



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

September 2, 2014

CERTIFIED MAIL # 7011 1570 0002 7808 8140

Martina Sze, Vice President
US HealthVest
32 East 57th Street, 17th Floor
New York, New York 10022

RE: CN 14-26

Dear Ms. Sze:

We have completed review of the Certificate of Need (CN) application submitted by US HealthVest proposing to add 50 beds to the 75-bed psychiatric hospital approved by CN #1518 in Snohomish County, within Washington State. For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided US HealthVest agrees to the following in its entirety.

Project Description:

This certificate approves US HealthVest to add 50 psychiatric beds to the previously Certificate of Need (CN#1518) approved 75 bed psychiatric hospital at 15621 Smokey Point Boulevard in Marysville within Snohomish County. Programs to be provided include adult psychiatric, military, women's, dual diagnosis, geriatric, faith-based mental health and chemical dependency, youth/adolescent, and mother-infant, and voluntary and in-voluntary (ITA) for patients age 5 and older. At project completion the facility will have a total of 125 beds with 25 beds being dedicated to patients age 5 to 17. The number of approved beds is summarized below.

	Number of Beds
Beds dedicated for patients ages 5 to 17 (youth/adolescent)	25
Beds dedicated to patients age 18 and older (Adult)	100
Total Licensed Beds	125

Conditions:

1. Approval of the project description as stated above. US HealthVest 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. Prior to providing services at the hospital, US HealthVest will submit a copy of the adopted and approved Admission Policy for review and approval. The final policy must be consistent with the draft provided in the application.
3. Prior to providing services at the hospital, US HealthVest will submit a copy of the adopted Charity Care Policy approved by the Department of Health's Hospital and Patient Data System's office.
4. The new 125-bed psychiatric hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. The new 125-bed psychiatric hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.66 % of gross revenue and 5.80% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies. This charity care condition supersedes the charity care condition placed on CN1518.
5. Annual budgets, as required by WAC 246-454-030, submitted by the new 125-bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Puget Sound Region.
6. Prior to commencement of the project, US HealthVest will submit to the department's Certificate of Need program for review and approval of an executed Purchase and Sales Agreement between Vest Seattle Realty, LLC and Smokey Point Boulevard, LLC for the site.
7. Prior to providing services at the hospital, US HealthVest will submit to the department's Certificate of Need program for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.
8. Prior to providing services at the hospital, US HealthVest will submit to the department's Certificate of Need program for review and approval a final listing of ancillary and support vendors for the 125-bed psychiatric hospital.
9. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act (ITA) patients, US HealthVest will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at US HealthVest at the time of referral or if such referral is clinically inappropriate.

Martina Sze, Vice President
US HealthVest
September 2, 2014
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Approved Costs:

The estimated capital expenditure for this project \$3,387,232.

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

EXECUTIVE SUMMARY
EVALUATION DATED SEPTEMBER 2, 2014 OF THE FOLLOWING
CERTIFICATE OF NEED APPLICATIONS PROPOSING TO ADD
PSYCHIATRIC BEDS TO SNOHOMISH COUNTY:

- **UNIVERSAL HEALTH SERVICES PROPOSING TO ESTABLISH A 34 BED PSYCHIATRIC HOSPITAL IN MONROE**
- **US HEALTHVEST INC. PROPOSING TO ADD 50 PSYCHIATRIC BEDS TO THE JANUARY 21, 2014 CERTIFICATE OF NEED APPROVED PSYCHIATRIC HOSPITAL IN MARYSVILLE**

BRIEF PROJECT DESCRIPTIONS

Fairfax Behavioral Health

BHC Fairfax Hospital, Inc. (BHC) is a subsidiary of Universal Health Systems (UHS).¹ BHC is proposing to establish a new 34 bed adult psychiatric hospital in leased space of Valley General Hospital. The facility will be known as Fairfax Behavioral Health Monroe (Fairfax Monroe). BHC anticipates the 34 beds will open by January 2015. BHC proposes to service both voluntary and involuntary (ITA) patients. Although BHC anticipates serving ITA patients no set number of beds associated with ITA patients was identified. Patients to be served by this facility are adults age 18 and older. Programs designed specifically for geriatric patients, patients with co-morbidities, and patients with dual diagnosis (chemical dependency and psychiatric). The primary service area is Snohomish County.

The capital expenditure associated with this project is \$2,421,713. Of that amount 51.1% is related to construction, 9.2 % to fixed equipment, 11% to moveable equipment, 8% to Architect/Engineering Fees, 6% consulting fees, 5% supervision and inspection, and 10% to Washington State sales tax.

Fairfax Monroe anticipates the 34-bed psychiatric hospital would become operational in early January 2015. Under this timeline, year 2015 is full year one and year 2017 is full year three.

Throughout the remainder of this evaluation, the department will use Fairfax Monroe when referring to the application submitted by Universal Health Systems.

US HealthVest

US HealthVest is proposing to add 50 psychiatric beds to the previously Certificate of Need (CN) approved 75 bed psychiatric hospital at 15621 Smokey Point Boulevard in Marysville within Snohomish County. The 75-bed project was approved January 21, 2014.² US HealthVest proposes to service both voluntary and involuntary (ITA) patients age 5 and older. Although US HealthVest anticipates serving ITA patients no set number of beds associated with ITA patients was identified. US HealthVest also did not identify the number of beds that would be allocated to providing psychiatric

¹ On August 25, 2011 Certificate of Need #1451 was issued to UHS for the purchase of BHC Fairfax Hospital.

² That decision remains under appeal. UHS and BHC filed for an adjudicative appeal of the department's decision. The hearing date is scheduled for mid-October 2014.

services to patients age 17 and younger³. Programs to be provided include adult psychiatric, military, women's, dual diagnosis, geriatric, faith-based mental health and chemical dependency, youth/adolescent, and mother infant. The primary service area is Snohomish County. The secondary service area includes Skagit, Whatcom, Island, and San Juan counties.

The capital expenditure associated with the addition of the 50 psychiatric beds is \$3,387,232. Of that amount 83.2% is related to construction, 2.8% to moveable equipment, and 5.9% to Architect/Engineer Fees 8.1% is related to Washington State sales tax.

US HealthVest anticipates the 50 bed addition will be added in two phases. The first 25 beds will be available in January 2016 along with the 75 beds approved by CN #1518. In phase two the second 25 beds will become available in July 2018. Under these timelines the first full year for phase one is 2016 and full year three is 2018. The first full year for phase two is 2019 and the third full year for phase two is 2021.

APPLICABILITY OF CERTIFICATE OF NEED LAW

These projects are subject to review as the construction, development, or other establishment of new health care facility under Revised Code of Washington 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1)(a) and (c).

CONCLUSIONS

Fairfax Monroe

For the reasons stated in this evaluation, the application submitted by Universal Health Systems, Inc. to establish a 34-bed psychiatric hospital located in Monroe within Snohomish County is consistent with applicable criterion, providing Universal Health Systems, Inc. agrees to the following in its entirety.

Project Description:

This certificate approves the establishment of a new 34-bed psychiatric hospital to be located in leased space on the first and second floors of Valley General Hospital located at 14701 179th Avenue SE in Monroe, within Snohomish County. The new hospital will be separately licensed. Patients to be served are those eighteen years of age and older. Services to be provided include a full range of psychiatric services, including inpatient services, geriatric inpatient services, voluntary and involuntary treatment (ITA), day hospital/partial hospitalization, substance abuse treatment, and intensive outpatient services. The number of approved beds is summarized below.

	Number of Beds
Adult psychiatric beds	34
Total Licensed Beds	34

Conditions:

1. Approval of the project description as stated above. Universal Health Systems, Inc. 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.

³ The patient group age 5-17 will be referred to as youth/adolescent.

2. Prior to providing services at the hospital, Universal Health Systems, Inc. will submit a copy of the adopted Admission Policy for the facility. The approved policy must be consistent with the draft admission policy submitted in the application.
3. Prior to providing services at the hospital, Universal Health Systems, Inc. will submit a copy of the adopted Charity Care Policy approved by the Department of Health's Hospital and Patient Data System's office. The approved policy must be consistent with the draft charity care policy submitted in the application.
4. The hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. The hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.66% of gross revenue and 5.80% of adjusted revenue. The hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.
5. Annual budgets, as required by WAC 246-454-030, submitted by the hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Puget Sound Region.
6. Prior to commencement of the project, Universal Health Systems, Inc. will submit to the department's Certificate of Need program for review and approval the executed lease Agreement between BHC Fairfax Hospital, Inc. and Valley General Hospital. The executed lease must be consistent with the draft lease agreement submitted in the application.
7. Prior to licensure, Universal Health Systems, Inc. will provide a copy of Valley General Hospital's request to the Department of Health's Customer Service Center requesting to amend its license to remove the 1st and 2nd floor space where the 34 bed psychiatric hospital is to be located.
8. Prior to providing services at the hospital, Universal Health Systems will submit to the department's Certificate of Need program for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.
9. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act patients, Universal Health Systems will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at Fairfax Monroe at the time of referral or if such referral is clinically inappropriate.

Approved Costs:

The estimated capital expenditure for this project \$2,421,713.

US HealthVest

For the reasons stated in this evaluation, the application submitted by US HealthVest to add 50 psychiatric beds to its previously Certificate of Need approved 75 bed psychiatric hospital in Marysville within Snohomish County is consistent with applicable criterion, providing US HealthVest agrees to the following in its entirety:

Project Description:

This certificate approves US HealthVest to add 50 psychiatric beds to the previously Certificate of Need (CN#1518) approved 75 bed psychiatric hospital at 15621 Smokey Point Boulevard in Marysville within Snohomish County. Programs to be provided include adult psychiatric, military, women’s, dual diagnosis, geriatric, faith-based mental health and chemical dependency, youth/adolescent, and mother-infant, and voluntary and involuntary (ITA) for patients age 5 and older. At project completion the facility will have a total of 125 beds with 25 beds being dedicated to patients age 5 to 17. The number of approved beds is summarized below.

	Number of Beds
Beds dedicated for patients ages 5 to 17 (youth/adolescent)	25
Beds dedicated to patients age 18 and older (Adult)	100
Total Licensed Beds	125

Conditions:

1. Approval of the project description as stated above. US HealthVest 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. Prior to providing services at the hospital, US HealthVest will submit a copy of the adopted and approved Admission Policy for review and approval. The final policy must be consistent with the draft provided in the application.
3. Prior to providing services at the hospital, US HealthVest will submit a copy of the adopted Charity Care Policy approved by the Department of Health’s Hospital and Patient Data System’s office.
4. The new 125-bed psychiatric hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent polices reviewed and approved by the Department of Health. The new 125-bed psychiatric hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.66 % of gross revenue and 5.80% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies. This charity care condition supersedes the charity care condition placed on CN1518.
5. Annual budgets, as required by WAC 246-454-030, submitted by the new 125-bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Puget Sound Region.
6. Prior to commencement of the project, US HealthVest will submit to the department’s Certificate of Need program for review and approval of an executed Purchase and Sales

Agreement between Vest Seattle Realty, LLC and Smokey Point Boulevard, LLC for the site.

7. Prior to providing services at the hospital, US HealthVest will submit to the department's Certificate of Need program for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.
8. Prior to providing services at the hospital, US HealthVest will submit to the department's Certificate of Need program for review and approval a final listing of ancillary and support vendors for the 125-bed psychiatric hospital.
9. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act (ITA) patients, US HealthVest will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at US HealthVest at the time of referral or if such referral is clinically inappropriate.

Approved Costs:

The estimated capital expenditure for this project \$3,387,232.

