



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH

January 9, 2014

CERTIFIED MAIL # 7011 2000 0000 5081 8760

Martin Schweinhart, SVP-Operations  
CHS/Community Health Systems  
4000 Meridian Boulevard  
Franklin, Tennessee 37067

RE: CN 14-12

Dear Mr. Schweinhart:

We have completed review of the Certificate of Need (CN) application submitted by CHS/Community Health Systems proposing purchase of Toppenish Community Hospital located in Yakima County. For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided CHS/Community Health Systems agrees to the following in its entirety:

**Project Description:**

This certificate approves the merger and affiliation between CHS/Community Health Systems and Health Management Associates, including its affiliate Yakima HMA, LLC. The merger and affiliation results in the change of ownership for Toppenish Community Hospital located in Yakima County.

Toppenish Community Hospital is a 63-bed Medicare and Medicaid acute care hospital that provides acute care services to the residents of Toppenish and surrounding communities. The breakdown of the 63 acute care beds is shown below.

**Toppenish Community Hospital  
Licensed Beds as of December 31, 2013**

Type	# of Beds
Medical/Surgical	63
<b>Total</b>	<b>63</b>



**Conditions:**

1. Approval of the project description as stated above. CHS/Community Health Systems further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. CHS/Community Health Systems agrees to continue services identified in the application at Toppenish Community Hospital for a minimum of ten years.
3. By February 28, 2014, CHS/Community Health Systems will provide to the department for review and approval copies of the charity care policy to be used at Toppenish Community Hospital. The charity care policy will be reviewed and approved by the Department of Health's Hospital and Patient Data Systems office.
4. Under the CHS/Community Health Systems ownership, Toppenish Community Hospital will provide charity care in compliance with the charity care policy referenced above, or any subsequent policies reviewed and approved by the Department of Health. CHS/Community Health Systems will use reasonable efforts to provide charity care at the Toppenish Community Hospital in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Central Region. Currently, this amount is 2.15% for gross revenue and 4.92% for adjusted revenue. Toppenish Community Hospital will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.
5. Annual budgets, as required by WAC 246-454-030, submitted by CHS/Toppenish Community Hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Central Region.
6. Within 60 days of completion of the class action lawsuits related to the amount of charity care provided at Toppenish Community Hospital, CHS/Community Health Systems must provide the documentation showing the final outcome of the lawsuit to the Department of Health's Certificate of Need Program

**Approved Costs:**

The approved capital expenditure for the purchase of Toppenish Community Hospital and its operations is \$29,000,000.

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

Martin Schweinhart, SVP-Operations  
CHS/Community Health Systems  
January 9, 2014  
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Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

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

Other Than By Mail:  
Department of Health  
Certificate of Need Program  
111 Israel Road SE  
Tumwater, WA 98501

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Steven M. Saxe". The signature is stylized and overlaps the printed name below it.

Steven M. Saxe, FACHE  
Director, Community Health Systems

Enclosure

**EVALUATION DATED JANUARY 9, 2014, OF THE CERTIFICATE OF NEED  
APPLICATION SUBMITTED BY CHS/COMMUNITY HEALTH SYSTEMS PROPOSING  
TO PURCHASE TOPPENISH COMMUNITY HOSPITAL IN YAKIMA COUNTY**

**BACKGROUND INFORMATION**

Health Management Associates (HMA), a Delaware corporation located in Naples Florida, is a for-profit corporation that operates acute care hospitals primarily in the southeast and southwest areas of the United States. As of the writing of this evaluation, HMA owns and operates approximately 71 hospitals in 15 states, including two hospitals in Washington State.

On March 17, 2003, HMA created a Washington State subsidiary known as Yakima HMA, LLC for the purpose of purchasing and operating both Providence Toppenish Hospital and its sister hospital located in Yakima County--Providence Yakima Medical Center. On August 12, 2003, Certificate of Need (CN) #1270 was issued to Yakima HMA, LLC for the purchase of the Toppenish facility and CN #1271 was issued for the purchase of the Yakima facility.<sup>1</sup> [source: HMA website and CN historical files; CN Applications #03-26 and #03-27]

On July 29, 2013, HMA and Community Health Systems, Inc. entered into an Agreement and Plan of Merger [Agreement]. The Agreement will result in the merger of HMA and a wholly owned subsidiary of Community Health Systems, Inc.—CHS/Community Health Systems. Once the Agreement is executed, Yakima HMA, LLC will be 100% owned and operated by CHS/Community Health Systems. Since Yakima HMA, LLC is currently 100% owner and operator of both Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center, execution of the Agreement also results in a change of ownership of the two Yakima hospitals. CHS/Community Health Systems is the applicant for this project. [source: CN historical files and Application, p 3 and Exhibit 1]

This evaluation will focus on the purchase of Toppenish Community Hospital, and where necessary, will reference Yakima Regional Medical and Cardiac Center.

