



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

July 31, 2014

CERTIFIED MAIL # 7011 1570 0002 7808 7341

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

RE: CN14-11

Dear Mr. Howard:

We have completed review of the Certificate of Need application submitted by Acadia Healthcare Company, Inc. to establish an 80-bed adult psychiatric hospital in Bothell within Snohomish County. Enclosed is a written evaluation of the application.

For the reasons stated in this evaluation, the application submitted by Acadia Healthcare Company, Inc. to establish an 80-bed adult psychiatric hospital in Bothell is not consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need is denied.

Need	WAC ¹ 246-310-210
Financial Feasibility	WAC 246-310-220
Cost Containment	WAC 246-310-240

This decision may be appealed. The two appeal options are listed below.

Appeal Option 1:

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

Mailing Address:
Janis Sigman, Manager
Certificate of Need Program
Department of Health
Mail Stop 47852
Olympia, WA 98504-7852

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

¹ Washington Administrative Code.



Christopher L. Howard
Vice President and Secretary
Acadia Healthcare, Company, Inc.
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Appeal Option 2:

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

Mailing Address:

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

Physical Address

Adjudicative Clerk Office
311 Israel Road SE, Building 6
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,



For
Steven M. Saxe, FACHE
Director, Community Health Systems

Enclosure

**EVALUATION DATED JULY 30, 2014, OF THE CERTIFICATE OF NEED
APPLICATION SUBMITTED BY ACADIA HEALTHCARE COMPANY INC.
PROPOSING TO ESTABLISH AN 80-BED PSYCHIATRIC HOSPITAL IN SNOHOMISH
COUNTY**

APPLICANT DESCRIPTION

Acadia Healthcare Company, Inc. (Acadia) is a publicly traded company headquartered in state of Tennessee. Acadia operates a network of 46 behavioral health facilities with over 3,400 licensed beds in 21 states. Cascade Behavioral Hospital, LLC (Cascade) is a wholly owned subsidiary of Acadia and will be the owner/operator of the facility reviewed in this application.¹ Cascade currently is also operating a psychiatric hospital on the former Highline Medical Center Specialty Campus located in King County. Cascade does not operate any other health care facilities outside of Washington State. Cascade will be licensed as a private psychiatric hospital under RCW 71.12 and will seek accreditation from the Joint Commission. To simplify for the reader, the department will use Cascade when referring to this project.

PROJECT DESCRIPTION

Cascade proposes to construct a single phased 80-bed psychiatric hospital at the NE corner of 23 third Drive SE and 220th Street SE in Bothell within Snohomish County. The hospital would provide a full range of psychiatric services including: inpatient services, involuntary treatment services (72 hour and 14 day), day/partial hospitalization, Detox and chemical dependency, intensive outpatient services, geriatric psychiatric with medical complications, and co-occurring diagnosis. The proposed hospital would be Medicare and Medicaid certified. The hospital would not serve pediatric or adolescent patients. [Source: Application, p7]

The capital expenditure associated with this 80-bed psychiatric hospital is \$24,500,000. Of that amount 22.7% is related to land purchase, 60.0% is related to construction costs, 2.9% for moveable equipment; and the remaining 14.4% is related to site preparation, fees, permits, and state taxes. [Source: November 8, 2013, supplemental information, Attachment SC1-D]

Cascade anticipates the 80-bed psychiatric hospital would become operational in January 2016. Under this timeline, year 2016 is the first full year of operation and 2018 is third full year. [Source: Application p12]

APPLICABILITY OF CERTIFICATE OF NEED LAW

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

EVALUATION CRITERIA

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

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

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

¹ Cascade was previously known as Southwest Behavioral Health LLC

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

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

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

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

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).²

TYPE OF REVIEW

This application originally was designated by the department to be a concurrent review with the 34-bed psychiatric hospital application submitted by BHC Fairfax. The BHC Fairfax Hospital application was amended during the screening process. The Cascade application had already completed its screening at the time BHC Fairfax amended its application. The department reverted this application to be reviewed under the regular review timeline outlined in WAC 246-310-160.

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

APPLICATION CHRONOLOGY

Action	Cascade Behavioral Hospital
Letter of Intent Submitted	July 26, 2013
Application Submitted	October 7, 2013
Department's pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • Cascade Responses Received • DOH 2nd Screening Letter • Cascade Responses Received 	October 28, 2013 November 8, 2013 December 5, 2013 January 21, 2014
Beginning of Review ³	February 27, 2014
End of Public Comment <ul style="list-style-type: none"> • Public comments accepted through • Public hearing conducted 	April 29, 2014 April 29, 2014
Rebuttal Comments	May 14, 2014
Department's Anticipated Decision Date	June 30, 2014
Department's Anticipated Decision Date-30 day Extension	July 30, 2014
Department's Actual Decision Date	July 31, 2014

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.”*

As noted above, WAC 246-310-010(2) requires an affected person to first meet the definition of an ‘interested person.’ WAC 246-310-010(34) defines “interested person” as:

- (a) *The applicant;*
- (b) *Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;*
- (c) *Third-party payers reimbursing health care facilities in the health service area;*
- (d) *Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;*
- (e) *Health care facilities and health maintenance organizations which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;*
- (f) *Any person residing within the geographic area to be served by the applicant; and*
- (g) *Any person regularly using health care facilities within the geographic area to be served by the applicant.*

³ Beginning of Review was delayed because the application was initially to be reviewed concurrently with the 34-bed BHC Fairfax application whose application was submitted after Cascade’s. The applicant also requested a delay conducting the public hearing due to schedule conflicts in April, 2014.

For this application two entities sought affected person status. The two entities are BHC-Fairfax Hospital, Inc. and US HealthVest. Below is a summary of each and a determination of their respective status regarding this application.

