



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

November 14, 2017

CERTIFIED MAIL # 7016 3010 0001 0575 1430

Thomas Kruse, Senior Vice President  
CHI Franciscan Health  
1717 South J Street  
Post Office Box 2197  
Tacoma, Washington 98401

RE: Certificate of Need Application #17-09

Dear Mr. Kruse:

We have completed our reconsideration review of the Certificate of Need application submitted by CHI Franciscan Health proposing to relocate 242 licensed acute care beds from Harrison Medical Center's Bremerton campus to the Silverdale campus. Enclosed is a written reconsideration evaluation of the application.

For the reasons stated in the enclosed reconsideration decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided CHI Franciscan Health agrees to the following in its entirety.

**Project Description**

For this reconsideration project, Harrison Medical Center is currently licensed for 336 acute care beds located on two campuses. On July 28, 2017, Harrison Medical Center relinquished the 11 psychiatric beds consistent with a condition attached to CN #1601 issued on May 19, 2017. This action results in 242 licensed beds at the Bremerton campus. This reconsideration certificate approves the relocation of all 242 licensed acute care beds from the Bremerton campus to the Silverdale campus. The relocation will occur in the two phases as described below.

- Phase One - is the construction of a nine-story tower on the Silverdale campus that would house acute care beds, an emergency department, a cancer center, diagnostic imaging, and ancillary and support services (pharmacy, laboratory, central supply, etc.). Once constructed, 168 beds would be relocated to the Silverdale campus. Phase one is expected to be complete by January 1, 2020. At completion of phase one, Harrison Medical Center's Bremerton campus would have 74 licensed beds remaining and the Silverdale campus would have 262 licensed beds.

- Phase Two – includes construction of a second tower on the Silverdale campus and the relocation of the remaining 74 beds. This phase is expected to be complete by January 2023.

At completion of both phases, Harrison Medical Center would be licensed to operate a total of 336 acute care beds located at one campus in Silverdale. The table below shows the bed configuration for the Silverdale campus with 336 licensed beds.

Services Provided	Silverdale Campus Licensed Beds
General Medical Surgical	312
Psychiatric-PPS Exempt	0
Level II-Intermediate Care Nursery	24
<b>Total</b>	<b>336</b>

### Conditions

1. Approval of the project description as stated above. CHI Franciscan Health 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. Upon issuance of a Certificate of Need, CHI Franciscan Health shall relinquish the 11 psychiatric beds located on the Bremerton campus. Once relinquished, Harrison Medical Center will be licensed for 336 acute care beds located on two campuses. This condition was met on July 28, 2017.
3. CHI Franciscan Health shall finance the project as described in the application.
4. Harrison Medical Center will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. Harrison Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 1.87% gross revenue and 4.70% of adjusted revenue. Harrison Medical Center will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.
5. The 242 acute care beds are to be added to the Silverdale campus in two phases. If phase two is not completed within five years of the completion of phase one, any remaining bed authorization not meeting licensing requirements shall be forfeited. If construction of phase two consists of any amount less than the 74 acute care beds, the bed capacity meeting the licensing requirements at that time shall be the facility's final Certificate of Need authorized bed count.

### Approved Costs:

The total estimated capital expenditure associated with both phases is \$484,690,706.

Please notify the Department of Health within 20 days of the date of this letter whether you accept the above project description, conditions, and capital costs for your project. If you accept these in their entirety, your application will be approved and a Certificate of Need sent to you.

If you reject any of the above provisions, your application will be denied. The department will send you a letter denying your application and provide you information about your appeal rights.

Send your written response to the Certificate of Need Program, at one of the following addresses.

Mailing Address:

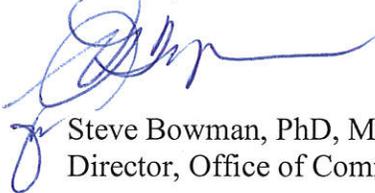
Department of Health  
Certificate of Need Program  
Mail Stop 47852  
Olympia, WA 98504-7852

Physical Address:

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

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

Sincerely,



Steve Bowman, PhD, MHA  
Director, Office of Community Health Systems

Enclosure

**RECONSIDERATION EVALUATION DATED NOVEMBER 14, 2017, FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY CHI FRANCISCAN HEALTH PROPOSING TO RELOCATE 242 ACUTE CARE BEDS FROM HARRISON MEDICAL CENTER’S BREMERTON CAMPUS TO THE SILVERDALE CAMPUS, BOTH IN KITSAP COUNTY**

**APPLICANT DESCRIPTION**

Catholic Health Initiatives (CHI) is a not-for-profit entity and the parent company of CHI Franciscan Health System (CHI Franciscan). In Washington State, CHI Franciscan operates as the governance of a board of directors and an executive team that consists of a CEO and a number of vice presidential roles in finance, nursing, strategy, ethics, operations, and others. CHI Franciscan operates a variety of healthcare facilities in Washington State. Below is a listing of the eight hospitals, six dialysis centers, hospice care center, hospice agency, and two ambulatory surgery centers owned or operated by CHI Franciscan in Washington State. [source: CN historical files]

**Hospitals**

Harrison Medical Center, Bremerton  
Highline Medical Center, Burien  
Regional Hospital, Tukwila  
St Anthony Hospital, Gig Harbor  
St Clare Hospital, Lakewood  
St Elizabeth Hospital, Enumclaw  
St Francis Hospital, Federal Way  
St Joseph Medical Center, Tacoma

**Ambulatory Surgery Centers**

Gig Harbor Ambulatory Surgery Center  
Franciscan Endoscopy Center

**Dialysis Centers**

Franciscan Bonney Lake Dialysis Center<sup>1</sup>  
Franciscan Eastside Dialysis Center  
Franciscan South Tacoma Dialysis Center  
Greater Puyallup Dialysis Center  
St Joseph Medical Center  
St Joseph Dialysis Center Gig Harbor

**Hospice Care Center**

FHS Hospice Care Center

**Hospice Agency**

Franciscan Hospice, Tacoma

In addition to the eight hospitals listed above, on August 24, 2016, Franciscan Specialty Care, LLC received Certificate of Need approval to establish a new, 60-bed level I rehabilitation hospital in Tacoma, within Pierce County. Franciscan Specialty Care, LLC is 51% owned by CHI Franciscan Health dba St Joseph Medical Center and 49% owned by RehabCare Development 4 – a 100% subsidiary of Kindred Healthcare, Inc. The new rehabilitation hospital is expected to be operational by the end of December 2018.<sup>2</sup> [source: CN historical files]

**PROJECT DESCRIPTION**

This project focuses on Harrison Medical Center (HMC) a not-for-profit hospital serving the residents of Kitsap County and surrounding communities. Prior to July 28, 2017, HMC was licensed for a total of 347 beds located at two campuses. Table 1 on the following page shows the bed configuration for each campus prior to July 28. [source: CN historical files]

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<sup>1</sup> Franciscan Bonney Lake Dialysis Center is recently approved and not yet operational.

<sup>2</sup> August 24, 2016, ‘Intent to Issue a Certificate of Need’ and CN #1594 issued March 10, 2017.

**Table 1**  
**Harrison Medical Center**  
**Configuration of Licensed Acute Care Beds Prior to July 28, 2017**

Services Provided	Bremerton Campus Licensed Beds	Silverdale Campus Licensed Beds	Total Beds for Both Campuses
General Medical Surgical	242	70	312
Psychiatric-PPS Exempt	11	0	11
Level II-Intermediate Care Nursery	0	24	24
<b>Total</b>	<b>253</b>	<b>94</b>	<b>347</b>

HMC provides a variety of general medical surgical services, including intensive care, emergency services, and cardiac care.<sup>3</sup> The hospital is currently a Medicare and Medicaid provider, holds a level III adult trauma designation from the Department of Health’s Emergency Medical Services and Trauma office<sup>4</sup>, and holds a three-year accreditation from the Joint Commission<sup>5</sup>. [source: Application, p2 and CN historical files]

This project proposes relocation of 242 of the 253 acute care beds from the Bremerton campus to the Silverdale campus. The 242 beds do not include the 11 beds dedicated for psychiatric use. On July 28, 2017, HMC relinquished the 11 beds consistent with a condition attached to CN #1601 issued on May 19, 2017, leaving 242 licensed beds at the Bremerton campus. The 242 bed relocation would occur in two phases described below:

- Phase One- is the construction of a nine-story tower on the Silverdale campus that would house acute care beds, an emergency department, a cancer center, diagnostic imaging, and ancillary and support services (pharmacy, laboratory, central supply, etc.). Once constructed, 168 beds would be relocated to the Silverdale campus. Phase one is expected to be complete by January 1, 2020. At completion of phase one, HMC’s Bremerton campus would have 74 licensed beds remaining and the Silverdale campus would have 262 licensed beds.
- Phase Two – includes construction of a second tower on the Silverdale campus and the relocation of the remaining 74 beds. This phase is expected to be complete by January 2023.

At completion of both phases, HMC would be operating a total of 336 acute care beds located at one campus in Silverdale. Table 2 on the following page shows the bed configuration for the Silverdale campus with 336 licensed beds. [source: Application, p10]

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<sup>3</sup> HMC provides both elective percutaneous coronary interventions (PCI) services and open heart surgery at the Bremerton campus.

<sup>4</sup> A Level II Trauma Center has demonstrated an ability to provide prompt assessment, resuscitation, surgery, intensive care and stabilization of injured patients and emergency operations. [source: American Trauma Society]

<sup>5</sup> The Joint Commission accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization’s commitment to meeting certain performance standards. [source: Joint Commission website]

**Table 2**  
**Harrison Medical Center**  
**Proposed Configuration of Licensed Acute Care Beds**

Services Provided	Silverdale Campus Licensed Beds
General Medical Surgical	312
Psychiatric-PPS Exempt	0
Level II-Intermediate Care Nursery	24
<b>Total</b>	<b>336</b>

The total estimated capital expenditure associated with both phases is \$484,690,706. Of that amount, approximately 63% is related to land improvements and construction necessary to complete two towers, 22% is related to both fixed and moveable equipment, and the remaining 15% is for sales tax and fees (consulting, architect, and engineering). [source: Application, p35]

CHI Franciscan proposes phase one would be complete by January 2020 and phase two would be complete by January 2023. With the exception of the 11 psychiatric beds, CHI Franciscan intends to keep all 336 acute care beds licensed and operational during the implementation of the project. [source: Application, p19 and January 5, 2017, screening response, Attachment 6]

**RECONSIDERATION PROCESS**

On May 19, 2017, the department issued Certificate of Need (CN) #1601 to CHI Franciscan Health approving the relocation of 242 acute care beds from Harrison Medical Center’s Bremerton campus to its Silverdale campus. The department received three letters requesting to reconsider its issuance of CN #1601. The reconsideration process allows for input from the applicant on reconsideration requests. On July 10, 2017, CHI Franciscan provided input on the three reconsideration requests.

On July 17, 2017, the department agreed to reconsider issuance of CN #1601. On July 25 the department notified CHI Franciscan and interested / affected persons of the time and location reconsideration hearing. The July 25 notification identified the focus of the reconsideration review. A reconsideration hearing was conducted on September 8, 2017, in Bremerton. The hearing was well attended and much public comment, both written and oral, was provided. Rebuttal comments were received on October 2, 2017. This document is the evaluation of the reconsideration information.

**APPLICABILITY OF CERTIFICATE OF NEED LAW**

CHI Franciscan’s application is subject to review as the construction, development, or other establishment of a healthcare facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

**EVALUATION CRITERIA**

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

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

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

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

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

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

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

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

### **RECONSIDERATION EVALUATION CRITERIA**

WAC 246-310-570(2)(b), restated below, outlines the grounds that the department may deem to show good cause for reconsideration.

- (i) *Significant relevant information not previously considered by the department which, with reasonable diligence, could not have been presented before the department made its decision;*
- (ii) *Information on significant changes in factors or circumstances relied upon by the department in making its findings and decision; or*
- (iii) *Evidence the department materially failed to follow adopted procedures in reaching a decision.*

Each of the three requests identified its grounds for reconsideration. However, only sub-section (iii) above qualifies for reconsideration of this project.

Specifically, each request pointed out that the department did not review CHI Franciscan’s most recent audited financial report during its financial review analysis. Given that CHI’s financial year runs from July 1 through June 30 of each calendar year, the reconsideration requests asserted that the FY 2016 audited report was available when the application was submitted in August 2016. Even if it was not

submitted with the application, the reconsideration requests asserted that the FY 2016 audited report was available during the screening of the application before the application underwent formal review [January 12, 2017]. Since the FY 2016 audited report was not submitted or reviewed, sub-section (iii) qualifies for reconsideration because even though CHI Franciscan did not provide the most recent audited report, the department could have requested and reviewed the FY 2016 audited report as part of its financial feasibility analysis.<sup>6</sup>

Additionally, the department found a mathematical error in its ratio analysis review performed as part of the financial feasibility analysis. With the updated FY 2016 audited report, the department will also correct this error. For these reasons, the reconsideration for this project was granted.

