38,587,094. [source: June 6, 2012, initial evaluation, p4]

PROJECT DESCRIPTION

On August 31, 2013, the corporation of Moreland Pacific, LLC dissolved. [source: Secretary of State website] Once dissolved, Moreland is unable to meet its obligations as a co-applicant under the CN approval. Prior to its dissolution, Moreland assigned its rights and obligations of the lease and leaseback arrangement to Benaroya Capital Company, LLC. Since CN #1475 is issued to co-applicants, Moreland’s co-approval must be transferred. This application proposes the transfer of Certificate of Need (CN) #1475 as allowed under Washington Administrative Code 246-310-500(7)(a)(i).

TRANSFER APPLICATION---CO-APPLICANT DESCRIPTIONS

Co-applicant the District currently owns and operates Snoqualmie Valley Hospital and four medical clinics located in Snoqualmie, within King County. The District is governed by a five-member board of elected commissioners. Snoqualmie Valley Hospital is a designated critical access hospital¹ and is located at 9575 Ethan Wade Way Southeast in Snoqualmie within King County. Snoqualmie Valley Hospital is currently licensed for 28 acute care beds, but only operates 25 beds. All 25 acute care beds are swing beds. [source: June 6, 2012, initial evaluation, p1]

¹ 42 U.S.C. 1395i-4

Co-applicant Benaroya Capital Company, LLC [Benaroya] is an active corporation registered with the Washington Secretary of State office and managed by Larry Benaroya. The Benaroya company is a full-service real estate company based in Bellevue, Washington that acquires, develops, and manages properties in specific Pacific Northwest locations. The company's owners are also dedicated to the well-being of communities throughout the Pacific Northwest with a commitment in cultural, medical research, and many other social concerns of deep importance to the region. [source: Washington State Secretary of State office and Benaroya website]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need (CN) review as the transfer of an existing Certificate of Need under Washington Administrative Code (WAC) 246-310-500(7)(a)(i).

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.”*

WAC 246-310-500(7)(c) identifies the criteria that must be reviewed for the transfer of a Certificate of Need. It states:

- (i) *The demonstrated ability of the person wishing to acquire the certificate of need to undertake, complete, and operate the project in accordance with the following review criteria:*
- (A) WAC [246-310-220](#) (1) and (3), and
 - (B) WAC [246-310-230](#) (1), (3), and (5).
- (ii) *The continuing conformance of the project with all other applicable review criteria.*

To obtain Certificate of Need approval, the co-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); 246-310-240 (cost containment).²

TYPE OF REVIEW

The initial application was reviewed under the expedited review timeline outlined in WAC 246-310-150. This transfer application also qualifies for review under the expedited review timeline. The transfer application review timeline is summarized below.

APPLICATION CHRONOLOGY

Letter of Intent Submitted	June 6, 2013
Application Submitted	September 24, 2013
Department's pre-review activities including screening and responses	September 25, 2013 through October 27, 2013
Beginning of Review	October 28, 2013
End of Public Comment <ul style="list-style-type: none"> • public comments accepted through the end of public comment • no public hearing requested or conducted 	November 18, 2013
Rebuttal Comments ³	December 5, 2013
Department's Anticipated Decision Date	December 26, 2013
Department's Actual Decision Date	December 13, 2013

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 project, no entities sought or received affected person status.

² Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this transfer review: WAC 246-310-210(1), (3), (4), (5), & (6).

³ There were no public comments received for this project. Therefore, the applicant did not provide any rebuttal comments.

