



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

September 22, 2014

CERTIFIED MAIL # 7011 1570 0002 7809 5797

Richard Petrich, VP
Planning and Business Development
Franciscan Health System
Post Office Box 2197
Tacoma, Washington 98401

RE: CN 14-14A2

Dear Mr. Petrich:

We have completed review of the Certificate of Need (CN) application submitted by Franciscan Health System proposing relocation of Regional Hospital for Respiratory and Complex Care into space at Highline Medical Center. For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Franciscan Health System agrees to the following in its entirety.

Project Description:

This certificate approves the relocation of Regional Hospital for Respiratory and Complex Care. The hospital is currently located in southwest King County at 12844 Military Road South in Tukwila [98168]. This project approves the relocation of Regional Hospital for Respiratory and Complex Care to 16251 Sylvester Road in Burien [98166], also within southwest King County. Regional Hospital for Respiratory and Complex Care will remain a 40-bed long term acute care hospital after the relocation. The relocation project will be completed in two phases. A brief description of each phase and the number of beds added is shown below.

- Phase One
RHRCC will relocate 26 of its 40 beds to the fifth floor of Highline in space known as '5 Cedar.' The space will house all 26 beds in single patient rooms, with 3 isolation rooms. This unit will operate primarily as ventilator unit. If approved, RHRCC expects to be operating all 26 beds in the new space by the end of year 2014.

- Phase Two

This phase includes the construction of a new patient tower at Highline. The space is known as the Birch Tower. RHRCC would add the remaining 14 beds within 12,000 square feet on the eighth floor of the tower [8 Birch]. This unit will provide primarily wound care and other services consistent with an LTACH. Since this phase includes construction, RHRCC expects to be operating the remaining 14 additional beds—for a license total of 40—by the end of year 2017.

Phase	RHRCC Number of Beds	Highline Number of Beds
One	26	123 general med/surgical 5 level II ICN
Two	14	Same as above
Total	40	128

Conditions:

1. Approval of the project description as stated above. Franciscan Health System 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. Although Regional Hospital for Respiratory and Complex Care will be located within space at Highline Medical Center, Regional Hospital for Respiratory and Complex Care must remain licensed separately from Highline Medical Center or any other healthcare facility.
3. Before Regional Hospital for Respiratory and Complex Care relocates into the propose space, Franciscan Health System must provide documentation demonstrating that the space has been removed from Highline Medical Center's acute care license.
4. Under this approval, the total number of beds to be licensed at Regional Hospital for Respiratory and Complex Care shall be 40 at completion of phase two. Any number of beds not licensed by June 30, 2018, shall be forfeited.
5. Under the Franciscan Health System ownership, Regional Hospital for Respiratory and Complex Care will provide charity care in compliance with the charity care policy provided in the application or any subsequent polices reviewed and approved by the Department of Health. Franciscan Health System will use reasonable efforts to provide charity care at Regional Hospital for Respiratory and Complex Care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the King County Region, less Harborview. Currently, this amount is 1.67% for gross revenue and 3.05% for adjusted revenue. Regional Hospital for Respiratory and Complex Care will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

6. Annual budgets, as required by WAC 246-454-030, submitted by Franciscan Health System for Regional Hospital for Respiratory and Complex Care must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the King County Region, less Harborview.

Approved Costs:

The approved capital expenditure associated with the relocation is \$1,479,668.

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

Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

Mailing Address:

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

Physical Address:

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

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

Sincerely,



Steven M. Saxe, FACHE
Director, Community Health Systems

Enclosure

**EVALUATION DATED SEPTEMBER 22, 2014, OF THE CERTIFICATE OF NEED
APPLICATION SUBMITTED BY REGIONAL HOSPITAL FOR RESPIRATORY AND COMPLEX
CARE PROPOSING RELOCATION TO A NEW SITE IN SOUTHWEST KING COUNTY**

GENERAL INFORMATION

There are three main entities associated with this project. They are: Franciscan Health System, Highline Medical Center, and Regional Hospital for Respiratory and Complex Care. Below is a brief description of all three.

Franciscan Health System

Franciscan Health System (FHS) is part of Catholic Health Initiatives, one of the largest not-for-profit health care systems in the United States. Through one of its subsidiaries, Catholic Health Initiatives operates 118 health care facilities in 22 states. For Washington State, FHS is the subsidiary that owns or operates a variety of health care facilities including hospitals, dialysis centers, a skilled nursing facility, ambulatory surgery centers, a Medicare certified hospice agency, and a hospice care center. The eight Washington State hospitals are listed below. [source: CN historical files]

Highline Medical Center, Burien	St. Clare Hospital, Lakewood
Harrison Medical Center, Bremerton	St. Elizabeth Hospital, Enumclaw
Regional Hospital for Respiratory and Complex Care, Tukwila	St. Francis Hospital, Federal Way
St. Anthony Hospital, Gig Harbor	St. Joseph Medical Center, Tacoma

Highline Medical Center

Highline Medical Center (Highline) is an acute care hospital located in southwest King County. Highline is a recognized level IV trauma hospital and holds a three year accreditation with the Joint Commission.¹ Prior to September 20, 2013, Highline operated a 239 bed hospital on the two separate campuses as described below. [source: CN historical files]

- **Main Campus**
Located at 16251 Sylvester Road in Burien [98166], this campus housed a total of 154 acute care beds. Of the 154 beds, 137 are medical surgical beds; 12 are level II rehabilitation beds; and 5 are level II intermediate care nursery beds. This campus is located in the southwest King County hospital planning area.
- **Specialty Campus**
Located within four miles of the main campus at 12844 Military Road South in Tukwila [98168], this campus housed a total of 85 acute care beds. Of the 85 beds, 21 were dedicated to geropsychiatric services, 42 were dedicated to a chemical dependency/detoxification unit, and 22 licensed, but not set up. In addition to the 85 beds licensed by Highline, the 40-bed long term acute care hospital known as Regional Hospital for Respiratory and Complex Care is also located at this site. The 40 long-term acute care beds are licensed separately from Highline's hospital license.

On September 20, 2013, Certificate of Need #1513 was issued to Acadia Healthcare approving an Asset Purchase Agreement for the purchase of Highline's Specialty campus. Acadia Healthcare intends to establish a 135-bed psychiatric hospital at the site. The Asset Purchase Agreement did not include purchase of Regional Hospital for Respiratory and Complex Care.

