



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH  
*Olympia, Washington 98504*

September 23, 2015

CERTIFIED MAIL # 7015 0640 0000 6441 5614

P. Blair Stam, Executive Vice President  
Signature Healthcare Services, LLC  
4238 Green River Road  
Carona, California 92880

RE: Certificate of Need Application #15-14

Dear Mr. Stam:

We have completed review of the Certificate of Need (CN) application submitted by Signature Healthcare Services, LLC proposing to establish a 100 bed psychiatric hospital in Clark County, within Washington State. Enclosed is a written evaluation of the application.

For the reasons stated in this evaluation, the department has concluded that the project is not consistent with the Certificate of Need review criteria identified below, and a Certificate of Need is denied.

Washington Administrative Code 246-310-220	Financial Feasibility
Washington Administrative Code 246-310-240	Cost Containment

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

Appeal Option 1:

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

<u>Mailing Address:</u>	<u>Physical</u>
Department of Health	Department of Health
Certificate of Need Program	Certificate of Need Program
Mail Stop 47852	111 Israel Road SE
Olympia, WA 98504-7852	Tumwater, WA 98501

P. Blair Stam, Executive Vice President  
Signature Healthcare Services, LLC  
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Appeal Option 2:

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

Mailing Address:

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

Physical Address

Department of Health  
Adjudicative Clerk Office  
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, Health Professions and Facilities

Enclosure

## **EXECUTIVE SUMMARY**

### **EVALUATIONS DATED SEPTEMBER 23, 2015, FOR TWO CERTIFICATE OF NEED APPLICATIONS EACH PROPOSING TO ESTABLISH A PSYCHIATRIC HOSPITAL IN CLARK COUNTY**

- **SIGNATURE HEALTHCARE SERVICES, LLC PROPOSING TO ESTABLISH A 100-BED PSYCHIATRIC HOSPITAL IN VANCOUVER**
- **SPRINGSTONE, LLC PROPOSING TO ESTABLISH A 72-BED PSYCHIATRIC HOSPITAL IN SALMON CREEK**

### **BRIEF PROJECT DESCRIPTIONS**

#### **Signature Healthcare Services, LLC**

Signature Healthcare Services, LLC (Signature) proposes to establish a 100-bed psychiatric hospital in Vancouver, within Clark County. The psychiatric hospital would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, detoxification and adult and geriatric services for patients 18 and older. The hospital would also include an adolescent treatment program for patients ages 13 through 18. [source: Application, p3, p6, p8, & Exhibit 9 and March 6, 2015, supplemental information, Attachment E]

Signature anticipates the 100-bed psychiatric hospital would become operational by January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. The capital expenditure associated with the establishment of the psychiatric hospital is \$32,541,994. [source: Application, p10 & p33]

#### **Springstone, LLC**

Springstone, LLC (Springstone) proposes to establish a 72-bed psychiatric hospital in Salmon Creek, within Clark County. The psychiatric hospital would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, adult and geropsychiatric services, and substance abuse treatment for patients 18 years of age and older. [source: Application, p7; March 9, 2015, supplemental information, Attachment 4; and April 23, 2015, supplemental information, Attachment 1]

Springstone anticipates the psychiatric hospital would become operational by January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. The capital expenditure associated with the establishment of the 72-bed psychiatric hospital is \$26,843,706. [source: Application, p31 and March 9, 2015, supplemental information, Attachments 11 & 12]

### **APPLICABILITY OF CERTIFICATE OF NEED LAW**

Both applications are subject to review as the establishment of new health care facility under Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

## **CONCLUSIONS**

### **Signature Healthcare Services, LLC**

For the reasons stated in this evaluation, the application submitted by Signature Healthcare Services, LLC proposing to establish a 100-bed psychiatric hospital in Vancouver, within Clark County is not consistent with the applicable criterion and a Certificate of Need is denied.

### **Springstone, LLC**

For the reasons stated in this evaluation, the application submitted by Springstone, LLC is consistent with the applicable review criteria. Because of the size of the construction project, the Department of Health may not issue a Certificate of Need until it receives a copy of the approved Conditional Use Permit.<sup>1</sup> However, the department may commit to issuing a Certificate of Need. Once Springstone, LLC provides the department with a copy of a determination of non-significance or final environmental impact statement pertaining to the site for the hospital, the department will issue a Certificate of Need for the project provided Springstone, LLC agrees with the following project description and conditions.

### **Project Description:**

This Certificate of Need approves the construction of a 72-bed psychiatric hospital that would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, adult and geropsychiatric services, and substance abuse treatment for patients 18 and older. The number of approved beds is below.

	<b>Number of Beds</b>
Psychiatric beds	72
<b>Total Licensed Beds</b>	<b>72</b>

### **Conditions:**

1. Approval of the project description as stated above. Springstone, LLC 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, Springstone, LLC will submit a copy of the adopted and approved Admission Policy for review and approval. The adopted policy must be consistent with the draft provided in the application.
3. Prior to providing services at the hospital, Springstone, LLC 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 72-bed psychiatric hospital will provide charity care in compliance with its executed 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 72-bed psychiatric hospital will use reasonable efforts to provide charity care equal to the amount identified in the application, but no less than the average amount of charity care provided by hospitals in the Southwest Region. Currently, this amount is 3.41% of gross revenue and 8.47% 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.

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<sup>1</sup> WAC 246-03-030(4)

5. Annual budgets, as required by WAC 246-454-030, submitted by the new 72-bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Southwest Region.
6. Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval an executed lease agreement between Propstone, LLC and Rainier Springs, LLC. The executed agreement must be consistent with the draft agreement provided in the application.
7. Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval an executed transfer agreement between Rainier Springs, LLC and a local hospital. The executed agreement must be consistent with the draft agreement provided in the application.
8. Prior to providing services at the hospital, Springstone, LLC will submit to the department 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. Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval a final listing of ancillary and support vendors for the 72-bed psychiatric hospital.
10. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act patients, Springstone, LLC will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at the psychiatric hospital at the time of referral or if such referral is clinically inappropriate.

**Approved Costs:**

The approved capital expenditure for this project is \$26,843,706.

**EVALUATIONS DATED SEPTEMBER 23, 2015, FOR TWO CERTIFICATE OF NEED APPLICATIONS EACH PROPOSING TO ESTABLISH A PSYCHIATRIC HOSPITAL IN CLARK COUNTY**

- **SIGNATURE HEALTHCARE SERVICES, LLC PROPOSING TO ESTABLISH A 100-BED PSYCHIATRIC HOSPITAL IN VANCOUVER**
- **SPRINGSTONE, LLC PROPOSING TO ESTABLISH A 72-BED PSYCHIATRIC HOSPITAL IN SALMON CREEK**

**APPLICANT DESCRIPTIONS**

**Signature Healthcare Services, LLC**

Signature Healthcare Services, LLC (Signature) is a for-profit corporation owned by individual Soon K. Kim and Farmouth, Inc., which is also wholly-owned by individual Soon K. Kim. Signature is based in Carona, California and is one of the largest privately held psychiatric hospital companies in the country. Signature has been registered with the Washington State Secretary of State office since September 2, 2014. Signature Healthcare Services, LLC, the parent corporation, does not have a specific website. Instead each of its subsidiary hospitals have websites specific to their facility and services. [source: Application, Attachments 2 & 3]

As of the writing of this evaluation, Signature owns, operates, or manages a total of 13 psychiatric hospitals in the following five states: Arizona (2); California (5); Illinois (1); Nevada (1); and Texas (4). The 13 facilities are listed below.

<b>Facility Name</b>	<b>City</b>	<b>State</b>
Aurora Behavioral Health Systems, LLC	Glendale	Arizona
Aurora Behavioral Healthcare-Tempe, LLC	Tempe	Arizona
Aurora Charter Oak, Los Angeles, LLC	Covina	California
Aurora Los Encinas, LLC	Pasadena	California
Aurora-San Diego, LLC	San Diego	California
Aurora Behavioral Healthcare-Santa Rosa, LLC	Santa Rosa	California
Vista Del Mar, LLC	Ventura	California
Aurora Chicago Lakeshore Hospital, LLC	Chicago	Illinois
Desert Parkway Behavioral Healthcare Hospital, LLC	Las Vegas	Nevada
Dallas Behavioral Healthcare Hospital, LLC	De Soto	Texas
Georgetown Behavioral Health Institute, LLC	Georgetown	Texas
Houston Behavioral Healthcare Hospital, LLC	Houston	Texas
San Antonio Behavioral Healthcare Hospital, LLC	San Antonio	Texas

If this project is approved, Signature would operate the hospital under the name of Vancouver Behavioral Hospital, LLC. [source: Application, p1]

For this project, Signature Healthcare Services, LLC is the applicant and, if this project is approved, would be the certificate holder. The hospital license would be issued to Vancouver Behavioral Hospital, LLC.

### **Springstone, LLC**

Springstone, LLC (Springstone) was founded in Louisville, Kentucky in 2010. The company is focused on providing highly specialized care – both inpatient and outpatient – to people struggling with emotional and mental health issues and/or drug and alcohol dependency. Springstone hospitals are community centered and locally managed to meet market needs. Springstone's mission is to develop and operate private hospitals that treat mental illness and substance abuse and deliver high quality treatment using innovative, evidence-based approaches. The leadership team of Springstone is listed below. [source: Springstone, LLC website and March 9, 2015, supplemental information, Attachment 1]

<b>Name</b>	<b>Role</b>
W. Earl Reed, III	Chief Executive Officer
E. Daniel Thomas	Chief Operating Officer
Jill L. Force	Executive Vice President, Chief Administrative Officer, General Counsel, and Secretary
Jim Schnuck	Executive Vice President, Chief Financial Officer, and Treasurer

As of the writing of this evaluation, Springstone owns, operates, or manages a total of 8 psychiatric hospitals in the following three states: Indiana (2); Ohio (2); and Texas (4). The 8 facilities are listed below. [source: Application, Exhibit 1]

<b>Facility Name</b>	<b>City</b>	<b>State</b>
Brentwood Meadows	Newburgh	Indiana
Sycamore Springs	Lafayette	Indiana
Becket Springs	West Chester	Ohio
Dublin Springs	Dublin	Ohio
Carrollton Springs	Carrollton	Texas
Mesa Springs	Fort Worth	Texas
Rock Springs	Georgetown	Texas
Westpark Springs	Richmond	Texas

Springstone, LLC is not registered to do business in Washington State, rather Springstone created a wholly owned subsidiary known as Rainier Springs, LLC. This corporation is currently registered with the state of Washington.<sup>2</sup> [source: Washington State Secretary of State website] If this project is approved, Springstone would operate the hospital under the name of Rainier Springs, LLC. [source: Application, p1]

For this project, Springstone, LLC is the applicant and, if this project is approved, would be the certificate holder. Since Springstone is not a Washington State corporation or registered to do business in this state, the hospital license would be issued to Rainier Springs, LLC.

### **Signature Public Comment**

During the review of these applications, Signature questioned whether the Springstone application was submitted by the actual 'applicant.' Signature identified two specific concerns. [source: Signature June 23, 2015, public comments, pp2-3]

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<sup>2</sup> Established on January 2, 2015 with the Washington State Secretary of State office and Department of Revenue under UBI #603473358.

- Springstone LLC is not registered to do business in Washington State  
Since Springstone LLC has not documented that it is registered to do business in Washington State, its application cannot be reviewed by the department. Signature further states that the application itself is confusing as it identifies Springstone, LLC; Springstone, Inc.; and Rainier Springs, LLC. In the application, Springstone stated the applicant is Rainier Springs, LLC; however, it is unclear who the real applicant is.
- Welsh, Carson, Anderson, & Stowe should have been included as the applicant  
If the applicant is Springstone, LLC, the financial investors of Welsh, Carson, Anderson, & Stowe should also be identified as part of the applicant under WAC 246-310-010(6). The department's rules define 'applicant' as:
  - (a) Any person proposing to engage in any undertaking subject to review under chapter [70.38](#) RCW; or*
  - (b) Any person or individual with a ten percent or greater financial interest in a partnership or corporation or other comparable legal entity engaging in any undertaking subject to review under chapter [70.38](#) RCW.*

[source: WAC 246-310-010(6)]

Welsh, Carson, Anderson, & Stowe appears to have greater than 10% financial interest in the corporation; however, Springstone did not include them as the applicant.

In its first screening of the Springstone application, the department requested audited financial statements from Welsh, Carson, Anderson, & Stowe since they appeared to be the major funding source for the project. In fact, Springstone LLC changed its financing of the project to 100% funding of both capital expenditures and working capital from Welsh, Carson, Anderson & Stowe. In response to the department's request, Springstone also provided an authorization letter wherein Welsh, Carson, Anderson & Stowe self-identifies as the principal member of Springstone.

In summary, Signature asserts that unless ownership and sponsorship, including the state registration, can be corrected, the Springstone application should be denied.

### **Springstone Rebuttal**

In response to the issues raised, Springstone provides the following clarification which is summarized below. [source: Springstone July 9, 2015, rebuttal, pp11-12]

- Springstone LLC is not registered to do business in Washington State and is not the applicant  
The legal entity that will establish and operate the proposed psychiatric hospital in Clark County is Rainier Springs, LLC, a Delaware limited liability company that has registered as a foreign limited liability company in Washington State. Therefore, Rainier Springs, LLC is the applicant for this project. Rainier Springs, LLC is 100% owned by Springstone, Inc.; which is 100% owned by Springstone, LLC, neither Springstone, Inc. nor Springstone, LLC will engage in any business activities in Washington State.
- Welsh, Carson, Anderson, & Stowe should have been included as the applicant  
Rainier Springs, LLC is the applicant under the plain read of WAC 246-310-010(6)(a), which states an applicant is: *(a) Any person proposing to engage in any undertaking subject to review under chapter [70.38](#) RCW; or...*  
Springstone, Inc. meets the definition of applicant under the plain read of WAC 246-310-010(6)(b), which states an applicant is *(b) Any person or individual with a ten percent or greater financial interest in a partnership or corporation or other comparable legal entity engaging in any undertaking subject to review under chapter [70.38](#) RCW.*

Springstone, LLC is not an applicant, and therefore, its investors--Welsh, Carson, Anderson, & Stowe--is not an applicant either.

### **Department's Review**

Springstone asserts that Rainier Springs, LLC should be considered the applicant. WAC 246-310-010(6) identifies the applicant for Certificate of Need applications. Springstone's read of the definition is narrow and incorrect. The department considers the parent company or corporation to be the applicant in a Certificate of Need application. This is a long-standing approach followed by the department and allows for a comprehensive review of the applicant, including quality of care history.<sup>3</sup>

The department has not considered a financial investment corporation or company to be an 'applicant.' This is also a long-standing approach for applications submitted by for-profit corporations, such as DaVita HealthCare Partners, Inc.; Fresenius Medical Care; and Universal Health Services.

In summary, the applicant for the Springstone project is Springstone, LLC, the parent of Springstone, Inc., which is the parent of Rainier Springs, LLC--the proposed licensee of the hospital. As an investment company, Welsh, Carson, Anderson, & Stowe is not considered an applicant for the Springstone project. For clarification purposes, the department requested financial data from Welsh, Carson, Anderson, & Stowe not because it is the applicant; rather, because it is the funding source for the Springstone project. These concerns raised by Signature related to Springstone's project are not grounds for denial.