SOURCE INFORMATION REVIEWED

- King County Public Hospital District and Benaroya Capital Company, LLC Certificate of Need application submitted September 24, 2013
- King County Public Hospital District and Benaroya Capital Company, LLC supplemental information received October 18, 2013, and November 4, 2013
- The Department of Health's initial evaluation released on June 6, 2012
- Certificate of Need #1475 issued to King County Public Hospital District and Moreland Pacific, LLC on June 14, 2012
- Financial feasibility and cost containment analysis prepared by the Department of Health's Hospital and Patient Data Systems (HPDS) received December 4, 2013
- Department of Health's Investigation and Inspection's Office (IIO) files
- Washington State Secretary of State website (www.sos.wa.gov)
- Snoqualmie Valley Hospital website (www.snoqualmiehospital.org)
- Benaroya Capital Company, LLC website (www.benaroya.com)
- Certificate of Need historical files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by co-applicants King County Public Hospital District #4 and Benaroya Capital Company, LLC proposing to transfer Certificate of Need #1475 is consistent with applicable criteria of the Certificate of Need Program, provided the co-applicants agree to the following in its entirety.

Project Description:

This certificate approves the replacement of Snoqualmie Valley Hospital to a new site in King County. Snoqualmie Valley Hospital will continue to operate with 25 acute care beds. The facility will be built through ground lease and operating agreements between King County Public Hospital District #4 and Benaroya Capital Company, LLC.

Conditions

1. Approval of the project descriptions as state above. Co-applicants King County Public Hospital District #4 and Benaroya Capital Company, LLC further agree that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. 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. For combined years 2009- 2011, this amount is 1.67% of gross revenue and 3.05% 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 Cost

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

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and the co-applicants' agreement to the conditions identified in the conclusion section of this evaluation,, the department determines that King County Public Hospital District #4 and Benaroya Capital Company, LLC's project continues to meet the need criterion 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.

Initial Evaluation Summary

In its June 6, 2012, initial evaluation the department concluded that the application met this sub-criterion. This conclusion was reached based on the following factors:

- Snoqualmie Valley Hospital's intent to maintain its current Medicare and Medicaid eligibility;
- a review of Snoqualmie Valley Hospital's Admission Policy;
- a review of the Snoqualmie Valley Hospital's Charity Care Policy; and
- The co-applicants agreement to a charity care condition based on historical charity care provided in the King County region [less Harborview].

[source: June 6, 2012, initial evaluation, pp5-6]

Transfer Application Review

Within the transfer application, the co-applicants provided documentation to ensure that the exchange of Moreland for Benaroya would not affect Snoqualmie Valley Hospital's intent to be available to all residents of the service area. This assurance is also demonstrated in the current Admission and Charity Care Policy's included in the transfer application. The District intends to use the same policies at the replacement hospital.

CN #1475 also includes a condition related to the percentage of charity care to be provided at the replacement hospital. The percentage identified in the condition was based on the most recent three-year average of charity care provided in the region and available at the time of the initial review. The initial review and subsequent charity care condition was based on years 2008, 2009, and 2010. For this transfer review, updated historical charity care data is available for year 2011.⁴ Therefore, an updated condition is necessary for this transfer application review.

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems (HPDS), divides Washington State into five regions: King County (less Harborview), Puget Sound (less King County), Southwest, Central, and Eastern. Snoqualmie Valley Hospital is located in Snoqualmie and is one of 21 hospitals located in the county. According to 2009–2011 charity care data obtained from HPDS, Snoqualmie Valley Hospital has provide slightly more than the average charity care provided in the region.⁵

⁴ As of the writing of this evaluation, year 2012 charity care data is not available.

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 excludes Harborview Medical Center's percentages.

The table below is a comparison of the average charity care for the King County Region as a whole, Snoqualmie Valley Hospital’s historical charity care percentages, and the hospital’s projected charity care percentages. [source: 2009-2011 HPDS charity care summaries and November 4, 2013, supplemental information, pp3-4]

**Table 1
Charity Care Percentage Comparisons**

	% of Total Revenue	% of Adjusted Revenue
King County Region	1.67%	3.05%
Snoqualmie Valley Hospital Historical	2.15%	4.56%
Snoqualmie Valley Hospital Projected	1.55%	3.65%

As shown in the table above, the hospital’s historical charity care percentages are better than the regional average. For projected years 2016 through 2018, Snoqualmie Valley Hospital’s charity care would be below the regional average for total revenue and above the regional average for adjusted revenue.

