



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

August 22, 2017

CERTIFIED MAIL # 7016 3010 0001 0575 1508

John Gallagher, CEO
Sunnyside Healthcare
1016 Tacoma Avenue
Post Office Box 719
Sunnyside, Washington 98944

RE: Certificate of Need Application #17-25 Toppenish Community Hospital

Dear Mr. Gallagher:

We have completed review of the Certificate of Need application submitted by Regional Health proposing to purchase Toppenish Community Hospital from Community Health Systems/CHS. Enclosed is a written evaluation of the application.

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

Project Description

This certificate approves the purchase of Toppenish Community Hospital by Regional Health. There is no change in the number of approved beds. A breakdown of beds by type is shown below:

| Bed Type | Number of Licensed Beds |
|----------------------------|--------------------------------|
| General Medical/Surgical | 63 |
| Total Licensed Beds | 63 |

Conditions

1. Approval of the project description as stated above. Regional 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. Prior to issuance of a Certificate of Need for this project, Regional Health shall submit the documentation referenced in section 2.1 of the Asset Purchase Agreement that identifies a revised closure date for the transaction.
3. Regional Health shall finance the project as described in the application.

4. Within 30 days of the acquisition, Regional Health will submit to the department for review and approval the executed copy of the System Benefit Agreement. The executed copy must be consistent with the draft agreement provided in the application.
5. Within 30 days of the acquisition, Regional Health will submit to the department for review and approval the adopted copies of its admissions policy, non-discrimination policy, end-of-life policy, and reproductive health policy. Each of these policies must be consistent with the drafts provided in the application.
6. Within 30 days of the acquisition, Regional Health will submit to the Certificate of Need Program a copy of the charity care policy that has been reviewed and approved by the Charity Care Program within the Department of Health.
7. Toppenish Community Hospital 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. Toppenish Community Hospital will use reasonable efforts to provide charity care in an amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Central Region – whichever is greater. The amount identified in the application was 0.86% of gross revenue and 3.26% of adjusted revenue. Currently, the regional average is 1.50% gross revenue and 3.67% of adjusted revenue. Toppenish Community Hospital 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.
8. Toppenish Community Hospital will submit annual budgets (required under WAC 246-454-030) that include budgeted charity care of at least the amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Central Region – whichever is greater.
9. Regional Health will continue providing the essential services identified in the application for a minimum of ten years. These services are restated below:

- Perinatal/Obstetrical Services, including C-Section and LDRP
- Critical Care
- Pediatric Care
- 24-hour Emergency Care
- Diagnostic Services (except cardiac cath)
- Electrocardiography
- Pulmonary Function Services
- Gastro-intestinal Laboratory
- Pulmonary Function Services
- Respiratory Therapy
- Inpatient and Outpatient Surgical Services
- Therapeutic Services, including gastro-intestinal laboratory, pulmonary function, respiratory therapy, and stress testing
- Outpatient Services, including diabetes, hypertension, metabolic, wound care, and IV therapy
- Contracted Therapy Services (except occupational)
- Pharmacy
- Toxicology/Antidote Information

Approved Costs:

The estimated capital expenditure for the purchase of Toppenish Community Hospital is \$8,556,800, which is broken down in the table below.

| Item | Amount |
|---------------------------|--------------------|
| Purchase | \$5,920,000 |
| Estimated Working Capital | \$2,400,000 |
| Transaction Fees | \$236,800 |
| Total | \$8,556,800 |

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.

John Gallagher, Sunnyside Healthcare
CN Application #17-25
August 22, 2017
Page 4 of 4

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

EVALUATION DATED AUGUST 22, 2017 OF THE CERTIFICATE OF NEED APPLICATIONS SUBMITTED BY REGIONAL HEALTH PROPOSING TO PURCHASE TOPPENISH COMMUNITY HOSPITAL AND YAKIMA REGIONAL MEDICAL AND CARDIAC CENTER IN YAKIMA COUNTY

BACKGROUND INFORMATION

Health Management Associates (HMA) is a for-profit Delaware corporation that operates acute care hospitals primarily in the southeast and southwest areas of the United States. On March 17, 2003, HMA created a Washington State subsidiary known as Yakima HMA, LLC for the purpose of purchasing and operating both Providence Toppenish Hospital and Providence Yakima Medical Center. On August 12, 2003, CN #1270 was issued to Yakima HMA, LLC for the purchase of the Toppenish facility and CN #1271 was issued for the purchase of the Yakima facility. The approved capital expenditure for both hospitals was \$81,758,544; of that amount \$13,519,969 was for the Toppenish facility and \$68,238,575 was for the Yakima facility. Once purchased, Yakima HMA, LLC changed the names of the hospitals to Toppenish Community Hospital and Yakima Regional Medical Center and Cardiac Care. [source: CN historical files and August 8, 2002, CN evaluations for Applications #03-26 (Toppenish) and #03-27 (Yakima)]

Community Health Systems (CHS) is a Delaware-based for-profit operator of over 140 acute care hospitals in 21 states. On July 29, 2013, HMA and CHS entered into an Agreement and Plan of Merger [Agreement]. The Agreement resulted in the merger of HMA and a wholly owned subsidiary of CHS—CHS/Community Health Systems and the merger of 71 HMA facilities into Community Health Systems, Inc. which included the two facilities in Yakima. Once the Agreement was executed, Yakima HMA, LLC was 100% owned and operated by CHS/Community Health Systems. Since Yakima HMA, LLC was 100% owner and operator of both Yakima County hospitals, the execution of the Agreement resulted in a two separate CN applications for the change of ownership of the two Yakima hospitals.

On January 15, 2014, CN #1522 was issued to CHS/Community Health Systems for the acquisition of Toppenish Community Hospital and CN #1523 was issued for the acquisition of Yakima Regional Medical Center and Cardiac Care. The approved capital expenditure for both hospitals was \$206,000,000; of that amount \$29,000,000 was for the Toppenish facility and \$177,000,000 was for the Yakima facility. [source: CN historical files and January 9, 2014, CN evaluations for Applications #14-12 (Toppenish) and #14-13 (Yakima)]

On January 13, 2017, SCH Medical Center submitted two applications under separate corporations known as SCH Medical Center-Toppenish and SCH Medical Center-Yakima.¹ SCH Medical Center is a wholly owned subsidiary of SHC Holdco, LLC, which is wholly owned by Sunnyside Healthcare, a Washington not-for-profit corporation. Within the applications, SCH Medical Center noted that it had recently changed its name to Regional Health. Further, the name of SHC Holdco, LLC was changed to RH Holdco, LLC. The applicant provided the following clarification related to the name change: *“These are name changes only; the ownership, organizational structure and governance have not changed.”* Information obtained from the Washington State Secretary of State website confirms that the Sunnyside Healthcare corporation UBI number was assumed by

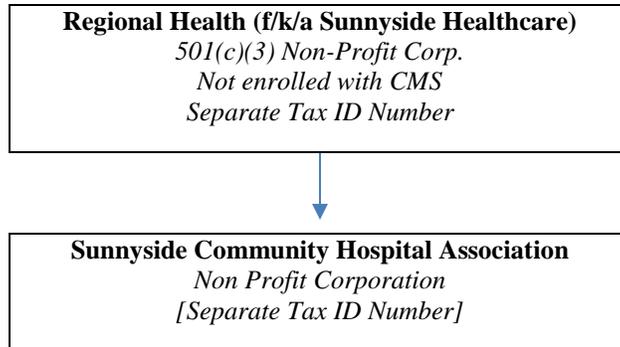
¹ When these two applications for Yakima County were submitted, CHS owned four Washington State hospitals – two in Spokane County and two in Yakima County. The four hospitals are: Valley Hospital and Deaconess Hospital, both in Spokane County, and Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center, both in Yakima County. On June 27, 2017, the department issued two separate Certificates of Need (CNs) to MultiCare Health System. CN #1605 approved the acquisition of Valley Hospital and CN #1606 approved the acquisition of Deaconess Hospital. As of the writing of this evaluation, for Washington State, CHS now owns only the two hospitals in Yakima County.

Regional Health. [source: Applications, p1 and Attachments 1 & 2] For these two projects, the department acknowledges that the applicant is Regional Health.

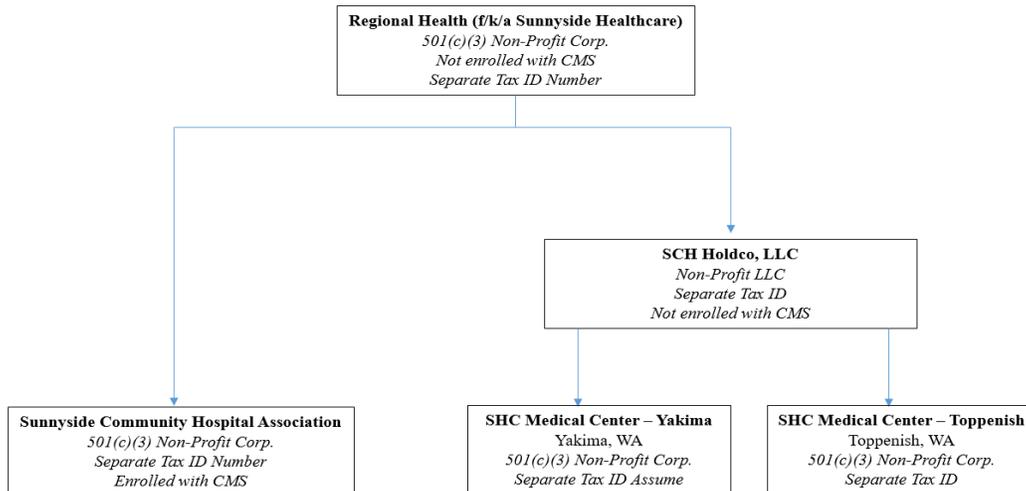
APPLICANT DESCRIPTION

Regional Health is a not-for-profit entity that is the sole member of Sunnyside Community Hospital Association, which is the legal entity that operates Sunnyside Community Hospital and Clinics. Regional Health is also the sole member of SCH Holdco, LLC. Below are pre- and post-acquisition organizational charts depicting relationships. [source: March 13, 2017, screening responses, p1 and Attachments 1, 2, & 3]

Regional Health-Organization Chart Pre-Acquisition



Regional Health-Organization Chart Post-Acquisition



Some of the public comment submitted for these two projects voiced concerns about Sunnyside Community Hospital’s financial capability to purchase the hospitals. It is necessary to clarify that Sunnyside Community Hospital is NOT purchasing Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center. Rather, as shown in the organization chart above, post-acquisition would result in Regional Health’s ownership and operation of three separate acute care hospitals in Yakima County: Sunnyside Community Hospital in Sunnyside, Toppenish Community Hospital in Toppenish, and Yakima Regional Medical Center and Cardiac Care in Yakima.

PROJECT DESCRIPTIONS

Regional Health proposes to purchase Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center from CHS. The estimated capital expenditure for both hospitals, which includes the purchase, estimated working capital, and transaction fees is \$50,480,000. For CN purposes, the acquisition of each hospital is reviewed separately.

Toppenish Community Hospital

Toppenish Community Hospital (TCH) is a 63-bed acute care hospital located at 502 West Fourth in Toppenish within Yakima County. TCH provides inpatient and outpatient services, as well as diagnostic imaging, medical, surgical and emergency services to the Toppenish community and surrounding areas. [source: Application, pp4-5, ILRS, Toppenish Community Hospital website]

TCH is Medicare and Medicaid certified, and holds a three-year accreditation from the Joint Commission. It also holds Level IV Adult Trauma designation from the Washington State Department of Health Trauma Services. These certifications and designations would continue following the proposed transaction. [sources: CMS Hospital Compare website, Joint Commission website, Washington State Department of Health website, Toppenish Community Hospital Application, pp4-7]

When TCH was purchased by HMA in year 2003, specific services were identified as essential. Those services were maintained under the new ownership of HMA. When HMA and CHS entered into an agreement and plan of merger in 2013, the ownership of TCH changed. During the review for the transaction, new owner CHS identified essential services that would be maintained at TCH. In this current review, proposed owner Regional Health also identified essential services at TCH that would continue to be provided following the transaction. The essential services are listed below. [source: Evaluation for Application #03-26 and Evaluation for Application #14-12, and Application, p6]

- Perinatal/Obstetrical Services, including C-Section and LDRP
- Critical Care
- Pediatric Care
- 24-hour Emergency Care
- Diagnostic Services (except cardiac cath)
- Electrocardiography
- Pulmonary Function Services
- Gastro-intestinal Laboratory
- Pulmonary Function Services
- Respiratory Therapy
- Inpatient and Outpatient Surgical Services
- Therapeutic Services, including gastro-intestinal laboratory, pulmonary function, respiratory therapy, and stress testing
- Outpatient Services, including diabetes, hypertension, metabolic, wound care, and IV therapy
- Contracted Therapy Services (except occupational)
- Pharmacy
- Toxicology/Antidote Information

The estimated capital expenditure for the purchase of TCH is \$8,556,800, which is broken down in the table below. [source: March 13, 2017 screening response, p4]

| Item | Amount |
|---------------------------|--------------------|
| Purchase | \$5,920,000 |
| Estimated Working Capital | \$2,400,000 |
| Transaction Fees | \$236,800 |
| Total | \$8,556,800 |

Yakima Regional Medical Center and Cardiac Care

Yakima Regional Medical Center and Cardiac Care (Yakima Regional) is a 214-bed acute care hospital located at 110 South 9th Avenue in Yakima, within Yakima County. Yakima Regional provides inpatient and outpatient services, as well as diagnostic imaging, medical, surgical, rehabilitation, and emergency services to the Yakima community and surrounding areas. [source: Application, pp4-5, ILRS, Yakima Regional website]

Yakima is Medicare and Medicaid certified, and holds a three-year accreditation from the Joint Commission. It also holds Level III Adult Trauma designation and a level II Rehabilitation Trauma designation from the Washington State Department of Health Trauma Services. These certifications and designations would continue following the proposed transaction. [source: CMS Hospital Compare website, Joint Commission website, Washington State Department of Health website, Yakima Regional Application, pp4-7]

When Yakima Regional was purchased by HMA in year 2003, specific services were identified as essential. Those services were maintained under the new ownership of HMA. When HMA and CHS entered into an agreement and plan of merger in 2013, the ownership of Yakima Regional changed. During the review for the transaction, new owner CHS identified essential services that would be maintained at Yakima Regional. In this current review, proposed owner Regional Health also identified essential services at Yakima Regional that would continue to be provided following the transaction. The essential services are listed below. [source: Evaluation for Application #03-27 and Evaluation for Application #14-13, and Application, p6]

- Critical Care
- Pediatric Care
- 24-hour Emergency Care
- Diagnostic Services (including cardiac cath)
- Electrocardiography
- Diagnostic Services including radioisotope, electrocardiography, pulmonary function, and nuclear medicine
- Therapeutic services, including occupational, physical, recreational, and rehabilitation therapy
- Gastro-intestinal Laboratory
- Pulmonary Function Services
- Respiratory Therapy
- Therapeutic Radioisotope
- Wound Care
- IV Therapy
- Inpatient and Outpatient Surgical Services
- Contracted Services, including speech-language pathology, acute dialysis, echocardiology, electroencephalography

- Outpatient Services, including diabetes, hypertension, metabolic
- Other Services, including telemetry rehabilitation, pharmacy, outpatient rehabilitation services, clinical services, chaplaincy services, diabetic training, dietetic counseling, drug reaction information, medical research, social work, home health aide, and home nursing care

In addition to the services identified above, Yakima Regional is the only elective open heart surgery and elective PCI provider in the county. If approved, Regional Health intends to continue those services as well.

The estimated capital expenditure for the purchase of Yakima Regional is \$41,923,200 which is broken down in the table below. [source: March 13, 2017 screening response, p4]

| Item | Amount |
|---------------------------|---------------------|
| Purchase | \$31,080,000 |
| Estimated Working Capital | \$9,600,000 |
| Transaction Fees | \$1,243,200 |
| Total | \$41,923,200 |

Asset Purchase Agreement

TCH and Yakima Regional are to be purchased under an executed Asset Purchase Agreement (APA) among Yakima HMC, LLC, Yakima HMA Physician Management, LLC, Hospital Management Associates (HMA), LLC, Community Health Systems, Inc (CHS) [seller] and SCH Medical Center-Toppenish or SCH Medical Center-Yakima.

Section 2.1 of the agreement identifies the closing date, which is restated below.

“Subject to the satisfaction or waiver by the appropriate party of all of the conditions precedent to Closing specified in Sections 7 and 8 hereof, the consummation of the transactions contemplated by and described in this Agreement (the “Closing”) shall take place at the offices of Bradley Arant Boult Cummings LLP, 1600 Division Street, Suite 700, Nashville, Tennessee, at 10:00 a.m. local time, on or before April 30, 2017, or on such other date or at such other location as the parties may mutually designate in writing (the date of consummation is referred to herein as the “Closing Date”). The Closing shall be effective as of 12:00:01 a.m., local time, on May 1, 2017, or such other time as the parties may mutually designate in writing (such time, the “Effective Time”).” [emphasis added]

Given the department timelines for these reviews, the underlined section would become effective. If this project is approved, the department would require Regional Health to provide documentation representing the actual closure date of the transaction.

System Benefit Agreement

Once purchased, Regional Health intends to operate TCH and Yakima Regional each under a separate System Benefit Agreement (SBA). Regional Health provided drafts of each SBA within the application documents. [source: TCH application, 2nd screening response, Attachment 2; Yakima Regional application, 2nd screening response, Attachment 1]

TCH’s SBA is between Regional Health and the specific non-profit entity that TCH would operate under—SCH Medical Center-Toppenish; Yakima Regional’s agreement is between Regional Health and SCH Medical Center-Yakima. Except for the areas specific to each hospital, the draft SBAs are exactly the same. Below is a table outlining the specifics of each draft SBA.

**Toppenish Community Hospital
Draft System Benefit Agreement**

Between Regional Health and SCH Medical Center-Toppenish

Effective Date- Blank (draft document)

Management- This section identifies roles and responsibilities for both entities. Regional Health will provide day-to-day management and administrative resources necessary for TCH to operate efficiently, sustainably, and in a manner consistent with its charitable purposes. This section includes “Appointment of Managers” and allows Regional Health to appoint certain of its employees to perform services as managers of the TCH and oversee and manage the day-to-day operations.

This section also requires TCH to participate in a shared cash management program, maintained by Regional Health, in which all receipts from the businesses of TCH are deposited, in compliance with applicable federal and state laws. Regional Health will be allowed to make withdrawals on behalf of TCH to pay expenses of TCH. This section provides guidance on certain items that Regional Health will have the authority to expend funds on behalf of TCH consistent with the operating and capital budgets for TCH as well as establish the operating and capital budgets for TCH. In addition, TCH’s financial statements shall be consolidated into those of Regional Health.

Compliance & Accreditation – This section confirmation that both entities will conduct business compliant with state and federal guideline.

Term – Begins on commencement date (not yet identified in the draft document) and automatically continues. The agreement can be terminated under specific conditions: (i) Regional Health’s sole discretion at any time; (ii) at such time Regional Health ceases to own or operate Hospital, or (iii) upon the dissolution of Hospital.

HIPPA – This section confirmation that both entities will conduct business in compliance with HIPPA regulations related to patient security and privacy.

Indemnification – This section states: Hospital shall indemnify, defend, and hold harmless Regional Health and its officers, directors, employees, agents, affiliates, successor and permitted assigns (collectively, “**Indemnified Party**”) against any and all losses, damages, liabilities, deficiencies, claims, actions, judgments, settlements, interest, awards, penalties, fines, costs, or expenses of whatever kind, including attorneys’ fees, that are incurred by Indemnified Party arising out of or related to any third-party claim arising from the subject matter of this Agreement.

Marks - Subject to applicable laws, Hospital hereby grants to Regional Health, for the term of this Agreement, a non-exclusive right and license to use any trade names and logos, including the name “SCH Medical Center – Toppenish” and any variations thereto. All goodwill associated with the Marks shall insure to and be for the sole benefit of Hospital.

Compensation – this section identifies compensation for services described in the “Management” section to be “an annual fee in an amount equal to one percent (1%) of Hospital’s gross revenue (“Management Fee”), which the Parties anticipate for 2017 (January 1, 2017 through December 31, 2017) to be an annualized amount equal to Two Hundred Thirty-Three Thousand Eight Hundred Ten and 00/100 Dollars (\$233,810), which Hospital will pay to Regional Health in equal installments of Nineteen Thousand Four Hundred Eighty-Four and 17/100 Dollars (\$19,484.17) per month, subject to quarterly and annual reconciliation based on Hospital’s actual gross revenues. The Management Fee is in addition to, and not in lieu of, all other payments and reimbursements to be made by Hospital to Regional Health under the terms of this Agreement. The Parties acknowledge and agree that the Management Fee is commercially reasonable and fair market value for the Management Services rendered hereunder and that no payment made under this Agreement is in return for, or otherwise intended to influence, the referral of patients or generation of business, including business paid for in whole or in part by federal or state government programs. No part of this Agreement shall be construed to induce, encourage, solicit or reimburse the referral of any patients or business, including any patient or business funded in whole or in part by any federal or state governmental program (i.e., Medicare, Medicaid, TRICARE, etc.)”

Miscellaneous – This section confirms that the SBA is governed by Washington State law and represents the entire agreement of both Regional Health and SCH Medical Center-Toppenish. The SBA cannot be assigned to another entity and clarifies information related to books, records, and patient files.

Exhibit A-HIPPA Business Associate Addendum – This exhibit provides specific definitions of terms (such as ‘individual,’ ‘disclosure,’ and ‘protected health information’). Under this exhibit, “Business Associate” is Regional Health and Medical Center-Toppenish is the ‘Covered Entity.’ The exhibit provides parameters of the business relationship between both. It outlines roles and responsibilities of Regional Health and SCH Medical Center-Toppenish. It also identifies remedies to be taken if a breach of protected health information occurs.

Signature Page- Unsigned (draft document)

**Yakima Regional Medical and Cardiac Center
Draft System Benefit Agreement**

Between Regional Health and SCH Medical Center-Yakima

Effective Date- Blank (draft document)

Management- This section identifies roles and responsibilities for both entities. Regional Health will provide day-to-day management and administrative resources necessary for Yakima Regional to operate efficiently, sustainably, and in a manner consistent with its charitable purposes. This section includes “Appointment of Managers” and allows Regional Health to appoint certain of its employees to perform services as managers of the Yakima Regional and oversee and manage the day-to-day operations.

This section also requires Yakima Regional to participate in a shared cash management program, maintained by Regional Health, in which all receipts from the businesses of Yakima Regional are deposited, in compliance with applicable federal and state laws. Regional Health will be allowed to make withdrawals on behalf of Yakima Regional to pay expenses of Yakima Regional. This section provides guidance on certain items that Regional Health will have the authority to expend funds on

behalf of Yakima Regional consistent with the operating and capital budgets for Yakima Regional as well as establish the operating and capital budgets for Yakima Regional. In addition, Yakima Regional's financial statements shall be consolidated into those of Regional Health.

Compliance & Accreditation – This section confirmation that both entities will conduct business compliant with state and federal guideline.

Term – Begins on commencement date (not yet identified in the draft document) and automatically continues. The agreement can be terminated under specific conditions: (i) Regional Health's sole discretion at any time; (ii) at such time Regional Health ceases to own or operate Hospital, or (iii) upon the dissolution of Hospital.

HIPPA – This section confirmation that both entities will conduct business in compliance with HIPPA regulations related to patient security and privacy.

Indemnification – This section states: Hospital shall indemnify, defend, and hold harmless Regional Health and its officers, directors, employees, agents, affiliates, successor and permitted assigns (collectively, "**Indemnified Party**") against any and all losses, damages, liabilities, deficiencies, claims, actions, judgments, settlements, interest, awards, penalties, fines, costs, or expenses of whatever kind, including attorneys' fees, that are incurred by Indemnified Party arising out of or related to any third-party claim arising from the subject matter of this Agreement.

Marks - Subject to applicable laws, Hospital hereby grants to Regional Health, for the term of this Agreement, a non-exclusive right and license to use any trade names and logos, including the name "SHC Medical Center – Yakima" and any variations thereto. All goodwill associated with the Marks shall insure to and be for the sole benefit of Hospital.

Compensation – this section identifies compensation for services described in the "Management" section to be "an annual fee in an amount equal to one percent (1%) of Hospital's gross revenue ("Management Fee"), which the Parties anticipate for 2017 (January 1, 2017 through December 31, 2017) to be an annualized amount equal to One Million One Hundred Fourteen Thousand Seven Hundred Twenty Nine and 00/100 Dollars (\$1,114,729), which Hospital will pay to Regional Health in equal installments of Ninety Two Thousand Eight Hundred Ninety Four and 08/100 Dollars (\$92,894.08) per month, subject to quarterly and annual reconciliation based on Hospital's actual gross revenues. The Management Fee is in addition to, and not in lieu of, all other payments and reimbursements to be made by Hospital to Regional Health under the terms of this Agreement. The Parties acknowledge and agree that the Management Fee is commercially reasonable and fair market value for the Management Services rendered hereunder and that no payment made under this Agreement is in return for, or otherwise intended to influence, the referral of patients or generation of business, including business paid for in whole or in part by federal or state government programs. No part of this Agreement shall be construed to induce, encourage, solicit or reimburse the referral of any patients or business, including any patient or business funded in whole or in part by any federal or state governmental program (i.e., Medicare, Medicaid, TRICARE, etc.).