While other issues were included in each of the three reconsideration requests, only the issues identified above qualified for reconsideration. In its July 25, 2017, notice of reconsideration, and in at least two additional notices, the department stated that its reconsideration review was limited to the following financial feasibility issues raised in the three requests:

- Information related to Catholic Health Initiatives (CHI) bond rating; and
- CHI's financial feasibility ratios using year 2016 data.

The department stated that the review for a reconsideration project is limited to only those criteria identified and clarified that the result of the department's reconsideration review may impact other review criteria within the application.

In the days leading up to the September 8 reconsideration public hearing conducted in Bremerton, CN staff was notified that some community members attending the hearing may have an expectation of a much broader scope of topics under review. At the onset of the public hearing, staff observed that, indeed, many of the attendees expected to provide comments focusing on criteria other than financial feasibility. One hearing attendee anonymously provided the following written statements related to the limited scope.

*“Your meeting was orchestrated to be manipulated by first of all holding the hearing in the school board meeting room which was small and had a very limited occupancy capacity. There were many people that could not get in to hear what was being said by either side. RIGGED. Then the limitations on what the public could speak to was off-putting as there were many people in attendance that not been able to attend the first hearing on the Hospital proposal in its early stages that had many things to say about the what they felt were wrong with the overall decisions already made by the State of Washington for granting the CON to stage one of the project.”*

As unflattering as the statement above is, it is a fair representation of the misinformation that was circulated in the community about the scope of the reconsideration hearing. For example, the reference to ‘stage one of the project’ indicates that some community members believed phase one of the project was already approved and the reconsideration included input on whether phase two should be approved. This belief is incorrect because CN #1601 issued on May 19, 2017, approved both phases of the relocation project.

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<sup>6</sup> The 2013 – 2015 report was submitted and subsequently reviewed.

In addition to circulation of misinformation about the scope of the hearing, in the two weeks leading up to the hearing, the Washington State Attorney General Office filed two actions against CHI Franciscan Health on behalf of the State of Washington. The two actions are:

- Complaint for Permanent Injunction and Other Relief - alleging Franciscan Health System, Franciscan Medical Group, The Doctors Clinic, and Westsound Orthopaedics participated in consolidation and a loss of competition in the healthcare industry. Filed August 31, 2017 with the United States District Court in Tacoma.
- Complaint for Injunctive and Other Relief Under the Consumer Protection Act, RCW 19.86 - alleging St. Joseph Hospital in Tacoma pressured low-income patients to pay for their treatment upfront while concealing the availability of charity care. Filed September 1, 2017 with the Pierce County Superior Court.

The circulated misinformation, coupled with the two Attorney General Office filings, resulted in topics raised during public hearing that are outside the scope of the reconsideration review criteria. Examples of those topics include:

- Capping the number of private specialty practices that CHI Franciscan can purchase and expand.
- Approving phase one of the project (relocate 168 beds to Silverdale) and leaving the remaining 74 beds in phase two for another entity to create a hospital in Bremerton.
- Concerns that consolidating all 336 acute care beds in Silverdale would have a negative impact on Olympic Medical Center in Clallam County or Jefferson General Hospital in Jefferson County.
- Charity care practices at Harrison Medical Center<sup>7</sup>

The topics raised above are outside the published scope of the reconsideration review and will not be addressed in this evaluation.

### **TYPE OF REVIEW**

This initial project was reviewed under the regular timeline outlined in WAC 246-310-160. The reconsideration review was also conducted under the regular review timeline. The tables below show the timelines for each process in the review.

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<sup>7</sup> While charity care practices at a specific hospital are included as part of an initial Certificate of Need review under WAC 246-310-210(2), for this reconsideration review, it is outside the scope of the reconsideration issues identified.

## **APPLICATION CHRONOLOGY**

<b>Action</b>	<b>CHI Franciscan</b>
Letter of Intent Submitted	August 24, 2016
Application Submitted	October 28, 2016
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 2<sup>nd</sup> Screening Letter</li> <li>• Applicant's Responses Received</li> </ul>	November 21, 2016 January 5, 2017 N/A N/A
Beginning of Review	January 12, 2017
End of Public Comment <ul style="list-style-type: none"> <li>• Public comments accepted through end of public comment</li> <li>• Public hearing conducted</li> </ul>	February 21, 2017 February 21, 2017
Rebuttal Comments Received <sup>8</sup>	March 15, 2017
Department's Anticipated Decision Date	May 1, 2017
Department's Actual Decision Date	May 2, 2017
Issuance of CN #1601	May 19, 2017

## **RECONSIDERATION REVIEW CHRONOLOGY**

<b>Action</b>	<b>CHI Franciscan</b>
City of Bremerton's Request for Reconsideration	June 15, 2017
Nancy Field's Request for Reconsideration	June 16, 2017
Deborah Pedersen's Request for Reconsideration	June 16, 2017
Department Grants Reconsideration	July 17, 2017
Department Publishes Date and Location of Reconsideration Hearing	July 25, 2017
Reconsideration Public Hearing Conducted in Bremerton	September 8, 2017
End of Reconsideration Public Comment	September 8, 2017
Reconsideration Rebuttal Comments Due <sup>9</sup>	October 2, 2017
Department's Anticipated Reconsideration Decision Date	November 14, 2017
Department's Actual Reconsideration Decision Date	November 14, 2017

<sup>8</sup> After the public comment was mailed, the CN Program received a number of phone calls and e-mails expressing concerns regarding the due date for rebuttal comments. The initial due date for rebuttal comments was March 8, 2017. The concerns centered on the delay in receiving the CD with the pdfs of public comments. The CDs were mailed from the Certificate of Need Program office in Tumwater on February 22, 2017. Some did not receive the information until March 1; others received the information after March 1. To ensure fairness and allow for thoughtful rebuttal comments, the CN Program extended the rebuttal due date from March 8 to March 15. This resulted in an extended decision date from April 24, 2017 to May 1, 2017.

<sup>9</sup> After the reconsideration public comment was mailed, the CN Program received a number of phone calls and e-mails expressing concerns regarding the due date for rebuttal comments. The initial due date for reconsideration rebuttal comments was September 25, 2017. Once again, the concerns centered on the delay in receiving the CD with the pdfs of public comments. The CDs were mailed from the Certificate of Need Program office in Tumwater on September 11, 2017. Some did not receive the information until September 15; others received the information after September 15. To ensure fairness and allow for thoughtful rebuttal comments, the CN Program extended the rebuttal due date from September 25 to October 2. This resulted in an extended decision date from November 9 to November 14, 2017.

**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.”*

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.*

During the initial review of this project, a total of 18 persons or health care providers sought and received interested person status. Many provided written or oral comments on the project. Of the 18 persons or health care providers that qualified as interested persons, 10 qualified as affected persons. Below is a listing in alphabetical order for the 10 affected person identified in the initial evaluation.

City of Bremerton	Deborah Pedersen
Carol Cassella MD	Barry Peters
Nancy Field	Blake Reiter, MD
Richard Huddy	Todd Schneiderman, MD
Berit Madsen, MD	Joanne Tyler

To maintain affected person status for a reconsideration review, an affected person must continue participation in the reconsideration process. For this project, continued participation means:

- submit written comments by 5:00pm September 8 or provide oral comments at the September 8 reconsideration hearing; and
- submit written rebuttal comments by 5:00pm October 2.

Below is a brief description of the ten affected persons for the initial review and the two affected persons that continued to qualify for this reconsideration review.

**City of Bremerton**

Mayor Patty Lent is employed by the City of Bremerton. Mayor Lent attended the February 21, 2017, initial public hearing and submitted written comments at the hearing. On March 15, 2017, Mayor Lent

requested affected person status on behalf of the City of Bremerton and requested to be informed of the department's decision on this project.

During the reconsideration review, Mayor Lent attended the September 8, 2017, reconsideration public hearing and provided written and oral comments on behalf of the City of Bremerton. Mayor Lent provided rebuttal comments on October 2, 2017. The City of Bremerton continues to meet the affected person qualifications identified above.

**Carol Cassella, MD**

Dr. Cassella is a resident of Bainbridge Island, within Kitsap County and a user of the health care services provided by HMC. Dr. Cassella is also an anesthesiologist with the Surgery Center of Silverdale. Dr. Cassella attended the February 21, 2017, initial public hearing and submitted written comments at the hearing. On February 21, 2017, Dr. Cassella requested to be informed of the department's decision on this project.

During the reconsideration review, Dr. Cassella did not attend the September 8, 2017, reconsideration public hearing; instead she submitted written comments received on September 8, 2017. Carol Cassella, MD continues to meet the affected person qualifications identified above.

**Nancy Field**

Ms. Field is a resident of Sequim, within Clallam County and a user of the health care services provided by HMC. Ms. Field attended the February 21, 2017, initial public hearing and submitted written comments at the hearing. On January 9, 2017, Ms. Field requested to be informed of the department's decision on this project.

During the reconsideration review, Ms. Field attended the September 8, 2017, reconsideration public hearing and provided written and oral comments. Ms. Field provided rebuttal comments on October 2, 2017. Nancy Field continues to meet the affected person qualifications identified above.

**Richard Huddy**

Mr. Huddy is a member of the Bremerton City Council and a resident of Kitsap County. Mr. Huddy attended the February 21, 2017, initial public hearing and submitted written comments at the hearing. On February 21, 2017, Mr. Huddy requested to be informed of the department's decision on this project.

During the reconsideration review, Mr. Huddy attended the September 8, 2017, reconsideration public hearing and provided written and oral comments. Richard Huddy continues to meet the affected person qualifications identified above.

**Berit Madsen, MD**

Dr. Madsen is a resident of Kitsap County and a practicing physician at Peninsula Cancer Center located in Poulsbo. Dr. Madsen did not attend the February 21, 2017, initial public hearing, instead he submitted written comments on February 17, 2017. Within the written comments, Dr. Madsen requested to be informed of the department's decision on this project.

During the reconsideration review, Dr. Madsen did not attend the September 8, 2017, reconsideration public hearing or provided written comments. Beret Madsen, MD does not meet the affected person qualifications identified above.

**Deborah Pedersen**

Ms. Pedersen is a resident of Port Townsend, within Jefferson County and a user of the health care services provided by HMC. Ms. Pedersen attended the February 21, 2017, initial public hearing and submitted written comments at the hearing. On February 21, 2017, Ms. Pedersen requested to be informed of the department's decision on this project.

During the reconsideration review, Ms. Pedersen attended the September 8, 2017, reconsideration public hearing and provided written comments. Deborah Pedersen continues to meet the affected person qualifications identified above.

**Barry Peters**

Mr. Peters is a resident of Bainbridge Island, within Kitsap County and a user of the health care services provided by HMC. Mr. Peters attended the February 21, 2017, initial public hearing and submitted written comments at the hearing. On February 21, 2017, Mr. Peters requested to be informed of the department's decision on this project.

During the reconsideration review, Mr. Peters did not attend the September 8, 2017, reconsideration public hearing or provided written comments. Barry Peters does not meet the affected person qualifications identified above.

**Blake E. Reiter, MD**

Dr. Reiter is resident of Poulsbo within Kitsap County and a practicing physician in the county. Dr. Reiter did not attend the February 21, 2017, initial public hearing, instead he submitted written comments on February 17, 2017. Within the written comments, Dr. Reiter requested to be informed of the department's decision on this project.

During the reconsideration review, Dr. Reiter attended the September 8, 2017, reconsideration public hearing and provided written comments. Blake Reiter, MD continues to meet the affected person qualifications identified above.

**Todd E. Schneiderman, MD**

Dr. Schneiderman is resident of Kingston within Kitsap County and a practicing physician in the county. Dr. Schneiderman did not attend the February 21, 2017, initial public hearing, instead he submitted written comments on February 17, 2017. Within the written comments, Dr. Schneiderman requested to be informed of the department's decision on this project.

During the reconsideration review, Dr. Schneiderman did not attend the September 8, 2017, reconsideration public hearing or provided written comments. Todd Schneiderman, MD does not meet the affected person qualifications identified above.

## **Joanne Tyler**

Ms. Tyler is a resident of Port Townsend, within Jefferson County. Ms. Tyler did not attend the February 21, 2017, initial public hearing, instead she submitted written comments on February 20, 2017. Within the written comments, Ms. Tyler requested to be informed of the department's decision on this project.

During the reconsideration review, Ms. Tyler did not attend the September 8, 2017, reconsideration public hearing or provided written comments. Joanne Tyler does not meet the affected person qualifications identified above.

In summary, of the ten qualified affected persons identified during the initial review, the following six continue to qualify as affected persons during the reconsideration review.