To ensure that appropriate charity care percentages would be provided by Snoqualmie Valley Hospital, if this transfer application is approved, the department would attach a condition requiring Snoqualmie Valley Hospital to provide charity care at certain percentages.

With the charity care condition described above, the department concludes that all residents of the service area would have access to the hospital. **This sub-criterion is met.**

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

Based on the source information reviewed and the co-applicants’ agreement to the conditions identified in the conclusion section of this evaluation, the department determines that the King County Public Hospital District #4 and Benaroya Capital Company, LLC’s transfer application 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.

Initial Evaluation Summary

In its June 6, 2012, initial evaluation the department concluded that the application met this sub-criterion. This conclusion was reached based on the following factors:

- a reasonableness review of the lease costs of \$280,000/month identified in the 30 year amortization schedule;

- a review of Snoqualmie Valley Hospital’s current Balance Sheet (year 2010) and its projected Balance Sheet for the third year of operation at the new location (year 2014);
- a review of Snoqualmie Valley Hospital’s projected Revenue and Expense Statements covering partial year 2013 and full years 2014 through 2016;
- the Washington State Auditor’s Office Accountability Audit Report for the District; and
- the department’s Hospital and Patient Data Systems’ analysis focusing on current (2010) and projected (2014-2016) debt ratios of Snoqualmie Valley Hospital.

The evaluation also acknowledged that co-applicant Moreland would reimburse the District up to \$1,500,000 for the pre-construction costs of site clearing and initial design costs. [source: June 6, 2012, initial evaluation, pp7-10]

Transfer Application Review

This application requests a transfer of Moreland’s roles and responsibilities under the following agreements:

- Hospital Development Agreement and Option to Purchase;
- Ground Lease Agreement;
- Triple Net Lease [Leaseback Agreement].

In the initial application, the replacement hospital was expected to be operational in October 2013; the third full calendar year of operation was year 2016. With the dissolution of Moreland, the construction of the hospital was delayed by approximately 1½ years. While the projected revenues and expenses for the replacement hospital are not expected to change because of a change in co-applicant, projected years covered in this transfer application are 2015 through 2018.

To evaluate this sub-criterion, the department first reviewed the assumptions used by the co-applicants to determine the projected number of patients and patient days for the hospital. The assumptions are summarized below. [source: November 4, 2013, supplemental information, pp10-12]

- The replacement hospital will continue to operate 25 acute care beds.
- All 25 beds will be located in single patient rooms which will allow the hospital to operate at a higher occupancy than it has historically been able to achieve.
- Projected payer mix is not expected to change from the historical mix.

Using the assumptions stated above, the hospital’s projected number of patients, patient days, and percentage of occupancy is shown in the table below. [source: November 4, 2013, supplemental information, pp10-12]

**Table 2
Snoqualmie Valley Hospital Projected Number of Procedures**

	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Number of Patients	585	585	585	585
Number of Patient Days	8,384	8,395	8,395	8,395
Projected Occupancy	91.9%	92.0%	92.0%	92.0%

Based on the assumptions summarized in the table above and taking into consideration that the hospital will maintain its presence in the community by continuing to operate during construction of the replacement hospital, the projections shown are considered reasonable.

Using the timeline provided in the transfer application, the co-applicants provided the projected revenues, expenses, and net income for Snoqualmie Valley Hospital for years 2015 through 2018. This information is summarized in the table below.

Table 3
Projected Revenue and Expense Statements for
Years 2015 through 2018

	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Net Revenue	\$ 34,078,941	\$ 34,567,367	\$ 34,807,259	\$ 35,163,105
Total Expenses	\$ 33,921,993	\$ 34,275,327	\$ 34,245,769	\$ 34,268,299
Net Profit / (Loss)	\$ 156,948	\$ 292,040	\$ 561,490	\$ 894,806

The ‘Net Revenue’ line item is gross inpatient and outpatient revenues minus any deductions for charity care and contractual allowance. The ‘Total Expenses’ line item includes salaries and wages, leases, supplies, bad debt, and depreciation. As shown above, Snoqualmie Valley Hospital is projected to operate at net profits beginning in year 2015 when the replacement hospital opens.