¹ The Joint Commission accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards. [source: Joint Commission website].

Once Highline entered into the Asset Purchase Agreement with Acadia, it no longer operates on two separate campuses. As of the writing of this evaluation, Highline is a 154-bed acute care hospital located on one campus at the Sylvester Road in Burien site.

Regional Hospital for Respiratory and Complex Care

Regional Hospital for Respiratory and Complex Care (RHRCC) is a non-profit acute care hospital located in southwest King County. RHRCC is licensed for 40 acute care beds and all 40 beds are used solely for long-term acute care patients. RHRCC provides long term acute care services to residents of Southwest King County and surrounding counties and is accredited by the Joint Commission.

Long-term acute care hospitals (LTACHs) differ from general acute care hospitals in that they furnish extended medical and rehabilitative care to individuals who are clinically complex and have multiple acute or chronic conditions. An LTACH must be certified as an acute care hospital that meets criteria to participate in the Medicare program and has an average inpatient length of stay greater than 25 days. [source: American Hospital Association Long Term Care Hospital home page]

LTACHs also differ from nursing homes and rehabilitation hospitals in that their patients generally require a higher level of medical attention. The LTACH is designed to provide extended medical and rehabilitative care for patients who are clinically complex and have multiple acute or chronic conditions. Most patients in LTACHs have several diagnosis codes on their Medicare claim, which indicates that they have multiple comorbidities and are less stable on admission than patients admitted to other post-acute care settings. Approximately one half of the patients in an LTACH have five or more diagnoses noted on their claims. [source: Prospective Payment Assessment Commission, 1996]

Under the current Medicare payment system, LTACH reimbursement is structured to compensate hospitals for the care of patients whose average length of stay exceeds 25 days. The reimbursement model for general acute care hospitals is not designed to compensate hospitals for this population. As a result, the LTACH is a model of care that provides an environment tailored to medically complex patients and is able to serve those patients under a reimbursement model that adequately covers the costs of treatment. LTACHs in a community enable existing hospitals to improve facility utilization by discharging patients to the LTACH who would otherwise be occupying intensive care or critical care units or other acute care beds for long periods of time and place them in a suitable clinical setting. As a result, the existing hospitals are able to free space to more effectively manage their daily caseload, particularly in intensive care and critical care unit settings, which are often subjected to highly fluctuating occupancy rates. Referral of suitable patients to an LTACH improves hospitals' ability to ensure that intensive care and critical care beds are available. [source: American Hospital Association Long Term Care Hospital home page]

APPLICANT DESCRIPTION

For this project, Franciscan Health System is the applicant and the focus facility is RHRCC. This evaluation will also discuss Highline because it is the proposed landlord.

PROJECT DESCRIPTION

This project proposes relocation of RHRCC from its current site in Tukwila to Highline's Burien site, formerly known as the 'main campus.'² RHRCC is licensed for 40 acute care beds and all 40 LTACH beds

² Once the Asset Purchase Agreement became effective, Highline operates at only one campus--the Burien site. As a result, in this evaluation, the Burien site is no longer referenced as Highline's 'main campus.'

are used solely for long-term acute care patients. If this project is approved, RHRCC would continue participation in both the Medicare and Medicaid programs, and maintain all services currently offered by the hospital. RHRCC would also continue to be licensed separately from Highline. [source: First Amendment Application, p3]

The relocation of RHRCC is expected to occur in two phases. A description and timeline for each phase is below. [source: First Amendment Application, pp8-9 and p15-16; May 13, supplemental information, Attachment 5]

- Phase One
RHRCC will relocate 26 of its 40 beds to the fifth floor of Highline. The space is 24,892 square feet in an area known as '5 Cedar.' The space will house all 26 beds in single patient rooms, with 3 isolation rooms. This unit will operate primarily as ventilator unit. If approved, RHRCC expects to be operating all 26 beds in the new space by the end of year 2014.
- Phase Two
This phase includes the construction of a new patient tower at Highline. The space is known as the Birch Tower. RHRCC would add the remaining 14 beds within 12,000 square feet on the eighth floor of the tower [8 Birch]. This unit will provide primarily wound care and other services consistent with an LTACH. Since this phase includes construction, RHRCC expects to be operating the remaining 14 additional beds—for a license total of 40—by the end of year 2017.

As the landlord, Highline will provide the improved space to RHRCC under a lease agreement. In order to accommodate RHRCC and its 26 beds in phase one, Highline must delicense the space where RHRCC would be located and reduce its own acute care license by 26 beds. To accomplish this, Highline has elected to discontinue providing level II rehabilitation services through completion of phase two, year 2017. Once phase two is complete, Highline intends to increase its licensed bed capacity and resume providing level II rehabilitation services.³ [source: Second Amendment Application, p1]

The capital expenditure for this project is limited to equipment and construction costs for tenant improvements at Highline to accommodate an LTACH. The total capital expenditure for the project is \$1,479,668. Phase one costs are \$406,568 and phase two costs are \$1,073,100. [source: First Amendment Application, pp28-32]

For phase one, the costs of \$406,568 include minor remodel, equipment, and relocation costs.⁴ RHRCC will fund the phase one costs from its cash reserves. Phase two is part of a larger construction project at Highline and \$1,073,100 is RHRCC's portion of the project. These costs include construction, equipment, and associated sales tax. Parent company FHS will fund phase two using cash reserves. [source: First Amendment Application, pp28-32]

APPLICABILITY OF CERTIFICATE OF NEED LAW

Even though RHRCC is currently operating in the hospital planning area of southwest King County and intends to relocate within the same hospital planning area, the relocation of the hospital is subject to review as the establishment of a new healthcare facility under Revised Code of Washington 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1)(a).

³ On December 3, 2013, FHS submitted an application to add acute care bed capacity to Highline. This relocation application does not include a review of the bed addition project for Highline.

⁴ 'Relocation costs' include interior and exterior signage and rental of additional equipment in preparation of patient moves. Once the move is complete, the equipment is returned to the lesser and owned equipment will be used.