- City of Bremerton
- Nancy Field
- Deborah Pedersen
- Carol Cassella
- Richard Huddy
- Blake Reiter, MD

## **INITIAL REVIEW-SOURCE INFORMATION REVIEWED**

- CHI Franciscan Health System's Certificate of Need application received October 28, 2016
- CHI Franciscan Health System's screening responses received January 5, 2017
- Public comments received by the department through the close of business on February 21, 2017
- Public comments received at the public hearing in Poulsbo on February 21, 2017
- CHI Franciscan Health System's rebuttal documents received March 15, 2017
- Mayor Patty Lent's rebuttal documents received March 15, 2017
- Ms. Carol Cassella's rebuttal documents received March 14, 2017
- Ms. Nancy Field's rebuttal documents received March 15, 2017
- Ms. Deborah Pedersen's rebuttal documents received March 15, 2017
- Department of Health's Hospital and Patient Data Systems' Hospital Census and Charges Report for years 2013, 2014, and 2015
- Department of Health Charity Care and Hospital Financial Data Program's financial feasibility and cost containment analysis received April 18, 2017<sup>10</sup>
- Department of Health Integrated Licensing and Regulatory System database [ILRS]
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Licensing data provided by the Medical Quality Assurance Commission, Nursing Quality Assurance Commission, and Health Systems Quality Assurance Office of Customer Service
- Department of Health's Emergency Medical Services and Trauma designation dated October 2015
- CHI Franciscan Health System's website at [www.chifranciscan.org](http://www.chifranciscan.org)
- Harrison Medical Center's website at [www.chifranciscan.org/harrison-medical-center-bremerton](http://www.chifranciscan.org/harrison-medical-center-bremerton)
- MultiCare Health System's website at [www.multicare.org](http://www.multicare.org)
- Joint Commission website at [www.qualitycheck.org](http://www.qualitycheck.org)
- American Trauma Society website at [www.amtrauma.org](http://www.amtrauma.org)
- Certificate of Need historical files

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<sup>10</sup> The hospital financial analysis previously performed by Hospital and Patient Data Systems (HPDS) office is now performed by staff from the Charity Care Program within the Office of Community Health Systems.

## **RECONSIDERATION REVIEW-SOURCE INFORMATION REVIEWED**

- City of Bremerton reconsideration request received June 15, 2017
- Deborah Pedersen reconsideration request received June 16, 2017
- Nancy Field reconsideration request received June 16, 2017
- CHI Franciscan Health response to reconsideration requests received July 10, 2017
- Public comments received at the Certificate of Need Program office between July 25 and September 8, 2017, focusing on the reconsideration review criteria
- Comments received at the September 8, 2017, reconsideration hearing focusing on the reconsideration review criteria
- CHI Franciscan Health rebuttal documents received October 2, 2017
- City of Bremerton rebuttal documents received October 2, 2017
- Nancy Field rebuttal documents received October 2, 2017
- The Department of Health's initial evaluation released on May 2, 2017
- Department of Health Charity Care and Hospital Financial Data Program's financial feasibility and cost containment analysis received October 26, 2017

## **CONCLUSIONS**

For the reasons stated in this reconsideration evaluation, the application submitted by CHI Franciscan Health proposing to relocate of 242 of the 253 licensed acute care beds from the Bremerton campus to the Silverdale campus is consistent with applicable review criteria of the Certificate of Need Program, provided that CHI Franciscan Health agrees to the following in its entirety.

## **Project Description**

For this reconsideration project, Harrison Medical Center is currently licensed for 336 acute care beds located on two campuses. On July 28, 2017, Harrison Medical Center relinquished the 11 psychiatric beds consistent with a condition attached to CN #1601 issued on May 19, 2017. This action results in 242 licensed beds at the Bremerton campus. This reconsideration certificate approves the relocation of all 242 licensed acute care beds from the Bremerton campus to the Silverdale campus. The relocation will occur in the two phases as described below.

- Phase One - is the construction of a nine-story tower on the Silverdale campus that would house acute care beds, an emergency department, a cancer center, diagnostic imaging, and ancillary and support services (pharmacy, laboratory, central supply, etc.). Once constructed, 168 beds would be relocated to the Silverdale campus. Phase one is expected to be complete by January 1, 2020. At completion of phase one, Harrison Medical Center's Bremerton campus would have 74 licensed beds remaining and the Silverdale campus would have 262 licensed beds.
- Phase Two – includes construction of a second tower on the Silverdale campus and the relocation of the remaining 74 beds. This phase is expected to be complete by January 2023.

At completion of both phases, Harrison Medical Center would be licensed to operate a total of 336 acute care beds located at one campus in Silverdale. The table below shows the bed configuration for the Silverdale campus with 336 licensed beds.

<b>Services Provided</b>	<b>Silverdale Campus Licensed Beds</b>
General Medical Surgical	312
Psychiatric-PPS Exempt	0
Level II-Intermediate Care Nursery	24
<b>Total</b>	<b>336</b>

**Conditions:**

1. Approval of the project description as stated above. CHI Franciscan Health 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. Upon issuance of a Certificate of Need, CHI Franciscan Health shall relinquish the 11 psychiatric beds located on the Bremerton campus. Once relinquished, Harrison Medical Center will be licensed for 336 acute care beds located on two campuses. This condition was met on July 28, 2017.
3. CHI Franciscan Health shall finance the project as described in the application.
4. Harrison Medical Center will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. Harrison Medical Center will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 1.87% gross revenue and 4.70% of adjusted revenue. Harrison Medical Center will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.
5. The 242 acute care beds are to be added to the Silverdale campus in two phases. If phase two is not completed within five years of the completion of phase one, any remaining bed authorization not meeting licensing requirements shall be forfeited. If construction of phase two consists of any amount less than the 74 acute care beds, the bed capacity meeting the licensing requirements at that time shall be the facility's final Certificate of Need authorized bed count.

**Approved Costs:**

The total estimated capital expenditure associated with both phases is \$484,690,706.

## **CRITERIA DETERMINATIONS**

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this reconsideration evaluation, the department determines that CHI Franciscan Health met the applicable 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.*

For acute care hospital projects, this sub-criterion is evaluated when an applicant proposes to create a new hospital with new acute care beds or add new acute care beds to its existing license. As of the writing of this reconsideration evaluation, HMC is currently licensed for 336 acute care beds located on two campuses. CHI Franciscan is requesting to relocate the 242 licensed beds currently located at the Bremerton campus to the Silverdale campus. Both campuses are in the Kitsap County. Once relocated, HMC would operate 336 licensed beds on one campus.

### **Initial Evaluation Summary**

In its May 2, 2017, initial evaluation the department concluded that this sub-criterion is not applicable to CHI Franciscan's application.

### **Reconsideration Review**

#### **Reconsideration Public Comment**

None

#### **Reconsideration Rebuttal Comment**

None

#### **Reconsideration Evaluation**

There was no additional information submitted or reviewed in this reconsideration that would change the department's initial conclusion. This sub-criterion is not applicable to CHI Franciscan's application.

- (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.*

To evaluate this sub-criterion, the department evaluates an applicant's admission policies, willingness to serve Medicare and Medicaid patients, and to serve patients that cannot afford to pay for services.

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 planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

Medicare certification is a measure of an applicant's willingness to serve the elderly. With limited exceptions, Medicare is coverage for individuals age 65 and over. It is also well recognized that women live longer than men and therefore more likely to be on Medicare longer.

Medicaid certification is a measure of an applicant's willingness to serve low income persons and may include individuals with disabilities.

Charity care shows a willingness of a provider to provide services to individuals who do not have private insurance, do not qualify for Medicare, do not qualify for Medicaid, or are under insured. With the passage of the Affordable Care Act, the amount of charity care is expected to decrease, but not disappear.

### **Initial Evaluation Summary**

In its May 2, 2017, initial evaluation the department concluded that CHI Franciscan's application met this sub-criterion with a specific charity care condition. This conclusion was reached, in part, based on a review of the following policies specifically used at HMC. [source: Application, Exhibit 7]

- Admission Policy-Approved July 2013
- Patient Rights and Responsibilities-Approved October 2012
- Non-Discrimination Policy-Approved March 2012
- Charity Care Policy-Approved March 2012

[source: May 2, 2017, initial evaluation, pp10-20]

### **Reconsideration Review**

#### **Reconsideration Public Comment**

None

#### **Reconsideration Rebuttal Comment**

None

#### **Reconsideration Evaluation**

There was no additional information reviewed in this reconsideration that would change the department's initial conclusion. With the charity care condition described in the conclusion section of this evaluation, **this sub-criterion remains met.**

- (3) The applicant has substantiated any of the following special needs and circumstances the proposed project is to serve.
- (a) The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both, to individuals not residing in the health service areas in which the entities are located or in adjacent health service areas.
  - (b) The special needs and circumstances of biomedical and behavioral research projects designed to meet a national need and for which local conditions offer special advantages.
  - (c) The special needs and circumstances of osteopathic hospitals and non-allopathic services.

- (4) The project will not have an adverse effect on health professional schools and training programs. The assessment of the conformance of a project with this criterion shall include consideration of:
- (a) The effect of the means proposed for the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.
  - (b) If proposed health services are to be available in a limited number of facilities, the extent to which the health professions schools serving the area will have access to the services for training purposes.
- (5) The project is needed to meet the special needs and circumstances of enrolled members or reasonably anticipated new members of a health maintenance organization or proposed health maintenance organization and the services proposed are not available from nonhealth maintenance organization providers or other health maintenance organizations in a reasonable and cost-effective manner consistent with the basic method of operation of the health maintenance organization or proposed health maintenance organization.

### **Initial Evaluation Summary**

In its May 2, 2017, initial evaluation the department concluded that the sub-criterion of WAC 246-310-210(3), (4), and (5) was not applicable to this application.

### **Reconsideration Review**

#### **Reconsideration Public Comment**

None

#### **Reconsideration Rebuttal Comment**

None

#### **Reconsideration Evaluation**

None of the documents or public comment provided during the reconsideration review changes this conclusion. WAC 246-310-210(3), (4), and (5) are not applicable to this application.

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI Franciscan met the applicable 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.

### **Initial Evaluation Summary**

In its May 2, 2017, initial evaluation the department concluded that CHI Franciscan's application met this sub-criterion. This conclusion was reached, in part, based on a review of the following specific information and documentation.

- CHI Franciscan's assumptions used to determine projected admissions, patient days, and occupancy at HMC;
- CHI Franciscan's projected inpatient discharges, patient days, average length of stay, and occupancy percentages at HMC;
- CHI Franciscan's assumptions used to determine projected revenue, expenses, and net income for HMC covering both phases of the project—projection years 2018 through 2025;
- CHI Franciscan's projected revenue expenses, and net income for HMC for projection years 2018 through 2025; and
- a recalculation of projected revenue expenses, and net income for HMC for projection years 2018 through 2025 based on an increase of charity care dollars and percentages consistent with the charity care condition attached to the approval;
- Charity Care and Hospital Financial Data Program's review of the year 2015 balance sheet for Catholic Health Initiatives;
- Charity Care and Hospital Financial Data Program's review of current year (2016) and projected years (2017 through 2025) balance sheets for HMC;
- Charity Care and Hospital Financial Data Program's financial ratio analysis using Catholic Health Initiatives' historical year 2015 balance sheets; and
- Charity Care and Hospital Financial Data Program's financial ratio analysis using HMC's current and projected year balance sheets.

[source: May 2, 2017, initial evaluation, pp21-28]

### **Reconsideration Review**

As previously stated, this reconsideration evaluation focuses on the following two topics:

- Information related to Catholic Health Initiatives (CHI) bond rating; and
- CHI's financial feasibility ratios using year 2016 data.

