



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

August 15, 2014

CERTIFIED MAIL # 7011 1570 0002 7809 5858
Richard Petrich, VP
Planning and Business Development
Franciscan Health System
Post Office Box 2197
Tacoma, Washington 98401

RE: CN 14-28

Dear Mr. Petrich:

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

Project Description:

This certificate approves the affiliation between Franciscan Health System and Regional Hospital for Respiratory and Complex Care located in King County. Regional Hospital for Respiratory and Complex Care is a 40-bed long term acute care hospital.

Conditions:

1. Approval of the project description as stated above. Franciscan Health System further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Under the Franciscan Health System ownership, Regional Hospital for Respiratory and Complex Care will provide charity care in compliance with the charity care policy provided in the application or any subsequent policies reviewed and approved by the Department of Health. Franciscan Health System will use reasonable efforts to provide charity care at Regional Hospital for Respiratory and Complex Care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the King County Region, less Harborview. Currently, this amount is 1.67% for gross revenue and 3.05% for adjusted revenue. Regional Hospital for Respiratory and Complex Care will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

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

Approved Costs:

There is no capital expenditure associated with this project.

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

Other Than By Mail:

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

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

Sincerely,



Steven M. Saxe, FACHE
Director, Community Health Systems

Enclosure

**EVALUATION DATED AUGUST 15, 2014, OF THE CERTIFICATE OF NEED APPLICATION
SUBMITTED BY FRANCISCAN HEALTH SYSTEM PROPOSING AFFILIATION WITH
REGIONAL HOSPITAL FOR RESPIRATORY AND COMPLEX CARE IN KING COUNTY**

APPLICANT DESCRIPTION

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

Highline Medical Center
Harrison Medical Center
St. Elizabeth Hospital, Enumclaw

St. Anthony Hospital, Gig Harbor
St. Joseph Medical Center, Tacoma
St. Clare Hospital, Lakewood
St. Francis Hospital, Federal Way

BACKGROUND INFORMATION

On October 30, 2013, FHS submitted a determination of reviewability (DOR) request as allowed under Washington Administrative Code 246-310-050. Within that request, FHS proposed an affiliation between itself and Regional Hospital for Respiratory and Complex Care.¹ During the review of the DOR request, two telephone conference calls and a meeting was conducted among representatives of both Department of Health and FHS.² On January 22, 2014, FHS proceeded with the affiliation without a final decision on the DOR request. On January 23, 2014, FHS elected to withdraw the DOR request. On March 19, 2014—approximately two months post affiliation—FHS submitted this application.

During the review of this project, the department's rule requiring affiliations, such as those described in this application, to undergo prior Certificate of Need review was under challenge in Superior Court.³ On June 6, 2014, the Superior Court ruled that this type of affiliation did not require prior Certificate of Need review and approval. On July 14, 2014, FHS submitted a request for the department to complete its review of the application despite the Superior Court ruling.

LONG TERM ACUTE CARE HOSPITALS

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

¹ DOR #14-16.

² The meeting was held on January 21, 2014; conference calls were conducted on January 22, and January 24, 2014.

³ Thurston County Superior Court Case #14-2-00285-5.

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

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

PROJECT DESCRIPTION

Regional Hospital for Respiratory and Complex Care (RHRCC) is a non-profit LTACH located at 12844 Military Road South in Tukwila [98128], within King County. RHRCC is licensed as an acute care hospital and reimbursed by both Medicare and Medicaid. [source: Application, p2 and CN historical files]

RHRCC is licensed for 40 acute care beds and all 40 LTACH beds are used solely for long-term acute care patients. This project proposes an affiliation between FHS and RHRCC. Under the affiliation, FHS would become the sole corporate member of RHRCC. Under the affiliation agreement, RHRCC would remain a separate non-profit corporation, with its own board of directors. Further, the agreement specifies that no other entity would have any financial interest in either FHS or RHRCC. [source: Application, pp1-2]

If this project is approved, FHS intends that RHRCC would continue participation in both the Medicare and Medicaid programs, and maintain all services currently offered by the hospital. RHRCC would remain at its current site in Tukwila.⁴ [source: Application, p4]

There is no capital expenditure, working capital, or financing associated with this merger. [source: Application, pp19-20]

⁴ On November 7, 2013, FHS submitted an application to relocate RHRCC to space within its Highline Hospital located in Burien. The application has been amended twice--March 19, 2014, and June 9, 2014. However, this affiliation application does not include a review of any relocation project for RHRCC.