Miscellaneous – This section confirms that the SBA is governed by Washington State law and represents the entire agreement of both Regional Health and SCH Medical Center-Yakima. The SBA cannot be assigned to another entity and clarifies information related to books, records, and patient files.

Exhibit A-HIPPA Business Associate Addendum – This exhibit provides specific definitions of terms (such as 'individual,' 'disclosure,' and 'protected health information'). Under this exhibit, "Business

Associate” is Regional Health and Medical Center-Yakima is the ‘Covered Entity.’ The exhibit provides parameters of the business relationship between both. It outlines roles and responsibilities of Regional Health and SCH Medical Center-Yakima. It also identifies remedies to be taken if a breach of protected health information occurs.

Signature Page- Unsigned (draft document)

APPLICABILITY OF CERTIFICATE OF NEED LAW

Both projects are subject to review as the sale or purchase of a hospital under Revised Code of Washington 70.38.105(4)(b) and Washington Administrative Code 246-310-010(1)(b).

EVALUATION CRITERIA

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

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

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

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

In the event 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).

TYPE OF REVIEW

Applications for the sale or purchase of a hospital qualify for an expedited review under WAC 246-310-150. Under an expedited review, the department is precluded from conducting a public hearing. On June 1, 2017, the department elected to conduct public hearings on the two projects. As a result, these two projects were reviewed under the regular review timeline, which is summarized below.

APPLICATION CHRONOLOGY

| Action | Regional Health² |
|--|---|
| Letter of Intent Submitted | December 13, 2016 |
| Application Submitted | January 13, 2017 |
| Department's pre-review activities <ul style="list-style-type: none">• DOH's 1st Screening Letter• Applicant's Responses Received• DOH's 2nd Screening Letter• Applicant's Responses Received | February 6, 2017 March 13, 2017 April 3, 2017 May 18, 2017 |
| Beginning of Review | June 1, 2017 |
| Public Comment <ul style="list-style-type: none">• Public comments accepted through end of public comment• Public hearing conducted | July 11, 2017 July 11, 2017 |
| Rebuttal Comments Due | July 26, 2017 |
| Department's Scheduled Decision Date | September 11, 2017 |
| Department's Actual Decision Date | August 22, 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."*

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

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

² As stated under "Type of Review," the applications to acquire Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center were reviewed concurrently. Regional Health submitted information for each application at the same time.

(g) Any person regularly using health care facilities within the geographic area to be served by the applicant.

During the review of these projects, a number of persons asked to receive updates on both applications during the course of review, but did not request interested or affected person status. A total of nine persons or healthcare providers sought interested person status, with interest in receiving affected person status. Some provided written comments on the project. A brief description of each of the nine persons or healthcare providers is below.

Providence Health & Services

On December 22, 2016, Providence Health & Services requested interested person status and to be informed of the department's decision for both applications. Providence operates St. Mary Medical Center in Walla Walla County within health service area four; Yakima County is located in health services area three.³ St. Mary Medical Center is not located within the same service area as the two hospitals under review and did not provide public comments regarding either project, Providence Health & Services does not meet the definition of an "interested person" under WAC 246-310-010(34)(b). Therefore, Providence Health & Services and St. Mary Medical Center do not qualify as an "affected person."

Virginia Mason Memorial

Virginia Mason Memorial requested interested person status on January 26, 2017. Virginia Mason Memorial is a 226-bed acute care hospital located in Yakima County. A representative from the hospital provided written comments regarding the acquisition of Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center during this review process. Virginia Mason Memorial qualifies as an "affected person."

Washington States Nurses Association

Washington States Nurses Association (WSNA) requested interested person status for both applications. According to its website, WSNA represents nearly 75,000 licensed Registered Nurses, including staff nurses, nurse educators, nurse practitioners, school nurses, public health nurses, long-term care nurses, nurse managers, and nurses in other practice areas. WSNA provided written comments regarding the acquisition of the two hospitals. Though WSNA represents nurses at both hospitals, it is not located within the applicant's health service area. WSNA does not qualify as an "affected person." [source: WSNA website]

SEIU 1199NW

On February 3, 2017, SEIU 1199NW requested interested person status for both applications. SEIU 1199NW is a statewide union of nurses and healthcare workers. According to its website, SEIU 1199NW represents more than 29,000 nurses and healthcare workers across Washington State. SEIU 1199NW provided written comments regarding the acquisition. Though SEIU 1199NW represents employees at both hospitals, it is not located within the applicant's health service area. SEIU 1199NW does not qualify as an "affected person." [source: SEIU 1199NW website]

MultiCare Health System

MultiCare Health System (MHS) is a not-for-profit health system serving the residents of Pierce and King Counties. MHS requested interested and affected person status for these two projects on February 24, 2017. MHS does not operate any healthcare facilities in Yakima County or within health service area three. MHS did not provide written comments regarding either project, therefore MHS does not qualify as an "affected person." [source: MultiCare Health System website]

³ Health service area three includes the following 8 counties: Benton, Chelan, Douglas, Franklin, Grant, Kittitas, Okanogan, and Yakima. Health service area four includes the following 11 counties: Adams, Asotin, Columbia, Ferry, Garfield, Lincoln, Pend Oreille, Stevens, Spokane, Walla Walla, and Whitman.

Comprehensive Healthcare

Comprehensive Healthcare is a private non-profit organization that offers a full range of behavioral health and substance use disorder treatment services, with special programs for veterans, victims of crime, parents, and employees. It provides services to children, adults, and families throughout Eastern Washington. On March 7, 2017, Comprehensive Healthcare requested interested person, but not affected person, status for these two projects. A representative of Comprehensive Healthcare provided public comments. Comprehensive Health does not qualify as an “affected person.” [source: Comprehensive Healthcare website]

Yakima Valley Community Foundation

Community Foundations are tax-exempt public charities that guide philanthropy, dedicated to improving the quality of life in the communities they serve. Yakima Valley Community Foundation was formed pursuant to the requirements of Revised Code of Washington (RCW) 70.45 with the approval and in accordance with the opinion of the Attorney General of the state of Washington dated August 6, 2003 regarding the "*Proposed Acquisition of Yakima Medical Center and Providence Hospital*" by Yakima HMA. Yakima Valley Community Foundation’s focus is three areas: promote quality education, healthy living, and civic vitality. On March 13, 2017, Yakima Valley Community Foundation requested interested and affected person status for these two projects. The foundation provided public comments. Yakima Valley Community Foundation qualifies as an “affected person.” [source: Yakima Valley Community Foundation website]

Community Health of Central Washington

Community Health of Central Washington is a non-profit corporation that provides outpatient medical and dental care through its clinics in Yakima, Tieton, and Naches in Yakima County and Ellensburg in Kittitas County. Community Health of Central Washington has been providing these services to low income people in the two counties since 1993. On April 27, 2017, Community Health of Central Washington requested affected person status for these two projects. Community Health of Central Washington provided public comments and qualifies as an “affected person.” [source: Community Health of Central Washington website]

Yakima Neighborhood Health Services

Founded in 1975, the Yakima Neighborhood Health Services (YNHS), is a private nonprofit health clinic. YNHS was founded to provide preventive health care and education services to low-income people. Pharmacy Services are offered for YNHS at discounted pricing for low-income patients without access to prescription drug coverage. YNHS focuses on health services for homeless families and individuals in Yakima. On May 3, 2017, YNHS requested interested and affected person status for these two projects. YNHS provided public comments and qualifies as an “affected person.” [source: Yakima Neighborhood Health Services website]

Morris G. Shore, Attorney

Morris Shore is a resident of Yakima and a user of the health care services. Mr. Shore is also an attorney associated with a practice known as Stokes Lawrence that has offices in both Seattle and Yakima. Morris Shore attended at least one of the July 11, 2017, public hearings and submitted written comments at the hearing. On June 28, 2017, Mr. Shore requested to be informed of the department’s decision on this project. Morris Shore qualifies as an “affected person.” [source: Stokes Lawrence website]

In summary, the following five individuals or healthcare providers requested and qualify for affected person status for these two projects.

- Virginia Mason Memorial
- Yakima Valley Community Foundation
- Community Health of Central Washington
- Yakima Neighborhood Health Services
- Yakima County resident Morris Shore

SOURCE INFORMATION REVIEWED

- Regional Health System's Certificate of Need application for Toppenish Community Hospital received January 13, 2017
- Regional Health System's Certificate of Need application for Yakima Regional Medical and Cardiac Center received January 13, 2017
- Regional Health System's Toppenish Community Hospital first screening response received March 13, 2017
- Regional Health System's Yakima Regional Medical and Cardiac Center first screening response received March 13, 2017
- Regional Health System's Toppenish Community Hospital second screening response received May 18, 2017
- Regional Health System's Yakima Regional Medical and Cardiac Center second screening response received May 18, 2017
- Public comment received by 5:00 pm on July 11, 2017
- Public comment received at the public hearing conducted in Toppenish on July 11, 2017
- Public comment received at the public hearing conducted in Yakima on July 11, 2017
- Rebuttal comment submitted by Morris Shore and David Thorner received on July 21, 2017
- Rebuttal comment submitted by Yakima Valley Community Foundation received on July 25, 2017
- Rebuttal comment submitted by Regional Health received on July 26, 2017
- Hospital/Finance and Charity Care (HFCC) Financial Review received August 18, 2017
- Years 2012 through 2016 historical hospital financial data obtained from DOH website at <http://www.doh.wa.gov/DataandStatisticalReports/HealthcareinWashington/HospitalandPatientData/HospitalFinancialData>
- Joint Commission website at www.jointcommission.org
- MultiCare Health System website at <https://www.multicare.org>
- Toppenish Community Hospital website at www.toppenishhospital.com
- Yakima Regional Medical and Cardiac Center website at www.yakimaregional.com
- Washington State Secretary of State website at www.sos.wa.gov
- Washington State Nurses Association website at www.wsna.org
- SEIU 1199NW website at www.seiu1199nw.org
- Certificate of Need historical files

PUBLIC COMMENTS OUTSIDE SCOPE OF REVIEW CRITERIA

During the review of these application, several letters were submitted supporting acquisition of the two Yakima hospitals by Regional Health based, in part, that TCH and Yakima Regional “*would be going back to local ownership and non-profit status.*” Excerpts from some of the letters of support are below.

Examples of Support for Non-Profit Status

“The operation of Toppenish Community Hospital and Yakima Regional Medical & Cardiac Center by SCH as non-profit rather than for-profit hospitals will result in substantial benefits to the residents of Yakima County and improve the quality of medical care available, particularly to low-income residents of the valley.” [Patrick Andreotti June 30, 2017 public comment]

“Returning Yakima Regional and Toppenish hospitals to not-for-profit statue would greatly improve health care in both communities. Operational proceeds would be reinvested in staff and the community. I am aware of decisions made by the current administration to improve the bottom line which have resulted in the dismissal of employees-and service closures which have negatively impacted patient care. This agreement would improve access for underserved, low income and charity care patients in these communities.” [Karen Ireland, MD, July 3, 2017 public comment]

“I'm a resident of Yakima and feel strongly that a local nonprofit integrated delivery system managed by experienced health care professionals and governed by local boards of director is the right choice for the entire Yakima Valley; not just the City of Yakima but all of the towns and communities throughout the Valley.” [Dawn O’Polka July 4, 2017, public comment]

“Transitioning Yakima Regional Medical & Cardiac Center and Toppenish Community Hospital to Regional Health, a nonprofit, provides a system that understands the needs of our community. PFP (People for People) looks forward to the opportunity to partner with Regional Health to reduce health disparities and improve the health of our community.” [Madelyn Carlson, CDO People for People, July 10, 2017 public comment]

While the department understands the community’s interest and enthusiasm for these two topics, neither non- or for-profit status nor local vs out-of-state ownership are part of the review criteria for Certificate of Need. These two topics are outside the scope of the review criteria. As a result, these topics will not be further discussed in this evaluation.

CONCLUSIONS

Toppenish Hospital

For the reasons stated in this evaluation, the application submitted by Regional Health proposing to purchase Toppenish Community Hospital from CHS is consistent with the applicable review criteria of the Certificate of Need Program, provided that Regional Health agrees to the following in its entirety.

Project Description

This certificate approves the purchase of Toppenish Community Hospital by Regional Health. There is no change in the number of approved beds. A breakdown of beds by type is shown below:

| Bed Type | Number of Licensed Beds |
|----------------------------|--------------------------------|
| General Medical/Surgical | 63 |
| Total Licensed Beds | 63 |

Conditions

1. Approval of the project description as stated above. Regional 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. Prior to issuance of a Certificate of Need for this project, Regional Health shall submit the documentation referenced in section 2.1 of the Asset Purchase Agreement that identifies a revised closure date for the transaction.
3. Regional Health shall finance the project as described in the application.
4. Within 30 days of the acquisition, Regional Health will submit to the department for review and approval the executed copy of the System Benefit Agreement. The executed copy must be consistent with the draft agreement provided in the application.
5. Within 30 days of the acquisition, Regional Health will submit to the department for review and approval the adopted copies of its admissions policy, non-discrimination policy, end-of-life policy, and reproductive health policy. Each of these policies must be consistent with the drafts provided in the application.
6. Within 30 days of the acquisition, Regional Health will submit to the Certificate of Need Program a copy of the charity care policy that has been reviewed and approved by the Charity Care Program within the Department of Health.
7. Toppenish Community Hospital 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. Toppenish Community Hospital will use reasonable efforts to provide charity care in an amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Central Region – whichever is greater. The amount identified in the application was 0.86% of gross revenue and 3.26% of adjusted revenue. Currently, the regional average is 1.50% gross revenue and 3.67% of adjusted revenue. Toppenish Community Hospital 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.
8. Toppenish Community Hospital will submit annual budgets (required under WAC 246-454-030) that include budgeted charity care of at least the amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Central Region – whichever is greater.
9. Regional Health will continue providing the essential services identified in the application for a minimum of ten years. These services are restated below:

- Perinatal/Obstetrical Services, including C-Section and LDRP
- Critical Care
- Pediatric Care
- 24-hour Emergency Care
- Diagnostic Services (except cardiac cath)
- Electrocardiography
- Pulmonary Function Services
- Gastro-intestinal Laboratory
- Pulmonary Function Services
- Respiratory Therapy
- Inpatient and Outpatient Surgical Services
- Therapeutic Services, including gastro-intestinal laboratory, pulmonary function, respiratory therapy, and stress testing
- Outpatient Services, including diabetes, hypertension, metabolic, wound care, and IV therapy
- Contracted Therapy Services (except occupational)
- Pharmacy
- Toxicology/Antidote Information

Approved Costs

The estimated capital expenditure for the purchase of Toppenish Community Hospital is \$8,556,800, which is broken down in the table below.

| Item | Amount |
|---------------------------|--------------------|
| Purchase | \$5,920,000 |
| Estimated Working Capital | \$2,400,000 |
| Transaction Fees | \$236,800 |
| Total | \$8,556,800 |

Yakima Regional Medical and Cardiac Center

For the reasons stated in this evaluation, the application submitted by Regional Health proposing to purchase Yakima Regional Medical and Cardiac Center from CHS is consistent with the applicable review criteria of the Certificate of Need Program, provided that Regional Health agrees to the following in its entirety.

Project Description

This certificate approves the purchase of Yakima Regional Medical and Cardiac Center by Regional Health. There is no change in the number of approved beds. A breakdown of beds by type is shown below:

| Bed Type | Number of Licensed Beds |
|----------------------------|--------------------------------|
| General Medical/Surgical | 197 |
| PPS Exempt Rehabilitation | 17 |
| Total Licensed Beds | 214 |

Conditions

1. Approval of the project description as stated above. Regional 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. Prior to issuance of a Certificate of Need for this project, Regional Health shall submit the documentation referenced in section 2.1 of the Asset Purchase Agreement that identifies a revised closure date for the transaction.
3. Regional Health shall finance the project as described in the application.
4. Within 30 days of the acquisition, Regional Health will submit to the department for review and approval the executed copy of the System Benefit Agreement. The executed copy must be consistent with the draft agreement provided in the application
5. Within 30 days of the acquisition, Regional Health will submit to the department for review and approval the adopted copies of its admissions policy, non-discrimination policy, end-of-life policy, and reproductive health policy. Each of these policies must be consistent with the drafts provided in the application.
6. Within 30 days of the acquisition, Regional Health will submit to the Certificate of Need Program a copy of the charity care policy that has been reviewed and approved by the Charity Care Program within the Department of Health.
7. Yakima Regional Medical and Cardiac 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. Yakima Regional Medical and Cardiac Center will use reasonable efforts to provide charity care in an amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Central Region – whichever is greater. The amount identified in the application was 0.86% of gross revenue and 2.43% of adjusted revenue. Currently, the regional average is 1.50% gross revenue and 3.67% of adjusted revenue. Yakima Regional Medical and Cardiac 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.
8. Yakima Regional Medical and Cardiac Center will submit annual budgets (required under WAC 246-454-030) that include budgeted charity care of at least the amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Central Region – whichever is greater.

9. Regional Health will continue providing the essential services identified in the application for a minimum of ten years. These services are restated below.

- Critical Care
- Pediatric Care
- 24-hour Emergency Care
- Diagnostic Services (including cardiac cath)
- Electrocardiography
- Diagnostic Services including radioisotope, electrocardiography, pulmonary function, and nuclear medicine
- Therapeutic services, including occupational, physical, recreational, and rehabilitation therapy
- Gastro-intestinal Laboratory
- Pulmonary Function Services
- Respiratory Therapy
- Therapeutic Radioisotope
- Wound Care
- IV Therapy
- Inpatient and Outpatient Surgical Services
- Contracted Services, including speech-language pathology, acute dialysis, echocardiology, electroencephalography
- Outpatient Services, including diabetes, hypertension, metabolic
- Other Services, including telemetry rehabilitation, pharmacy, outpatient rehabilitation services, clinical services, chaplaincy services, diabetic training, dietetic counseling, drug reaction information, medical research, social work, home health aide, and home nursing care

Approved Costs

The estimated capital expenditure for the purchase of Yakima Regional is \$41,923,200 which is broken down in the table below.

| Item | Amount |
|---------------------------|---------------------|
| Purchase | \$31,080,000 |
| Estimated Working Capital | \$9,600,000 |
| Transaction Fees | \$1,243,200 |
| Total | \$41,923,200 |

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 evaluation, the department concludes that Regional Health has met the applicable need criteria in WAC 246-310-210 for both applications.

- (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.*

In reviewing an application to acquire an existing healthcare facility such as these, the department does not complete a numeric need methodology. The numeric need for existing beds or services is considered met. WAC 246-310-210 does not provide specific review criteria with which to evaluate how existing facilities or services would be sufficiently available or accessible to absorb existing and projected volumes, in the event either acquisition project was not approved. Therefore, using its experience and expertise the department evaluates information from the application, as well as publically available hospital utilization and occupancy data from the Yakima County hospitals to assess this sub-criterion.

Toppenish Community Hospital

Regional Health provided five years of inpatient days TCH shown below. [source: TCH Application p9]

Table 3
Toppenish Community Hospital
Patient Days 2011-2016

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>Inpatient Days</i> | 5,878 | 5,459 | 4,070 | 4,257 | 4,379 | 3,772 |

In addition to the data above, Regional Health provided the following statements related to this sub-criterion specific to TCH. [source: TCH Application, p9 and pp13-14]

“Toppenish’s actual patient day data for the period of 2013-2016 do not match CHARS. In preparing this application RH Toppenish identified a discrepancy between internal data, data submitted to the DOH in yearend reports and data submitted to CHARS. The Department of Health’s Office of Patient Data Systems confirmed that there has been consistent underreporting by Toppenish to CHARS beginning in approximately September of 2013, and for this reason we are using data other than CHARS for the period of 2013-2016.”

“The return of the hospital to local control and to not-for-profit status preserves choice and assures that community access is maintained. In addition, Regional Health has a strong track record, commitment and vision to operational excellence, as evidenced by the strong turnaround of RH Sunnyside (Sunnyside Community Hospital & Clinics). Return of the hospital to not-for profit status also means that proceeds from operations will be reinvested in services, staff and the community—and we believe that the community will be the direct beneficiary. We also intend to continue coordinating with other providers in the County and region to best serve patients.

RH Sunnyside has demonstrated what a community organization led by a visionary Board and leadership team can accomplish, and we will replicate these accomplishments in Toppenish. Regional Health’s focus is on healthy families and communities and we support and partner with schools, youth organizations, churches and community and civic organizations daily. Further, Regional Health has the capacity and expertise to make and execute on a long-term commitment the continuation and growth of RH Toppenish. Specifically, RH Toppenish intends to:

- *Make a long-term commitment to the sustainability of the Hospital while assuring that its mix of services supports community need.*
- *Accelerate efforts related to quality and the patient experience.*
- *Retain employees in good standing at the time of acquisition.*
- *Provide at least the regional average of charity care.*
- *Widely engage the community in activities such as community health needs assessments and desired educational programming.*
- *Lead efforts to assure access to care, and*
- *Have an unrelenting, but balanced focus on operating efficiencies and per capita costs.*

Toppenish has been owned by two different for-profits over the past 15 years, and frankly the benefit to the community has not been evident. CHS is committed to divesting Toppenish. If this CN request is not approved, CHS will have to identify another potential acquirer. Of concern to us is that any further delay in the transfer of ownership means that the hospital continues to experience delays in new investments in commitments to staff and programs. The timely acquisition by RH Toppenish is needed to assure that the community continues to enjoy access to local health care.

At this time, there is no anticipated reduction or elimination of any current service. Regional Health and RH Toppenish will evaluate and respond to documented community needs, and is likely to add, or expand services in response to those needs. To be conservative, our pro forma financials do not assume any significant new services. Further, we are well aware that if an identified new service requires prior CN review and approval, that we will need a separate CN approval prior to establishing the service.”

Public Comment

Most of the public comment provided focused on both TCH and Yakima Regional. As a result, the public comment, rebuttal, and evaluation for TCH is combined with that of Yakima Regional below.

Yakima Regional Medical and Cardiac Center

Regional Health provided five years of inpatient days Yakima Regional shown below. [source: Yakima Regional Application p8]

***Table 3
Yakima Regional
Patient Days 2011-2016***

| | <i>2011</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> | <i>2015</i> | <i>2016</i> |
|------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <i>Inpatient Days</i> | 28,464 | 25,596 | 23,086 | 20,419 | 21,104 | 19,241 |

In addition to the data above, Regional provided the following statements related to this sub-criterion specific to Yakima Regional. [source: TCH Application, p9 and pp13-14]

“Yakima Regional’s actual patient day data does not match CHARS. In preparing this application RH Yakima identified a discrepancy between internal data, data submitted to the DOH in yearend reports and data submitted to CHARS. The Department of Health’s Office of Patient Data Systems confirmed that there has been consistent underreporting by Yakima Regional to CHARS beginning in approximately September of 2013, and for this reason we are using data other than CHARS for the period of 2013-2016.”

“The return of the hospital to local control and to not-for-profit status preserves choice and assures that community access is maintained. In addition, Regional Health has a strong track record, commitment and vision to operational excellence, as evidenced by the strong turnaround of RH Sunnyside (Sunnyside

Community Hospital & Clinics). Return of the hospital to not-for profit status also means that proceeds from operations will be reinvested in services, staff and the community—and we believe that the community will be the direct beneficiary. We also intend to continue coordinating with other providers in the County and region to best serve patients.

RH Sunnyside has demonstrated what a community organization led by a visionary Board and leadership team can accomplish, and we will replicate these accomplishments in Yakima. Regional Health’s focus is on healthy families and communities and we support and partner with schools, youth organizations, churches and community and civic organizations daily. Further, Regional Health has the capacity and expertise to make and execute on a long-term commitment the continuation and growth of RH Yakima. Specifically, RH Yakima intends to:

- *Make a long-term commitment to the sustainability of the Hospital while assuring that its mix of services supports community need.*
- *Accelerate efforts related to quality and the patient experience.*
- *Retain employees in good standing at the time of acquisition.*
- *Provide at least the regional average of charity care.*
- *Widely engage the community in activities such as community health needs assessments and desired educational programming.*
- *Lead efforts to assure access to care, and*
- *Have an unrelenting, but balanced focus on operating efficiencies and per capita costs.*

Yakima Regional has been owned by two different for-profits over the past 15 years, and frankly the benefit to the community has frankly not been evident. CHS is committed to divesting Yakima Regional. If this CN request is not approved, CHS will have to identify another potential acquirer. Of concern to us in Yakima County is that any further delay in the transfer of ownership means that the hospital will continue to experience delays in new investments in commitments to staff and programs. The timely acquisition by RH Yakima is needed to assure that the greater Yakima area continues to have a real and meaningful choice of providers, as well as access to a range of primary, secondary, and tertiary level services.

“In addition, the only other existing provider in the city of Yakima, Memorial Hospital, has indicated that its physical plant is not sized to accommodate the combined volume of hospitals, should Yakima Regional fail or shed services. [footnote included] As such, more residents would be forced to travel out of area for care.”

Below is a restatement of Footnote #1 referenced in paragraph above.

Across town, Memorial CEO Russ Myers said that the hospital will continue to focus on patient care. And if there is a sale, he said, Memorial hopes to coordinate care with the new owner when it’s necessary to serve patients.”

“Health care is a partnership between your community and the health care organization. That’s our belief,” he said.

However, he said, “Given the licenses that exist and how the state allocates beds, I can tell you that Memorial as it’s currently structured cannot take care of this community alone.”

[source: excerpt from a May 2, 2016, online article in the Yakima Herald]

At this time, there is no anticipated reduction or elimination of any current service. Regional Health and RH Yakima will evaluate and respond to documented community needs, and is likely to add, or expand services in response to those needs. To be conservative, our pro forma financials do not assume any

significant new services. Further, we are well aware that if an identified new service requires prior CN review and approval, that we will need a separate CN approval prior to establishing the service.”