**EVALUATION DATED SEPTEMBER 2, 2014 OF THE FOLLOWING
CERTIFICATE OF NEED APPLICATIONS PROPOSING TO ADD
PSYCHIATRIC BEDS TO SNOHOMISH COUNTY:**

- **UNIVERSAL HEALTH SERVICES PROPOSING TO ESTABLISH A 34 BED PSYCHIATRIC HOSPITAL IN MONROE**
- **US HEALTHVEST INC. PROPOSING TO ADD 50 PSYCHIATRIC BEDS TO THE JANUARY 21, 2014 CERTIFICATE OF NEED APPROVED PSYCHIATRIC HOSPITAL IN MARYSVILLE**

APPLICANTS DESCRIPTION

Fairfax Monroe

Universal Health Systems (UHS) Universal Health Services, Inc. (UHS) was founded in 1979. UHS subsidiaries own and operate 225 facilities, including 25 acute care hospitals, 195 behavioral health facilities and three surgery centers in 37 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, and employ more than 68,000 people. The Behavioral Health Division of UHS operates 195 facilities in 37 states, Washington, DC, Puerto Rico and the U.S. Virgin Islands. The core business of UHS is comprehensive inpatient and outpatient mental health and substance abuse services, but it also offers a number of successful and innovative specialty programs for eating disorders, trauma, autism spectrum disorders and neuropsychiatry services. [Source: UHS website <http://www.uhsinc.com/about-us/>]

BHC Fairfax Hospital, Inc. is a subsidiary of Universal Health Systems (UHS).⁴ BHC Fairfax Hospital (BHC) is licensed as a 133 bed psychiatric hospital located in Kirkland, Washington.⁵ It provides partial hospitalization services, assessment and referral services, and a clinical research program associated with its inpatient services. In addition to the 133 bed psychiatric hospital, an additional 24 beds are licensed as an alcohol and chemical dependency hospital.⁶

In 2012 BHC received approval to establish a 30 bed psychiatric hospital located in leased space on the 7th floor of Providence Regional Medical Center Everett-Pacific campus called Fairfax Behavioral Everett (Fairfax Everett). This hospital is scheduled to open by October 2014.

US HEALTHVEST

US HealthVest is a recently created entity owned by a variety of entities. The majority ownership [71.4%] is comprised of PVP US HealthVest, Inc. at 52.1% and Impresa Fund III Limited Partnership at 19.3%. The remaining ownership of 28.6% is shared between 13 other owners. Ownership shares range from 8.28% to 0.28%. US HealthVest is led by the former management team of Ascend Health Corporation. Ascend Health Corporation was established in 2005; and in mid-year 2012 was purchased by Universal Health Systems. The management team of US HealthVest is listed below.

Name	Role
Richard A. Kresch, MD	President and Chief Executive Officer
Neal Cury	Chief Operating Officer
Martina Sze	Vice President

⁴ On August 25, 2011 Certificate of Need #1451 was issued to UHS for the purchase of BHC Fairfax Hospital.

⁵ Psychiatric Hospital license number: HPSY.FS.00000004

⁶ Alcohol and Chemical Dependency Hospital license number: HALC.FS.00000009

Name	Role
Stacie York	Vice President
Stephen Brady	Vice President Financial Operations

US HealthVest is not registered to do business in Washington State, rather US HealthVest created a wholly owned subsidiary known as Vest Seattle, LLC. This corporation is currently registered with the state of Delaware and the state of Washington.⁷ For this project, US HealthVest is the applicant and, if this project is approved, would be the certificate holder. Since US HealthVest is not a Washington State corporation or registered to do business in this state, if this project is approved, the hospital license would be issued to Vest Seattle, LLC.

PROJECT DESCRIPTIONS

Fairfax Monroe

BHC is proposing to establish a new 34 bed adult psychiatric hospital in leased space of Valley General Hospital. The facility will be known as Fairfax Behavioral Health Monroe (Fairfax Monroe). BHC anticipates the 34 beds will open by January 2015. BHC proposes to service both voluntary and in-voluntary (ITA) patients. Although BHC anticipates serving ITA patients no set number of beds associated with ITA patients was identified. Patients to be served by this facility are adults age 18 and older. Programs designed specifically for geriatric patients, patients with co-morbidities, and patients with dual diagnosis (chemical dependency and psychiatric). The primary service area is Snohomish County.

The capital expenditure associated with this project \$2,421,713. Of that amount 51.1% is related to construction, 9.2% to fixed equipment, 11% to moveable equipment, 8% to Architect/Engineering Fees, 6% consulting fees, 5% supervision and inspection, and 10% to Washington State sales tax.

Fairfax Monroe anticipates the 34-bed psychiatric hospital would become operational in early January 2015. Under this timeline, year 2015 is full year one and year 2017 is full year three.

Throughout the remainder of this evaluation, the department will use Fairfax Monroe when referring to the application submitted by Universal Health Systems.

US HealthVest

US HealthVest is proposing to add 50 psychiatric beds to the previously Certificate of Need (CN) approved 75 bed psychiatric hospital at 15621 Smokey Point Boulevard in Marysville within Snohomish County. The 75-bed project was approved January 21, 2014. US HealthVest proposes to service both voluntary and in-voluntary (ITA) patients age 5 and older. Although US HealthVest anticipates serving ITA patients no set number of beds associated with ITA patients was identified. US HealthVest also did not identify the number of beds that would be allocated to providing psychiatric services to patients age 17 and younger. Programs to be provided include adult psychiatric, military, women's, dual diagnosis, geriatric, faith-based mental health and chemical dependency, youth/adolescent, and mother infant. The primary service area is Snohomish County. The secondary service area includes Skagit, Whatcom, Island, and San Juan counties.

⁷ Established on May 16, 2013 with the Washington State Secretary of State office and Department of Revenue under UBI #603302718.

The capital expenditure associated with the addition of the 50 psychiatric beds is \$3,387,232. Of that amount 83.2% is related to construction, 2.8% to moveable equipment, and 5.9% to Architect/Engineer Fees 8.1% is related to Washington State sales tax.

US HealthVest anticipates the 50 bed addition will be added in two phases. The first 25 beds will be available in January 2016 along with the 75 beds approved by CN #1518. In phase two the second 25 beds will become available in July 2018. Under these timelines the first full year for phase one is 2016 and full year three is 2018. The first full year for phase two is 2019 and the third full year for phase two is 2021.

APPLICABILITY OF CERTIFICATE OF NEED LAW

These projects are subject to review as the construction, development, or other establishment of new health care facility under Revised Code of Washington 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1)(a) and (c).

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

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

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

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).⁸

TYPE OF REVIEW

The concurrent review process promotes the expressed public policy goal of RCW 70.38 that the development or expansion of health care services is accomplished in a planned, orderly fashion and without unnecessary duplication. For hospital services, concurrent review allows the department to review applications proposing the serve the same planning area as defined in WAC 246-310-290 and simultaneously to reach a decision that serves the best interests of the planning area’s residents.

For these two projects, the concurrent review allows the department to review applications proposing the serve the same planning area—Snohomish County—simultaneously to reach a decision that serves the best interests of the planning area’s residents. In the case of these projects, the department will issue one evaluation regarding whether both, one or none of the projects should be issued a Certificate of Need.

APPLICATION CHRONOLOGY

Action	Fairfax Monroe	US HealthVest
Letter of Intent Submitted	October 11, 2013	January 29, 2014
Application Submitted	November 11, 2013	February 28, 2014
Amended Application Submitted	March 3, 2014	N/A
Department’s pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • Responses Received • DOH 2nd Screening Letter • Responses Received 	December 5, 2013 January 21, 2014 March 24, 2014 May 7, 2014	March 24, 2014 March 27, 2014 N/A N/A
Beginning of Review ⁹	May13, 2014	
End of Public Comment <ul style="list-style-type: none"> • Public comments accepted through • Public hearing conducted 	June 30, 2014 June 30, 2014	
Rebuttal Comments	July 15, 2014	
Department's Anticipated Decision Date	August 29, 2014	
Department's Actual Decision Date	September 2, 2014	

AFFECTED PERSONS

Washington Administrative Code 246-310-010(2) defines “affected person” as:
 “...an “interested person” who:

⁸ Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6).

⁹ Beginning of Review was delayed because the application was initially to be reviewed concurrently with the 34-bed BHC Fairfax application whose application was submitted after Cascade’s. The applicant also requested a delay conducting the public hearing due to schedule conflicts in April, 2014.

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

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

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

For these applications three entities sought affected person status. The three entities are Acadia Health Care Company, Inc., BHC-Fairfax Hospital, Inc., and US HealthVest. Below is a summary of each and a determination of their respective status regarding this application.

Acadia Health Care Company, Inc.

On October 27, 2013, Acadia Healthcare Company, Inc. (Acadia) submitted an application for a 80-bed psychiatric hospital proposed to be located in Snohomish County. Acadia requested to be recognized as an interested person for the Fairfax North and US HealthVest 50 bed expansion. The request also asked to be informed of the department’s decision. During the public hearing conducted on June 30, 2014 Acadia submitted public comments. Acadia has met the qualifications to be recognized as an affected person.

BHC Fairfax Hospital, Inc.

On November 16, 2012, BHC Fairfax Hospital was issued Certificate of Need #1492 approving the establishment of a 30-bed adult psychiatric hospital to be located in Everett, within Snohomish County. With its recent approval, BHC Fairfax Hospital, Inc. qualifies as an interested person. On March 7, 2014 BHC, Fairfax made a written request to be recognized as an interested person for the US HealthVest 50 bed expansion project. The request also asked to be informed of the department’s decision. During the public hearing conducted on June 30, 2014, BHC Fairfax submitted public comments. BHC Fairfax has met the qualifications to be recognized as an affected person.

US HealthVest

On January 21, 2014, US HealthVest was issued Certificate of Need #1518 approving construction of a new 75-bed adult psychiatric hospital to be located in Marysville within Snohomish County. With its recent approval, US HealthVest qualifies as an interested person. On June 5, 2013, US HealthVest made a written request to be recognized as an interested person for the Fairfax Monroe application. The request also asked to be informed of the department’s decision. During the public hearing conducted on April 29, 2014, US HealthVest submitted public comments. US HealthVest has met the qualifications to be recognized as an affected person.

SOURCE INFORMATION REVIEWED

- Fairfax Monroe’s Amended Certificate of Need application submitted February 28, 2014
- US HealthVest’s Certificate of Need application submitted February 28, 2014
- Fairfax Monroe’s supplemental material received, November 8, 2013; March 10, 2014
- US HealthVest’s supplemental material received March 28, 2014
- Public comments received by the department by June 30, 2014
- Comments from Public Hearing held on June 30, 2014
- Fairfax Monroe’s rebuttal documents received July 15 , 2014
- US HealthVest’s rebuttal documents received July 15, 2014
- Licensing and/or survey data provided by the Department of Health’s Investigations and Inspections Office
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health’s Office of Hospital and Patient Data Systems
- Department of Health’s Hospital and Patient Data Systems financial feasibility and cost containment analysis received August 12, 2014 and August 18, 2014
- Historical charity care data for years 2010, 2011, and 2012 obtained from the Department of Health Hospital and Patient Data Systems office
- Department of Health internal database-Integrated Licensing & Regulatory System (ILRS)
- Joint Commission quality check website at [www.qualitycheck.org]
- Certificate of Need historical files

CONCLUSIONS

Fairfax Monroe

For the reasons stated in this evaluation, the application submitted by Universal Health Systems, Inc. to establish a 34-bed psychiatric hospital located in Monroe within Snohomish County is consistent with applicable criterion, providing Universal Health Systems, Inc. agrees to the following in its entirety.