For reader ease, the public comments and rebuttal comments are included below by topic:

### **Reconsideration Public Comment**

#### **Catholic Health Initiatives (CHI) bond rating**

- Nick Barto, Senior Vice President for Capital Finance and Managing Director of Direct Investments for Catholic Health Initiatives

*"I believe that the State is interested in understanding the impact to Harrison's approved certificate of need of the bond rating change that CHI experienced in early 2017. While we at CHI do not take lightly the bond rating change, we want the State to be aware that downgrades are not uncommon in today's health care environment. Payment reform and the evolution of population health, coupled with federal uncertainty have created challenges industry wide. In the second quarter of 2017 alone, Moody's reported completing 10 downgrades among healthcare rated debt.*

*CHI's rating change will have no impact on Phase 1 of the Harrison project, which is 100% funded from CHI's reserves, which today are more than \$6 billion. Phase 2 of the project is intended to be funded by both reserves and debt. Again, CHI is committed to using reserves, and for the debt, our independent Financial Advisors have indicated that the rating change will likely have a marginal impact on our variable debt. As of today, the Financial Advisors believe that CHI could issue, should it want, new, long dated exempt bonds at an estimated 4.3% interest rate. This rate is lower than the 4.75% we assumed in the pro forma for the debt portion of Phase 2.*

*In summary, CHI is fully committed to the Kitsap County community, and to assuring that Harrison remains an accessible, efficient and quality provider. We are also capable of, and prepared to, continue our financial commitment to this project which we believe will benefit the community greatly.” [source: September 8, 2017, public comment, pp1-2]*

- Heidi Barger, Virtual Monitor Tech at HMC  
*“CHI Franciscan intends to finance this Phase II project through a loan from CHI - however, CHI's rapid expansion and poor management has resulted in a financial downturn for the company which places that financing plan in question. As a long-term employee of Harrison and now CHI Franciscan, I have watched the toll that CHI's cost-cutting strategies have taken on the care we provide to our patients. I'm worried that the high cost of this project would exacerbate these issues and not be successful long-term.” [source: September 8, 2017, public comment, p1]*
- Laura Fessenden, Respiratory Therapist at HMC  
*“As I understand it, CHI Franciscan plans to finance Phase 2 of this project with a \$145 million loan from CHI, which lost \$666.5 million in Fiscal Year 2016. CHI has expanded rapidly in recent years and it now has \$8.8 billion dollars in debt. CHI's credit rating has been downgraded recently and the company has brought in a financial turnaround expert to implement a nationwide financial recovery plan that includes staff cuts, as well as changes to billing and collections practices and supply chain management.” [source: September 8, 2017, public comment, p1]*
- Nancy Field  
*A second stated focus of the reconsideration is the fact that all three bond rating agencies have lowered the CHI bond rating twice in the last year. As recently as March 2017, Moody's rated CHI's debt as one level above "junk bonds." For CHI bond rating rationales and new articles discussing them please see Attachment 5.*

*The financial status of CHI threatens not just the debt financing proposed for Phase 2 but the availability and timing of internal funds available from prior bond issues for Phase 1. CHI's ownership and control means its financial health is paramount to both Phase 1 and Phase 2. A portrayal of HMC's having cash for Phase 1, when it appears to have no balance sheet of its own and no control over its own finances, is not relevant to the financing of the proposed project. Any cash required for Phase 1 must be released by CHI while it is in a turnaround phase, laying-off staff nationwide and delaying construction projects. Especially in light of the proposed project including 100 more hospital beds than are needed, it is hard to imagine CHI releasing the funds needed for the project as proposed.*

*Bond ratings incorporate the familiar financial ratios but go beyond them. Essentially, the bond ratings we are concerned with provide a credit rating, that is, the likelihood that tax exempt funds loaned to a hospital or hospital system will be repaid fully and on time. Ratings provide an estimate of the risk an investor takes, that is, how speculative the investment is. As the table provided below shows, ratings agencies use many of the same financial measures in their assessments as the Certificate of Need Program does in evaluating the financial feasibility of a proposed project. For that reason, bond ratings and changes to them are very helpful in determining if a Certificate of Need project is feasible. For general information about bond ratings please see Attachment 2 and Attachment 3. [Attachments 2 and 3 are not replicated in this reconsideration evaluation.]*

*The table below provides a simple comparison of the financial measures that are used by the Department of Health and how they relate to some of the financial measures used to determine the bond ratings of hospitals.*

<b>Financial Measure</b>	<b>CON Program</b>	<b>Bond Rating Agencies: Fitch Moody's Standard &amp; Poor's</b>	<b>CHI's Credit Group &amp; Bond Covenants</b>
<i>Long Term Debt to Equity</i>	<i>WA Hospital average, annual, retrospective</i>	<i>National health care norms, annual, quarterly, retrospective and outlook</i>	
<i>Assets / Current Liabilities</i>	<i>WA Hospital average, annual, retrospective</i>	<i>National health care norms, annual, quarterly, retrospective and outlook</i>	
<i>Assets Funded by Liabilities</i>	<i>WA Hospital average, annual, retrospective</i>	<i>National health care norms, annual, quarterly, retrospective and outlook</i>	
<i>Operating Expense / Operating Revenue</i>	<i>WA Hospital average, annual, retrospective</i>	<i>National health care norms, annual, quarterly, retrospective and outlook</i>	
<i>Debt Service Coverage</i>	<i>WA Hospital average, annual, retrospective</i>	<i>National health care norms, annual, quarterly, retrospective and outlook</i>	<i>Annual and quarterly</i>
<i>Other examples:</i> <ul style="list-style-type: none"> <li>• <i>Days Cash on Hand</i></li> <li>• <i>Excess Margin</i></li> <li>• <i>Total Debt to Cash Flow</i></li> </ul>		<i>National health care norms, annual, quarterly, retrospective and outlook</i>	

*Note that the right-hand column of the table above reflects that fact that CHI itself enforces certain financial measures internally. The documents that bind the 100+ hospitals together into CHI - and the covenants CHI agrees to when it borrows money -include a standard for CHI's performance on its debt service coverage. When CHI's measure of debt service coverage drops too low, it is required by those covenants to an outside management consultant to develop and*

*implement a turn-around plan. Both the internal and bond-related covenants of CHI require regular reporting during the period until finances improve. The internal and bond covenants also require all hospitals within CHI to participate in implementing the turn-around plan. Please see Attachment 4 for an excerpt from CHI Credit Group internal financial requirements.*

***Washington peer comparison are available for bond ratings***-Absent CON financial feasibility standards, the Department has adopted useful ratio analysis to measure financial health and uses a comparison to statewide hospital averages to grade an individual applicant or project. Accordingly, the accompanying table was developed to illustrate the range of bond ratings across Washington hospital bonds issued by the Washington State Health Finance Commission over the last 10 years. Where it shows CHI originally having higher ratings, the provided links to EMMA allow one to see recent disclosures of ratings downgrades.

***Bond ratings inform and augment Certificate of Need financial analyses***-There are a number of ways that bond ratings can add to the Certificate of Need assessment of financial feasibility:

- *Bond rating agencies have tremendous depth of staff and capabilities to perform very broad and deep analyses far beyond the capabilities the Department of Health's budget would support.*
- *Since bond ratings are future oriented, they are also more likely to address an organization's performance going forward as they estimate the likelihood the enterprise will pay back the money borrowed through the bond issue.*
- *In addition to Financial Measures, the bond ratings agencies also examine the enterprise, its strengths and weaknesses related to management, market position and market power, and for hospitals, measures such as payer mix, medical staff make up, technology position, etc.*
- *Because their ratings are used by investors to gauge the likelihood of repayment of borrowed funds, these ratings take a much broader look at the [?] of the organization as it relates to its past, current and potential ability to repay its debt.*

*Standard and Poor's, for example, summarizes its assessment of an enterprise, separate from its financial performance:*

*"We consider four factors each in analyzing the enterprise profile. Industry risk, economic fundamentals, market position, and management and governance combine to determine the enterprise profile assessment. "*

*Ratings also frequently include "outlooks" or "ratings watch." Fitch says of its "Watches:"*

*"Rating Watches indicate that there is a heightened probability of a rating change and the likely direction of such a change. These are designated as "Positive", indicating that a rating could stay at its present level or potentially be upgraded, "Negative", to indicate that the rating could stay at its present level or potentially be downgraded, or "Evolving" if ratings may be raised, lowered or affirmed. However, ratings can be raised or lowered without being placed on Rating Watch first."*

*In summary, hospital bond ratings and changes in them provide a sophisticated and timely assessment of an organization's current financial health and its overall ability to prosper and pay its bills into the future. Bond ratings from the three agencies do not conflict with, but are complementary to, the typical financial feasibility assessment and ratio analysis performed by*

*the Certificate of Need Program in its reviews. Furthermore, the ratings provide a more comprehensive look at the capabilities of the organization and on a finer-grained schedule, at least quarterly as trends develop.”*

*In summary, Department's dual focus in this reconsideration of 1) CHI's 2016 weak financial ratios and 2) the dual downgrades in its bond ratings makes it clear CHI's project as proposed is not financially feasible and the former approval must be reversed.” [source: September 8, 2017, public comment, pp11-14 and p17]*

### **CHI's financial feasibility ratios using year 2016 data**

- **CHI Franciscan Health Public Comment**

*“Catholic Health Initiative's Financial Feasibility Ratios Using 2016 Data - All three entities requesting reconsideration noted CHI Franciscan Harrison Medical Center submitted the October 2016 application using 2015 audited financials for CHI; and 2016 audited financials were not provided at that time. Considering the five ratios typically used by the Program (long term debt to equity, current assets/current liabilities, assets funded by liabilities, operating expenses/operating revenue and debt service coverage ratio), they suggest that if 2016 were provided a different financial situation would result.*

*In preparing our response to this issue CHI Franciscan attempted, but failed to replicate the 2015 ratios the Department calculated for CHI and included in Table 14 of its evaluation. After consulting with the Program, we understand the Program inadvertently used incorrect data. For transparency, we have included as Attachment 1 CHI's 2015 and 2016 actual ratios as well as the 2016 audited financials. We acknowledge some of the ratios are below the statewide average if CHI system ratios are used instead of Harrison's ratios.*

*We also note for the record the Program includes all of an entity's non-current liabilities as "Long Term Debt." This is inconsistent with industry practice. Long Term Debt is the debt an organization has that will come due sometime after 12 months from the date of the balance sheet and does not include other types of non-current liabilities. We have prepared our ratios using both the Program's definition of long-term debt and the widely accepted calculation that excludes other types of non-current liabilities. Both are included in Attachment 1. [see replication below] While we acknowledge that CHI, as a system, has recently underperformed in comparison to some other systems, the Program has historically not used a system's ratios for its analysis.*

*In preparing this response, we reviewed every system-affiliated hospital CN analysis made since January of 2016. This review confirmed the Program regularly incorporates the most recent ratios for the system and for the applicant hospital in a table typically entitled "Current and Projected Debt Ratios." Most relevant is the fact that the Department has then exclusively projected pro forma ratios for the applicant hospital, not the system. The formal analysis conducted by the Department's Charity Care and Hospital Financial Data Program (CCHFDP) is also specific to the applicant hospital; not the system. We note that Harrison performs exceptionally well, and better than the State average, on nearly every pro form a measure. There is no concern about the ability of Harrison to continue to outperform State averages. Table 1 provides the summary information on the hospital CNs reviewed.”*

[Note: Table 1 is provided in the public comment, but is not duplicated in this evaluation.]

Below is a replication of the four tables provided in CHI Franciscan’s Attachment 1 referenced above. [source: CHI Franciscan Health public comment, pp2-3 and Attachment 1]

**Financial Ratios**  
(Using Department of Health Definition of Long Term Debt to Equity)

<b>Category</b>	<b>Ratios in Initial Evaluation</b>			<b>Ratios in Initial Evaluation</b>		
	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>
	<i>CHI</i>	<i>CHI</i>	<i>CHI</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>
	2015	2015	2015	2016	2016	2017
<i>Long Term Debt to Equity</i>	0.461	1.116	1.428	0.397	0.397	0.292
<i>Current Assets/Current Liabilities</i>	3.201	1.035	0.978	1.406	1.406	2.022
<i>Assets Funded by Liabilities</i>	0.387	0.610	0.671	0.373	0.373	0.305
<i>Operating Expense/Operating Revenue</i>	0.943	0.989	1.012	0.890	0.890	0.822
<i>Debt Service Coverage</i>	5.408	0.788	0.230	8.239	8.239	20.500

<b>Category</b>	<b>From the ‘With’ Pro Forma</b>							
	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>
	2018	2019	2020	2021	2022	2023	2024	2025
<i>Long Term Debt to Equity</i>	0.193	0.170	0.204	0.230	0.241	0.215	0.192	0.171
<i>Current Assets/Current Liabilities</i>	1.072	1.079	1.084	1.450	1.587	2.862	4.168	5.497
<i>Assets Funded by Liabilities</i>	0.301	0.270	0.294	0.310	0.317	0.288	0.261	0.236
<i>Operating Expense/Operating Revenue</i>	0.868	0.860	0.885	0.861	0.843	0.836	0.828	0.821
<i>Debt Service Coverage</i>	9.937	10.571	11.234	11.805	7.929	5.815	6.221	6.591

**Financial Ratios**  
(Does not include all Long Term Liabilities in Long Term Debt to Equity Ratio)

<b>Category</b>	<b>Ratios in Initial Evaluation</b>			<b>Ratios in Initial Evaluation</b>		
	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>
	<i>CHI</i>	<i>CHI</i>	<i>CHI</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>
	2015	2015	2015	2016	2016	2017
<i>Long Term Debt to Equity</i>	0.461	0.826	0.966	0.397	0.255	0.198
<i>Current Assets/Current Liabilities</i>	3.201	1.035	0.978	1.406	1.406	2.022
<i>Assets Funded by Liabilities</i>	0.387	0.497	0.519	0.373	0.284	0.240
<i>Operating Expense/Operating Revenue</i>	0.943	0.989	1.012	0.890	0.890	0.822
<i>Debt Service Coverage</i>	5.408	0.788	0.230	8.239	8.239	20.500