**APPLICANT DESCRIPTION**

CHS is a for-profit parent corporation of CHS/Community Health Systems. Neither CHS nor CHS/Community Health Systems are incorporated in Washington State. If this project is approved, Yakima HMA, LLC will continue to conduct business in Washington State as the licensee of Toppenish Community Hospital. As a result, Yakima HMA, LLC will continue to have direct operational responsibilities for the hospital, while CHS/Community Health Systems would have indirect ownership responsibilities. [source: November 8, 2013, supplemental information, p1]

**PROJECT DESCRIPTION**

Toppenish Community Hospital [TCH] is a Medicare and Medicaid acute care hospital located at 504 West 4<sup>th</sup> Avenue in Toppenish [98948], within Yakima County. TCH provides general medical surgical services to the residents of Toppenish and surrounding areas. The hospital holds a three-year accreditation from the Joint Commission, and is designated as a level IV trauma hospital for

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<sup>1</sup> Once purchased, Yakima HMA, LLC changed the names of the hospitals to Toppenish Community Hospital and Yakima Regional Medical Center and Cardiac Care. [source: CN historical files]

Washington State. TCH is currently licensed for 63 acute care beds, which are broken down by type in the table below. [source: CN historical files and Department of Health, ILRS database]

**Table 1**  
**Toppenish Community Hospital**  
**Licensed Beds as of December 31, 2013**

<b>Type</b>	<b># of Beds</b>
Medical/Surgical	63
<b>Total</b>	<b>63</b>

If this project is approved, CHS intends that TCH would continue participation in both the Medicare and Medicaid programs, and maintain all services currently offered by the hospital after the purchase. TCH would also continue to operate at its current site in Toppenish, within Yakima County. [source: Application, p10]

The Agreement between HMA and Community Health Systems, Inc. includes the merger of 71 HMA facilities into Community Health Systems, Inc. which includes the two facilities in Washington State. The capital expenditure allocated to the TCH portion of the merger is \$29,000,000. [source: Application, p11]

**APPLICABILITY OF CERTIFICATE OF NEED LAW**

This project is subject to review as the sale or purchase of a hospital under Revised Code of Washington 70.38.105(4)(b) and Washington Administrative Code 246-310-010(1)(b).

**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.”*

The review for the sale of a hospital is limited to only those criteria that would be affected by the sale. As a result, the department’s review will focus on applicable portions of need (WAC 246-310-210), financial feasibility (WAC 246-310-220), structure and process of care (WAC 246-310-230), and cost containment (WAC 246-310-240).<sup>2</sup>

**TYPE OF REVIEW**

This application was reviewed under the expedited review timeline outlined in WAC 246-310-150, which is summarized below.

**APPLICATION CHRONOLOGY**

<b>Action</b>	<b>CHS/Community Health Systems</b>
Letter of Intent Submitted	September 9, 2013
Application Submitted	October 11, 2013
Department’s pre-review activities including screening and responses	October 12, 2013, through November 14, 2013
Beginning of Review <ul style="list-style-type: none"> <li>• public comments accepted throughout review;</li> <li>• no public hearing conducted under the expedited review rules</li> </ul>	November 15, 2013
End of Public Comment	December 5, 2013
Rebuttal Comments Submitted <sup>3</sup>	December 20, 2013
Department's Anticipated Decision Date	January 9, 2014
Department's Actual Decision Date	January 9, 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.”*

<sup>2</sup> Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(1), (3), (5), and (6); WAC 246-310-240(2) and (3).

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

Throughout the review of this project, no entities sought and received affected person status under WAC 246-310-010(2).