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.”*

Since RHRCC is currently operating in the planning area of southwest King and would relocate within the same planning area, the review for this project is limited to only those criteria that would be affected by the relocation. 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).⁵

TYPE OF REVIEW

This application was reviewed under the regular review timeline outlined in WAC 246-310-160, which is summarized below. During the review of this project, FHS submitted an initial application and two amendment applications. The review timeline below includes the initial and amendment application timelines. For this evaluation, information in the initial application is superseded by the amendment applications.

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

APPLICATION CHRONOLOGY

Action	Franciscan Health System
Letter of Intent Submitted	September 25, 2013
Initial Application Submitted ⁶	November 7, 2013
Department's pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • FHS Responses Received⁷ 	December 3, 2013 January 17, 2014
First Amendment Application Submitted	March 19, 2014
Department's pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • FHS Responses Received 	March 31, 2014 May 13, 2014 ⁸
Second Amendment Application Submitted	June 9, 2014
Department's pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • FHS Responses Received 	June 12, 2014 June 16, 2014
Beginning of Review	June 19, 2014
Public comments accepted through end of public comment	July 24, 2014
Public hearing conducted	None
End of Public Comment	July 24, 2014
Rebuttal Comments Submitted ⁹	August 8, 2014
Department's Anticipated Decision Date	September 22, 2014
Department's Actual Decision Date	September 22, 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."

During the review of this project, no entities sought or received affected person status.

SOURCE INFORMATION REVIEWED

- Franciscan Health System's Certificate of Need first amendment application submitted March 19, 2014
- Franciscan Health System's supplemental information received May 13, 2014
- Franciscan Health System's second amendment application received June 9, 2014
- Franciscan Health System's supplemental information received June 16, 2014
- Public comments submitted by 5:00pm on July 24, 2014

⁶ Once the first amendment application is submitted, the initial application is no longer reviewed.

⁷ FHS requested a second screening of the initial application. Before the second screening was mailed, FHS altered the project that resulted in submission of an amendment application.

⁸ After FHS submitted its screening responses, FHS again altered the project that resulted in submission of a second amendment application.

⁹ Public comments for this project included three letters of support and no letters of opposition. RHRCC elected not to provide rebuttal comments to the public comment.

SOURCE INFORMATION REVIEWED (continued)

- Department of Health Hospital and Patient Data Systems Analysis received September 9, 2014
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Licensing data provided by the Medical Quality Assurance Commission
- Regional Hospital for Respiratory and Complex Care website at www.regionalhospital.org
- Franciscan Health System website at www.fhshealth.org
- Highline Medical Center website at www.highlinemedicalcenter.org
- Joint Commission website at www.jointcommission.org
- Joint Commission quality check website at www.qualitycheck.org
- Washington State Secretary of State website at www.sos.wa.gov
- Washington State Department of Revenue website at www.dor.wa.gov

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Franciscan Health System proposing relocation of Regional Hospital for Respiratory and Complex Care into space within Highline Medical Center is consistent with applicable criteria of the Certificate of Need Program, provided Franciscan Health System agrees to the following in its entirety.

Project Description:

This certificate approves the relocation of Regional Hospital for Respiratory and Complex Care. The hospital is currently located in southwest King County at 12844 Military Road South in Tukwila [98168]. This project approves the relocation of Regional Hospital for Respiratory and Complex Care to 16251 Sylvester Road in Burien [98166], also within southwest King County. Regional Hospital for Respiratory and Complex Care will remain a 40-bed long term acute care hospital after the relocation. The relocation project will be completed in two phases. A brief description of each phase and the number of beds added is shown below.

- **Phase One**
RHRCC will relocate 26 of its 40 beds to the fifth floor of Highline in space known as '5 Cedar.' The space will house all 26 beds in single patient rooms, with 3 isolation rooms. This unit will operate primarily as ventilator unit. If approved, RHRCC expects to be operating all 26 beds in the new space by the end of year 2014.
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Phase	RHRCC Number of Beds	Highline Number of Beds
One	26	123 general med/surgical 5 level II ICN
Two	14	Same as above
Total	40	128

Conditions:

1. Approval of the project description as stated above. Franciscan Health System 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. Although Regional Hospital for Respiratory and Complex Care will be located within space at Highline Medical Center, Regional Hospital for Respiratory and Complex Care must remain licensed separately from Highline Medical Center or any other healthcare facility.
3. Before Regional Hospital for Respiratory and Complex Care relocates into the propose space, Franciscan Health System must provide documentation demonstrating that the space has been removed from Highline Medical Center's acute care license.
4. Under this approval, the total number of beds to be licensed at Regional Hospital for Respiratory and Complex Care shall be 40 at completion of phase two. Any number of beds not licensed by June 30, 2018, shall be forfeited.
5. Under the Franciscan Health System ownership, Regional Hospital for Respiratory and Complex Care will provide charity care in compliance with the charity care policy provided in the application or any subsequent polices reviewed and approved by the Department of Health. Franciscan Health System will use reasonable efforts to provide charity care at Regional Hospital for Respiratory and Complex Care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the King County Region, less Harborview. Currently, this amount is 1.67% for gross revenue and 3.05% for adjusted revenue. Regional Hospital for Respiratory and Complex Care will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.
6. Annual budgets, as required by WAC 246-454-030, submitted by Franciscan Health System for Regional Hospital for Respiratory and Complex Care must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the King County Region, less Harborview.

Approved Costs:

The approved capital expenditure associated with the relocation is \$1,479,668.

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 Franciscan Health System 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.

RHRCC has been an acute care hospital in King 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 an LTACH, RHRCC currently participates in the Medicare and Medicaid programs. For this project, FHS must demonstrate a commitment to be available to the residents of the community, 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, FHS provided a copy of the Admission and Non-Discrimination Policy used at RHRCC. FHS stated that the policy did not change as a result of the affiliation with FHS in January 2014, and would not change as a result of the relocation to Highline. The policy completed its most recent administrative review in February 2014. The policy outlines the process/criteria that the hospital uses 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 RHRCC. [source: First Amendment Application, Exhibit 9, and May 13, 2014, supplemental information, p5]

In addition to the Admission Policy, FHS also provided the following three documents to ensure access to care for all individuals. [source: First Amendment Application, Exhibit 11]

- A copy of the RHRCC End of Life Policy currently used at the hospital reviewed and dated October 2013. This policy states that RHRCC does not participate in the Washington State Death with Dignity Act.¹⁰ The policy ensures that patients will be provided with education materials about the end-of-life options, with a statement that RHRCC does not participate in the Act. The policy provides guidelines for transfer of patients who wish to exercise end-of-life options to another facility of the patient's choice. FHS states that no changes to this policy were made a result of the affiliation with FHS in January 2014, and would not change as a result of the relocation to Highline.
- A copy of the RHRCC Reproductive Life Policy. This document clarifies that as an LTACH, RHRCC does not directly provide any reproductive health services and identifies the process for patient referrals for this service.