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 provided by the Hospital and Patient Data Systems [HPDS] office. The analysis 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 2011 data for comparison. The ratio comparisons are shown in the table on the following page. [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 Snoqualmie Valley Hospital**

Category	Trend*	State 2011	SVH 2012	Projected 2016	Projected 2017	Projected 2018
Long Term Debt to Equity	B	0.565	(5.238)	(4.508)	5.118	4.635
Current Assets/Current Liabilities	A	2.029	0.805	0.268	4.860	5.223
Assets Funded by Liabilities	B	0.442	0.839	0.884	0.845	0.831
Operating Exp. to Operating Rev.	B	0.965	0.922	0.992	0.984	0.975
Debt Service Coverage	A	4.340	0.986	0.252	1.573	1.906

Upon review of these results, HPDS notes that in 2012, Snoqualmie Valley Hospital is out of range for four of the five ratios. Below is an excerpt of the ratio analysis by HPDS staff.

“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.” “By the end of the third year[2018] three of the five ratios remain out of range. These three are out of range 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 2016].” “The hospital, however, is breaking even by the end of the third year.”

[source: HPDS analysis, p3]

The analysis also notes that, in a positive light, the ratios improve in 2018 and that the District received \$3.0 million in tax revenue in 2012. In summary, 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 states the hospital’s financial projections do show the hospital improving its financial position. Further, HPDS notes that the project is financed through a lease to buy option which a financially practical option for the District. [source: HPDS analysis, p 3]

In the initial review, 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 concerns about the District being at risk of not meeting the financial obligations or providing services at current levels. [source: June 6, 2012, initial evaluation, pp9-10]

This transfer application requests replacement of co-applicant Moreland with Benaroya, however, all other roles and responsibilities do not change. As a result, the department does not expect the outcome of its review of the Accountability Audit Report to change.

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

Initial Evaluation Summary

In its June 6, 2012, initial evaluation the department concluded that the application met this sub-criterion. This conclusion was reached based on a reasonableness review of the building construction costs in relation to the potential impact on costs and charges.

[source: June 6, 2012, initial evaluation, pp10-11]

Transfer Application Review

This application requests a transfer of Moreland's roles and responsibilities to Benaroya, however, the District's roles and responsibilities do not change. This sub-criterion focuses on the costs and charges for healthcare services after the replacement hospital becomes operational, which is not expected to change as a result of this transfer application.

There was no additional information reviewed in this transfer application that would change the department's initial conclusion. **This sub-criterion remains 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.

Initial Evaluation Summary

In its June 6, 2012, initial evaluation the department concluded that the application met this sub-criterion based on the following factors:

- a breakdown of the capital expenditure of \$38,587,074;
- financing for the project was to be obtained by co-applicant Moreland;
- Snoqualmie Valley Hospital would continue operations and at its current site while the new facility was under construction;
- a review of the Hospital Development Agreement and Option to Purchase between the co-applicants;
- a review of the Ground Lease Agreement between the two applicants; and
- a review of the Triple Net Lease between the two applicants.

The evaluation also acknowledged that Revised Code of Washington 70.44.310 allows a hospital district to lease real property. [source: June 6, 2012, initial evaluation, pp11-13]

Transfer Application Review

This application requests a transfer of Moreland's roles and responsibilities under the following agreements:

- Hospital Development Agreement and Option to Purchase;
- Ground Lease Agreement;
- Triple Net Lease [Leaseback Agreement].

Moreland was responsible for obtaining the funding for the project and constructing the hospital. The District's roles and responsibilities are not expected to change.