**SOURCE INFORMATION REVIEWED**

- CHS/Community Health Systems, Inc.’s Certificate of Need application submitted October 11, 2013
- CHS/Community Health Systems, Inc.’s supplemental information received November 8, 2013
- Department of Health Hospital and Patient Data Systems Analysis dated December 30, 2013
- Licensing and/or survey data provided by the Department of Health’s Investigations and Inspections Office
- Washington State Secretary of State website at [www.sos.wa.gov](http://www.sos.wa.gov)
- Washington State Department of Revenue website at [www.dor.wa.gov](http://www.dor.wa.gov)
- Quality of care history for healthcare facilities located outside of Washington State and owned or operated by CHS or a subsidiary obtained by either the licensing/surveying entity for the state or from the Joint Commission compare website
- Joint Commission website at [www.qualitycheck.org](http://www.qualitycheck.org)
- Community Health Systems website at [www.chs.net](http://www.chs.net)

**CONCLUSIONS**

For the reasons stated in this evaluation, the application submitted by CHS/Community Health Systems proposing to merge with Health Management Associates and its affiliate Yakima HMA, LLC, including Toppenish Community Hospital in Yakima County is consistent with applicable criteria of the Certificate of Need Program, provided CHS/Community Health Systems agrees to the following in its entirety.

**Project Description:**

This certificate approves the merger and affiliation between CHS/Community Health Systems and Health Management Associates, including its affiliate Yakima HMA, LLC. The merger and affiliation results in the change of ownership for Toppenish Community Hospital located in Yakima County.

Toppenish Community Hospital is a 63-bed Medicare and Medicaid acute care hospital that provides acute care services to the residents of Toppenish and surrounding communities. The breakdown of the 63 acute care beds is shown below.

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<b>Type</b>	<b># of Beds</b>
Medical/Surgical	63
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**Conditions:**

1. Approval of the project description as stated above. CHS/Community Health Systems further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. CHS/Community Health Services agrees to continue services identified in the application at Toppenish Community Hospital for a minimum of ten years.
3. By February 28, 2014, CHS/Community Health Systems will provide to the department for review and approval copies of the charity care policy to be used at Toppenish Community Hospital. The charity care policy will be reviewed and approved by the Department of Health's Hospital and Patient Data Systems office.
4. Under the CHS/Community Health Systems ownership, Toppenish Community Hospital will provide charity care in compliance with the charity care policy referenced above, or any subsequent policies reviewed and approved by the Department of Health. CHS/Community Health Systems will use reasonable efforts to provide charity care at the Toppenish Community Hospital in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Central Region. Currently, this amount is 2.15% for gross revenue and 4.92% for adjusted revenue. Toppenish Community Hospital will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.
5. Annual budgets, as required by WAC 246-454-030, submitted by CHS/Toppenish Community Hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Central Region.
6. Within 60 days of completion of the class action lawsuits related to the amount of charity care provided at Toppenish Community Hospital, CHS/Community Health Systems must provide the documentation showing the final outcome of the lawsuit to the Department of Health's Certificate of Need Program

**Approved Costs:**

The approved capital expenditure for the purchase of Toppenish Community Hospital and its operations is \$29,000,000.

## **CRITERIA DETERMINATIONS**

### **A. Need (WAC 246-310-210)**

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that CHS/Community Health Systems has met the need criteria in WAC 246-310-210(2).

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

TCH has been an acute care hospital in Yakima County for many years and currently provides health care services to the residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. As a provider of acute care services, TCH currently participates in the Medicare and Medicaid programs. For this project, CHS must demonstrate 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 the service area would continue to have access to a hospital's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment. 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, CHS provided a copy of the Admission Policy currently used at TCH. If this project is approved, Yakima HMA, LLC would continue to be the licensee of the hospital and the current Admission Policy would continue to be used at TCH. The policy completed its most recent administrative review in March 2012. The policy outlines the process/criteria that the hospitals use to admit patients for acute care services. The policy also includes the necessary language to ensure all residents of the service area would have access to services at TCH. [source: Application, Exhibit 5]

In addition to the Admission Policy, CHS also provided the following two documents to ensure access to care for all individuals. [source: Application, Exhibit 5]

- A copy of the TCH End of Life Policy currently used at the hospital. This policy provides guidelines for withholding and withdrawing life-sustaining treatment for those terminally ill patients who have chosen non-curative care.
- A copy of the TCH Patient Self Determination Act currently used at the hospital. This policy provides guidelines when a patient exercises rights under a living will, power of attorney, or Washington's Natural Death Act.