<b>Category</b>	<b>From the ‘With’ Pro Forma</b>							
	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>	<i>HMC</i>
	2018	2019	2020	2021	2022	2023	2024	2025
<i>Long Term Debt to Equity</i>	0.119	0.101	0.144	0.177	0.195	0.172	0.152	0.133
<i>Current Assets/Current Liabilities</i>	1.072	1.079	1.084	1.450	1.587	2.862	4.168	5.497
<i>Assets Funded by Liabilities</i>	0.226	0.201	0.234	0.257	0.271	0.245	0.220	0.198
<i>Operating Expense/Operating Revenue</i>	0.868	0.860	0.885	0.861	0.843	0.836	0.828	0.821
<i>Debt Service Coverage</i>	9.937	10.571	11.234	11.805	7.929	5.815	6.221	6.591

- Nancy Field

*“Outdated information was knowingly provided by the applicant. Without the most recent financial audit available, the department erred in its review of the applicant's ability to finance the project. The review did not include most recent audited financial statements as required by adopted Department procedure. See Question 17, Financial Feasibility, CON application form for hospitals.*

*If CHI's financial status were stable, and no particular trending were seen in comparing FY 2016 results back to 2013-2015, one might claim this error or unavailability of information to be immaterial. But, CHI's benchmark financial ratios had deteriorated substantially and, by not providing current information, caused the Department's review of outdated financials to result in inaccurate analysis and findings. This resulted in an inaccurate assessment of the current CHI financial situation and an incorrect decision to find the proposed project financially feasible.*

*The table below is the same table as used for many years by the Department for its financial feasibility assessments and as used for the CHI financial feasibility analysis. It is different from the Department's findings in that the ratios calculated are based on 2016 financial audit data instead of the 2015 information provided by CHI/Harrison. The Evaluation result is a "Fail" in all five ratio categories using the correct 2016 data.*

<b>Ratio-Category</b>	<b>State Benchmark 2015 (a)</b>	<b>CHI-2016 (b)</b>	<b>Evaluation</b>
Long Term Debt to Equity	Below .564	.966	Fail
Current Assets/Current Liabilities	Above 2.029	.978	Fail
Assets Funded by Liabilities	Below .442	.5193	Fail
Operating Expense/Operating Revenue	Below .965	1.0303	Fail
Debt Service Coverage	Above 4.345	.3807	Fail

(a) From Evaluation

(b) Calculated from CHI audited financial statement, June 30, 2016

*In a rare circumstance, the Department might still find the financing feasible when all ratios fail its tests and it could possibly determine the funds are appropriately available, but only if mitigating factors exist such as:*

- *A small operating division of a larger company might be permitted to fail a few ratios if the larger company is financially healthy.*
- *A single year shortfall in one of the measures might be overlooked if the entity shows overall trends in a positive direction.*
- *An entity has tax or public support that does not show on its financials, such as a university hospital relying on state funding when necessary.*

*In the case of the CHI/Harrison financials, however, none of these apply. In fact, CHI's aggressive acquisition of hospitals nationally and its very large operating losses coincided with a rocky reimbursement environment in which health care providers are less financially stable overall. As a result, it is even more important that a project of over a half billion dollars have a solid financial footing. A detailed multi-year financial analysis is not required here in order to see the negative financial trends for CHI. One can readily rely on the two sequential bond rating*

*downgrades of CHI debt by all three bond ratings agencies to recognize the nature of the negative trends in CHI performance.*

*The missing 2016 annual audit and its timing are important. The CON Program's financial feasibility criteria include ratio analysis based on most recent three years audited financial statements. The Program treats this assessment as a "snapshot in time" of the organization's financial position and ability to complete the project in the near future. When the "snapshot in time" was taken, unfortunately, CHI/Harrison did not disclose all of the then-current scene, hiding a key part of the picture. As a result, the "snapshot" viewed was not one of the CHI financial status at the time, even though the required 2016 financials were readily available. Once the correct three years are viewed in the snapshot, and the trending downward is also taken into account, the ratio analysis makes clear the project does not meet the Program's standards in the ratio analysis and therefore fails all the feasibility criteria. The project must be denied. If CHI can show a new "snapshot" of improved audited financials based on 2015-2017 annual results, it needs to re-apply for a CON with that information provided. [source: September 8, 2017, public comment, pp5-6]*

### **Reconsideration Rebuttal Comment**

During this reconsideration, four entities provided rebuttal comments. Of the four, three maintained affected person status during the reconsideration process. For the fourth person, a Kitsap County physician, the rebuttal statements provided cannot be used, however, the general context of the rebuttal statements made by the physician are also reflected in the rebuttal comments provided by two of the other three affected persons.

### **Catholic Health Initiatives (CHI) bond rating**

#### **• CHI Franciscan Health Rebuttal Comment**

*CHI retains investment grade ratings from all agencies and the City of Bremerton's suggestion that a negative outlook is "alarming" is both too simplistic and factually inaccurate. The City of Bremerton (the City) suggests CHI's bond rating is near "junk bond status." This is inaccurate. (Junk bonds are non-investment grade rated at high risk for default). CHI currently has a rating of Baa1 from Moody's. CHI Franciscan was also surprised by the liberties, which are largely inaccurate, the City took to redefine what the rating agencies "believe" or "mean." The fact is that CHI remains in the highest BBB category of credit rating, and absolutely nowhere in the published rating reports on CHI is the word "alarming" used or otherwise suggested. Further, there is no suggestion in any rating report of a "worsening condition." We urge the Program to go to the websites of the rating agencies for definitions. We have summarized them below:*

- FITCH: defines the characteristics of BBB level credit as "Good credit quality". According to FITCH, "'BBB' ratings indicate that expectations of default risk are currently low".*
- Standard and Poor's: Their definition of the BBB rating category states: "An obligation rated 'BBB' exhibits adequate protection parameters."*
- Moody's: The Moody's rating of Long-term Corporate Obligation of Baa1. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category. This category is considered medium grade ...*

*The City's letter also suggested that CHI's cash position "continues to decrease" (which is not accurate) and at page 7 of their document they state that a negative outlook means that bonding*

agencies "believe the condition is alarming and without significant turnaround it will get worse." This is hyperbole and an overly simplistic statement. Further, the City neglected to state that Standard and Poor's removed the negative outlook on CHI at the time of their last rating action, moving the outlook to stable. This positive movement in the outlook was supported in Standard and Poor's report as follows: "The stable outlook reflects our view that CHI's overall financial performance should start to improve steadily from the quarterly performance demonstrated in the second quarter of fiscal 2017."

The Rating Change Does Not Impact Conformance with WAC 246-310-220 and Bond Ratings are Not a CN Review Criterion. Even if it properly considered for the first time in this application, the rating change does not show that this project fails to meet applicable financial feasibility criteria in WAC 246-310-220. To demonstrate the project's continued conformance with WAC 246-310-220, CHI Franciscan offers the following additional information about investment grade bond ratings:

- a. At the reconsideration hearing, Randy Huyck from the Department of Health's Charity Care and Hospital Financial Data Program (CCHFDP) stated he has not previously conducted an analysis to determine the financial impact of a bond rating change. This admission establishes the DOH has never previously considered a health care system's bond rating when evaluating financial feasibility. At least one other health care system in Washington recently experienced negative outlooks and, to CHI Franciscan's knowledge, the negative outlook did not impact the review of any CN application associated with that System: On June 2, 2017 Moody's revised the outlook for Providence Health & Services from stable to negative. This change occurred about one week after the approval of the Providence Regional Medical Center Everett expansion, and while CN applications were pending for the establishment of an ambulatory surgery center (ASC) in Everett and expansion of an ASC in Spokane. We do not believe that the Program reconsidered the ability of the applicant to comply with the requirements of WAC 246-310-220 due to this bond downgrade. Different rules should not be applied to Harrison or CHI Franciscan that have not been applied to other applicants who have experienced bond rating changes.
- b. The purpose of ratings is to provide investors with a simple system of gradation by which future relative creditworthiness of securities may be gauged. When a system or stand-alone hospital achieves an investment grade bond rating, this means that it has been determined to have a relatively low risk of default. In other words, **any** investment grade bond rating means that a company has been vetted and has demonstrated both the capacity and capability to meet its debt payment obligations. Bond rating firms, such as Standard & Poor's and Moody's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. Based on our review of publicly available data it appears that less than 50% of all hospitals (systems and stand-alone) in Washington have an investment grade bond rating. For those without an investment grade bond rating, the Program relies solely on the applicant hospital's pro forma profit and loss and balance sheets to determine financial feasibility and no additional analysis of risk of default is conducted. Inequities would arise if the Program were to create a double standard in which an applicant's lack of a bond rating is irrelevant to assessing financial feasibility, but another applicant's possession of a particular bond rating is a factor to consider. For example, in a comparative review, would a project proposed by a health

*system with a bond rating similar to CHI Franciscan's be deemed less (or more) financially feasible or cost effective than a project proposed by a competing health system or stand-alone hospital with no bond rating at all? The answer should be no because this would be an "apples to oranges" comparison that is outside the scope of WAC 246-310-220 and -240.*

- c. Negative ratings and bond downgrades are, unfortunately, increasingly common in the health care industry due, in great part, to the uncertainty caused by Congress' inability to establish a clear future direction for health care funding, coupled with the overall downward pressure on rates. CHI has taken very seriously its rating change and implemented strategies that produced positive results in FY2017 (see Section 5, below).*
- d. CHI can secure financing for Phase 2 at or better than the rate identified in the CN application. As evidenced by the letter included as Attachment 1, from Ponder & Co., CHI's financial advisor, up to \$2.2 billion of new money could be issued through bonds by CHI at between 1.5% and 4.5%, depending on term. Similar market capacity and/ or rate indications have been provided within the last 60 days by each of CHI's investment banking partners, namely Bank of America Merrill Lynch, JP Morgan and Morgan Stanley. The financing requirements for this consolidation project are relatively minimal compared to this market capacity. We remain confident of both the ability to finance the project and to achieve an attractive interest rate for any borrowing.*

*[source: October 2, 2017, rebuttal comments, pp7-9]*

- City of Bremerton Rebuttal Comment

*"CHI asserts, "CHI's Financial Advisors have indicated that if it chose to, CHI could issue new, long-dated exempt bonds, very competitively. Today's estimate is a 4.3% yield." This self-serving assertion of "CHI's Financial Advisors" is not supported by any evidence.*

*The Florida Certificate of Need program faced a similar issue when evaluating the application of Wuesthoff Memorial Hospital for a 50-bed general acute care hospital in South Brevard County. The project contemplated \$28 million in debt financing to be provided by proceeds from a fixed rate bond issue with an interest rate for the debt expected to be approximately 6.5%. During the review of the application, allegations surfaced that Wuesthoff had violated the law with respect to its tax-exempt status and was at risk of revocation of its tax-exempt status. During the hearing, on the issue of the investigation's impact on financial feasibility, the Florida Program heard testimony that "A BBB rating would involve approximately a 3% rise in interest rates. If its rating were to fall below investment grade, the interest rate could rise 5% or more." The Administrative Law Judge ultimately denied the application.*

*CHI's assertion that the bond rating decrease is immaterial is also counter to its statements in the application for this certificate of need. "CHI is able to secure very favorable tax exempt interest from the marketplace due to its size and supporting underlying assets. CHI also maintains its own financial ratios as part of its bond covenants to maintain the best possible bond rating." The Program should not accept CHI's claim that the bond rating is immaterial at face value. The current BBB+ bond rating is a marked difference from "the best possible bond rating" claimed in the application to support the financing.*

*Without providing any context for the claimed availability of a 4.3% interest rate, such as a statement from an independent underwriter, the assertion that the bond rating is immaterial should be met with skepticism.”*

[source: October 2, 2017, rebuttal comments, p3]

- **Nancy Field Rebuttal Comment**

*“In its reconsideration testimony, CHI tries to re-word the scope of the reconsideration. CHI contends the reconsideration relates only to the “impact” of the twice-lowered bond rating of CHI. Rather, the CON Program requested “information related to” CHI’s bond rating these are vesting different...:*

- a. “Impact” limits the discussion to downstream effects of a downgrade itself, including cost of short and long-term debt, among other things.*
- b. “Information related to” CHI’s bond rating includes the reasons for the bond rating being dropped twice, the ratios behind that, the other criteria three national rating agencies use to assess CHI’s viability. It includes all concerns expressed by patients and providers at the public hearing on reconsideration that reflect cost-cutting by CHI.*
- c. Keeping in mind the key elements of the CHI financial turnaround plan – portions already provided as attachment to previous testimony – those emotional public comments directly reflect CHI’s cost cutting efforts...*

*...Simply put, it is not just the downgrades per se that should concern the public, it is the financial trend that those downgrades reflect. It is important to the Certificate of Need review that a bond rating change is not the only significant change in circumstance. Rather, just like grades in school, if you get a bad grade at school, yes, there may be punishment. But even more important is the meaning of the bad grade as a reflection of poor performance, not the grade itself.*

*CHI’s effort to divert attention from the real meaning of its downgrades also hopes to divert attention from two of the bond ratings agencies that the CHI outlook is not positive and further downgrades could occur. In light of even great operating losses as shown in the recent 2017 financial reports, further downgrades would not be a surprise.*