Project Description:

This certificate approves the establishment of a new 34-bed psychiatric hospital to be located in leased space on the first and second floors of Valley General Hospital located at 14701 179th Avenue SE in Monroe, within Snohomish County. The new hospital will be separately licensed. Patients to be served are those eighteen years of age and older. Services to be provided include a full range of psychiatric services, including inpatient services, geriatric inpatient services, voluntary and involuntary treatment (ITA), day hospital/partial hospitalization, substance abuse treatment, and intensive outpatient services. The number of approved beds is summarized below.

	Number of Beds
Psychiatric adult beds	34
Total Licensed Beds	34

Conditions:

1. Approval of the project description as stated above. Universal Health Systems, Inc. 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. Prior to providing services at the hospital, Universal Health Systems, Inc. will submit a copy of the adopted Admission Policy for the facility. The approved policy must be consistent with the draft admission policy submitted in the application.
3. Prior to providing services at the hospital, Universal Health Systems, Inc. will submit a copy of the adopted Charity Care Policy approved by the Department of Health's Hospital and Patient Data System's office. The approved policy must be consistent with the draft charity care policy submitted in the application.
4. The hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. The hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.66% of gross revenue and 5.80% of adjusted revenue. The hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.
5. Annual budgets, as required by WAC 246-454-030, submitted by the hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Puget Sound Region.
6. Prior to commencement of the project, Universal Health Systems, Inc. will submit to the department's Certificate of Need program for review and approval the executed lease Agreement between BHC Fairfax Hospital, Inc. and Valley General Hospital. The executed lease must be consistent with the draft lease agreement submitted in the application.
7. Prior to licensure, Universal Health Systems, Inc. will provide a copy of Valley General Hospital's request to the Department of Health's Customer Service Center requesting to amend its license to remove the 1st and 2nd floor space where the 34 bed psychiatric hospital is to be located.
8. Prior to providing services at the hospital, Universal Health Systems will submit to the department's Certificate of Need program for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.
9. So long as the state wishes to contract with the facility for providing care to Involuntary Treatment Act (ITA) patients, Universal Health Systems will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at Fairfax Monroe at the time of referral or if such referral is clinically inappropriate.

Approved Costs:

The estimated capital expenditure for this project \$2,421,713.

US HealthVest

For the reasons stated in this evaluation, the application submitted by US HealthVest to add 50 psychiatric beds to its previously Certificate of Need (CN#1518) approved 75 bed psychiatric hospital in Marysville within Snohomish County is consistent with applicable criterion, providing US HealthVest agrees to the following in its entirety:

Project Description:

This certificate approves US HealthVest to add 50 psychiatric beds to the previously Certificate of Need (CN#1518) approved 75 bed psychiatric hospital at 15621 Smokey Point Boulevard in Marysville within Snohomish County. Programs to be provided include adult psychiatric, military, women’s, dual diagnosis, geriatric, faith-based mental health and chemical dependency, youth/adolescent, and mother-infant, and voluntary and involuntary (ITA) for patients age 5 and older. At project completion the facility will have a total of 125 beds with 25 beds being dedicated to patients age 5 to 17. The number of approved beds is summarized below.

	Number of Beds
Beds dedicated for patients ages 5 to 17 (youth/adolescent)	25
Beds dedicated to patients age 18 and older (Adult)	100
Total Licensed Beds	125

Conditions:

1. Approval of the project description as stated above. US HealthVest 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. Prior to providing services at the hospital, US HealthVest will submit a copy of the adopted and approved Admission Policy for review and approval. The final policy must be consistent with the draft provided in the application.
3. Prior to providing services at the hospital, US HealthVest will submit a copy of the adopted Charity Care Policy approved by the Department of Health’s Hospital and Patient Data System’s office.
4. The new 125-bed psychiatric hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent polices reviewed and approved by the Department of Health. The new 125-bed psychiatric hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.66 % of gross revenue and 5.80% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies. This charity care condition supersedes the charity care condition placed on CN1518.
5. Annual budgets, as required by WAC 246-454-030, submitted by the new 125-bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Puget Sound Region.
6. Prior to commencement of the project, US HealthVest will submit to the department’s Certificate of Need program for review and approval of an executed Purchase and Sales Agreement between Vest Seattle Realty, LLC and Smokey Point Boulevard, LLC for the site.
7. Prior to providing services at the hospital, US HealthVest will submit to the department’s Certificate of Need program for review and approval a listing of key staff for the hospital.

Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.

8. Prior to providing services at the hospital, US HealthVest will submit to the department for review and approval a final listing of ancillary and support vendors for the 125-bed psychiatric hospital.
9. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act (ITA) patients, US HealthVest will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at US HealthVest at the time of referral or if such referral is clinically inappropriate.

Approved Costs:

The estimated capital expenditure for this project \$3,387,232.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information evaluated, and provided the applicant agrees to the conditions stated in the ‘conclusion’ section of this evaluation, the department concludes:

- Fairfax Monroe’s project has met the need criteria in WAC 246-310-210(1) and (2); and
- US HealthVest’s project met the need criteria in WAC 246-310-210(1) and (2).

(1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.

WAC 246-310 does not contain a psychiatric hospital bed forecasting method. The 1987 Washington State Health Plan (SHP) which was “sunsetting” has a numeric methodology for projecting psychiatric bed need. However, unlike the acute care bed need method from the same document the department is unable to obtain all the required data to apply this methodology. Therefore, the department has concluded that the psychiatric bed need method from the 1987 SHP is not a reliable tool for forecasting psychiatric bed need. As a result, the evaluation of need for psychiatric beds begins with an evaluation of the methodology provided by an applicant.

Fairfax Monroe

Prior to applying its Snohomish County need methodology Fairfax Monroe looked at historical use of psychiatric care in Washington State and Snohomish County. Fairfax Monroe stated the adult patient days for Snohomish County Residents have remained stable over the last five years (2007-2012). However Fairfax Monroe also stated *“It should be noted that CHARS¹⁰ is not a good indicator of total demand for psychiatric utilization and/or need for psychiatric services for two reasons: (1) CHARS does not provide statistics for state psychiatric hospitals, thus under reporting actual inpatient psychiatric utilization outright; and (2) CHARS only identifies inpatient utilization for those who actually receive care, not those who need care and don’t seek it or those who need care but are unable to utilize existing services due to lack of sufficient capacity.”* [Source: Application pgs. 24-27]

Fairfax Monroe’s Bed Need Projections

The applicant provided a four step methodology to support its request for psychiatric beds. The applicant calculated a “low” and “high estimate of the number of adult psychiatric hospital beds for Snohomish County.

Assumption	Data Used
Planning Area	Snohomish County
Forecast Years	2012 through 2027
Population Forecasts	Adults age 18 and older population figures from OFM 2012 medium series forecasts for Snohomish County for selected years.
Use Rate	Low: 19 per 100,000 population High: 27.3 per 100,000 population
Current Capacity	23 beds in years 2012/2013 <ul style="list-style-type: none"> • 23 beds Swedish Edmonds. 53 beds 2014

¹⁰ Comprehensive Hospital Abstract Reporting System (CHARS)

Assumption	Data Used
	<ul style="list-style-type: none"> • 23 beds Swedish Edmonds. • 30 beds Fairfax Everett-new in 2014 <p>128 beds 2015 through 2027</p> <ul style="list-style-type: none"> • 23 beds Swedish Edmonds. • 30 beds Fairfax Everett • 75 beds US HealthVest (2015)

The need methodology is provided in the following steps:

STEP 1: Obtain Snohomish County adult population estimates and projections. For residents ages 18 and older, for the base year (2012) and projections through the 15-year forecast (through 2027).

STEP 2: For the low estimate projections, multiply the figure of 19 beds per 100,000 persons by the Snohomish County adult population estimates and projections compiled in Step 1. Undertake this for each year of the forecast. This is the “low” gross estimate of need.

For the high estimate projections, multiply the average bed ratio of all other Northwest States (less Washington)—27.3 beds per 100,000 by the Snohomish County adult population estimates and projections compiled in Step 1. Undertake this for each year of the forecast. This is the "high" gross estimate of need.

STEP 3: Compile a list of all current Snohomish County providers. Count the total number of psychiatric beds operated in each hospital, and sum those counts. This is the supply, which has been explained above.

STEP 4: Subtract the supply determined in Step 3 from the low and high “gross demand” estimates determined in step 2. This represents the low and high estimates of net need for Snohomish County adult residents.

ADDITIONAL STEP

Fairfax Monroe performed an additional adjustment to the bed need methodology to support its project. Fairfax Monroe broke out a bed projection into bed need for psychiatric care alone and bed need for inpatients with medical care, i.e., comorbidities. [Source: Application, pg. 31] Comorbidities have been identified to include diabetes, asthma, and cardiovascular disease. Fairfax Monroe states, *“This additional step is very important, since freestanding psychiatric hospital, by their very nature, do not provide inpatient medical care. Fairfax Monroe, on the other hand, is designed to provide access to both psychiatric and medical care.”* [Source: Application, pg. 31] Fairfax Monroe stated it made these adjustments based on the findings of a February 2011 Robert Wood Johnson Foundation report entitled Mental Disorders and Medical Comorbidity. Table 1 provides the summary of the Fairfax Monroe’s bed need methodology.

**Table 1
Fairfax Monroe Snohomish County Psychiatric Bed Need**

	2012	2013	2014	2015	2016	2017	2018	2019
Snohomish County Population Ages 18+	552,997	559,994	567,148	574,717	582,758	591,054	599,618	608,462
Snohomish County Population Ages 18+ per 100,000 Residents 18+	5.5	5.6	5.7	5.7	5.8	5.9	6.0	6.1
FORECAST BED NEED-LOW ESTIMATES								
Recent Department Decisions (per 100,000 residents)	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00
Gross Bed Need @ SHP ¹¹ Target Ratio	105.1	106.4	107.8	109.2	110.7	112.3	113.9	115.6
Supply (1)	23	23	53	128	128	128	128	128
Net Psych Bed Need Psych/Med Capable (represents 37.1% of total net need)	30.4	30.9	20.3	20.8	21.4	22.0	22.6	23.2
Net Psych Bed Need Psych Only	51.6	52.5	34.4	-39.7	-38.7	-37.7	-36.7	-35.6
FORECAST BED NEED-HIGH ESTIMATES								
Target Bed Ratio (NW Average Less WA) (per 100,000 residents)	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need at Target Bed Ratio	150.7	152.6	154.5	156.6	158.8	161.1	163.4	165.8
Supply (1)	23	23	53	128	128	128	128	128
Net Psych Bed Need Psych/Med Capable (represents 37.1% of total net need)	47.4	48.1	37.7	38.4	39.3	40.1	41.0	41.9
Net Psych Bed Need Psych Only	80.3	81.5	63.9	-9.8	-8.5	-7.0	-5.6	-4.0

	2020	2021	2022	2023	2024	2025	2026	2027
Snohomish County Population Ages 18+	618,381	626,207	634,313	642,711	651,416	661,297	669,201	677,328
Snohomish County Population Ages 18+ per 100,000 Residents 18+	6.2	6.3	6.3	6.4	6.5	6.6	6.7	6.8
FORECAST BED NEED-LOW ESTIMATES								
Recent Department Decisions (per 100,000 residents)	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00
Gross Bed Need @ SHP Target Ratio	117.5	119.0	120.5	122.1	123.8	125.6	127.1	128.7
Supply (1)	128	128	128	128	128	128	128	128
Net Psych Bed Need Psych/Med Capable (represents 37.1% of total)	23.9	24.5	25.0	25.6	26.3	27.0	27.5	28.1

¹¹ Certificate of Need Program note: State Health Plan (SHP) psychiatric target ratio is 13 beds per 100,000 population rather than the 19 previously identified.