## **PROJECT DESCRIPTIONS**

### **Signature Healthcare Services, LLC**

Signature proposes to establish a 100-bed psychiatric hospital in Vancouver, within Clark County. Signature provided an executed purchase and sales agreement for a total of 7.62 acres in Vancouver. While the site address for the property is 16516 Southeast Mill Plain Boulevard, the parcel of land where the hospital will be located has not been assigned an address. Signature also provided a parcel number for the site. Attached to the purchase agreement is an environmental checklist. If the project is approved, the city of Vancouver requires Signature to obtain either an Environmental Impact Statement or a Statement of Non-Significance for the site.<sup>4</sup> [source: Application, p3, p8, & Exhibit 9 and March 6, 2015, supplemental information, Attachment E]

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<sup>3</sup> For example, see historical applications submitted by DaVita HealthCare Partners, Inc.; Fresenius Medical Care; Franciscan Health System; MultiCare Health System; Providence Health & Services; and Universal Health Services (UHS).

<sup>4</sup> WAC 246-03-030 states, in part, that Certificate of Need applications are subject to State Environmental Policy Act (SEPA) requirements whenever the applicant proposes to construct a new hospital or to construct major additions to the existing service capacity of such an institution. The rule further states that the Department of Health shall not issue a Certificate of Need approving hospital construction until the applicant has supplied it with a determination of non-significance or a final environmental impact statement (EIS), and until seven days after the issuance by the lead agency of any final EIS. Nothing in WAC 246-03-030 precludes the Department of Health from making a commitment to issue a Certificate of Need to an applicant, then issuing the Certificate of Need after receipt of an appropriate environmental impact statement or determination of non-significance.

The proposed 100-bed psychiatric hospital would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, detoxification and treatment for patients with co-occurring addiction and psychiatric diagnoses for patients 18 and older. The hospital would also provide geriatric services for patients 65 and older; and include an adolescent treatment program for patients ages 13 through 18. [source: Application, p6]

The capital expenditure associated with the establishment of the 100-bed psychiatric hospital is \$32,541,994. Of that amount 64.1% is related to construction costs and fixed equipment; 15.1% is related to land purchase and site preparation; 2.2% for moveable equipment; and the remaining 18.6% is related to fees, permits, interim financing, and state taxes. [source: Application, p33]

Signature anticipates the 100-bed psychiatric hospital would become operational by January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. [source: Application, p10]

### **Springstone, LLC**

Springstone proposes to establish a 72-bed psychiatric hospital in Salmon Creek, within Clark County. Springstone provided two executed purchase and sales agreements for a total of 13.3 acres purchased through its property LLC known as Propstone, LLC.<sup>5</sup> The two parcels of land are contiguous. One agreement identifies 10.43 acres and the seller is Ridgefield Self Storage, LLC. The second agreement identifies 2.87 acres and the seller is Salmon Creek Park, LLC. The address for the proposed hospital has not been assigned, however, each purchase agreement provides a legal description of the parcel and Springstone provided a site map showing locations of each parcel. The documents provided indicate that the city of Vancouver requires Springstone to obtain either an Environmental Impact Statement or a Statement of Non-Significance for the site.<sup>6</sup> [source: March 9, 2015, supplemental information, Attachment 4 and April 23, 2015, supplemental information, Attachment 1]

The proposed 72-bed psychiatric hospital would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, adult and geropsychiatric services, and substance abuse treatment for patients 18 and older. [source: Application, p7 and Exhibit 7]

The capital expenditure associated with the establishment of the 72-bed psychiatric hospital is \$26,843,706. Of that amount 63.3% is related to construction costs and fixed equipment; 17.1% is related to land purchase and site preparation; 3.1% for moveable equipment; and the remaining 16.5% is related to fees, permits, and state taxes. [source: Application, p31 and March 9, 2015, supplemental information, Attachment 11]

Springstone anticipates the 72-bed psychiatric hospital would become operational by January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. [source: March 9, 2015, supplemental information, Attachment 12]

### **APPLICABILITY OF CERTIFICATE OF NEED LAW**

Both applications are subject to review for 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).

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<sup>5</sup> Further discussion regarding Propstone, LLC is in the Financial Feasibility section of this evaluation.

<sup>6</sup> WAC 246-03-030 referenced in footnote #3 above would also apply to the Springstone project.

## **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, each 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); 246-310-240 (cost containment); and applicable portions of the 1987 Washington State Health Plan.<sup>7</sup>

## **TYPE OF REVIEW**

While not submitted under a published concurrent review cycle, these applications were reviewed concurrently. 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. Specific to the projects submitted by Signature and Springstone, the concurrent review allows the department to review the applications proposing inpatient psychiatric services in the same planning area—Clark County—simultaneously to reach a decision that serves the best interests of the planning area’s residents.

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<sup>7</sup> Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6).

In a concurrent review, the department issues one single evaluation regarding whether either or both of the projects should be issued a Certificate of Need. The review timeline for the Signature and Springstone applications is summarized below.

**APPLICATION CHRONOLOGY**

<b>Action</b>	<b>Signature</b>	<b>Springstone</b>
Letter of Intent Submitted	October 6, 2014	November 14, 2014
Application Submitted	November 10, 2014	December 29, 2014
Department’s pre-review activities <ul style="list-style-type: none"> <li>• DOH 1<sup>st</sup> Screening Letter</li> <li>• Applicant's Responses Received</li> <li>• DOH 2nd Screening Letter</li> <li>• Applicant's Responses Received</li> </ul>	December 4, 2014 March 6, 2015 March 30, 2015 May 12, 2015	January 21, 2015 March 9, 2015 March 30, 2015 April 23, 2015
Beginning of Review	May 19, 2015	
Public Hearing Conducted	None Requested or Conducted	
Public comments accepted through end of public comment	June 23, 2015	
Rebuttal Comments Submitted	July 9, 2015	
Department's Anticipated Decision Date	August 24, 2015	
Department’s Extended Anticipated Decision Date	September 24, 2015	
Department's Actual Decision Date	September 23, 2015	

**AFFECTED PERSONS**

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

“...an “interested person” who:

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

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

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

Under concurrent review, each applicant is an affected person for the other application(s). Additionally, two other entities sought affected person status, however, only one entity qualified for the status under the definitions above. The two entities are PeaceHealth and Legacy Health System. Below is a summary of each and a determination of their respective status regarding these applications.

### **PeaceHealth**

PeaceHealth is a not-for-profit system that operates hospitals, medical office complexes, medical groups, chemical-dependency services, home-health services, medical laboratories, and other services in three states—Alaska, Oregon, and Washington. [source: PeaceHealth website]

For Clark County, PeaceHealth operates Southwest Washington Medical Center a full service hospital located in Vancouver. Southwest Washington Medical Center provides inpatient psychiatric services at its Memorial Campus located at 3400 Main Street in Vancouver [98663].

PeaceHealth also operates St. John Medical Center, a full service hospital located in Longview, within Cowlitz County, which is directly north of, and adjacent to, Clark County. St. John Medical Center provides a full range of inpatient and outpatient services, including some psychiatric services. However, St. John Medical Center does not designate any of its acute care beds to psychiatric services.

PeaceHealth meets the definition of an 'interested person' under WAC 246-310-010(34)(b) above. In its February 17, 2015, letter requesting a copy of each application, PeaceHealth also requested to be informed of the department's decision. On June 23, 2015, PeaceHealth submitted comments related to both projects. As a result, PeaceHealth also qualifies as an 'affected person' for these two projects.

### **Legacy Health System**

Legacy Health System (LHS) is a non-profit organization based in Portland, Oregon. LHS has multiple hospitals and clinics serving portions of both Oregon and Washington states. For Washington State, LHS owns and operates Legacy Salmon Creek Medical Center located at 2211 Northeast 139th Street in Vancouver [98686], within Clark County. The medical center provides a full range of inpatient and outpatient services. It is noted that LHS does not provide inpatient psychiatric services at the Vancouver location, however, as a full service hospital with an emergency department, LHS would provide some initial stabilization services to psychiatric patients presenting in the emergency room. [source: Legacy Health System website] LHS meets the definition of an 'interested person' under WAC 246-310-010(34)(b) above.

In its January 8, 2015, letter requesting a copy of each application, LHS also requested to be informed of the department's decision. During the review of these two projects, LHS did not submit comments related to either project. As a result, LHS does not meet the definition of an 'affected person' for this concurrent review. Lack of affected person standing precludes LHS from submitting a reconsideration request or an adjudicative proceeding related to the outcome of this concurrent evaluation.

### **SOURCE INFORMATION REVIEWED**

- Signature Healthcare Services, LLC Certificate of Need application submitted November 14, 2014
- Springstone, LLC Certificate of Need application submitted December 29, 2014
- Signature Healthcare Services, LLC 's 1<sup>st</sup> screening responses received March 6, 2015
- Springstone, LLC 's 1<sup>st</sup> screening responses received March 9, 2015
- Signature Healthcare Services, LLC 's 2<sup>nd</sup> screening responses received May 12, 2015
- Springstone, LLC 's 2<sup>nd</sup> screening responses received April 23, 2015
- Signature Healthcare Services, LLC 's public comment received June 23, 2015
- Springstone, LLC 's public comment received June 23, 2015
- PeaceHealth's public comment received June 23, 2015

## **SOURCE INFORMATION REVIEWED (continued)**

- Signature Healthcare Services, LLC 's rebuttal comments received July 9, 2015
- Springstone, Inc.'s rebuttal comments received July 9, 2015
- Department of Health's Hospital and Patient Data Systems financial feasibility and cost containment analysis received August 24, 2015 for Signature Healthcare Services, LLC
- Department of Health's Hospital and Patient Data Systems supplemental information received September 1, 2015, for Signature Healthcare Services, LLC
- Department of Health's Hospital and Patient Data Systems financial feasibility and cost containment analysis received August 24, 2015 for Springstone, LLC
- Department of Health's Hospital and Patient Data Systems supplemental information received September 1, 2015, for Springstone, LLC
- Medical Quality Assurance Commission compliance history for credentialed or licensed staff
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Historical charity care data for years 2011, 2012, and 2013 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](http://www.qualitycheck.org)]
- Signature Healthcare Services, LLC, the parent corporation, does not have a specific website; rather each of its subsidiary hospitals have specific websites
- Springstone, LLC website [[www.springstone.com](http://www.springstone.com)]
- Legacy Health System website [[www.legacyhealth.org](http://www.legacyhealth.org)]
- Legacy Salmon Creek Medical Center Year 2015 hospital license application
- PeaceHealth website [[www.peacehealth.org](http://www.peacehealth.org)]
- PeaceHealth Southwest Washington Medical Center Year 2015 hospital license application
- PeaceHealth St. John Medical Center Year 2015 hospital license application
- Washington State Secretary of State website at [www.sos.wa.gov](http://www.sos.wa.gov)
- Welsh Carson Anderson & Stowe, XI, LP website at [www.welshcarson.com](http://www.welshcarson.com)
- Major Diagnostic Category (MDC) definitions [source: wikipedia.org]
- Certificate of Need historical files

## **CONCLUSIONS**

### **Signature Healthcare Services, LLC**

For the reasons stated in this evaluation, the application submitted by Signature Healthcare Services, LCC proposing to establish a 100-bed psychiatric hospital in Vancouver, within Clark County is not consistent with the applicable criterion and a Certificate of Need is denied.

### **Springstone, LLC**

For the reasons stated in this evaluation, the application submitted by Springstone, LLC is consistent with the applicable review criteria. Because of the size of the construction project, the Department of Health may not issue a Certificate of Need until it receives a copy of the approved Conditional Use Permit.<sup>8</sup> However, the department may commit to issuing a Certificate of Need. Once Springstone, LLC provides the department with a copy of a determination of non-significance or final environmental impact statement pertaining to the site for the hospital, the department will issue a

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<sup>8</sup> WAC 246-03-030(4)

Certificate of Need for the project provided Springstone, LLC agrees with the following project description and conditions.

**Project Description:**

This Certificate of Need approves the construction of a 72-bed psychiatric hospital that would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, adult and geropsychiatric services, and substance abuse treatment for patients 18 and older. The number of approved beds is below.

	<b>Number of Beds</b>
Psychiatric beds	72
<b>Total Licensed Beds</b>	<b>72</b>

**Conditions:**

1. Approval of the project description as stated above. Springstone, LLC 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, Springstone, LLC will submit a copy of the adopted and approved Admission Policy for review and approval. The adopted policy must be consistent with the draft provided in the application.
3. Prior to providing services at the hospital, Springstone, LLC 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 72-bed psychiatric hospital will provide charity care in compliance with its executed 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 72-bed psychiatric hospital will use reasonable efforts to provide charity care equal to the amount identified in the application, but no less than the average amount of charity care provided by hospitals in the Southwest Region. Currently, this amount is 3.41% of gross revenue and 8.47% 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.
5. Annual budgets, as required by WAC 246-454-030, submitted by the new 72-bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Southwest Region.
6. Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval an executed lease agreement between Propstone, LLC and Rainier Springs, LLC. The executed agreement must be consistent with the draft agreement provided in the application.
7. Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval an executed transfer agreement between Rainier Springs, LLC and a local hospital. The executed agreement must be consistent with the draft agreement provided in the application.
8. Prior to providing services at the hospital, Springstone, LLC will submit to the department 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. Prior to providing services at the hospital, Springstone, LLC will submit to the department for review and approval a final listing of ancillary and support vendors for the 72-bed psychiatric hospital.

10. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act patients, Springstone, LLC will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at the psychiatric hospital at the time of referral or if such referral is clinically inappropriate.

**Approved Costs:**

The approved capital expenditure for this project is \$26,843,706.

**CRITERIA DETERMINATIONS**

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

Based on the source information reviewed and each the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Signature Healthcare Services, LLC and Springstone, LLC have met the need criteria in WAC 246-310-210.

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

WAC 246-310 does not contain a psychiatric hospital bed forecasting method. The 1987 Washington State Health Plan (SHP) that was “sunset” 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 the need criterion for psychiatric beds begins with an evaluation of the numeric need methodology provided by the applicant.

**Signature Healthcare Services, LLC Numeric Need Methodology**

Both applicants provided a numeric need methodology based on the following factors: planning area, population estimates and forecasts, use rate, and current capacity. Table 1 below shows the factors used in Signature’s methodology.

**Table 1  
Signature Healthcare Services, LLC Numeric Methodology Assumptions and Data**

<b>Assumption</b>	<b>Data Used</b>
Planning Area	Clark County
Population Forecasts	Office Of Financial Management Population Data released May 2012. Age group of 13 years and older.
Use Rate	27.25 per 100,000 population. In recent psychiatric bed applications, the department concurred that the average use rate of the Northwest states is a reasonable determination of a use rate.
Current Capacity	16 psychiatric beds all located at PeaceHealth Southwest Washington Medical Center in Vancouver.

Based on the assumptions and data above, Signature projected the number of psychiatric beds needed in Clark County. Table 2 below shows years 2018 through 2021, and years 2024 and 2029. [source: Application, pp15-31 and Attachment13]

**Table 2  
Signature Psychiatric Bed Need Projections**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2024</b>	<b>2029</b>
Population – 13+	384,515	390,025	395,534	400,628	415,902	439,914
Use Rate/100,000	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	104.8	106.3	107.8	109.2	113.0	120.0
Minus Current Supply	16.0	16.0	16.0	16.0	16.0	16.0
<b>Net Bed Need</b>	<b>88.8</b>	<b>90.3</b>	<b>91.8</b>	<b>93.2</b>	<b>97.3</b>	<b>103.9</b>
Minus Signature # of Beds	100.0	100.0	100.0	100.0	100.0	100.0
<b>Unmet Bed Need or (Surplus)</b>	<b>(11.2)</b>	<b>(9.7)</b>	<b>(8.22)</b>	<b>(6.83)</b>	<b>(2.67)</b>	<b>3.88</b>

In Signature’s numeric methodology, the ‘net bed need’ line shows that more than 91 psychiatric beds are needed in the Clark County planning area in 2020, which increases to more than 103 in 2029. The ‘unmet bed need’ line item shows that even with Signature providing psychiatric services with 100 beds beginning in year 2018, additional psychiatric beds may be needed in Clark County by the end of year 2029.