BHC Fairfax Hospital, Inc.

On November 16, 2012, BHC Fairfax Hospital was issued Certificate of Need #1492 approving the establishment of a 30-bed adult psychiatric hospital to be located in Everett, within Snohomish County. With its recent approval, BHC Fairfax Hospital, Inc. qualifies as an interested person. On October 14, 2013 BHC, Fairfax made a written request to be recognized as an interested person for this Cascade application. The request also asked to be informed of the department's decision. During the public hearing conducted on April 29, 2014, BHC Fairfax submitted public comments. BHC Fairfax has met the qualifications to be recognized as an affected person.

US HealthVest

On January 21, 2014, US HealthVest was issued Certificate of Need #1518 approving construction of a new 75-bed adult psychiatric hospital to be located in Marysville within Snohomish County. With its recent approval, US HealthVest qualifies as an interested person. On October 11, 2013, US HealthVest made a written request to be recognized as an interested person for this Cascade application. The request also asked to be informed of the department's decision. During the public hearing conducted on April 29, 2014, US HealthVest submitted public comments. US HealthVest has met the qualifications to be recognized as an affected person.

SOURCE INFORMATION REVIEWED

- Cascade's Certificate of Need application submitted February 28, 2014
- Cascade's supplemental information received, November 8, 2013; March 10, 2014
- Public comments received by the department by April 29, 2014
- Comments from Public Hearing held on April 29, 2014
- Cascade rebuttal documents received May 14, 2014
- Fairfax Behavioral Health rebuttal documents received May 14, 2014
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Department of Health's Hospital and Patient Data Systems financial feasibility and cost containment analysis received May 29, 2014 and July 21, 2014 revision
- Historical charity care data for years 2010, 2011, and 2012 obtained from the Department of Health Hospital and Patient Data Systems office
- Department of Health internal database-Integrated Licensing & Regulatory System (ILRS)
- Joint Commission quality check website at [www.qualitycheck.org]
- Certificate of Need historical files

CONCLUSIONS

For the reasons stated in this evaluation, the application submitted by Acadia Healthcare Company, Inc. proposing to establish 80-bed psychiatric hospital located in Bothell, within Snohomish County is not consistent with applicable criteria of the Certificate of Need Program. Therefore the application is denied.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed, the department concludes Cascade has not 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 hospital bed forecasting method. The 1987 Washington State Health Plan (SHP) which was “sunsetting” has a numeric methodology for projecting psychiatric bed need. However, unlike the acute care bed need method from the same document the department is unable to obtain all the required data to apply this methodology. Therefore, the department has concluded that the psychiatric bed need method from the 1987 SHP is not a reliable tool for forecasting psychiatric bed need. As a result, the evaluation of need for psychiatric beds begins with an evaluation of the methodology provided by the applicant.

Background to Cascade’s Need Method⁴

The applicant identified a number of federal and state initiatives and policy changes that they report will drive the projected use rates for psychiatric beds and the projected Cascade facility volumes. These initiatives and policy changes are as follows:

Overview

1. Community recognition of the current capacity shortage
2. Parity aspects of healthcare reform
3. Medicaid and uninsured coverage expansion in Washington under the Affordable Care Act
4. Washington’s participation in the Medicaid Pilot project
5. Expansion of Washington involuntary treatment guidelines
6. Increased national and local concern about costs of prisons and homelessness
7. Lack of residential treatment beds
8. Aging of the population
9. Integrated treatment for co-occurring disorders
10. In migration from other counties

Cascade contends that the state wide bed to population ratio does not account for differences in use rates based on age groupings therefore it underestimates the need for psychiatric beds. Cascade further contends that in calculating psychiatric bed need the department should adjust for services to military populations and populations in adjacent counties with little or no inpatient psychiatric services.

Population Statistics

Cascade provided total population figures from OFM 2012 medium series forecasts for Snohomish County for selected years. The initial bed need calculation was based on the total population. An adjustment for the adult population was made later in the calculations.

The applicant provided one methodology in the application to support its request for additional psychiatric beds. The applicant used the northwest average ratio which forecasts short-stay psychiatric bed need at a ratio of 27.3 beds per 100,000.

⁴ Source: Application, pp 23-31

Cascade's Snohomish Bed Need Projections

In response to the department's screening⁵, Cascade provided a revised bed need projection. This revision is used to evaluate the project.

Existing Capacity

Cascade provided calculations of existing capacity in tables 1 and 2 of this evaluation. The two tables show Cascade's calculation of psychiatric bed capacity available to Snohomish residents over the time period from 2010 to 2035.

Cascade describes the Snohomish County bed supply in Table 1 as being 30 beds for Fairfax North and 42 beds for US HealthVest. Cascade contends that not all of the approved 75 psychiatric beds would be available to residents of Snohomish County due to patients coming from other counties in the Regional Support Network (RSN) and also from King County. Cascade also is proposing to serve the military population and dependents from outside of Snohomish County. Cascades states that without the construction of their facility the bed supply in Snohomish County would decline to 13.5 beds per 100,000 county residents by 2020. This is below ratios previously considered by the department in evaluating the supply of hospital psychiatric beds per 100,000 population.