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project was reviewed as the sale, purchase, or lease of a hospital under Revised Code of Washington 70.38.105(4)(b) and Washington Administrative Code 246-310-020(1)(b).

EVALUATION CRITERIA

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

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

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

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

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

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

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

The review for the sale, purchase, or lease of a hospital is limited to only those criteria that would be affected by the transaction. As a result, the department’s review will focus on applicable portions of need (WAC 246-310-210), financial feasibility (WAC 246-310-220), structure and process of care (WAC 246-310-230), and cost containment (WAC 246-310-240).⁵

⁵ Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(1), (3), (5), and (6); WAC 246-310-220(3); and WAC 246-310-240(2) and (3).

TYPE OF REVIEW

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

APPLICATION CHRONOLOGY

Action	Franciscan Health System
Letter of Intent Submitted	January 28, 2014
Application Submitted	March 19, 2014
Department’s pre-review activities <ul style="list-style-type: none"> • DOH 1st Screening Letter • FHS Responses Received 	March 31, 2014 May 13, 2014
Beginning of Review <ul style="list-style-type: none"> • public comments accepted throughout the review; • no public hearing conducted under the expedited review rules 	May 20, 2014
End of Public Comment	June 9, 2014
Rebuttal Comments Submitted ⁶	June 24, 2014
Department's Anticipated Decision Date	July 14, 2014

On June 6—three days before the end of public comment—the Superior Court ruled that the type of affiliation described in this application does not require prior Certificate of Need review and approval. As a result, the department ceased any action on the review of the application beginning June 6. On July 14, 2014, FHS submitted a request for the department to complete its review of the application despite the Superior Court ruling. The revised timeline for completion of the review is below.

Action	Franciscan Health System
Superior Court Ruling on Affiliation	June 6, 2014
FHS Request to Complete Review	July 14, 2014
Department's Revised Anticipated Decision Date	August 18, 2014
Department's Actual Decision Date	August 15, 2014

AFFECTED PERSONS

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

“...an “interested person” who:

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

During the review of this project, one entity sought and received affected person status. A description of the affected person is on the following page.

⁶ There were no public comments received for this project. Therefore, the applicant did not provide any rebuttal comments.

MultiCare Health System

MultiCare Health System (MHS) is a not-for-profit health care organization that provides healthcare services to the residents of Washington State through a variety of healthcare facilities. Currently, MHS operates five acute care hospitals in King and Pierce counties, 19 primary care clinics in King, Kitsap, Pierce, and Thurston counties, and provides home health and hospice services to Medicare and Medicaid populations through its home health and hospice agencies. [source: MultiCare website] The list below focuses on the five operational acute care hospitals.⁷

Name	County
MultiCare Allenmore Hospital	Pierce
MultiCare Auburn Medical Center	King
MultiCare Good Samaritan Hospital	Pierce
MultiCare Mary Bridge Children’s Hospital	Pierce
MultiCare Tacoma General Hospital	Pierce

SOURCE INFORMATION REVIEWED

- Franciscan Health System's Certificate of Need application submitted March 19, 2014
- Franciscan Health System's supplemental information received May 13, 2014, and May 16, 2014
- Department of Health Hospital and Patient Data Systems Analysis dated August 6, 2014
- Department of Health’s Investigations and Inspections Office (IIO) files
- Data obtained from the Department of Health Integrated Licensing & Regulatory System [ILRS] database
- Thurston County Superior Court documents for Case #14-2-00285-5
- Medical Quality Assurance Commission Provider Credential Search database
- Regional Hospital for Respiratory and Complex Care website at www.regionalhospital.org
- Franciscan Health System website at www.fhshealth.org
- MultiCare Health Systems’ website at www.multicare.org
- Joint Commission website at www.qualitycheck.org

CONCLUSION

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

Project Description:

This certificate approves the affiliation between Franciscan Health System and Regional Hospital for Respiratory and Complex Care located in King County. Regional Hospital for Respiratory and Complex Care is a 40-bed long term acute care hospital.

⁷ On January 19, 2011, CN #1437 was issued to MHS approving the establishment of a 58-bed acute care hospital to be located in Covington, within King County. As of the writing of this evaluation, the project is not yet complete.