**Springstone, LLC Numeric Need Methodology**

Table 3 below shows in the factors used in Springstone’s methodology.

**Table 3  
Springstone, LLC Methodology Assumptions and Data**

<b>Assumption</b>	<b>Data Used</b>
Planning Area	Clark County
Population Forecasts	Office Of Financial Management Population Data released May 2012. Age group of 15 years and older. Springstone proposes to serve patients 18 and older; however, OFM provides a section of population projections of 15-19. Springstone states that it elected to use the 15-19 age group even though the 15-17 age group would not typically be served by the facility. This approach ensures inclusion of the 18 and 19 age group. [source: Application, p29]
Use Rate	27.25 per 100,000 population. In recent psychiatric bed applications, the department concurred that the average use rate of the Northwest states is a reasonable determination of a use rate.
Current Capacity	16 psychiatric beds all located at PeaceHealth Southwest Washington Medical Center in Vancouver.

Based on the assumptions and data above, Springstone projected the number of psychiatric beds needed in Clark County. Table 4 below shows years 2018 through 2021, and year 2025. [source: Application pp28-29]

**Table 4  
Springstone, LLC Psychiatric Bed Need Projections**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2025</b>
Population – 15+	371,142	376,713	382,367	387,336	407,868
Use Rate/100,000	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	101.1	102.7	104.2	105.5.0	111.0
Minus Current Supply	16.0	16.0	16.0	16.0	16.0
<b>Net Bed Need</b>	<b>85.14</b>	<b>86.65</b>	<b>88.2</b>	<b>89.5</b>	<b>95.14</b>
Minus Springstone # of Beds	72.0	72.0	72.0	72.0	72.0
<b>Unmet Bed Need or (Surplus)</b>	<b>13.1</b>	<b>14.7</b>	<b>16.2</b>	<b>17.5</b>	<b>23.4</b>

In Springstone’s numeric methodology, the ‘net bed need’ line shows more than 88 psychiatric beds are needed in the Clark County planning area in 2020, which increases to more than 95 beds in 2025. The ‘unmet bed need’ line item shows that even with Springstone providing psychiatric services with 72 beds beginning in year 2018, an additional 13 beds are needed in year 2018, which increases to 23 psychiatric beds in year 2025.

**Department’s Review**

When comparing the population data used by each applicant, it is noted that the source of both is Office of Financial Management population projections released May 2012 for Clark County. This is the same data that is used by the department in numeric methodology projections.

The department compared the population projections for years 2018 through 2021 submitted by each applicant.<sup>9</sup> It is noted that Signature’s population projections include residents age 13 and older; and Springstone’s population projections include residents age 15 and older, even though Springstone does not intend to serve patients under 18. A population comparison is shown in Table 5 below.

**Table 5  
Population Comparison for Years 2018 through 2020**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Signature Population – 13+	384,515	390,025	395,534	400,628
Springstone Population – 15+	371,142	376,713	382,367	387,336
Population Difference	13,373	13,312	13,167	13,292

The difference in population projections appears to be directly related to the target age group used in each methodology. The population projections above are reasonable.

It is also noted that the ‘gross bed need’ projections are not significantly different when comparing years 2018 through 2021. The gross bed need comparison is shown in Table 6 below.

**Table 6  
Gross Bed Need Projections For Years 2018 through 2020**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Signature Population – 13+	104.8	106.3	107.8	109.2
Springstone Population – 15+	101.1	102.7	104.2	105.5
Gross Bed Need Difference	3.7	3.6	3.6	3.7

In Table 6 above the ‘gross bed need’ projections are not significantly different for the comparison years and appear to be directly related to the type of services and target age group that is proposed at each psychiatric hospital. Since Springstone does not intend to serve patients under 18, the gross bed need projections in its application would be overstated. Springstone provided the following rationale for including the 15-17 population in its bed need projections. [source: Application, p29]

*“One of OFM’s estimated population cohort is the 15-19 cohort. Because we intend to serve individual[s] age 18+, we had the option of excluding 18 and 19 year olds, or including 15-17 year olds. We chose to include 15-17 year olds. The impact is a very slight overestimation of bed need. The 15-17 cohort has historically represented about 4% of the Clark County population. In 2013, this cohort generated 334 psychiatric patient days; and average census of less than one.”*

During the review of this project, no entities submitted comments directly related to the numeric methodology used by either applicant. In summary, based on the department’s review, each

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<sup>9</sup> Years 2018 through 2021 were the only overlapping years provided in the applications.

applicant's numeric need methodology is reasonable and need for additional psychiatric bed capacity in Clark County is demonstrated.

Each applicant also provided supplemental information and documentation to demonstrate need for additional psychiatric beds in the county. A summary of the information provided by each applicant is below.

### **Signature Healthcare Services, LLC**

Signature provided extensive additional rationale for adding psychiatric beds in Clark County. A summary of the main themes is below. [source: Application, pp13-15; pp22-23; and March 6, 2015, supplemental information, p3]

### **Planning Horizon**

Using a 15-year planning horizon and focusing on residents age 13 and older, Signature projected 100 psychiatric beds would be needed in Clark County by the end of year 2029. Within its application, Signature provided rationale for the 15-year planning horizon, which states:

*"The Department of Health certificate of need program can only respond to certificate of need applications to expand psychiatric hospital services, it cannot directly create capacity. While the Washington State parity legislation was approved in 2005 and changes in the Involuntary Treatment Act (ITA) took place in 2010, the response by existing and new hospital providers has been taken from [sic] 5 years to 10 years to respond to known significant changes in the environment that have dramatically affected needed psychiatric hospital bed capacity. In fact, the bulk of the new capacity approved by the Department of Health through January 2014 will not be open even for initial services until 2016 or 2017, a 10 to 12 year period [from 2005]. In evaluating this Clark County proposal, we ask the Department to consider a 10-year to 15-year planning horizon to address the significant demand factors including changes in the Involuntary Treatment Act, substantial expansion of insurance coverage, mental illness and substance abuse treatment parity, significant population growth, and the greater lead time to bring a larger hospital project with a longer implementation schedule fully on line."*

### **Involuntary Treatment Act 2010 Changes Going into Effect in 2012**

In 2010, the Washington Legislature enacted changes to the Involuntary Treatment Act that became effective in 2012. The Washington Institute for Public Policy (WIPP) projected a need for an additional 19 to 114 community hospital beds and 23-54 adult evaluation and treatment beds to respond to the expected increase. The higher number of hospital beds (114) reflected the need assuming a 78% community hospital/psychiatric hospital occupancy. The actual utilization level in 2009 was 75%.

By design, the WIPP analysis did not address bed need increases due to other factors, such as population growth, behavioral health parity, or increases in the insured population. Additionally, PeaceHealth Southwest Washington Medical Center's 16-bed psychiatric unit regularly operates with a 69% occupancy, which is consistent with an occupancy rate based on its size.

### Patient Origin Study

Signature conducted a patient origin study focusing on Major Diagnostic Category (MDC) 19 [mental diseases and disorders] for psychiatric services obtained by Clark County residents.<sup>10</sup> Data sources used by Signature's study is 2013 Washington State CHARS and 2013 Oregon Association of Hospitals and Health.

The data shows that 670 Clark County residents received psychiatric services and generated 5,219 patient days. Of the 670 residents, 451--or 67.3%--received psychiatric services in one of the three hospitals in Clark or Cowlitz counties. Of the three hospitals in Clark or Cowlitz counties, only PeaceHealth Southwest Washington Medical Center provides a full range of psychiatric services. Year 2013 data shows that PeaceHealth Southwest Washington Medical Center provided psychiatric services to 400 of the 670 residents [59.7%] and 400 of the 451 [88.7%] Clark County residents receiving psychiatric services in one of the three hospitals in Clark or Cowlitz counties.

### Public Comments

Springstone provided comments related to the planning horizon and number of beds requested by Signature. [source: Springstone June 23, 2015, public comments, pp4-6] Specifically, Springstone asserts that Signature's request for 100 psychiatric beds is oversized for three reasons:

1. a 15-year planning horizon is inconsistent with the department's past practice for psychiatric projects;
2. the project proposes to service patients 13 and older; however, existing providers have indicated that there is not a need for adolescent beds in Clark County; and
3. nearly 25% of Clark County residents are Kaiser Permanente (Kaiser) insurance enrollees. Kaiser has not indicated any intent to use Clark County psychiatric beds.

### Rebuttal Comments

Signature provided rebuttal in response to the comments provided by Springstone. Signature's rebuttal is summarized below. [source: Signature July 9, 2015, rebuttal comments, p12-13]

A 15-year planning horizon is consistent with the department's past practice for approving acute care hospitals; a psychiatric hospital should have the same planning horizon.

Springstone provided no supporting documentation that adolescent beds in the planning area are not needed. Further, while Springstone is correct that Legacy Health System added six beds to its adolescent bed capacity in Portland, the six beds are not new to the Legacy Health System's psychiatric bed supply, rather they are a redistribution of adult psychiatric bed capacity. This action by Legacy Health System reduced its adult psychiatric bed supply in Portland by six beds.

Springstone asserts that Kaiser has 25% of the Clark County population as enrollees and Kaiser has not indicated it will use Clark County psychiatric beds. Springstone's own application contradicts this argument when it references and restates information in Legacy Salmon Creek Hospital's application submitted in year 2001 for the establishment of its full service hospital. In that application, Legacy Health System proposed to change referral patterns for Clark County residents

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<sup>10</sup> The Major Diagnostic Categories (MDC) are formed by dividing all possible principal diagnoses into 25 mutually exclusive diagnosis areas. MDC codes, like diagnosis-related group (DRG) codes, are primarily a claims and administrative data element unique to the United States medical care reimbursement system. DRG codes also are mapped, or grouped, into MDC codes.

that had historically received acute care services in Oregon hospitals. Both Signature and Springstone psychiatric applications propose to change referral patterns for Clark County psychiatric residents.

At this time, the only inpatient psychiatric beds in the planning area are located at PeaceHealth Southwest Washington Medical Center. With only 16 licensed beds, it is unlikely that a Kaiser member could frequently gain access to the unit given PeaceHealth's comments that the facility is typically operating at a high utilization.<sup>11</sup> Kaiser Health Plan has a 23% combined market share for Washington and Oregon enrollees. While Kaiser Health Plan does not contract with Clark County hospitals to provide significant services in Clark County, it operates no psychiatric hospital level beds the Portland Oregon area. It is illogical to conclude that Kaiser Health Plan would or could send all of its psychiatric patients to Portland, particularly with the difficulties of serving ITA patients from Washington in Oregon hospitals.

### **Department Review**

Related to the 15-year planning horizon, Springstone suggests that because the department has not used a 15-year planning horizon in past psychiatric bed projects, the planning horizon is too long and should not be used. The department reviewed and approved seven psychiatric bed projects since year 2010. In each of those applications, numeric need for additional psychiatric beds showed in the 'current' year.<sup>12</sup> All but one of the applications showed need for the requested project within three years of submission of the project. Typically, at least a 6-year planning horizon was used by the applicants in their applications. The applicant's did not submit a numeric methodology using a 15-year planning horizon because numeric need was demonstrated before 15 years. Considering the amount of time required to establish a new hospital and to become fully operational with all of its bed complement, a 15-year planning horizon for a new hospital, including a psychiatric hospital, is reasonable.

Springstone asserts that existing providers have indicated there is no need for adolescent psychiatric beds in the Clark County planning area. PeaceHealth Southwest Washington Medical Center is the only existing provider of psychiatric services in Clark County that provided public comments on the two projects. The public comments do not state or indicate that there is no need for adolescent psychiatric beds in Clark County.

Further, within its own public comment, Springstone provided a copy of a letter from Southwest Washington Behavioral Health<sup>13</sup> supporting its own project. Within the letter of support, Southwest Washington Behavioral Health provides the following statements:

*"In the United States, 1-in-4 adults and 1-in-5 children live with a diagnosable and treatable mental health condition. With proper care and treatment, between 70-90*

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<sup>11</sup> Signature also asserts in its rebuttal that only 14 of the 16 beds are set up and operational. According to the most recent CHARS report (2015), PeaceHealth Southwest Washington Medical Center identified 16 psychiatric beds as staffed and available. The department's data does not substantiate Signature's assertion that PeaceHealth Southwest Washington Medical Center has only 14 of the 16 beds set up and operational.

<sup>12</sup> Projects reviewed and approved are: App#10-34 Seattle Children's Hospital; App#12-13 UHS Fairfax Snohomish County; App#13-39 Southwest Behavioral Health; App#13-40 US HealthVest; App #14-15A UHS Fairfax Snohomish County; App#14-26 US HealthVest; and App#15-12 Sunnyside Community Hospital.

<sup>13</sup> Southwest Washington Behavioral Health is the Regional Support Network serving Clark, Cowlitz, and Skamania counties. They administer and coordinate mental health services for approximately 130,000 Medicaid patients and 99,000 of the patients are Clark County residents. [source: Springstone, June 23, 2015, public comment]

*percent of people with mental illnesses experience a significant reduction of symptoms and an improved quality of life. Mental health services are effective in helping to decrease symptoms and build resiliency, and we need to assure that the complete spectrum is available to serve patients in need."*

In summary, neither PeaceHealth Southwest Washington Medical Center nor Southwest Washington Behavioral Health indicated that adolescent psychiatric beds in Clark County were not needed. As result, this assertion by Springstone cannot be substantiated.

Focusing on Signature's discussions related to the ITA changes and its patient origin study, the department accepts Signature's rationale for adding a 100-bed psychiatric hospital in the county. The department concurs that it logical to assume that Kaiser would refer a number of its Washington State patients to a Washington State psychiatric hospital.

### **Springstone, LLC**

Using a 10-year planning horizon and focusing on projected residents age 18 and older, Springstone projected 75 psychiatric beds would be needed in Clark County by the end of year 2025. Signature provided extensive additional rationale for establishing a 72-bed psychiatric hospital in Clark County. A summary of the main themes is below. [source: Application, pp20-23; p29]

### **Involuntary Treatment Act 2010 Changes Going into Effect in 2012**

Springstone provided data and discussion on this topic similar to the data provided by Signature. Given the similarities, the department will not provide a restatement of the information provided by Springstone.<sup>14</sup>

### **Patient Origin Study**

Springstone provided a patient origin study focusing on MDC 19 for psychiatric services obtained by Clark County residents. The data sources used for the study is 2013 Washington State CHARS and Oregon State inpatient database. The data shows 740 inpatient psychiatric discharges of Clark County residents age 15+, which generated 5,966 patient days, resulting in an average length of stay of 8.1 days. Of the 740 discharges, 520--or 70.3%--Clark County residents received psychiatric services in a Washington State hospital. The remaining 220--or 29.7%--of the Clark County residents received their services in an Oregon hospital.

Focusing on the 520 Clark County residents who received psychiatric services in a Washington State hospital, 485 of the residents received psychiatric services in either Clark County [459] or Cowlitz County [26]. The remaining 35 Clark County residents received psychiatric services in a Washington State hospital that was not located in either Clark or Cowlitz County.<sup>15</sup>

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<sup>14</sup> The department's approach in this evaluation of not rehashing and restating similar information on this topic is for reader ease only and should not, in any way, be viewed as a discount of the information provided by Springstone.