To demonstrate compliance with this sub-criterion, the co-applicants provided a copy of the executed agreements referenced above with signatures of both the District and Moreland, and also provided documentation to demonstrate reassignment of Moreland's portion of the agreements to Benaroya. Below is a summary of the department's review of each document.

Hospital Development Agreement and Option to Purchase

[source: Transfer Application, Exhibit 1, Exhibit 4, and Exhibit 9]

The initial agreement between the District and Moreland outlines the facility design, construction, 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. In this agreement, Moreland is the developer of the new hospital. This District has the option to purchase the hospital any time '*two years after the substantial completion date.*' If the District chooses to purchase at the end of the 30 year lease, the purchase price is one dollar.

The issue of default by either the District or Moreland is also addressed in this agreement. In the instance of default by Moreland, the District has an option to complete the construction and reclaim damages or terminate the agreement without liability. The agreement acknowledged that additional Certificate of Need approval may be required if either the District or Moreland defaulted on the project. [source: June 6, 2012, initial evaluation, p12]

The agreement Regarding Assignment of Hospital Project Agreements [Assignment Agreement] was provided in this transfer application. The Assignment Agreement was signed by both the District and Benaroya on June 29, 2013. It references a settlement agreement between the District and Moreland where Moreland assigns all its rights and responsibilities of Hospital Development Agreement and Option to Purchase to Benaroya. The Assignment agreement also references the roles, responsibilities, and terms of the initial Hospital Development Agreement and Option to Purchase agreement and states all roles and responsibilities previously assigned to Moreland would be assigned to Benaroya. This agreement also acknowledges no other changes to the initial agreement are assumed.

Ground Lease Agreement

[source: Transfer Application, Exhibit 2, Exhibit 4, Exhibit 9, and Exhibit 10]

The initial agreement is between the District and Moreland and 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 buy-out of the lease. In the initial agreement, the District is the lessor and Moreland is the lessee. The document was signed and considered reasonable. [source: June 6, 2012, initial evaluation, p12]

A Memorandum of Ground Lease was provided in the transfer application. This memorandum was both signed and dated on July 29, 2013, by the District and Benaroya. It references the initial Ground Lease Agreement and acknowledges no other changes to the initial agreement are assumed.

The Assignment Agreement also references the roles, responsibilities, and terms of the initial Ground Lease Agreement and states all roles and responsibilities previously assigned to Moreland would be assigned to Benaroya. This agreement also acknowledges no other changes to the initial agreement are assumed.

Triple Net Lease Agreement [Leaseback Agreement]

[source: Transfer Application, Exhibit 2, Exhibit 4, and Exhibit 9]

The initial agreement is between the District and Moreland. This is the leaseback agreement between the two entities where Moreland is the landlord and the District is the tenant. The leaseback agreement allows the District to maintain operations and oversight of the newly built hospital. The duration of the lease is 30 years and the monthly lease amount and buy-out terms are outlined according to the GMP.⁶ The District has a lease buy-out opportunity after two years following completion of the hospital. The document was signed and considered reasonable. In addition to evaluating whether the immediate and long range capital and operating costs of the project can be met as required under this sub-criterion, the department also evaluated whether the proposed leasing arrangements were appropriate. After a review of the leaseback agreement and RCW 70.44.310, the department concluded the arrangements were appropriate. [source: June 6, 2012, initial evaluation, p13]

The Assignment Agreement also references the roles, responsibilities, and terms of the leaseback agreement and states all roles and responsibilities previously assigned to Moreland would be assigned to Benaroya.

The co-applicants also provided a copy of the ‘Amendment to A1A Document A102-2007’ between Absher Construction Company (Contractor) and Benaroya (owner). The agreement is signed and dated July 29, 2013. This is an amendment to the construction contract initially established between Absher Construction Company and Moreland. Before dissolving, Moreland began some site preparation and construction work on the project. Since the remaining construction work and site preparation is assigned to Benaroya, the capital costs in this document are reduced from \$38,587,094 to \$30,156,041. Even though this document identifies a lower capital cost, the entire project, which includes work already completed by Moreland and work to be completed by Benaroya, remains at the \$38,587,094.