Conditions:

1. Approval of the project description as stated above. Franciscan Health System further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Under the Franciscan Health System ownership, Regional Hospital for Respiratory and Complex Care will provide charity care in compliance with the charity care policy provided in the application or any subsequent policies reviewed and approved by the Department of Health. Franciscan Health System will use reasonable efforts to provide charity care at Regional Hospital for Respiratory and Complex Care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the King County Region, less Harborview. Currently, this amount is 1.67% for gross revenue and 3.05% for adjusted revenue. Regional Hospital for Respiratory and Complex Care will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.
3. Annual budgets, as required by WAC 246-454-030, submitted by Franciscan Health System for Regional Hospital for Respiratory and Complex Care must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the King County Region, less Harborview.

Approved Costs:

There is no capital expenditure associated with this project.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

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

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

RHRCC has been an acute care hospital in King County for many years and currently provides health care services to the residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. As an LTACH, RHRCC currently participates in the Medicare and Medicaid programs. For this project, FHS must demonstrate a commitment to be available to the residents of the community, maintain its Medicare and Medicaid participation, and provide a percentage of charity care in the planning area.

Admission Policy

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

To demonstrate compliance with this sub-criterion, FHS provided a copy of the Admission and Non-Discrimination Policy used at RHRCC. FHS stated that the policy did not change as a result of the affiliation. The policy completed its most recent administrative review in February 2014. The policy outlines the process/criteria that the hospital uses to admit patients for acute care services. The policy also includes the necessary language to ensure all residents of the service area would have access to services at RHRCC. [source: Application, p12, Exhibit 3, and May 13, 2014, supplemental information, p5]

In addition to the Admission Policy, FHS also provided the following three documents to ensure access to care for all individuals. [source: Application, Exhibit 4]

- A copy of the RHRCC End of Life Policy currently used at the hospital reviewed and dated October 2013. This policy states that RHRCC does not participate in the Washington State Death with Dignity Act.⁸ The policy ensures that patients will be provided with education materials about the end-of-life options, with a statement that RHRCC does not participate in the Act. The policy provides guidelines for transfer of patients who wish to exercise end-of-life options to another facility of the patient's choice. FHS states that no changes to this policy were made a result of the affiliation.
- A copy of the RHRCC Reproductive Life Policy. This document clarifies that as an LTACH, RHRCC does not directly provide any reproductive health services and identifies the process for patient referrals for this service.

⁸ Revised Code of Washington 70.245.

- A copy of the RHRCC Community Health Needs Assessment document. Prepared in partnership with both Pierce and Seattle-King County Health Department, and multiple community organization, this document ensures coordination with the existing healthcare infrastructure. Hospital participation for the needs assessment included Valley Medical Center in Renton, Franciscan Health System, MultiCare Health System, Evergreen Medical Center in Kirkland, Harborview Medical Center in Seattle, and Swedish Medical Center in Seattle, Ballard, and Issaquah.

Medicare and Medicaid Programs

The department uses Medicare certification to determine whether the elderly would have access or continue to have access to the proposed services. To demonstrate compliance with this sub-criterion FHS provided the current and projected source of revenues by payer at RHRCC. Medicare revenues are, and would continue to be, 66.8% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, p7 and May 16, 2014, supplemental information]

The department uses the facility's Medicaid eligibility or contracting with Medicaid to determine whether low-income residents would have access to the proposed services. To demonstrate compliance with this sub-criterion, FHS also provided the current and projected percentage of Medicaid revenues at 5.7% for RHRCC. Additionally, the financial data provided in the application shows Medicaid revenues. [source: Application, p7 and May 16, 2014, supplemental information]

Charity Care Policy

A facility's charity care policy should confirm that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to healthcare services of the applicant. The policy should also include the process one must use to access charity care at the facility.