<sup>15</sup> The other Washington hospitals are: Yakima Valley Memorial Hospital (9); Lourdes Counseling Center (6); PeaceHealth St. Joseph Medical Center (2); Harborview Medical Center (1); Providence St. Peter Hospital (2); UW Northwest Hospital (1); Swedish Edmonds (1); Swedish Cherry Hill (2); Providence Sacred Heart Medical Center (2); Navos Mental Health Solutions (1); Seattle Children's Hospital (2); and BHC Fairfax Hospital (6).

In addition to serving Clark County residents, Springstone also noted that the existing provider of psychiatric services--PeaceHealth Southwest Washington Medical Center--also serves residents from other counties, including some counties within Oregon. Springstone also assumed its 72-bed psychiatric hospital would services residents from outside of Clark County.

### Chemical Dependency Services

While the proposed 72-bed psychiatric hospital will be licensed as a psychiatric hospital under Revised Code of Washington (RCW) 71.12, Springstone asserts that 24 of the beds would be located in a separate chemical dependency unit and used for chemical dependency treatment as defined in MDC 20 [alcohol/drug use or induced mental disorders].

To support its application, Springstone provided a study of year 2013 acute patient days generated by Clark County residents age 15+ for MDC 20. The data shows 279 inpatient chemical dependency discharges of Clark County residents age 15+, which generated 1,515 patient days, resulting in an average length of stay of 5.4 days. Of the 279 discharges, 202--or 72.4%--Clark County residents received chemical dependency services in a Washington State hospital. The remaining 77--or 27.6%--of the Clark County residents received their services in an Oregon hospital.

Focusing on the 202 Clark County residents who received chemical dependency services in a Washington State hospital, 176 of the residents received psychiatric services in either Clark County [173] or Cowlitz County [3]. The remaining 26 Clark County residents received chemical dependency services in a Washington State hospital that was not located in either Clark or Cowlitz County.<sup>16</sup>

Springstone asserts that a significant percentage of residents in need of chemical dependency care are likely not receiving it. This assertion is based on a December 2012 National Institute on Drug Abuse report entitled "*Drug Facts: Nationwide Trends.*" Springstone proposes that its application for 72 psychiatric beds, with 24 bed chemical dependency unit, would address this unmet need.

### Public Comments

Signature provided comments related to the planning horizon and number of beds requested by Springstone. Signature's comments also question whether Springstone's application demonstrated need for 24 chemical dependency beds. [source: Signature June 23, 2015, public comments, pp3-9]

Using an 10-year planning horizon, Springstone requested approval for a 72-bed psychiatric hospital. Signature asserts that the project is undersized, in part, because of the shorter planning horizon--11 years vs the 15-year planning horizon proposed in the Signature application. Signature concludes that approval of a 72-bed psychiatric hospital would reduce psychiatric bed availability for Clark County residents to less than ten years. After year 2025, need for additional psychiatric beds is demonstrated in the county.

Signature also asserts that Springstone's misunderstanding of the acute care and psychiatric bed need methodology led to an even greater underestimation of the number of psychiatric beds needed for Clark County. Since 24 of the 72 beds will be used for chemical dependency services, only 48

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<sup>16</sup> The other Washington hospitals are: Highline Medical Center (4); Providence St. Peter Hospital (16); Grays Harbor Community Hospital (2); Providence Regional Medical Center-Everett (1); Pullman Regional Hospital (1); Swedish Medical Center-Ballard (1); and Valley General Hospital (1).

beds will be available for psychiatric patients. As a result, Springstone's request for only 48 psychiatric beds meets less than 1/2 of the projected need in the county. Approval of only 48 beds in the planning area significantly reduces psychiatric bed availability for Clark County residents. Additionally, as a chemical dependency unit, these 24 beds would not be available for ITA patients.

Focusing on the proposed 24-bed chemical dependency unit, Signature states that Springstone should have submitted a separate numeric need methodology and rationale for its chemical dependency beds. Springstone did not demonstrate need for the 24 chemical dependency beds requested in this application and the beds should not be approved. Since Springstone did not justify need for the 24-bed chemical dependency unit, its application proposes only 48 psychiatric beds for Clark County.

### **Rebuttal Comments**

Springstone provided rebuttal in response to the comments provided by Signature. Springstone's rebuttal is summarized below. [source: Springstone July 9, 2015, rebuttal comments, p11-12]

Signature relied on a 15-year planning horizon and suggests that Springstone does not understand the methodology. Springstone understands the methodology, but also notes that the department has not used a 15-year planning horizon in the past for new psychiatric hospitals. Further, Springstone has assessed the market and met with both Legacy and Kaiser. The delivery of psychiatric services, because of reimbursement, is fragile. It would be a disservice to the community to oversupply the number of beds, as it would likely cause the failure or diminution of services for all providers.

Legacy's [six-bed addition] project [in Portland Oregon] will centralize pediatric and adolescent services, and during our meeting with numerous community providers, we were asked explicitly **not** to duplicate these resources. [emphasis verbatim] For this reason, we excluded pediatric and adolescent beds from our project. We have met with Kaiser on several occasions and they are not in a position at this time to commit to using local Clark county-based services. Our project is right-sized. The Signature project is too large and duplicative around adolescent services.

Despite Signature's comments, all 72 of the requested beds are available for ITA patients and all 72 beds will be licensed psychiatric beds. We are not proposing any licensed chemical dependency beds. As stated in screening responses, "*While we propose three distinct units, we are intending that they all be licensed as psychiatric beds.*"

### **Department Review**

Related to the planning horizon used by Springstone, as previously stated, the department has historically accepted and approved projects that have used a 15-year planning horizon for new hospitals.

Signature suggests that Springstone's project requests 48 psychiatric beds and 24 chemical dependency beds. Signature further suggests that since Springstone did not submit rationale to demonstrate need for the 24 chemical dependency beds, its project should be denied. Springstone, on the other hand, asserts that it is proposing a 72-bed licensed psychiatric hospital under RCW 71.12. Within the 72 licensed psychiatric beds will be a 24-bed chemical dependency unit. The 24-bed unit will address an unmet need in the planning area for chemical dependency services.

To sort out this issue, the department reviewed the services proposed at each of the hospitals. Signature proposes to serve patients 13+, including geriatric patients. All 100 beds would be licensed under RCW 71.12. Signature proposes a variety of services at the psychiatric hospital including "*detoxification and treatment for patients with co-occurring addiction and psychiatric diagnoses for adults age 18 and older.*" Focusing on its adolescent treatment program, services include "*an adolescent treatment program providing unique inpatient and outpatient treatment of adolescents and young adults, ages 13 through 18, and their families facing the challenges of severe mental illness symptoms, addiction, and adjustment issues.*" [source: Application, p6] Signature's application clearly proposes to serve some chemically dependent patients.

Single-line drawings provided in the application indicate the 100-beds will be broken into four 25-bed patient care units, most with two-bed rooms. Each of the 25-bed care units will have its own patient common areas. [source: Application, Attachment 7] Since the hospital proposes to provide chemical dependency services, those patients could be admitted into a separate section of the hospital. While it is not considered to be a 'chemical dependency unit' any of the four 25-bed units could function as such.

Springstone proposes to serve patients 18+, including geriatric patients. All 72 beds would be licensed under RCW 71.12. Springstone proposes a variety of services at the psychiatric hospital, including "*inpatient psychiatric services, involuntary treatment services, adult and geropsychiatric services, as well as substance abuse services. The hospital will offer day hospital/partial hospitalization and intensive outpatient services.*" Focusing on its chemical dependency services, Springstone's services include "*a 24-bed chemical dependency unit... used to treat patients with dual diagnoses or co-occurring disorders.*" [source: Application, p7 and March 9, 2015, supplemental information, p5] Springstone's application also proposes some chemically dependent patients.

Single-line drawings provided in the application indicate the 72-beds will be broken into three 24-bed patient care units, most with two-bed rooms. Each of the 24-bed care units will have its own patient common areas. [source: March 9, 2015, supplemental information, Attachment 17 and April 23, 2015, supplemental information, Attachment 2] Since the hospital proposes to provide chemical dependency services, those patients could be admitted into a separate section of the hospital; Springstone refers to the section as a 'chemical dependency unit.'

The review above shows that both applicants propose to provide chemical dependency services to a segment of the patient population. Both applicants also propose to structure their hospital to allow appropriate separation--and in some cases, required separation--of certain types of patients, such as adolescent, geriatric, and chemically dependent. One application refers to the separation as a 'unit' which may have a different meaning to the other applicant. In short, both applicants propose a full-service psychiatric hospital and all proposed beds would be licensed under RCW 71.12.

In summary, comments raised by each applicant related to the other applicant's project are not grounds for denial.

### **Signature Healthcare Services, LLC**

Based on the above information, need for additional psychiatric beds to be located in Clark County has been demonstrated by Signature Healthcare Services, Inc. LLC. **This sub-criterion is met.**

### **Springstone, LLC**

Based on the above information, need for additional psychiatric beds to be located in Clark County has been demonstrated by Springstone LLC. **This sub-criterion is met.**

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

Neither Signature nor Springstone are current providers of health care services to the residents of Washington State. To demonstrate that all residents of the service area would have access to the services provided by Signature or Springstone, the applicant must provide specific documentation to demonstrate availability to all residents of the service area and a commitment to maintain its Medicare and Medicaid participation and provide a percentage of charity care in the planning area.

### **Admission Policy**

To determine whether all residents of the service area 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 assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the service area would have access to 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.

### **Medicare and Medicaid Eligibility**

The department uses the applicant's or facility's Medicare certification to determine whether the elderly would have access or continue to have access to additional services.

The department uses the applicant's or facility's Medicaid eligibility or contracting with Medicaid to determine whether low-income residents would have access to the services.

### **Charity Care**

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.

### **Signature Healthcare Services, LLC**

#### **Admission Policy**

Signature provided a copy of the Admission Policy to be used at the psychiatric hospital. The policy is a draft, and outlines the criteria that the hospital uses to admit patients for psychiatric treatment at the hospital. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, color, religion, sex, national origin, or ability to pay. [source: March 6, 2015, supplemental information, Attachment 20]

#### **Medicare and Medicaid Programs**

To demonstrate compliance with this sub-criterion, Signature provided its projected source of revenues by payer for the psychiatric hospital. Medicare revenues are projected to be 27% of total revenues at the hospital. Additionally, the financial data provided in the application shows

Medicare revenues. [source: Application, p7 and p37; March 6, 2015, supplemental information, Attachment F]

Signature also provided its projected percentage of Medicaid revenues at 19.0% for the psychiatric hospital. Additionally, the financial data provided in the application shows Medicaid revenues. [source: Application p7 and p37; March 6, 2015, supplemental information, Attachment F]

#### Charity Care Policy

To demonstrate compliance with this sub-criterion, Signature provided a copy of its charity care policy to be used at the psychiatric hospital. The policy is a draft and outlines the process one must follow to obtain charity care. Since the policy is a draft and the proposed hospital is not operational, the policy has not been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. The pro forma financial documents provided in the application also include a charity care 'line item' as a deduction of revenue. [source: July 9, 2015, rebuttal documents, Attachment 1]

Since the Admission Policy and Charity Care Policy are in draft format, the department would attach a condition to require Signature to submit adopted and approved policies consistent with the drafts provided in the application. Further, since the Charity Care Policy has not been reviewed and approved by the department's HPDS office, the charity care condition would also include final review by them.

#### Springstone, LLC

##### Admission Policy

Springstone provided a copy of the Admission Policy to be used at the psychiatric hospital. The policy is a draft, and outlines the criteria that the hospital uses to admit patients for psychiatric treatment at the hospital. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, color, religion, sex, national origin, or ability to pay. [source: July 9, 2015, rebuttal documents, Attachment 3]

##### Medicare and Medicaid Programs

To demonstrate compliance with this sub-criterion, Springstone provided its projected source of revenues by payer for the psychiatric hospital. Medicare revenues are projected to be 27.0% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, Exhibit 8]

Springstone also provided its projected percentage of Medicaid revenues at 22.0% for the psychiatric hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, Exhibit 8]

##### Charity Care Policy

To demonstrate compliance with this sub-criterion, Springstone provided a copy of its Financial Assistance/Charity Care Policy to be used at the psychiatric hospital. The policy is a draft and outlines the process one must follow to obtain charity care. Since the policy is a draft and the proposed hospital is not operational, the policy has not been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. The pro forma financial documents provided in the application also include a charity care 'line item' as a deduction of revenue. [source: Application, Exhibit 8 and July 9, 2015, rebuttal documents, Attachments 1 & 2]

Since the Admission Policy and Charity Care Policy are in draft format, the department would also attach a condition to require Springstone to submit adopted and approved policies consistent with the drafts provided in the application. Further, since the Charity Care Policy has not been reviewed and approved by the department’s HPDS office, the charity care condition would also include final review by them.

Charity Care Percentage Requirement

For charity care reporting purposes, HPDS divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Both Signature and Springstone propose a new psychiatric hospital that would be located in Clark County within the Southwest Region. Currently there are 14 operating hospitals located within the region. The 14 operating hospitals are general acute care hospitals, and with the exception of PeaceHealth Southwest Washington Medical Center, typically provide psychiatric services to a small number of patients in the planning area. PeaceHealth Southwest Washington Medical Center has a 16-bed psychiatric unit and provides more extensive psychiatric services than the other acute care hospitals in the region.

Table 7 below compares the three-year average of charity care provided by the 14 hospitals in the region; the combined average charity care for PeaceHealth Southwest Washington Medical Center and Legacy Salmon Creek Medical Center; and the three year average of charity care projected to be provided at each applicant’s new psychiatric hospital.<sup>17</sup> [source: Signature, March 6, 2015, supplemental information, Attachment F; Springstone, Application, Exhibit 8; and HPDS 2011-2013 charity care summaries]

**Table 7  
Charity Care Percentage Comparisons**

	<b>Percentage of Total Revenue</b>	<b>Percentage of Adjusted Revenue</b>
Southwest Region Average	3.41%	8.57%
Combined Existing Hospitals Average	3.51%	8.31%
Signature Projected Average	4.50%	8.33%
Springstone Projected Average	5.14%	10.08%

As noted in Table 7 above, Signature intends to provide charity care near the regional average. The 100-bed hospital will be a new facility in the Southwest Region and only one of two psychiatric hospitals in the county. To ensure the hospital meets its charity care obligations, if the Signature project is approved, the department concludes that a charity care condition is necessary to ensure continued compliance with this sub-criterion.

Also shown in Table 7, Springstone intends to provide charity care above the regional average. The 72-bed hospital will be a new facility in the Southwest Region and only one of two hospitals with dedicated psychiatric beds in the county. To ensure the hospital meets its charity care obligations, if the Springstone project is approved, the department concludes that a charity care condition is necessary to ensure continued compliance with this sub-criterion.

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<sup>17</sup> The department acknowledges that the Affordable Care Act will likely have a long-term impact on the amount of charity care provided by facilities. The regional average used to measure an applicant’s compliance with the charity care standard is a self-correcting three year rolling average. The department expects an applicant to make documented reasonable efforts to meet that level of charity care.