#### 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 CHS provided the current and projected source of revenues by payer at TCH. Medicare revenues are, and would continue to be, 19.27% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, p4 & p11 and November 8, 2013, supplemental information, Attachment 7]

The department uses the facility's Medicaid eligibility or contracting with Medicaid to determine whether low-income residents would have access to the proposed services. To demonstrate compliance with this sub-criterion, CHS also provided the current and projected percentage of Medicaid revenues at 27.94% for TCH. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, p4 & p11 and November 8, 2013, supplemental information, Attachment 7]

### Charity Care Policy

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.

CHS provides the following statements regarding charity care at TCH. [source: Application, p15]

*“Toppenish operates with a nondiscrimination policy that will be adopted by CHS/CHS upon completion of the proposed transaction. This nondiscrimination policy assures access to all low income and other underserved groups. In addition, while Toppenish operates with a Department of Health approved charity care policy (included as Exhibit 3), CHS/CHS proposes to have Toppenish adopt the current charity care policy used by the hospitals operated by indirect subsidiaries of CHS/CHS in the greater Spokane area. We believe that the Spokane charity care policy is more inclusive than the charity care policy that is currently in place at Toppenish. Accordingly, the implementation of this proposed charity care policy is expected to increase the amount [of] charity care that is provided at Toppenish.”*

To demonstrate its intent to continue to provide charity care to residents, CHS submitted the following documents. [source: Application, Exhibits 3, 4 & 5]:

- A copy of the Yakima HMA, LLC existing charity care policy for TCH reviewed and approved by the Department of Health in January 2013.
- A copy of the Deaconess Hospital existing charity care policy reviewed and approved by the Department of Health in June 2012.
- A copy of the TCH Non-Discrimination Policy currently used at the hospital. This policy includes the required non-discrimination language.

The charity care policies outline the process a patient uses to access this service. Further, CHS included a 'charity care' line item as a deduction from revenue within the pro forma financial documents for TCH. [source: Application, Exhibit 5 and November 8, 2013, supplemental information, Attachment 7]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget Sound (less

King County), Southwest, Central, and Eastern. TCH is one of 21 hospitals located in the Central Region. According to 2009 - 2011<sup>4</sup> charity care data obtained from HPDS, TCH has historically provided less than the average charity care provided in the region. The table below is a comparison of the average charity care for the Central Region, and the historical and projected percentages of charity care for TCH. [source: November 8, 2013, supplemental information, Attachment 6 and HPDS 2009-2011 charity care summaries]

**Table 2**  
**Charity Care Percentage Comparisons**

	<b>% of Total Revenue</b>	<b>% of Adjusted Revenue</b>
Central Region	2.15%	4.92%
TCH Historical	1.33%	2.51%
TCH Projected	2.85%	5.40%

The pro forma revenue and expense statements submitted by CHS for TCH indicate that the hospital will provide charity care at approximately 2.85% of gross revenue and 4.92% of adjusted revenue. These percentages are higher than the regional average, and considerably higher than TCH’s historical averages. RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care.

During the review of this project, the department became aware of a class action lawsuit<sup>5</sup> filed by Columbia Legal Services related to charity care provided at both TCH and Yakima Regional Medical and Cardiac Center. The lawsuit alleges that the two hospitals ‘*create barriers to their own charity care programs, and shift a heavier charity care burden onto neighboring hospitals.*’ [source: October 23, 2013, media release by Columbia Legal Services]

Given that the lawsuit is undecided at the time of this decision, the department cannot provide a conclusion regarding it. If this project is approved, the department would include a condition requiring CHS to provide a copy of the document showing the final outcome of the lawsuit.

Related to the charity care percentages at TCH, the department acknowledges that TCH’s three-year historical average is significantly below that for the region and CHS projects to begin providing charity care at or above the regional average.

To ensure that the charity care averages will be consistent with the regional averages under new ownership, the department concludes that a condition related to the percentage of charity care to be provided at TCH is necessary if this project is approved. It is the practice of the department to attach a charity care condition for hospitals undergoing a sale/purchase/lease. The condition ensures that the new owner is informed of the Washington State charity care requirements before accepting responsibility of ownership and management of the hospital. Even though CHS is fully aware of Washington State charity care requirements, the department concludes the charity care condition is necessary for this project.

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<sup>4</sup> Year 2012 charity care data is not available as of the writing of this evaluation.

<sup>5</sup> A class action lawsuit is a lawsuit brought by one or more members of a large group of persons on behalf of all members of the group. [Source: Dictionary of Legal Terms, second edition]

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

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that CHS/Community Health Systems 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.