Public Comment

The department received approximately 200 letters related to these two projects. Many of the letters were in support of the acquisition of TCH and Yakima Regional by Regional Health. Below are excerpts from some of the letters that focus on access to care in the Yakima planning area.

Laurie Fathe, PhD-Provost and Vice President for Academic Affairs Heritage University

“Yakima County has, on average, a higher proportion of its population on Medicaid than the state as a whole. Having local quality affordable healthcare is particularly critical when you have a population that is not affluent and may have intervals in their lives when they did not have access to good healthcare. The Yakima Valley is also becoming more of a retirement location, which brings a different need for local access to healthcare. These factors make the continued functioning of Yakima Regional Medical and Cardiac Center and Toppenish Community Hospital fundamental to the region.” [source: June 19, 2017, public comment]

Brian Fischer, Yakima County community member

“Living and working in the health care industry in the Yakima Valley, I know there is a need for at least two hospitals and a competitive market. While not necessarily providing duplicate services, which is good for both facilities, Yakima Regional has always provided the heart services needed in the valley at a higher and more complex level and always at the highest standard. The sickest of patients are being cared for at Yakima Regional and cared for at the highest level, despite the frustration with the current owners. Staff and physicians work together to make sure every patient is extremely well cared for, please let this continue under the new and more positive ownership.” [source: June 20, 2017, public comment]

Aaron Grigg, MD, Yakima Valley Farm Workers Clinic

“I have been living and working in the community for 7 years now, and currently serve on the Governing Board for the Toppenish Community Hospital. In the past I have also served as the Chair of Pediatrics, Chair of the Credentials Committee, Community Cares Physician Mentor, and Chief of Staff during that time. As one of the community physicians with a busy outpatient practice, I have come to recognize the unique nature of our local Hospital.

Our mission has always been to serve and advocate for our local community members and patients. As an example, when one of our pediatric patients needs to be admitted to the hospital, many times it is their local pediatrician who is able to round on them and has easy access to their inpatient and outpatient history. They already have the trust and relationship that comes with years of visits to the outpatient practice. We have had a steady group of adult hospitalists in the past who have also become well-known to the community and we feel that these relationships are what make us unique and greatly benefit the community.

... Despite the fact that the community is within 25-30 minutes of hospitals in other communities, many community members lack the resources needed to access those services. I frequently have patients who walk to the clinic to see me, and without a local hospital, this would put a significant barrier to getting the care when it is most needed. Access to a local hospital and as many services as possible is imperative to ensuring the future health of this community.” [June 15, 2017, public comment]

Esperance Lemos, Executive Director, Nuestra Casa

“The demographics of Yakima Valley reveals that much of the current population is low-income, underinsured, possess low literacy and suffer from many chronic illnesses. Approving these applications

will enable Regional Health to make a commitment to the sustainability of these hospitals that do, and will, offer a combination of services and support community need. It assures access for underserved, low income, and those in needs of charity care. It will also accelerate efforts related to quality and the patient experience. Furthermore, the approval will enable Regional Health to engage the community in desired educational programming and assist with activities like community population health needs assessments.”
 [July 5, 2017, public comment]

Rebuttal Comment
 None

Department Evaluation – Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center

In order to evaluate Regional Health’s ability to meet this sub-criterion for TCH and Yakima Regional, the department analyzed the reasonableness of the statements within the applications. The department also completed an analysis of planning area discharge patterns, occupancy trends, and the current bed supply in Yakima County and surrounding areas.

There are four hospitals currently operational in Yakima County. Information for all four is shown in Table 1 below.

**Table 1
 Yakima County Hospitals**

| Hospital Name | Address | DOH License |
|--|--|--------------------|
| Sunnyside Community Hospital | 1016 Tacoma Avenue Sunnyside, Washington 98944 | HAC.FS.00000198 |
| Toppenish Community Hospital | 502 West 4 th Avenue Toppenish, Washington 98848 | HAC.FS.00000199 |
| Virginia Mason Memorial | 2811 Tieton Drive Yakima, Washington 98902 | HAC.FS.00000058 |
| Yakima Regional Medical and Cardiac Center | 110 South 9 th Avenue Yakima, Washington 98902 | HAC.FS.00000102 |

As shown in the table, all four hospitals are licensed by the Washington State Department of Health as acute care hospitals; all four will be discussed throughout this evaluation.

Within the applications, Regional Health clarified that the current owner of the two hospitals—Community Health Systems (CHS)—has been under-reporting hospital patient data to the Department of Health’s Office of Hospital and Patient Data Systems (HPDS) for both TCH and Yakima Regional for years 2013 through 2016. In an August 10, 2017, e-mail exchange, CN staff was able to substantiate that CHS had been underreporting data.⁴ HPDS staff also confirmed that CHARS closes once each calendar year and publishes a final dataset. HPDS does not release addendum or updated final files for CHARS. This approach avoids confusion on what dataset or version is accurate.

To evaluate this sub-criterion, the department typically reviews historical CHARS data for all hospitals in the same planning area as the hospitals being purchased. This review would include historical number of

⁴ HPDS provided the following statements confirming under-reporting by CHS for both TCH and Yakima Regional: “During the 2014-2017 timeframe we did contact the one CHARS representative for the two hospitals and asked about the declining volumes. The representative said they were sending all the data they got in their download implying they do not reconcile their CHARS count to another source.”

beds at each hospital, number of patient discharges, and percentage of the total patient discharges. The review would also include patient in- and out-migration to planning area hospitals and current occupancy of all hospitals in the planning area.

For the Regional Health projects, historical CHARS data for years 2012 through 2016 would be used. Both Sunnyside Community Hospital’s and Virginia Mason Memorial’s historical is available for those years. However, with the significant under-reporting for both TCH and Yakima Regional for years 2013 – 2016, only year 2012 can be considered reliable for TCH and Yakima Regional.

For this evaluation, the department will review the historical CHARS data for the all hospitals in Yakima County. The review will include historical number of licensed beds at each hospital, number of patient discharges, and percentage of the total patient discharges. For both TCH and Yakima Regional, year 2012 percentages will be used as a proxy for years 2013 through 2016. The department will also review patient in- and out-migration to planning area hospitals. For TCH and Yakima Regional, year 2012 data will be used. For current occupancy of the four hospitals in Yakima County, most recent hospital licensing data will be used.

Regional Health states that 100% of TCH’s patients reside in Yakima County and 90% of Yakima Regional’s patients reside in Yakima County. Regional Health also states that Kittitas and Klickitat County residents obtain tertiary services at Yakima Regional. To evaluate this information, the department reviewed historical data for all four of the hospitals in Yakima County. Hospital inpatient days include inpatient rehabilitation services and inpatient psychiatric services, if any, at each of the hospitals. Since Yakima Regional is the only provider of elective open heart surgery and elective cardiac catheterization services in the county, the data is inclusive of days associated with those services. [source: CHARS Data 2012-2016 for Sunnyside Community Hospital and Virginia Mason Memorial; TCH and Yakima Regional data calculated from 2012 reported data]

Table 2
Yakima County Resident Discharges from Yakima County Hospitals
Historical Years 2012-2016

| Yakima Residents Discharged From: | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|-------------|-------------|-------------|-------------|-------------|
| Sunnyside Community Hospital | 6.0% | 7.5% | 9.2% | 8.3% | 8.3% |
| Toppenish Community Hospital ⁵ | 8.2% | 8.2% | 8.2% | 8.2% | 8.2% |
| Virginia Mason Memorial | 55.2% | 52.4% | 53.6% | 51.2% | 51.2% |
| Yakima Regional Medical and Cardiac Center ⁶ | 18.3% | 18.3% | 18.3% | 18.3% | 18.3% |
| Any other WA Hospital | 12.2% | 13.5% | 10.7% | 14.0% | 14.0% |

Though Yakima County residents make up the majority of discharges from Yakima County hospitals, the hospitals have historically been a resource for residents of adjacent counties. Since year 2012 is the only reliable CHARS data for both TCH and Yakima Regional, it is shown below in Table 3 for TCH and Table 4 for Yakima Regional. [source: 2012 CHARS Data]

⁵ Year 2012 percentages used as a proxy for years 2013 – 2016 because of significant under-reporting.

⁶ Year 2012 percentages used as a proxy for years 2013 – 2016 because of significant under-reporting.

**Table 3
Toppenish Community Hospital
2012 Discharges By Patient County**

| Patient County | Number of Discharges | % of Total Discharges |
|---------------------------|-----------------------------|------------------------------|
| Yakima | 2,358 | 98.54% |
| Klickitat | 8 | 0.34% |
| Other Washington Counties | 27 | 1.12% |
| Total | 2,393 | 100.00% |

**Table 4
Yakima Regional Medical and Cardiac Center
2012 Discharges By Patient County**

| Patient County | Number of Discharges | % of Total Discharges |
|---------------------------|-----------------------------|------------------------------|
| Yakima | 5,234 | 90.00% |
| Kittitas | 312 | 5.37% |
| Klickitat | 63 | 1.08% |
| Other Washington Counties | 206 | 3.55% |
| Total | 5,815 | 100.00% |

For Tables 3 and 4 above, “*Other Washington Counties*” includes Washington State counties other than those listed in the table above. The discharge data provided in Tables 3 and 4 substantiate Regional Health’s claim that the majority of both TCH and Yakima Regionals patients are from Yakima County.

In order to assess whether the other hospitals in the planning area would be sufficiently available and accessible to the residents of Yakima County and surrounding areas, the department completed an analysis of the existing supply of beds at each hospital and average daily census. This data was obtained from each hospital’s 2017 license hospital application submitted in late year 2016. The data is based on year 2016. The ideal occupancy for each hospital is determined by the 1987 State Health Plan.

**Table 5
2015 Yakima County Hospitals Historical Occupancy**

| | # of Licensed Beds | Average Daily Patient Census | Calculated Occupancy | 1987 SHP Ideal Occupancy | Calculated # of Available Beds |
|--|---------------------------|-------------------------------------|-----------------------------|---------------------------------|---------------------------------------|
| Sunnyside Community Hospital | 25 | 18 | 72.0% | 50% | 0 |
| Toppenish Community Hospital | 63 | 11 | 17.5% | 60% | 49 |
| Virginia Mason Memorial | 226 | 132 | 58.4% | 70% | 26 |
| Yakima Regional Medical and Cardiac Center | 214 | 53 | 24.8% | 70% | 97 |
| Total Planning Area | 528 | 214 | 43.18% | N/A⁷ | 172 |

As shown in Table 5 above, three of the four Yakima County hospitals are operating with occupancy levels below the standard set out in the 1987 State Health Plan. As a critical access hospital, Sunnyside Community Hospital’s occupancy standard is higher than expected. Virginia Mason Memorial’s

⁷ Occupancy is calculated at the facility level, not the planning area level for planning purposes

calculated occupancy of 58.4% is below the occupancy standard. Although not shown in the table above, Virginia Mason Memorial’s daily patient census was 133 for year 2015. This demonstrates consistent patient census and occupancy level. Both TCH and Yakima Regional are operating significantly below the occupancy standard.

In the event that the beds at TCH and Yakima Regional were no longer available to Yakima County and surrounding area residents, the planning area occupancy would increase dramatically within the remaining beds, shown below using 2015 volumes.

Table 6
Yakima County Planning Area Beds and Occupancy
Minus TCH and Yakima Regional Beds

| | |
|--|-------|
| Yakima Planning Area Bed Count, Minus TCH and Yakima Regional | 251 |
| Yakima Planning Area Calculated Average Daily Census | 214 |
| Planning Area Calculated Occupancy | 85.3% |

Though there are alternative sources of care within the planning area, it appears that if TCH and Yakima Regional were no longer available and accessible to Yakima County and surrounding area residents, it would not be possible for existing hospitals to absorb even the historical volumes from the two hospitals, much less any increase in volumes as a result of population growth. Representatives from Virginia Mason Memorial substantiated this conclusion in its public comments by stating: *“Given the licenses that exist and how the state allocates beds, I can tell you that Memorial as it’s currently structured cannot take care of this community alone.”*

Public comment also supports that the availability of both TCH and Yakima Regional allows for patient choice, as well as easy access to services. As a result, continued operation of the two hospitals is necessary. Further, given that Yakima Regional has the only elective open heart surgery and PCI program in the county, continued operation of Yakima Regional is vital to the residents of the county. **This sub-criterion is met.**

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

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.⁸ With the passage of the Affordable Care Act, the amount of charity care is expected to decrease, but not disappear.

Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center

Regional Health provided copies of the policies that are currently in place at TCH and Yakima Regional, listed below. [source: TCH and Yakima Regional Applications, Exhibits 2]

TCH Policies

- Admissions Policy – last reviewed March 2013
- Non-Discrimination Policy – last reviewed May 2009
- Charity Care Policy – last reviewed February 2014
- End of Life Policy – last reviewed May 2009
- Reproductive Health Policy – last reviewed January 2014

Yakima Regional Policies

- Admissions Policy – last reviewed July 2011
- Non-Discrimination Policy – last reviewed December 2013
- Charity Care Policy – last reviewed February 2014
- End of Life Policy – last reviewed January 2011
- Reproductive Health Policy – last reviewed December 2012

Regional Health provided draft copies of the policies that would be in place under its ownership at both TCH and Yakima Regional hospitals. [source: TCH and Yakima Regional March 13, 2017, screening response, Attachments 9 – 13]

- Draft Admissions Policy [source: Attachment 9]
- Draft Non-Discrimination Policy [source: Attachment 10]
- Draft Charity Care Policy [source: Attachment 11]
- Draft End of Life Policy [source: Attachment 12]
- Draft Reproductive Health Policy [source: Attachment 13]

Both TCH and Yakima Regional are currently Medicare and Medicaid certified. Regional Health provided CHS's current revenue sources by payer for each hospital as well as the expected payer mix following the proposed transaction. The payer mixes are shown below for each hospital. [source: TCH Application, p10 and Yakima Regional Application, p10]

⁸ WAC 246-453-010(4)

**Table 7
Payer Mix
Before and After Transaction**

| | CHS Ownership | Regional Health Ownership | CHS Ownership | Regional Health Ownership |
|------------------------------|--------------------------|--------------------------------------|--------------------------|--------------------------------------|
| Payer Source | TCH | | Yakima Regional | |
| Medicare | 14.8% | 14.8% | 39.3% | 39.3% |
| Medicaid | 58.8% | 58.8% | 25.4% | 25.4% |
| HMO/PPO | 15.4% | 15.4% | 21.3% | 21.3% |
| Insurance – Other | 4.8% | 4.8% | 8.4% | 8.4% |
| Self-Pay | 3.5% | 3.5% | 1.9% | 1.9% |
| Other | 2.2% | 2.2% | 2.3% | 2.3% |
| Other Government (L&I, etc.) | 0.5% | 0.5% | 1.3% | 1.3% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

Regional Health provided their assumptions for the payer mixes:

“The current and projected revenue by payer is included as Table 5. As noted in the table, no change in revenue by payer is anticipated as a result of the proposed acquisition.” [source: TCH Application p10; Yakima Regional Application, p10]

In addition to the policies and payer mix information, Regional Health provided the following information related to uncompensated care provided by each of the two hospitals.

“RH Sunnyside has an excellent charity care record. For charity care reporting purposes, the State of Washington divides the State into 5 regions. Sunnyside is located within the Central Washington Region. According to the latest data published by the State, 2013-2015, the three year charity care average for the Central Washington Region is 1.46% for gross revenue and 3.71% for adjusted revenue, with 2015 regional average at 0.86% of gross revenue. As noted in recent CN evaluations, the CN Program recognizes that state wide charity care has declined due to Medicaid expansion. RH Sunnyside’s charity care has declined as well but is at or above the regional average.

While we do anticipate that Washington’s Medicaid expansion and participation in the exchange will continue to reduce charity care, the percentage of charity care included in the pro forma is consistent with the Central Washington current regional 2015 average (0.86%) and is depicted in Table 7 below. RH Yakima is fully prepared to operate in compliance with all charity care requirements and understands that a condition agreeing to operate at the regional charity care levels will be required. RH Yakima is prepared to accept such a condition.” [source: TCH Application, p16; Yakima Regional Application, p16]

Regional Health provided tables showing historical and projected charity care dollars and percentages for each of the two hospital. The tables are recreated below.

**Table 8
Toppenish Community Hospital
Historical and Projected Charity Care**

| HISTORICAL | Year 2013 | Year 2014 | Year 2015 |
|-----------------------|------------------|------------------|------------------|
| Dollar Amount | \$ 837,644 | \$ 1,223,760 | \$ 561,969 |
| % of Gross Revenue | 1.00% | 1.47% | 0.56% |
| % of Adjusted Revenue | 1.73% | 2.57% | 2.28% |

| PROJECTED | Year 2017 | Year 2018 | Year 2019 | Year 2020 |
|--------------------|------------------|------------------|------------------|------------------|
| Dollar Amount | \$ 912,615 | \$ 934,087 | \$ 947,187 | \$ 947,187 |
| % of Gross Revenue | 0.86% | 0.86% | 0.86% | 0.86% |

**Table 9
Yakima Regional Medical and Cardiac Center
Historical and Projected Charity Care**

| HISTORICAL | Year 2013 | Year 2014 | Year 2015 |
|-----------------------|------------------|------------------|------------------|
| Dollar Amount | \$ 4,427,310 | \$ 3,931,438 | \$ 1,374,246 |
| % of Gross Revenue | 0.78% | 0.68% | 0.24% |
| % of Adjusted Revenue | 1.45% | 1.24% | 0.78% |

| PROJECTED | Year 2017 | Year 2018 | Year 2019 | Year 2020 |
|--------------------|------------------|------------------|------------------|------------------|
| Dollar Amount | \$ 5,238,640 | \$ 5,247,231 | \$ 5,492,358 | \$ 5,547,281 |
| % of Gross Revenue | 0.86% | 0.86% | 0.86% | 0.86% |

Regional Health also provided the following statements related to Sunnyside Community Hospital’s historical charity care and community benefits. [source: TCH first screening response, p5; Yakima Regional first screening response, p5]

In comparison, in the 2013-2015 timeframe, Sunnyside was slightly above the regional average on adjusted revenue at 3.74%. Sunnyside is proud of its charity care, and also proud of our community benefit. In addition to traditional charity care, Sunnyside has widely engaged the community in both our 2013 and 2016 CHNA efforts. Further, Sunnyside has:

- *Developed, staffed and currently operates numerous educational programs for the community.*
- *In support of the State’s recent Medicaid expansion and the exchange enrollment efforts, trained 14 staff (mostly receiving renewal training and certification) as Certified Application Counselors and Navigators). These individuals participated in a total of 7 events that reached an estimated 1,697 individuals and enrolled more than 400 families.*
- *Secured a highly competitive three-year \$600,000 grant from HRSA and then partnered with several community organizations to develop chronic care and care management protocols.*
- *Secured a \$900,000 HRSA grant to establish virtual clinics in local schools. Many of our agricultural families’ lack transportation, and taking time off from work to get children during the school day to a doctor’s appointment means lost wages. Being able to access care while the child is at school removes a burden from families and better assures that conditions are diagnosed and managed earlier. Through the development of “virtual” school-based health centers in local schools we are increasing access to primary care for acute conditions and improving management of children with chronic diseases (with a particular focus on asthma and diabetes). The grant’s goals are to: (1) Reduce barriers to care; (2) Improve student*

health; (3) Increase students' readiness to learn; and (4) Decrease costs to the health care system and to families.

- Sought and secured certificate of need approval to establish inpatient psychiatric and inpatient acute rehabilitation units, so as to improve access for the patients of the lower Yakima Valley.

Public Comment

The department received approximately 200 letters related to these two projects. Many of the letters, focused on the access to care or charity care at one or both of the Yakima hospitals. Below are excerpts from the letters.

Andrea Howard, resident of Toppenish

"If these hospitals were returned to local ownership and not-for-profit status, my family and my community, could benefit from the improved health status and access for the underserved, low income, and those in need of charity care. I worry about my family's healthcare needs, and if we will be able to afford future health crises. With local ownership, I would know that our medical needs were being met because they would be living in the same community, and not in a different state. Our community's healthcare would be the same as their healthcare. I truly believe that this could only benefit the Yakima Valley community's healthcare, including that of my family." [July 10, 2017, public comment]

Noel Moxley, Board Member of Yakima Regional

"Assurance of access for underserved, low income and those in need of charity care is of utmost importance to our community. The focus on healthy families and communities is foremost in the Regional Health philosophy. There is support and partnerships with schools, youth organizations, churches and community and civic organizations. There is a strong record of charity care with Regional Health." [June 28, 2017, public comment]

The department also received letters during public comment that neither supported nor opposed the projects, but had concerns about the charity care percentages identified in the applications.

Rich Stolz, Executive Director of One America and Janet Varon, Executive Director of Northwest Health Law Advocates

"Before evaluating the current Certificate of Need application, the Department of Health must evaluate whether the seller has met its past commitment to implement the conditions of the Certificate of Need currently in place. Were the 2014 charity care obligations under the CN met? If not - and it appears from DOH data that the hospitals' recent levels of charity care fall well below the regional average - then the Department should calculate the dollar value of the deficiency and should capture this amount from the sale price. These funds should be subtracted from the sale proceeds going to the seller, and should be used to compensate the community for the lack of charity care provided. The funds should go to a local community organization concerned with the health of low-income residents in the region. Only after this is done should the current CN be considered."

- A neutral, unbiased individual should be selected by Regional Health from a list provided by the DOH and the Yakima Valley Community Foundation to closely track Yakima Regional and Toppenish hospitals' compliance with the regional average requirement, identify barriers to access to charity care, and propose ways to address these barriers. The monitor should be required to periodically review and report on the charity care data to the DOH and the public. The monitor should create procedures that notify patients of the availability of the charity care at every stage in the process in order to increase patient awareness of potential charity care eligibility and benefits.
- The hospitals should be required to designate an ombudsperson to resolve any issues that patients encounter regarding charity care, coverage of benefits, billing and payment. The ombudsperson's

contact information should be placed on every bill and the person should be easily accessible. For those who are limited English proficient, this information should include taglines on how to obtain assistance in one's preferred language.

- *Regional Health should revise both Yakima Regional and Toppenish hospitals' policies regarding charity care and collections. Regional Health should create an internal system of review before referring a case to collection. Such a system would allow the hospitals to identify and troubleshoot existing problems and provide helpful information to develop more effective policies and procedures.”*
[July 11, 2017, public comment]

Virginia Mason Memorial

“Regional's ability to meet and exceed charity care expectations will be critical to maintaining access to quality healthcare for patients throughout the Yakima valley. It is essential that the community be fully assured that Regional's plan for providing charity care is substantial and transparent, and is in accordance with the obligations CHS promised in the 2013 CNs for the hospitals.

Regional states in its application that it expects a consistent reduction of charity care levels over time based on the expectation that Medicaid enrollment will continue to expand in the state of Washington. YVCF [Yakima Valley Community Foundation] is concerned this is an unreliable assumption on which to base its projections given the unpredictable political environment surrounding healthcare reform and future Medicaid eligibility.

At a minimum, Regional Health should be required to meet or exceed the regional average each year.

While Regional Health claims that RH Sunnyside has an excellent charity care record, it appears that Sunnyside Community Hospital's charity care average for 2015 was is [sic] below the regional average. Regional Health relies on a three-year average for charity care provided at RH Sunnyside for the time period of 2013-2015 in its Certificate of Need applications. Charity care averages were much higher for all hospitals in 2013 and 2014 compared with 2015 due to the impact of the 2014 Medicaid expansion on the percentage of uninsured low-income people.

Thus, post-expansion charity care data (2014-16) is more relevant to establishing a history of charity care to support Regional Health's current Certificate of Need applications. Sunnyside Community Hospital has not submitted its year-end report for 2016, and only recently submitted its charity care data for 2014 and 2015. This information is essential for assessing Regional Health's commitment to charity care at Yakima Regional and Toppenish hospitals and should be reviewed by DOH. Both Yakima Regional and Toppenish have an established history of failure to implement charity care. In order to meet the needs of the community, the new owner of both of these hospitals must be prepared to consistently implement effective charity care policies.” [July 10, 2017, public comment]

Northwest Health Law Advocates and OneAmerica

“Regional Health states in its Certificate of Need applications that it intends to adopt the charity care policies currently in place at both Yakima Regional and Toppenish hospitals. While these policies as written comply with the charity care law, this is not enough to ensure a strong, ongoing commitment to charity care. Both Yakima Regional and Toppenish hospital have a history of systematic failures in implementing charity care under previous owners, culminating in a class action lawsuit that was recently settled to provide relief to patients who were harmed by the hospitals' practices. For example, patients who should have been determined eligible for no-cost care under the charity care law were never evaluated for eligibility, and many were improperly billed for the cost of care, including demands for payment and even prehospitalization deposits without any prior evaluation of charity care eligibility. These concerns

are summarized in our report, *Yakima Regional and Toppenish Hospitals Fail to Provide Sufficient Charity Care.*” [July 11, 2017, public comment]

Yakima Valley Community Foundation

“Regional’s ability to meet and exceed charity care expectations will be critical to maintaining access to quality healthcare for patients throughout the Yakima valley. It is essential that the community be fully assured that Regional’s plan for providing charity care is substantial and transparent, and is in accordance with the obligations CHS promised in the 2013 CNs for the hospitals.