To demonstrate compliance with this sub-criterion, FHS submitted the following documents. [source: Application, Exhibit 3 and May 13, 2014, Attachment 7]:

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

Both charity care policies outline the process a patient uses to access this service. Further, FHS included a 'charity care' line item as a deduction from revenue within historical and projected financial documents for RHRCC. [source: Application, p12 and Exhibit 3; May 13, 2014, supplemental information, p5 and Attachment 7; and May 16, 2014, supplemental information]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. RHRCC is one of 21 hospitals located in the King County Region, and is one of two LTACHs in the region. According to 2009 - 2011⁹ charity care data

⁹ Charity care data for years 2012 and 2013 is not available as of the writing of this evaluation.

obtained from HPDS, RHRCC has historically provided significantly less than the average charity care provided in the region.¹⁰ The table below is a comparison of the average charity care for the King County Region, and the historical and projected percentages of charity care for RHRCC. [source: May 16, 2014, supplemental information and HPDS 2009-2011 charity care summaries]

Table 1
Charity Care Percentage Comparisons

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

The pro forma revenue and expense statements submitted by FHS for RHRCC indicate that the hospital will provide charity care at or above the regional average. In this application, FHS acknowledged the low charity care percentages at RHRCC and provided the following statements and assurances that the charity care percentages would increase at RHRCC after the affiliation. [source: Application, p13 and May 13, 2014, supplemental information, p2]

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

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

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

¹⁰ Harborview Medical Center is subsidized by the state legislature to provide charity care services. Charity care percentages for Harborview make up almost 50% of the total percentages provided in the King County Region. Therefore, for comparison purposes, the department excludes Harborview Medical Center’s percentages.

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Franciscan Health System has met the financial feasibility criteria in WAC 246-310-220.

(1) The immediate and long-range capital and operating costs of the project can be met.

WAC 246-310 does not contain specific WAC 246-310-220(1) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what the operating revenues and expenses should be for a project of this type and size. Therefore, using its experience and expertise the department evaluates if the applicant's pro forma income statements reasonably project the proposed project is meeting its immediate and long-range capital and operating costs by the end of the third complete year of operation.

To evaluate this sub-criterion, the department first reviewed the assumptions used by FHS to determine the projected number of admissions, patient days, and occupancy of RHRCC after the affiliation. The assumptions used by FHS are summarized below. [source: Application, pp7-11 and May 13, 2014, supplemental information, pp1-4]

- The number of licensed beds will remain at 40.
- Long term acute care services currently offered by RHRCC will remain. The ten most common DRGs [diagnosis related grouping] for patients at RHRCC are not expected to change as a result of the affiliation. More than 50% of the patients treated at RHRCC fall under DRG 207-“Mechanical ventilation over 96 hours.” Other most common DRGs include pulmonary edema and respiratory failure [DRG 189]; complications of treatment with major complications and co-morbidities [DRG 919]; and complications of treatment with complications and co-morbidities [DRG 920].
- The hospital will maintain both Medicare and Medicaid certifications.
- A review of years 2010-2013 historical data, show an increase in inpatient days for all years. The increase ranges from 8% to 18% within the 4-year timeline.
- Inpatient days for year 2014 are projected at the 2013 historical days. Subsequent increases for years 2015 through 2017 are projected to increase annually.
- The hospital's 2010-2013 average daily census [ADC] ranged from 20.3 to 25.3. Projected year 2014 shows an ADC of 21.4, with slight increases each year, ending with 26.1 in projected year 2017.

Using the assumptions stated above, FHS projected the number of admissions and patient days for RHRCC. The projections are shown in the table on the following page. [source: Application, pp18]

Table 2
Regional Hospital for Respiratory and Complex Care
Projected Years 2014 through 2017

	CY 2014 Full Year 1	CY 2015 Full Year 2	CY 2016 Full Year 3	CY 2017 Full Year 4
Projected Number of Admissions	239	260	284	340
Projected Number of Inpatient Days	7,800	8,265	8,680	9,520
Calculated Occupancy	53.4%	56.6%	59.5%	65.2%

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

As stated on page one of this evaluation, FHS proceeded with the affiliation on January 22, 2014. Under this timeline, calendar year 2014 is RHRCC’s first full year of operation under FHS, and 2016 is year three. FHS also provided its assumptions used to project revenue, expenses, and net income for RHRCC. Those assumptions are summarized below. [source: Application, p11, p23-24, Exhibit 6, and May 13, 2014, supplemental information, p6]