The executed documents referenced above and submitted for this transfer project cover the primary components of the Lease and Lease-back agreement and its transfer of Moreland’s responsibilities to Benaroya. In addition to the documents above, the co-applicants provided the following documents. [source: October 18, 2013, supplemental information, Exhibits as noted below]

- Moreland Corporation Developer Proposal to be Utilized by Benaroya Capital Company, LLC [Exhibit 3]
- Agreement Regarding Assignment of Hospital Project Agreements [Exhibit 4]
- Benaroya Company, LLC Financial Commitment Letter [Exhibit 8]
- Resolution #414-1027 Approving Lease Agreements [Exhibit 9]
- Resolution #414-1121 Approving Hospital Development Agreement [Exhibit 9]

⁶ The estimated capital expenditure of the project was determined by the projected Guaranteed Maximum Price (GMP) cited in the Development Agreement provided in the initial application. The projected lease amount is based on the estimated capital expenditure of \$38,587,094.

- Resolution #444-0613 Approving Settlement with Moreland Pacific and Assignment of Contracts with Moreland Pacific [Exhibit 9]
- Resolution #444-0613 Approving Agreement with Benaroya Capital Company for Development of Replacement Hospital Facility [Exhibit 9]
- Amendment to A1A Document A102-2007 Between Absher Construction Company [Contractor] and Benaroya Capital Company, LLC [Owner or Benaroya] [Exhibit 11]

The documents listed above cover all aspects of the reassignment of Moreland's responsibilities and obligations to Benaroya. Resolutions 414-1027, 417-1121, 446-0613 are all signed by a District commissioner and provide assurances that the assignment of Moreland's responsibilities to Benaroya is approved by the commissioners. The Amendment to A1A Document A102-2007 is signed by representative of both Absher Construction Company and Benaroya provides the assurances that the construction of the hospital will continue to move forward with the replacement of Moreland by Benaroya.

To ensure that Benaroya has the capability to assume the financial risk from Moreland and fund the project, staff from HPDS reviewed the year 2012 audited financial reports for Benaroya Capital Company, LLC that were provided in the transfer application. The results of that review show that Benaroya has the assets to complete the required financial obligations under the contracts. [source: October 18, 2013, supplemental information, Exhibits 7 & 8 and HPDS analysis, p 4]

Based on the information 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 the co-applicants' agreement to the conditions identified in the conclusion section of this evaluation, the department determines that the King County Public Hospital District #4 and Benaroya Capital Company, LLC's transfer application has met the structure and process (quality) 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.

Initial Evaluation Summary

In its June 6, 2012, initial evaluation the department concluded that the application met this sub-criterion based on the following factors:

- the hospital would continue operations with current staff at the current site on Ethan Way during construction of the replacement hospital;
- the replacement hospital would continue to operate 25 acute care beds; and
- current physician privileges would remain the same.

[source: June 6, 2012, initial evaluation, p13]

Transfer Application Review

As in the initial project, the co-applicants planned that Snoqualmie Valley Hospital will continue its operations at the current site during construction of the replacement hospital. Additionally, no increase in acute care beds or changes in physician privileges are expected under this transfer application.

There was no additional information reviewed in this transfer application that would change the department's initial conclusion. **This sub-criterion remains 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(2) as identified in WAC 246-310-200(2) (a) (i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what relationships, ancillary and support services should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials contained in the application.

Initial Evaluation Summary

In its June 6, 2012, initial evaluation the department concluded that the application met this sub-criterion based on the following factors:

- Snoqualmie Valley Hospital would continue to be located in east King County; and
- the hospital already has long-standing, formal and informal relationships with the existing healthcare community.