Regional states in its application that it expects a consistent reduction of charity care levels over time based on the expectation that Medicaid enrollment will continue to expand in the state of Washington. YVCF is concerned this is an unreliable assumption on which to base its projections given the unpredictable political environment surrounding healthcare reform and future Medicaid eligibility.” [July 11, 2017, public comment]

Regional Health Rebuttal Comment

“As described in the CN applications and screening responses, while Regional Health fully anticipates that Washington’s Medicaid expansion and participation in the exchange will continue to reduce charity care, the percentage of charity care included in the Yakima Regional and Toppenish pro formas is consistent with the Central Washington current (2015) regional average of 0.86% of total revenue. Please note that as of the date of application, the 2015 data was the most recent data compiled and reported by the Department of Health. As of today, 2015 is still the most recent data. Analysis of charity care should be based on actual data and the current state of the law, not based on VMM’s speculative concerns about potential future changes in health care laws.

*Interestingly, in preparing this rebuttal, Regional Health reviewed VMM’s most recent charity care data. As Table 2 indicates, VMM’s charity care percentage has been below the regional average and its 2015 charity care percentage was **lower** than the amount Regional Health projected in the Yakima Regional and Toppenish proformas.*

Regional Health fully acknowledges that the charity care levels at Yakima Regional and Toppenish have been below the regional average. This is a reflection of past and current ownership, not a reflection of Regional Health. As noted on page 16 of the CN applications, Regional Health fully intends to operate in compliance with all charity care requirements and understands that a condition agreeing to operate at the regional charity care levels will be required. Regional Health is glad to accept such a condition on behalf of both Yakima Regional and Toppenish.

In addition to VMM’s comments, Northwest Health Law Advocates and OneAmerica submitted a letter indicating support for the projects, but requesting additional assurances regarding charity care. Regional Health’s CN applications state that it intends to adopt the existing charity care policies in use at both Yakima Regional and Toppenish. Northwest Health Law Advocates and OneAmerica commented that, “these policies as written comply with the charity care law. Both Yakima Regional and Toppenish hospital have a history of systematic failures in implementing charity care under previous owners.” The letter from these two entities suggests the problem is not with the actual policies, but rather with past problems in adhering to the policies. Again, Regional Health cannot be held accountable for the two previous owners’ implementation of their charity care policies.

The comments from Northwest Health Law Advocates and OneAmerica also suggest Regional Health will “freeze” charity care at 0.86% of gross revenue. This is not accurate. As the Program is aware, and consistent with most hospital CN applications, the 0.86% of gross revenue is simply the assumption used

in preparing the Yakima Regional and Toppenish pro forma financials. It is properly based on the most recent data available at the time of submission.

Regional Health fully recognizes and supports Northwest Health Law Advocates' and OneAmerica's goal of improving access to health care for low-income Washington residents. Regional Health is confident its acquisitions of Yakima Regional and Toppenish will further that goal. As noted in the application and in other sections of this rebuttal document, Regional Health is fully prepared to accept a condition to provide charity care at the regional average, consistent with the Program's current and past practices.

Finally, Northwest Health Law Advocates and OneAmerica allude to the current ownership's problems with a lack of translated materials or interpretation of materials. They provided no documentation that this criticism applies to Regional Health, nor could they.

The Foundation is apparently unaware that since full implementation of the ACA, it has been the Program's standard practice to base charity care on the most recent year of data. To assume changes in Medicaid eligibility is a State policy issue, dealt with by the HCA, not by an individual application. Regional Health's charity care assumptions are reasonable and the proposed policies for Yakima Regional and Toppenish Community Hospital are consistent with state and federal law and prior CN Program decisions. [source: July 26, 2017, rebuttal, pp23-25]

Department Evaluation – Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center

Within the applications, Regional Health stated it would adopt the following policies currently in place for both TCH and Yakima Regional.

- Admission Policy
- Non-discrimination Policy
- Charity Care Policy
- End of Life Policy
- Reproductive Health Policy

Regional Health provided drafts of each of the policies identified above. The drafts provided are identical, with the exception that each hospital is identified within its respective draft policy.⁹

The draft Admission Policy outlines the process Regional Health will use to admit patients into the respective hospitals. The Admission Policy is used in conjunction with the Non-Discrimination Policy.

The draft Non-Discrimination Policy includes the following language:

“[Hospital Name] does not exclude, deny benefits to, or otherwise discriminate against any person on the ground of race, ethnicity, national origin, age, sex, pre-existing condition, or physical or mental status in admission to, participation in, or receipt of the services and benefits of any of its programs and activities or in the employment therein, whether carried out by [Hospital Name] directly or through contractor or any other entity with whom [Hospital Name] arranges to carry out its programs and activities.”

⁹ The hospitals are identified as SCH Medical Center – Toppenish and SCH Medical Center – Yakima. It is assumed that the “SCH Medical Center” portion of each name will be changed to “Regional Health” or “RH” in the final policy.

The draft Charity Care Policy includes the definitions for: *charity care, indigent persons, financially indigent, medically indigent, and appropriate hospital-based medical services*. The policies provide the process one would use to request charity care and the process each hospital would use to determine charity care eligibility. The draft Charity Care Policies provided have not yet been reviewed and approved by the HFCC program for the hospitals currently under Regional Health's ownership.

The draft End of Life Policy includes guidelines for withholding and withdrawing life-sustaining treatments. The policy also provides the philosophy and general principles of each hospital, includes definitions of key terms within the policy, and outlines roles and responsibilities for the patient, patient's family, medical staff related to end of life. The policy provides the information necessary for a patient to make informed choices regarding end of life decisions.

Included in the End of Life Policy attachment is a policy with the following title:

*CARE FOR THE TERMINALLY ILL NATIVE AMERICAN PATIENT
CARING FOR THE DECEASED NATIVE AMERICAN PATIENT*

This policy identifies the following objective:

“The purpose of this policy is to better understand the religious practices and traditional beliefs of the terminally ill Indian patient. The belief of the American Indian is that when you die, your spirit, your soul still exists. The body organs have, in fact, ceased functioning, but the soul, the spirit is still here.”

The policy outlines the hospital and staff roles for Yakama Indian patients practicing either Washat (Seven Drum) religion or the Shaker religion.

This policy is unique to Yakima County. Regional Health's submission of the policy supports its commitment to provide healthcare services to all residents of county. The policy does not appear to be in draft format, however, it was provided within a draft attachment.

The draft Reproductive Health Policies provided in each application are not identical. TCH provides maternity services within its 12-bed Family Maternity Center. The draft Reproductive Health Policy for TCH identifies the necessary staffing for the maternity center, provides specific services provided in the maternity center, and policies related to attending family members at the birth center. The policy also identifies the mandatory education required for staff of the maternity center.

As of the writing of this evaluation, Yakima Regional does not provide maternal services at the hospital, rather pregnant patients and families are referred to TCH. As a result, the draft Reproductive Health Policy for Yakima Regional focuses on care of the pregnant trauma patient and management of pregnant patients in the emergency room.

All policies provided are in draft format. In addition, most policies are provided in English and Spanish languages. This approach by Regional Health supports its commitment to provide services to all residents of the county. If this project is approved, the department would attach conditions requiring Regional Health to provide copies of the final policies consistent with the draft policies provided in the application.

As for-profit hospitals, neither TCH nor Yakima Regional was required to prepare a Community Health Needs Assessment (CHNA). Regional Health intends to complete a CHNA once it assumes ownership of the two hospitals. If this project is approved, the department would attach a condition requiring Regional

Health to provide a copy of the Community Health Needs Assessment for the departments review and approval.

As stated in the project description, Regional Health is the sole member of Sunnyside Community Hospital located in Yakima County. Sunnyside Community Hospital has been providing healthcare services for many years in Yakima County as a critical access hospital. Healthcare services have been available to low-income, racial and ethnic minorities, handicapped, and other underserved groups.

Healthcare services for Medicare and Medicaid eligible patients have also been available at Sunnyside Hospital. [source: CN Historical files] These services are currently provided at both TCH and Yakima Regional. Regional Health proposes to continue providing Medicare and Medicaid services at both TCH and Yakima Regional under its new ownership.

For TCH, Regional Health projects that Medicare revenues will make up 14.8% of total revenues at the hospital and Medicaid revenues will make up 58.8% of total revenues. These figures are consistent with the current payer mix, and financial data within the application support these projections.

For Yakima Regional, Regional Health projects that Medicare revenues will make up 39.3% of total revenues and Medicaid revenues will make up 25.4% of total revenues. These figures are consistent with the current payer mix, and financial data within the application support these projections.

Commercial and other revenues are also expected to remain the same at TCH and Yakima Regional Hospitals, at approximately 26.4% and 35.3%, respectively.

Charity Care Percentage Requirement

For charity care reporting purposes, Washington State is divided into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. TCH and Yakima Regional are located in Yakima County, within the Central Region. Currently there are 21 hospitals operating within the region. In this section of the evaluation, the department compares historical three-year average of charity care provided by the hospitals currently operating in the planning area. For the three-years reviewed, three of the 21 hospitals did not consistently report charity care for all years reviewed.

- In year 2013, Quincey Valley Hospital and Wenatchee Valley Hospital did not report charity care data.
- In year 2014, Quincey Valley Hospital, Sunnyside Community Hospital, and Confluence Wenatchee Valley did not report data.
- In year 2015, again Quincey Valley Hospital, Sunnyside Community Hospital, and Confluence Wenatchee Valley did not report data.

Table 10 below compares the historical three-year (2013-2015) average of charity care provided by the hospitals currently operating in the Central Region, TCH and Yakima Regional's historical charity care, and the projected amounts of charity care at TCH and Yakima Regional.

Table 10
Charity Care Comparison

| | Percentage of Total Revenue | Percentage of Adjusted Revenue |
|---|--------------------------------|-----------------------------------|
| Central Region Historical Average ¹⁰ | 1.50% | 3.67% |
| Historical Average - TCH | 1.01% | 2.19% |
| Projected Average - TCH | 0.86% | 3.26% |
| Historical Average – Yakima Regional | 0.57% | 1.16% |
| Projected Average - Yakima Regional | 0.86% | 2.43% |

As shown above, TCH and Yakima Regional have historically been providing charity care below the regional average. Regional Health projects that following the change of ownership, both hospitals would continue to provide charity care at levels below the regional average as a percentage of total revenues.

If these projects are approved, the current owner of Sunnyside Community Hospital would be the new owner of both TCH and Yakima Regional. Sunnyside Community Hospital’s charity care data has not been reported to the Department of Health for year 2014 and 2015.

During the review of these projects, many community members, healthcare providers, and even TCH and Yakima Regional hospital staff, expressed concerns related to the lack of charity care provided by the current owners—CHS. In its rebuttal, Regional Health stated that the historical lack of charity care provided at both TCH and Yakima Regional should not be used as an indicator of the charity care that would be provided under Regional Health ownership. The department partially concurs with this reasoning, with the exception of two key areas:

- While Regional Health is new, Sunnyside Community Hospital is a critical access hospital and long-time provider of healthcare services in Yakima County. The hospital either has not reported, or has been late to report, charity care data for years 2014 and 2015. This approach to the charity care reporting requirement does not allow the department to substantiate Regional Health’s assurance that both TCH and Yakima Regional would provide the charity care in the amounts identified in the respective applications.
- The Asset Purchase Agreement provided in the application includes a Transition Services Agreement (TSA) (Exhibit D) between Sunnyside Healthcare (Regional Health) and CHSPSC formerly known as Community Health Systems Professional Services Corporation.¹¹ CHSPSC, LLC provides hospital management, consulting, and advisory services to independent community hospitals and health systems and also operates as a collection agent for hospitals under Community Health Systems, Inc. CHSPSC, LLC operates as a subsidiary of Community Health Systems, Inc. The TSA identifies the services to be provided for Regional Health for 12 months following the effective date of the agreement. Services include “*billing, insurance follow-up, cash posting/balancing; refund processing, adjustment processing, vendor placements, charity management services, denial reporting and appeal of billing related denials.*” [emphasis added]

In summary, Sunnyside Community Hospital has not consistently reported its charity care data to the Department of Health as required. CHS has reported charity care data, but the amounts provided are below the central region average for both TCH and Yakima Regional.

¹⁰ As of the writing of this evaluation, 2015 is the most recent year for which there is charity care data.

¹¹ The name change occurred in January 2015.

For the first 12 months after this transaction is complete, a subsidiary of CHS will be responsible for “charity management services” for both TCH and Yakima Regional. When view together, these two factors are cause for concern by the department and substantiate charity care concerns raised by existing providers, community members, and other healthcare providers in Yakima County.

Virginia Mason Memorial, the hospital that would be most affected by CHS’s low charity care at the two hospitals, requested that the department attach a condition requiring Regional Health to meet or exceed at least the Central Region average.¹² This is consistent with the department’s expectation for all hospitals.

In response to Virginia Mason Memorial’s statements regarding the historically low charity care provided at both TCH and Yakima Regional, and Virginia Mason Memorial’s criticism of Sunnyside Community Hospital’s lack of reporting its charity care data, Regional Health reviewed historical charity care data reported by Virginia Mason Memorial. Regional Health’s review concluded that Virginia Mason Memorial’s charity care percentages were also below the central regional average.

For the TCH and Yakima Regional projects, Virginia Mason Memorial’s charity care is not at issue. Further, Virginia Mason Memorial has been consistently reporting its charity care to the Department of Health as required.

If these projects are approved, the department would attach conditions requiring both hospitals to make reasonable efforts to provide charity care at a level consistent with the most recent three-year average of charity care within the region or the levels proposed in the applications, whichever is greater.

The condition would also require Regional Health to maintain records of charity care applications received and the dollar amount of charity care discounts granted at each of the hospitals. The department would require that these records be available upon request.

Regional Health must also agree to the conditions related to the policies under this sub-criterion that are stated in the conclusion section of this evaluation.

Based on the information provided in the application and with Regional Health’s agreement to the conditions above for both TCH and Yakima Regional, **this sub-criterion is met.**

(3) The applicant has substantiated any of the following 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.

Department Evaluation

This sub-criterion is not applicable to these applications.

¹² Virginia Mason Memorial suggested that the projects should be conditioned to meet the “Eastern Washington average.” Since Yakima County is located in the eastern part of the state, this appeared to be a reasonable mis-statement. In this evaluation the department will assume that Virginia Mason Memorial meant the Central Region, rather than Eastern Region.

- (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.

Department Evaluation

This sub-criterion is not applicable to these applications.

- (c) The special needs and circumstances of osteopathic hospitals and non-allopathic services.

Department Evaluation

This sub-criterion is not applicable to these applications.

- (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.

Department Evaluation

This sub-criterion is not applicable to these applications.

- (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.

Department Evaluation

This sub-criterion is not applicable to these applications.

- (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.

Department Evaluation

This sub-criterion is not applicable to these applications.

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 concludes that Regional Health has met the applicable financial feasibility criteria in WAC 246-310-220 for both applications.

- (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.

Regional Health Improper Rebuttal Documents

During the public comment portion of the review of both TCH and Yakima Regional, concerns were raised regarding the pro forma revenue and expense statements, pro forma balance sheets, growth assumptions, and the conservative financial approach used in the applications. Regional Health responded to the concerns in its rebuttal documents and provided three illustrations intended to more fully explain and clarify underlying assumptions in the preparing the Regional Health pro forma statements. The three illustrations build upon each other in that the third illustration includes information from the two previous, plus additional changes. Below is Regional Health's summary of each of the illustrations and why the department determined the information was improper rebuttal.

- ***Illustration A:*** Here, Regional Health adjusted the March screening response proforma only for the new Sunnyside financing. This illustration keeps all revenue, and all expenses (except for interest expense) flat. This adjustment improves the 2020 debt service coverage ratio from 1.951 to 2.640.

Department Review: The rationale for providing this set of pro forma statements focuses on the recent financing for the replacement facility of Sunnyside Community Hospital. While concerns of the costs of the replacement for Sunnyside Community Hospital were raised during one or both public hearings, the concerns were properly addressed during the question and answer section of the hearings.

- ***Illustration B:*** In this illustration, Regional Health held all revenue to the amount in the March screening response proforma, but adjusted the capital investments down from \$39 million to \$11 million. This adjustment utilizes two percent of the revenue from 2017-2020. These additions to Property, Plant and Equipment (PPE) are for equipment replacement, and are not generating new revenue. It thus provides an "apples to apples" comparison for the Program. This illustration also includes the new financing for Sunnyside. This adjustment improves the 2020 debt service coverage ratio to 4.407.

Department Review: The same rationale stated above also applies to this illustration. Additionally, Regional Health elected to provide conservative, or 'worst case scenario' type pro forma statements to emphasize that its two projects could be considered financially sound even in the worst of times. This approach is thorough and comprehensive for this review, but does not typically paint the most financially viable picture. Had Regional Health provided these less conservative statements during the screening portion of this review, these financial statements would have been appropriate for this sub-criterion.

- ***Illustration C:*** In this final illustration, Regional Health has included pro-forma data that has the \$11 million in replacement PPE, \$25 million in revenue-generating PPE, and the effect of the ten newly recruited providers. It also increased expenses to reflect the investments. This scenario provides an "oranges to oranges" comparison for the Program. This illustration also includes the new financing for Sunnyside. This adjustment improves the 2020 debt service coverage ratio to 4.487.

Department Review: The same rationale stated in the two illustrations above also applies to this illustration. This illustration includes the effect of the ten newly recruited providers and is clearly new information for this review. The effect of the new providers would also change the assumptions used to project discharges, patient days, and occupancy of the hospital(s).

For the reasons stated above, for this section of the review, the department will rely on financial information provided by Regional Health before June 1, 2017, which is the beginning of formal review of the two projects.

Toppenish Community Hospital

Regional Health provided the following assumptions that were used to determine the projected number of discharges, patient days, and occupancy at TCH. [source: TCH 1st screening response, p6]

- **Admissions:** were assumed to increase 2.6% between 2017 and 2018 as a result of stable leadership and physician recruitment; with very minor growth between 2018 and 2020 (1.3% and 0.0%, respectively). The percentage of admissions by payer was based on 2016 actual and is held constant 2017-2020.
- **Average length of stay (ALOS):** was assumed to remain at 2.20 (2017-2020). This was based on 2016 actual ALOS.
- **Patient days:** are expected to grow at the same rate as admissions as ALOS was to (be) assumed to be unchanged. The percentage of patient days by payer was based on 2016 actual and is held constant 2017-2020.
- **Revenue by Payer** (detailed in the table below) was based upon 2016 actual and is held constant (as a percentage of total revenue for) 2017-2020:

Estimated Revenue by Payer

| <i>Payer</i> | <i>% of Total Revenue</i> |
|-------------------------|----------------------------------|
| <i>Medicare</i> | <i>14.8%</i> |
| <i>Medicaid</i> | <i>58.8%</i> |
| <i>HMO/PPO</i> | <i>15.4%</i> |
| <i>Insurance-Other</i> | <i>4.8%</i> |
| <i>Self-Pay</i> | <i>3.5%</i> |
| <i>Other</i> | <i>2.2%</i> |
| <i>Other Government</i> | <i>0.5%</i> |

“After assuming ownership, RH Toppenish will evaluate unmet community needs and determine if any new services should be offered. At this time, there are no plans to terminate any current services.” [source: Application, p6]

Using the assumptions stated above, Regional Health projected the number of inpatient admissions, patient days, average length of stay, and occupancy percentages at TCH. The projections shown below begin with year calendar year 2018. [source: TCH Application, pp19-20]

**Table 11
Toppenish Community Hospital
Projections for Years 2018-2020**

| | CY 2018 | CY 2019 | CY 2020 |
|------------------------|----------------|----------------|----------------|
| Total Licensed Beds | 63 | 63 | 63 |
| Total Admissions | 1,841 | 1,865 | 1,865 |
| Total Patient Days | 4,045 | 4,099 | 4,099 |
| Average Length of Stay | 2.20 | 2.20 | 2.20 |
| Occupancy Percentage | 17.6% | 17.8% | 17.8% |

The assumptions Regional Health used to project revenue, expenses, and net income for TCH for projection years 2018 through 2020 are below. [source: TCH application pp33-34; first screening response, pp15-17; and second screening response, p6]

- *Gross revenue is both inpatient and outpatient revenue.*
- *Other operating revenue includes: cafeteria sales, medical records fees, silver recovery (x-ray recycling) and rental income.*
- *...the deductions from revenue include both inpatient and outpatient deductions.*
- *The rent expense line item includes the rent/lease of medical equipment. These are operating leases and are based on the lease agreements for the medical equipment.*
- *In 2014-2016, the hospital had income guarantee amounts that were shown as physician recruiting expenses. For 2017-2020, these types of guarantees will be replaced by other arrangements. Physician related expenses will be categorized by the type of expenditure, purchased services, salaries, medical specialist fees and/or other operating expenses.*
- *For 2016, this was a settlement of a previous income guarantee that was repaid to the hospital, which caused the expense line to be negative.*
- *HITECH is an incentive from CMS for hospitals that met meaningful use status, per the American Recovery and Reinvestment Act of 2009 (ARRA). This is shown as a negative number as it reduces the amount of expense that was expended. It was discontinued in the future years because the last payment was in 2016.*
- *In 2014-2016, this management fee was from CHS, which is part of the corporate management of the operation. After the acquisition, the management fee will be paid to Regional Health, which is for support from the parent company and includes but is not limited to: general oversight, IT, public relations, revenue cycle, as well as providing strategic direction. The management fee is calculated at 1% of total revenue.*
- *The management fee is the assumed allocated overhead. All other costs will be direct expenses of the facilities.*
- **Medical spec fees:** *Medical specialist fees including on-call fees, as well as fees for locum (temporary) providers.*
- **Purchased Services:** *Lab services, IT services, centralized business office services, marketing expenses and other corporate services. This also includes legal fees, the Central Washington Family Medicine residency program and cafeteria/food services.*
- **Other Operating Expenses:** *Travel, education and training, freight, telephone, employee relocation and recruitment, postage.*
- *100% of the debt from this transaction (the acquisition of Yakima Regional and Toppenish) will be assigned to each hospital based on each hospital's pro rata share of the total purchase price (16% to SHC Medical Center - Toppenish).*
- *There are no management agreements, nor is there a management company assumed for Toppenish.*
- *There is a Systems Benefit Agreement for purchased services (Attachment 2) and the costs in this agreement "match" the pro forma.*

Actual (annualized) revenues, expenses, and net income are shown below in Table 12, which includes projected revenue, expenses, and net income for TCH for years 2017 through 2020. [source: TCH 2nd screening response, Attachment 1]

Table 12
Toppenish Community Hospital
Actual (Annualized) Revenues and Expenses-Years 2016-2020

| | Actual (Annualized) | | Projected | | |
|-----------------------------|---------------------|------------------|------------------|------------------|------------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Net Revenue | \$22,123,708 | \$23,380,971 | \$24,433,220 | \$25,220,611 | \$25,352,091 |
| Total Expenses | \$22,479,721 | \$23,387,394 | \$24,174,555 | \$24,530,092 | \$24,941,835 |
| Net Profit or (Loss) | (\$356,013) | (\$6,423) | \$258,665 | \$690,519 | \$410,256 |

The 'Net Revenue' line item is gross inpatient and outpatient hospital revenue. The net revenue also includes deductions for contractual allowances, bad debt, and charity care. The 'Total Expenses' line item includes all expenses related to hospital operations, including all staff salaries/wages, depreciation, and interest expenses. The expenses also include a line item identified as 'Management Fees' which is allocated costs from TCH to Regional Health.

Public Comment

During the review of the TCH and the Yakima Regional projects, the department received letters expressing concerns related to this review sub-criterion. The concerns focused on the assumptions used to determine pro forma revenues, expenses, and the immediate and long range financial viability of the hospital under Regional Health's ownership and control. Excerpts from the public comment is below.

Virginia Mason Memorial

We believe that the financial information in RHS's application contains several inaccuracies and omissions, which raise doubts as to the accuracy and reliability of RH S's financial projections. Some of the inaccuracies and omissions include the following:

- RHS's pro forma contains overly aggressive financial assumptions. The pro forma assumes a 3.6% revenue growth rate without providing any rationale or explanation. If revenues do not grow at this rate, then RHS's entire financial projection could soon become increasingly inaccurate.*
- The pro forma predicts labor expenses to rise by only 1.5% annually, which we believe to be unrealistic.*
- The pro forma includes very little (if any) recruitment expense, which is surprising given the number of pending retirements expected at these facilities.*
- The pro forma identifies only very small amounts for capital investments. Given the aging physical plant and the recent severe reductions in facility investments (net PPE value is down over 60% in the past three years), this may be implausible.*
- RHS's pro forma also appears to contain several omissions. For example, based on our analysis there appears to be an omitted interest expense of approximately \$500,000 without explanation.*
- We note that no repayment of loan principal is identified, despite the fact that this acquisition is highly leveraged.*
- RHS has indicated that it will pay Community Health Services (CHS) for access to the existing CHS IT systems, business processes, and staff during a one-year transition period. During this period, RHS will need to remove and replace these core systems. We do not see any allocation for investment capital or operational expense for this substantial conversion of IT, business processes and staff.*

[July 10, 2017, public comment]

Yakima Valley Community Foundation

The financial projections rely on a series of assumptions, including significant revenue growth, aggressive cost efficiencies, and an expansion of Medicaid funding that together is hoped will drive down charity care obligations. The assumptions included in the pro formas financials appear aggressive, both on the revenue and expense sides. In effect, the organization would have to hit on all cylinders to enjoy financial stability. We believe this is unlikely given the turbulent health care environment and projections that depart from historical norms.