To evaluate this sub-criterion, the department first reviewed the assumptions used by CHS to determine the projected number of admissions, patient days, and occupancy of TCH after the purchase. The assumptions used by CHS are summarized below. [source: Application, pp7-11 and November 8, 2013, supplemental information, pp2-3]

- The number of beds will remain at 63.
- The services currently offered by TCH will remain. Services currently offered include OB and delivery, critical care, pediatric care, emergency services, diagnostic services, and inpatient / outpatient surgical services.
- The hospital will maintain both Medicare and Medicaid certifications.
- A review of years 2008-2012 historical data, inpatient days showed a decline in all years except 2011. The decline is attributed, in part, to declining lengths of stay, the impact of the recession, and the impact of health care reform. Since the historical trends shows a decrease in patient days, year 2014 is projected at 5,083 patient days, which is approximately 7% less than year 2012 at 5,459 patient days.
- Inpatient days for years 2015 and 2016 are projected to be a slight increase from 2014. Year 2015 is projected at 5,122 and 2016 is projected at 5,161.
- The hospital's 2008-2012 average daily census [ADC] ranged from 19.0 to 14.9. Projected year 2014 shows an ADC of 13.9, which holds relatively steady for projected years 2015 and 2016.
- The calculated inpatient occupancy is held steady at 22.3% for all three projected years. This occupancy is slightly less than year 2012 historical occupancy at 23.7%.

Using the assumptions stated above, CHS's projected number of inpatient and outpatient admissions and patient days. The projections are shown in the table on the following page. [source: Application, p6, pp9-10; and November 8, 2013, supplemental information, pp2-3]

**Table 3**  
**Toppenish Community Hospital**  
**Projected Years 2014 through 2016**

	<b>CY 2014 Full Year 1</b>	<b>CY 2015 Full Year 2</b>	<b>CY 2016 Full Year 3</b>
Projected Number of Inpatient Days	5,083	5,122	5,166
Calculated Inpatient Occupancy	22.1%	23.3%	22.5%
Projected Inpatient ADC	13.9	14.0	14.1
Projected Number Outpatient Visits	29,696	29,919	30,143

When compared to the five year historical data provided in the application, the department notes that projected inpatient days are expected to slightly increase each year, while the average daily census is expected to stay relatively constant. This information is consistent with the assumptions stated above. After reviewing CHS’s assumptions and projections stated above, the department concludes they are reasonable.

If this project is approved, CHS anticipates the purchase would close as close to January 1, 2014, as possible. Under this timeline, calendar year 2014 is TCH’s first full year of operation under CHS, and 2016 would be year three. CHS also provided its assumptions used to project revenue, expenses, and net income for THC. Those assumptions are summarized below. [source: Application, p11 and November 8, 2013, supplemental information, Attachment 7]

- Forecast years do not include inflation.
- FTEs are calculated using the assumption no significant increases will occur.
- Wages per hour and annual salaries are assumed constant at 2013 figures.
- Charity care is expected to increase from the current averages to 2.85% of gross revenue and 5.40% of adjusted revenues.
- Bad debt is held constant at 6.4% of gross revenues.
- Contractual allowances are held constant at 65.9% of gross revenues.
- Percentage of revenue by source is expected to remain the same. 19.3% Medicare; 27.9% Medicaid, and the remaining 52.8% from other insurance, workers compensation, HMO, etc.
- Combined regional (HMA Yakima, LLC) and corporate (CHS) allocations are included as a separate line item.

Using the assumptions stated above, CHS projected revenue, expenses, and net income for TCH. The projections are shown in the table on the following page. [source: November 8, 2013, supplemental information, Attachment 7]

**Table 4**  
**Toppenish Community Hospital**  
**Projected Years 2014 through 2016**

	<b>CY 2014</b> <b>Full Year 1</b>	<b>CY 2015</b> <b>Full Year 2</b>	<b>CY 2016</b> <b>Full Year 3</b>
Net Revenue	\$ 19,900,224	\$ 20,105,224	\$ 20,256,014
Total Expense	\$18,963,548	\$ 19,153,184	\$ 19,296,833
<b>Net Profit /(Loss)</b>	<b>\$ 936,676</b>	<b>\$ 952,040</b>	<b>\$ 959,181</b>
Minus Allocations	\$ 578,354	\$ 584,137	\$ 588,518
<b>Net Profit / (Loss)</b>	<b>\$ 358,322</b>	<b>\$ 367,903</b>	<b>\$ 370,663</b>

The ‘Net Revenue’ line item is gross inpatient and outpatient revenue, plus non-operating revenue, minus deductions for contractual allowances, charity care, and bad debt. The ‘Total Expenses’ line item includes salaries and wages, amortization, and depreciation. Both regional and corporate allocations are shown separately in each year. As shown above, CHS projected net profits in all years shown when allocated costs are included.