	2020	2021	2022	2023	2024	2025	2026	2027
net need)								
Net Psych Bed Need Psych Only	-34.4	-33.5	-32.5	-31.5	-30.5	-29.3	-28.4	-27.4
FORECAST BED NEED-HIGH ESTIMATES								
Target Bed Ratio (NW Average Less WA) (per 100,000 residents)	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need at Target Bed Ratio	168.5	170.6	172.9	175.14	177.5	180.2	182.4	184.6
Supply (1)	128	128	128	128	128	128	128	128
Net Psych Bed Need Psych/Med Capable (represents 37.1% of total net need)	42.9	43.6	44.5	45.3	46.2	47.2	48.0	48.8
Net Psych Bed Need Psych Only	-2.3	-1.0	0.4	1.8	3.3	5.0	6.4	7.8

Source: January 21, 2014 Supplemental Materials, p3-4

Starting in 2015 Fairfax Monroe projected a surplus for psych-only beds of 39.7 and a need of 20.8 for what Fairfax calls psych/med beds. By 2027 the psych-only shows a need for 7.8 beds and the psych/med shows a need for 48.8.

US HealthVest

US HealthVest's Numeric Need Methodology

The applicant's numeric need methodology was based on the following factors: planning area, population estimates and forecasts, use rate, and current capacity. Table 2 shows the factors used by US HealthVest.

**Table 2
US HealthVest's Methodology Assumptions and Data**

Assumption	Data Used
Planning Area	Snohomish County
Population Forecasts	Office Of Financial Management Population Data released May 2012. Age group of 5 years and older. Forecast years 2012 through 2020.
Use Rate	27.25 per 100,000 population. On October 22, 2012, the department approved the addition of 30 psychiatric beds in Snohomish County. In that application, the applicant applied an average use rate of other Northwest states. The department concurred that this was a reasonable determination of a use rate. US HealthVest used this same approach.
Current Capacity	53 psychiatric beds <ul style="list-style-type: none"> • Swedish-Edmonds-23 • BHC Fairfax-30

Source: Application, p17

Based on the assumption and data above, US HealthVest projected the number of psychiatric beds needed in Snohomish County for years 2012 through 2020. Table 3 shows years 2014 through 2018.

**Table 3
US HealthVest’s Psychiatric Bed Need Projections**

	2014	2015	2016	2017	2018
Population	694,599	702,557	711,817	721,493	731,605
Use Rate/100,000	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	189.3	191.4	194.0	196.6	199.4
Minus Current Supply	53.0	53.0	53.0	53.0	53.0
Net Bed Need	136.3	138.4	141.0	143.6	146.4
US HealthVest # of Beds	-0-	-0-	75.0	75.0	75.0
Unmet Bed Need	136.3	138.4	66.0	68.6	71.4

Source: Application, p17

The ‘net bed need’ line item shows that 136 psychiatric beds are needed in the Snohomish County planning area in 2014, which increases to more than 146 in 2018. The ‘unmet bed need’ line item shows that even with US HealthVest providing psychiatric services with 75 beds in year 2016, additional psychiatric beds may be needed in Snohomish County.

US HealthVest also provided statements related to the population’s need for the psychiatric services. The statements are summarized below. [Source: Application, pp18-24]

- A study published in the August 2011 Archives of General Psychiatry evaluated data for the period of 1996-2007 from the National Hospital Discharge Survey, an annual survey conducted by the National Center for Health Statistics to determine hospitalization rates. The data found that hospitalization rates increased the most for children ages 5-12. Among teens, the rate increased from 683 to 969 per 100,000. The adult rate increased from 921 to 995 per 100,000. By contrast, the rate declined among the elderly, from 977 to 807 per 100,000. US HealthVest proposes to serve patients five years and older.
- In addition to the general adult population in Snohomish County, the new psychiatric hospital expects to serve the military through specialty programming focused on combat post-traumatic stress disorder, addiction, and dual diagnoses. Currently there are more than 70,000 active duty personnel in Western Washington.¹² Data gathered by the Armed Forces Health Surveillance Center estimates that 6.87% of the active military population suffers from a form of depressive disorder.¹³
- Recent media releases focus on Snohomish County’s lack of psychiatric beds and the resulting burdens placed on emergency rooms and jails in the area.

Public Comment-Both Applications

During the review of these projects and at the June 30, 2014, public hearing, the department received letters of support from healthcare providers, law enforcement, and other entities in

¹² US HealthVest identified the active duty sites to include Joint Base Lewis McChord, Naval Base Kitsap, Whidbey Island Naval Base, Naval Station Everett, and National Guard.

¹³ Armed Forces Health Surveillance Center, Medical Surveillance Monthly Report, September 2011, Volume 18, Number 9.

Snohomish County and surrounding areas. The majority of the letters addressed the need for psychiatric services in Snohomish County. Law enforcement support focused on the need for additional detox services and overcrowded emergency rooms that ‘house’ these psychiatric patients when beds are not available. Snohomish County mental health providers also expressed the need for youth and adolescent services.

Both applicants submitted letters of opposition to the other’s proposed project. Acadia, who also had an application under review for psychiatric beds in Snohomish County, opposed both projects. Each provided rebuttal to the information contained in the initial public comment.

Department’s Numeric Psychiatric Bed Need Methodology

The assumptions used by the department to project psychiatric bed need in Snohomish County is shown Table 4.

**Table 4
Department Assumptions Used In Bed Need Methodology**

Assumption	Data Used
Planning Area	Snohomish County
Population Forecasts	OFM 2012 medium series forecasts age 5 and older.
Use Rate	Low Estimate: 13 beds per 100,000 ¹⁴ High Estimate: 27.25 beds per 100,000 population. This is based on the Northwest states ¹⁵ listed in <u>The National Report Card on the State of Emergency Medicine, 2009 Edition.</u>
Current Capacity	128 psychiatric beds <ul style="list-style-type: none"> • Swedish-Edmonds-23 • BHC Fairfax-30 • US HealthVest-75¹⁶

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

Step 1: The department obtained Snohomish County population estimates and projections, for residents 5 and older for the base year (2014) and every year through the ten year forecast (through 2023).

Step 2: For a low estimate projection the department multiplied the ratio of 13 beds per 100,000 persons by the Snohomish County population estimates and projections from Step 1¹⁷. This calculation was performed for each year of the forecast. This is the “low” estimate of need.

For the high estimate projections, the department multiplied the average bed ratio for all other Northwest States (less Washington)¹⁸ of 27.25 beds per 100,000, as defined in the 2009 National Report Card on the State of Emergency Medicine by the Snohomish County population estimates

¹⁴ 1987 State Health Plan-Sunsetted in 1989

¹⁵ Alaska, Idaho, Montana, and Oregon. Excludes Washington

¹⁶ CN 1518 issued to US HealthVest on January 21, 2014

¹⁷ The department used the bed to population ratio for psychiatric beds from the 1987 SHP as the low range of bed need.

¹⁸ These states are Alaska, Idaho, Montana and Oregon.

and projections from Step 1. This calculation was performed for each year of the forecast. This is the “high” estimate of need.

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

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

**Table 5
Snohomish County Psychiatric Bed Need Calculations**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Snohomish County Population Age 5 and Older	695,237	702,557	712,691	722,826	732,960	743,095	753,229	763,529	773,828	784,128
FORECAST BED NEED-LOW ESTIMATES										
Low Ratio	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Gross Bed Need	90	91	93	94	95	97	98	99	101	102
Current Supply ¹⁹	128	128	128	128	128	128	128	128	128	128
Net Psych. Bed Need (Surplus)	(38)	(37)	(35)	(34)	(33)	(31)	(30)	(29)	(27)	(26)
HIGH ESTIMATE										
High Ratio	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	189	191	194	197	200	202	205	208	211	214
Current Supply	128	128	128	128	128	128	128	128	128	128
Net Psych. Bed Need	61	63	66	69	72	74	77	80	83	86

As shown in table 5 there is no numeric need for psychiatric beds using 13.0 beds per 100,000 population. Using 27.25 beds per 100,000, table 5 shows a numeric need for 61 beds to serve Snohomish County residents in 2014 and increasing to 86 in 2023. Fairfax Monroe is requesting 34 beds to serve the adult population and US HealthVest is requesting an additional 50 beds to serve both adults and patients age 5 to 17 (youth/adolescent). Based just on the numeric bed projection, there is need for both projects.

Fairfax Monroe relied heavily on a February 2011 report by the Robert Wood Johnson Foundation (RWJ) entitled, Mental Disorders and Medical Comorbidity to support its project. In responding to opposition to its application relying on this report, Fairfax Monroe stated “*We stand on this approach as the most appropriate mechanism to understand true differences in these clinical populations. We used the Robert Wood Johnson Foundation study as the scientific and factual basis. Either the other two applicants do not understand this scientific study or they choose to “gloss over” this issue of dual diagnosis patients and its clinical importance regarding the most effective care delivery model.*”

The department reviewed the RWJ report used by Fairfax Monroe. The report addressed three questions:

¹⁹ Current supply include licensed beds and those CN approved. The CN approved beds are identified in the year they become operational.

1. What is the rate of comorbidity between medical and mental conditions and why is it so common?
2. What are the associated mortality, quality of care, and cost burdens of comorbidity?
3. What are the current evidence-based approaches for addressing comorbidity? [Source: RWJ Mental Disorders and Medical Comorbidity report Introduction]

One of the first findings of the report was “*Comorbidity between medical and mental conditions is the rule rather than the exception.*” [Source: RWJ Mental Disorders and Medical Comorbidity report pg.4] It is true the report states that “*Collaborative Care*” approaches that use a multidisciplinary team to screen and track mental conditions in *primary care*²⁰ settings have been the most effective in treating conditions.” Emphasis added. [Source: RWJ Mental Disorders and Medical Comorbidity report pg. 12] The report goes on by stating “*These models build on the Chronic Care Model, which describes the environmental, structural and community characteristics needed for multidisciplinary teams to work with patients in improving illness management.*” [Source: RWJ Mental Disorders and Medical Comorbidity report pg. 12]

The RWJ report further states “*There is increasing interest in developing models that use a single care manager to treat a range of medical and mental health problems.*” [Source: RWJ Mental Disorders and Medical Comorbidity report pg. 13] “*These clinical approaches to improving quality can be supported through a variety of organizational/structural relationships that can be categorized into three broad approaches: fully integrated care provided by a single organization; a partnership model in which care is shared across two different organizations; and a facilitated referral approach in which a site helps clients coordinate care occurring at multiple different clinics or sites.*” [Source: RWJ Mental Disorders and Medical Comorbidity report pg. 13] These approaches are described in general as follows:

- “*In fully integrated medical, mental health, and substance use (MH/SU) health models, staff within a single organization provide **primary** and MH/SU health care.*” Emphasis added.
- “*A partnership model is one in which **primary care** staff are embedded in a community MH/SU organization and/or MH/SU staff are embedded in a **primary care** setting.*” Emphasis added.
- “*A facilitated referral model is one in which **primary care** staff are not physically present in the MH/SU organization but the MH/SU organization conducts physical health screenings, coordinates referrals to primary care, and shares information with **primary care**.*” Emphasis added [Source: RWJ Mental Disorders and Medical Comorbidity report pg. 14]

Of significance to the department in evaluating Fairfax Monroe’s claims about its model of care is the statement from the RWJ report that states “*In contrast to the robust evidence base for clinical collaborative care models, there is little research evidence comparing the effectiveness of different organizational approaches to supporting care coordination.*” Emphasis added.