- Regional estimates an increase in admissions at both facilities (approximately 4% at Yakima and 2.6% at Toppenish) and attributes this growth to stable leadership and physician recruitment. It is concerning that it was unable to provide additional explanation for the assumptions and/or methodologies used to reach these figures.*

- *From 2016 to 2017 Gross Charges increase \$17.7 million of which \$8.1 million (46%) becomes patient service revenue. Historically less than 20% of gross charges are realized as net revenue. Therefore, this seems like an aggressive assumption.*
- *From 2017 to 2018 Gross Charges increase \$21.9 million. There is no detail regarding how much of the increase is due to volume and how much is due to rate increases. Given the current payer mix, rate increases will most likely not equate to additional net revenue.*
- *After 4 years of operation (2020) the debt to equity ratio is 264%. This is due to the highly-leveraged position proposed by the Applicant and established at Day 1.*
- *Payer mix is held constant for both hospitals over the financial projection period. Given both hospital's reliance on Medicaid, any major changes to the Medicaid eligible population or underlying funding of the program could significantly impair Regional's ability to meet its financial obligations with creditors.*

[July 11, 2017, public comment]

Rebuttal Comment

Regional Health Rebuttal to Virginia Mason Memorial

"In direct rebuttal to VMM's and others' public comments regarding financial feasibility and for the Program's convenience in review and analysis, we respond below to the seven bullet points included in VMM's July 7, 2017 addendum regarding financial feasibility. The record should reflect that VMM did not provide any data, calculations or analysis in support of their statements.

Pro forma Assumption of 3.6% Revenue Growth

"As with nearly all of VMM's comments, the percentages cited and/or the timeframe referenced are not identified or replicable. In fact, Regional Health is uncertain if the 3.6% revenue growth reference is to Yakima Regional, Toppenish or Regional Health. However, in the pro forma assumptions for Yakima Regional, Regional Health did assume a one-year increase of 3.6% in revenue (2018) but did not assume this rate of growth would continue. In each of the two subsequent years, Regional Health assumed a 1.2% and 1.0% annual growth, respectively. Regional Health believes these assumptions are very conservative and will result from stable leadership as well as physician recruitment and retention strategies. This rate of growth is substantiated as conservative by a September 8, 2016 Moody's Investors Service Report, Not-for Profit and Public Healthcare-US. According to this report, in 2015, the annual revenue growth for this hospital sector was 7.5%-- or nearly double what Regional Health projects in the first year. The Report also states that this rate has been at or above 4% since 2008. The relevant section of the Moody's report is included as Attachment 6.

For comparison, over the past five years, Regional Health's Sunnyside has averaged 16.4% annual revenue growth.

In further direct rebuttal to VMM's concerns, it is important to note that at the time Regional Health prepared the applications it had not commenced any physician recruitment. Regional Health has since initiated recruitment and have been extremely pleased with results. To date, commitments from 10 new providers who will begin in the first year of the pro forma has been received. These ten providers represent seven clinical specialty areas including physical medicine and rehabilitation, family practice, urgent care, general surgery, anesthesia, internal medicine and cardiology. While not reflected in the pro formas submitted with the screening responses, these new recruits will increase both volumes and revenues. Based on industry standards, these providers are expected to generate a minimum of \$52 million (7.3%) in gross revenues and \$10 million (7.4%) in net revenues in the first year alone.

Thus, Regional Health's revenue assumptions are conservative and highly achievable."

1.5% Annual Labor Expense Assumption

In 2014, Regional Health's salary, wage and benefit percentage of revenue was at 40.3%, and is projected to be at that percentage again in 2017, and remain close to 40% for the remainder of the projection period. The increases in labor expenses are due to growth, and do not include inflation. This is consistent with CN application instructions found on the Program website that state:

- Use non-inflated dollars for all cost projections.
- Do not include a general inflation rate for these dollar amounts.
- Do include current contract cost increases such as union contract staff salary increases.

As with revenue, Regional Health cannot replicate the 1.5% cited by VMM, the projected percentages vary by year and by Hospital. The approximate 1.5% annual labor expense assumption is slightly higher than known contract salary increases. In February 2017, WSNA members voted to approve a new contract at the hospitals that became effective on April 1, 2017. As stated in the transmittal to members, WSNA representatives noted "there are no changes from the old contract to the new one other than the 1 % increase... " Thus, contrary to VMM's concerns, Regional Health's labor expense assumption is accurate based on information available to us.

Furthermore, as noted in the March 2017 screening response, staff productivity at the two hospitals proposed to be acquired by Regional Health is below the industry best practices. Consequently, additional volume can be added without a concomitant increase in staffing.”

Recruitment Expenses Given Pending Retirements

“VMM has not provided any data to substantiate its statement regarding retirements. Regional Health, as part of its due diligence efforts, had discussions with Yakima and Toppenish executive management and are not aware of any significant pending retirements. That said, we nonetheless included increasing amounts for provider recruitment, as depicted on the 'physician recruiting' line item in the pro formas revenue and expense statement.”

Capital Investments

“VMM suggests that capital investments are low. To the contrary, the Yakima Regional and Toppenish pro forma includes approximately \$39 million in capital investments over the next four years (Total PPE as shown below); an investment equivalent to nearly 100% of the acquisition price (see Table 3[below]).

**Table 3
Yakima Regional and Toppenish
Projected Capital Investments**

| | Yakima Regional | Toppenish | Total |
|--|------------------------|------------------|--------------|
| <i>Beginning Total PPE (Sales Price)</i> | \$31,000,000 | \$6,000,000 | \$37,000,000 |
| <i>Additions to PPE</i> | \$34,286,800 | \$5,076,800 | \$39,363,600 |
| <i>Total PPE in 2020</i> | \$65,286,800 | \$11,076,800 | \$76,363,600 |

“The record should also reflect that these two hospitals have historically generated a relatively strong bottom line. A review of the most recent (2016) financial statements for the hospitals shows an EBIDTA of \$8.6 million. The year prior the EBIDTA was \$14.6 million. Historically, these net earnings were swept from the local community. Regional Health will keep these dollars local.

Table 1 of the March screening response identified \$50,480,000 from three sources to fund the acquisitions. Since March when that screening response was filed Regional Health has secured

commitments for another \$28 million that can be used to invest primarily in plant, property and equipment projects that will, in turn, produce new revenue for the hospitals. Specifically, Regional Health has negotiated an agreement with MidCap Financial Services, LLC that will provide a master senior credit facility of \$28 million, which is essentially a revolving line of credit. This additional information is proper rebuttal because it is responsive to VMM's statements challenging the financial feasibility of the project.

Finally, Regional Health notes that VMM indicated the hospitals experienced severe reductions in facility investments, stating "net PPE value is down over 60% in the past three years." Regional Health is unable to replicate the 60% calculation, but as VMM is well aware, the reduction is related to accounting practices to reflect the resetting of the value of the assets based upon the purchase price. The original value of the assets is based on the historical book value established by CHS. The value dropped significantly because the value of the assets gets "reset" for the new Regional Health entity at a lower value.

Page 6 of the January 2017 CN submittals for both applications states: "After assuming ownership, RH Yakima will evaluate unmet community needs and determine if any new services should be offered. At this time, there are no plans to terminate any current services." Further, page 9 of each application showed projected inpatient days as follows:

**Table 4
Inpatient Days
2017-2020**

| | Year 2017 | Year 2018 | Year 2019 | Year 2020 |
|------------------------|------------------|------------------|------------------|------------------|
| <i>Yakima Regional</i> | 20,947 | 21,756 | 21,912 | 21,951 |
| <i>Toppenish</i> | 3,943 | 4,045 | 4,099 | 4,099 |
| <i>Total</i> | 24,890 | 25,801 | 26,011 | 26,050 |

The increase in days from 2017 to 2020 is 4.6% or about 1.5% annually. With the \$39 million in capital investment, considerable growth (volume and revenue) above and beyond the 1.5% annually will be realized. For example, as noted earlier in this rebuttal, Regional Health has already received commitments from 10 new providers. Standard industry productivity and revenue assumptions suggest that these 10 providers alone will generate approximately \$52 million in gross revenue, and \$10 million in net revenue.

In addition, since the filing of the screening response pro formas in March, Regional Health has secured lower interest rate financing for the replacement of Sunnyside than was included in the pro forma. This financing further improves Regional Health's ratios as demonstrated by the following illustrations. [Illustrations are not included in this review]

Even with the capital investments included but without incremental volume, revenue and expense (the March pro forma) the ratios are within rating agency requirements, albeit below state averages. One of the most commonly used rating agency metrics for assessing the credit quality of hospitals and health systems is the Maximum Annual Debt Service coverage ratio (MADS), which measures the cash flows generated by the operations of the hospital relative to the highest debt service payment. Each of the major rating agencies (Moody's and S&P) annually publishes the median credit ratios for all hospitals at all rating levels. These ratios are used as guidance to rate a borrower's credit. They are not reviewed independent of each other, but rather on a combined basis in determining a credit rating. Regional Health today compares favorably to these ratios. Specifically, the debt service coverage ratio for Regional Health is 4.124x for 2016. The Moody's and S&P medians for MADS are currently 3.7x and 3.2x, respectively. On a proforma basis, Regional Health not only projects to be in proximity of the MADS ratio, but demonstrates year-over-year improvement."

Pro Forma – No Omissions

“VMM states Regional Health's pro formas "appears to contain several omissions." They provide only one example: an interest expense of approximately \$500,000. No additional explanation was provided, and Regional Health cannot determine why VMM assumes interest was excluded (though it may be that Regional Health prepaid Lapis \$500,000 in interest, which is appropriately not included in the revenue and expense statement. It is reflected on the Balance Sheet). Regional Health has included all interest expense.”

Loan Repayment

“The current agreement with Lapis does not require principal payments until after 2020. An amortization schedule for the current loan structure was previously submitted to the Program (Attachment 5 of Screening letter #2, dated March 2017). In the Application submittals, Regional Health stated fully and succinctly why Regional Health approached the financing via a bridge loan:

“The project will ultimately be funded through either a government or commercial loan. Given the need to close the transaction quickly and the length of time required to select the best method and terms and process an application, RH Yakima secured a bridge loan. The term of the bridge loan is three years, with three one year extensions.”

In direct rebuttal to VMM's concerns, Regional Health also responds that, while Regional Health has up to six years with Lapis, during the CN processing delay, Regional Health retained an investment advisor and have initiated the process of securing a government (HUD) loan. This process is expected to take about 12 months. Regional Health will close the transaction with the Lapis financing, but fully anticipate converting to a permanent government loan within the first two years.”

Replacement of Core CHS Systems

Regional Health recently selected Cerner for its system-wide fully integrated electronic health record, which is to be implemented by the end of the one-year transition period. The system build has already commenced at Sunnyside. The costs associated with implementing the new IT system at Yakima Regional and Toppenish are included in the purchased services line item in the pro forma (and, are assumed to be the same as the CHS IT system). In an effort to be conservative, Regional Health has not assumed any savings associated with the reduced IT costs from using the Cerner system in future years.

In addition to the above responses to VMM's seven bullet points, Regional Health also responds to VMM's suggestion that Regional Health will be highly leveraged. They provided no data or analysis in support of this claim. In an effort to assure the record is complete and responsive, Regional Health closely reviewed the Program's financial feasibility analysis of MultiCare's two recent applications to acquire two CHS hospitals in Spokane. In its MultiCare analysis, the Program considered the following criteria under WAC 246-310-220:

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

Similar to MultiCare, Regional Health's volume and payer mix are based on admission data provided by the Seller. Projected growth is reflective of population growth, while holding the following factors constant: market inpatient usage rate, inpatient market discharge share, percent inpatient discharges that in-migrate, average length of stay, payer mix based on discharges and outpatient visit to inpatient discharge ratio.

As noted above, Regional Health's pro forma financial statements were developed using highly conservative assumptions. Regional Health's 2015 and 2016 year end ratios outperform the state average. Even with the debt associated with the acquisition and the planned replacement of the Sunnyside campus, several key ratios continue to outperform the State average as depicted in Table 4. Within the pro formas, the debt related ratios continue to meet or exceed industry and lender requirements. This demonstrates that Regional Health is not highly leveraged and is today, and will remain, within or above state averages.

The capital expenditure associated with Regional Health's purchase of the two hospitals is \$37 million. In the Program's MultiCare evaluation, the Program stated there are no traditional "startup costs," at the Spokane hospitals because they are fully operational. The Program further noted MultiCare identified the net working capital requirements following the transaction and the sources of the working capital. Similarly, here, the two proposed Regional Health acquisition hospitals are fully operational. Working capital requirements were defined and the sources delineated in the application. As noted earlier, since March when the screening response was filed, Regional Health has secured commitments for another \$28 million that can be used to invest primarily in plant, property and equipment projects that will, in turn, produce new revenue for the hospitals.

In terms of impact on costs and charges for healthcare services, as the Program found in the MultiCare evaluation, integration into Regional Health will improve efficiency and provide economies of scale. The Regional Health project thus meets all applicable WAC 246-310-220 requirements.

[source: July 26, 2017, rebuttal, pp22-29]

Regional Health Rebuttal to Yakima Valley Community Foundation

"The Yakima Valley Community Foundation's letter of support recognizes the value of the Regional Health transaction, and the importance of retaining a choice of quality, accessible health care providers for residents. The letter posed some questions, and Regional Health responds to those questions below.

Ownership /Management - Health Tech

Regional Health is the sole owner of Yakima Regional Medical and Cardiac Center and Toppenish Community Hospital. HealthTechS3 is a provider of certain administrative services to Regional Health. There will be no management or administrative services agreement between HealthTechS3 and Regional Health related to Yakima Regional or Toppenish Community Hospital.

Pro Forma Assumptions

The Foundation does not operate a hospital nor is it in the business of operating health care services, so its confusion about Regional Health's pro forma financials are not surprising. Regional Health intends, as the Foundation states, to "hit on all cylinders," but is not required in order to meet our predictors for growth which are exceptionally conservative. As noted in the April 2017 Screening Response #2 pro forma, Regional Health conservatively assumed revenues would grow by 3.6% in year one, and then at lower rates in subsequent years. This growth is substantiated as conservative by a September 8, 2016 Moody's Investors Service Report~ Not-for Profit and Public Healthcare-US. According to this report, in 2015, the annual revenue growth for this hospital sector was 7.5%-- or nearly double what we projected for year 1. The Report also states that this rate has been at or above 4% since 2008. A copy of the Moody's report is included as Attachment 3.

For comparison, over the past five years, Regional Health has averaged 16.4% annual revenue growth.

It is important to note that at the time we prepared the application we had not commenced any physician recruitment. We have since initiated recruitment and have been extremely pleased with results: to date we have received commitments from 10 providers who will begin in the first year of the pro forma. These ten

providers represent seven clinical specialty areas including physical medicine and rehabilitation, family practice, urgent care, general surgery, anesthesia, internal medicine and cardiology. While not reflected in the April Screening pro forma, these new recruits will increase volumes and revenues. Based on industry standards, these providers are expected to generate a minimum of \$52 million (7.3%) in gross revenues and \$10 million (7.4%) in net revenues in the first year alone. In terms of the gross charges conversion ratio to patient service revenue and to net revenue, the percentages in the pro forma reflect the actual experience at the two hospitals. They are both realistic and achievable.

Operating Efficiencies

Regional Health fully anticipates realizing efficiencies, but in an effort to be conservative the pro forma did not generally quantify any such efficiency. The assumed salary increases of 1.5% are slightly higher than known contract salary increases. As noted in our application documents, we have assumed some productivity gains for staff.

Payer Mix

Regional Health concurs that there is some uncertainty related to the Affordable Care Act (ACA). That uncertainty impacts every provider in the nation and every CN under review in the State. To date, the Program has relied on applicants to put forth reasonable scenarios. Regional Health's scenarios are reasonable, as is our commitment to access and charity care.

In addition to the above, the Foundation requested that the CNs be awarded to Regional Health with two conditions. The first relates to Regional Health being required to continue the current service obligations of HMA/CHS for the next seven years. Regional Health has no intention of eliminating any current service.”

[source: July 26, 2017, rebuttal, pp39-42]

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by Regional Health to determine the projected number of admissions, patient days, and occupancy of TCH under new ownership. Part of the review typically includes a comparison of historical and projected admissions, patient days and occupancy. Given that TCH’s historical data from 2013 through 2016 is under-reported, this type of comparison would be unreliable.

For this review, the department compared the projected patient days for years 2018 through 2020 to the historical inpatient patient days for years 2011 through 2016 provided by Regional Health in its application. Year 2017 patient days are estimated. Regional Health identified the source for the historical data to be: “CHARS 2011 and 2012, Department of Health Year End Report, 2013 and Applicant 2014-2016.” Table 13 below shows this historical and projected patient days for TCH.

**Table 13
Historical and Projected
Toppenish Community Hospital Patient Days and Occupancy Percentage**

| | TCH Historical and (2017) Estimated | | | | TCH Projected | | |
|----------------------|-------------------------------------|--------|--------|--------|---------------|--------|--------|
| | CY2014 | CY2015 | CY2016 | CY2017 | CY2018 | CY2019 | CY2020 |
| Total Licensed Beds | 63 | 63 | 63 | 63 | 63 | 63 | 63 |
| Total Patient Days | 4,257 | 4,379 | 3,772 | 3,943 | 4,045 | 4,099 | 4,099 |
| Occupancy Percentage | 18.5% | 19.0% | 16.4% | 17.1% | 17.6% | 17.8% | 17.8% |

When compared to historical data (years 2014-2016) provided within the application, the department notes that patient days have decreased while CHS has owned TCH. This is consistent with year-end financial data. The reasons for this are not known. For projection years, Regional Health took what they described

as a “conservative approach,” and only inflated admissions by 2.6% between years 2017 and 2018 based on results of stable leadership and physician recruitment. For years 2018 through 2020, only year 2018 is expected to grow another 1.3%; no assumed growth in years 2019 and 2020.

Regional Health based its revenue and expenses for TCH on the assumptions referenced above. Regional Health started with CHS’s current operations as a base-line for the revenue and expenses, and then applied the noted adjustments, including a change in corporate allocation, tax-status change, and an increase in budgeted charity care. This data shows that CHS operated TCH at a net loss in 2016 of \$356,013, and expected another net loss of \$6,423 in year 2017. Regional Health projected net profits for projection years 2018 through 2020.

To assist the program in its evaluation of this sub-criterion, staff from the Department of Health’s HFCC Program also provided a financial analysis. To determine whether Regional Health would meet its immediate and long-range capital costs, the HFCC Program reviewed Regional Health’s historical and projected financial statements. The information is shown below.

“I have also reviewed various ratios’ that can give a snapshot of the financial health of Regional Health and Toppenish as of 2016. Also detailed are the three years following completion of the project. Statewide 2015¹³ ratios are included as a comparison and are calculated from all community hospitals in Washington State whose fiscal year ended in that year. The data is collected by the Washington State Dept. of Health Community Health Systems section of the Health Systems Quality Assurance division. On the following page is a table showing the results.

The 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.

| Overall System | | | 2016 | 2018 | 2019 | 2020 |
|-------------------------------------|--|----------|-----------|--------|--------|--------|
| Ratio Category | Trend | State-15 | Sunnyside | CONyr1 | CONyr2 | CONyr3 |
| Long Term Debt to Equity | B | 0.461 | 0.212 | 1.685 | 2.269 | 1.988 |
| Current Assets/Current Liabilities | A | 3.196 | 2.185 | 3.173 | 3.574 | 3.576 |
| Assets Funded by Liabilities | B | 0.387 | 0.353 | 0.635 | 0.693 | 0.673 |
| Operating Expense/Operating Revenue | B | 0.943 | 0.916 | 0.951 | 0.948 | 0.962 |
| Debt Service Coverage | A | 5.403 | 4.343 | 2.988 | 2.599 | 1.951 |
| 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 Expense/Operating Revenue | | | | | |
| Debt Service Coverage | Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp | | | | | |

¹³ Statewide financial reporting for 2016 is not sufficiently complete as of the date of this report.

| Toppenish | | | 2016 | 2018 | 2019 | 2020 |
|-------------------------------------|--|----------|---------|--------|--------|--------|
| Ratio Category | Trend | State-15 | Topp | CONyr1 | CONyr2 | CONyr3 |
| Long Term Debt to Equity | B | 0.461 | 14.986 | 18.376 | 5.680 | 3.780 |
| Current Assets/Current Liabilities | A | 3.196 | 3.520 | 2.543 | 2.586 | 2.475 |
| Assets Funded by Liabilities | B | 0.387 | 0.942 | 0.606 | 0.590 | 0.594 |
| Operating Expense/Operating Revenue | B | 0.943 | 0.937 | 0.989 | 0.973 | 0.980 |
| Debt Service Coverage | A | 5.403 | 164.710 | 2.213 | 2.628 | 2.504 |
| 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 Expense/Operating Revenue | | | | | |
| Debt Service Coverage | Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp | | | | | |

“CON year 3 (third year following purchase of Toppenish) fiscal year end ratios for both Regional Health and Toppenish are worse than the 2015 State averages, with the exception of the ratio of current assets to current liabilities for Regional. The two ratios involving revenue, operating expense to operating revenue and debt service coverage, are both weaker than the statewide average, but both show that the projected revenues for both Toppenish and the overall Regional Health system should be sufficient to meet the hospitals’ obligations. The fact that a number of the ratios are not particularly strong is more an indicator that the system may not have capacity to incur much more debt in the future, however the projections on which they are based already include over \$30 million in investments in property, plant, and equipment that, as discussed earlier in this review, are intended to create stronger revenue for the facility and not simply replace outdated assets. Unless significantly greater amounts of borrowing than projected in this application are necessary in the near future, it appears that Regional Health should have the ability to complete the purchase of Toppenish and make the investments described in the application and subsequent submissions and remain financially viable.

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: HFCC Toppenish Community Hospital Analysis pp3-4]

The concerns raised by Virginia Mason Memorial and Yakima Valley Community Foundation were addressed by Regional Health in its rebuttal documents. Information provided in the application and the financial analysis provided by HFCC indicates that TCH will not be operating at a loss, but with a thin profit margin. Regional Health, as a new entity, will also be financially viable, but expects to operate with an undesirably high debt to equity ratio that could prevent Regional Health from incurring additional debt in the short term.

For the TCH project, 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.**

Yakima Regional Medical and Cardiac Center

Regional Health provided the following assumptions that were used to determine the projected number of discharges, patient days, and occupancy at Yakima Regional. [source: Yakima Regional 1st screening response, p6]

- **Admissions:** were assumed to increase 3.9% between 2017 and 2018 as a result of stable leadership and physician recruitment; and then minor growth between 2018 and 2020 (0.7% and 0.2%,

respectively). The percentage of admissions by payer was based on 2016 actual and is held constant 2017-2020.

- **Average length of stay (ALOS):** was assumed to remain at 4.24 (2017-2020). This was based on 2016 actual ALOS.
- **Patient days:** are expected to grow at the same rate as admissions as ALOS is assumed constant. The percentage of patient days by payer was based on 2016 actual and is held constant 2017-2020.
- **Revenue by Payer** (detailed in the table below) was based upon 2016 actual and is held constant (as a percentage of total revenue) 2017-2020:

Estimated Revenue by Payer

| Payer | % of Total Revenue |
|------------------|---------------------------|
| Medicare | 39.3% |
| Medicaid | 25.4% |
| HMO/PPO | 21.3% |
| Insurance-Other | 8.4% |
| Self-Pay | 1.9% |
| Other | 2.3% |
| Other Government | 1.3% |

“After assuming ownership, RH Yakima will evaluate unmet community needs and determine if any new services should be offered. At this time, there are no plans to terminate any current services.”
 [source: Application, p6]

Using the assumptions stated above, Regional Health projected the number of inpatient admissions, patient days, average length of stay, and occupancy percentages at Yakima Regional. The projections shown below begin with year calendar year 2018. [source: TCH Application, pp19-20]

**Table 14
 Yakima Regional Medical and Cardiac Center
 Projections for Years 2018-2020**

| | CY 2018 | CY 2019 | CY 2020 |
|------------------------|----------------|----------------|----------------|
| Total Licensed Beds | 214 | 214 | 214 |
| Total Admissions | 5,133 | 5170 | 5,179 |
| Total Patient Days | 21,755 | 21,911 | 21,950 |
| Average Length of Stay | 4.24 | 4.24 | 4.24 |
| Occupancy Percentage | 27.9% | 28.1% | 28.1% |

The assumptions Regional Health used to project revenue, expenses, and net income for Yakima Regional for projection years 2018 through 2020 are below. [source: TCH application pp33-34; first screening response, pp15-17; and second screening response, p6]

- *Gross revenue is both inpatient and outpatient revenue.*
- *Other operating revenue includes: cafeteria sales, medical records fees, silver recovery (x-ray recycling) and rental income.*
- *...the deductions from revenue include both inpatient and outpatient deductions.*
- *The rent expense line item includes the rent/lease of medical equipment. These are operating leases and are based on the lease agreements for the medical equipment.*
- *In 2014-2016, the hospital had income guarantee amounts that were shown as physician recruiting expenses. For 2017-2020, these types of guarantees will be replaced by other arrangements. Physician*

related expenses will be categorized by the type of expenditure, purchased services, salaries, medical specialist fees and/or other operating expenses.