**Signature Healthcare Services, LLC**

Based on the information provided in the application and with Signature’s agreement to the conditions as described above, the department concludes, **this sub-criterion is met.**

**Springstone, LLC**

Based on the information provided in the application and with Springstone’s agreement to the conditions as described above, the department concludes, **this sub-criterion is met.**

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

Based on the source information reviewed, the department concludes Signature Healthcare Services, LLC has not met the financial feasibility criteria in 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 Springstone, LLC 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.

**Signature Healthcare Services, LLC**

If this project is approved, Signature expects to begin providing psychiatric services in Clark County in January 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. [source: Application, p10]

To evaluate this sub-criterion, the department first reviewed the assumptions used by Signature to determine the projected number of patients for the new hospital. The assumptions are summarized below. [source: March 6, 2015, supplemental information, p11]

- Discharges were based on forecasts using Blader use rates from a national study based with OFM age-specific rates.<sup>18</sup>
- Weighted length of stay of 8.1 days per patient stay based on Blader study.
- Patient days is the result of age-specific lengths of stay applied to projected discharges and compared with bed need ratio approach.
- Outpatient visits are based on Signatures experience.

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<sup>18</sup> Joseph C. Blader, PhD completed a study in 2011 entitled *Acute Inpatient Care for Psychiatric Disorders in the United States, 1996 through 2007*. During the twelve years inclusive of 1996 and 2007, Dr. Blader’s study shows the rate at which American children aged five to thirteen were hospitalized with a primary diagnosis of psychiatric disorder rose from 15.6 per 10,000 to 28.3 per 10,000, an increase of 81%, while the rate for adolescents grew 42%. During the same period, there was a shift away from private payers to governmental programs, primarily Medicaid. The data was drawn from the National Hospital Discharge Survey, a representative nation-wide database maintained by the Centers for Disease Control and Prevention. [source: Application, p26 and May 12, 2015, supplemental information, Attachment 2]

- Based on the assumptions above, Signature projected the following occupancy percentages for the 100-bed psychiatric hospital:
  - Year 1 – 28.9%
  - Year 2 – 67.7%
  - Year 3 – 79.1%

Based on the assumptions described above, Signature's projected utilization of the 100-bed psychiatric hospital for the first three years of operation is below. [source: March 6, 2015, supplemental information, p16 and Attachment F]

**Table 8**  
**Signature 100-bed Psychiatric Hospital**  
**Utilization Projections for Calendar Years 2018 - 2020**

	<b>Year 2018</b>	<b>Year 2019</b>	<b>Year 2020</b>
# of Discharges	1,282	2,997	3,502
Total Patient Days	10,562	24,698	28,873
Average Length of Stay	8.1	8.1	8.1
Average Daily Census	28.9	67.7	79.1
% Occupancy with 100 beds	28.9%	67.7%	79.1%

Using the assumptions above, Table 9 below illustrates the projected revenue, expenses, and net income for CY 2018 through 2020 for Signature's 100-bed psychiatric hospital. [source: March 6, 2015, supplemental information, Attachment F]

**Table 9**  
**Signature 100-bed Psychiatric Hospital**  
**Projected Revenue and Expenses for Calendar Years 2018 - 2020**

	<b>Year 2018</b>	<b>Year 2019</b>	<b>Year 2020</b>
Net Revenue	\$ 8,035,423	\$ 20,575,479	\$ 24,043,761
Total Expenses	\$ 10,379,810	\$ 19,368,492	\$ 21,980,558
Net Profit or (Loss)	<b>(\$ 2,344,387)</b>	\$ 1,206,987	\$ 2,063,203

The 'Net Revenue' line item above includes both inpatient and outpatient gross revenues, minus any deductions for bad debt, charity care, and contractual allowances. It also includes revenue expected to be generated by the hospital for non-inpatient operations. 'Total Expenses' include all operating expenses, rent expenses, and corporate allocated costs.

Signature proposes that the building will be owned by Vancouver Life Properties, LLC, a to-be-formed wholly owned subsidiary of Signature, LLC and created specifically for this project. Vancouver Life Properties, LLC's will receive initial capitalization of \$11,389,698 from owner Soon K. Kim, who owns all real estate corporations associated with the Signature hospitals. Vancouver Life Properties, LLC's role in this project is to build the hospital and then lease it back to Vancouver Behavioral Healthcare Hospital--licensee of the hospital--at fair market rates.

To demonstrate compliance with this sub-criterion, Signature provided a copy of the Purchase and Sale Agreement and Receipt for Earnest Money for the site between Signature Healthcare Services, LLC [buyer] and The Donald E. and Florence R. Eby Trust [seller]. [source: Application, Attachment 9] Signature also provided a copy of the draft Facility Lease and Security Agreement between

Vancouver Life Properties, LLC [landlord] and Vancouver Behavioral Healthcare Hospital [tenant]. [source: May 12, 2015, supplemental information, Attachment 1].<sup>19</sup>

As shown in Table 9 above, Signature projects the new psychiatric hospital would operate at a loss in year one, and profit in years two and three.

To assist in the evaluation of this sub-criterion, the department’s Hospital and Patient Data Systems (HPDS) office reviewed the proposed hospital’s projected balance sheet for year three. The information is shown in Table 10 below. [source: August 24, 2015, HPDS analysis, p2]

**Table 10**  
**Vancouver Behavioral Healthcare Balance Sheet**  
**Projected Year 2020**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$ 5,504,455	Current Liabilities	\$ 568,909
Fixed Assets	\$ 0	Long Term Debt	\$ 0
Board Designated Assets	\$ 0	Other Liabilities	\$ 0
Other Assets [depreciation]	\$ 0	<b>Equity</b>	<b>\$ 4,935,546</b>
<b>Total Assets</b>	<b>\$ 5,504,455</b>	<b>Total Liabilities and Equity</b>	<b>\$ 5,504,455</b>

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

*“...the hospital only has current assets, current liabilities, and members’ equity. All property, plant, and equipment including software and desk, and all long term financials, such as board designated assets and long term debt are held by other entities.”*

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 2013 data for comparison with projected years 2018 through 2020. The ratio comparisons are shown in Table 11 on the following page. [source: August 24, 2015, HPDS analysis, p3]

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<sup>19</sup> The department’s review of the purchase and sale agreement and the lease agreement is in the sub-criterion of WAC 246-310-220(2).

**Table 11  
Current and Projected HPDS Debt Ratios for Vancouver Behavioral Health**

<b>Category</b>	<b>Trend*</b>	<b>State 2013</b>	<b>Projected Year 1 2018</b>	<b>Projected Year 2 2019</b>	<b>Projected Year 3 2020</b>
Long Term Debt to Equity	B	0.483	N/A	N/A	N/A
Current Assets/Current Liabilities	A	2.481	6.014	7.206	9.675
Assets Funded by Liabilities	B	0.400	0.166	0.139	0.103
Operating Expense/Operating Revenue	B	0.945	1.456	0.918	0.877
Debt Service Coverage	A	5.977	N/A	N/A	N/A
<b>Definitions:</b>	<b>Formula</b>				
Long Term Debt to Equity	Long Term Debt/Equity				
Current Assets/Current Liabilities	Current Assets/Current Liabilities				
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets				
Operating Expense/Operating Revenue	Operating expenses / operating revenue				
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp				

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

As noted above, two of the ratios—long term debt to equity and debt service coverage—are not used because no debt is associated with the hospital. The owner of Signature intends to fund the project using a combination of bank loans and a not-yet-formed real estate company. The remaining three ratios are in range by year three. Related to the calculations for the ratios in Table 11 above, HPDS provided the following information.

*“I mention that [the] applicant has long term debt assigned to the entity which will operate the hospital. However, the assets funded by liabilities ratio has results because while it does include long term debt [for the calculation] it also includes current liabilities. ...without long term debt, the ratio would generally give a financially healthy result.”*

During the review of this project, no entities submitted comments related to the utilization or financial documents submitted by Signature.

Based on the financial and utilization information above, the department concludes that the immediate and long-range operating costs of the project can be met. **This sub-criterion is met.**

**Springstone, LLC**

If this project is approved, Springstone expects to begin providing psychiatric services in Clark County in January 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. [source: March 9, 2015, supplemental information, Attachment 12]

To evaluate this sub-criterion, the department first reviewed the assumptions used by Springstone to determine the projected number of patients for the new hospital. The assumptions are summarized below. [source: Application, pp29-30]

- Based on actual 2010-2013 data for Clark County patients admitted to and cared for within a hospital with a dedicated psychiatric unit, assumed an average length of stay of 8 days.
- Based on actual 2010-2013 data for Clark County patients admitted to and cared for within a hospital with a dedicated psychiatric unit, assumed 15% in-migration.

- Assumed existing provider—PeaceHealth Southwest Washington Medical Center—patient days will remain unchanged.
- Fill rates are based on actual operating experience in other underserved markets where Springstone has established psychiatric hospitals. They are:
  - Year 1 – 31%
  - Year 2 – 62%
  - Year 3 – 83%
  - Year 4 – 90%

Based on the assumptions described above, Springstone’s projected utilization of the 72-bed psychiatric hospital for the first three years of operation is below. [source: Application, p30 and March 9, 2015, supplemental information, p15]

**Table 12**  
**Springstone 72-bed Psychiatric Hospital**  
**Utilization Projections for Calendar Years 2018 - 2020**

	<b>Year 2018</b>	<b>Year 2019</b>	<b>Year 2020</b>
# of Discharges	1,424	1,916	2,567
Total Patient Days	11,392	16,283	21,823
Average Length of Stay	8.0	8.0	8.0
Average Daily Census	31.2	44.6	64.7
% Occupancy with 72 beds	43.3%	62.0%	83.0%

Reviewing the assumptions described above and taking into consideration the results of the numeric need methodology, Springstone’s assumptions and projected utilization of the 72-bed psychiatric hospital are reasonable.

Using the assumptions above, Table 13 below illustrates the projected revenue, expenses, and net income for CY 2018 through 2020 for Springstone’s 72-bed psychiatric hospital. [source: Application, Exhibit 8]

**Table 13**  
**Springstone 72-bed Psychiatric Hospital**  
**Projected Revenue and Expenses for Calendar Years 2018 - 2020**

	<b>Year 2018</b>	<b>Year 2019</b>	<b>Year 2020</b>
Net Revenue	\$ 10,216,225	\$ 15,159,251	\$ 20,252,025
Total Expenses	\$ 12,259,927	\$ 14,022,686	\$ 17,591,719
Net Profit or (Loss)	(\$ 2,043,702)	\$ 1,136,565	\$ 2,660,306

The ‘Net Revenue’ line item above includes both inpatient and outpatient gross revenues, minus any deductions for bad debt, charity care, and contractual allowances. It also includes revenue expected to be generated by the hospital for non-inpatient operations. ‘Total Expenses’ include all operating expenses, rent expenses, and corporate allocated costs.

Springstone proposes that the building will be owned by Propstone, LLC, a wholly owned subsidiary of Springstone, LLC and created specifically for this project. Propstone, LLC’s role in this project is to enter into the purchase agreement for the site and build the hospital. Propstone, LLC will then enter into a lease agreement with Rainier Springs, LLC—the licensee of the

hospital—for the lease of the building. To demonstrate compliance with this sub-criterion, Springstone provided a copy of the purchase/sales agreements and the lease agreement.<sup>20</sup>

As shown in Table 13 above, Springstone projects the new psychiatric hospital would operate at a loss in year one, and profit in years two and three.

To assist in the evaluation of this sub-criterion, HPDS reviewed Rainier Springs projected balance sheet for year three. The information is shown in Table 14 below. [source: August 24, 2015, HPDS analysis, p2]

**Table 14  
Rainier Springs Balance Sheet  
Projected Year 2020**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$ 1,749,554	Current Liabilities	\$ 1,562,508
Fixed Assets	\$ 627,269	Long Term Debt	(\$ 1,845,904)
Board Designated Assets	\$ 0	Other Liabilities	\$ 0
Other Assets [depreciation]	\$ 0	<b>Equity</b>	<b>\$ 2,660,220</b>
<b>Total Assets</b>	<b>\$ 2,376,823</b>	<b>Total Liabilities and Equity</b>	<b>\$ 2,376,823</b>

After reviewing the balance sheet above, the department notes that the hospital has no long term financials, such as board designated assets or liabilities because these are held by other entities. HPDS provided the following statements related to the projected balance sheet.

*“...the balance sheet shows that the cash is not kept in Rainier Springs, but a parent corporation. This sweep of cash is a legitimate business method.”*

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 2013 data for comparison with projected years 2018 through 2020. The ratio comparisons are shown in Table 15 on the following page. [source: August 24, 2015, HPDS analysis, p3]

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<sup>20</sup> The department’s review of the documents is in the sub-criterion of WAC 246-310-220(2).

**Table 15  
Current and Projected HPDS Debt Ratios for Rainier Springs**

<b>Category</b>	<b>Trend*</b>	<b>State 2013</b>	<b>Projected Year 1 2018</b>	<b>Projected Year 2 2019</b>	<b>Projected Year 3 2020</b>
Long Term Debt to Equity	B	0.483	(2.180)	0.473	(0.694)
Current Assets/Current Liabilities	A	2.481	1.963	1.567	1.120
Assets Funded by Liabilities	B	0.400	1.553	0.631	(0.1119)
Operating Expense/Operating Revenue	B	0.945	1.200	0.925	0.869
Debt Service Coverage	A	5.977	(30.181)	26.610	53.819
<b>Definitions:</b>	<b>Formula</b>				
Long Term Debt to Equity	Long Term Debt/Equity				
Current Assets/Current Liabilities	Current Assets/Current Liabilities				
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets				
Operating Expense/Operating Revenue	Operating expenses / operating revenue				
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp				

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

As noted above, four of the five ratios are within range by the end of year three. Current Assets/Current Liabilities ratio is out of range because cash is not kept at the hospital level; rather it is kept by the parent corporation of Springstone, LLC. Related to the calculations for the ratios in Table 15 above, HPDS provided the following information.

*“I mention that [the] applicant has long term debt assigned to the entity which will operate the hospital. However, the assets funded by liabilities ratio has results because while it does include long term debt [for the calculation] it also includes current liabilities. ...without long term debt, the ratio would generally give a financially healthy result.”*

During the review of this project, no entities submitted comments related to the utilization or financial documents submitted by Springstone.

Based on the financial and utilization 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.