Both Fairfax Monroe and US HealthVest will be licensed under Revised Code of Washington (RCW) 71.12 (Private Establishments) and operate under the licensing regulations of Washington Administrative Code (WAC) 246-322 Private Psychiatric and Alcoholism Hospitals. These regulations require that a facility “(a) Provide an initial physical and mental health assessment by

²⁰ The initial medical care given by a health care provider to a patient, especially as part of regular, ambulatory care, and sometimes followed by referral to other medical providers. The American Heritage Medical Dictionary 2007

- a physician, advanced registered nurse practitioner, or physician assistant. The initial mental status exam may be conducted by a mental health professional;*
- (b) Admit only those patients for whom the hospital is qualified by staff, services and equipment to give adequate care; and*
- (c) Provide appropriate transfer and acceptance of a patient needing medical care services not provided by the hospital, ... ” [Source: WAC 246-322-170]*

Based on its evaluation of the RWJ report the department concludes that while the Fairfax Monroe facility (licensed under RCW 71.12) would be located within an acute care hospital (licensed under RCW 70.41) each are required to operate within the regulations of the particular hospital license type. Even if viewed liberally the RWJ report does not support Fairfax Monroe’s contention that there is a separate category of psychiatric patient known as “psych/med”.

To further evaluate this sub-criterion, the department reviewed the patient day projection provided by both applicants to determine if their patient day projections are reasonable. Table 6 shows the applicant’s projected patient days, total patients possible for the number of beds and percent occupancy for the Fairfax Monroe project.

**Table 6
Fairfax Monroe Projected Patient Days versus Bed Supply Patient Days**

	2016	2017	2018	2019	2020
Number of Beds	34	34	34	34	34
Total Number of Patient Days Available	12,410	12,410	12,410	12,410	12,410
Projected Adult Patient Days	6,670	8,130	8,860	9,408	9,733
% Occupancy	53.7%	65.5%	71.4%	75.8%	78.8%

Table 6 shows that Fairfax Monroe would be operating at about a 79% occupancy of its 34 bed facility in 2020 the fourth full year of operation. This is comparable to other psychiatric hospital projects reviewed by the department.

Table 7 shows the applicant’s projected patient days, total patients possible for the number of beds and percent occupancy for the US HealthVest project.

**Table 7
US HealthVest Projected Patient Days versus Bed Supply Patient Days**

	2016	2017	2018	2019	2020
Number of Beds ²¹	100	100	125	125	125
Total Number of Patient Days Available	36,500	36,500	45,625	45,625	45,625
Projected Adult Patient Days	9,104	17,783	23,194	26,445	29,523
Projected Youth/Adolescent Patient Days (Age 5-17)	2,446	4,778	6,231	7,105	7,932
Total Projected Patient Days	11,550	22,561	29,425	33,550	37,455
% Occupancy	32%	62%	64%	74%	82%

²¹ This number includes both the 75 beds previously awarded to US HealthVest and its current 50 bed proposal.

Table 7 shows that US HealthVest would be operating at about an 82% occupancy of its 125 bed facility in 2020 the third full year of operation at 125 beds. This is comparable to other psychiatric hospital projects reviewed by the department.

US HealthVest in its previously approved 75 bed project and in this current proposal stated it would be providing services to youth and adolescents (ages 5-17). The number of beds to be used for patients in this age cohort was not identified. However the number of patient days was. Because youth/adolescent inpatients should not be mixed with adult inpatients it's reasonable to identify a number of beds for them separately from the beds to serve adult patients. Table 8 shows the department's calculations for identifying the number of beds for youth/adolescent patients using US HealthVest's breakout between the two age cohorts.

**Table 8
Youth/Adolescent Project Beds Based On US HealthVest Patient Day Projections**

	2016	2017	2018	2019	2020
Number of Beds ²²	100	100	125	125	125
Projected Adult Patient Days	9,104	17,783	23,194	26,445	29,523
Projected Youth/Adolescent Patient Days (Age 5-17)	2,446	4,778	6,231	7,105	7,932
Total Projected Patient Days	11,550	22,561	29,425	33,550	37,455
Youth/Adolescent Patient Days As A Percent of Total Patient Days	21.18%	21.18%	21.18%	21.18%	21.18%
Adult Patient Days As A Percent of Total Patient Days	78.82%	78.82%	78.82%	78.82%	78.82%
No. of Beds for Youth/Adolescent Patients Based on Patient Day Projections Percentages	21	21	26	26	26
No. of Beds for Adult Patients Based on Patient Day Projections Percentages	79	79	99	99	99

Letters of support for the US HealthVest project specifically identified the provision of youth/adolescent services at the hospital. None of the currently licensed psychiatric hospital beds in Snohomish County provide care for youth and adolescents. Therefore, if this project is approved for US HealthVest, a condition would be included identifying the number of beds dedicated to youth/adolescent services.

Finally the department looked at whether the number of total patient days being projected would exceed the Snohomish County projected bed need or were considered reasonable. The department looked at year 2016, 2017, and 2018. These years were selected because an adjustment needs to be made to account for the previous US HealthVest 75 bed project so the projected patient days are not double counted. Data was available only for these three years, Table 9 shows this evaluation.

²² This number includes both the 75 beds previously awarded to US HealthVest and its current 50 bed proposal.

Table 9
Department’s Assessment of Applicant’s Projected Patient Days
Compared to Snohomish County Projected Bed Need

	2016	2017	2018
Net Projected Bed Need	66	69	72
Total Patient Days Possible-Net Bed Need	24,090	25,185	26,280
US HealthVest Current Application Total Projected Patient Days	11,550	22,561	29,425
Total Projection Patient Days From US HealthVest 75 Bed Project	9,844	18,600	22,500
Difference Between Current Project’s Total Projected Patient Days and Previous 75 bed project. Referred To As US HealthVest Adjusted.	1,706	3,961	6,925
Fairfax Monroe Total Projected Patient Days	6,670	8,130	8,860
Combined Fairfax Monroe and US HealthVest Adjusted Patient Days	8,376	12,091	15,785
Number of Patient Days Remaining in the Planning Area if Both Applicants Reach Their Patient Day Projections	15,790	13,083	10,397

As shown in Table 9, the projected total patient days of both applicants would not exceed the Snohomish County residents projected need.

The department concludes based on evaluation of the source information, Fairfax Monroe has **met this sub-criteria**. The department further concludes that US HealthVest, with agreement to the youth/adolescent bed condition, has **met this sub-criteria**.

- (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.

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

Fairfax Monroe
Admission Policy

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

Fairfax Monroe provided a copy of the Admission Policy to be used at the psychiatric hospital. The policy outlines the criteria that is currently used at its Kirkland hospital and will be used at the Fairfax Monroe hospital to admit patients for psychiatric treatment. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, color, age, religion, sex, national origin. [Source: Application, Exhibit 14] Because Fairfax Monroe is a new hospital, the

Admission Policy submitted is considered a draft. Therefore, if this project is approved a condition would be necessary.

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, Fairfax Monroe provided its projected source of revenues by payer for the psychiatric hospital. Medicare revenues are projected to be 31.5% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues

The department uses the facility's Medicaid certification or contracting with Medicaid to determine whether low-income residents would have access to the proposed services. To demonstrate compliance with this sub-criterion, Cascade also provided its projected percentage of Medicaid revenues at 31.5% for the psychiatric hospital. Additionally, the financial data provided in the application shows Medicaid revenues. [Source: Application p49 and February 28, 2014 Supplemental Information, Exhibit 18]

Charity Care Policy

For hospital projects, the department must determine whether the proposed hospital is projecting to meet or exceed the regional average level of charity care.²³ 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, Fairfax Monroe provided a copy of its charity care policy currently used at the Kirkland hospital and proposed to be used at the Fairfax Monroe hospital. The policy outlines the process one must follow to obtain charity care. Since the policy is proposed hospital is not operational, the policy has not been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. A comparison of King County's policy and the draft provided in this application shows the two policies contain the same language. The sliding fee schedule submitted in the application has been updated. Therefore since this is a new hospital and the sliding fee schedule is different, the department concludes that a charity care policy condition is necessary if this project is approved. Fairfax Monroe would need to submit an adopted and approved charity care policy consistent with the policy provided in the application.

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

²³ RCW 70.38.115(2)(j) and WAC 246-310-210(2)

hospital to be located in Marysville. [February 28, 2014 Supplemental Information, Exhibit 18] Table 10 shows the three-year average of charity care provided by the 19 licensed hospitals in the Puget Sound region and the three year average of charity care projected to be provided at Fairfax Monroe’s psychiatric hospital. [Source: February 28, 2014 Supplemental Information, Exhibit 18 February 28, 2014 Supplemental Information, Exhibit 18 and HPDS 2010-2012 charity care summaries]

Table 10
Fairfax Monroe Charity Care Percentage Comparisons

	% of Total Revenue	% of Adjusted Revenue
Puget Sound Region	2.66%	5.80%
Fairfax Monroe-Projected	2.75%	4.77%

As shown in Table 10, Fairfax Monroe intends to provide charity care above the regional averages, based on a percent of total revenues. Based on a percent of adjusted revenues Fairfax Monroe is below the regional averages. To ensure the new hospital meets its charity care obligations, if approved, the department concludes that a charity care condition is necessary to ensure compliance with this sub-criterion. **This sub-criterion is met.**

US HealthVest
Admission Policy

To determine whether all residents of Snohomish County would have access to the proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status. US HealthVest provided a copy of the Admission Policy to be used at the psychiatric hospital. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, color, religion, sex, national origin, or ability to pay. [Source: Application, Exhibit 14]

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, US HealthVest provided its projected source of revenues by payer for the psychiatric hospital. Medicare revenues are projected to be 23% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues

The department uses the facility's Medicaid certification or contracting with Medicaid to determine whether low-income residents would have access to the proposed services. To demonstrate compliance with this sub-criterion, US HealthVest also provided its projected percentage of Medicaid revenues at 26% for the psychiatric hospital. Additionally, the financial data provided in the application shows Medicaid revenues. [Source: Application p32 and March 28, 2014 Supplemental Information, p17]

Charity Care Policy

For hospital projects, the department must determine whether the proposed hospital is projecting to meet or exceed the regional average level of charity care.²⁴ 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, US HealthVest provided a copy of its draft charity care policy proposed to be used at the US HealthVest Hospital. The policy outlines the process one must follow to obtain charity care. The draft policy has not been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. Therefore since prior to providing services US HealthVest would need to submit a department approved charity care policy consistent with the draft policy provided in the application.