To determine whether CHS would meet its immediate and long range capital costs, the department’s Hospital and Patient Data Systems (HPDS) reviewed 2012 historical balance sheets for CHS as a whole. The information is shown in the table below. [source: HPDS analysis, p2]

**Table 5**  
**Community Health Systems Balance Sheet for Year 2012**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$ 3,419,142,000	Current Liabilities	\$ 2,143,220,000
Fixed Assets	\$ 7,151,873,000	Long Term Debt	\$ 9,451,394,000
Board Designated Assets	\$ 0	Other Liabilities	\$ 2,215,200,000
Other Assets	\$ 6,035,320,000	<b>Equity</b>	<b>\$ 2,796,521,000</b>
<b>Total Assets</b>	<b>\$ 16,606,335,000</b>	<b>Total Liabilities and Equity</b>	<b>\$ 16,606,335,000</b>

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

*“CHS CN capital expenditure for the 63 bed hospital is projected to be \$29,000,000. The transaction will be completed as a stock merger between CHS and HMA. The \$29,000,000 is an assigned value to the Toppenish facility with no actual funds changing hands for this specific transaction. The CHS balance sheet shows a strong position and that it has the assets to easily handle this project.”*

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

For Certificate of Need applications, HPDS compared the projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2011 data for comparison with historical year 2012 for CHS. Year 2011 data was also used as comparison for projected years 2014 through 2016 for TCH. The ratio comparisons are shown in the table below. [source: HPDS analysis, p2]

**Table 6  
Current and Projected HPDS Debt Ratios for CHS and Toppenish Community Hospital**

Category	Trend *	State 2011	CHS 2012	TCH 2014	TCH 2015	TCH 2016
Long Term Debt to Equity	B	0.565	3.380	0.423	0.423	0.423
Current Assets/Current Liabilities	A	2.029	1.595	5.335	5.338	5.339
Assets Funded by Liabilities	B	0.442	0.698	0.331	0.331	0.331
Operating Expense/Operating Revenue	B	0.965	0.973	0.982	0.982	0.982
Debt Service Coverage	A	4.340	2.591	N/A	N/A	N/A
<b>Definitions:</b>	<b>Formula</b>					
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 is above the ratio; and B is better if below the ratio.

Comparing CHS’s year 2012 ratios with the most current statewide ratios revealed that the all ratios are out of range. After evaluating CHS historical and TCH’s projected ratios and statement of operations, staff from HPDS provided the following analysis. [source: HPDS analysis, pp2-3]

*“For CHS 2012, all the ratios are out of range. However CHS is such a large corporation that its assets can easily handle this transaction. CON year 3 fiscal year end ratios for Toppenish are within acceptable range of the 2011 State average. The hospital is breaking even in the third year of operations. Review of the financial and utilization information show that the immediate and long-range capital expenditure as well as the operating costs can be met.”*

No public comments were submitted for this sub-criterion. Based on the information above, the department concludes that the immediate and long-range operating costs of the project can be met.

**This sub-criterion is met.**

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

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.

As stated in the project description section of this evaluation, CHS intends to maintain all current services at TCH. As indicated in the pro forma projections and further demonstrated within the application, CHS does not intend to increase charges for health services or change the payer mix to make a net profit. [source: November 8, 2013, supplemental information, Attachment 7]

No public comments were submitted for this sub-criterion. Based on the information provided above, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health services within the service area. **This sub-criterion is met.**

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

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

As stated in the project description section of this evaluation, this project is part of a larger merger between HMA and Community Health Systems, Inc. The capital expenditure allocated to the TCH portion of the merger is \$29,000,000. [source: Application, p11]

The terms and rates of financing were set in November 2013 and summarized below. [source: November 8, 2013, supplemental information, p4]

*“Based on the market place, CHS assumes that approximately 25.3% will be senior secured first lien term loan with an initial term of seven years and an interest rate expected to be London Interbank Offered Rate plus 375 basis points.<sup>6</sup> An additional 12.6% will be a senior secured first lien term loan with a maturity of 10/16/16 and an interest rate expected to be London Interbank Offered rate plus 325 basis points. Approximately 22.3% will be senior secured notes with a 7 to 10 year term and a projected 6.0% interest rate. Additionally, 39.8% will be senior unsecured notes with a 7 to 10 year term and a projected 7.5% interest rate.”*