¹⁰ Revised Code of Washington 70.245.

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 FHS provided the current and projected source of revenues by payer at RHRCC. Medicare revenues are, and would continue to be, 66.8% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: May 13, 2014, 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, FHS also provided the current and projected percentage of Medicaid revenues at 5.7% for RHRCC. Additionally, the financial data provided in the application shows Medicaid revenues. [source: May 13, 2014, 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.

To demonstrate compliance with this sub-criterion, FHS submitted the following documents. [source: First Application, Exhibit 10 and May 13, 2014, Attachment 6]:

- A copy of the RHRCC charity care policy used before the affiliation with FHS. The policy was reviewed and approved by the Department of Health in February 2013.
- A copy of the RHRCC charity care policy used after the affiliation with FHS. This policy was reviewed and approved by the Department of Health in April 2014.

Both charity care policies outline the process a patient uses to access this service. Further, FHS included a 'charity care' line item as a deduction from revenue within historical and projected financial documents for RHRCC. [source: May 13, 2014, 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. RHRCC is one of 21 hospitals located in the King County Region, and is one of two LTACHs in the region. According to 2009 - 2011¹¹ charity care data obtained from HPDS, RHRCC has historically provided significantly less than the average charity care provided in the region.¹² The table on the following page is a comparison of the average charity care for the King County Region, and the historical and projected percentages of charity care for RHRCC. [source: May 13, 2014, supplemental information, Attachment 7 and HPDS 2009-2011 charity care summaries]

¹¹ Charity care data for years 2012 and 2013 is not available as of the writing of this evaluation.

¹² Harborview Medical Center is subsidized by the state legislature to provide charity care services. Charity care percentages for Harborview make up almost 50% of the total percentages provided in the King County Region. Therefore, for comparison purposes, the department excludes Harborview Medical Center's percentages.

Table 1
Charity Care Percentage Comparisons

	% of Total Revenue	% of Adjusted Revenue
King County Region	1.67%	3.05%
RHRCC Historical	0.28%	0.70%
RHRCC Projected	1.67%	6.07%

The pro forma revenue and expense statements submitted by FHS for RHRCC indicate that the hospital will provide charity care at or above the regional average. In this application, FHS acknowledged the low charity care percentages at RHRCC and provided the following statements and assurances that the charity care percentages would increase at RHRCC after its affiliation with FHS on January 22, 2014, and its proposed relocation to Highline. [source: First amendment application, pp21-22 and May 13, 2014, supplemental information, p3]

“Under the affiliation with FHS, RHRCC will have additional resources to reach out to the community to ensure that other providers are aware of our commitment to serve the community. In addition to the charity care measured by the department, FHS provides numerous uncompensated services to the communities served. For example, in fiscal year 2013 alone, the FHS system provided nearly \$70 million (in addition to charity care) in community health programming and outreach such as free or discounted health screenings, free children’s immunizations, smoking-cessation programs, free or discounted care for individuals who cannot pay, and sponsorship of events such as community health fairs and programs.”

It is the practice of the department to attach a charity care condition for hospitals undergoing a sale/purchase/lease. On September 5, 2014, CN #1531 was issued to FHS, RHRCC’s parent corporation, approving the recent affiliation. CN #1531 included a condition related to the percentage of charity care to be provided at RHRCC. 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. FHS is fully aware of Washington State charity care requirements. To ensure that the charity care averages will be consistent with the regional averages at its new location, the department concludes that a condition related to the percentage of charity care to be provided at RHRCC is necessary if this project is approved.

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 RHRCC. **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 Franciscan Health System 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 FHS to determine the projected number of admissions, patient days, and occupancy of RHRCC after the relocation. The relocation of RHRCC is expected to occur in two phases. The first phase of the relocation is expected to be completed by the end of year 2014 when RHRCC is operating 26 beds on the fifth floor of Highline. Phase two cannot be completed until year 2017 after construction of a new patient tower at Highline. As a result, year 2020 is the third year following completion of the project and RHRCC would be operating 40 LTACH beds. The assumptions used by FHS are summarized below. [source: First Amendment Application, pp26-27 and May 13, 2014, supplemental information, p1]

- In phase one, 26 of its 40 beds will be operational in single patient rooms, which includes three isolation rooms. This phase covers years 2015, 2016, and partial year 2017.
- Phase two is the addition of the remaining 14 beds. All 40 beds are expected to be operational by the end of year 2017.
- Long term acute care services currently offered by RHRCC will remain. The ten most common DRGs [diagnosis related grouping] for patients at RHRCC are not expected to change as a result of the relocation. More than 50% of the patients treated at RHRCC fall under DRG 207-“Mechanical ventilation over 96 hours.” Other most common DRGs include pulmonary edema and respiratory failure [DRG 189]; complications of treatment with major complications and co-morbidities [DRG 919]; and complications of treatment with complications and co-morbidities [DRG 920].
- The hospital will maintain both Medicare and Medicaid certifications.
- A review of years 2010-2013 historical data, show an increase in inpatient days for all years. The increase ranges from 8% to 18% within the 4-year timeline.
- Inpatient days for year 2015 are projected at 8,265, with increases in each year, ending with 12,180 in year 2020 with 40 operational beds.
- The hospital's 2010-2013 average daily census [ADC] ranged from 20.3 to 25.3. Projected year 2015 shows an ADC of 22.6, with increases each year, ending with 33.4 in projected year 2020 with 40 operational beds.