*CHI claims downgrades are common in the industry. While it is true that downgrades reflect current turmoil in health care finance, especially for small, stand-alone hospital entities, it is a stretch to say this applies to CHI.*

- a. First, any search of EMMA or other sources will show those downgrades are not to ratings as low as that of CHI’s.*
- b. Second, having two downgrades in under a year such as CHI has had reflects more serious situation than a single downgrade.*
- c. Downgrades are more frequent for small stand-alone hospitals and less a problem for large systems with major national or regional market power and/or large numbers of hospitals.”*

[source: October 2, 2017, rebuttal comments, pp7-8]

### **CHI's financial feasibility ratios using year 2016 data**

- **CHI Franciscan Health Rebuttal Comment**

*Omission was an Oversight. As noted in CHI Franciscan's reconsideration materials, it was an oversight, not a purposeful omission, that 2016 audited financials were not included. The*

*application was prepared and finalized prior to the 2016 audited financials being released on September 23, 2016. The CN submittal was delayed a few weeks to secure necessary approvals and signatures, and was submitted on October 28. During that internal approval process, the 2016 financials were released. CHI Franciscan simply forgot to update the application filing to include the new information.*

*The Program's Consistent Practice Has Been to Evaluate the Pro Forma of the Applicant Hospital, Not its Parent or System Organization. In preparation for the public hearing, CHI Franciscan performed a 100% review of prior hospital CN decisions over the past several years. Our review confirmed that although the Program regularly incorporates the most recent ratios for the hospital system and for the applicant hospital in a table typically entitled "Current and Projected Debt Ratios", the Program then exclusively projects proforma ratios for the applicant hospital, not the system. The formal analysis conducted by the Department's CCHFDP is also specific to the applicant hospital; not the system. In fact, our review demonstrated that some hospital applicants did not even submit hospital-specific balance sheets. Where the balance sheets were missing, the Program did not calculate the balance sheet ratios, yet nonetheless found the projects to be consistent with all applicable requirements of WAC 246-310-220. Table 1 in our Reconsideration filing (dated September 8, 2017) documents this fact.*

*[The footnote below was included in CHI Franciscan's rebuttal statements]*

*Footnote #4: The "Statewide Average" ratios used for comparison purposes by both the Program and the City of Bremerton are based on hospital financials for the 100 or so individual hospitals in the state. In other words, this statewide average typically includes hospital only operations and often excludes all of the other types of operations that make up the financial ratios associated with a health system such as physician groups, health insurance plans, ACOs, nursing homes, foundations, etc. The financial ratios of the health systems associated with Washington State hospitals are generally weaker because they include these other types of operations, which are often less profitable than hospital operations. Thus, using a health care system's ratios in comparison to individual hospital's statewide average ratios provides an inaccurate "apples to oranges" result.*

*The Program should not arbitrarily and capriciously make an ad hoc change to this longstanding practice in the middle of a CN decision. We have previously shown Harrison performs exceptionally well, and better than the State average, on nearly every pro forma measure. There is no legitimate concern about the ability of Harrison to continue to outperform State averages. As the Program did in its initial decision, comparing Harrison's financial ratios to the State average was appropriate and demonstrated unequivocally that Harrison's projected pro forma financials were in the preferred range and trending in a favorable direction. In its initial decision, the Program appropriately concluded that the immediate and long-range capital expenditure and operating costs can be met by Harrison. These findings should not be overturned on reconsideration, and this should be the end of the analysis under the Program's long-standing practice.*

*To assure CHI has fully addressed any concerns regarding CHI's financial ratios, we provided FY2016 Audited Financials as well as financial ratios for FY2015 and FY2016 in our reconsideration submittal. We further noted that some of the ratios for CHI were below the*

statewide average. Since the reconsideration hearing was held, CHI's 2017 audited financials were released (September 15, 2017). Included with this document are the 2017 audited financial statements. We provide this 2017 information as direct rebuttal to the City's incorrect statement about an ongoing downturn and worsening financial condition. As noted in the audited financial statements (Attachment 2), CHI's operating performance in fiscal year 2017 did improve over fiscal year 2016, as evidenced by \$930 million operating EB IDA before restructuring, impairment and other losses; as well as excluding gains on business combinations, achieved in fiscal 2017 compared to \$813.3 million in fiscal 2016."

[source: October 2, 2017, rebuttal comments, pp10-11]

- City of Bremerton Rebuttal Comment

*"CHI cannot argue that their financial feasibility ratios meet state standards so instead they argue that they do not apply. CHI/Harrison asserts that "the Program has historically not used a system's ratios for its analysis." This claim is followed by a lengthy discussion and two page table regarding pro forma ratios. This analysis is a red herring and sidesteps the issue on reconsideration. The issue is not the pro forma ratios or how well a new hospital would do financially. The issue is whether CHI can fund the project.*

*Financial feasibility is a three part determination. Contrary to CHI's assertion that system financial data is not relevant, the first and third criterion of WAC 246-310-220 require a review of system financial data and ratios. The first criterion is whether "The immediate and long-range capital and operating costs of the project can be met." For this project, it is imperative that CHI's ratios be used because CHI is funding the project. The Program made the following statements in its decision when it initially determined that this criterion was met:*

- *"To determine whether CHI Franciscan would meet its immediate and long-range capital and operating costs, the department's CCHFDP reviewed the 2015 historical balance sheet/or CHI."*
- *"CHI Franciscan's 2015 balance sheet and HMC's 2016 balance sheet were both used to review applicable ratios and pro forma financial information."*
- *"All of the ratios except Current Assets/Current Liabilities for Harrison Medical Center are in the preferred range in the current year. All other ratios at present and projected for both CHI and Harrison are in the preferred range and trending in a favorable direction. Review of the financial and utilization information show that the immediate and long-range capital expenditure as well as the operating costs can be met. This criterion is satisfied. "*

*For this application, when the 2016 CHI data is used, the ratios for CHI are not in the preferred range and this criterion is not satisfied. Therefore, Program should deny the application.*

*The third criterion under the financial feasibility determination is whether "The project can be appropriately financed." The Program made the following statement when initially determining that this criterion was met:*

- *"CHI Franciscan and CHI will use reserves for the project's capital expenditures. Review of CHI and Harrison balance sheets show the(y) have the funds available for this project and should be able to fund both the reserve and parent-child loan portions of the project."*

*The Program went on to compare the reviewable portion of the project cost to CHI's total assets, board designated assets, and equity. However, these comparisons were made using 2015 CHI data and under the incorrect assumption that CHI had performed favorably under the financial feasibility ratios analysis. How the reviewable project cost compares to available assets should be tempered when the asset to liabilities ratio changes from the incorrect CHI 2015 ratio of 3.201 to the correct CHI 2016 ratio of .978.*

*CHI's financial feasibility ratios do not meet Washington standards. This does not mean the standards need to be disregarded, as suggested by CHI. It means that the Washington standards are in line with nationally recognized standards for financial health like S&P, Fitch and Moody's. Because CHI is financially responsible for this project and because they do not meet the Washington standards under the financial feasibility ratios, the application should be denied.*

[source: October 2, 2017, rebuttal comments, pp1-2]

- Nancy Field Rebuttal Comment

*CHI asserts that the department always uses the 'hospital' vs. the 'system' when looking at financial ratios in its determination of financial feasibility. It concludes that the department must limit its ratio analysis to that of Harrison. CHI's assertion is incorrect:*

*Even where the department provides the tabular comparison of ratios, it also references the financial health or status of the 'parent' thus showing that status is relevant. A review of analyses performed by CHCCS of CHI-owned projects makes this abundantly clear.*

*In its table showing CON analyses and entities upon which analysis relied, CHI selects only CON applications that make its point. Even the quickest scan of CON decisions posted on-line produces a list of applications for which the analyses also clearly relies on the consideration of the financial health of the 'parent.' ”*

Ms. Field provided tables with three examples that will not be replicated in this evaluation. The examples include:

- Cascade Behavioral Hospital (facility) and Acadia HealthCare (parent);
- Olympic Behavioral Health (facility) and Universal Health Services and Providence Health & Services (co-parents); and
- St. Anthony Hospital (facility) and (CHI Franciscan (parent).

*“The three examples above show that the department's analyses of a project's 'financial feasibility' considers the financial status of the parent entity. In the case of CHI-owned hospitals, this is required because the CHI hospitals are joined together as an 'obligated group' that goes to the debt market together and, consequentially, none of the individual entities have debt of their own. If one wishes to understand the debt capacity of an applicant, or its debt service coverage ratio, the only place to find that is in the ratio analysis of CHI. Even without this understanding of Harrison's complete reliance on CHI for financial matters, the experienced financial analyst will look to see if the parent is strong enough to support the child without necessarily building a ratio analysis table and putting it into the feasibility analysis sent to the CON Program and that the CON Analyst subsequently publishes for the public and the applicant.”*

*CON applications require the applicant provide the most recent audited financial statements. It is CHI that has audited financial statements and not its individual hospitals. It is important to note that CHI-Harrison did not provide nor does it have its own audited financial statements. This has a least three<sup>11</sup> consequences for the Department’s analysis of the financial feasibility of the hospital relocation project:*

- *...the only audited financial statements are from CHI. For that reason, it is CHI’s financial statements on which the ratio analysis must be performed.*
- *...Audited financial statements come with them certain GAAP standards that auditors must follow. One of those relates to the financial ‘materiality’ of events that have taken place since the close of the fiscal year being audited. You will note that the 2017 audit of CHI finances issued recently discusses the floods in Texas and potential financial impact on CHI going forward. That was required because the financial impact of the Houston floods on CHI performance can be expected to have material impact at a national level.*

[source: October 2, 2017, rebuttal comments, pp2-5]

The scope of the reconsideration review and information provided within the scope does not include the following information:

- assumptions and methodologies used by CHI Franciscan to determine the project number of admissions, patient days, and occupancy of HMC;
- assumptions and methodologies CHI Franciscan used to project revenue, expenses, and net income for HMC for projection years 2018 through 2025;
- increase in charity care percentages required by the department in its initial review.

Consistent with the initial evaluation and the process used by the department to review hospital projects, the department’s Charity Care and Hospital Financial Data Program (CCHFDP) within the Office of Community Health Systems also reviewed the pro forma financial statements submitted by CHI Franciscan for HMC. CCHFDP provided the follow statement after its reconsideration review.

*“Harrison Medical Center hospital rates are similar to the Washington statewide averages.”*

[source: CCHFDP Analysis, p4]

Though not under reconsideration, for ease of reference, the Tables 1 and 2 below are replicated from initial review.

**Table 1  
Harrison Medical Center  
Projections for Years 2020 through 2025**

	<b>CY 2020</b>	<b>CY 2021</b>	<b>CY 2022</b>	<b>CY 2023</b>	<b>CY 2024</b>	<b>CY 2025</b>
Total Licensed Beds	336	336	336	336	336	336
Total Discharges	15,712	16,073	16,447	16,834	17,236	17,568
Total Patient Days	61,748	63,167	64,637	66,16	67,739	69,044
Average Daily Census	169.2	173.1	177.1	181.3	185.6	189.2
Occupancy Percentages	50.3%	51.5%	52.7%	53.9%	55.2%	56.3%

<sup>11</sup> The third point made by Ms. Field is a topic outside the scope of this reconsideration review and is not included in this reconsideration evaluation.

**Table 2**  
**Harrison Medical Center**  
**Projected Years 2018 through 2025-Charity Care Revised**

	<b>CY 2018</b>	<b>CY 2019</b>	<b>CY 2020</b>	<b>CY 2021</b>
Net Revenue	\$430,536,450	\$442,487,559	\$454,965,035	\$465,396,364
Total Expenses	\$402,515,000	\$409,450,000	\$433,230,000	\$431,180,000
<b>Net Profit / (Loss)</b>	<b>\$28,021,450</b>	<b>\$33,037,559</b>	<b>\$21,735,035</b>	<b>\$34,216,364</b>
	<b>CY 2022</b>	<b>CY 2023</b>	<b>CY 2024</b>	<b>CY 2025</b>
Net Revenue	\$476,165,710	\$487,542,468	\$499,349,097	\$508,895,560
Total Expenses	\$431,911,000	\$438,164,000	\$444,229,000	\$449,230,000
<b>Net Profit / (Loss)</b>	<b>\$44,254,710</b>	<b>\$49,378,468</b>	<b>\$55,120,097</b>	<b>\$59,665,560</b>

For this reconsideration, CCHFDP reviewed the pro forma financial statements submitted by CHI Franciscan for HMC and provided the following statements.