**Table 1
Cascade's Snohomish County Capacity, 2010-2035 without Cascade**

	2010	2014	2020	2025	2030	2035
Swedish Edmonds	23	23	23	23	23	23
Valley General	14	0	0	0	0	0
Fairfax at Providence	0	30	30	30	30	30
US HealthVest-No. of beds available for adult Snohomish County residents	0	42	42	42	42	42
Total Snohomish Beds	37	95	95	95	95	95
Beds to population ratio	5.2	12.7	11.8	11.1	10.4	9.9

Table 2 provides a five county regional [picture] of the availability psychiatric beds as identified by Cascade. The residents of these five counties are served by the North Sound Regional Support Agency. The North Sound Regional Support Network covers Snohomish, Whatcom, Skagit, San Juan, and Island Counties. [Source: March 10, 2014 Supplemental Material, p10] In table 2, US HealthVest's capacity is identified as 56 that is available to the 5 county region. There is no capacity in two of these counties, San Juan and Island. It also shows a substantial capacity shortfall compared to the NW regional average of 27.25 beds per 100,000 population. [Source: March 10, 2014 Supplemental Material, p10]

⁵ Source: March 10, 2014 Supplemental Materials, pp9-14

Table 2
Cascade's Regional Capacity, North Sound Regional Support
Network, 2010-2035 without Cascade

	2010	2014	2020	2025	2030	2035
Peace Health Bellingham (Whatcom County)	20	20	20	20	20	20
Skagit Valley (Skagit County)	15	15	15	15	15	15
Swedish Edmonds (Snohomish County)	23	23	23	23	23	23
Valley General (Snohomish County)	14	0	0	0	0	0
Fairfax at Providence (Snohomish County)	0	30	30	30	30	30
US HealthVest (Snohomish County)- No. of beds available for adult patients in the 5- county region.	0	56	56	56	56	56
Total	72	144	144	144	144	144
Bed to Population Ratio	6.4	12.2	11.4	10.8	10.2	9.7

Table 3 shows Cascade's calculation of unmet psychiatric bed need for Snohomish County for "all ages" and "adults, age 18 and over" based on the Cascade's adjusted psychiatric bed capacities shown in table 1. Cascade used 2012 CHARS data which indicates persons 18 years of age and older generate 89% of MDC 19 patient days. The data in table 3 indicates that unmet adult psychiatric bed need reaches 108 without Cascade by the year 2020. With the approval of this project, Cascade reports the shortfall of adult psychiatric beds is 28 by the year 2020 is only 14% below the NW regional ratio of 27.25 beds per 100,000 residents. Cascade concludes this calculation supports the approval of their 80-bed. [Source: March 10, 2014 Supplemental Material, p11]

Table 3
Cascade's Snohomish County 2014-2030 Net Adult Bed Need at 27.25 beds/100,000
(Assumes no net in-migration from other counties)

	2014	2020	2025	2030
OFM Population Projection, all ages	750,358	805,015	857,939	908,807
Northwest ratio beds per 100,000	27.25	27.25	27.25	27.25
Total Beds Needed, all ages	204	219	234	248
Existing Snohomish Beds, 2014 ⁶	95	95	95	95
All Ages-Unmet Bed Need	109	124	139	153
Adult Snohomish Bed Need				
Adult Bed Need at 89% of All Ages Need ⁷	181	195	208	220
Existing Snohomish Adult Beds ⁸	87	87	87	87
Adult-Snohomish County Unmet Bed Need	94	108	121	133

⁶ US HealthVest capacity counted at 42, Swedish at 23, Fairfax North at 30=95

⁷ US HealthVest capacity counted at 34, Swedish at 23, Fairfax North at 30=87 beds

⁸ Age group under 18 uses 11% of psychiatric patient days; 100%-11%=89%

without Cascade				
Adult-Snohomish County Unmet Bed Need with Cascade	14	28	41	53

Public Comment

During the review of this project and at the April 29, 2014, public hearing, the department received letters of support from healthcare providers, law enforcement, and other entities in Snohomish County and surrounding areas.

The majority of the letters addressed the need for psychiatric services in Snohomish County. Some provided statistical data to support their position that Snohomish County needs additional psychiatric beds. Others provided very descriptive personal experiences of a family member to support the need. Law enforcement support focused on the need for additional detox services and overcrowded emergency rooms that ‘house’ these psychiatric patients when beds are not available.

There were letters of opposition with supporting materials provided during this review—one from BHC Fairfax and one from US HealthVest. During the public hearing, a representative from each of the opposing facilities stated that additional psychiatric beds were needed in Snohomish County. The concept of “*who should be approved to add psychiatric bed capacity*” was the focus of the opposition, rather than whether there is need for additional psychiatric beds in the county.⁹

BHC Fairfax submitted written comment which is summarized below. [Source: June 30, 2014 Public Comment, p1-4]

- The applicant’s need model is incorrect.
- The applicant cannot care for psychiatric/medical inpatients in a free standing psychiatric hospital.
- Psychiatric/medical inpatients should be a subset of psychiatric bed need models.
- Correct application of the psychiatric bed need model for Snohomish County demonstrates no need for the project.
- Applicant’s model of the impact of Vest Seattle approval is incorrect.

Rebuttal

A summary provided by Cascade on their rebuttal is as follows: [Source: May 14, 2014 Rebuttal, p27]

The key variables supporting need for Cascade’s project include

- Allocation of Snohomish County’s needed beds to the proper age cohorts.
- Recognition that use by out of area patients was the rationale for 50% of approved beds at US HealthVest’s Snohomish County project.
- Appropriate use of a 20-year planning horizon for a new hospital in new construction.

⁹ On November 12, 2013, BHC Fairfax submitted an application to add psychiatric bed capacity to Snohomish County. [Application, 14-15] On February 14, 2014 US HealthVest also submitted an application to add psychiatric bed capacity to Snohomish County. Both applications were submitted after Acadia submitted this application.

Department Review

Department Numeric Adult Psychiatric Bed Need Methodology

Population

The department used OFM 2012 medium series forecasts but removed the under 18 population group from the total population. This was accomplished by allocating one fifth of the 15-19 age group population to the 18 and above adult population.

Bed Supply

Table 4 shows the current psychiatric bed supply for Snohomish County. Fairfax North and US HealthVest are CN approved but not operational. The department does not agree with Cascade’s reduction of approved bed capacity located in Snohomish County.