- FHS projects a total of 17 FTEs would be added in projections years 2014 through 2017. Seventeen FTEs in four years is not considered by FHS to be a significant increase.
- Nursing staff—RNs and CNAs—make up 56% of the total employees at RHRCC. Nursing staff are expected to increase by approximately 12 FTEs. Nursing staff wages are consistent with the Collective Bargaining Agreement with SEIU through July 2015. The agreement includes annual step increases and a modest annual increase in compensation.
- Respiratory Therapy staff make up 15.7% of the employees at RHRCC. Respiratory Therapists are expected to increase by approximately 3 FTEs. Wages for these staff are consistent with the Collective Bargaining Agreement with UFCW through 2017.
- Charity care is expected to increase from the current averages to 1.67% of gross revenue.
- Bad debt is held constant at 3.4% of gross revenues.
- Contractual allowances are held constant at 52.5% of gross revenues.
- Percentage of revenue by source is expected to remain the same. 66.8% Medicare; 5.7% Medicaid, and the remaining 27.5% from other insurance, workers compensation, HMO, etc.
- Supply expenses are projected to be consistent with year 2013 at \$144 per patient day.
- Physician and Professional fees are projected using the current contract between RHRCC and Sound Inpatient Physicians. Staff included under this contract is the medical director and ARNPs.
- Lease expenses are assumed under the proposed lease agreement between Highline Medical Center and RHRCC. FHS recognizes that the agreement is part of the application proposing to relocate RHRCC into space at Highline Medical Center in Burien and is not approved by the CN Program at this time. However, the agreement was used for most accurate projections of lease expenses.¹¹

¹¹ Acceptance of this assumption should not be interpreted as approval of the relocation application.

- RHRCC currently has a ‘Purchased Services Agreement’ with Highline Medical Center for financial and support services at its current site in Tukwila. For these expense forecasts, FHS assumed the services will continue through Highline Medical Center at the main campus in Burien. These costs are considered to be regional (Highline Medical Center) cost allocations.
- Corporate allocation costs for FHS and CHI are included as a separate line item.

Using the assumptions stated above, FHS projected revenue, expenses, and net income for RHRCC. The projections are shown in the table below. [source: May 13, 2014, supplemental information, Attachment 9 and May 16, 2014, supplemental information]

**Table 3
Regional Hospital for Respiratory and Complex Care
Projected Years 2014 through 2017**

	CY 2014 Full Year 1	CY 2015 Full Year 2	CY 2016 Full Year 3	CY 2017 Full Year 4
Net Revenue	\$ 18,384,160	\$ 19,480,140	\$ 20,488,771	\$ 22,438,103
Total Expenses	\$ 18,170,717	\$ 19,020,982	\$ 19,710,734	21,076,301
Net Profit /(Loss)	\$ 213,443	\$ 459,158	\$ 778,037	\$ 1,361,802

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

To determine whether RHRCC would meet its immediate and long range capital costs, the department’s Hospital and Patient Data Systems (HPDS) reviewed 2011 historical and 2017 projected balance sheets for RHRCC. The information is shown in the table below. [source: HPDS analysis, p2]

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

Assets		Liabilities	
Current Assets	\$ 10,336,319	Current Liabilities	\$ 2,789,856
Fixed Assets	\$ 2,141,597	Long Term Debt	\$ 616,694
Board Designated Assets	\$ 0	Other Liabilities	\$ 0
Other Assets	\$ 0	Equity	\$ 9,071,366
Total Assets	\$ 12,477,916	Total Liabilities and Equity	\$ 12,477,916

Projected Balance Sheet for Year 2017

Assets		Liabilities	
Current Assets	\$ 10,021,058	Current Liabilities	\$ 4,751,993
Fixed Assets	\$ 1,537,458	Long Term Debt	\$ 0
Board Designated Assets	\$ 0	Other Liabilities	\$ 0
Other Assets	\$ 0	Equity	\$ 6,806,523
Total Assets	\$ 11,558,516	Total Liabilities and Equity	\$ 11,558,516

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

“The capital expenditure for this project is zero. The RHRCC balance sheet shows a strong position in 2011 and FHS does not expect a significant financial change for RHRCC through projected year 2017.”