- For 2016, this was a settlement of a previous income guarantee that was repaid to the hospital, which caused the expense line to be negative.
- HITECH is an incentive from CMS for hospitals that met meaningful use status, per the American Recovery and Reinvestment Act of 2009 (ARRA). This is shown as a negative number as it reduces the amount of expense that was expended. It was discontinued in the future years because the last payment was in 2016.
- In 2014-2016, this management fee was from CHS, which is part of the corporate management of the operation. After the acquisition, the management fee will be paid to Regional Health, which is for support from the parent company and includes but is not limited to: general oversight, IT, public relations, revenue cycle, as well as providing strategic direction. The management fee is calculated at 1% of total revenue.
- The management fee is the assumed allocated overhead. All other costs will be direct expenses of the facilities.
- **Medical spec fees:** Medical specialist fees including on-call fees, as well as fees for locum (temporary) providers.
- **Purchased Services:** Lab services, IT services, centralized business office services, marketing expenses and other corporate services. This also includes legal fees, the Central Washington Family Medicine residency program and cafeteria/food services.
- **Other Operating Expenses:** Travel, education and training, freight, telephone, employee relocation and recruitment, postage.
- 100% of the debt from this transaction (the acquisition of Yakima Regional and Toppenish) will be assigned to each hospital based on each hospital's pro rata share of the total purchase price (84% to SHC Medical Center - Yakima).
- There are no management agreements, nor is there a management company assumed for Yakima Regional.
- There is a Systems Benefit Agreement for purchased services (Attachment 1) and the costs in this agreement "match" the pro forma.
- The [net] loss in 2016 was related to a decrease in inpatient volume (with a decrease in the ADC from 58.2 to 52.5). In addition, surgeries declined by approximately 10% as well. We believe that the uncertainty of future ownership and management turnover have contributed to the decline in volume. In 2017, and forward, all volumes were assumed to increase as a result of a new stable ownership that enjoys strong working relationships with area physicians, and a commitment to recruit new providers.

Actual (annualized) revenues, expenses, and net income are shown below in Table 15, which includes projected revenue, expenses, and net income for Yakima Regional for years 2017 through 2020. [source: TCH 2nd screening response, Attachment 1]

Table 15
Yakima Regional Medical and Cardiac Center
Actual (Annualized) Revenues and Expenses for Years 2016-2020

| | Actual (Annualized) | | Projected | | |
|-----------------------------|---------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Net Revenue | \$105,999,025 | \$111,472,915 | \$114,350,095 | \$115,580,851 | \$116,636,980 |
| Total Expenses | \$106,175,696 | \$107,971,509 | \$109,994,613 | \$110,917,958 | \$111,705,820 |
| Net Profit or (Loss) | (\$176,671) | \$3,501,406 | \$4,355,482 | \$4,662,893 | \$4,931,160 |

The 'Net Revenue' line item is gross inpatient and outpatient hospital revenue. The net revenue also includes deductions for contractual allowances, bad debt, and charity care. The 'Total Expenses' line item

includes all expenses related to hospital operations, including all staff salaries/wages, depreciation, and interest expenses. The expenses also include a line item identified as ‘Management Fees’ which is allocated costs from TCH to Regional Health.

Public Comment

During the review of the TCH and the Yakima Regional projects, the department received letters expressing concerns related to this review sub-criterion. The concerns focused on the assumptions used to determine pro forma revenues, expenses, and the immediate and long range financial viability of the hospital under Regional Health’s ownership and control. The concerns and Regional Health’s rebuttal related to the concerns were previously stated in the TCH review above. While the public comment and rebuttal will not be repeated below, the department’s evaluation of this sub-criterion will take into account both public comments and rebuttal.

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by Regional Health to determine the projected number of admissions, patient days, and occupancy of Yakima Regional under new ownership. Part of the review typically includes a comparison of historical and projected admissions, patient days and occupancy. Given that Yakima Regional’s historical data from 2013 through 2016 is under-reported, this type of comparison would be unreliable.

For this review, the department compared the projected patient days for years 2018 through 2020 to the historical inpatient patient days for years 2011 through 2016 provided by Regional Health in its application. Year 2017 patient days are estimated. Regional Health identified the source for the historical data to be: “CHARS 2011 and 2012, Department of Health Year End Report, 2013 and Applicant 2014-2016.” Table 16 below shows this historical and projected patient days for Yakima Regional.

**Table 16
Historical and Projected
Yakima Regional Hospital Patient Days and Occupancy Percentage**

| | YR Historical and (2017) Estimated | | | | YR Projected | | |
|----------------------|------------------------------------|--------|--------|--------|--------------|--------|--------|
| | CY2014 | CY2015 | CY2016 | CY2017 | CY2018 | CY2019 | CY2020 |
| Total Licensed Beds | 214 | 214 | 214 | 215 | 214 | 214 | 214 |
| Total Patient Days | 20,419 | 21,104 | 19,241 | 20,946 | 21,755 | 21,911 | 21,950 |
| Occupancy Percentage | 26.1% | 27.0% | 24.6% | 26.8% | 27.9% | 28.1% | 28.1% |

When compared to historical data (years 2014-2016) provided within the application, the department notes that patient days have decreased while CHS has owned TCH. This is consistent with year-end financial data. The reasons for this are not known. For projection years, Regional Health took what they described as a “conservative approach,” and only inflated admissions by 3.9% between years 2017 and 2018 based on results of stable leadership and physician recruitment. For years 2018 through 2020, minor growth in from year 2018 to 2019 of 0.7% and another 0.2% growth for year 2020.

Regional Health based its revenue and expenses for Yakima Regional on the assumptions referenced above. Regional Health started with CHS’s current operations as a base-line for the revenue and expenses, and then applied the noted adjustments, including a change in corporate allocation, tax-status change, and an increase in budgeted charity care. This data shows that CHS operated Yakima at a net loss in 2016 of \$176,671, but expected a net profit in year 2017 of \$3,501,406, and profits for projection years 2018 through 2020.

To assist the program in its evaluation of this sub-criterion, staff from the Department of Health’s HFCC Program also provided a financial analysis. To determine whether Regional Health would meet its immediate and long-range capital costs, the HFCC Program reviewed Regional Health’s historical and projected financial statements. The information is shown below.

“I have also reviewed various ratios’ that can give a snapshot of the financial health of Regional Health and Yakima Regional as of 2016. Also detailed are the three years following completion of the project. Statewide 2015¹⁴ ratios are included as a comparison and are calculated from all community hospitals in Washington State whose fiscal year ended in that year. The data is collected by the Washington State Dept. of Health Community Health Systems section of the Health Systems Quality Assurance division. On the following page is a table showing the results.

The 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.

| Overall System | | | 2016 | 2018 | 2019 | 2020 |
|-------------------------------------|--|----------|-----------|--------|--------|--------|
| Ratio Category | Trend | State-15 | Sunnyside | CONyr1 | CONyr2 | CONyr3 |
| Long Term Debt to Equity | B | 0.461 | 0.212 | 1.685 | 2.269 | 1.988 |
| Current Assets/Current Liabilities | A | 3.196 | 2.185 | 3.173 | 3.574 | 3.576 |
| Assets Funded by Liabilities | B | 0.387 | 0.353 | 0.635 | 0.693 | 0.673 |
| Operating Expense/Operating Revenue | B | 0.943 | 0.916 | 0.951 | 0.948 | 0.962 |
| Debt Service Coverage | A | 5.403 | 4.343 | 2.988 | 2.599 | 1.951 |
| 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 Expense/Operating Revenue | | | | | |
| Debt Service Coverage | Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp | | | | | |

| Yakima Regional | | | 2016 | 2018 | 2019 | 2020 |
|-------------------------------------|-------|----------|------------|--------|--------|--------|
| Ratio Category | Trend | State-15 | Yakima Reg | CONyr1 | CONyr2 | CONyr3 |
| Long Term Debt to Equity | B | 0.461 | 3.412 | 6.448 | 4.246 | 3.083 |
| Current Assets/Current Liabilities | A | 3.196 | 1.532 | 3.165 | 3.462 | 3.639 |
| Assets Funded by Liabilities | B | 0.387 | 0.810 | 0.886 | 0.839 | 0.794 |
| Operating Expense/Operating Revenue | B | 0.943 | 1.014 | 0.962 | 0.960 | 0.958 |
| Debt Service Coverage | A | 5.403 | (142.338) | 2.611 | 2.147 | 1.845 |

“CON year 3 (third year following purchase of Yakima Regional) fiscal year end ratios for both Regional Health and Yakima Regional are worse than the 2015 State averages, with the exception of the ratio of current assets to current liabilities. The two ratios involving revenue, operating expense to operating revenue and debt service coverage, are both weaker than the statewide average, but both show that the projected revenues for both Yakima Regional and the overall Regional Health system should be sufficient to meet the hospitals’ obligations. The fact that a number of the ratios are not particularly strong is more an indicator that the system may not have capacity to incur much more debt in the future, however the projections on which they are based already include over \$30 million in investments in property, plant, and equipment that, as discussed earlier in this review, are intended to create stronger revenue for the facility and not simply replace outdated assets. Unless significantly greater amounts of borrowing than projected in this application are necessary in the near future, it appears that Regional Health should have the ability to complete the purchase of Yakima Regional and make the investments described in the application and subsequent submissions and remain financially viable.

¹⁴ Statewide financial reporting for 2016 is not sufficiently complete as of the date of this report.

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: HFCC Yakima Regional Analysis pp3-4]

The concerns raised by Virginia Mason Memorial and Yakima Valley Community Foundation were addressed by Regional Health in its rebuttal documents. Information provided in the application and the financial analysis provided by HFCC indicates that Yakima Regional will not be operating at a loss, but with a profit margin. Regional Health, as a new entity, will also be financially viable, but expects to operate with an undesirably high debt to equity ratio that could prevent Regional Health from incurring additional debt in the short term.

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

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

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

Toppenish Community Hospital

The capital expenditure associated with Regional Health’s purchase of both TCH and Yakima Regional is \$37,000,000. Of that, approximately 16% has been allocated to TCH at \$6,000,000. [source: TCH first screening response, p4]

There are no traditional “start up costs,” as both TCH and Yakima Regional are already fully operational, however, Regional Health identified another \$12,000,000 of net working capital following the transaction. Of that amount, \$2,400,000 is for TCH. Table 17 below provides a breakdown of all costs associated with the purchase of TCH. [source: TCH first screening response, p4]

**Table 17
Estimated Capital Cost
Toppenish Community Hospital**

| Item | Amount |
|---------------------------|--------------------|
| Purchase | \$5,920,000 |
| Estimated Working Capital | \$2,400,000 |
| Transaction Fees | \$236,800 |
| Total | \$8,556,800 |

Regional Health provided the following bullet points related to the project’s impact on costs and charges for healthcare services. [source: TCH Application, p28]

- *Economies of scale will reduce operating costs per unit of service delivered.*
- *Increased purchasing and shared opportunities.*
- *All staff in good standing at time of acquisition to be retained*
- *Allows for staffing pool and shared staffing between 3 system hospitals*

Public Comment

None

Rebuttal Comment

None

Department Evaluation

In the financial review, the HFCC Program confirmed that the rates proposed by Regional Health for TCH are similar to Washington statewide averages, shown below. [source: HFCC TCH analysis p5]

**Table 18
Toppenish Community Hospital Calculated Rates from HFCC Analysis**

| Toppenish | 2018 | 2019 | 2020 |
|-----------------------------------|---------------|---------------|---------------|
| Rate per Various Items | CONyr1 | CONyr2 | CONyr3 |
| Admissions | 1,841 | 1,865 | 1,865 |
| Patient Days | 4,045 | 4,099 | 4,099 |
| Average Length of Stay | 2.20 | 2.20 | 2.20 |
| Gross Revenue | 108,614,778 | 110,138,020 | 110,138,020 |
| Deductions From Revenue | 84,375,471 | 85,115,090 | 84,982,145 |
| Net Patient Billing | 24,239,307 | 25,022,930 | 25,155,875 |
| Other Operating Revenue | 193,914 | 197,681 | 196,216 |
| Net Operating Revenue | 24,433,221 | 25,220,611 | 25,352,091 |
| Operating Expense | 24,174,555 | 24,530,092 | 24,849,835 |
| Operating Profit | 258,666 | 690,519 | 502,256 |
| Net Profit | 258,666 | 690,519 | 502,256 |
| Operating Revenue per Admission | \$ 13,272 | \$ 13,523 | \$ 13,594 |
| Operating Expense per Admission | \$ 13,131 | \$ 13,153 | \$ 13,324 |
| Net Profit per Admission | \$ 141 | \$ 370 | \$ 269 |
| Operating Revenue per Patient Day | \$ 6,040 | \$ 6,153 | \$ 6,185 |
| Operating Expense per Patient Day | \$ 5,976 | \$ 5,984 | \$ 6,062 |
| Net Profit per Patient Day | \$ 64 | \$ 168 | \$ 123 |

“Toppenish’s rates are similar to the Washington statewide averages.”

Regional Health stated under WAC 246-310-220(1) that the payer mix is not expected to change as a result of this project. Further, Regional Health stated that all assumptions related to costs and charges are based on 2016 annualized figures.

Based on the above information, the department concludes that Regional Health’s purchase of TCH would probably not have an unreasonable impact on the costs and charges for healthcare services in Yakima County. **This sub-criterion is met.**

Yakima Regional Medical and Cardiac Center

The capital expenditure associated with Regional Health’s purchase of both TCH and Yakima Regional is \$37,000,000. Of that, approximately 83% has been allocated to Yakima Regional at \$31,080,000. [source: Yakima Regional first screening response, p4]

There are no traditional “start up costs,” as both TCH and Yakima Regional are already fully operational, however, Regional Health identified another \$12,000,000 of net working capital following the transaction. Of that amount, \$9,600,000 is for Yakima Regional. [source: Yakima Regional first screening response, p4]

Table 19
Estimated Capital Cost
Yakima Regional Medical and Cardiac Center

| Item | Amount |
|---------------------------|---------------------|
| Purchase | \$31,080,000 |
| Estimated Working Capital | \$9,600,000 |
| Transaction Fees | \$1,243,200 |
| Total | \$41,923,200 |

Regional Health provided the following bullet points related to the project’s impact on costs and charges for healthcare services. [source: Application, p29]

- *Economies of scale will reduce operating costs per unit of service delivered.*
- *Increased purchasing and shared opportunities.*
- *All staff in good standing at time of acquisition to be retained*
- *Allows for staffing pool and shared staffing between 3 system hospitals*

Public Comment

None

Rebuttal Comment

None

Department Evaluation

In the financial review, the HFCC Program confirmed that the rates proposed by Regional Health for Yakima Regional are similar to Washington statewide averages, shown below. [source: HFCC Yakima Regional analysis p5]

Table 20
Yakima Regional Calculated Rates from HFCC Analysis

| Yakima Regional | 2018 | 2019 | 2020 |
|-----------------------------------|---------------|---------------|---------------|
| Rate per Various Items | CONyr1 | CONyr2 | CONyr3 |
| Admissions | 5,133 | 5,170 | 5,179 |
| Patient Days | 21,755 | 21,911 | 21,950 |
| Average Length of Stay | 4.24 | 4.24 | 4.24 |
| Gross Revenue | 631,073,381 | 638,646,262 | 645,032,725 |
| Deductions From Revenue | 517,711,092 | 524,173,217 | 529,503,551 |
| Net Patient Billing | 113,362,289 | 114,473,045 | 115,529,174 |
| Other Operating Revenue | 987,806 | 1,107,806 | 1,107,806 |
| Net Operating Revenue | 114,350,095 | 115,580,851 | 116,636,980 |
| Operating Expense | 109,994,613 | 110,917,958 | 111,705,820 |
| Operating Profit | 4,355,482 | 4,662,893 | 4,931,160 |
| Net Profit | 4,355,482 | 4,662,893 | 4,931,160 |
| Operating Revenue per Admission | \$ 22,277 | \$ 22,356 | \$ 22,521 |
| Operating Expense per Admission | \$ 21,429 | \$ 21,454 | \$ 21,569 |
| Net Profit per Admission | \$ 849 | \$ 902 | \$ 952 |
| Operating Revenue per Patient Day | \$ 5,256 | \$ 5,275 | \$ 5,314 |
| Operating Expense per Patient Day | \$ 5,056 | \$ 5,062 | \$ 5,089 |
| Net Profit per Patient Day | \$ 200 | \$ 213 | \$ 225 |

“Yakima Regional’s rates are similar to the Washington statewide averages.”

Regional Health stated under WAC 246-310-220(1) that the payer mix is not expected to change as a result of this project. Further, Regional Health stated that all assumptions related to costs and charges are based on 2016 annualized figures.

Based on the above information, the department concludes that Regional Health’s purchase of Yakima Regional would probably not have an unreasonable impact on the costs and charges for healthcare services in Yakima 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.

Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center

The capital expenditure associated with Regional Health’s purchase of both TCH and Yakima Regional is \$37,000,000, with approximately \$6,000,000 for TCH and \$31,000,000 for Yakima Regional. Another \$12,000,000 of net working capital is expected to be needed after the transaction, with \$2,400,000 for TCH and \$9,600,000 for Yakima Regional. [source: TCH first screening response, p4; Yakima Regional first screening response, p4]

Regional Health also provided the following statements regarding financing sources of the project. [source: TCH first screening response, p3 & p7; Yakima Regional first screening response, p3 & p7]

“We have provided, as Attachment 4, a letter confirming the financing commitment of Lapis Advisers, LP to a term loan for the acquisition of Yakima Regional Medical & Cardiac Center and Toppenish Community Hospital. As can be discerned in the letter, there is no amortization at this time, and the principal balance is expected to bear a fixed interest rate of 10% per annum (term of three years with the option to extend the maturity date for additional one year periods).

Please note that even in the worst-case scenario, repayment of the principal does not commence until 2021; which is outside of the pro forma schedule. That said, the annual interest expense is already included in each year of the pro forma.

Please also note that the Lapis letter indicates that it is prepared to loan \$37,350,000. The actual capital expenditure for the two hospitals combined is \$37 million, and based on the fact that we have already paid \$3 million, we estimate that we will utilize \$35,480,000 of the Lapis commitment, based on the sources and uses of funds in Table 1 (which summarizes the sources and uses for the entire project as well as for each hospital’s pro rata share).”

| | Total | Yakima Regional | TCH |
|----------------------------------|---------------------|------------------------|--------------------|
| Uses | | | |
| <i>Purchase</i> | \$37,000,000 | \$31,080,000 | \$5,920,000 |
| <i>Estimated Working Capital</i> | \$12,000,000 | \$9,600,000 | \$2,400,000 |
| <i>Transaction Fees</i> | \$1,480,000 | \$1,243,200 | \$236,800 |
| Total | \$50,480,000 | \$41,923,200 | \$8,556,800 |

| Sources | | | |
|---|---------------------|---------------------|--------------------|
| <i>Sunnyside Community Hospital Equity</i> | \$3,000,000 | \$2,520,000 | \$480,000 |
| <i>Lapis</i> | \$35,480,000 | \$29,803,200 | \$5,676,800 |
| <i>Estimated Note for Working Capital Per APA</i> | \$12,000,000 | \$9,600,000 | \$2,400,000 |
| Total | \$50,480,000 | \$41,923,200 | \$8,556,800 |

“A letter from Regional Health’s (f/k/a Sunnyside Healthcare) CFO committing these funds for working capital is included in Attachment 6. In addition, a prudent business practice for any health care system is to establish a working line of credit. After closing, Regional Health (f/k/a Sunnyside Healthcare) will request competitive bids and select a banking institution to include a line of credit for the expanded System.”

Attachment 6 as referenced above provide the following financial commitment from Regional Health. [source: TCH first screening response, Attachment 6; Yakima Regional first screening response, Attachment 6]

“In response to your request for additional information regarding working capital needs, please note that Regional Health (f/k/a Sunnyside Healthcare), the parent of Sunnyside Community Hospital has allocated up to \$4 million of Sunnyside’s current cash to the working capital for SCH Medical-Yakima and SCH Medical-Toppenish. These funds are readily available, as can be discerned from review of Sunnyside’s balance sheet.”

“Of the total \$4 million, the expected amount for Toppenish is \$640,000. ...the expected amount for Yakima Regional is \$3,360,000.” [source: TCH second screening response, p5 and Yakima Regional second screening response, p5]

Public Comment

During the review of the TCH and the Yakima Regional projects, the department received letters expressing concerns related to this review sub-criterion. Excerpts from the public comment is below.

Yakima Valley Community Foundation

“In general, the structure of the proposed bridge financing outlined in Lapis Investment Advisers letter of interest raises questions as to Regional's ability to meet its repayment obligations to Lapis and ensure the organization can eventually establish a competitive long-term financing arrangement – permanent financing. The financial projections rely on a series of assumptions, including significant revenue growth, aggressive cost efficiencies, and an expansion of Medicaid funding that together is hoped will drive down charity care obligations.

DOH should obtain the details, including legally binding documentation of the temporary ("bridge") financing identified in the application. Currently it is conditional and subject to, "among other things,

satisfactory completion of due diligence, execution and delivery of definitive documents (which have not yet been negotiated as of the date of this letter) evidencing and securing the Loan, confirmation that all necessary consents to the Acquisition have been obtained, and satisfaction of other conditions precedent typical in a transaction of this type." Only with these details can financial feasibility be considered.

Regional states that its repayment obligation during the bridge loan three-year term will be interest-only payments at a rate of 10% per year. The letter of interest from Lapis Advisor's (Lapis), the bridge lender, however, indicates that amortization payments, presumably including repayment of some portion of the principal balance, may be required following the second anniversary of the closing date. If this is the case, it is unclear which factors (if any) may trigger early repayment of some or all of the principal balance (e.g., defaulting on certain loan covenants). The stated interest rate of 10% is predicated on Lapis avoidance of federal taxes to generate the desired level of return to its investors; the interest rate ultimately charged Regional may be higher in the event the interest received by Lapis is in fact taxable.

Moreover, there is no commitment referenced in the application for permanent financing. The financing letter states that Lapis' conditional commitment to extend the loan beyond three years (for three successive periods of one year each) is based on completion of due diligence and drafting/execution of mutually agreeable definitive agreements. It is unclear what preliminary due diligence Lapis completed in crafting its letter. Definitive agreements will likely set forth specific financial targets (e.g., minimum coverage ratios) that must be achieved to secure the proposed 10% interest rate as well as maintain the initial financing terms and deferment of principal repayment during the term of the loan. These unknowns could significantly impact Regional's ability to meet its obligations under various financial scenarios.

Regional represents that at closing, Community Health Systems (CHS) plans to extend a working capital loan of approximately \$12 million, consisting of accounts receivable and inventory. Regional has not secured a routine operating line of credit for the expanded health system, stating that they will request competitive bids from banking institutions post-close. Capital Investment in the facilities needs additional definition to be assessed. A current, accurate and complete understanding of the capital needs of the facilities is critical to an understanding of the Capital Investment, including working capital and credit lines required.

Regional has stated that it hopes to secure long-term financing (at reasonable interest rates) during year two of the initial three-year bridge loan term. No permanent commitment letter is contained in the Application. There is a risk that as a new, small, financially vulnerable organization, Regional may face difficulty securing a long-term loan under reasonable terms. This is particularly a concern here, as the Sunnyside Community Hospital Association has undertaken an aggressive capital intensive growth strategy with new debt funded acquisitions and building projects unrelated to this proposed acquisition. It is planning to replace its existing hospital (Sunnyside) by 2020; the financial projections for this project assume \$120,000,000 in additional debt for the replacement facility.

In the event Regional cannot procure a commitment from a traditional permanent lender, it is unclear whether Lapis would be willing to convert its bridge loan to something supported by the operating revenues at that future conversion point. Without a concrete financing plan and appropriate mitigation strategies, Regional could potentially be saddled with repaying 100% of the principal balance after six years post-close (assuming three initial years and three one year extensions). This could create significant instability in the market for consumers and other health care providers prompting closure of the facilities and/or the need to affiliate with a more financially viable partner."

[July 11, 2017, public comment]

Morris Shore and David Thorner

“Based upon the information we have seen to date, the request to grant approval for the purchase of the two facilities is at best premature. In essence, the proposal calls for a transactions with 6% down and 94% financing and with the financing being contingent. It would seem that in order to ask for DOH approval the financing should at least be permanent in nature and not based upon a "contingent bridge loan". Note that the bridge loan commitment is subject to due diligence and other contingencies on the part of the lender. Further, there is no commitment for a take out of the bridge financing. The bridge loan however will be secured, so if the economic proposals of the applicants do not materialize, the lender will be the owner of the two facilities and again interests of the citizens of our community will be subordinated to third parties. BEFORE THE DEPARTMENT OF HEALTH GIVES ITS STAMP OF APPROVAL FOR THE PROPOSED TRANSACTIONS, MORE CERTAINTY RELATING TO THE FINANCING SHOULD BE REQUIRED. In some transactions if the contingent financing is not available, the party proposing the acquisition provides alternative proposal based upon the financial strength of the buyer. In this case, we see no independent financial strength of the buyer.” [emphasis in original] [July 11, 2017, public comment]

Chuck Stillwaggon, Administrator Orthopedics Northwest PLLC in Yakima

“As an Administrator of a large orthopedic practice in Central Washington I am responsible for making sure the people of Central Washington have a choice in where they receive their care and also to make sure the providers in my practice have facilities that support high quality medicine. The business model proposed by the group chosen to manage the Regional Health is questionable in its sincerity. I along with others feel there is a lack of accountable commitment by the Regional Health organization in supporting the people they have stated they are chartered to serve. They have hired past executives from Yakima Regional who have demonstrated very divisive behavior towards private groups and have even failed in trying to execute business plans meant to offer choice but ended up failing in providing care to the people of Central Washington. There is a lack of clarity in the new ownership and financing. They claim to want to invest in providing care but they have yet provided a plan to meet the primary care needs of the community. Central Washington has a very large population that relies on Federal and State funds and not for profits are chartered with protecting these funds and acting as stewards. The behavior of the individuals managing this proposed new entity has not shown the wherewithal to be good stewards. Instead of working with local providers who are spending their careers in support of two hospital systems they waste valuable resources on providing competing services. I have not seen anything that proves they are committed to quality care. We need both hospitals in Yakima delivering high quality medical care.”