**Table 4
Snohomish County Psychiatric Bed Supply**

Hospital	Beds DOH
Swedish Edmonds	23
Fairfax North	30
US HealthVest ¹⁰	75
Total	128

Projected Bed Need

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

Step 1: The department obtained Snohomish 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 a low estimate projection the department multiplied the ratio of 13 beds per 100,000 persons by the Snohomish County adult population estimates and projections from Step 1¹¹. This calculation was performed for each year of the forecast. This is the “low” estimate of need.

For the high estimate projections, the department multiplied the average bed ratio for all other Northwest States (less Washington)¹² of 27.3 beds per 100,000, as defined in the 2009 National Report Card on the State of Emergency Medicine by the Snohomish County adult population estimates and projections from Step 1. This calculation was performed for each year of the forecast. This is the “high” estimate of need.

Step 3: Compile a list of psychiatric beds in Snohomish County. This is the supply.

¹⁰ CN 1518 issued to US HealthVest on January 21, 2014

¹¹ The department used the bed to population ratio for psychiatric beds from the 1987 SHP as the low range of bed need.

¹² These states are Alaska, Idaho, Montana and Oregon.

Step 4: Subtract the supply determined in Step 3 from the low and high estimates determined in Step 2. This represents the low and high estimates of projected un-met need for Snohomish County adult residents. Table 5 shows the results of this methodology.

**Table 5
Snohomish County Psychiatric Bed Need Calculations
Without Cascade Psychiatric Beds**

	2014	2015	2016	2017	2018	2019	2020	2021
Snohomish County Adult Population	565,974	574,647	583,320	591,992	600,665	609,338	617,779	626,220
Low Estimate								
Low Ratio	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Gross Bed Need	74	75	76	77	78	79	80	81
Current Supply	128	128	128	128	128	128	128	128
Net Psych. Bed Need (Surplus)	(54)	(53)	(52)	(51)	(50)	(49)	(48)	(47)
High Estimate								
High Ratio	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	152	157	159	161	164	166	168	171
Current Supply	128	128	128	128	128	128	128	128
Net Psych. Bed Need	24	29	31	33	36	38	40	43

As shown in table 5 there is no numeric need for psychiatric beds using the 13.0 beds per 100,000 population. Using 27.25 beds per 100,000, table 5 shows a numeric need for 24 beds in 2014 and grows to 43 in 2021. Even if the projection is extended beyond 2030 the need for psychiatric beds is projected for only 61 psychiatric beds not the 80 beds being requested. The numeric bed need projection does not come close to supporting the proposed 80-bed project.

To further evaluate this sub-criterion, the department reviewed the assumptions used by Cascade to determine the projected number of patients and patient days for the new hospital. The assumptions are summarized below. [Source: Application, p12]

The Cascade patient day projections are based on the assumptions listed below.

- Baseline need calculated separately for ages 18-64 and 65+ using age specific use rates
- Net King County in migration projected at 20%
- RSN net in migration projected at 10%
- ALOS increased from 10 to 12
- Additional admissions projected for geriatric patients with an ALOS of 16
- Additional admissions for veteran population coming from outside Snohomish County
- Primary service area is Snohomish County
- Secondary service area includes King, Skagit, Whatcom, Island, and San Juan counties

The projected psychiatric patient days for Cascade are shown in the table 6.

**Table 6
Cascade Total Projected Patient Days**

	2016	2017	2018	2019
Patient Days	6,590	13,638	20,576	26,356
ADC	18.1	37.4	56.4	72.2
% Occupancy	23%	47%	70%	90%

Snohomish County currently has one hospital providing psychiatric services and two hospitals with Certificate of Need approval to provide adult psychiatric services. The Fairfax North psychiatric hospital's first full year of operation will be 2015 and the US HealthVest psychiatric hospital's first full year of operation will be 2016. This means that 105 psychiatric beds will be added to the supply of psychiatric beds in Snohomish County by 2016. As a result the department will evaluate the patient days needed to support these 105 beds along with the 80 bed Cascade proposal.

The department used Cascade's total projected Snohomish County patient days based on resident use rate. The department reviewed the BHC Fairfax's 30-bed hospital application's assumptions supporting their patient day projections. In their application, 100% of patient days were attributed to Snohomish County residents. The department also reviewed the US HealthVest's 75-bed hospital application's assumptions supporting their patient day projections. In their application 75% of patient days were attributed to Snohomish County residents. The department then identified Snohomish County patient days for the existing provider as reported to CHARS and used the data from the applications of BHC Fairfax's and US HealthVest's previously approved projects. Table 7 shows the number of Snohomish County resident patient days available to a new applicant assuming the existing and CN approved projects meet their Snohomish County resident projections.

**Table 7
Snohomish County Resident Adult Patient Day Analysis**

	2016	2017	2018	2019	2020
Cascade's total projected Snohomish County patient days based on resident use rate ¹³	20,884	22,084	23,397	23,697	24,003
Snohomish County Patient Days reported to CHARS or from previously approved project applications					
Swedish Edmonds-existing ¹⁴	4,648	4,648	4,648	4,648	4,648
Fairfax North-CN approved ¹⁵	8,130	8,678	9,043	9,225	9,225
US HealthVest-CN approved ¹⁶	5,537	10,462	12,656	12,656	12,656
Total projected patient days (existing and CN approved)	18,315	23,788	26,347	26,529	26,529
Net Snohomish Resident Patient Days Available to Applicant (number exceeding total projected patient days)	2,569	(1,704)	(2,950)	(2,832)	(2,526)
Cascade's projected Snohomish county patient days	6,915	8,155	9,469	9,768	10,075

¹³ Cascade Application p43

¹⁴ Department used 2012 CHARS data and holding the number at the 2012 level.