**Signature Healthcare Services, LLC**

The capital expenditure associated with the establishment of the 100-bed psychiatric hospital is \$32,541,994. A breakdown of the costs is shown below. [source: Application, p33]

<b>Item</b>	<b>Cost</b>	<b>% of Total</b>
Land Purchase and Site Preparation	\$ 4,928,160	15.1%
Construction Costs [includes fixed equipment]	\$ 20,868,427	64.1%
Moveable Equipment	\$ 700,000	2.2%
Architect/Engineering/Consulting Fees	\$ 2,272,212	7.0%
Financing and Interim Financing Costs	\$ 1,040,159	3.2%
Sales Tax	\$ 2,733,036	8.4%
<b>Total</b>	<b>\$ 32,541,994</b>	<b>100.00%</b>

Signature proposes the new 100-bed psychiatric hospital would be located in Vancouver, within Clark County. To demonstrate compliance with this sub-criterion, Signature provided six documents related to the site and construction of the hospital. A summary of each document is provided below. [source: Application, Attachments 7, 8, 9, & 12; March 6, 2015, supplemental information Attachment E; and May 12, 2015, supplemental information, Attachment 1]

- Purchase and Sale Agreements – Attachment 9 and Attachment E  
Signature proposes that the site for the hospital will be located on 7.62 acres and provided a copy of the Purchase and Sale Agreement and Receipt for Earnest Money for the site. The agreement is between Signature Healthcare Services, LLC [buyer] and The Donald E. and Florence R. Eby Trust [seller] and identifies \$3,485,235 for site costs. The agreement was executed on October 6, 2014. The agreement outlines roles and responsibilities of both the purchaser and the seller. The agreement also includes a legal description of the parcel, and the seller's disclosure statement related to the property.
- Land Use Documentation – Attachment 12  
Signature provided an e-mail exchange between its representative and the senior planner with the City of Vancouver Community and Economic Development office. According to the exchange, the site is zoned ‘Office Commercial Industrial’ and one of the allowed uses of the general commercial zoning is a hospital. The exchange also includes references to specific county codes related to land development and Conditional Use Permit and Site Plan Development Review processes, which have not yet been completed by Signature.
- Cost Estimator Letter – Attachment 8  
Signature provided a copy of a letter from its architect—IN2IT Architecture, located in Las Vegas Nevada. The letter confirms assistance with Signature to develop the costs associated with the psychiatric hospital in Vancouver. The letter identifies costs for building construction of \$32,541,994 for the entire project and confirms reasonableness of the costs.
- Single Line Drawings – Attachment 7  
The line drawings provided clearly show a single-story building that would house 100 beds broken into four 25-bed patient care units, most with two-bed rooms. Each of the 25-bed care units will have its own patient common areas.
- Draft Lease Agreement Between Vancouver Life Properties, LLC and Vancouver Behavioral Healthcare, LLC – Attachment 1  
The draft agreement identifies roles and responsibilities of both the lessor and the lessee. The agreement is for lease of the property, the hospital and all other buildings, structures, and other

improvements [including landscaping/parking], and all permanently fixed equipment. The agreement is for 5 years, and does not identify any options for renewal. The agreement does not identify monthly or annual rent. Rent expense is identified in the pro forma financial statements as \$2,113,980 annually; and calculates to \$176,165 monthly.

It is noted that Signature did not provide documentation from the Clark County Assessor Office to connect the legal description of the property identified in the purchase and sale agreement with the parcel number identified on page 3 of the application. Based on the department's own research on the Clark County Assessor website, the parcel number connects to the legal description and the property information in the sales agreement.

During the review of this project, no entities submitted comments related to the capital expenditure for the project, the proposed site of the hospital, or site control by the applicant.

To receive Certificate of Need approval for this project, either an executed or draft lease agreement must be provided. While an executed lease agreement is always preferable, a draft lease agreement is acceptable provided the draft agreement identifies all costs associated with the lease and all exhibits/attachments referenced in the lease agreement are attached. In the department's March 30, 2015, 2<sup>nd</sup> request for supplemental information, the department notified Signature of the elements that must be in the agreement in order for the draft agreement to be acceptable. Signature provided a draft lease agreement for the hospital and states the hospital will be leased "at fair market rates," but does not identify the costs. The pro forma financial documents identify a lease cost of \$2,113,980 annually, however, these costs cannot be substantiated in the lease agreement.

Additionally, the Certificate of Need application form identifies the terms for the lease agreement. Psychiatric hospital lease agreements must be for at least five years, with options to renew for no less than a total of 20 years. Based on the 5-year lease agreement, with no options to renew, and the omission of costs identified in the lease agreement, the department concludes that the agreement is not an acceptable draft agreement.

Because of the size of the construction project, the site requires either a Determination of Non-Significance [DNS] or a final Environmental Impact Statement [EIS]. The department is precluded from issuing a Certificate of Need until it receives one of the two documents. If this project is approved, the department would condition the approval requiring Signature to comply with the site requirement. Once Signature provides the department with either a DNS or a final EIS, the department would issue a Certificate of Need for the project with a condition related to the draft lease agreement between Vancouver Life Properties, LLC and Vancouver Behavioral Health, LLC.

Based on the information and documentation provided in the application, the department concludes that the cost of the project cannot be substantiated and cannot conclude the costs will not result in an unreasonable impact on the costs and charges for health services within the service area. **This sub-criterion is not met.**

**Springstone, LLC**

The capital expenditure associated with the establishment of the 72-bed psychiatric hospital is \$26,843,706. A breakdown of the costs is shown below. [source: Application, p31]

<b>Item</b>	<b>Cost</b>	<b>% of Total</b>
Land Purchase	\$ 3,484,800	13.0%
Construction Costs [includes fixed equipment]	\$ 16,986,000	63.3%
Moveable Equipment	\$ 844,000	3.1%
Architect/Engineering/Consulting Fees	\$ 2,100,000	7.8%
Site Preparation	\$ 1,100,000	4.1%
Sales Tax	\$ 2,328,906	8.7%
<b>Total</b>	<b>\$ 26,843,706</b>	<b>100.00%</b>

Springstone proposes the new 72-bed psychiatric hospital would be located in Salmon Creek, within Clark County. To demonstrate compliance with this sub-criterion, Springstone provided seven documents related to the site and construction of the hospital. A summary of each document is provided below. [source: March 9, 2015, supplemental information Attachments 4, 5, 6, 9, 17, 18, & 19 and April 23, 2015, supplemental information, Attachments 1 & 2]

- Purchase and Sales Agreements – Attachment 4  
Springstone proposes that the site for the hospital will be located on 13.3 acres and provided two separate purchase and sales agreements for two contiguous parcels of land. One agreement is between Propstone, LLC and Ridgefield Self Storage, LLC for 10.43 acres. This agreement was executed on February 17, 2015. The second agreement is between Propstone, LLC and Salmon Creek Park, LLC for 2.87 acres. This agreement was executed on February 18, 2015. Both agreements outline roles and responsibilities of both the purchaser and the seller. The combined agreements demonstrate a total purchase price of \$3,484,800 for the 13.3 acres. Each agreement includes a legal description for the respective parcels and a seller disclosure statement related to the property.
- Zoning for the Site – Attachment 5  
Springstone provided an e-mail exchange between its representative and the permit technician at Clark County Community Development. According to exchange, the site is zoned ‘general commercial’ and one of the allowed uses of the general commercial zoning is a hospital. The exchange also includes references to specific county codes related to land development and Conditional Use Permit and Site Plan Development Review processes, which have not yet been completed by Springstone.
- Site Maps – Attachment 6 and Attachment 1  
Springstone provided two separate site maps for the separate parcels of land. One shows the 10.43 acres and the other shows the 2.87 acres. The two sites are contiguous, for a combined total of 13.3 acres.
- Cost Estimator Letter – Attachment 9  
Springstone provided a copy of a letter from the construction company—Kelly Construction, Inc. The letter identifies costs for building construction, fixed and moveable equipment, and site preparation. Total cost identified in the letter, excluding sales tax, is \$18,930,000.

- Single Line Drawings – Attachment 17 and Attachment 2  
The line drawings provided clearly show a single-story building that would house 72 beds broken into three 24-bed patient care units, most with two-bed rooms. Each of the 24-bed care units will have its own patient common areas.
- Clark County Assessor’s Office Documentation – Attachment 18  
Information printed from the Clark County Assessor office website connects the legal description of the property identified in the sales/purchase agreements with the parcel numbers identified on the assessor website.
- Draft Lease Agreement Between Propstone, LLC and Rainier Springs, LLC – Attachment 18  
The draft agreement identifies roles and responsibilities of both the lessor and the lessee. The agreement is for lease of the property, the hospital and all other buildings, structures, and other improvements [including landscaping], and all permanently fixed equipment. The agreement is for 10 years, with two 5-year options to renew. The agreement identifies both monthly and annual rent.

During the review of this project, no entities submitted comments related to the capital expenditure for the project, the proposed site of the hospital, or site control by the applicant.

Because of the size of the construction project, the site requires either a Determination of Non-Significance [DNS] or a final Environmental Impact Statement [EIS]. The department is precluded from issuing a Certificate of Need until it receives one of the two documents. If this project is approved, the department would condition the approval requiring Springstone to comply with the site requirement. Once Springstone, LLC provides the department with either a DNS or a final EIS, the department would issue a Certificate of Need for the project with a condition related to the draft lease agreement between Propstone, LLC and Rainier Springs, LLC.

Based on the information and documentation provided in the application and with Springstone’s agreement to the conditions related to the draft lease 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.**

(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.

**Signature Healthcare Services, LLC**

The capital expenditure associated with the establishment of the 100-bed psychiatric hospital is \$32,541,994. The costs include purchase of the land, constructing and equipping the building, all construction and consultant fees, financing and interim financing costs, plus Washington State sales tax. [source: Application, p33]

Signature intends to fund the project using two sources. The majority of the funding, \$21,152,296, will be from bank loans at 5% interest for 25 years. To demonstrate a financial commitment to this portion of the funding, Signature provided a letter of financial commitment from its chief financial

officer and an amortization schedule showing annual payments. It is noted that the borrower is the 100% owner of Signature, Soon K. Kim. [source: Application, Attachment 10; and March 6, 2015, supplemental information, p4]

The remaining \$11,389,698 will be funded from the real estate company known as Vancouver Life Properties, LLC, a to-be-formed wholly owned subsidiary of Signature, LLC and created specifically for this project. Vancouver Life Properties, LLC's will receive initial capitalization of \$11,389,698 from owner Soon K. Kim, who owns all real estate corporations associated with the Signature hospitals. [source: March 6, 2015, supplemental information, p5]

To demonstrate access to the funds, Signature provided letters of financial interest from three separate banks: Pacific Western Bank located in Irvine, California; Torrey Pines Bank located in Los Angeles, California; and Wells Fargo Bank located in Santa Fe Springs, California. All three letters confirm past lending services with Soon K. Kim and express an interest, but not a commitment, to continue the lending services in the future.<sup>21</sup> [source: Application, Attachment 10; and March 6, 2015, supplemental information, p4 and Attachment C]

In addition to the capital expenditure of \$32,541,994, Signature's 100% owner, Soon K. Kim, will also fund the startup costs for the hospital. Startup costs are non-recurring costs necessary to begin providing services, such as recruitment/staff training. Startup costs for this project are identified at \$500,000.

To demonstrate it has the funds to support the financing, Signature provided its current [year 2013] and historical [2011 and 2012] audited financial statements for the corporation. The statements show more than \$33,646,170 in current assets. [source: Application, Appendix 18] The documents demonstrate that the funds necessary to finance the project are available.

There was no public comment submitted related to this sub-criterion.

Based on the above information, the department concludes that Signature's project can be appropriately financed. **This sub-criterion is met.**

### **Springstone, LLC**

The capital expenditure associated with the establishment of the 72-bed psychiatric hospital is \$26,843,706. The costs include purchase of the land, constructing and equipping the building, all construction and consultant fees, plus Washington State sales tax. [source: Application, p31 and March 9, 2015, supplemental information, Attachment 10]

The project will be funded 100% by Welsh, Carson, Anderson & Stowe, XI, LP, an investment company that focuses on investments in information/business services and healthcare industries in the United States. According to its website, Welsh, Carson, Anderson & Stowe, XI, LP was founded in 1979 and currently has investments in 11 information/business service companies and 17 healthcare companies.

To demonstrate Welsh, Carson, Anderson & Stowe, XI, LP has the funds to support the financing, of this project, Springstone a copy of the 2014 Independent Auditor's Report for Welsh, Carson,

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<sup>21</sup> The department does not expect a bank to provide a written commitment to funding without first completing its internal processes.

Anderson & Stowe, XI, LP. The report includes a December 2014 balance sheet that identifies more than \$40 million in cash/cash equivalents and a net worth of more than \$3 billion. [source: March 9, 2015, supplemental information, Appendix 10] The documents demonstrate that the funds necessary to finance the project are available by the funding source.

In addition to the capital expenditure of \$26,843,706, Welsh, Carson, Anderson & Stowe, XI, LP will also fund the startup costs for the hospital identified at \$730,900. Springstone also provided a letter from Welsh, Carson, Anderson & Stowe, XI, LP demonstrating financial interest for the project and startup costs. [source: Application, p31 and March 9, 2015, supplemental information, Attachment 11]

Public comment submitted related to the funding source was addressed in the ‘Applicant Description’ section of this evaluation.

Based on the above information, the department concludes that Springstone’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 information reviewed, the department concludes Signature Healthcare Services, LLC has met the structure and process of care criteria in 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 Springstone, LLC 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.

**Signature Healthcare Services, LLC**

The hospital is expected to become operational in January 2018 with all 100 psychiatric beds. Under this timeline, full calendar year one is 2018 and full year three is 2020. Staffing for the psychiatric hospital is based on the projected occupancy of 29% in year one, 68% in year two, and 79% in year three. Projected staffing is shown in Table 16 on the following page. [source: March 6, 2015, supplemental information, p15]

**Table 16**  
**Signature 100-bed Psychiatric Hospital**  
**Projected Staffing for Calendar Years 2018 - 2020**

	<b>Year 1-2018</b>	<b>Year 2-2019 Increase</b>	<b>Year 3-2020 Increase</b>	<b>Total</b>
Nursing	32.8	42.8	14.0	89.6
Inpatient Clinical	11.1	10.7	3.4	25.2
Outpatient Clinical	6.2	5.8	1.6	13.6
Administrative/Support	30.4	20.9	6.7	58.0
<b>Total</b>	<b>80.5</b>	<b>80.2</b>	<b>25.7</b>	<b>186.4</b>

Nursing staff includes licensed and registered nurses and mental health workers. Inpatient clinical staff includes social services, therapists, and nursing administrators. Outpatient clinical includes transportation staff and mental health staff. Administrative and support includes office functions, dietary, housekeeping, plant operations, etc.

Physicians, including psychiatrists and psychologists, will be under contract rather than employed by Signature. Contracted staff is not included in the table above; however, they are included in the revenue and expense statements under ‘professional fees.’

As noted in Table 16, Signature intends to recruit the majority of its staff in years one and two and then increase staff proportionately as occupancy of the hospital increases.

As a new hospital in Washington State, all staff must be recruited. Signature currently operates a total of 13 psychiatric hospitals in Arizona, California, Illinois, Nevada, and Texas and has experience in staff recruitment and retention. To ensure appropriate staff is available for this project, Signature states it *"is committed to both strong employee recruitment and retention programs because they are critical to the success of our hospitals and to excellent patient care."* [source: Application, p38]

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

- Inter-facility transfers of key, experienced staff.
- Competitive wage and benefits.
- Establishing relationships with area colleges and universities health care personnel educational programs.
- offering ongoing continuing education.
- Employee referral program for employees referring friends and family.
- nationwide recruitment through posting on website, national recruiting websites, and local community online posting.
- Working with local colleges and universities which offer professional training.
- Attending local and Puget Sound and Portland metropolitan area job fairs in order to reach out to potential candidates.

[source: Application, p38]

Key staff, including the medical director, has not yet been identified for the new hospital. Since the physicians, including the medical director, will be under contract, physician agreements will be established. Signature provided draft physician agreements for the following positions.

- Hospital Medical Director
- Physician Contract

The draft agreement identified roles and responsibilities for the physicians and included a hourly pay rate for services. [source: March 6, 2015, supplemental information, Attachment A]

If this project is approved, the department would attach a condition requiring Signature to provide the department with 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.

Additionally, since all physicians will be under contract, the department would attach a condition requiring Signature to provide the department with a copy of the executed physician contracts, including the medical director contracts, for the hospital. The executed contracts must be consistent with the draft contracts provided in the application.

During the review of this project, no entities submitted comments related to the staffing for the new hospital or the applicants ability to recruit and retain staff.