Using the assumptions stated above, FHS projected the number of admissions and patient days for RHRCC at the new site. The projections for both phases are shown in the table on the following page. [source: First Amendment Application, p11]

**Table 2
Regional Hospital for Respiratory and Complex Care
Projected Years 2015 through 2020**

Phase One and Transition Year	CY 2015 Full Year 1	CY 2016 Full Year 2	CY 2017 Transition Year
Number of Licensed Beds	26	26	26 - 40
Projected Number of Admissions	285	310	340
Projected Number of Inpatient Days	8,265	8,680	9,520
Calculated Occupancy of Operational Beds	87.1%	91.5%	65.2%

Phase Two	CY 2018 Full Year 1	CY 2019 Full Year 2	CY 2020 Full Year 3
Number of Licensed Beds	40	40	40
Projected Number of Admissions	365	415	435
Projected Number of Inpatient Days	10,500	11,620	12,180
Calculated Occupancy of Operational Beds	71.9%	79.6%	84.4%

When compared to the four year historical data provided in the application, the department notes that projected inpatient days are expected to 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 the assumptions and projections above, the department concludes they are reasonable.

FHS also provided its assumptions used to project revenue, expenses, and net income for RHRCC. Those assumptions are summarized below. [source: First Amendment Application, pp26-27 and May 13, 2014, supplemental information, Attachment 7]

- The relocation of RHRCC to Highline will allow all private rooms for patients. This setting is expected to increase access for patients because RHRCC will be able to admit patients it had previously transferred who were not candidates for semi-private rooms.
- The addition of a second medical director in year 2013 increased patient referrals. Referrals have already increased in year 2014 by approximately 17% from the previous year.
- From year 2015 through 2020, a total of 39.8 additional FTEs will be needed to accommodate the additional patients and patient days.
- Nursing staff—RNs and CNAs—make up 56% of the total employees at RHRCC. Nursing staff are expected to increase by approximately 26 FTEs. Nursing staff wages are consistent with the Collective Bargaining Agreement with SEIU through July 2015. The agreement includes annual step increases and a modest annual increase in compensation.
- Respiratory Therapy staff make up 15.7% of the employees at RHRCC. Respiratory Therapists are expected to increase by approximately 7.5 FTEs. Wages for these staff are consistent with the Collective Bargaining Agreement with UFCW through 2017.
- Charity care is expected to increase from the current averages to 1.67% of gross revenue.
- Bad debt is held constant at 3.4% of gross revenues.
- Contractual allowances are held constant at 52.5% of gross revenues.
- Percentage of revenue by payer source is expected to remain the same. 66.8% Medicare; 5.7% Medicaid, and the remaining 27.5% from other insurance, workers compensation, HMO, etc.
- Supply expenses are projected to be consistent with year 2013 at \$144 per patient day.
- Physician and Professional fees are projected using the current contract between RHRCC and Sound Inpatient Physicians. Staff included under this contract is the medical director and ARNPs.

- Lease expenses are calculated under the proposed lease agreement between Highline and RHRCC, which assumes an annual 2.5% increase.
- RHRCC currently has a ‘Purchased Services Agreement’ with Highline for financial and support services at its current site in Tukwila. For these expense forecasts, FHS assumed the services will continue through Highline at the Burien site. These costs are identified in the financial statements as regional cost allocations.
- Corporate allocation costs for both FHS and Catholic Health Initiatives, FHS's parent corporation, are included as a separate line item.

Using the assumptions stated above, projected revenue, expenses, and net income for RHRCC is shown in the table below. [source: May 13, 2014, supplemental information, Attachment 7]

Table 3
Regional Hospital for Respiratory and Complex Care
Projected Years 2015 through 2020

	CY 2015 Full Year 1	CY 2016 Full Year 2	CY 2017 Transition Year
Net Revenue	\$ 19,480,140	\$ 20,488,771	\$ 22,438,103
Total Expenses	\$ 19,020,982	\$ 19,710,734	\$ 21,076,301
Net Profit /(Loss)	\$ 459,158	\$ 778,037	\$ 1,361,802

	CY 2018 Full Year 1	CY 2019 Full Year 3	CY 2020 Full Year 3
Net Revenue	\$ 24,747,908	\$ 27,387,684	\$ 28,707,573
Total Expenses	\$ 22,743,096	\$ 24,553,983	\$ 25,483,631
Net Profit /(Loss)	\$ 2,004,812	\$ 2,833,701	\$ 3,223,942

The ‘Net Revenue’ line item is gross inpatient revenue, minus deductions for contractual allowances, charity care, and bad debt. The ‘Total Expenses’ line item includes salaries and wages, amortization/depreciation, and all allocated costs for Highline FHS, and CHI. As shown above, FHS projected net profits in all years shown when allocated costs are included.

FHS also provided a copy of the executed Lease Agreement between Highline and RHRCC that was effective on April 1, 2014. The agreement identifies an effective date of October 1, 2014, or later, but no later than December 31, 2014. The lease identifies a five year term, with options to extend for an additional three terms, or 15 years. All costs associated with the lease are identified in the lease and substantiated in the pro forma financial statements above. [source: May 13, 2014, supplemental information, Attachment 4]

To determine whether RHRCC would meet its immediate and long range capital costs, the department’s Hospital and Patient Data Systems (HPDS) reviewed 2012 historical for RHRCC and 2013 historical for FHS parent company, CHI. The information is shown in the tables on the following page. [source: HPDS analysis, p2]

Table 4
Regional Hospital for Respiratory and Complex Care
Historical Balance Sheet for Year 2011

Assets		Liabilities	
Current Assets	\$ 9,394,457	Current Liabilities	\$ 6,001,847
Fixed Assets	\$ 1,479,408	Long Term Debt	\$ 0
Board Designated Assets	\$ 0	Other Liabilities	\$ 81,264
Other Assets	\$ 0	Equity	\$ 4,790,754
Total Assets	\$ 10,873,865	Total Liabilities and Equity	\$ 10,873,865

Catholic Health Initiatives
Historical Balance Sheet for Year 2013

Assets		Liabilities	
Current Assets	\$ 3,175,461,000	Current Liabilities	\$ 2,940,822,000
Fixed Assets	\$ 7,786,240,000	Long Term Debt	\$ 6,334,985,000
Board Designated Assets	\$ 7,099,006,000	Other Liabilities	\$ 1,787,787,000
Other Assets	\$ 1,249,012,000	Equity	\$ 8,246,125,000
Total Assets	\$ 19,309,719,000	Total Liabilities and Equity	\$ 19,309,719,000