¹⁵ Fairfax North application page 38, Snohomish County resident patient days only

¹⁶ US HealthVest application page 27 (2015 through 2017) & projecting forward at the 2017 patient days, Snohomish County resident patient days only.

Table 7 shows the total projected Snohomish County resident patient days, as projected by Cascade, are not enough to support Cascade's 80-bed project.

Cascade is also counting on 20% in migration from King County and another 10% from North Sound RSN counties. Cascade used historical patient migration patterns to develop its projected in migration rate and patient days for King County. King County has had new psychiatric beds approved in late 2013. The department expects these new beds and completion of BHC Fairfax-Kirkland's current construction project to reduce the need for King County patients to leave the county for care. Therefore the department concludes the 20% in migration projections are unreasonable.

Finally Cascade is projecting to serve US veterans not residing in Snohomish County. Cascade projected these veterans would represent 4.7% of their patient days in year 1 and increasing to 7.9% in 2027. The application did not contain the basis for these projections. Therefore the department cannot evaluate the reasonableness of these projections.

Based on evaluation of the source documents, need for an 80-bed psychiatric hospital located in Snohomish County has not been demonstrated. **This sub-criterion is not 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.

Cascade is currently a provider of health care services to the residents of Washington State. To ensure that all residents of the service area would have access to the services provided by this applicant, Cascade must provide specific documentation to demonstrate availability to all residents of the service area and a commitment to maintain its Medicare and Medicaid participation and provide a percentage of charity care in the planning area.

Admission Policy

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

To demonstrate compliance with this sub-criterion, Cascade provided a copy of the Admission Policy to be used at the psychiatric hospital. The policy is a draft, and outlines the criteria that the hospital would use to admit patients for psychiatric treatment at the hospital. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, color, age, religion, sex, national origin, physical capability/disability, political affiliation, veteran status, or ability to pay. [Source: Application, Appendix G]

Medicare and Medicaid Programs

The department uses Medicare certification to determine whether the elderly would have access or continue to have access to the proposed services. To demonstrate compliance with this sub-

criterion, Cascade provided its projected source of revenues by payer for the psychiatric hospital. Medicare revenues are projected to be 36% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues.

The department uses the facility's Medicaid certification or contracting with Medicaid to determine whether low-income residents would have access to the proposed services. To demonstrate compliance with this sub-criterion, Cascade also provided its projected percentage of Medicaid revenues at 30.0% for the psychiatric hospital. Additionally, the financial data provided in the application shows Medicaid revenues. [Source: Application p52 and November 8, 2013, supplemental information, Appendix SC1-B]

Public Comment

At the public hearing BHC Fairfax submitted a hand written comment that a King County mental health coordinator had announced that Cascade would not be taking Medicaid or ITA patients at their King County facility.

Rebuttal

Cascade reported that they have applied for Medicare/Medicaid certification for their hospital in King County and will be seeking the additional certification required to accept ITA patients.

Department Review

The department has confirmed that the Cascade has obtained Joint Commission accreditation for their King County facility and has received their Medicare provider number. The department confirmed with the Washington State Mental Health Division that Cascade has requested an application to provide involuntary treatment services but have not submitted yet their application as of July 31, 2014 to the department's knowledge. Considering Cascade has yet to actually apply for approval to provide involuntary treatment services at its King County facility, the department cannot conclude that Cascade would apply for certification to provide ITA services at its Snohomish County facility.

Charity Care Policy

For hospital projects, the department must determine whether the proposed hospital is projecting to meet or exceed the regional average level of charity care.¹⁷ A facility's charity care policy should confirm that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to healthcare services of the applicant. The policy should also include the process one must use to access charity care at the facility.

To demonstrate compliance with this sub-criterion, Cascade provided a copy of its charity care policy to be used at the psychiatric hospital. The policy is a draft and outlines the process one must follow to obtain charity care. Since the policy is a draft and the proposed hospital is not operational, the policy has not been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. However, Cascade's King County facility which was licensed December 12, 2013 should have an approved department policy. Cascade's King County facility's charity care policy is currently under review by HPDS but has not been approved because changes are needed to bring it into compliance with the charity care policy requirements. A comparison of King County's policy and the draft provided in this application shows the two

¹⁷ RCW 70.38.115(2)(j) and WAC 246-310-210(2)

policies contain the same language. Therefore the draft charity care policy contained in the application is not consistent with the department’s charity care policy requirements.

For charity care reporting purposes, HPDS divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Cascade’s psychiatric hospital would be located in Snohomish County within the Puget Sound Region. Currently there are 19 operating hospitals located within this region and two recently approved, yet not operational hospitals in the region. The 19 operating hospitals are general acute care hospitals, and with the exception of Swedish-Edmonds, typically provide psychiatric services to a small number of patients in the planning area. Swedish Edmonds has a 23-bed psychiatric unit and provides more psychiatric patient days than the other acute care hospitals in the region. The CN approved, yet not operational, hospitals are the recently approved 30-bed BHC Fairfax Hospital to be located within space at Providence Regional Medical Center-Everett and the US HealthVest 75-bed psychiatric hospital to be located in Marysville.