For charity care reporting purposes, HPDS divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Cascade's psychiatric hospital would be located in Snohomish County within the Puget Sound Region. Currently there are 19 operating hospitals located within this region and two recently approved, yet not operational hospitals in the region. The 19 operating hospitals are general acute care hospitals, and with the exception of Swedish-Edmonds, typically provide psychiatric services to a small number of patients in the planning area. Swedish Edmonds has a 23-bed psychiatric unit and provides more psychiatric patient days than the other acute care hospitals in the region. The CN approved, yet not operational, hospitals are the recently approved 30-bed BHC Fairfax Hospital to be located within space at Providence Regional Medical Center-Everett and the US HealthVest 75-bed psychiatric hospital to be located in Marysville. [February 28, 2014 Supplemental Information, Exhibit 18] Table 11 shows the three-year average of charity care provided by the 19 licensed hospitals in the Puget Sound region and the three year average of charity care projected to be provided at Fairfax Monroe's psychiatric hospital. [Source: February 28, 2014 Supplemental Information, Exhibit 18 February 28, 2014 Supplemental Information, Exhibit 18 and HPDS 2010-2012 charity care summaries]

Table 11
US HealthVest Charity Care Percentage Comparisons

	% of Total Revenue	% of Adjusted Revenue
Puget Sound Region	2.66%	5.80%
US HealthVest Projected	2.53%	4.41%

As shown in Table 11, US HealthVest intends to provide charity care below the regional averages, based on a percent of total revenues and on a percent of adjusted revenues. In the department's previous evaluation for its 75 hospital, US HealthVest was also projecting to provide charity care below the regional averages of both total revenue and adjusted revenue. To ensure the hospital meets its care obligations, if approved, the department concludes that a charity care condition is necessary to ensure continued compliance with this sub-criterion. The condition for this project would supersede the charity care condition placed on CN1518. **This sub-criterion is met.**

²⁴ RCW 70.38.115(2)(j) and WAC 246-310-210(2)

Involuntary Treatment Services

Both applicants state they intend to provide both voluntary and involuntary (ITA) treatment. Currently Washington has a recognized shortage of access to ITA services throughout the state. The department recognizes that the state contracts with providers to provide ITA services. Since both applicants stated their services would include involuntary treatment the department would add a condition to both projects to ensure these patients have access to ITA services in Snohomish County.

Based on the source information evaluated and with Fairfax Monroe's agreement to the condition related to charity care and ITA services the department concludes, **this sub-criterion is met**. The department further concludes that with US HealthVest's agreement to the charity care and ITA services conditions, has **met this sub-criteria**.

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

Based on the source documents evaluated, and provided the applicants agree to the conditions stated in the 'conclusion' section of this evaluation, the department concludes:

- Fairfax Monroe's project has met the need criteria in WAC 246-310-220; and
- US HealthVest's project has met the need 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.

Fairfax Monroe

If this project is approved, Fairfax Monroe expects to begin providing psychiatric services in Snohomish County in January 2015. [Source: Application, p23] Based on this timeline, year 2015 would be full calendar year one with the 34-bed hospital and 2017 would be year three.

A key element of a psychiatric hospital project's financial feasibility is its assumptions used to develop its financial projections. Fairfax Monroe provided its pro forma revenue and expense statements using the assumptions summarized below. [Source: February 28, supplemental information, p48]

- Payer mix is 31.5% Medicare; 31.5% Medicaid, 37.0% commercial/other/self-pay.
- Payer mix assumed constant over the forecast period.
- Models do not include any inflation
- Net revenue per patient day are calculated off 2013 actuals by payors.
- Charity care is calculated at 2.7% of gross patient revenue.
- Bad debt is calculated at 0.6%.
- Expenses, gross revenue and other key statistics were calculated using recent actuals from Fairfax Kirkland for similar existing programs.
- Staffing calculated based on Fairfax corporate staffing ratios

Using the assumptions above, table 12 illustrates the projected revenue, expenses, and net income for CY 2015 through 2017 for Fairfax Monroe’s 34 bed psychiatric hospital.

Table 12
Fairfax Monroe 34-bed Psychiatric Hospital
Projected Revenue and Expenses for Calendar Years 2015 - 2017

	2015 1st Full Year	2016 2nd Full Year	2017 3rd Full Year
Net Revenue	\$4,112,596	\$5,669,318	\$6,910,442
Total Expenses *	\$4,863,931	\$5,714,030	\$6,288,430
Net Profit or (Loss)	(\$751,335)	(\$44,712)	\$622,012

*Includes depreciation and management fee

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

As shown in the table 12, Fairfax Monroe projects the new psychiatric hospital would operate at a loss in years one and two and operate at a profit in year three. The net profit or loss for each year is dependent on Fairfax Monroe being able to achieve the projected patient days.

To assist in the evaluation of this sub-criterion, the department’s Hospital and Patient Data Systems (HPDS) office reviewed a historical balance sheet for UHS, Inc. the parent corporation of Fairfax. UHS does not keep asset records at the subsidiary level and provided UHS balance sheet information. The information is shown in the Table 13. [Source: August 12, 2014, HPDS analysis, p2]

Table 13
UHS, Inc. Balance Sheet
Historical Year 2012

Assets		Liabilities	
Current Assets	\$1,407,496,000	Current Liabilities	\$894,058,000
Fixed Assets	\$3,382,235,000	Long Term Debt	\$3,727,431,000
Board Designated Assets	\$ 0	Other Liabilities	\$813,405,000
Other Assets	\$3,411,112,000	Equity	\$2,765,949,000
Total Assets	\$8,200,843,000	Total Liabilities and Equity	\$8,200,843,000

After reviewing the balance sheet shown in table 13, HPDS concluded that UHS, Inc. has sufficient resources to finance this project.

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

For Certificate of Need applications, HPDS compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2012 data for comparison with projected years 2015 through 2017. The ratio comparisons are shown in Table 14. [Source: August 12, 2014, HPDS analysis, p3]

**Table 14
Current and Projected HPDS Debt Ratios for UHS**

Category	Trend*	State 2012	UHS 2012	Projected 2015	Projected 2016	Projected 2017
Long Term Debt to Equity	B	0.586	1.348	N/A	N/A	N/A
Current Assets/Current Liabilities	A	1.797	1.574	N/A	N/A	N/A
Assets Funded by Liabilities	B	0.468	0.564	N/A	N/A	N/A
Operating Expense/Operating Revenue	B	0.945	0.890	1.183	1.008	0.910
Debt Service Coverage	A	5.362	5.095	N/A	N/A	N/A
Definitions:	Formula					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets					
Operating Expense/Operating Revenue	Operating expenses / operating revenue					
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp					

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

The parent corporation is very large compared to this project. While every ratio except Operating Expense/Operating Revenue is out of range for UHS 2012 the size of UHS makes this project financially feasible. [Source: August 12, 2014, HPDS analysis, p3] **This sub-criterion is met.**

US HealthVest

If this project is approved, US HealthVest expects to begin providing psychiatric services in the 75 beds approved by CN #1518 and 25 of the 50 beds from this project if, approved, in January 2016. The final 25 beds, if approved, are proposed to begin operation in July 2018. [Source: Application, p24] Based on this timeline, year 2019 would be full calendar year one with the 125-bed hospital and 2021 would be year three.

A key element of a psychiatric hospital project’s financial feasibility is its assumptions used to develop its financial projections. US HealthVest provided its pro forma revenue and expense statements using the assumptions summarized below. [Source: March 28, supplemental Material, p3]

- Total Patient days: 2016 is 11,550; 2017 is 22,561; and 2018 is 29,425.
- Payer mix is 26% Medicare; 23% Medicaid, 26% commercial/other/self-pay, 25% Tricare.
- Payer mix assumed constant over the forecast period.
- Pro forma does not include any inflation
- Charity care is calculated at 2.5% of gross patient revenue.
- Staffing calculated based on experience with previous hospitals operated by Ascend Corporation

Using the assumptions above, table 15 illustrates the projected revenue, expenses, and net income for CY 2016 through 2018 for US HealthVest with 25 beds of the 50 additional beds or a total of 100 beds. [Source: March 28, 2014 Supplemental Materials, p17]

Table 15
US HealthVest Add 50 beds- Psychiatric Hospital-Phase 1
Projected Revenue and Expenses for Calendar Years 2016 - 2018

	2016 1st Full Year	2017 2nd Full Year	2018 3rd Full Year
Net Revenue	\$6,375,070	\$17,971,247	\$23,670,370
Total Expenses*	\$11,315,370	\$17,041,185	\$21,233,142
Net Profit or (Loss)	(\$4,940,300)	\$930,062	\$2,437,229

* Includes depreciation

Table 16 shows the first three years of operation for Phase two of the project, which is the addition of the final 25 beds or operating with 125 beds. [Source: March 28, 2014 Supplemental Materials, p16]

Table 16
US HealthVest Add 50 beds-bed Psychiatric Hospital-Phase 2
Projected Revenue and Expenses for Calendar Years 2019 - 2021

	2019 1st Full Year	2020 2nd Full Year	2021 3rd Full Year
Net Revenue	\$27,316,866	\$30,820,272	\$32,369,627
Total Expenses*	\$23,629,355	\$25,550,391	\$26,806,941
Net Profit or (Loss)	\$3,687,534	\$5,269,881	\$5,562,686

*Includes depreciation

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

As shown in the table 16, US HealthVest's new psychiatric hospital would operate at a loss in year one and operate at a profit in year two and three. The net profit or loss for each year is dependent on US HealthVest being able to achieve the projected patient days.

To assist in the evaluation of this sub-criterion, the department's Hospital and Patient Data Systems (HPDS) office reviewed a current balance sheet for US HealthVest. The information is shown in the Table 17. [Source: August 18, 2014, HPDS analysis, p2]

Table 17
US HealthVest –Parent Corpotation
2013 Balance Sheet

Assets		Liabilities	
Current Assets	\$33,619,258	Current Liabilities	\$216,535
Fixed Assets	\$0	Long Term Debt	\$0
Board Designated Assets	\$ 0	Other Liabilities	\$0
Other Assets	\$11,421	Equity	\$33,414,144
Total Assets	\$33,630,679	Total Liabilities and Equity	\$33,630,679

After reviewing the balance sheet shown in table 17, HPDS that US HealthVest has sufficient resources to finance this project.

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

For Certificate of Need applications, HPDS compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2012 data for comparison with projected years 2015 through 2017. The ratio comparisons are shown in table 19. [Source: August 18, 2014, HPDS analysis, p3]

**Table 19
Current and Projected HPDS Debt Ratios for US HealthVest**

Category	Trend*	State 2012	US HealthVest	Projected 2015	Projected 2016	Projected 2017
Long Term Debt to Equity	B	0.5867		N/A	N/A	N/A
Current Assets/Current Liabilities	A	1.797	155.26	3.244	4.427	7.12
Assets Funded by Liabilities	B	0.468	0.006	0.026	0.034	0.036
Operating Expense/Operating Revenue	B	0.945		1.735	0.950	0.901
Debt Service Coverage	A	5.362	114.53	N/A	N/A	N/A
Definitions:	Formula					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets					
Operating Expense/Operating Revenue	Operating expenses / operating revenue					
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp					

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

US HealthVest is not currently operating therefore an income statement is not available for the current year. The pro forma balance sheet does not show any long term debt therefore two ratios long term debt to equity and debt service coverage are not applicable. The remaining ratios are appropriate to use when there is minor or no debt and are in range of statewide 2012 results. The hospital is breaking even in CN year 2 or 2016. **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.