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

“Franciscan/Regional capital expenditure for the certificate of need is projected to be \$1,479,668. Regional will contribute \$406,568 for phase 1 from reserves and Franciscan, a part of Catholic Health Initiatives (CHI) will contribute \$1,073,100 from reserves for phase 2. ... Both Regional and CHI/Franciscan have the funds for 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 compares the projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2012 data for comparison with historical year 2012 for RHRCC. Year 2012 data was also used as comparison for projected years 2015 through 2020 for RHRCC. The ratio comparisons are shown in the table on the following page. [source: HPDS analysis, p3]

**Table 5
Regional Hospital for Respiratory and Complex Care
Current and Projected HPDS Debt Ratios**

Category	Trend *	State 2012	RHRCC 2012	RHRCC 2014	RHRCC 2015	RHRCC 2016
Long Term Debt to Equity	B	0.586	N/A	---	---	---
Current Assets/Current Liabilities	A	1.797	1.565	1.615	1.870	2.109
Assets Funded by Liabilities	B	0.468	0.442	0.544	0.483	0.411
Operating Expense/Operating Revenue	B	0.945	1.100	0.976	0.963	0.939
Debt Service Coverage	A	5.362	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 is above the ratio; and B is better if below the ratio.

After comparing RHRCC’s year 2012 ratios with the most current statewide ratios and comparing projected ratios with the statewide ratios, HPDS provided the following analysis. [source: HPDS analysis, p3]

“Review shows that this project will have a significant impact however this project will not adversely impact the financial health of the hospital if the patient volume is realized. By the end of the first year [2014] there is no long term debt assigned to Regional so Long Term Debt to Equity [ratios] and Debt Service Coverage [ratios] are not useful. ...The hospital is breaking even by the end of the first year.”

No public comments were submitted for this sub-criterion. Based on the source documents evaluated, 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, RHRCC would remain an LTACH and FHS intends to maintain all current services at the hospital. As indicated in the pro forma projections and further demonstrated within the application, FHS does not intend to increase charges for health services or change the payer mix to make a net profit. [source: First Amendment Application, p11 & p35]

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

(3) The project can be appropriately financed.

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

The total capital expenditure for the project is \$1,479,668. As previously stated, the relocation is expected to occur in two phases. Phase one is the relocation of RHRCC's 26 beds within existing space at Highline. The capital expenditure for this phase is limited to equipment and construction costs for tenant improvements at Highline to accommodate an LTACH. Phase one costs are \$406,568, which RHRCC will fund from its cash reserves. [source: First Amendment Application, pp28-32]

To ensure RHRCC has the ability to fund phase one of the project, HPDS staff reviewed the historical financial health of the hospital and concluded RHRCC has the funds to finance phase one. [source: HPDS analysis, p2 and p4]

Phase two is part of a larger construction project at Highline and \$1,073,100 is RHRCC's portion of the project. These costs include construction, equipment, and associated sales tax. Parent company FHS will fund phase two using cash reserves. [source: First Amendment Application, pp28-32]

To demonstrate a financial commitment to the project, FHS provided the following three documents. [source: First Amendment Application, Exhibits 12 and 13]

- a non-binding cost estimate for the construction costs of the project;
- a letter from RHRCC's board of directors acknowledging a financial commitment to the costs identified in phase one; and
- a letter from FHS's Chief Financial Officer acknowledging a financial commitment to the costs identified in phase two.

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. CHI's most current audited financial statements show more than \$19,000,000,000 in total assets for CHI. HPDS concluded that CHI continues to be in strong financial health.

No public comments were submitted for this sub-criterion. Based on the source documents evaluated, 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 Franciscan Health System 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.

FHS states that there are no anticipated changes in physician privileges resulting from the relocation. The current RHRCC medical staff will remain, although there may be some coordination of administrative functions. FHS projected an increase in nursing staff based on the increased number of admissions and patient days. FHS provided current and projected FTEs [full time equivalents] for RHRCC for years 2015 through 2020. The table below shows the breakdown of FTEs. [source: First Amendment Application, p36]

**Table 6
Regional Hospital for Respiratory and Complex Care
Projected Years 2015 through 2020**

FTE by Type	CY 2015 Full Year 1	CY 2016 Increase	CY 2017 Increase	3-Year Total
Nursing Staff [RNs & CNAs]	57.1	2.9	5.8	65.8
Respiratory Therapists	16.0	0.8	1.6	18.4
Other Therapy Staff [PT, OT, ST]	11.0	0.5	1.1	12.6
Case Management/MSW	3.5	0.0	0.0	3.5
Administration	3.0	0.0	0.0	3.0
Marketing/CLN	2.0	0.0	0.0	2.0
Support Staff	8.3	0.0	0.0	8.3
Total FTEs	100.9	4.2	8.5	113.6

FTE by Type	CY 2018 Increase	CY 2019 Increase	CY 2020 Increase	6-Year Total
Nursing Staff [RNs & CNAs]	6.8	7.7	3.9	84.2
Respiratory Therapists	1.9	2.2	1.0	23.5
Other Therapy Staff [PT, OT, ST]	1.3	1.5	0.8	16.2
Case Management/MSW	0.0	0.0	0.0	3.5
Administration	0.0	0.0	0.0	3.0
Marketing/CLN	0.0	0.0	0.0	2.0
Support Staff	0.0	0.0	0.0	8.3
Total FTEs	10.0	11.4	5.7	140.7

As shown in Table 6 above, the majority of key staff is already in place and FHS projects most of the increases to occur in the areas of nursing and therapists. This information is consistent with the assumptions identified for the financial projections. FHS anticipates the relocation to be relatively seamless for staff since the new site is less than four miles from the current site. [source: First Amendment Application, p37]

RHRCC contracts with South Sound Inpatient Physicians, PLLC for physicians and other staff. Contract staff are not considered employees of the hospital and are not included in the FTE table above. The contract identifies both intensivist physicians and hospitalist physicians and mid-level providers, defined as either advanced registered nurse practitioners or physician assistants. The ‘Service Agreement’ provided by FHS for these staff is expected to remain in place with no changes as a result of the relocation. [source: May 13, 2014, supplemental information, pp3-4 and Attachment 3]

FHS does not expect any difficulty recruiting the nursing staff projected to be needed for years 2015 through 2020. RHRCC has been at its current location in Tukwila for many years and has been a

longstanding employer of healthcare workers. The relocation is only four miles from the existing site, and continues to be in the same planning area of southwest King County. FHS is also a long-standing healthcare system located in Pierce County and provides services through a variety of healthcare facilities in both Pierce and King counties. FHS is also one of the larger employers of healthcare workers. FHS offers competitive salaries comparable wages to its employees. [source: First Amendment Application, p37]

No public comments were submitted for this sub-criterion. Based on the source documents evaluated, the department concludes that FHS provided documentation to demonstrate that it would recruit and retain the necessary staff to provide the services at RHRCC. **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.