The pro forma financial documents provided in the application include a charity care 'line item' as a deduction of revenue. [Source: Application, Appendix G & November 8, 2013, supplemental information, Appendix SC1-B] Table 8 shows the three-year average of charity care provided by the 19 licensed hospitals in the Puget Sound region and the three year average of charity care projected to be provided at Cascade’s psychiatric hospital. [Source: November 8, 2013 Supplemental Material, Appendix SC-1B and HPDS 2010-2012 charity care summaries]

**Table 8
Cascade Charity Care Percentage Comparisons**

	% of Total Revenue	% of Adjusted Revenue
Puget Sound Region	2.66%	5.80%
Cascade-Projected	2.10%	2.70%

As shown in Table 8, Cascade intends to provide charity care below the regional averages. By Cascade submitting an application with these low charity care percentages, it appears that they are not recognizing their responsibility to provide an appropriate level of charity care. This is particularly troubling since Cascade’s King County Certificate of Need was issued with a required level of charity care condition. These low percentages in combination with the draft charity care policy that does not meet the department requirements results in the department concluding Cascade’s proposal is not consistent with the services being available to underserved groups.

Based on the source documents evaluated, the department concludes, **this sub-criterion is not met.**

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

Based on the source information reviewed, the department concludes that Cascade has not 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.

If this project is approved, Cascade expects to begin providing psychiatric services in Snohomish County in January 2016. [Source: Application, p12] Based on this timeline, year 2016 would be full calendar year one with the 80-bed hospital and 2018 would be year three.

A key element of a psychiatric hospital project’s financial feasibility is its assumptions used to develop its financial projections. Cascade provided its pro forma revenue and expense statements using the assumptions summarized below. [Source: November 8, supplemental information, Attachment SC1-B]

- Total Patient days: 2016 is 6,612; 2017 is 13,644; and 2018 is 20,574
- Payer mix is 35.0% Medicare; 30.0% Medicaid, 35.0% commercial/other/self-pay.
- Gross revenue per day is projected to be \$1,050 which is a blend of rates for the payors included above
- Net revenue per day is projected to be \$828 based on anticipated contractual deductions for the payors listed above
- Charity care is calculated at 1.6% of gross patient revenue.
- Bad debt is calculated at 1.4% of gross patient revenue.
- Operating expenses were calculated using the experience of hospitals previously operated by Acadia Healthcare Inc.
- Salaries based on the staffing model included in the application
- Benefit expense is based on cost of Cascade standard benefit package
- Purchased Services/Professional Fees based on costs of securing outside professional services
- Supplies and utilities estimated based on local costs
- Insurance based on estimated costs provided by Acadia Risk Management department
- Property taxes are estimated based on location

Using the assumptions above, table 9 illustrates the projected revenue, expenses, and net income for CY 2016 through 2018 for Cascade’s 80 bed psychiatric hospital. [Source: November 8, supplemental information, Attachment SC1-B]

Table 9
Cascade 80-bed Psychiatric Hospital
Projected Revenue and Expenses for Calendar Years 2016 - 2018

	2016 1st Full Year	2017 2nd Full Year	2018 3rd Full Year
Net Revenue	\$5,261,001	\$10,628,110	\$15,893,916
Total Expenses	\$8,039,101	\$11,689,374	\$13,926,094
Net Profit or (Loss)	(\$2,778,100)	(\$1,061,264)	\$1,967,822

[2] Includes depreciation and loan principal expenses

The ‘Net Revenue’ line item above includes both inpatient and outpatient gross revenue, minus any deductions for bad debt, charity care, and contractual allowances. ‘Total Expenses’ include all operating expenses, corporate allocated costs, depreciation, and loan principal expenses. This net profit or loss does not include income tax expense.

As shown in the table 9, Cascade projects the new psychiatric hospital would operate at a loss in years one and two and operate at a profit in year three. The net profit or loss for each year is dependent on Cascade being able to achieve the projected patient days.

To assist in the evaluation of this sub-criterion, the department’s Hospital and Patient Data Systems (HPDS) office reviewed a historical balance sheet for Acadia and a projected balance sheet for Cascade. The information is shown in the tables 10 and 11. [Source: May 29, 2014, HPDS analysis, p2]

**Table 10
Acadia Balance Sheet
Historical 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 [depreciation]	\$605,490,000	Equity	\$432,550,000
Total Assets	\$983,413,000	Total Liabilities and Equity	\$983,413,000

**Table 11
Cascade Balance Sheet
Projected Year 2019**

Assets		Liabilities	
Current Assets	\$5,847,936	Current Liabilities	\$12,096,785
Fixed Assets	\$56,607,474	Long Term Debt	\$0
Board Designated Assets	\$0	Other Liabilities	\$0
Other Assets [depreciation]	\$0	Equity	\$50,358,625
Total Assets	\$62,455,410	Total Liabilities and Equity	\$62,455,410

Includes Cascade Hospital King County & Cascade Hospital Snohomish County

After reviewing the balance sheet above, HPDS determined that the capital expenditure for this project will be 2.49% of Acadia’s 2012 assets and 5.66% of Acadia’s 2012 equity. Acadia will be using internal funds to finance this project.

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

For Certificate of Need applications, HPDS compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2012 data for comparison with projected years 2016 through 2018. The ratio comparisons are shown in the table below. [Source: May 29, 2014, HPDS analysis, p3]

**Table 12
Current and Projected HPDS Debt Ratios for Cascade**

Category	Trend*	State 2012	Cascade 2012	Projected Year 1	Projected Year 2	Projected Year 3
Long Term Debt to Equity	B	0.599	1.076	N/A	N/A	N/A
Current Assets/Current Liabilities	A	1.799	1.962	0.640	1.050	0.318
Assets Funded by Liabilities	B	0.473	0.547	0.098	0.082	0.252
Operating Expense/Operating Revenue	B	0.945	0.919	1.528	1.100	0.876
Debt Service Coverage	A	5.328	1.553	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					