[July 11, 2017, public comment]

Virginia Mason Memorial

“The proposed plan provided creates a financially hazardous situation for the two hospitals RHS proposes to acquire. We believe that RHS will be highly leveraged if this acquisition is approved, which may create substantial access reductions and continuity of care disruptions for Central Washington patients.

The financial plan, as submitted, lacks sufficient long-term stable financing. We believe the applicant has proposed a risky financing strategy involving a \$12 million balloon loan, a bridge loan, and a subsequent refinancing. It appears that RHS will borrow \$12 million from the seller as they collect the current accounts receivable.

We understand that the bridge loan is yet to be formalized so it is not clear what additional conditions or covenants will be imposed on RHS, and how they may affect the financial projections. Additionally, we believe the applicant's plan to refinance will be challenging given the possibility of ongoing losses that the facilities could experience. It is not clear whether the applicant has access to adequate financial resources

to sustain the losses and also fund the working capital necessary. Any unexpected delays in attempts to refinance would only result in a worsening of these financial conditions.

Furthermore, it is unclear whether the applicant has access to sufficient working capital to successfully operate these facilities. We believe the hospitals will require substantially more working capital than has been suggested in the pro forma. Our analysis indicates the proposed plan does not provide for the necessary capital resources to maintain the current programs, particularly given the pressures on days in accounts receivable due to the IT conversion described above and likely delays in reimbursement as payers must transition to new tax IDs and RHS completes the CMS change of ownership process. For example, as compared to RHS's current plan, our analysis shows a working capital shortfall of approximately \$11.5 million should the days in AR increase from 60 to 90 days. Potential sources to address additional working capital do not appear to be addressed.

Whether or not these issues result in an "in the red" position for the facilities by the end of the third full year of operations is not the sole issue. Rather, RHS's omissions are indicative of an unreliable pro forma. Without a reliable pro forma, the Program cannot evaluate RHS's compliance with WAC 246-310-220(1) and hence RHS has failed to meet its burden of establishing that the immediate and long-range capital and operating costs of its project can be met." [July 10, 2017, public comment]

Regional Rebuttal Comment

Transaction Financing

The Foundation suggests the Program should request a copy of the contract between Regional Health and Lapis demonstrating the Lapis financing. Regional Health provided the Program with all of the then current available documentation in its Application and two supplemental screening responses. Consistent with other CN evaluations, there is no authority or any historical practice of the Program requesting legally binding documentation during the CN review.

The Foundation also suggests repayment of the Lapis note may be required after the second anniversary of the closing date, and that Lapis' commitment to a period beyond two years is conditional. This is not accurate. The Lapis note is for three years, plus three additional one year terms. The three additional one year terms are at the borrower's (Regional Health) election; not Lapis.

Further, the Foundation questions why Regional Health went the route of a bridge loan. In the Application submittals, Regional Health stated fully and succinctly why it approached the financing via a bridge loan:

The project will ultimately be funded through either a government or commercial loan. Given the need to close the transaction quickly and the length of time required to select the best method and terms and process an application, RH Yakima secured a bridge loan. The term of the bridge loan is three years, with three one-year extensions.

While Regional Health has up to a six year contract term with Lapis, during the CN processing delay we retained an investment advisor (Midcap Financial) and have initiated the process of securing a government (HUD) loan. This process is expected to take about 12 months. Regional Health will close the transaction with the Lapis financing, but expects to convert to a permanent government loan within the first two years.

The Foundation also questioned whether the \$12 million working capital loan with CHS will be sufficient to cover needed capital investments. In addition to this working capital, the pro forma includes approximately \$39 million in capital investments. Importantly, the Foundation also forgot these two hospitals have historically generated a relatively strong bottom line. A review of the most recent (2016) financial statements for the hospitals shows an EBIDTA of \$8.6 million. The year prior the EBITDA was

\$14.6 million. Historically, these net earnings were swept from the local community. Regional Health will keep these dollars local and invest in new services and programs.

Finally, the Foundation asks about the impact the proposed hospital replacement project for Sunnyside will have on Regional Health's financial position. As depicted in Regional's rebuttal document, Regional Health has the financial capability to fund the replacement and the two acquisitions, all the while maintaining financial ratios that approximate or exceed state averages. [source: July 26, 2017, rebuttal, pp39-40]

Transaction Financing

“Regional Health's financing is appropriate and certain. Neither VMM nor any other entity placed into the record any data to support their concerns. Regional Health's project fully satisfies the financial feasibility criteria in WAC 246-310-220. Regional Health will not be highly leveraged as demonstrated by the fact that its financial ratios meet or exceed state averages, and will continue to do so upon acquisition of the two hospitals and upon completion of the proposed Sunnyside replacement project.” [source: July 26, 2017, rebuttal, p23]

Department Evaluation

After reviewing the balance sheet for TCH and Yakima Regional, the HFCC Program provided the following statements:

Toppenish Community Hospital

*“Regional Health's CN capital expenditure for the purchase of the existing 63-bed Toppenish Community Hospital (Toppenish) is projected to be \$8,556,800. With the accompanying proposed purchase of Yakima Regional Medical & Cardiac Center, the total expenditure is projected to be \$50,480,000. The funding will come from existing equity of Regional Health, a bridge loan from Lapis Advisors, and working capital loaned by the seller, CHS. Documents in the application indicate that Regional Health will seek to re-finance the facility after the acquisition is complete (**Applicant's March 10, 2017, screening responses**).*

During the course of the comment period for the application, interested persons expressed concerns about several of the assumptions used by Regional in developing its projected pro-forma financial statements. Chief among these were concerns about the amount and cost of the debt required for the purchases and the amount and nature of the capital investments planned by the applicant in the early years of this project. In rebuttal, Regional noted that it had recently secured additional financing at a lower cost than projected in the application. It also provided additional detail about the types and amounts of capital investments planned – approximately \$11 million in replacement equipment and \$25 million in plant and equipment improvements intended to generate new revenue. Regional stated that, while it had included the entire investment amount in its projections, it had not included any of the revenue increases it expects from these investments.

In order to address community concerns and illustrate the effects of the new financing and the expected revenue growth from the new plant and equipment investments, Regional provided three sets of projected financial statements. The first set of projections illustrate only the lower cost of the new financing at the system-wide level. The second set of projections includes the \$11 million in replacement investments, but because the earlier projections had not reflected the expected results of the additional revenue-enhancing investments, the \$25 million associated with those investments was also excluded. Finally, Regional provided a third set of projections reflecting the lower financing costs, all of the planned capital investments and associated revenue, and additional revenue expected from the recruitment of additional providers who recently affiliated with Regional.

The department has concluded that the projections contained in Regional Health’s screening responses are most appropriate for review of this project and the following tables and analysis are based on those statements.”

Yakima Regional Medical and Cardiac Center

*“Regional Health’s CN capital expenditure for the purchase of the existing 214-bed Yakima Regional Medical & Cardiac Center (Yakima Regional) is projected to be \$41,923,200. With the accompanying proposed purchase of Toppenish Community Hospital, the total expenditure is projected to be \$50,480,000. The funding will come from existing equity of Regional Health, a bridge loan from Lapis Advisors, and working capital loaned by the seller, CHS. Documents in the application indicate that Regional Health will seek to re-finance the facility after the acquisition is complete (**Applicant’s March 10, 2017, screening responses**).”*

[The same three paragraphs from the TCH financial review regarding three illustrative financial statements provided by Regional Health and why they could not be accepted during this review.]

“The department has concluded that the projections contained in Regional Health’s screening responses are most appropriate for review of this project and the following tables and analysis are based on those statements.”

Within each analysis, HFCC Program provided a summary of the balance sheet from the Regional Health’s fiscal year 2016 report to the Department.

| Sunnyside/Regional Health 2016 | | | |
|---------------------------------------|------------|----------------|------------|
| From Sunnyside 2016 year-end report | | | |
| Assets | | Liabilities | |
| Current | 33,885,049 | Current | 15,507,962 |
| Board Designated | - | Long Term Debt | 9,806,147 |
| Property/Plant/Equipment | 29,813,109 | Other | - |
| Other | 7,924,039 | Equity | 46,308,088 |
| Total | 71,622,197 | Total | 71,622,197 |

“Regional’s 2016 balance sheet shows that execution of this purchase would increase total assets by approximately 12%, and by over 70% when combined with the purchase of Toppenish. The purchase of the two hospitals will create a significant amount of accompanying debt for Regional; however even the most conservative of the projected financial statements for the system as a whole and the individual facilities projects sufficient revenue to meet Regional’s commitments and continue to return positive margins. These margins are consistent with recent performance at Sunnyside, which has returned similar profits in recent years; Yakima Regional, which has been profitable each of the past years except for 2016; and Toppenish, which has experienced improving profitability over recent years.”

“The CN project capital expenditure for [the purchase of TCH is \$8,556,800 and the purchase of Yakima Regional is \$41,923,200]. Regional Health will use existing equity, third party financing, and a working capital loan from the seller.

The [TCH investment] represents 11.95% of Regional Health’s total assets. The [Yakima Regional investment] represents 58.53% of Regional Health’s total assets. Regional Health’s current and projected financial statements indicate sufficient ability to continue its operations after the purchase is complete.

The financing methods used are appropriate business practice. This criterion is satisfied.” [source: HFCC analysis, pp2-3]

In the HFCC analysis, it is stated that Regional Health intends to refinance the costs of this project after the acquisition is complete and within the initial three year term of the bridge loan. The application contained none of the required information needed for the department to analyze this type of financing. Therefore, no such analysis was performed.

Concerns related to the financing and the financial health of Regional Health post transaction are reasonable. HFCC noted that Regional Health would be financially leveraged, which is an indicator that the system may not have capacity to incur much more debt in the future. However, the debt to be incurred includes that necessary for the two hospitals to maintain viability as an acute care hospital in the county. Additional debt for TCH or Yakima Regional does not appear to be necessary.

If this project is approved, the department would attach a condition requiring Regional Health 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 evaluation, the department concludes that Regional Health has met the applicable structure and process (quality) of care criteria in WAC 246-310-230 for both applications.

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

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

Toppenish Community Hospital

Regional Health provided the following statements related to this sub-criterion. [source: TCH Application, p24]

“At this time, there are no changes in hospital staffing proposed as a result of the proposed acquisition. As census increases require, qualified staff will be recruited and trained. In addition, there is also no change to privileging or credentialing anticipated at this time.”

Regional Health also provided the following staffing table and statements related to the table. [source: TCH first screening response, pp8-9]

“Toppenish Community Hospital’s current and proposed staffing is included in Table 3 below. At this time, there are no changes in hospital staffing proposed as a result of the acquisition, even with the projected increase in patient days. This is because staffing the current low census has resulted in staff productivity levels that fall below industry best practices. The underlined portion of the statement is simply intended to state that in many areas of the hospital, additional patient volumes can be added before additional staff are required.”

| | 2016 Current | 2017 Inc/Dec | 2018 Inc/Dec | 2019 Inc/Dec | 2019 Total |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| <i>Management</i> | 9.0 | 0.0 | 0.0 | 0.0 | 9.0 |
| <i>Nursing FTEs</i> | 72.0 | 0.0 | 0.0 | 0.0 | 72.0 |
| <i>Tech / Professional FTEs</i> | 27.0 | 0.0 | 0.0 | 0.0 | 27.0 |
| <i>Support</i> | 22.0 | 0.0 | 0.0 | 0.0 | 22.0 |
| <i>Contracted Staff</i> | 12.0 | 0.0 | 0.0 | 0.0 | 12.0 |
| TOTAL ALL FTEs | 142.0 | 0.0 | 0.0 | 0.0 | 142.0 |

Regional Health also provided the following staffing table statements related to the types of FTEs represented in the table. [source: TCH second screening response, p5]

| Type of Staff | Includes |
|---------------------------------|---|
| <i>Management</i> | <i>Senior management and department leaders</i> |
| <i>Nursing FTEs</i> | <i>RN's, Nursing Assistants, and Surgery Technicians</i> |
| <i>Tech / Professional FTEs</i> | <i>Radiology, Lab, Physical Therapy, Respiratory Therapy staff</i> |
| <i>Support</i> | <i>Office, clerical, medical records, accounting, housekeeping, and maintenance staff</i> |
| <i>Contracted Staff</i> | <i>Contracted employees who fill in to meet the staffing needs of the hospital</i> |

Public Comment

During the review of these projects, five entities provided comments related to this sub-criterion.

SEIU 1199NW

“On behalf of the 30,000 nurses and healthcare workers of SEIU Healthcare 1199NW and our nearly 300 members at Toppenish Hospital and Yakima Regional Medical Center, we are writing to respectfully request that the Department of Health approve Sunnyside's Certificate of Need application to transfer the two Certificates of Need for the licensed beds of Toppenish Hospital and Yakima Regional Medical Center from CHS Washington Holdings, LLC to Sunnyside Community Hospital & Clinics. This will enable Sunnyside to complete its acquisition of Toppenish Hospital and Yakima Regional Medical Center and begin to operate those facilities.

“Sunnyside is a Washington-based, not-for-profit health care organization with a long history of providing quality health care to the communities it serves. SEIU Healthcare 1199NW believes that the organization is uniquely positioned to meet the health care needs of Yakima Valley area residents due to its deep knowledge of and history of service in Washington State, its commitment to improving healthcare in the communities it serves, and its track record of ensuring access to affordable healthcare to patients in the community. As a non-for-profit organization, we further believe that Sunnyside is in the best position to ensure that patients in the Yakima Valley and surrounding areas continue to have access to health care and that Sunnyside will continue to invest in the community.

“Sunnyside's proposed acquisition of Toppenish Hospital and Yakima Regional Medical Center will benefit the patients and healthcare workers of the Yakima Valley for years to come and for that reason SEIU Healthcare 1199NW fully and unequivocally supports Sunnyside's Certificate of Need applications.”
[July 10, 2017, public comment]

Washington State Nurses Association

“On behalf of the nurses of Washington State Nurses Association, and our union members at Yakima Regional Medical and Cardiac Center and Toppenish Community Hospital, we are writing to respectfully

request the Department of Health approve Regional Health's Certificate of Need applications to transfer the two Certificates of Need for the licensed beds of Yakima Regional Medical and Cardiac Center and Toppenish Community Hospital to Regional Health. This will enable Regional Health to complete its acquisition of those two hospitals and take over operations of those facilities.

Regional Health is a Washington-based not-for-profit health care organization with a history of providing quality health care to the communities it serves. We believe the organization is uniquely positioned to meet the health care needs of Yakima Valley residents due to its knowledge and history of service in Washington State, its technological leadership and infrastructure, and its innovative health care delivery model.” [July 11, 2017, public comment]

Douglas Corpron, MD, retired physician in Yakima County

“Exciting things are happening in the medical world in our valley. We have a flourishing new school of medicine underway-Pacific Northwest School of Medicine-which has 130+ high caliber students per year in training. Heritage University and Yakima Valley Community College are working with them in expanding training in health care services. Community Health of Central Washington has 30 physicians in training in Family Medicine. These developments are changing the way we think of Yakima. We are an important agricultural community but are also a vibrant center for medical training in the Northwest.” [July 11, 2017, public comment]

Mayor Mary Place, City of Yakima

“Pacific Northwest University depends on both Yakima Regional and Toppenish Community Hospitals for the training of their medical students. Heritage University, YVCC and WSU nursing students, physician assistant training programs and others utilize these hospitals to educate and provide hands on experience for students. Without these hospitals and the resources they provide these medical training programs could be in jeopardy.” [July 5, 2017, public comment]

Heritage University

“Heritage University has strong long-term working relationships with both Yakima Regional Medical and Cardiac Center and Toppenish Community Hospital. These hospitals host students from our Nursing, Medical Lab Sciences, and Physician Assistant programs for job shadowing, internships, and clinical rotations. They thus not only provide healthcare for the community, but contribute to increasing the number and quality of local healthcare providers.” [June 19, 2017, public comment]

Rebuttal Comment

Within its rebuttal comments, Regional Health provided transcripts of both public hearings. The transcripts include comments provided by Yakima County cardiologists expressing concerns regarding staffing of the current open heart surgery and cardiac catheter intervention program at Yakima Regional. (TCH does not provide open heart surgery or cardiac catheterization.) The concerns focused on current and proposed staffing of the service. Regional Health’s rebuttal comments appropriately focused on Yakima Regional.

This section of the evaluation focuses on TCH. Since there were no concerns related to this sub-criterion for THC, the public comments and Regional Health’s responses are addressed below under the Yakima Regional review.

Department Evaluation

There is no anticipated change in staffing, physician privileges, or any other staffing-related status at TCH following the transaction.

The public comments from SEIU 1199NW and Washington State Nurses Association indicate that there are over 300 staff members between TCH and Yakima Regional who will benefit from this transaction.

Comments provided from Douglas Corpron, MD, Yakima Mayor Mary Place, and Heritage University support the continued operation of both TCH and Yakima Regional based on the physician assistant, student nursing, and medical lab science training programs in place at each hospital.

Information within the application demonstrates that both TCH and Yakima Regional are well-established providers of healthcare services in eastern Washington. The department is not aware of any staff shortage issues at TCH. Based on the above information provided by the applicant and public comments, the department concludes that Regional Health has the ability and expertise to recruit a sufficient supply of qualified staff for this project if necessary. **This sub-criterion is met.**

Yakima Regional Medical and Cardiac Center

Regional Health provided the following statements related to this sub-criterion. [source: Yakima Regional Application, p24]

“At this time, there are no changes in hospital staffing proposed as a result of the proposed acquisition. As census increases require, qualified staff will be recruited and trained. In addition, there is also no change to privileging or credentialing anticipated at this time.”

Regional Health also provided the following staffing table and statements related to the table. [source: Yakima Regional first screening response, pp8-9]

“Yakima Regional’s current and proposed staffing is included in Table 3 below. At this time, there are no changes in hospital staffing proposed as a result of the acquisition, even with the projected increase in patient days. This is because staffing the current low census has resulted in staff productivity levels that fall below industry best practices. The underlined portion of the statement is simply intended to state that in many areas of the hospital, additional patient volumes can be added before additional staff are required. Please note there is no ‘other’ category because we have accounted for 100% of the FTEs in the categories provided in the table.”

| | 2016 Current | 2017 Inc/Dec | 2018 Inc/Dec | 2019 Inc/Dec | 2019 Total |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| <i>Management</i> | 30.0 | 5.0 | 0.0 | 0.0 | 35.0 |
| <i>Nursing FTEs</i> | 174.0 | 0.0 | 0.0 | 0.0 | 174.0 |
| <i>Tech / Professional FTEs</i> | 140.0 | 0.0 | 0.0 | 0.0 | 140.0 |
| <i>Support</i> | 111.0 | 0.0 | 0.0 | 0.0 | 111.0 |
| <i>Contracted Staff</i> | 40.0 | (5.0) | 0.0 | 0.0 | 35.0 |
| TOTAL ALL FTEs | 495.0 | 0.0 | 0.0 | 0.0 | 495.0 |

Regional Health provided the following staffing table statements related to the types of FTEs represented in the table. [source: Yakima Regional second screening response, pp5]

| Type of Staff | Includes |
|---------------------------------|--|
| <i>Management</i> | <i>Senior management and department leaders</i> |
| <i>Nursing FTEs</i> | <i>RN’s, Nursing Assistants, and Surgery Technicians</i> |
| <i>Tech / Professional FTEs</i> | <i>Radiology, Lab, Physical Therapy, Respiratory Therapy staff</i> |

| | |
|------------------|--|
| Support | Office, clerical, medical records, accounting, housekeeping, and maintenance staff |
| Contracted Staff | Contracted employees who fill in to meet the staffing needs of the hospital |

Public Comment

The majority of the public comment received for the Yakima Regional project are the same comments received for the TCH project evaluated above. Those comments will not be repeated in this section.

Within its rebuttal comments, Regional Health provided transcripts of both public hearings. Within the transcripts are oral comments provided by Yakima County cardiologists expressing concerns regarding staffing of the current open heart surgery and cardiac catheter intervention program at Yakima Regional. The concerns, in part, focused on current and proposed staffing of the service. Below is an excerpt from the concerns.

Richard Twiss, MD

“The cardiac program has enabled Regional to continue functioning as one of the prime services. My associates, former associates at the Heart Center tell me that the infrastructure and staffing of the open heart program and catheter intervention is getting to the point there is not, they are not sure about the ability to continue that service. When that closes, not only will Yakima lose the safety and convenience of having local invasive cardiac intervention, but we will also lose our cardiac surgical and interventional cardiac teams, which are irreplaceable.” [July 11, 2017, public comment]

Dave Kruger, MD

“...And that’s my concern, is looking forward, do I hope that people that are talking about taking over Regional could they have the resources to provide that staff at every level, the duplication, you know, and have two people at each position in case somebody gets sick or somebody goes on occasional vacation. My heart surgeon hasn’t taken a vacation in over 12 years. He’s on call every night. That is untenable. We as a group are trying to work on safety and access. So I stand here today just saying that I don’t believe that the current application is going to give me that safety. And I want to be able to look at any neighbors in the eye, I want to look my friends in the eye and say ‘come to this hospital. Either one. And have a great job.’ That is my worry.” [July 11, 2017, public comment]

Rebuttal Comment

Regional Health provided rebuttal comment to the concerns raised about staffing of the open heart surgery and cardiac catheterization program currently operating at Yakima Regional.

Regional Health

“It is important to note that at the time we prepared the application we had not commenced any physician recruitment. We have since initiated recruitment and have been extremely pleased with results: To date we have received commitments from 10 providers who will begin in the first year of the pro forma. These ten providers represent seven clinical specialty areas including physical medicine and rehabilitation, family practice, urgent care, general surgery, anesthesia, internal medicine and cardiology.”

“The concerns raised about staffing and quality of care were limited and centered on a few individuals “not liking” one or two individuals on Regional Health’s integration team. No data or objective information was submitted to substantiate any concerns. At the public hearing, CN Program Manager Janis Sigman appropriately notified the public that comments or concerns expressing personal animosities about certain individuals are irrelevant to the CN process. Regional Health agrees and does not address those irrelevant concerns any further in this rebuttal.” [source: July 26, 2017, rebuttal comment]

Department Evaluation

As stated in the application, there is no anticipated change in staffing, physician privileges, or any other staffing-related status at Yakima Regional following the transaction.

The public comments from SEIU 1199NW and Washington State Nurses Association indicate that there are over 300 staff members between TCH and Yakima Regional who will benefit from this transaction.

Comments provided from Douglas Corpron, MD, Yakima Mayor Mary Place, and Heritage University support the continued operation of both TCH and Yakima Regional based on the physician assistant, student nursing, and medical lab science training programs in place at each hospital.

The concerns raised by Richard Twiss, MD and Dave Kruger, MD focus on current staffing of the cardiac services program at Yakima Regional. Regional Health's rebuttal responses do not address the concerns raised. Yakima Regional is the only approved open heart surgery program in the county. This means that only Yakima Regional can perform schedule open heart surgery and PCI¹⁵ procedures. For emergent patients, of course, other healthcare facilities may provide the services if necessary.

To evaluate the concerns raised, the department reviewed 2016 CHARS for open heart surgery diagnosis-related groups (DRGs).¹⁶ The table below shows the number of Yakima County patients for year 2016 and where they received their open heart surgery or PCI procedures.

Table 21
Yakima County Patients
2016 Open Heart Surgery and PCI Data

| Hospital | # of Discharges |
|--|------------------------|
| Yakima Regional Medical and Cardiac Center | 176 |
| Virginia Mason Memorial | 144 |
| Swedish Cherry Hill | 27 |
| Virginia Mason Medical Center, Seattle | 24 |
| UW Medicine/University of Washington Medical Center | 20 |
| Kadlec Regional Medical Center | 13 |
| Sunnyside Community Hospital & Clinics | 12 |
| Providence Sacred Heart Medical Center & Children's Hospital | 8 |
| Seattle Children's Hospital | 5 |
| Grand Total | 429 |

As shown in the table above, Yakima Regional provided the majority of cardiac related services to the residents of Yakima County with 176 or 41% of the procedures. Virginia Mason Memorial also provided

¹⁵ "Percutaneous coronary interventions (PCI)" means invasive but nonsurgical mechanical procedures and devices that are used by cardiologists for the revascularization of obstructed coronary arteries. These interventions include, but are not limited to: (a) Bare and drug-eluting stent implantation; (b) Percutaneous transluminal coronary angioplasty (PTCA); (c) Cutting balloon atherectomy; (d) Rotational atherectomy; (e) Directional atherectomy; (f) Excimer laser angioplasty; and (g) Extractional thrombectomy.

¹⁶ A Diagnosis-Related Group (DRG) is a statistical system of classifying any inpatient stay into groups for the purposes of payment. The DRG classification system divides possible diagnoses into more than 20 major body systems and subdivides them into almost 500 groups for the purpose of Medicare reimbursement. [source: Medical Dictionary]

a high number of procedures at 144 or 34% of the total.¹⁷ Combined, Yakima Regional and Virginia Mason Memorial provided 75% of the cardiac procedures for Yakima County patients.

Information within the application demonstrates that both TCH and Yakima Regional are well-established providers of healthcare services in eastern Washington. The department is not aware of any staff shortage issues at Yakima Regional. Table 21 above shows that Yakima Regional has historically been providing cardiac services. Information provided in the application indicates that Regional Health intends to continue providing the cardiac services in addition to the other services provided at Yakima Regional. With no changes in services, the department concludes that the current cardiac services would be appropriately staffed.