FHS states that all existing relationships will continue and, if necessary, may expand. To comply with this sub-criterion, FHS provided a listing of the current ancillary and support relationships in place for RHRCC. The listing includes healthcare providers, such as home health agencies, skilled nursing facilities, dialysis facilities, home infusion agencies, and medical equipment suppliers. [source: First Amendment Application, p38]

FHS also provided a brief description of the ancillary services provided by Highline at the current site. Those services include pharmacy, laboratory, diagnostic imaging, some therapy services, and nutritional counseling. With the relocation, Highline would continue to provide these ancillary services to RHRCC. [source: First Amendment Application, p38]

FHS and/or parent corporation Catholic Health Initiatives currently provide, and would continue to provide, the following support services: information technology, accounting, legal and regulatory services marketing, strategic planning. [source: First Amendment Application, p38]

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

No public comments were submitted for this sub-criterion. Based on the source documents evaluated, the department concludes that there is reasonable assurance that FHS 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.

FHS is a provider of a variety of health care services in Washington State. Currently FHS owns or operates healthcare facilities in Pierce and King counties, including both RHRCC and Highline. During review of this application, the department conducted a review of the quality of care history for RHRCC and healthcare facilities either owned or operated by FHS. This updated review revealed no substantial non-compliance issues for either RHRCC or FHS facilities.¹³ [source: DOH Office of Investigations and Inspections]

FHS also provided the names and professional license numbers for all staff currently employed by RHRCC and the physicians and ARNPs identified within the agreement with South Sound Inpatient Physicians, PLLC. With the exception of one certified nursing assistant, the department's compliance history for all staff, including the medical directors and ARNPs, shows no recorded sanctions. The certified nursing assistant is currently working under a five-year Probation Order beginning October 20, 2011.¹⁴ [source: Medical Quality Assurance Commission]

No public comments were submitted for this sub-criterion. Based on the source documents evaluated and the compliance history of RHRCC and FHS owned and/or operated healthcare facilities, there is reasonable assurance that FHS would continue to operate RHRCC 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.

FHS asserts that continuity in the provision of health care will be accomplished with the relocation of RHRCC because it will continue operating as an LTACH in the planning area. Since its purchase of Highline's Specialty campus in September 2013, Acadia Healthcare is preparing to expand its psychiatric and behavioral health services into space currently occupied by RHRCC. While Acadia Healthcare agreed to continue to lease the space to RHRCC for a limited time, ultimately, RHRCC must vacate the current space. FHS and RHRCC contend that continuity of care for LTACH patients is best accomplished when the LTACH is co-located within an acute medical center, rather than a psychiatric hospital. Further, since RHRCC has already formed working relationships with Highline and other healthcare providers within the planning area, relocating within Highline's Burien site within the same planning area is reasonable. [source: First Amendment Application, p8 and p39]

¹³ Compliance surveys were conducted for RHRCC in February 2010, January 2012, and December 2012. Compliance surveys for FHS facilities include in-home services in April 2014. For specific FHS affiliated hospitals, St. Anthony Hospital was surveyed in October 2012 and April 2014. St. Clare Hospital was surveyed in April 2010, June 2011, and January 2013. Enumclaw Regional Hospital was surveyed in February 2010 and January 2014. Highline Medical Center was surveyed in November 2010 and December 2011. St. Joseph Medical Center was surveyed in August 2011 and May 2014.

¹⁴ M2011-1158.

Because of current space constraints at Highline, to accommodate RHRCC and its 26 beds in phase one, Highline must delicense the space where RHRCC would be located and reduce its own acute care license by 26 beds. To accomplish this, Highline has elected to discontinue providing level II rehabilitation services through completion of phase two, year 2017. Once phase two is complete, Highline intends to increase its licensed bed capacity and resume providing level II rehabilitation service, approximately year 2018. [source: Second Amendment Application, p1]

Since Highline must reduce its beds and services for a limited time, the department must also consider the impact of RHRCC's relocation for Highline. Within this application, FHS provided an 'impact analysis' of this relocation project on Highline. Below is a summary of the analysis. [source: Second Amendment Application, Exhibit 1]

- As of September 20, 2013, Highline is licensed for a total of 154 acute care beds. Of the 154, 12 are dedicated to level II rehabilitation and 5 are dedicated to a level II intermediate care nursery, leaving 137 for general medical/surgical care.
- Highline has experienced recent growth in medical/surgical census. From 2010 through 2013, Highline experienced a 12% growth in medical surgical census.
- In the first quarter of year 2014, Highline's medical/surgical census was 94 patients, calculating to 68.6% of 137 general medical/surgical beds.
- The reduction in 26 general medical/surgical beds at Highline, would result in 111 general medical/surgical beds. Assuming a year 2013 average census of 88 patients, Highline would be operating at 79.2% occupancy of general medical/surgical bed capacity. This occupancy is 21% higher than the 1987 State Health Plan standard of 65% for a hospital of Highline's size.
- Rehabilitation census, while growing, has not experienced the same high growth.
- Highline's 12-bed rehabilitation unit averaged 65% and 69% in years 2012 and 2013, respectively.
- Highline still needs to delicense 26 of its total beds to accommodate RHRCC.
- Highline elected to discontinue its level II rehabilitation services and delicense the 12 dedicated beds, resulting in a reduction of 12 dedicated level II rehabilitation beds and 14 general medical/surgical beds. This bed decrease will continue through year 2017.
- While Highline is the only hospital located in the southwest King County hospital planning area, rehabilitation services are currently available within seven other hospitals located in King County. The hospitals and number of rehabilitation beds [excluding Highline] are shown below.