* A is better if above the ratio, and B is better if below the ratio

This project will not adversely impact the financial health of the hospital if the patient volume is realized. There is no long term debt assigned to Cascade. The current asset to current liabilities is out of range. The proforma balance shows in assets the hospital holds no reserves in cash which means the parent corporation holds that asset; and in liabilities the hospital has a revolving account instead of long term debt which puts debt in the current category instead of the long term debt category. This appropriate financial practice causes the current asset to current liabilities to be out of normal range but it is still acceptable practice. The operating expense/operating revenue ratio is also out of range. The hospital by the third year has significant operating profit. A review of the income statement shows the hospital reports no increase in cost for several categories such as insurance and utilities as the volume of patients increase. Other expenses do not increase as fast as the patient days increase thus adding to the increasing profit. The hospital is breaking even by the end of the review period. [Source: July 21, 2014, HPDS analysis, p3]

The department's analysis under WAC 246-310-210 does not support Cascade being able to meet their patient day projections. Therefore the financial analysis presented above which relied on Cascade's patient day projections are not likely to materialize. **This sub-criterion is not 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 construction of this 53,800 square foot, 80-bed psychiatric hospital is \$24,500,000. A breakdown of the costs is shown below. [Source: November 8, 2013, supplemental information, Appendix SC1-F8]

Table 13
Capital Cost Breakdown

Item	Cost	% of Total
Land Purchase	\$5,560,000	22.7%
Construction Costs [includes fixed equipment]	\$14,720,000	60.0%
Moveable Equipment	\$700,600	2.9%
Architect/Engineering Fees	\$1,500,000	6.0%
Site Preparation	\$225,000	0.9%
Supervision & Inspection	\$ 195,000	1.0%
Sales Tax	\$1,600,000	6.5%
Total	\$ 24,500,000	100.00%

Cascade stated the new 80-bed psychiatric hospital would be located at the Northeast corner of 23rd Drove Southeast and 220th Street Southeast Bothell, within Snohomish County. The property has not yet been assigned an address and Cascade has agreed to provide an address when available. To demonstrate compliance with this sub-criterion, Cascade provided documents related to the site. A summary of each document is provided below. [Source: October 17, 2013, supplemental information, May 14, 2014 Rebuttal documents pp1-2 & Exhibit A]

- Purchase and Sale Agreement

Cascade submitted a fully executed purchase and sales agreement to the department on October 17, 2013 for the property described in their certificate of need application. This agreement is dated October 14, 2013. Cascade has also submitted to the department documentation of a \$10,000 per month option payment for a 30 day extension of the original 180 day due diligence period. [Source: May 14, 2014 Rebuttal Comments pp1-2]

This agreement is between Cascade Behavioral Health LLC and its parent corporation Acadia HealthCare Company Inc.[purchaser] and Icos Corporation [seller]. The agreement identifies the location of the site, purchase price, and certain regulatory requirements that must be obtained by the purchaser. The agreement outlines roles and responsibilities of both purchaser and seller.

- Zoning Information

Cascade provided a map of the Bothell area where the hospital would be located, and specific zoning information for the site. According to the map, the site is zoned: for Business/Professional, light industrial. The zoning map indicates a hospital is a permitted use in the proposed location with a conditional use permit. Cascade has had preliminary discussions with the city of Bothell. If this project is approved, the department would require Cascade to submit a copy of the approved conditional use permit prior to issuing the Certificate of Need.

As a 53,800 square foot hospital, either an Environmental Impact Statement or a Declaration of Non-Significance must be completed. By statute, the department may not issue a Certificate of Need until one or the other has been obtained. The department is however permitted to issue a “Letter of Intent to Issue”. Therefore if this project is approved the department would issue a “Letter of Intent to Issue” that would include all conditions.

The costs of the project, including construction costs, will probably result in an unreasonable impact on the costs and charges for health services. As evaluated in the need section of this analysis, the department concluded that Snohomish County could not support an additional 80-beds at the patient day level Cascade projected in addition to the beds previously approved. The department's analysis under WAC 246-310-220(1) does not support Cascade's ability to meet its 3 year patient day projections to be financial feasibility. If Cascade's projected patient days are not met, Cascade would have to do one or more of the following:

- Adjust its charges and rates
- Reduce or restrict service availability
- Engage in activities that would result in other psychiatric providers losing patient days.

In any case, these are likely to result in an unreasonable impact on the costs and charges for health services. Based on the source documents evaluated, the department concludes **this sub-criterion is not 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 construction of the 80-bed psychiatric hospital is \$24,500,000. The costs include purchase of the land, constructing and equipping the building, all construction and consultant fees, plus Washington State sales tax. Cascade states the project will be funded with reserves from Acadia. To demonstrate compliance with this sub-criterion, Cascade provided a letter from the Acadia's Chief Financial Officer demonstrating the corporation's financial commitment to establish Cascade. The letter assured financial support for the new psychiatric hospital through cash reserves available from that organization [Source: Supplemental Material, Attachment 2]. Acadia also provided its three most recent audited financial statements for years 2012, 2011, and 2010.

Use of internal funds of a parent corporation is an appropriate way to fund a construction project as long as the parent corporation has adequate reserves. The department reviewed Acadia's audited financial statements for 2012. That "snapshot" in time shows the funds necessary to finance the project are available. [Source: Application, Appendix M & November 8, 2013 Supplemental Materials, Appendix SC1-H] **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 Cascade 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.