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

For Certificate of Need applications, HPDS compares the projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2011 data for comparison with historical year 2011 for RHRCC. Year 2011 data was also used as comparison for projected years 2014 through 2017 for RHRCC. The ratio comparisons are shown in the table below. [source: HPDS analysis, pp3]

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

Category	Trend *	State 2012	RHRCC 2011	RHRCC 2014	RHRCC 2015	RHRCC 2016
Long Term Debt to Equity	B	0.586	0.068	---	---	---
Current Assets/Current Liabilities	A	1.797	3.705	1.473	1.615	1.870
Assets Funded by Liabilities	B	0.468	0.273	0.582	0.544	0.483
Operating Expense/Operating Revenue	B	0.945	1.053	0.988	0.976	0.963
Debt Service Coverage	A	5.362	(3.446)	58,411	---	---
Definitions:	Formula					
Long Term Debt to Equity	Long Term Debt/Equity					
Current Assets/Current Liabilities	Current Assets/Current Liabilities					
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets					
Operating Expense/Operating Revenue	Operating expenses / operating revenue					
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp					

* A is better is above the ratio; and B is better if below the ratio.

Comparing RHRCC’s year 2011 ratios with the most current statewide ratios revealed that the debt service coverage ratio is significantly out of range. HPDS attributed this to RHRCC’s operating loss of more than \$1,000,000 in year 2011. [source: HPDS analysis, p3]

HPDS also focuses on RHRCC’s projected ratios for years 2014 through 2016. HPDS provided the following analysis. [source: HPDS analysis, p3]

“Review shows that the hospital for 2017 is in range for all ratios. The Long Term Debt to Equity and Debt Service Coverage ratios are blank in 2016 and 2017 because the hospital

has only minor or no long term debt or interest expense in those years. The ratios are not appropriate to use when there is minor or no debt. The hospital is breaking even in the CN year 4 or 2017.”

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

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

WAC 246-310 does not contain specific WAC 246-310-220(2) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what an unreasonable impact on costs and charges would be for a project of this type and size. Therefore, using its experience and expertise the department compared the proposed project’s costs with those previously considered by the department.

As stated in the project description section of this evaluation, there is no capital expenditure, working capital, or financing associated with this project. FHS intends to maintain all current services at RHRCC. As indicated in the pro forma projections and further demonstrated within the application, FHS does not intend to increase charges for health services or change the payer mix to make a net profit. [source: Application, p7 and Exhibit 6, and May 16, 2014, supplemental information]

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

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Franciscan Health System has met the structure and process of care criteria in WAC 246-310-230.

(1) *A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.*

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of FTEs that should be employed for projects of this type or size. Therefore, using its experience and expertise the department concludes that the planning would allow for the required coverage.

FHS states that there are no anticipated changes in physician privileges. The current RHRCC medical staff will remain, although there may be some coordination of administrative functions. FHS projected a slight increase in nursing staff based on the increased number of admissions and patient days. FHS provided current and projected FTEs [full time equivalents] for RHRCC for years 2014

through 2017. The table below shows the breakdown of FTEs. [source: May 16, 2014, supplemental information]

Table 6
Regional Hospital for Respiratory and Complex Care
Projected Years 2014 through 2017

FTE by Type	CY 2014 Full Year 1	CY 2015 Increase	CY 2016 Increase	CY 2017 Increase	Total FTEs
Nursing Staff [RNs & CNAs]	53.9	3.2	2.9	5.8	65.8
Respiratory Therapists	15.1	0.9	0.8	1.6	18.4
Other Therapy Staff [PT, OT, ST]	10.3	0.7	0.5	1.1	12.6
Case Management/MSW	3.5	0.0	0.0	0.0	3.5
Administration	3.0	0.0	0.0	0.0	3.0
Marketing/CLN	2.0	0.0	0.0	0.0	2.0
Support Staff	8.3	0.0	0.0	0.0	8.3
Total FTEs	96.1	4.8	4.2	8.5	113.6

As shown in the table above, the majority of key staff is already in place and FHS projects increases to occur in the areas of nursing and therapists. This information is consistent with the assumptions identified for the financial projections. FHS anticipates the affiliation will be seamless for both staff and patients. [source: Application, p 23]

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

FHS does not expect any difficulty recruiting the nursing staff projected to be needed for years 2015 through 2017. RHRCC has been at its current location in Tukwila for many years and has been a longstanding employer of healthcare workers. FHS is also a long-standing healthcare system located in Pierce County and providing services through a variety of healthcare facilities in both Pierce and King counties. FHS is also one of the larger employers of healthcare workers. FHS offers competitive salaries comparable wages to its employees. [source: Application, p23]