Name	City	# of Rehab Beds
MHS Auburn Regional Medical Center	Auburn	14
EvergreenHealthcare	Kirkland	14
Harborview Medical Center	Seattle	24
Northwest Hospital	Seattle	24
Swedish Medical Center	Seattle	36
University of Washington Medical Center	Seattle	19
Virginia Mason Medical Center	Seattle	18
Total		149

- FHS reviewed 2012 and 2013 CHARS data and determined that of the 149 total rehabilitation beds in King County, the average occupancy was 51% in 2012 and 48% in 2013.

- With the exception of Harborview, rehabilitation occupancy averaged less than 65% in both years.¹⁵
- Year 2012 CHARS data demonstrated that more than 43% of acute rehabilitation patient days at Highline were Medicare and 17% were Medicaid. This breakdown is consistent with other rehabilitation providers in King County, which demonstrates that access to rehabilitation services would be available for underserved patients.

FHS also provided a financial analysis of this relocation project on Highline. The financial analysis includes the following assumptions.

- This application proposing to relocate RHRCC to space within Highline is assumed to receive Certificate of Need approval in September 2014.
- For years 2015 through 2017, Highline's total licensed beds will be reduced by 26 beds. The reduction is 12 dedicated level II rehabilitation beds and 14 general medical/surgical beds.
- For years 2015 through 2017, Highline will be operating with 123 general medical surgical beds and 5 level II intermediate care nursery beds.
- In year 2018, Highline will add 43 new beds to the hospital. The breakdown of the 43 new beds is 12 level II rehabilitation beds and 31 general medical/surgical beds.¹⁶
- With 43 additional beds, Highline's total acute care beds would be 171. The breakdown will be 154 general medical/surgical; 12 level II rehabilitation; and 5 level II intermediate care nursery.

Using the assumptions stated above, FHS's financial analysis for Highline is summarized in the table below. [source: Second Amendment Application, Exhibit 1]

**Table 7
Highline Medical Center
Projected Years 2015 through 2020**

	CY 2015 Full Year 1	CY 2016 Full Year 2	CY 2017 Transition Year
Total Acute Beds	128	128	128
Net Revenue	\$ 210,519,746	\$ 220,693,520	\$ 240,158,349
Total Expenses	\$ 209,251,399	\$ 217,309,728	\$ 232,424,522
Net Profit /(Loss)	\$ 1,268,347	\$ 3,383,792	\$ 7,733,827

	CY 2018 Full Year 1	CY 2019 Full Year 3	CY 2020 Full Year 3
Total Acute Beds	171	171	171
Net Revenue	\$ 251,049,537	\$ 255,688,428	\$ 260,466,041
Total Expenses	\$ 236,760,373	\$ 240,750,436	\$ 244,957,401
Net Profit /(Loss)	\$ 14,289,164	\$ 14,937,992	\$ 15,508,640

The 'Net Revenue' line item is gross inpatient and outpatient revenue, plus 'other operating revenue' expected from the relocation of RHRCC into space at Highline. Other operating revenue includes lease revenue and revenue for ancillary services provided to RHRCC by Highline. The 'Net Revenue' line item also includes any deductions for contractual allowances, charity care, and bad debt. The 'Total

¹⁵ Harborview Medical Center is designated level I for adult trauma, pediatric trauma, rehabilitation services. With these designations, Harborview Medical Center's rehabilitation occupancy is exceptionally high, averaging 91% in year 2012 and 82% in 2013.

¹⁶ Acceptance of this assumption should not be interpreted as approval of the application submitted by Highline to add 43 acute care beds to the hospital.

Expenses' line item includes salaries and wages, amortization/depreciation, and all allocated costs for FHS and CHI. As shown above, FHS projected net profits in all years shown for Highline, even with a reduction in acute care beds in years 2015 through 2017.

Based on the source documents evaluated, including FHS's impact analysis and financial analysis for Highline, the department concludes that both Highline and RHRCC will continue to promote continuity in the provision of health care services in the community with the relocation. The department also concludes that the reduction in acute care beds and services at Highline will not result in an unwarranted fragmentation of services for the populations served by Highline or RHRCC. **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 Franciscan Health System 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. 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.

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 use 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.

This application is not competing with any other applications. For this project, FHS met the applicable review criteria under WAC 246-310-210, 220, and 230.

Once CN #1513 was issued to Acadia Healthcare approving the Asset Purchase Agreement for the Highline's Tukwila campus, the only options for FHS were to close RHRCC or relocate it. Since RHRCC is one of only two LTACHs operating in King County, closure would mean that a needed

service would no longer be available to the residents of the county and surrounding areas. Once closure of the facility was ruled out, the only other option was to relocate the hospital to a new site. [source: First Amendment Application, pp42-43]

In early 2013, RHRCC evaluated several different potential 'homes.' RHRCC contends that LTACHs are most effective when located within close proximity of an acute care hospital. To this end, several hospitals were considered. Based on a technical assistance consultation with Department of Health's Construction Review Services staff, proposals were accepted from three hospitals--Swedish-Ballard, Valley Medical Center, and Highline. Highline's proposal ultimately was chosen for a variety of space, service, and continuity reasons. Relocating to Highline also allowed an opportunity to affiliate with its parent corporation-FHS.¹⁷ [source: First Amendment Application, pp42-43]

With Highline's limited space, FHS also considered a permanent reduction of RHRCC's beds from 40 to 26. This option was rejected after FHS reviewed historical use data for RHRCC and concluded that all 40 beds were needed to continue to provide a full range of LTACH services in the community. [source: First Amendment Application, p43]

Department's Review of Alternatives

There were no other options identified by the department that FHS should have considered.

After FHS rejected the option of closing RHRCC and settled on relocation, the only available option is to submit a Certificate of Need application. In addition to the considerations outlined by FHS above, the department considered the following factors for this sub-criterion.

- the historical relationship of Highline and RHRCC, and RHRCC's opportunity to continue with existing ancillary and support contracts with Highline;
- RHRCC's opportunity to affiliate with FHS and the ancillary and support that would result from the affiliation; and
- the physical location of Highline—within four miles of the current location of RHRCC.

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 relocation of RHRCC within four miles of its current location. Moving forward with this application and the relocation is ultimately the best option for the residents of the community.

No public comments were submitted for this sub-criterion.

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

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

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

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

¹⁷ The affiliation between FHS and RHRCC occurred in mid January 2014.

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

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2) **and is met.**

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

This project has the potential to improve delivery of LTACH services to the residents of southwest King County and surrounding communities. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**