*“This reconsideration analysis corrects several errors identified in the initial evaluation I provided in April, 2017. Those errors are: use of 2015 financial data for Catholic Health Initiatives when 2016 was available and should have been used; use of fiscal year 2016 financial data from the application, rather than from Harrison’s 2016 year-end report to the department, which was submitted in October 2016; and spreadsheet errors that caused incorrect financial ratios to be examined for CHI. I will also discuss the impact of the changes in bond ratings for CHI in the early part of 2017. I will address several issues related to Financial Viability and Cost Containment as required by WAC.”*

[source: CCHFDP reconsideration analysis, p1]

To determine whether CHI Franciscan would meet its immediate and long range capital costs, CCHFDP reviewed the 2016 historical balance sheet for CHI. The information is shown in Table 3 below. [source: CCHFDP reconsideration analysis, p2]

**Table 3**  
**CHI Balance Sheet for Year 2015**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$ 4,476,219,000	Current Liabilities	\$ 4,576,228,000
Board Designated Assets	\$ 6,558,035,000	Long Term Debt	\$ 7,191,184,000
Property/Plant/Equipment	\$ 9,452,010,000	Other Liabilities	\$3,444,622,000
Other Assets	\$ 2,172,866,000	<b>Equity</b>	<b>\$ 7,447,096,000</b>
<b>Total Assets</b>	<b>\$ 22,659,130,000</b>	<b>Total Liabilities and Equity</b>	<b>\$ 22,659,130,000</b>

CCHFDP also reviewed the 2016 historical balance sheet for HMC and the projected balance sheet for year 2025, three years following project completion of phase two. The information is shown in Tables 4 and 5 below. [source: CCHFDP analysis, p2]

**Table 4**  
**Harrison Medical Center**  
**Balance Sheet for Current Year 2016**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$ 101,757,185	Current Liabilities	\$ 78,901,495
Board Designated Assets	\$ 236,873,845	Long Term Debt	\$ 85,042,500
Property/Plant/Equipment	\$ 205,533,616	Other Liabilities	\$ 50,502,957
Other Assets	\$ 31,690,860	<b>Equity</b>	<b>\$ 361,408,554</b>
<b>Total Assets</b>	<b>\$ 575,855,506</b>	<b>Total Liabilities and Equity</b>	<b>\$ 575,855,506</b>

**Table 5**  
**Harrison Medical Center**  
**Balance Sheet for Projected Year 2025**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$ 478,846,000	Current Liabilities	\$ 87,110,000
Board Designated Assets	\$ 236,874,000	Other Liabilities	\$ 0
Property/Plant/Equipment	\$ 608,920,000	Long Term Debt	\$ 228,170,000
Other Assets	\$ 11,216,000	<b>Equity</b>	<b>\$ 1,020,576,000</b>
<b>Total Assets</b>	<b>\$ 1,335,856,000</b>	<b>Total Liabilities and Equity</b>	<b>\$ 1,335,856,000</b>

After reviewing the balance sheet above, CCHFPD staff provided the following statements.

*“CHI-Franciscan CN capital expenditure is projected to be \$484,690,706. Phase one and part of phase two of the project will be funded by CHI reserves. \$145 million will be financed by an internal loan from CHI to CHI-Franciscan. CHI has the financial capacity to fund the project.. ...[Harrison Medical Center’s] Balance Sheet for the third year following completion of Phase II of the project ...is reasonable for the third year of operation.”*

[source: CCHFPD reconsideration analysis, p2]

For hospital projects, the CCHFDP provides a financial ratio 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. Historical and projected balance sheet data is used in the analysis.

Before providing the ratio analysis, CCHFDP provided the following clarifying statements. [source: CCHFPD reconsideration analysis, pp2-3]

*“Statewide 2015 ratios are included as a comparison and are calculated from all community hospitals in Washington State whose fiscal year ended in that year (2016 ratios were incomplete at the time the initial evaluation was written). The data is collected by the Washington State Dept. of Health, Office of Community Health Systems, in the Health Systems Quality Assurance division.*

*Comment provided during the reconsideration correctly noted that incorrect ratios for CHI and the state as a whole were used in the initial evaluation. Those errors have been corrected*

*in the table below. The letter A means it is better if the number is above the State number and B means it is better if the number is below the state number.”*

CHI Franciscan’s 2016 balance sheet and HMC’s 2016 balance sheet were both used to review applicable ratios and pro forma financial information. Table 6 compares statewide data for historical year 2015, CHI historical year 2016, current year (2016) for HMC, projected years 2023 through 2015 HMC. [source: CCHFPD reconsideration analysis, p3]

**Table 6  
Current and Projected Debt Ratios  
CHI and Harrison Medical Center**

<b>Category</b>	<b>Trend *</b>	<b>State 2015</b>	<b>CHI 2016</b>	<b>HMC 2016</b>	<b>HMC 2023</b>	<b>HMC 2024</b>	<b>HMC 2025</b>
Long Term Debt to Equity	B	0.465	0.966	0.235	0.302	0.260	0.224
Current Assets/Current Liabilities	A	3.198	0.978	1.290	2.862	4.168	5.497
Assets Funded by Liabilities	B	0.389	0.519	0.285	0.288	0.343	0.236
Operating Expense/Operating Revenue	B	0.944	1.012	0.961	0.836	0.828	0.821
Debt Service Coverage	A	5.399	0.232	5.284	5.815	6.221	6.951
<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.

After reviewing the financial ratios above, staff from Charity Care and Hospital Financial Data Program provided the following statements. [source: CCHFPD reconsideration analysis, p3]

*“Only two of the ratios for Harrison Medical Center, Long Term Debt to Equity and Assets Funded by Liabilities, are in the preferred range in the current year, although Operating Expense to Operating Revenue and Debt Service are very close. All five ratios for Harrison are in the preferred range by the second year following completion of phase two. CHI’s 2016 ratios, however, are all outside the preferred range in fiscal year 2016. These ratios reflect an entity’s ability to meet its current financial obligations or to obtain financing. At the urging of interested persons during the reconsideration, the department re-examined aspects of CHI’s ability to finance the project. The results of that examination follow.*

*Public comment received during the reconsideration process noted that CHI, at the corporate level, saw its debt ratings decrease in 2016 and early 2017, and cited those decreases as evidence of CHI’s inability to finance the project. Each of the three major debt rating services, Moody’s, Fitch, and Standard & Poor’s (S&P), downgraded CHI’s debt profile between July 2016 and March 2017. CHI’s ratings at present are:*

*Fitch “BBB+, Outlook Evolving;  
Moody’s Baa1, Outlook Negative; and  
S&P BBB+, Outlook Neutral.*

Each of the three ratings is considered investment grade, with the modifiers “+” and “1” indicating that CHI’s debt is at the highest level of the respective grades. We compared CHI’s ratings to three other large non-profit healthcare providers in Washington. The results are below:

Heathcare Chain	Rating Agency, Outlook		
	Fitch	Moody's	S&P
CHI	BBB+, Evolving	Baa1, Negative	BBB+, Neutral
Providence	AA-, Stable	Aa3, Negative	AA-, Neutral
MultiCare	AA-, Stable	Aa3, Negative	Not Found
PeaceHealth	A+, Stable	Not Found	Not Found

Each of the ratings agencies considers BBB or Baa and higher to be “investment-grade” or “prime,” though the definitions of those terms differ slightly among the raters.<sup>12</sup>

Several comments provided during the reconsideration process echoed one commenter’s statement that CHI’s debt is “...one level above “junk bonds.”” The same commenter also noted, “Bond rating agencies have tremendous depth of staff and capabilities to perform very broad and deep analyses far beyond the capabilities the Department of Health’s budget would support.”

*I concur. I also note that CHI debt is regarded by all three major rating services as investment grade at the writing of this evaluation and conclude CHI appears to have the capacity to use its existing reserves to finance this project.*

*Review of the financial and utilization information show that the immediate and long-range capital expenditure as well as the operating costs can be met. This criterion is satisfied.”*

[source: CCHFPD reconsideration analysis, pp3-4]

All, but one issue, raised under reconsideration are addressed in the corrected and expanded analysis performed by CCHFPD staff. The final issue not addressed above is the assertion that CHI Franciscan deliberately excluded its 2016 financial data from its application. It should be noted here that regardless of whether the 2016 audited data was provided in the application, CCHFPD had access to the data and could have—and should have—included it in the review. Ultimately, the department—which includes CCHFPD—had access to the data and its exclusion in the initial review was an oversight on behalf of the department.

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

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<sup>12</sup> The terms ‘investment grade’ and ‘speculative grade’ have established themselves over time as shorthand to describe the categories ‘AAA’ to ‘BBB’ (investment grade) and ‘BB’ to ‘D’ (speculative grade). The terms investment grade and speculative grade are market conventions and do not imply any recommendation or endorsement of a specific security for investment purposes. Investment grade categories indicate relatively low to moderate credit risk, while ratings in the speculative categories either signal a higher level of credit risk or that a default has already occurred. [source: Ratings Definitions from Fitch Ratings at [www.fitchratings.com](http://www.fitchratings.com)]

(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.

### **Initial Evaluation Summary**

In its May 2, 2017, initial evaluation the department concluded that CHI Franciscan's application met this sub-criterion. This conclusion was reached, in part, based on a review of the following specific information and documentation.

- CHI Franciscan's assumptions used to determine the capital expenditure of the entire two-phase project;
- CHI Franciscan's capital expenditure breakdown by each phase of the project;
- A letter provided by 'Cumming,' CHI Franciscan's construction contractor located in Seattle. The letter attested to the accuracy and reasonableness of the construction costs;
- Public comment provided by existing healthcare providers in Kitsap County and surrounding communities; and
- Rebuttal comments provide by CHI Franciscan.

[source: May 2, 2017, initial evaluation, pp28-33]

### **Reconsideration Review**

#### **Reconsideration Public Comment**

Public comments submitted under sub-criterion (1) above are linked to this sub-criterion. The public comment will not be repeated in this sub-criterion, rather it is included by reference.

#### **Reconsideration Rebuttal Comment**

Rebuttal comments submitted under sub-criterion (1) above are linked to this sub-criterion. The rebuttal comment will not be repeated in this sub-criterion, rather it is included by reference.

#### **Reconsideration Evaluation**

The capital expenditure associated with the relocation of the 242 acute care beds from the Bremerton campus to the Silverdale campus is \$484,690,706. The project would be completed in two phases. A breakdown of the capital expenditure by phase is shown in Table 7. [source: Application, p35]

**Table 7  
Harrison Medical Center  
Estimated Capital Expenditure Breakdown**

<b>Item</b>	<b>Phase One Cost</b>	<b>Phase Two Cost</b>	<b>Total Cost</b>
Land Improvements	\$ 1,600,000	\$ 0	\$ 1,600,000
Building Construction	\$ 184,106,488	118,800,000	\$ 302,906,488
Moveable Equipment	\$ 20,800,000	20,849,400	\$ 41,649,400
Fixed Equipment	\$ 32,000,000	32,610,600	\$ 64,610,600
Architect/Engineering Fees	\$ 17,010,895	9,504,000	\$ 26,514,895
Consulting Fees	\$ 2,400,000	1,306,800	\$ 3,706,800
Supervision & Inspection	\$ 1,380,799	\$ 0	\$ 1,380,799
Other Costs: Permits/Fees/Signage	\$ 20,593,464	16,536,960	\$ 37,130,424
Sales Tax	\$ 3,587,500	1,603,800	\$ 5,191,300
<b>Total</b>	<b>\$ 283,479,146</b>	<b>\$ 201,211,560</b>	<b>\$ 484,690,706</b>

CHI Franciscan provided a letter from ‘Cumming’ a contractor in Seattle attesting that the costs identified above are reasonable. [source: January 5, 2017, screening responses, Attachment 1]

Since HMC’s Silverdale campus is currently operational with 94 acute care beds, no start-up costs are required. [source: Application, p34]

CHI Franciscan provided a breakdown of the construction costs per square foot and per bed. CCHFPD provided a breakdown of the costs per bed and its analysis of the costs, which is shown below.

<i>Total Capital</i>	<i>\$ 484,690,706</i>
<i># of Beds (Unit)</i>	<i>242</i>
<i>Total Capital per Unit</i>	<i>\$ 2,002,854.16</i>

*“The costs shown are high, though not the highest per-bed costs reviewed by this office. Also construction cost can vary quite a bit due to type of construction, quality of material, custom vs. standard design, building site and other factors. Harrison is constructing a new building to healthcare services standards and to the latest energy and hospital standards. Harrison notes that the completed project is projected to create a 31.9% reduction in energy consumption compared to the baseline required by the state energy code. The applicant projects over \$9 million in annual cost reductions from implementing the consolidation. Staff is satisfied the applicant plans are appropriate. This criterion is satisfied.”*

[source: CCHFPD reconsideration analysis, p5]

CHI Franciscan stated that there are no anticipated changes in costs or charges for healthcare services at HMC. [source: January 5, 2017, screening response, p7]

Based on the above information, the department concludes that HMC’s relocation of acute care beds from Bremerton to Silverdale would probably not have an unreasonable impact on the costs and charges for healthcare services in Kitsap County. **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.

**Initial Evaluation Summary**

In its May 2, 2017, initial evaluation the department concluded that CHI Franciscan's application met this sub-criterion. This conclusion was reached, in part, based on a review of the following specific information and documentation.