To demonstrate a financial commitment to the project, CHS provided a copy of the “Unanimous Written Consent of the Board of Directors of the Corporation” signed and dated October 7, 2013. [source: Application, Exhibit 8] The document confirms financial support for the merger and authorization to incur a capital cost of \$29,000,000 for TCH. CHS also provided a copy of TCH's 2012 unaudited financial statements and CHS's 2010, 2011, and 2012, audited financial statements. [source: Application, Appendices 1 and 2]

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<sup>6</sup> A ‘basis point’ is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security. The relationship between percentage changes and basis points can be summarized as follows: 1% change = 100 basis points; and 0.01% = 1 basis point. So, a bond whose yield increases from 5% to 5.5% is said to increase by 50 basis points; or interest rates that have risen 1% are said to have increased by 100 basis points. [source: [www.investopedia.com](http://www.investopedia.com)]

Further, HPDS staff reviewed the historical and projected financial data for CHS and concluded that the short- and long-range costs of the project could be met with approval of this project. Even with the combined stock transfer of both Yakima Regional Medical and Cardiac Center [\$177,000,000] and Toppenish Community Hospital [\$29,000,000], HPDS concluded that CHS continues to be in strong financial health.

Based on the review above, the department concludes **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 that CHS/Community Health Systems 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.

CHS states that there are no anticipated changes in hospital clinical staffing or physician privileges. The current TCH medical staff will remain, although there may be some coordination of administrative functions. There are no immediate planned changes in staffing since the scope of services and projected number of admissions and patients days is not expected to significantly change. [source: Application, p25 and November 8, 2013, supplemental information, Attachment 7]

CHS also provided current and projected FTEs [full time equivalents] for TCH in the first three calendar years of operation. CHS does not expect any increase or decrease in FTEs in the three year period. The table below provides a breakdown of FTEs. [source: November 8, 2013, supplemental information, Attachment 1]

**Table 7  
Toppenish Community Hospital  
Current and Proposed FTEs**

<b>FTE by Type</b>	<b>Current Year 2013</b>	<b>Projected Year 2016</b>
Administrative Support	15.80	15.80
Craft Workers	2.00	2.00
Senior Level Managers	2.00	2.00
First/Mid-Level Managers	12.00	12.00
Professionals (RNs, etc.)	49.30	49.30
Service Workers (cafeteria, etc.)	20.60	20.60
Tech/Professional	31.80	31.80
<b>Total FTEs</b>	<b>133.50</b>	<b>133.50</b>

As shown in the table above, all key staff is already in place and CHS does not expect an increase in staff. CHS anticipates the change in ownership will be seamless for both staff and patients. [source: Application, p 25]

No public comments were submitted for this sub-criterion. Based on the information provided in the application, the department concludes that CHS provided documentation to demonstrate that it would continue to retain the necessary staff to provide the services at the hospital. **This sub-criterion is met.**

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

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

CHS states that all existing relationships will continue and, if necessary, may expand. To comply with this sub-criterion, CHS provided a listing of the current ancillary and support relationships in place for TCH. The listing includes healthcare providers, such as home health agencies, skilled nursing facilities, dialysis facilities, home infusion agencies, and medical equipment suppliers. [source: November 8, 2013, supplemental information, Attachment 2]

Documentation provided in the application demonstrates that CHS intends to continue working with existing providers to the betterment of the community. CHS does not intend to change the existing service area, community support partnerships, or ancillary relationships as a result of the ownership transaction, but may consider additional relationships as opportunities arise.

No public comments were submitted for this sub-criterion. The department concludes that there is reasonable assurance that CHS will continue to maintain the necessary relationships with ancillary and support services to provide healthcare in the communities. Approval of this project would not negatively affect these relationships. **This sub-criterion is met.**

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

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

CHS is one of the nation's largest operators of general acute care hospitals. Either CHS or an affiliate currently owns or operates more than 130 hospitals in 29 states, including two hospitals in Washington State. [source: CHS website]

To assure that both Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center would continue to provide quality healthcare services under the CHS ownership, the department requested quality of care histories from the states where CHS, or any of its subsidiaries, owns or operates healthcare facilities--which represents a total of 132 health care facilities in 29 states. Through either return of the quality of care survey or by accessing The Joint Commission website, the department was able to obtain information representing all 29 states.<sup>7</sup>

A review of data from the 29 states revealed that one state—California—reported a substantial non-compliance issue during a January 6, 2012, facility survey. The non-compliance issue resulted in an 'immediate jeopardy' citation at one healthcare facility and a \$25,000 fine from the California Department of Public Health in San Diego.<sup>8</sup> The non-compliance issue was promptly addressed by CHS on January 9, 2012, and the facility was deemed 'in compliance' on February 6, 2012. For the remaining 28 states, including Washington, no significant non-compliance issues were reported.