Fairfax Monroe

The capital expenditure associated with the construction of this 14,733 square foot, 34-bed psychiatric hospital is \$2,421,714. A breakdown of the costs is shown in Table 20. [Source: May 7, 2014, supplemental information, Exhibit 16]

Table 20
Fairfax Monroe Capital Cost Breakdown

Item	Cost	% of Total
Construction Costs	\$1,237,745	51.1%
Fixed Equipment	\$223,000	9.2%
Moveable Equipment	\$275,000	11%
Architect/Engineering Fees	\$191,183	8%
Consulting Fees	\$138,551	6%
Supervision & Inspection	\$126,172	5%
Sales Tax	\$230,063	10%
Total	\$2,421,714	100.00%

Fairfax Monroe stated the new 34-bed psychiatric hospital would be located in on the first and second floors of the building located at 14701 179th Avenue South East in the city of Monroe within Snohomish County. The building is located on the campus of Valley General Hospital. To demonstrate compliance with this sub-criterion, Fairfax Monroe provided documents related to the site. A summary of each document is provided below. [Source: May 7, 2014 Supplemental Material, Exhibit 28 and January 21 2014 Supplemental Materials, Exhibit 7]

- Lease Agreement
Fairfax Monroe submitted a draft lease agreement to the department for the space they are proposing to lease from Valley General Hospital. The draft lease agreement outlines roles and responsibilities of both purchaser and seller. If a project with draft documents is approved, the approval is contingent on the applicant providing executed documents consistent with the draft provided. A condition is attached to the approval. The draft agreement provided by Fairfax Monroe includes the information necessary to determine compliance with the sub-criterion and allow for a specific condition related to the document.

- Fairfax Monroe also submitted to the department documentation of an intent to lease the space from Valley General Hospital. The intent to lease agreement includes lease terms and the rental rate. [Source: May 14, 2014 Supplemental Materials, Exhibit 28]

The costs of the project, including construction costs, will probably not result in an unreasonable impact on the costs and charges for health services. As evaluated in the need section of this analysis, the department concluded that Snohomish County could support an additional 34 beds at the patient day level Fairfax Monroe projected in addition to the beds previously approved.

Based on the source documents evaluated and with Fairfax’s agreement to the conditions related to the purchase and sale agreement, 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.**

US HealthVest

The capital expenditure associated with the construction of this 50 bed addition is \$3,287,232. A breakdown of the costs is shown in Table 21.

Table 21
US HealthVest Capital Cost Breakdown

Item	Cost	% of Total
Construction Costs	\$2,994,066	91.1%
Moveable Equipment	\$100,000	3.0%
Architect/Engineering Fees	\$193,166	5.9%
Total	\$3,287,232	100.00%

US HealthVest proposes the new 125-bed psychiatric hospital would be located at 15621 Smokey Point Boulevard in Marysville, within Snohomish County. To demonstrate compliance with this sub-criterion, US HealthVest provided three documents related to the site. A summary of each document is provided below. [Source: Application, Exhibit 2, 5, and 7]

- **Executed Option Agreement**
This agreement is between Vest Seattle Realty, LLC [optionee] and Smokey Point Boulevard, LLC [owner]. Vest Seattle Realty, LLC is a Washington State corporation specifically formed to purchase the real estate for this project. This executed agreement identifies the location of the site, purchase price, earnest money paid. It recognizes that the owner has agreed to grant the optionee exclusive option to purchase a portion of the land identified in the Option Agreement. The agreement became effective on August 15, 2013.
- **Draft-Purchase and Sale Agreement**
This agreement is between Vest Seattle Realty, LLC [purchaser] and Smokey Point Boulevard, LLC [seller]. The agreement identifies the location of the site, purchase price, and certain regulatory requirements that must be obtained by the purchaser. The agreement outlines roles and responsibilities of both purchaser and seller. Since the agreement is a draft, if this project is approved, the department would attach a condition requiring US HealthVest to provide a copy of the final, executed agreement.
- **Zoning Information**
US HealthVest provided a map of the Marysville area where the hospital would be located, and specific zoning information for the site. According to the map, the site is zoned: ‘general commercial.’ The applicant also provided a copy of an e-mail from the real estate broker with an attachment showing a description of the ‘general commercial’ zoning and a matrix showing permitted uses. The matrix demonstrates that a hospital is a permitted use for the site. US HealthVest provided an email from the Marysville Community Development confirming that the environmental issues for the site have been fully addressed.

The costs of the project, including construction costs, will probably not result in an unreasonable impact on the costs and charges for health services. As evaluated in the need section of this analysis, the department concluded that Snohomish County could support an additional 50 beds at the patient day level US HealthVest projected in addition to the beds previously approved as well as the 34 beds proposed by Fairfax Monroe. Based on the source documents evaluated and with US HealthVest’s agreement to the condition relating to the purchase agreement, the department concludes **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.

Fairfax Monroe

The capital expenditure associated with the construction of the 34-bed psychiatric hospital is \$2,421,714. The costs include construction, equipment, Architect/Engineering Fees, supervision and inspection fees, and consultant fees, plus Washington State sales tax. Fairfax Monroe has been awarded an \$880,000 grant from the State of Washington Department of Commerce for this proposed project. [Source: Department of Commerce website, Screening Responses from application CN14-15]

Fairfax Monroe states the remainder of the project will be funded with reserves from UHS. To demonstrate compliance with this sub-criterion, Fairfax Monroe provided a letter from the Universal Health Service's Chief Financial Officer demonstrating the corporation's financial commitment to fund all costs of the project. The letter assured financial support for the new psychiatric hospital through cash reserves available from that organization [Source: January 21, 2014 Supplemental Material, Exhibit 17]. Universal Health Services also provided its three most recent audited financial statements for years 2010, 2011, and 2012.

Use of grant monies and internal funds of a parent corporation is an appropriate way to fund a construction project. The department reviewed UHS's audited financial statements for 2012. That "snapshot" in time shows the funds necessary to finance the project are available. [Source: Application, Exhibit 19] **This sub-criterion is met.**

US HealthVest

The capital expenditure associated with the addition of the 50 psychiatric beds to the hospital approved by CN#1518 is \$3,287,232. The costs include construction costs, equipment, all construction and consultant fees, plus Washington State sales tax.

US HealthVest intends to fund the project using its reserves. US HealthVest is a new corporation created especially to establish this hospital in Washington State.

To demonstrate it has the funds to support the financing, US HealthVest provided its current [year 2013] balance sheet for the corporation. The balance sheet shows more than \$33,000,000 in current assets. [Source: Application, Appendix 1] The documents demonstrate that the funds necessary to finance the project are available.

Based on the source information evaluated, the department concludes that US HealthVest's project can be appropriately financed. **This sub-criterion is met.**

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

Based on the source documents evaluated, and provided the applicants agree to the conditions stated in the 'conclusion' section of this evaluation, the department concludes:

- Fairfax Monroe’s project has met the need criteria in WAC 246-310-230; and
- US HealthVest’s project has met the need 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.

Fairfax Monroe

The hospital is expected to become operational in January 2015 with all 34 psychiatric beds. Under this timeline, full calendar year one is 2015 and full year three is 2017. Staffing for the psychiatric hospital is based on the projected occupancy of 39% in year one, 53.7% in year two, and 65.5% in year three. Projected staffing is shown in table 22. [Source: May 7, 2014 Supplemental Material, p6]

Table 22
Fairfax Monroe 34-bed Psychiatric Hospital

	2015	2016 Increase	2017 Increase	Total
MD	2.0	0.0	0.0	2.0
ARNP	2.0	0.0	0.0	2.0
RN/LPN	5.6	2.8	2.8	11.2
Nurses Aide	7.9	2.2	1.3	11.4
Certified Therapeutic Recreation Specialist	2.0	0.0	0.0	2.0
Social Service	1.9	0.7	0.2	2.8
RN Manager	1.0	0.0	0.0	1.0
Unit Assistant	3.8	0.0	0.0	3.8
Utilization Review	1.0	0.5	0.0	1.5
Discharge Planners	1.5	0.5	0.0	2.0
Medical Records	1.0	0.0	0.0	1.0
Staff Training	2.0	0.0	0.0	2.0
Dietary Aide	1.0	1.0	0.0	2.0
Intake Clinicians	5.2	0.0	0.0	5.2
Administrator	1.0	0.0	0.0	1.0
Accounting/IT	2	0	0	2.0
Total	40.9	7.7	4.3	52.9

Fairfax Monroe is proposing to initially staff the hospital with 40.9 FTEs in 2015, add 7.7 FTEs in 2016, and add another 4.3 FTEs in 2017 for a total of 52.9 FTEs at the end of 2017. [Source: May 7, 2014 Supplemental Materials, Exhibit 18]

The applicant reports that currently 20% of the staff at their Kirkland facility live in Snohomish County, Positions for the Fairfax Monroe facility will be posted internally and key staff will be

transitioned from the Kirkland facility. For open positions Fairfax Monroe has access to Fairfax Kirkland web site, UHS recruiters, and UHS physician recruiters. Fairfax also has established relationships with local nursing schools. [Source: Application, p51-53]

The number of FTEs and recruitment approaches outlined above appear to be a reasonable approach to securing needed staffing for the 34 bed facility.

A Medical Director has not been identified for Fairfax Monroe. Fairfax did provide a draft Medical Director’s contract that outlined the role and responsibilities of the Medical Director. If this project is approved, prior to providing services, Fairfax Monroe must provide the department copy of the executed Medical Director’s contract consistent with the draft contract submitted in the application. Additionally, Fairfax Monroe must provide the Medical Director’s name and professional license number for review and approval.

Based on the source documents evaluated and with Fairfax Monroe’s agreement to the condition relating to the Medical Director, the department concludes **this sub-criterion is met.**

US HealthVest

US HealthVest anticipates the 50 bed addition will be added in two phases. The first 25 beds will be available in January 2016 along with the 75 beds approved by CN #1518. In phase two the second 25 beds will become available in July 2018. Under these timelines the first full year for phase one is 2016 and full year three is 2018. The first full year for phase two is 2019 and the third full year for phase two is 2021. Projected staffing is shown in table 23. [Source: March 28, 2014 Supplemental Material, p13]

**Table 23
US HealthVest 125-bed Psychiatric Hospital**

	2016	2017	2018	2019	2020	2021	Total
Registered Nurse	43.8	22.5	19.2	12.5	7.9	3.8	109.7
Social Services	6.4	5.1	3.9	1.2	1.3	0.5	18.4
Nursing Admin	5.8	0.4	0.0	0.0	0.0	0.0	6.2
Training	5.2	2.5	1.6	0.8	0.5	0.3	10.9
Sec/trans/Rec Therapy Tech	5.8	1.0	1.4	0.1	0.0	0.0	8.3
Pharmacy	1.7	0.7	0.6	0.0	0.0	0.0	3.0
Dietary	4.0	1.9	0.9	0.0	0.0	0.2	7.0
U/R Discharge Planner	2.8	2.1	1.9	1.2	0.0	0.0	8.0
Maintenance/Housekeeping	5.1	2.1	1.6	0.7	0.1	0.5	10.1
Medical Records	1.7	1.6	0.7	0.0	0.0	0.2	4.2
Billing and Administration	7.2	3.6	3.5	0.9	1.0	0.6	16.8
Admin Assistant	2.5	0.0	0.0	0.0	0.0	0.0	2.5
Intake	7.4	3.5	1.8	0.4	0.5	0	13.6
Human Resources	1	0	0	0	0	0	1.0
Community Relations	4.5	1	0.5	0	0	0	6.0
Outpatient Social Worker	3.0	1	1	0	0.1	0.4	5.5
Total	107.9	49.0	38.6	17.8	11.4	6.1	230.8

US HealthVest is proposing to initially staff the hospital with 107.9 FTEs in 2016, add 87.6 FTEs in phase one and add another 36.3 FTEs in phase two for a total of 230.8 at the end of 2021. [Source: March 28, 2014 Supplemental Materials, p13]

As a new corporation, the applicant has no documented experience in staff recruitment and retention. However, the management team of US HealthVest has five years of experience under the Ascend Health Corporation before its purchase in 2012. To ensure appropriate staff is available for this project, US HealthVest states it intends to "*work closely with the existing local providers to develop recruitment and retention strategies that would support existing systems and do not exacerbate any challenges faced by the existing providers.*"

US HealthVest provided its staff recruitment strategies, which includes the points below.