[source: June 6, 2012, initial evaluation, p14]

Transfer Application Review

As in the initial project, the co-applicants planned that Snoqualmie Valley Hospital will continue its operations at the current site during construction of the replacement hospital. Since all ancillary and support relationships have been in place for many years and the replacement hospital will be approximately 3.5 miles, or six minutes, from the existing site, the applicant does not expect any changes in the existing relationships.

There was no additional information reviewed in this transfer application that would change the department's initial conclusion. **This sub-criterion remains 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.

Initial Evaluation Summary

In its June 6, 2012, initial evaluation the department concluded that the application met this sub-criterion based on the following factors:

- Snoqualmie Valley Hospital would continue to be located in east King County;
- the hospital would continue to provide Medicare and Medicaid services to the residents of east King County and surrounding communities; and
- historical compliance surveys for the hospital and key staff revealed no substantial non-compliance issues.

[source: June 6, 2012, initial evaluation, p14]

Transfer Application Review

Within the transfer application, the co-applicants provided documentation to demonstrate that the proposed site for the replacement hospital had not changed. Snoqualmie Valley Hospital would continue to be relocated to 4220 Southeast 99th Street in Snoqualmie in east King County. Financial documents provided in the transfer application also demonstrated that the replacement facility would continue to participate in both the Medicare and Medicaid programs.

During review of this transfer application, the department conducted a review of the quality of care history for the hospital. This updated review revealed no substantial non-compliance issues for Snoqualmie Valley Hospital.⁷

As a result, there was no information reviewed in this transfer application that would change the department's initial conclusion. **This sub-criterion remains 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 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.

Initial Evaluation Summary

In its June 6, 2012, initial evaluation the department concluded that the application met this sub-criterion based on the following factors:

- Snoqualmie Valley Hospital would continue to be located in east King County;
- the hospital would continue operations at its current site during the construction of the replacement hospital; and
- the replacement hospital would operate 25 acute care beds, and all rooms would be single patient rooms, resulting in an increase in annual patient days, and outpatient procedures.

[source: June 6, 2012, initial evaluation, p15]

⁷ Compliance surveys conducted in August 2007, November 2008, February 2011, and February 2013.

Transfer Application Review

Within the transfer application, the co-applicants provided documentation to demonstrate that the proposed site and physical configuration of the replacement hospital had not changed. There was no information reviewed in this transfer application that would change the department's initial conclusion. **This sub-criterion remains 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.

Initial Evaluation Summary

In its June 6, 2012, initial evaluation the department concluded that the application met this sub-criterion based on its ability to meet the sub-criterion in sub-section (3) above. [source: June 6, 2012, initial evaluation, p15]

Transfer Application Review

There was no additional information reviewed in the transfer application that would change the department's initial conclusion. **This sub-criterion remains met.**

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

Based on the source information reviewed and the co-applicants' agreement to the conditions identified in the conclusion section of this evaluation, the department determines that the King County Public Hospital District #4 and Benaroya Capital Company, LLC's transfer application 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.

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

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 the applicable 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.

Initial Evaluation Summary

In its June 6, 2012, initial evaluation the department concluded that the application met this sub-criterion. The co-applicants had considered two options before submitting the initial application. The department also acknowledged that once the District made the decision to enter into the lease and leaseback agreements for the replacement of Snoqualmie Valley Hospital, a Certificate of Need is required. [source: June 6, 2012, initial evaluation, pp15-17]

Transfer Application Review

CN #1475 was issued to co-applicants the District and Moreland. The dissolution of Moreland resulted in one-half of CN #1475 issued to a dissolved company. As a result, the District was required to obtain a new CN for the project. The District elected to replace Moreland with another co-applicant, resulting in a transfer of CN #1475. As with the initial application, once the District elected to replace Moreland, a Certificate of Need is required and no other options were available to consider. There was no additional information reviewed in the transfer application that would change the department's initial conclusion. **This sub-criterion remains met.**

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

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

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

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

This project has the potential to improve delivery of nursing home services to the residents of King County and community of Snoqualmie. The department is satisfied the project is appropriate and needed. This sub-criterion is met.