- CHI Franciscan's assumptions used to determine the capital expenditure of the entire two-phase project;
- CHI Franciscan's capital expenditure breakdown by each phase of the project;
- CHI Franciscan's rationale for selecting its choice of financing the capital costs. Phase one (\$283,479,146) would be financed using CHI Franciscan reserves and phase two (\$201,211,560) would be a combination of reserves and debt financing;
- Charity Care and Hospital Financial Data Program's review of the year 2015 balance sheet for Catholic Health Initiatives; and
- Charity Care and Hospital Financial Data Program's review of current year (2016) and projected years (2017 through 2025) balance sheets for HMC.

[source: May 2, 2017, initial evaluation, pp34-35]

**Reconsideration Review**

Reconsideration Public Comment

Bond rating public comments submitted under sub-criterion (1) above is also to this sub-criterion. The public comment will not be repeated in this sub-criterion, rather it is included by reference.

Reconsideration Rebuttal Comment

Bond rating public comments rebuttal comments submitted under sub-criterion (1) above is linked to this sub-criterion. The rebuttal comment will not be repeated in this sub-criterion, rather it is included by reference.

Reconsideration Evaluation

After the balance sheet review and the bond rating review, CCHFPD provided the following statements.

*“CHI-Franciscan and CHI will use reserves for the project’s capital expenditures. Review of CHI and Harrison balance sheets show the have the funds available for this project and should be able to fund both the reserve and parent-child loan portions of the project.*

<i>CON Portion of Project</i>	
<i>Capital Expenditure</i>	<i>\$484,690,706</i>
<i>Percent of Total Assets</i>	<i>2.1%</i>
<i>Percent of Board Designated Assets</i>	<i>7.4%</i>
<i>Percent of Equity</i>	<i>6.5%</i>

*Review of the financing information show that the project can be appropriately financed. This criterion is satisfied.*” [source: CCHFDP reconsideration analysis, p4]

If this project is approved, the department would attach a condition requiring CHI Franciscan to finance the project consistent with the financing description in the application. With the financing condition, the department concludes **this sub-criterion is met.**

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this reconsideration evaluation, the department determines that CHI Franciscan Health met the applicable 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 [full time equivalents] 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.

**Initial Evaluation Summary**

In its May 2, 2017, initial evaluation the department concluded that CHI Franciscan's application met this sub-criterion. This conclusion was reached, in part, based on a review of the following specific information and documentation.

- HMC’s current (year 2016) and projected (year 2025) FTEs for the hospital as a whole. The projection years included both phases of the relocation project.
- The staff table identified an increase in staff beginning in year 2017. The majority of the staff increases were in the patient care categories.
- CHI Franciscan's demonstration of its ability to recruit and retain needed staff.

[source: May 2, 2017, initial evaluation, pp35-38]

**Reconsideration Review**

Reconsideration Public Comment

None

Reconsideration Rebuttal Comment

None

Reconsideration Evaluation

There was no additional information reviewed in this reconsideration that would change the department’s initial conclusion. **This sub-criterion remains 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(2) 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 relationships, ancillary and support services should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials contained in the application.

### **Initial Evaluation Summary**

In its May 2, 2017, initial evaluation the department concluded that CHI Franciscan's application met this sub-criterion. This conclusion was reached, in part, on a review of HMC's history of providing acute care services to Kitsap County and surrounding communities for many years. The department also acknowledged HMC had already established long standing support and ancillary services with existing health providers as an acute care hospital. CHI Franciscan provided a listing of its current vendors and the types of services provided at HMC. [source: May 2, 2017, initial evaluation, pp39-40]

### **Reconsideration Review**

#### **Reconsideration Public Comment**

None

#### **Reconsideration Rebuttal Comment**

None

#### **Reconsideration Evaluation**

There was no additional information reviewed in this reconsideration that would change the department's initial conclusion. **This sub-criterion remains 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.

### **Initial Evaluation Summary**

In its May 2, 2017, initial evaluation the department concluded that CHI Franciscan's application met this sub-criterion. This conclusion was based, in part, on the following factors:

- a review of Catholic Health Initiatives (CHI) national compliance history;

- a review of CHI Franciscan's compliance history for its Washington State facilities, including eight acute care hospitals, six dialysis centers,<sup>13</sup> two ambulatory surgery centers,<sup>14</sup> one hospice care center, and a hospice agency; and
- a review of CHI Franciscan's Joint Commission compliance history for seven of the eight acute care hospitals.<sup>15</sup>

[source: May 2, 2017, initial evaluation, p40-42]

**Reconsideration Review**

Reconsideration Public Comment

None

Reconsideration Rebuttal Comment

None

Reconsideration Evaluation

Between the release of the initial evaluation on May 2, 2017, and the release of this reconsideration evaluation, CHI Franciscan sold a number of its dialysis centers to Fresenius Medical Center. Regardless of this change of ownership for the dialysis centers, the department’s review focuses on an historical quality review, which includes CHI Franciscan's ownership and operations. The compliance history for the all healthcare facilities, including the dialysis centers, continue to be relevant to this review.

There was no additional information reviewed in this reconsideration that would change the department’s initial conclusion. **This sub-criterion remains 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.

**Initial Evaluation Summary**

In its May 2, 2017, initial evaluation the department concluded that CHI Franciscan's application met this sub-criterion. This conclusion was reached, in part, on a review of HMC’s history of providing acute care services to Kitsap County and surrounding communities for many years. Additionally, the department reviewed public comment related to this sub-criterion that focused on continued patient access to needed services, such as oncology and critical care. The department also reviewed

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<sup>13</sup> Franciscan Bonney Lake Dialysis Center is not yet operational.

<sup>14</sup> Gig Harbor Ambulatory Surgery Center is operated under St. Joseph Medical Center’s hospital license and Franciscan Endoscopy Center is operated under the St. Francis Hospital license.

<sup>15</sup> St Elizabeth Hospital does not hold Joint Commission accreditation.

public comment focusing on transportation of patients, either by emergency medical providers (fire department or ambulance) or local transit services. [source: May 2, 2017, initial evaluation, pp42-49]

**Reconsideration Review**

Reconsideration Public Comment

None

Reconsideration Rebuttal Comment

None

Reconsideration Evaluation

There was no additional information reviewed in this reconsideration that would change the department's initial conclusion. **This sub-criterion remains 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.*

**Initial Evaluation Summary**

In its May 2, 2017, initial evaluation the department concluded that this sub-criterion was addressed in subsection (3) above and is met.

**Reconsideration Review**

Reconsideration Public Comment

None

Reconsideration Rebuttal Comment

None

Reconsideration Evaluation

There was no additional information reviewed in this reconsideration that would change the department's initial conclusion. **This sub-criterion continues to be evaluated in sub-section (3) above and remains met.**

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that CHI Franciscan Health **met** the applicable cost containment criteria in WAC 246-310-240.

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

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

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

### **Initial Evaluation Summary**

In its May 2, 2017, initial evaluation, the department applied its three-step review process to CHI Franciscan's application and concluded that CHI Franciscan's application met this sub-criterion. This conclusion was based, in part, on a review of the following specific information and documentation.

- A review of CHI Franciscan's other options considered before submission of the two phase relocation project;
- Public comment submitted regarding this review criteria; and
- Rebuttal comment submitted regarding this review criteria.

[source: May 2, 2017, initial evaluation, pp49-55]

### **Reconsideration Review**

#### **Reconsideration Public Comment**

None

#### **Reconsideration Rebuttal Comment**

None

#### **Reconsideration Evaluation**

##### **Step One**

For this reconsideration review, CHI Franciscan continues to meet the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

##### **Step Two**

Before submitting this application, CHI Franciscan considered three other options. The options and CHI Franciscan's rationale for rejecting them was evaluated in the initial review. Under reconsideration, CHI Franciscan did not provide additional information to be reviewed in this sub-criterion.

Step Three

This step is applicable only when there are two or more approvable projects. CHI Franciscan’s application was the only application under review to relocate acute care beds from one campus to another in Kitsap County. There was no additional information reviewed in this reconsideration that would change the department’s initial conclusion.

In its initial review, the department concluded that each of the three options was appropriately rejected by CHI Franciscan. Based on the reconsideration information reviewed, the department continues to conclude that the project as submitted by CHI Franciscan is the best available option for the planning area 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;*

**Initial Evaluation Summary**

In its May 2, 2017, initial evaluation, the department concluded that CHI Franciscan's application met this sub-criterion. This conclusion was based, in part, on a review of the following specific information and documentation.

- A review of CHI Franciscan's total construction costs;
- A review of CHI Franciscan's projected construction costs per bed;
- Charity Care and Hospital Financial Data Program’s review of construction costs and total capital expenditure for the project
- Public comment submitted regarding this review criteria; and
- Rebuttal comment submitted regarding this review criteria.

[source: May 2, 2017, initial evaluation, pp55-57]

**Reconsideration Review**

Reconsideration Public Comment

None

Reconsideration Rebuttal Comment

None

Reconsideration Evaluation

As part of its reconsideration analysis, CCHFPD provided the following statements regarding the construction costs, scope, and method:

*“The costs of the project are the cost for construction, planning and process. Harrison’s projections are below.”*

<i>Total Capital</i>	<i>\$484,690,706</i>
<i>Beds/Stations/Other (Unit)</i>	<i>242</i>
<i>Total Capital per Unit</i>	<i>\$2,002,854.16</i>

*“The costs shown are high, though not the highest per-bed costs reviewed by this office. Also construction cost can vary quite a bit due to type of construction, quality of material, custom vs. standard design, building site and other factors. Harrison is constructing a new building*

*to healthcare services standards and to the latest energy and hospital standards. Harrison notes that the completed project is projected to create a 31.9% reduction in energy consumption compared to the baseline required by the state energy code. The applicant projects over \$9 million in annual cost reductions from implementing the consolidation. Staff is satisfied the applicant plans are appropriate. This criterion is satisfied.”*

[source: CCHFDP analysis, p5]

In the initial review, comments assert that the cost to add two patient towers to the Silverdale campus is higher than the cost to renovate and upgrade the Bremerton campus. This assertion does not take into account other physical limitations of the Bremerton campus. Throughout this application and review, CHI Franciscan provided information to demonstrate that the improvements for the Silverdale campus is more cost effective overall than the costs for upgrading the Bremerton campus. Community members do not dispute the age and physical limitations of the Bremerton campus. There was no additional information submitted or reviewed in this reconsideration that would change the department’s initial conclusion.

Based on the information provided in the application and the revised analysis from CCHFDP, 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.*

### **Initial Evaluation Summary**

In its May 2, 2017, initial evaluation, the department concluded that CHI Franciscan's application met this sub-criterion. This conclusion was based, in part, on a review of the following specific information and documentation.

- A review of CHI Franciscan's total construction costs;
- A review of CHI Franciscan's projected construction costs per bed;
- Charity Care and Hospital Financial Data Program’s review of construction costs and total capital expenditure for the project
- Public comment submitted regarding this review criteria; and
- Rebuttal comment submitted regarding this review criteria.

[source: May 2, 2017, initial evaluation, pp57-58]

### **Reconsideration Review**

#### **Reconsideration Public Comment**

None

#### **Reconsideration Rebuttal Comment**

None

### **Reconsideration Evaluation**

As part of its reconsideration analysis, CCHFDP provided the following statements related to this sub-criterion.

*“While it has been noted above that the construction costs per unit for this project are higher than other recent projects we have evaluated, completion of this project is expected*

*to result in decreased energy consumption as well as significant decreases in operating cost per patient day because staffing and building costs will be concentrated at one new facility rather than distributed among two facilities, one of which is old and would require significant expense to maintain or improve. Staff is satisfied the project is appropriate. This criterion is satisfied.”*

[source: CCHFDP reconsideration analysis, p5]

This project involves construction by completing two patient towers at HMC. With the need to consolidate the two campuses and the assumptions related to the costs and charges discussed under the Financial Feasibility section of this evaluation, the department does not anticipate this project would have an unreasonable impact on the costs and charges to the public. Therefore, the department concludes **this sub-criterion is met.**

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

#### **Initial Evaluation Summary**

In its May 2, 2017, initial evaluation, the department concluded that CHI Franciscan's application met this sub-criterion. This conclusion was based, in part, on a review of CHI Franciscan's statements and documentation submitted to ensure cost effectiveness for the project.

[source: May 2, 2017, initial evaluation, pp58-59]

#### **Reconsideration Review**

##### Reconsideration Public Comment

None

##### Reconsideration Rebuttal Comment

None

##### Reconsideration Evaluation

In the initial review, the department noted that the project had the potential to improve delivery of acute care services to the residents of Kitsap County and surrounding communities with the consolidation of beds into one facility in Silverdale. There was no additional information submitted or reviewed in this reconsideration that would change the department's initial conclusion.

Based on the information provided in the application and the reconsideration analysis from CCHFDP, the department concludes **this sub-criterion is met.**