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

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore,

using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

FHS states that all existing relationships will continue and, if necessary, may expand. To comply with this sub-criterion, FHS provided a listing of the current ancillary and support relationships in place for RHRCC. The listing includes healthcare providers, such as home health agencies, skilled nursing facilities, dialysis facilities, home infusion agencies, and medical equipment suppliers. [source: Application, p24]

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

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

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

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

FHS is a provider of a variety of health care services in Washington State. Currently FHS owns or operates healthcare facilities in Pierce and King counties. During review of this application, the department conducted a review of the quality of care history for RHRCC and healthcare facilities either owned or operated by FHS. This updated review revealed no substantial non-compliance issues for either RHRCC or FHS facilities.¹²

FHS also provided the names and professional license numbers for all staff currently employed by RHRCC and the physicians and ARNPs identified within the agreement with South Sound Inpatient Physicians, PLLC. With the exception of one certified nursing assistant, the department's compliance history for all staff, including the medical director and ARNPs, shows no recorded sanctions. The

¹² Compliance surveys were conducted for RHRCC in February 2010, January 2012, and December 2012. Compliance surveys for FHS facilities include in-home services in April 2014. For specific FHS affiliated hospitals, St. Anthony Hospital was surveyed in October 2012 and April 2014. St. Clare Hospital was surveyed in April 2010, June 2011, and January 2013. Enumclaw Regional Hospital was surveyed in February 2010 and January 2014. Highline Medical Center was surveyed in November 2010 and December 2011. St. Joseph Medical Center was surveyed in August 2011 and May 2014.

certified nursing assistant is currently working under a five-year Probation Order beginning October 20, 2011.¹³

No public comments were submitted for this sub-criterion. Based on the compliance history of RHRCC and FHS owned and/or operated healthcare facilities, there is reasonable assurance that FHS would continue to operate RHRCC in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met.**

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

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

FHS states that continuity in the provision of health care at RHRCC will be accomplished because the affiliation would allow RHRCC to continue operating as one of two LTACHs in King County. RHRCC receives many referrals from acute care hospitals in both King and Pierce counties. Additionally, the community would see no changes in services or operations of the hospital. [source: Application, p24]

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

Articles of Incorporation-Pre Affiliation with FHS

[source: May 13, 2014, supplemental information, Attachment 6]

The Articles of Incorporation were filed with the Washington State Secretary of State Office in July 1993. The document provides a detailed description of the purpose of RHRCC.

Restated Articles of Incorporation-Post Affiliation with FHS

[source: Application, Exhibit 2]

The Restated Articles of Incorporation were filed with the Washington State Secretary of State Office in January 2014. The document identifies FHS as the sole corporate member of RHRCC.

Executed Affiliation Agreement

[source: May 13, 2014, supplemental information, Attachment 8]

The Affiliation Agreement between FHS and RHRCC was executed on January 22, 2014. The agreement confirms FHS as the sole corporate member of RHRCC and provides information related to the new 10-member Governing Board. FHS will appoint three representatives to the board and the remaining seven will represent RHRCC. The agreement provides the process to be used to maintain the same Governing Board member ratio in the future. The agreement also confirms no employees

¹³ M2011-1158.

will be terminated as a direct result of the affiliation. Exhibit A attached to the agreement is the Restated Articles of Incorporation described above. Exhibit B attached to the agreement is the Amended and Restated Bylaws for RHRCC. The Amended and Restated Bylaws became effective January 1, 2014.

Given that all of the documents referenced above are executed, signed, and dated, a conditional approval related to the documents is unnecessary. The department concludes that RHRCC will continue to promote continuity in the provision of health care services in the community after affiliation with FHS. This sub-criterion is met.

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

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

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

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

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

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

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

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

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

The affiliation between FHS and RHRCC was completed on January 22, 2014. Department of Health rules related to affiliations were clarified and took effect on January 23, 2014. At that point, the department required FHS to submit a Certificate of Need application for the affiliation, regardless of whether the transaction had already occurred. FHS submitted the application on March 19, 2014. During the review of the application, the Superior Court overturned the requirement for Certificate of Need review for this type of affiliation. At that time, FHS could have withdrawn its application; instead, FHS requested the department to complete this review regardless of the ruling.

Since the department required FHS to submit the application, FHS did not include a discussion of other options considered. No other options were identified by DOH.

Department's Review of Alternatives

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

No public comments were submitted for this sub-criterion.

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