Based on the information provided in the application, and acceptance of the conditions related to staffing, the department concludes staff is available or can be recruited. **This sub-criterion is met.**

**Springstone, LLC**

The hospital is expected to become operational in January 2018 with all 72 psychiatric beds. Under this timeline, full calendar year one is 2018 and full year three is 2020. Staffing for the psychiatric hospital is based on the projected occupancy of 43% in year one, 62% in year two, and 83% in year three. Projected staffing is shown in Table 17 below. [source: March 9, 2015, supplemental information, p7]

**Table 17  
Springstone 72-bed Psychiatric Hospital  
Projected Staffing for Calendar Years 2018 - 2020**

	<b>Year 1-2018</b>	<b>Year 2-2019 Increase</b>	<b>Year 3-2020 Increase</b>	<b>Total</b>
RN	27.8	5.2	11.7	44.7
Mental Health Techs	19.6	14.0	10.4	44.0
Therapists	8.6	1.0	1.4	11.0
Billing	1.4	0.0	1.0	2.4
CEO/CFO	2.0	0.0	0.0	2.0
Business Development	4.0	0.0	1.0	5.0
Housekeeping/Plant Ops	5.2	0.0	2.4	7.6
Dietary	5.2	0.0	1.0	6.2
Other*	24.3	(0.5)	2.3	26.1
<b>Total</b>	<b>98.1</b>	<b>19.7</b>	<b>31.2</b>	<b>149.0</b>

\* includes directors, administrative support, receptionists, director of nursing

As noted in Table 17, Springstone intends to recruit the majority of its staff in year one to ensure adequate staffing upon opening. In years two and three, staff will increase proportionately as occupancy of the hospital increases.

Physicians, including psychiatrists and psychologists, will be under contract rather than employed by Springstone. Contracted staff is not included in the table above; however, they are included in the revenue and expense statements under 'professional fees.'

As a new hospital in Washington State, all staff must be recruited. Springstone currently operates a total of eight psychiatric hospitals in Indiana, Ohio, and Texas and has experience in staff recruitment and retention. To ensure appropriate staff is available for this project, Springstone states it intends to "*institute a number of strategies to ensure successful recruitment of staff that have a proven interest in improving behavioral health services locally.*" [source: Application, p38]

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

- Establishing relationships with local colleges and universities by offering internships, training, and job opportunities.
- Offering competitive salary and benefit packages.
- Partnering with local career outreach organizations to support continued development within the health care industry.
- Working with local employment agencies and attending job fairs and school-based career events.

Given the multi-county, two-state recruitment radius offered in Clark County, Springstone expects recruitment to be successful. [source: Application, p38]

Key staff, including the medical director, has not yet been identified for the new hospital. Since the physicians, including the medical director, will be under contract, physician agreements will be established. Springstone provided draft physician agreements for the following positions.

- Hospital Medical Director
- Medical Director-Mental Health Services
- Medical Director-Addiction Services
- Physician Contract

The draft contracts provide a job description and outline roles and responsibilities for the positions. The draft contract also includes an hourly pay rate for services. [source: March 9, 2015, supplemental information, Attachment 3]

If this project is approved, the department would attach a condition requiring Springstone to provide the department with 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.

Additionally, since all physicians will be under contract, the department would attach a condition requiring Springstone to provide the department with a copy of the executed physician contracts, including the medical director contracts, for the hospital. The executed contracts must be consistent with the draft contracts provided in the application.

During the review of this project, no entities submitted comments related to the staffing for the new hospital or the applicants ability to recruit and retain staff.

Based on the information provided in the application, and acceptance of the conditions related to staffing, the department concludes staff is available or can be recruited. **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.

### **Signature Healthcare Services, LLC**

Signature expects the new psychiatric hospital to become operational in January 2018. 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 100-bed psychiatric hospital. [source: March 6, 2015, supplemental information, p7]

Patient services anticipated to be provided on-site include pharmacy, dietary, and therapy. Laboratory and radiology services are expected to be under contract with a local provider. [source: March 6, 2015, supplemental information, p7]

The psychiatric hospital would provide both inpatient and outpatient psychiatric services. Signature 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, pp38-39]

Given that Signature has not yet established ancillary and support agreements for the new hospital, if this project is approved, the department would attach a condition requiring Signature to provide a final listing of ancillary and support vendors for the 100-bed psychiatric hospital.

During the review of this project, no entities submitted comments related to this sub-criterion.

Based on the above information, the department concludes that Signature will promote continuity in the provision of health care services in the community with the establishment of a 100-bed psychiatric hospital in Vancouver. **This sub-criterion is met**

### **Springstone, LLC**

Springstone expects the new psychiatric hospital to become operational in January 2018. 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 72-bed psychiatric hospital. [source: Application, pp39-40]

Patient services anticipated to be provided on-site include pharmacy, dietary, and therapy. Laboratory and radiology services are expected to be under contract with a local provider. [source: Application, p39]

The psychiatric hospital would provide both inpatient and outpatient psychiatric services. Springstone 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]

Given that Springstone has not yet established ancillary and support agreements for the new hospital, if this project is approved, the department would attach a condition requiring Springstone to provide a final listing of ancillary and support vendors for the 72-bed psychiatric hospital.

During the review of this project, no entities submitted comments related to this sub-criterion.

Based on the above information, the department concludes that Springstone will promote continuity in the provision of health care services in the community with the establishment of a 72-bed psychiatric hospital in Salmon Creek. **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.

### **Signature Healthcare Services, LLC**

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. While Signature is not a new corporation, it does not have any facilities within Washington State. Signature Healthcare Services, LLC has been registered in Washington State since September 2, 2014. As of the writing of this evaluation, Signature Healthcare Services, LLC, or one of its subsidiaries, operates a total of 13 psychiatric hospitals in the following five states: Arizona, California, Illinois, Nevada, and Texas. [source: Application, Attachments 2 & 3]

The department reviewed the accreditation information on the Joint Commission<sup>22</sup> website for the out-of-state behavioral health hospitals owned and operated by Signature. All 13 hospitals have Joint Commission accreditation. Twelve of the 13 hospitals were considered comparable to the national patient safety and quality improvement goals identified on the website and there were no adverse licensing actions as a result of the surveys for the 12 hospitals. One facility in Glendale

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<sup>22</sup> 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]

Arizona was determined to be below the national average during its 2013 survey.<sup>23</sup> [source: Joint Commission compare website]

Based on the above information, the department concludes there is reasonable assurance that the new 100-bed psychiatric hospital located in Clark County would be operated in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met.**

### **Springstone, LLC**

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. While Springstone is not a new corporation, it does not have any facilities within Washington State. Springstone, LLC was established in 2010 in Louisville, Kentucky. As of the writing of this evaluation, Springstone, LLC, or one of its subsidiaries, operates a total of eight psychiatric hospitals in the following three states: Indiana, Ohio, and Texas. [source: Application, p1 and Exhibit 1]

The department reviewed the accreditation information on the Joint Commission<sup>24</sup> website for the out-of-state behavioral health hospitals owned and operated by Springstone. All eight hospitals have Joint Commission accreditation. All eight hospitals were considered comparable to the national patient safety and quality improvement goals identified on the website.<sup>25</sup> There were no adverse licensing actions as a result of these surveys. [source: Joint Commission compare website]

During the review of this project, no entities submitted comments related to this sub-criterion.

Based on the recent compliance history of Springstone, the department concludes there is reasonable assurance that the new 72-bed psychiatric hospital located in Clark 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.

### **Signature Healthcare Services, LLC**

As previously stated, the new psychiatric hospital would become operational in January 2018 and working relationships with area healthcare providers have not yet been established, including a transfer agreement with a local hospital. Since the psychiatric hospital would provide both

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<sup>23</sup> Accreditation surveys completed in years 2009, 2010, 2011 2012, 2013, 2014, and January to June 2015.

<sup>24</sup> 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]

<sup>25</sup> Accreditation surveys completed in years 2012, 2013, 2014, and January to June 2015.

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: Application, pp38-39]

During the review of this project, no entities submitted comments related to this sub-criterion.

Signature is currently operating 13 hospitals in five different states. Given the experience and expertise of the current management team, Signature does not anticipate any difficulty establishing the necessary formal and informal agreements with the community providers. Since Signature did not provide a draft or executed transfer agreement, if this project is approved, the department would include a condition requiring Signature to provide a copy of the executed transfer agreement with a local hospital for the department's review and approval.

Provided that the applicant agrees to the conditions related to sub-criterion (2) above and the condition related to the transfer agreement, the department concludes that approval of this project is not expected to result in unwarranted fragmentation in the community. **This sub-criterion is met**

### **Springstone, LLC**

As previously stated, the new psychiatric hospital would become operational in January 2018 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: Application, pp39-40]

To demonstrate compliance with this sub-criterion, Springstone provided a draft transfer agreement to be used at the psychiatric hospital for patients requiring transfer to an acute care hospital when medically necessary. The draft agreement identifies the process Springstone would use to transfer the patient and includes a section addressing follow-up with the receiving facility. [source: July 9, 2015, rebuttal documents, Attachment 4] Since the transfer agreement is a draft, if this project is approved, the department would include a condition requiring Springstone to provide a copy of the executed transfer agreement with a local hospital.

During the review of this project, no entities submitted comments related to this sub-criterion.

Springstone is currently operating eight hospitals in three different states. Given the experience and expertise of the current management team, Springstone does not anticipate any difficulty establishing the necessary formal and informal agreements with the community providers. Provided that the applicant agrees to the conditions related to sub-criterion (2) above and the condition related to the transfer agreement, 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.

WAC 246-310 does not contain specific WAC 246-310-230(5) 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. The department's review of this sub-criterion includes historical quality of care of the applicant to assess whether the applicant's history could be a positive indicator of the future.

### **Signature Healthcare Services, LLC**

During the review of this project, Springstone provided extensive information related to Signature's quality of care history. A summary of Springstone's comments is below. [source: Springstone, March 9, 2015, supplemental information, Attachment 15; and Springstone, June 23, 2015, public comment]

#### **Springstone Public Comments**

Signature owns and operates a psychiatric hospital in Illinois known as Chicago Lake Shore Hospital. The facility was cited for '*corporate level quality of care issues.*' A 2011 independent review by the University of Illinois at Chicago on behalf of the Illinois Department of Children and Family Services found issues related to inadequate staffing; sexual assaults among patients; mishandling of medication doses, and poor oversight of patients.

While Springstone did not identify a specific hospital in California, Springstone asserts that "*there have been other incidents as well in several of Signature's California projects that resulted in Signature paying about \$2 million to the federal government in fines or settlements related to billing practices and improper handling of medical records.*"

Springstone provided copies of newspaper articles and a copy of the 'Review of Chicago Lakeshore Hospital' written by the Mental Health Policy Program, Department of Psychiatry, University of Illinois at Chicago. The document was prepared for the Illinois Department of Children and Family Services. The document was completed in year 2011 and appears to cover incidents from year 2008.

Signature provided the following responses to the quality of care issues raised by Springstone. [source: Signature June 23, 2015, public comments, pp15-22]

#### **Signature Rebuttal**

Springstone has a requirement to provide accurate and concise information. The standard for Certificate of Need applications under WAC 246-310-230(5)(a) is that an applicant must report a history of a criminal conviction, denial or revocation of a license to operate a healthcare facility, or a decertification as a provider of services in the Medicare or Medicaid program. None of the materials submitted [by Springstone] relate to this standard and the sheer length of the unedited material speaks to the conciseness requirement.

Not a single Signature hospital has ever lost any licenses or any federal, state, or Joint Commission accreditation. The report provided by Springstone was conducted by the University of Illinois at Chicago (UIC) by the Mental Health Policy Program (MHPP), not by any federal, state, or private licensing or regulatory board. The report references patients seen by CLH's separate and distinct children's hospital, which maintains a contract with the Illinois Department of Child and Family Services (DCFS). These children are wards of the state.

Signature also refuted each of the four concerns highlighted in the report.

#### Inadequate Staffing

CLH reached out to UIC surveyors several times to ascertain what staffing levels they deemed appropriate based on any accepted benchmarks, standards, or regulations. The surveyors were not able to provide that data or point to how CLH's staffing levels were inadequate. Signature's efforts to establish benchmarks may have unfortunately contributed to a defensive tone throughout the report.

#### Sexual Assault Among Patients

The report references four alleged incidents at CLH reported over the course of three years based on the admissions of a specifically targeted sample of highly complex, treatment resistant and recidivistic youth. While no sexual incident is acceptable and CLH works diligently to mitigate the risk of the occurrence of any harmful incident to its patients, it is impossible to eliminate all risk; especially considering the population served by CLH. CLH reported each alleged incident expediently and operated with the utmost transparency in connection with all regulatory agencies and DCFS. There have never been a suspension, revocation, or disciplinary action against CLH by any governmental agency or Joint Commission. CLH's contract with DCFS was never suspended or terminated. CLH has a long-standing history with DCFS and continues to carry out its mission to treat, strengthen, and raise awareness for the mental health of children and adolescents in and around Chicago. Furthermore, UIC and CLH have very strong affiliations.

#### Mishandling of Medication.

The third concern was CLH's medication doses. However, CLH's Medication Error Report provided to UIC reflected a total hospital medication error rate of less than 0.006%, which is well within industry standards.

#### Poor Oversight of Patients

The fourth and last concern raised by surveyors mentioned bedside documenting during supervision leading to poor oversight. Yet, bedside documentation is an industry standard practice that allows behavioral healthcare workers to document patient activity during supervision. These isolated incidents did not accurately represent any systemic problem in 2011 and they do not today.

#### Springstone's References to Corporate Level Quality of Care Issues.

Signature was diligent in developing a response plan to the conclusions in the report. CLH's contract with DCFS was never suspended or terminated.

The CMS 2008-2009 deficiencies mentioned in the report relating to Signature's Aurora Las Encinas Hospital (ALE) in California were in the ordinary course of business in the psychiatric industry. ALE complied with its plans of correction, which CMS fully accepted. At no point was ALE's federal funding ever lost or suspended. The quality of care issues alluded to in the report were by the California Board of Registered Nursing and Medical Board of California and were not related to Signature or ALE. These actions were against specific individuals' licenses with their applicable regulatory board.

Springstone refers to hospitals mentioned in the report that are entirely unrelated Michigan hospitals. Those Michigan hospitals were never owned, operated, or managed by Signature.

The report mentions a 2006 settlement agreement and corporate compliance agreement, both already fully disclosed to the department. Signature fully complied with the corporate compliance agreement. It has since expired. Neither Signature nor any of its hospitals was a party to the settlement agreement. The report and Springstone's reference to \$2,000,000 fine by to the federal government is related to the settlement agreement. Signature made no monetary contributions toward the settlement agreement.

Springstone mentioned fines related to improper handling of medical records. This matter related to the records of a Michigan hospital that closed. The corporate owner was asked by the State of Michigan to remove the records from the premises. Upon removal offsite for destructions, the manner in which the records were destroyed (burning) had environmental implications due to films included in some of the medical records. The manner of record destruction was conducted in compliance with Michigan's patient privacy laws at that time. The reason for the settlement related solely to environmental concerns and not patient privacy. Signature made none of the \$2,000,000 in fines and settlements to the federal government.