The hospital is expected to become operational in January 2016 with all 80 psychiatric beds. Under this timeline, full calendar year one is 2016 and full year three is 2018. Staffing for the psychiatric hospital is based on the projected occupancy of 23% in year one, 47% in year two, and 70% in year three. Projected staffing is shown in table 14. [Source: Application, p8]

**Table 14
Cascade 80-bed Psychiatric Hospital**

	2016	2017 Increase	2018 Increase	Total
Nursing	15.1	12.2	4.9	32.2
Mental Health Tech.	15.1	10.3	3.2	28.6
Physicians	2.8	2.0	1.4	6.2
Therapists	2.8	1.8	1.4	6.0
Billing	3.0	0.5	0.5	4.0
Chief Executive Officer	1.0	0.0	0.0	1.0
Chief Financial Officer	1.0	0.0	0.0	1.0
Business Development	2.0	1.0	1.0	4.0
Health Information Management	2.0	1.3	0.7	4.0
Housekeeping	4.2	1.4	0.0	5.6
Maintenance	4.2	0.0	1.4	5.6
Dietary	4.2	0.0	1.4	5.6
Total	57.4	30.5	15.9	103.8

Cascade is proposing to initially staff the hospital with 57.4 FTEs in 2016, add 30.5 FTEs in 2017, and add another 15.9 FTEs in 2018 for a total of 103.8 FTEs at the end of 2018. [Source: November 8, 2013 Supplemental Materials pg8 & Appendix SC1-B] The applicant reports that as they expand, they will recruit using Cascade’s successful and proven practices. The application states “*Cascade 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, p53]

The number of FTEs and recruitment approaches outlined above appear to be a reasonable approach to securing needed staffing for the 80 bed facility.

A Medical Director has not been identified for Cascade. Cascade did provide a draft Medical Director’s contract that outlined the role and responsibilities of the Medical Director. If this project is approved, prior to providing services, Cascade must provide the department copy of the executed

Medical Director's contract consistent with the draft contract submitted in the application. Additionally, Cascade must provide the Medical Director's name and professional license number for review and approval.

Based on the source documents evaluated, and acceptance of the Medical Director condition, the department concludes **this sub-criterion is met**.

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet regarding appropriate relationships with ancillary and support services. Therefore, using its experience and expertise the department assesses this sub-criterion.

Cascade expects the new psychiatric hospital to become operational in January 2016. As a result, formal and informal working relationships with area healthcare providers have not yet been established. To demonstrate compliance with this sub-criterion, Cascade stated “..will provide the required on-site ancillary and support services (dietary and recreational therapy) and will purchase laboratory and pharmacy services from qualified vendors.” Given that Cascade has not established any ancillary and support agreements for the new hospital yet, if this project is approved, a condition would be necessary. The department would attach a condition requiring Cascade to provide prior to providing services a listing of the vendors providing ancillary and support services on a contractual basis for the 80-bed psychiatric hospital.

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

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

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

Cascade will seek Joint Commission Accreditation. As a Joint Commission accredited hospital, Cascade would be deemed Medicare and Medicaid certified. Since Cascade will be a new hospital, it does not have a history of Medicare certification or inspections by the Department of Health. The Cascade Hospital in King County began operating in December of 2013 so it does not have a history of Medicare certification or inspections by the department other than the initial licensing inspection. On February 26, 2014, Cascade's King County hospital was accredited by the Joint Commission.

The department also reviews Acadia's history from other states where it owns or operates healthcare facilities. The department surveyed the thirteen states where Acadia owns or operates

healthcare facilities.¹⁸ Seven states provided responses.¹⁹ There were no adverse licensing actions or fines reported to the department. [Source: DOH surveys]

Based on the source documents evaluated, the department concludes there is reasonable assurance that the project will be in conformance with applicable state licensing 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.

Prior to its opening in January 2016, relationships with area healthcare providers will be established. The applicant reports the Cascade start-up team will contact all relevant providers and develop appropriate relationships. The relationships will include both those organizations that will rely on Cascade for inpatient referrals and those organizations to which Cascade will refer patients for outpatient and follow-up, post-acute care services, and housing. [Source: Application, p55] If this application is approved, the department would attach a condition requiring Cascade to provide a listing of healthcare providers it has established working relationships with prior to providing services.

Provided that the applicant agrees to the condition related to appropriate working relationships, the department concludes **this sub-criterion is met**

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

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

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

Based on the source information reviewed, the department concludes that Cascade has not met the cost containment criteria in WAC 246-310-240.

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

To determine if a proposed project is the best alternative, the department takes a multi-step approach. First the department determines if the application has met the other criteria of WAC 246-310-210 thru 230. If the project has failed to meet one or more of these criteria then the project cannot be considered to be the best alternative in terms of cost, efficiency, or effectiveness as a result the application would fail this sub-criterion.

¹⁸ Surveys were sent to Arizona, Arkansas, Delaware, Georgia, Mississippi, Missouri, Nevada, New Mexico, Ohio, Tennessee, Texas, and Utah.

¹⁹ Surveys were returned from Arizona, Arkansas, Delaware, Louisiana, Missouri, Ohio, and Texas.

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

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

The department in this evaluation concluded Cascade did not meet the applicable review criteria under WAC 246-310-210 (need) and WAC 246-310-220 (financial feasibility). Therefore, the department concludes this project is not the best available alternative in terms of cost, efficiency, or effectiveness. **This sub-criterion is not met.**

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

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

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

This project involves construction of a 53,800 square foot, 80-bed hospital at a cost of \$24,500,000. If this hospital was built, the department would expect it to meet the required construction standards for a psychiatric hospital licensed in Washington State. However, in the need section of this analysis, the department concluded that Snohomish County could not support an additional 80-beds in addition to the beds previously approved. Therefore, any costs expended to construct the hospital would be unreasonable. **This sub-criterion is not 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.

In the need section of this analysis, the department concluded that Snohomish County could not support an additional 80-beds in addition to the beds previously approved. Approving an unneeded 80-bed hospital is likely to have an unreasonable impact on existing or CN approved providers if Cascade met its patient day projections. In the financial feasibility section of this analysis the department concluded that the patient days projected to show the project would be financially feasible were not supported upon evaluation. Therefore, approving an unneeded 80-bed hospital

and its related costs would likely have an unreasonable impact on the costs and charges to the public of providing health services by other persons. **This sub-criterion is not 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.*

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