- Specifically seeking individuals with an interest in behavioral health.
- Nationwide postings of job openings on the corporation website, national recruiting websites, and local community online posting.
- Establishing relationships with local colleges and universities by offering internships, training, and job opportunities.
- Offering a generous wage and benefit package that is comparable to the industry.
- Working with local employment agencies and attending job fairs.

[Source: Application, pp34]

The number of FTEs and recruitment approaches outlined above appear to be a reasonable approach to securing needed staffing for the 125 bed facility.

A Medical Director has not been identified for the US HealthVest psychiatric hospital. US HealthVest did provide a draft Medical Director's contract that outlined the role and responsibilities of the Medical Director. If this project is approved, prior to providing services, Fairfax Monroe must provide the department copy of the executed Medical Director's contract consistent with the draft contract submitted in the application. Additionally, US HealthVest Monroe must provide the Medical Director's name and professional license number for review and approval.

Based on the source documents evaluated and with HealthVest's agreement to the condition relating to the Medical Director, the department concludes **this sub-criterion is met.**

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

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

Fairfax Monroe

Fairfax currently has relationships with other organizations to provide services it doesn't, such as lab service, surgical services for example. At the new facility, Fairfax Monroe will either provide the services it will need, or will contract with its existing suppliers or will contract with new

providers in the planning area, or contract with Valley General Hospital for services it provides. [Source: Application, p53]

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

US HealthVest

US HealthVest expects the new psychiatric hospital to become operational in January 2016. As a result, formal and informal working relationships with area healthcare providers have not yet been established. To demonstrate compliance with this sub-criterion, the applicant provided a listing of common ancillary and support services necessary for a 125-bed psychiatric hospital. Patient services anticipated to be provided on-site include pharmacy, dietary, and therapy; lab services are expected to be under contract with a local provider.

The psychiatric hospital would provide both inpatient and outpatient psychiatric services. US HealthVest intends to establish formal and informal working relationships with community healthcare providers to ensure continuity of care for the patients after discharge. Community providers include mental health providers, hospitals, physicians, nursing homes, home care, and, when necessary, local schools. [Source: Application, p40 and August 16 2013, supplemental information, p9]

Given that US HealthVest has not yet established ancillary and support agreements for the new hospital, if this project is approved, the department would attach a condition requiring US HealthVest to provide a final listing of ancillary and support vendors for the 125-bed psychiatric hospital.

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

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

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

Fairfax Monroe

Since Fairfax Monroe will be a new hospital, it does not have a history of Medicare certification or inspections by the Department of Health. The department reviewed the historical records on BHC Fairfax's Kirkland hospital to evaluate this parent corporation. The Department of Health's Office of Investigations and Inspections Office (OII) has completed a total of five surveys at BHC Fairfax's Kirkland hospital since 2006. Of the five surveys, two focused on the 24-bed alcohol and chemical dependency hospital and three focused on the 133-bed psychiatric hospital.²⁵ There were no adverse licensing actions as a result of these surveys. [Source: facility survey data provided by the OII]

²⁵ Alcohol and chemical dependency surveys completed June 2006 and March 2009; psychiatric hospital surveys completed August 2007, August 2008, and December 2010.

BHC Fairfax contracts with the Joint Commission to survey and accredit the quality of service provided. For BHC Fairfax's most recent survey with The Joint Commission was January 2009. The Joint Commission lists the Fairfax Kirkland hospital in full compliance with all applicable standards following their most recent on-site survey.²⁶

Based on the compliance history of BHC Fairfax's Kirkland hospital, the department concludes there is reasonable assurance that Fairfax North would operate in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met.**

US HealthVest

Since this project requests the establishment of a new hospital, the hospital itself does not have a history of Medicare certification or inspections by the Department of Health. Since US HealthVest is a new corporation, it too does not have a history of providing healthcare services. Members of the management team of US HealthVest are former members of the management team of Ascend Health Corporation before its purchase in 2012. Ascend Health Corporation was established in 2005 and operated nine behavioral health facilities in the following five states: Arizona, Oregon, Texas, Utah, and Washington. [Source: Application, p1 &p38]

The department reviewed the accreditation information on the Joint Commission²⁷ website for the out-of-state behavioral health hospitals previously owned and operated by Ascend. Of the nine hospitals, two did not have Joint Commission accreditation. Focusing on information before the purchase in 2012 for the remaining seven hospitals, all were considered comparable to the national patient safety and quality improvement goals during the time owned by Ascend Health Corporation.²⁸ There were no adverse licensing actions as a result of these surveys. [Source: Joint Commission compare website]

Based on the recent compliance history of Ascend and taking into consideration that the members of the management team of US HealthVest are former members of the management team of Ascend Health Corporation, the department concludes there is reasonable assurance that the new 125-bed psychiatric hospital located in Snohomish County would be operated 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.

²⁶ <http://www.qualitycheck.org>

²⁷ The Joint Commission is an independent, not-for-profit organization that 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]

²⁸ Accreditation surveys completed in years 2010, 2011, and January to June 2012.

Fairfax Monroe

The applicant states that additional psychiatric beds will improve access for residents and enable acute care behavioral health services to be provided closer to home. Currently a significant number of residents must travel to other counties to be admitted for inpatient psychiatric services. This creates a system that is fragmented, time consuming and costly. Often patients are placed in secure facilities with no resources for treatment.

Fairfax Kirkland has existing referral relationships with the behavioral health community of Snohomish County. Fairfax receives referrals from all of the inpatient providers in the county. In addition, Fairfax receives referrals from physician groups, as well as other behavioral health, therapy, and psychiatry providers. Fairfax provides service to Snohomish County Designated Mental Health Professionals (DMHP) and Compass Health, the primary social service organization for behavioral health for the planning area. Fairfax works with these same providers for discharge planning to further continuity of care. Based on the source documents evaluated, the department concludes **this sub-criterion is met**

US HealthVest

As previously stated, the new psychiatric hospital would become operational in January 2016 and working relationships with area healthcare providers have not yet been established. Since the psychiatric hospital would provide both inpatient and outpatient psychiatric services, working relationships with community healthcare providers include mental health providers, hospitals, physicians, nursing homes, home care, and, when necessary, local schools. [Source: Historical Department Records]

Given the experience and expertise of the current management team, US HealthVest does not anticipate any difficulty establishing the necessary formal and informal agreements with the community providers. Provided that the applicant agrees to the condition related to sub-criterion (2) above, the department concludes that approval of this project is not expected to result in unwarranted fragmentation in the community. **This sub-criterion is met**

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

This sub-criterion is addressed in sub-section (3) above and **is met for both Fairfax Monroe and US HealthVest.**

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

Based on the source documents evaluated, and provided the applicants agree to the conditions stated in the ‘conclusion’ section of this evaluation, the department concludes:

- Fairfax Monroe’s project has met the need criteria in WAC 246-310-240; and
- US HealthVest’s project has met the need 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 look to WAC 246-310-240(2)(a)(ii) and (b) for criteria to make the assessment of the competing proposals. If there are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b), then using its experience and expertise, the department would assess the competing projects and determine which project should be approved.

The department in this evaluation concluded Fairfax Monroe met the applicable review criteria under WAC 246-310-210 (need), WAC 246-310-220 (financial feasibility), WAC 246-310-230 (Structure and Process of Care). The department also concluded US HealthVest met the applicable review criteria under WAC 246-310-210 (need), WAC 246-310-220 (financial feasibility), and WAC 246-310-230 (Structure and Process of Care). Therefore neither of the applications was failed because of its failure to meet other review criteria.

Both applicants considered and rejected other options before submitting the current applications. Fairfax considered the following:

- No psychiatric hospital
- A 34-bed hospital at a free-standing location
- A larger hospital than the [34 bed] project at a free-standing location. [Source: Application, pp55-61]

US HealthVest considered and rejected the following option:

- Proceed with the [75-bed] project as approved. Do not request any additional beds until such time as occupancy has exceeded 80%. [Source: Application, pgs 39]

The department did not identify any other alternatives to those presented and rejected by the applicants. Each applicant presented a project that either built on an existing CN approval to achieve some construction efficiencies or remodeling space within an existing licensed acute care hospital to also more efficiently use existing resources. Unlike many other concurrent reviews the department has undertaken, the department does not find itself in the position of having to select one project over the other. Fairfax Monroe is proposing to serve adult psychiatric patients. US HealthVest is not only proposing to serve adult psychiatric patients, but also youth/adolescent patients. In the need section of this analysis the department concluded there was a demonstrated

need in Snohomish County sufficient enough to be able to approve both projects. Therefore based on the source documents evaluated, the department concludes Fairfax Monroe's project and US HealthVest's project are the best available alternatives for the residents Snohomish County and surrounding communities. **This sub-criterion is met for Fairfax Monroe and US HealthVest.**

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

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

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

Fairfax Monroe

This project involves construction of a 34 bed-psychiatric hospital at a cost of \$2,421,713. If this hospital is built, the department would expect it to meet the required construction standards for a psychiatric hospital licensed in Washington State. In the need section the department concluded that Fairfax Monroe's patient day projections were reasonable. In the financial feasibility section of this analysis the department concluded that the project is financial feasible. Therefore, approving the needed 34 psychiatric beds and related costs would likely not have an unreasonable impact on the costs and charges to the public Therefore, any costs expended to construct the hospital would be reasonable. **This sub-criterion is met.**

US HealthVest

This project involves construction of a 23,954 square foot third floor to the previously approved two story facility at a cost of \$3,287,232. If this addition was built, the department would expect it to meet the required construction standards for a psychiatric hospital licensed in Washington State. In the need section the department concluded that US HealthVest's patient day projections were reasonable. In the financial feasibility section of this analysis the department concluded that the project is financial feasible. Therefore, approving the needed additional 50 psychiatric beds and related costs would likely not have an unreasonable impact on the costs and charges to the public Therefore, any costs expended to construct the hospital would be reasonable. **This sub-criterion is met.**

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

Fairfax Monroe

In the need section of this analysis, the department concluded that Snohomish County could support an additional 34 beds in addition to the beds previously approved. Approving the needed 34 psychiatric beds is not likely to have an unreasonable impact on existing or CN approved providers, if Fairfax Monroe meets it patient day projections. In the need section the department concluded that Fairfax Monroe's patient day projections were reasonable. In the financial feasibility section of this analysis the department concluded that the project is financial feasible. Therefore, approving the needed 34 psychiatric beds and related costs would likely not have an unreasonable impact on the costs and charges to the public of providing health services by other persons. **This sub-criterion is met.**

US HealthVest

In the need section of this analysis, the department concluded that Snohomish County could also support an additional 50-beds in addition to the beds previously approved and the 34-bed proposal submitted by Fairfax Monroe. Approving the additional 50 psychiatric beds is not likely to have an unreasonable impact on existing or CN approved providers if US HealthVest meets its patient day projections. In the need section the department concluded that US HealthVest’s patient day nprojections were reasonable. In the financial feasibility section of this analysis the department concluded that the project is financial feasible. Therefore, approving the needed additional 50 psychiatric beds and related costs would likely not have an unreasonable impact on the costs and charges to the public of providing health services by other persons. **This sub-criterion 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.*

Fairfax Monroe

Fairfax Monroe is proposing to finance this proposal using a Washington State Department of Commerce grant and reserves from the parent company. The applicant has not proposed any innovation in financing for this project. **This sub-criterion is not applicable.**

US HealthVest

US HealthVest is proposing to finance this proposal using reserves. The applicant has not proposed any innovation in financing for this project. **This sub-criterion is not applicable.**