### **Department's Review**

As previously stated, this sub-criterion requires the department to review historical quality of care and assess whether the applicant's history is a positive indicator of the future. In its rebuttal, Signature appears to assert that it is obligated to provide information under this sub-criterion only if it has a criminal conviction, has had a license denied or revoked, or any of its facilities was decertified from either the Medicare or Medicaid programs. Yet, Signature provided information related to a 2006 settlement agreement that has since expired. The 2006 agreement did not result in criminal conviction, license denial or revocation, or Medicare or Medicaid decertification. It is unclear why Signature chose to alert the department about the 2006 settlement and corporate compliance agreement, yet made no mention of the review conducted by the University of Illinois at Chicago (UIC) by the Mental Health Policy Program (MHPP) and the resulting report. The report was completed in 2011. The 2011 review and associated report were first raised by Springstone, not Signature.

The quality of care issues identified in the 2011 MHPP report also focus on different incidences in the states of California, Michigan, and Illinois. For California and Michigan, the incidences occurred in 2008 – 2009. Signature's rebuttal responses demonstrate that the issues were associated with their hospital, but the incidences were not directly connected to Signature's ownership or operations of the facilities.

The issue at Signature's California facility [Aurora Las Encinas Hospital] focused on hospital nursing staff and the issues were resolved between the staff and their specific regulatory board. While Signature did not provide specific information related to the allegations raised and the remedies taken by Signature, the department accepts Signature's explanations. This issue is not grounds for denial of the Signature application.

The issue at the Michigan hospital is an environmental issue and Signature explained its role in the improper destruction of medical records. The \$2,000,000 settlement fine referenced in the report was not paid by Signature. This issue is not grounds for denial of the Signature application.

For Chicago Lakeshore Hospital (CLH) in Illinois, the 2011 review conducted by the University of Illinois at Chicago on behalf of the Illinois Department of Children and Family Services found

issues related to inadequate staffing; sexual assaults among patients; mishandling of medication doses, and poor oversight of patients.

In its rebuttal, Signature focused on assuring the department that its license was not suspended or revoked and there was no disciplinary action against CLH by any governmental agency or Joint Commission. Signature also asserts throughout its rebuttal that the incidents at CLH are not systemic. However, Signature did not provide any statements or documentation to show what procedures, practices, standards, or any other changes it incorporated to ensure the issues are not repeated at the Illinois facility or any of its other hospitals or that the issues do not become systemic.

In summary, Signature's failure to mention or include the review and report in the application is distressing. Further, when raised in this review, Signature failed to identify any steps taken to ensure that the issues raised are not repeated at the Illinois facility or at any of its other hospitals. As a result, Signature also failed to ensure that the issues do not become systemic.

The department acknowledges that the 2011 report is four years old and all of Signature's hospitals have undergone at least one quality of care review by the state licensing agency or the Joint Commission. As a result, Signature's quality of care history at its other facilities and its recent history at CLH demonstrates a positive indicator of the future. **This sub-criterion is met.**

#### **Springstone, LLC**

This sub-criterion is addressed in sub-section (3) above. No additional issues were identified that required further evaluation. **This sub-criterion is met.**

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

Based on the source information reviewed, the department concludes Signature Healthcare Services, LLC has not met the cost containment criteria in 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 Springstone, LLC has met the cost containment criteria in WAC 246-310-240.

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

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

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

Step three of this assessment is to apply any service or facility specific criteria (tie-breaker) contained in WAC 246-310. The tiebreaker criteria are objective measures used to compare

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

### **Signature Healthcare Services, LLC**

#### **Step One**

For this project, the department determined that Signature's project did not meet the review criteria under WAC 246-310-220 [financial feasibility], resulting in a failure for the review criteria under cost containment [WAC 246-310-240]. The department concludes that Signature's proposal is not the best available alternative and a review of steps two and three is not necessary.

### **Springstone, LLC**

#### **Step One**

Springstone acknowledged that once numeric need for a psychiatric hospital is demonstrated in Clark County, the only option is to submit a Certificate of Need application. Springstone took a variety of factors into consideration when evaluating the size of the hospital and number of beds to be requested, and ultimately determined the right-size for their project and chosen site. Springstone chose to build a 72-bed, one story hospital on 13.3 acres in Salmon Creek, within Clark County.

During the review of these two projects, PeaceHealth submitted comprehensive comments related to both projects. A summary of PeaceHealth's comments is below. [source: June 23, 2015, PeaceHealth public comments, pp1-25]

PeaceHealth provided an introduction in its public comments, which is summarized, in part, below.

*“Representatives from PeaceHealth Southwest, the only existing provider with inpatient psychiatric beds in Clark County, and Legacy Salmon Creek Medical Center (Legacy), the other principle healthcare provider in Clark County, based on actual operational experience caring for behavioral health patients, have agreed there are performance stands these two applicants should be measured against. This public comment letter focuses on these “Behavioral Health Standards.*

*PeaceHealth recognizes the need for additional inpatient psychiatric beds. As such, these public comments on the two concurrent applications are intended to assist the department in approving the superior project, and very importantly, to also inform PeaceHealth Southwest executives and clinicians which applicant is better aligned with the organizations' Behavioral Health Standards. These standards will help establish if either, or both, proposals(s) will improve patient access and quality of psychiatric care in Clark County.*

*Review of available materials shows Springstone has a more comprehensive application relative to our Standards. However, as we demonstrate in our comments, there are numerous deficiencies in the information provided by Springstone, and more information is required for full analysis. In our opinion, while each application has some elements of comparative strength, neither one, at this point, meets our Behavioral Health Standards.”*  
[emphasis within comments]

Within the introduction, PeaceHealth requested each applicant review its comments on the 13 standards and determine if PeaceHealth’s assessment of each application is correct. PeaceHealth also asked each applicant to provide substantive comments in rebuttal that would address concerns identified in its review.

PeaceHealth identified 13 Behavioral Health Standards, and of those, the first eight are considered, by PeaceHealth, to be essential. PeaceHealth provided a table showing each standard, and a summary of each applicant’s conformance to the standards. It is noted that both Signature and Springstone provided supplemental documents in rebuttal to the PeaceHealth public comments. The table created by PeaceHealth is based on a review of the available documents before rebuttal was submitted.<sup>26</sup> PeaceHealth compared both applications to its standards; however since Signature’s project was denied in the financial feasibility criteria of this evaluation, it is not included in this cost containment review.

**Department's Review**

Information provided in the Springstone application demonstrates need for additional psychiatric beds in Clark County. The existing inpatient psychiatric provider, PeaceHealth, acknowledges need for additional psychiatric beds within its comments.

Springstone provided a timeline indicating operation of a new hospital by in January 2018; but must first complete all environmental requirements for the site. Staffing and capital costs are commensurate to the proposed size [72 beds]. Springstone must recruit staff, and develop ancillary relationships/agreements with existing providers in the community. Springstone’s financial documents demonstrate its hospital would be financially viable by the end of the third year of operation, year 2020.

PeaceHealth identified 13 performance standards that it used to determine which applicant would best fit into the existing infrastructure in the county and continue to provide access to much needed psychiatric services in Clark County and surrounding areas. Of the 13 standards, PeaceHealth identified 8 to be essential.

Appendix A attached to this evaluation is a recreation of the comparison table provided by PeaceHealth that shows the 13 standards, with an asterisk (\*) next to the standards considered by PeaceHealth to be essential. Appendix A also connects the 13 PeaceHealth standards to the department’s review criteria used in this evaluation and includes the department’s review. In some areas, the department and PeaceHealth disagree on whether Springstone’s project meets the standards identified.

The department reviewed all 13 standards identified by PeaceHealth and concludes that Springstone’s application met all previous review criteria, and with certain conditions, would meet the Certificate of Need requirements for the establishment of a 72-bed hospital. Consistent with past practice, the department identified a total of ten conditions that Springstone must provide written agreement with before the project could be approved. Some of the ten conditions also relate to PeaceHealth’s concerns related to its 13 standards.

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<sup>26</sup> The Certificate of Need review process does not allow comments on rebuttal; therefore PeaceHealth is unable to update its comments and review of each application after rebuttal documents were submitted by them.

Based on the information above, the department concludes that the Springstone, LLC project is the best available alternative for the residents Clark County and surrounding communities. **This sub-criterion is met.**

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

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

**Signature Healthcare Services, LLC**

In response to this sub-criterion, Signature states it has developed a total of 12 hospitals, and has opened two in the last year. For this project, Signature states that the space allocation and the development of functional relationships within the proposed hospital will be guided by industry standards, by Washington State licensing and construction review requirements for new facilities, and by CMS certification requirements for new facilities. [source: Application, p47]

After reviewing the information summarized above, the department concludes Signature, while not specifically stating how it will meet the sub-criterion, is fully aware of the specific requirements for Washington State, CMS, and the local authority construction and energy conservation codes. Based on the information, the department concludes **this sub-criterion is met.**

**Springstone, LLC**

In response to this sub-criterion, Springstone states it has developed 10 hospitals in four years, and has been actively involved in designing, planning, and engineering methods to ensure efficient and highly effective physical plants that support quality patient care. Over the four years, Springstone has developed ‘best practices’ in architectural planning and engineering that support its care philosophy of treating both the patient and families with the goal of providing more holistic, sustainable outcomes. [source: Application, p44]

After reviewing the information summarized above, the department concludes Springstone has experience ensuring its existing facilities are compliant with Medicare certification and the local authority construction and energy conservation codes. Based on the information, the department concludes **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.

**Signature Healthcare Services, LLC**

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Based on that evaluation, the department concluded **this sub-criterion is not met.**

**Springstone, LLC**

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

# APPENDIX A

**APPENDIX A**  
**SPRINGSTONE, LLC APPLICATION COMPARISON TABLE PROVIDED BY PEACEHEALTH**  
**INCLUDING DEPARTMENT’S REVIEW CRITERIA AND CONCLUSIONS**

<b>PeaceHealth’s Behavioral Health Criteria</b>	<b>PeaceHealth Conclusion</b>	<b>DOH Review Criteria</b>	<b>DOH Conclusion</b>
*Accept all patients regardless of payer status. This standard also evaluates provider willingness to accept ITA patients, since these patients are typically self-pay, no health insurance, or Medicaid patients.	More info needed.	WAC 246-310-210(2) WAC 246-310-220(1)	Springstone provided draft admission and charity care policies to demonstrate compliance with this sub-criterion.  Springstone identified its projected payer mix, which includes both Medicare and Medicaid payers.  See conditions #1, #2, #3, #4, #5, and #10.
*Will collaboratively develop and agree to algorithms with hospital that identifies patients appropriate for admission to IP unit. These algorithms will ensure proper placement of patients.	More info needed.	WAC 246-310-230(2) WAC 246-310-230(4)	Springstone stated it is currently working with existing providers within the county to establish collaborative relationships. Since the hospital will not be operational until year 2018, Springstone plans to continue in these efforts. Springstone provided a draft transfer agreement that would be used at the new hospital.  See condition #7.
*Will work collaborative with Clark County health systems to provide cost-effective, evidence-based medical care in order to work within financial boundaries of risk-based payer contracts.	More info needed.	WAC 246-310-230(4)	Springstone stated it is currently working with existing providers within the county to establish collaborative relationships. Since the hospital will not be operational until year 2018, Springstone plans to continue in these efforts.
*Will accept medically co-morbid patients.	More info needed.	WAC 246-310-210(2)	This criteria relates to access to services for all patients. In its project description, Springstone specifically identified medically co-morbid patients would be served. The draft admission policy states Springstone would serve medically co-morbid patients.  See conditions # 1 and #2

PeaceHealth's Behavioral Health Criteria	PeaceHealth Conclusion	DOH Review Criteria	DOH Conclusion
<p>*Will not have upper age limit restriction for admission to facility.</p>	<p>More info needed.</p>	<p>WAC 246-310-210(2)</p>	<p>This criteria relates to access to services for all patients. In its project description, Springstone specifically identified its target age group to be 18 years and older. Further, Springstone intends to provide adult and geropsychiatric services.</p> <p>The draft admission policy includes language to ensure non-discrimination based on patient age.</p> <p>See conditions # 1 and #2</p>
<p>*Will accept special needs patients, such as patients requiring translation services or those with pre-existing medical conditions.</p>	<p>Not likely.</p>	<p>WAC 246-310-210(2)</p>	<p>Springstone states special needs patients will be reviewed by a physician who conducts functional screens to determine if a patient would benefit from the treatment offered by the hospital.</p> <p>Springstone also intends to provide translation services.</p> <p>The draft admission policy includes language to ensure non-discrimination based on pre-existing conditions.</p> <p>See conditions # 1 and #2</p>
<p>*Will accept co-occurring patients, such as patients requiring detoxification.</p>	<p>Most likely yes.</p>	<p>WAC 246-310-210(2)</p>	<p>Springstone states it will treat patients with co-occurring disorders. One 24-bed unit will be used for chemical dependency patients.</p> <p>The draft admission policy includes language to ensure appropriate admission of patients requiring chemical dependency or detoxification services.</p> <p>See conditions # 1 and #2</p>

PeaceHealth's Behavioral Health Criteria	PeaceHealth Conclusion	DOH Review Criteria	DOH Conclusion
*Will accept transfer of patients from emergency department to inpatient unit within 2 hours.	More info needed.	WAC 246-310-210(2)	Springstone's draft admission policy includes a section that addresses admission of patients from a referring provider or emergency department. This section identifies the process to be used for admission and ensures admission, if appropriate, within 2 hours of receiving specific documentation from the hospital.  See conditions # 1 and #7
Perform own insurance approval for services.	Most likely yes.	WAC 246-310-210(2)	This PeaceHealth standard is not a department review criteria. Springstone address this PeaceHealth standard within its draft admission policy with a statement that once the patient is admitted and stabilized, Springstone would complete the insurance review in-house.
Timely return of patients to inpatient facility if patient is sent to the emergency department for medical services	More info needed.	WAC 246-310-230(4)	This PeaceHealth standard is not a department review criteria. The standard relates to collaborative working relationships with the existing providers in the planning area. Springstone states it will accept medically stable patients from the hospital once the patient is deemed medically cleared by the transferring hospital.  See condition #7.

PeaceHealth's Behavioral Health Criteria	PeaceHealth Conclusion	DOH Review Criteria	DOH Conclusion
<p>Inpatient facility must make return calls to emergency department physicians within 30 minutes.</p>	<p>More info needed.</p>	<p>WAC 246-310-230(4)</p>	<p>This PeaceHealth standard is not a department review criteria. The standard also relates to collaborative working relationships with the existing providers in the planning area. Springstone states it will have a Care Coordination Department (CCD) that is open and staffed 24/7. The CCD ensures patients receive prompt attention and necessary care.</p> <p>Springstone's draft admission policy includes a section about admission of patients from a referring provider or emergency department. This section includes emergency department physician follow up within 30 minutes.</p> <p>See condition #7.</p>
<p>Employ staff person to work with emergency department to make patient assessment for admission to inpatient facility.</p>	<p>More info needed.</p>	<p>WAC 246-310-230(4)</p>	<p>This PeaceHealth standard is not a department review criteria. The standard also relates to collaborative working relationships with the existing providers in the planning area.</p> <p>Springstone's CCD identified above would be staffed and available 24/7 and is willing to work with hospitals to reach this level of collaboration.</p> <p>See condition #7.</p>

PeaceHealth's Behavioral Health Criteria	PeaceHealth Conclusion	DOH Review Criteria	DOH Conclusion
<p>Develop agreement for billing and payment for medical services of inpatients that develop need for hospital medical services while at inpatient facility.</p>	<p>More info needed.</p>	<p>WAC 246-310-230(4)</p>	<p>This PeaceHealth standard is not a department review criteria. The standard relates to collaborative working relationships with the existing providers in the planning area.</p> <p>Springstone states it has not yet developed policies on this issue but is will work with the existing hospital to reach this level of collaboration.</p>