No public comments were submitted for this sub-criterion.

Based on the compliance history of CHS owned and/or operated healthcare facilities, there is reasonable assurance that CHS would continue to operate both Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met.**

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

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

CHS states that continuity in the provision of health care will be accomplished with the purchase of Yakima HMA, LLC because TCH will continue operating as a hospital in the planning area. Additionally because the merger would be at the corporate level, the community would see no changes in services or operations of the hospital. [source: Application, p25]

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<sup>7</sup> The following 18 states completed and returned the quality of care survey: Alaska, Alabama, Arkansas, California, Georgia, Indiana, Kentucky, Missouri, Mississippi, New Jersey, Nevada, Oklahoma, Pennsylvania, Tennessee, Texas, Washington, West Virginia, and Wyoming. For the following 11 states, CN staff reviewed the Joint Commission 'compare' website: Arizona, Florida, Illinois, Louisiana, North Carolina, New Mexico, Ohio, Oregon, South Carolina, Utah, and Virginia.

<sup>8</sup> Facility ID #080000043; penalty # 080008896.

To comply with this sub-criterion, CHS also provided documents related to the transaction between the CHS and HMA. Below is a listing of the documents and a summary of their purpose. [sources where noted]

Agreement and Plan of Merger

[source: Application, Exhibit 6]

The agreement is signed and dated July 29, 2013, and outlines roles and responsibilities for both CHS and HMA. It references a ‘closing’ date of January 1, 2014, or no later than the third business day following the date all permits, conditions, or requirements have been satisfied.

Unanimous Written Consent of the Board of Directors of the Corporation (CHS)

[source: Application, Exhibit 8]

This written consent is signed and dated October 7, 2013, and approves the agreement and plan of merger described in the document above. It identifies the following cost for each of the Washington State hospitals and the total for both at \$206,000,000.

- Toppenish Community - \$29,000,000
- Yakima Regional Medical and Cardiac Center - \$177,000,000

The written consent acknowledges prior Certificate of Need review and approval of the transaction before the merger can occur and provides guidance on roles and responsibilities for completing Certificate of Need process.

When read together, the documents acknowledge the Certificate of Need requirement for Washington State and allow for completion of the process before the merger is executed.

Given that both of the documents are signed and dated, a conditional approval related to the documents is unnecessary. The department concludes that CHS will continue to promote continuity in the provision of health care services in the community with the purchase of TCH. **This sub-criterion is met.**

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

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

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that CHS/Community Health Systems has met the cost containment criteria in WAC 246-310-240.

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

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

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

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

### **Step One**

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

### **Step Two**

This project is part of a larger merger transaction between CHS and HMA. The transaction involves merging HMA and its subsidiaries, including Yakima HMA, Inc., into CHS. Once CHS determined that the transaction would occur, the only option available for the Washington State facilities is to submit a Certificate of Need application. [source: Application, p27]

To comply with this sub-criterion, CHS provided a discussion of the impact on the larger transaction if this project is denied. The option identified by CHS was moving forward with the larger transaction without the two Yakima County hospitals. If this occurred, HMA would be forced to sell the two hospitals to a third party. CHS provided a review of the advantages and disadvantages of the forced sale. CHS concluded that the impact on the hospitals could result in closure if no third party interest materialized. No other options were considered by CHS.

### **Department's Review of Alternatives**

CHS is correct in its conclusion that the only available option is to submit a Certificate of Need application. Since there are no anticipated changes in the number of beds, type or scope of services, or payer mix, resulting from this application, community members should see a seamless transition of ownership at the hospital. Moving forward with this application and the transaction is ultimately the best option for the residents of the community.

### **Step Three**

This step is used to determine between two or more approvable projects which is the best alternative. This step does not apply to this project.

No public comments were submitted for this sub-criterion.

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