Based on the above information, the department concludes that Regional Health has the ability and expertise to recruit a sufficient supply of qualified staff for this project if necessary. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(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.

Toppenish Community Hospital

“The proposed acquisition will not change the working relationships Toppenish currently enjoys with other health facilities within Yakima County. Within Yakima County, RH Sunnyside also has relationships with various entities. All of these relationships will continue. While no new working relationships are contemplated as a direct result of the acquisition, RH Toppenish will, following the closure of the transaction, continue to further strengthen and grow existing relationships to assure community needs and training opportunities for staff are optimally addressed.” [source: TCH Application, p24]

In addition to the statements above, Regional Health provided a listing of home health care providers, skilled nursing facilities, and durable medical equipment providers, home infusion providers, and outpatient dialysis providers with whom TCH has already established working relationships. [source: TCH first screening response, Attachment 8]

Public Comment

None

Rebuttal Comment

None

¹⁷ Since Virginia Mason Memorial does not have approval to provide elective open heart surgery or PCI services, the department must assume that the 144 patients presented to the hospital as emergent.

Department Evaluation

TCH is currently operational and has established ancillary and support agreements. The Proposed Asset Purchase Agreement states several times that ancillary service agreements will continue following the transaction.

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that Regional Health will to maintain the necessary relationships with ancillary and support services at TCH following the transaction. No information was submitted to suggest ancillary and support agreements would not continue. Therefore, the department concludes these relationships will continue to be sufficient following the change of ownership. **This sub-criterion is met.**

Yakima Regional Medical and Cardiac Center

“The acquisition will not change the working relationships Yakima Regional currently enjoys with other health facilities within Yakima County. Within Yakima County, RH Sunnyside also has relationships with various entities. All of these relationships will continue. While no new working relationships are contemplated as a direct result of the acquisition, RH Yakima will, following the closure of the transaction, continue to further strengthen and grow existing relationships to assure community needs and training opportunities for staff are optimally addressed.” [source: Yakima Regional Application, p24]

In addition to the statements above, Regional Health provided a listing of home health care providers, skilled nursing facilities, and durable medical equipment providers, home infusion providers, and outpatient dialysis providers with whom Yakima Regional has already established working relationships. [source: Yakima Regional first screening response, Attachment 8]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Yakima Regional is currently operational and has established ancillary and support agreements. The Proposed Asset Purchase Agreement states several times that ancillary service agreements will continue following the transaction.

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that Regional Health will to maintain the necessary relationships with ancillary and support services at Yakima Regional following the transaction. No information was submitted to suggest ancillary and support agreements would not continue. Therefore, the department concludes these relationships will continue to be sufficient following the change of ownership. **This sub-criterion is met.**

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

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

Toppenish Community Hospital

Regional Health made the following statement, related to whether they have ever had a facility be decertified from Medicare or Medicaid, be convicted related to incompetency to operate a hospital, be denied a license, have a license revoked, voluntarily withdrawn from Medicare or Medicaid while decertification was pending, or whether there are any ongoing investigations related to the operation of any of their healthcare facilities.

“Neither RH Toppenish, RH Sunnyside nor Regional Health has any history with respect to the compliance issues noted above.” [source: TCH Application, p25]

Public Comment

During the review of these projects, three entities provided comments related to this sub-criterion.

Rick Pinnell, Yakima County community member

“The current situation with Regional in both locations has been on the decline and has reach a critical stage. Services are poor, quality employees are leaving, and a lack of caring for the patient and community. A change cannot happen too soon for the benefit of our community and quality of health care for patients.

We need a company like Sunnyside Community Hospital to acquire Regional to bring back local control, with a history that has shown quality patient care in Sunnyside and the Valley. Hopefully many of the good employees who have left Regional will come back to work for Sunnyside Hospital knowing their reputation as a patient first organization.” [June 19, 2017, public comment]

Elizabeth Baze, Summitview Family Medicine

“For the past few years YRC has suffered at the hands of far off for profit corporations whose bottom line goal is earnings rather than patient care. There have been severe cut backs in staffing and budgets resulting in less than optimum patient care and even safety.” [June 29, 2017, public comment]

Virginia Mason Memorial

“The structure and process of care regulations require applicants to demonstrate that there is reasonable assurance that the project will be operated in accord with applicable federal and state laws, rules and regulations. When an applicant has a history of noncompliance, the applicant faces a higher burden-it must affirmatively establish by "clear, cogent and convincing evidence" that it will operate its project in accord with applicable federal and state requirements. WAC 246-310-230(5)(b). RHS's application falls short of the requirements under the structure and process of care criteria.

Our analysis of the application raises concerns over RHS's ability to serve our diverse community and meet expected charity care commitments. We have modeled the financial plan using the Program's standard charity care approach (3-year average expense for the Region). When we use these estimates of charity care the financial plan results in significant losses.” [July 10, 2017, public comment]

Rebuttal Comment

None

Department Evaluation

The evaluation of this sub-criterion will be combined with that of Yakima Regional below.

Yakima Regional Medical and Cardiac Center

Regional Health made the following statement, related to whether they have ever had a facility be decertified from Medicare or Medicaid, be convicted related to incompetency to operate a hospital, be denied a license, have a license revoked, voluntarily withdrawn from Medicare or Medicaid while decertification was pending, or whether there are any ongoing investigations related to the operation of any of their healthcare facilities.

“Neither RH Yakima, RH Sunnyside nor Regional Health has any history with respect to the compliance issues noted above.” [source: Yakima Regional Application, p25]

Public Comment

The public comment received for the Yakima Regional project are the same comments received for the TCH project evaluated above. The comments will not be repeated in this section.

Rebuttal Comment

None

Department Evaluation

The concerns raised under this sub-criterion focus on the results of understaffing of a healthcare facility and the resulting potential for poor patient care. As part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.¹⁸

The department reviewed information within the application and the quality of care compliance history for Sunnyside Community Hospital, which currently the only healthcare facility owned and operated by Regional Health. The department also reviewed the quality of care history of both TCH and Yakima Regional operated under CHS. The reviews are shown in Table 22 below. [source: Department of Health Office of Investigation and Inspection]

**Table 22
Facilities and License Status**

| Facility Name | License Number | Surveys Since January 2014? | Substantially Compliant? |
|--|-----------------------|------------------------------------|---------------------------------|
| Sunnyside Community Hospital | HAC.FS.0000198 | 1 | Yes |
| Sunnyside Home Health* | IHS.FS.60724314 | 1 | Yes |
| Toppenish Community Hospital | HAC.FS.00000199 | 3 | Yes |
| Yakima Regional Medical and Cardiac Center | HAC.FS.00000102 | 2 | Yes |

*New facility and indicates provision of Medicare/Medicaid home health or hospice services

Based on the above information, the department concludes that Regional Health demonstrates reasonable assurance that it would operate TCH and Yakima Regional in compliance with state and federal requirements if these projects are approved. Part of this review is based on the quality of care historical and substantial compliance of Sunnyside Community Hospital. **This sub-criterion is met.**

¹⁸ WAC 246-310-230(5)

- (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 direct 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.

Toppenish Community Hospital

"The proposed acquisition will not change the working relationships Toppenish currently enjoys with other health facilities within Yakima County. Within Yakima County, RH Sunnyside also has relationships with various entities. All of these relationships will continue.

While no new working relationships are contemplated as a direct result of the acquisition, RH Toppenish will, following the closure of the transaction, continue to further strengthen and grow existing relationships to assure community needs and training opportunities for staff are optimally addressed.

Toppenish serves primarily Yakima County. Out of county working relationships are largely limited to referrals to Seattle or Spokane for tertiary and quaternary care. The acquisition will not change any of these relationships.

While no new working relationships are contemplated as a direct result of the acquisition. That said, RH Toppenish, in partnership with Regional Health, will work to further strengthen and grow existing relationships to assure community needs are optimally addressed." [source: TCH Application, pp24-25]

Public Comment

Many letters of support received by the department spoke to continuity of care. The comments below contain language included in several of the letters.

Carrie Ann Story, Owner of Ideal Lumber & Hardware, Inc.

"Toppenish Community Hospital has undergone several ownership changes over the past 10 years. It's time to provide continuity for our community and our dedicated hospital employees. Regional Health offers the leadership, stability and opportunity for growth that our hospital, its' employees and our community need and deserve. It provides my community with the assurance that we will have access to quality healthcare right here near home." [July 7, 2017, public comment]

Angela Smedley, Central Washington Medical Group

"One of the basic needs for this county, and indeed for any growing population, is for accessible, good quality health care. This merger would create a Regional Health System that would provide better continuity of care for our residents and form a genuine partnership to reduce health disparities in our community. Having our hospitals and clinic networks working together in unison will provide quality healthcare that local residents expect and need to have." [June 26, 2017, public comment]

Several residents of Yakima County submitted letters of support specific to TCH. Even though much of the letter was a form letter, most had personal perspectives added. Below is a restatement of the form letter.

“Please accept this letter as my official support of the sale of Toppenish Community Hospital and Yakima Regional Medical & Cardiac Center and the clinic network to Regional Health, the parent company of Sunnyside Hospital.

Toppenish Community Hospital has been my hospital for a few years. Coming from a big city to small town I can see the difference in Healthcare. Toppenish Hospital is a big part of this community. I believe it will continue under new ownership. Regional Health is dedicated to reinvesting and expanding service line at Toppenish Hospital. I have participated in health fairs and events that provides education to Toppenish and Regional Health it will better education to this community.

I am very happy that I made the decision to move into the lower valley to be part of excellent healthcare close to home. I am pleased to write a letter of support for the sale of the hospitals and clinics.

Thank You for your consideration. This is an exciting time for healthcare in the Yakima Valley.”

Rebuttal Comment

Regional Health

“...CHS has made the business decision to exit the market. The Program cannot order CHS to provide “improved attention to patient care”. ...The acquisitions will preserve and strengthen local access, provide meaningful choice, and ensure sustainable services throughout the Yakima Valley. Regional Health is exceptionally and uniquely qualified to strengthen and invest in the two hospitals. The timely acquisition of these two hospitals by Regional Health is the best outcome for Yakima County residents. No other realistic alternative exists.”

[source: July 26, 2017, rebuttal comments, p1 and p5]

Department Evaluation

The letters submitted by local community members provide a valuable perspective related to this sub-criterion. The excerpt above demonstrates the community’s support for Regional Health’s proposal for both TCH and Yakima Regional.

Specific to TCH, the semi-form letter submitted specific to TCH included unwavering positive support from community members for TCH. Personalized information added to each letter typically focused on the location of Toppenish within the community and the potential hardship for residents to travel to Yakima for healthcare services.

Information within the application demonstrates that TCH under Regional Health ownership will continue to operate with the necessary relationships that will foster continuity in the provision of health care services in Yakima County.

Based on the information provided in the application, the department concludes there is reasonable assurance that this project will continue to promote continuity in the provision of health care services in the community under Regional Health’s ownership. **This sub-criterion is met.**

Yakima Regional Medical and Cardiac Center

“The proposed acquisition will not change the working relationships Yakima Regional currently enjoys with other health facilities within Yakima County. Within Yakima County, RH Sunnyside also has relationships with various entities. All of these relationships will continue.

While no new working relationships are contemplated as a direct result of the acquisition, RH Yakima will, following the closure of the transaction, continue to further strengthen and grow existing relationships to assure community needs and training opportunities for staff are optimally addressed.

RH Yakima is a regional referral source for health care facilities in Kittitas and portions of Klickitat Counties and no changes to these relationships are anticipated as a result of the proposed acquisition. Both RH Yakima and RH Sunnyside have referral relationships with health care facilities in Seattle; again, the acquisition will not change any of these relationships.”

“No new working relationships are contemplated as a direct result of the acquisition. That said, RH Yakima, in partnership with Regional Health, will work to further strengthen and grow existing relationships to assure community needs are optimally addressed.” [source: TCH Application, pp24-25]

Public Comment

The public comment received for the Yakima Regional project are the same comments received for the TCH project evaluated above. The comments will not be repeated in this section.

Several residents of Yakima County submitted letters of support specific to Yakima Regional. The community member letters provided different perspectives for support. Below is a restatement of a resident letter of support.

“I am writing in support of the formation of the Regional Health System through the Sunnyside Community Hospital and Clinics and the inclusion of the YRMCC and TCH as an addition to that system.

I have worked in the Yakima Valley since 1979 as a Respiratory Care Practitioner, retiring from TCH in November of 2011. I have worked at both Yakima hospitals in my career and believe that both offer unique patient care services and strengths in our community. Having choices in health care is important to the Yakima Valley and adjacent communities, so that patients can stay with their chosen physicians and health care practitioners.

I am in support of the acquisition of the YRMCC and TCH by the Sunnyside Community Hospital and Clinics and I believe that the return to a Not-for-Profit hospital status serves the Yakima Valley more equitably. We are looking forward to the completion of this acquisition and the conversion to this new exciting opportunity for the oldest health care community in our valley!”

Rebuttal Comment

The rebuttal comment received for the Yakima Regional project are the same comments received for the TCH project evaluated above. The comments will not be repeated in this section.

Department Evaluation

The letters submitted by local community members provide a valuable perspective related to this sub-criterion. The excerpt above demonstrates the community’s support for Regional Health’s proposal for both TCH and Yakima Regional.

Information within the application demonstrates that Yakima Regional under Regional Health ownership will continue to operate with the necessary relationships that will foster continuity in the provision of health care services in Yakima County.

Based on the information provided in the application, the department concludes there is reasonable assurance that this project will continue to promote continuity in the provision of health care services in the community under Regional Health's ownership. **This sub-criterion is met.**

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

Department Evaluation

For both applications, this sub-criterion is evaluated in sub-section (3) above, and is **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 concludes that Regional Health has met the applicable cost containment criteria in WAC 246-310-240 for both applications.

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

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

If there are multiple applications, the department's assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type. The 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.

Step One:

For both projects, Regional Health met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two:

Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center

As it relates to both TCH and Yakima Regional, the only other options Regional Health considered acquiring one hospital, but not the other or do nothing, that is do not purchase either hospital. Regional Health provided the following discussion related to the options. [source: TCH Application, pp26-28; Yakima Regional Application, pp27-29]

Purchase One Hospital, But Not The Other

Once Regional Health determined that it had the capability-financial and organizational—to acquire Toppenish, we evaluated whether we should pursue acquisition of just Toppenish or Yakima Regional as well. CHS' preference was to “bundle” the hospitals” and the ability to operate a three hospital system, along the I-82 corridor in Yakima County was determined to provide significant opportunities for efficiencies and shared services. Further, the rural communities of Toppenish and Sunnyside share many characteristics, including a large, growing and young Hispanic community. We have developed many programs targeted at this cohort that naturally lend themselves to expansion in Toppenish.

RH Sunnyside has a strong track record and a commitment and vision to operational excellence. For all of the above reasons, we were confident that we could return both of these hospitals to non-profit community status, develop the services and programs that the communities need, while generating a return that is reinvested into the hospitals.”

Do Nothing or Do Not Purchase Either Hospital

“The option of doing nothing was considered and rejected. As noted earlier in this CN application, both Toppenish and Yakima Regional [are] for sale largely because CHS' business and financial planning have elected to focus on specific markets. After a strong turnaround of RH Sunnyside, the Board and leadership team felt compelled to use the sale as an opportunity to return Yakima Regional and Toppenish to not-for-profit and community-based status, to assure stability, choice and capacity in Yakima, and to realize economies through the operation of multiple hospitals. For this reason, the option of doing nothing was rejected.”

Regional Health also identified the following advantages of the requested projects. [source: TCH application pp27-28; Yakima Regional application pp28-29]

- *Returns hospitals to not-for profit community status*
- *Stabilizes services and programs*
- *Allows RH Sunnyside's operational and program expertise to be deployed*
- *Retains choice in the market*
- *Creates efficiencies by the creation of a 3 hospital system*
- *Supports community partnerships aimed at improved health status*
- *Increases level of charity care provided*
- *Economies of scale will reduce operating costs per unit of service delivered.*
- *Increased purchasing and shared opportunities*
- *All staff in good standing at time of acquisition to be retained*
- *Allows for staffing pool and shared staffing be*
- *In the short term, existing Yakima Regional and Toppenish physical plants are sized and laid out adequately. Over time, Regional Health anticipates investments in both physical plants to align with Triple Aim and to realize operating efficiencies*

Regional Health also identified the following disadvantages of not moving forward with the requested projects. [source: TCH application pp27-28; Yakima Regional application pp28-29]

- *Preserves Regional Health Sunnyside's reserves and borrowing capacity (opportunity costs)*
- *Preserves 100% of Regional Health's borrowing capacity and expertise for Regional Health Sunnyside.*
- *More costly (capital) than acquiring just one of the two hospitals*
- *Hospitals at risk of closure or to sale to another for-profit*

- *No efficiencies realized*
- *Choice of providers at risk in the community*
- *As RH Sunnyside approaches capacity, no additional opportunities for economies of scale or additional reductions in operating costs per unit of service delivered.*
- *No joint purchasing or shared opportunities.*
- *Limits opportunities to share staff*

Public Comment

One letter provided by a community member focused on Regional Health’s conformance with this sub-criterion.

Larry H. Cearlock, Yakima County community member

“I am writing to express my approval of Applications 17-25 and 17-26 concerning the merger of Yakima Regional, Toppenish Community and Sunnyside Community Hospitals and conversion to non-profit status for the following reasons.

- 1) *Non-profits are designed to reduce costs to the consumer while returning profit to the community in the form of expansion and addition of services.*
- 2) *Efficiencies of size of a three-hospital system (Regional Health) will help to reduce operating, administrative, accounting, HR and a myriad of other costs.*
- 3) *Local regional ownership insures that all decisions made will be for the benefit of the people of our local communities.*
- 4) *Charity care will improve as the Yakima and Toppenish hospitals move to nonprofit status.*
- 5) *Numerous other benefits, many of them now unforeseen, will blossom under the banner of Regional Health.”*

[source: July 5, 2017, public comment]

A letter submitted by the Executive Director of the Yakima County Development Association focused on Regional Health’s conformance to the this sub-criterion.

Jonathan Smith, Yakima County Development Association

“...The unfortunate reality in Yakima is that there is a significant portion of the population that relies on hospitals for all their healthcare needs. Providing insurance and access to primary care providers to the uninsured population is the most obvious and ideal solution to this challenge. However, realizing this desired outcome is a long term process involving local, state and federal governments. We are committed to being a part of this process.

In the meantime, improving access, collaboration, efficiency, and coordination of services from all of the hospitals in Yakima County is something that can be done right now. Our hope is sale and purchase of these hospitals will help improve health outcomes, and decrease costs of service while the longer term more ideal solutions are worked towards.”

[source: June 30, 2017, public comment]

Rebuttal Comment

Much of Regional Health’s rebuttal comments focused on the review criteria of need, financial feasibility, and structure and process of care criterion. Under the cost containment criterion, Regional Health provided the following general statements.

Regional Health

“As so well stated by the public who had an opportunity to testify or who submitted letters, these acquisitions not only meet, but exceed, all Program review requirements. For the reasons described in this Rebuttal, Regional Health's acquisition of Yakima Regional and Toppenish Community Hospital are in the best interests of the Yakima County community.

The acquisitions will preserve and strengthen local access, provide meaningful choice, and ensure sustainable services throughout the Yakima Valley. Regional Health is exceptionally and uniquely qualified to strengthen and invest in the two hospitals. The timely acquisition of these two hospitals by Regional Health is the best outcome for Yakima County residents. No other realistic alternative exists.”
[source: Regional Health July 26, 2017, rebuttal comment, p2]

Department Evaluation

Information provided in the application and within public comments demonstrate that Regional Health intends to at least maintain the same level of care at both TCH and Yakima Regional. The public comments and alternatives analyses from the application both support that a “do nothing” option was appropriately rejected by Regional Health.

The department’s HFCC program provided the following analysis of TCH under this sub-criterion.

“The applicant considered two alternatives to the purchase of Toppenish: not purchasing either Yakima Regional or Toppenish, or purchasing Toppenish alone. Regional Health concluded that the purchase of Yakima Regional and Toppenish hospitals, would accomplish several goals: returning the two privately-held for-profit facilities to not-for-profit community status; stabilize services and programs, retain choice in a multi-provider market, create system efficiencies, support community partnerships, and increase the amount of charity care provided. Purchase of only Toppenish would accomplish some of these goals, but to a lesser extent than purchasing both facilities, leaving Yakima Regional at risk of closure or sale to another for-profit operator.

Staff is satisfied that Regional Health’s assertions are reasonable and this purchase is an appropriate option. In addition, Regional Health’s current hospital has provided similar or higher levels of charity care in recent years compared to the current operators of Yakima Regional and Toppenish. This criterion is satisfied.”
[source: HFCC TCH analyses, pp5-6]

In addition, the department’s FHCC Program provided the following analysis of Yakima Regional under this sub-criterion.

“The applicant considered two alternatives to the purchase of Yakima Regional: not purchasing either Yakima Regional or Toppenish, or purchasing Yakima Regional alone. Regional Health concluded that the purchase of Yakima Regional and Toppenish hospitals, would accomplish several goals: returning the two privately-held for-profit facilities to not-for-profit community status; stabilize services and programs, retain choice in a multi-provider market, create system efficiencies, support community partnerships, and increase the amount of charity care provided. Purchase of only Yakima Regional would accomplish many of these goals, but to a lesser extent than purchasing both facilities, leaving Toppenish at risk of closure or sale to another for-profit operator.

Staff is satisfied that Regional Health’s assertions are reasonable and this purchase is an appropriate option. In addition, Regional Health’s current hospital has provided similar or higher levels of charity care in recent

years compared to the current operators of Yakima Regional and Toppenish. This criterion is satisfied.”
[source: HFCC Yakima Regional analyses, pp5-6]

The department did not identify any alternative that was superior in terms of cost, efficiency, or effectiveness that is available or practicable. Furthermore, the department is not aware of any competing bids for the purchase of TCH or Yakima Regional from CHS.

Taking all of this into account, the department concurs that the requested projects are reasonable and the best available options for the planning area and surrounding communities. **This sub-criterion is met.**

Step Three:

Though Regional Health’s applications to purchase TCH and Yakima Regional were reviewed concurrently, the two applications were not competitive. Furthermore, numeric need was considered met for both hospitals under WAC 246-310-210. Therefore, it is not necessary to identify a superior project, as both are approvable. For both applications, **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;

Department Evaluation

There is no construction associated with either project – this sub-criterion is not applicable.

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

Department Evaluation

There is no construction associated with either project – this sub-criterion is not applicable.

(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.

Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center

Regional Health provided the following comments related to this sub-criterion:

“The fact that three of Yakima County’s hospitals will function as a system will benefit the community. We intend to evaluate ability to share staff between hospitals and all other opportunities to realize operating efficiencies.

While our pro forma has been conservative, we do expect to reduce operating costs per unit of service delivered through joint purchasing. Through joint service development, we expect that more individuals in the County will be able to use one or more of our three facilities and clinic systems; the increased volume will promote efficiency.”

Group purchasing and other system level infrastructure support will result in efficiencies.”

[source: TCH Application, p29; Yakima Regional Application, p30]

“Three hospitals will produce size and scale in areas such as group purchasing where standardization of supplies, equipment and purchasing will reduce costs. Contracting for services for the combined facilities will provide more volume and result in related volume discounts. The system will be able to in-source

services currently being outsourced to have better local control at a lower cost. Standardization of back office functions will also allow for more efficient operations.

At this time, we have not completed an analysis of potential savings associated with the efficiencies, but we do believe that over time, they will be significant.”

[source: TCH 1st screening response, p10; Yakima Regional 1st screening response, p9]

Public Comment

The department received a letter of support that focused on this sub-criterion. Excerpts from the letter is below.

Dave & Penny Dion, Yakima County community members

“Keeping a two-hospital system in Yakima is critical to maintaining competitive costs and services. Keeping Yakima Regional's cardiac services is of the utmost importance to our community. Doctors and patients alike want world class care here locally, not 120 miles away in Seattle.

Since Yakima Regional Medical Center became a for-profit hospital, its participation in our community has dwindled to a trickle. Returning it to not-for-profit will benefit local organizations that provide vital services in this valley. An additional benefit of this return to not-for-profit status is the continued care of the many poor families here in our valley. This cannot be overstated. It is extremely important to the health of this community.

Allowing Regional Health to proceed with the purchase of Toppenish Community Hospital and Yakima Regional Medical and Cardiac Center will create efficiencies that will maintain excellent care while still driving down the costs per unit of services delivered. This just simply makes sense and cents.” [source: June 20, 2017, public comment]

Rebuttal Comment

None

Department Evaluation

As a part of its analysis, HFCC provided the following statement related to this sub-criterion:

“As noted in item 1 of Cost Containment, staff is satisfied that Regional Health’s acquisition of [TCH and] Yakima Regional should not have an unreasonable impact of the costs and charges to the public of providing services by other persons.

Staff is satisfied the project is appropriate and needed.” [source: TCH and Yakima Regional HFCC analyses p6]

As stated under the analysis of WAC 246-310-220(2), this department does not expect either of these projects would have an unreasonable impact on costs and charges for healthcare services in the planning area.

With the amount of public support, including healthcare providers, staff of all three hospitals, and community members, these projects have the potential to improve delivery of acute care services to the residents of Yakima County and surrounding communities with Regional Health’s acquisition of TCH and Yakima Regional. The department is satisfied these projects are appropriate and needed. This **sub-criterion is met.**