

# **EVALUATION DATED AUGUST 6, 2018 OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY RCCH/CAPELLA PROPOSING TO PURCHASE LOURDES MEDICAL CENTER IN FRANKLIN COUNTY**

## **APPLICANT DESCRIPTION**

RegionalCare Hospital Partners Holdings, Inc. (d/b/a RCCH HealthCare Partners) is a Delaware corporation that was formed in 2009. On a consolidated basis, RegionalCare Hospital Partners Holdings, Inc., through its subsidiaries, owns or leases and operates general acute care hospitals and other related health care organizations in the United States. On April 29, 2016, RegionalCare Hospital Partners Holdings, Inc. merged with Capella Health Holdings, LLC (Capella), which owned and operated eight general acute care hospitals in five states at the time of the merger. The RegionalCare/Capella Merger was effective May 1, 2016. [source: Application, p2; RCCH Press Release]

A further subsidiary of Capella is Lourdes Hospital, LLC, which is also incorporated in Delaware. An organizational chart showing the ownership and subsidiary structure is attached as Appendix A to this evaluation. [source: Application, Exhibit 2]

To summarize, Capella is owned 100% by RCCH. In turn, Lourdes Hospital, LLC is owned 100% by Capella. For ease of reference, this evaluation will refer to the applicant as “RCCH/Capella.”

As of the writing of this evaluation, Capella owns one acute care hospital in Washington State, Capital Medical Center in Olympia. Capella received recent Certificate of Need approval to acquire TRIOS Health in Kennewick, within Benton County.

## **BACKGROUND INFORMATION**

Our Lady of Lourdes Hospital – now known as Lourdes Medical Center – was originally founded in 1916 by the Sisters of St. Joseph. In 1997 the organization came to be known as Lourdes Health Network. Lourdes Health Network became a member of Ascension Health in 2002. Lourdes Medical Center became designated as a Critical Access Hospital (CAH) in 2005 and has continually maintained this status. [source: Lourdes website; CN Historical Files]

As of the writing of this evaluation, Lourdes Medical Center is owned by Ascension Health headquartered in St. Louis, Missouri. Ascension Health was formed in 2002 and operates acute care or psychiatric hospitals in 22 states and the District of Columbia.<sup>1</sup> [source: Ascension Health website]

## **PROJECT DESCRIPTION**

On May 2, 2017, RCCH/Capella submitted two separate Certificate of Need applications proposing to purchase the two Washington State hospitals from Ascension Health. One

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<sup>1</sup> Ascension Health operates in the following 22 states, plus the District of Columbia. Alabama, Arizona, Arkansas, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, New York, Oklahoma, Tennessee, Texas, Washington, and Wisconsin.

application proposes purchase Lourdes Medical Center and the other proposes purchase of Lourdes Counseling Center. These projects are part of a larger transaction that also includes the purchase of Ascensions interest in a number of joint ventures in the Tri-Cities area.

This application and evaluation focuses on Lourdes Medical Center in Pasco, within Franklin County. Lourdes Medical Center is a 95-bed acute care hospital located at 520 North 4th Avenue in Pasco within Franklin County. It currently operates as a 35-bed CAH, with 10 beds exclusively dedicated to rehabilitation services. It is currently a Medicare and Medicaid provider of acute and rehabilitation care services to the residents of Pasco and surrounding areas. Lourdes Medical is designated as a Level IV trauma center and a Level II Rehabilitation provider by the Department of Health’s Office of Emergency Medical and Trauma Prevention. These certifications and designations would continue following the proposed transaction. [sources: CMS Hospital Compare website, Washington State Department of Health website, August 7, 2017 supplemental information p3]

The current and proposed bed breakdown at Lourdes Medical Center is shown below:

| <b>Bed Type</b>  | <b>Current</b> | <b>Proposed</b> |
|--|----------------|-----------------|
| 24 hr. assigned and set-up (General Medical/Surgical)  | 25             | 25              |
| 24 hr. assignable-not set-up (General Medical/Surgical).<br><i>These are spaces that meet licensure standards and the hospital has ready access to required movable equipment.</i> | 60             | 60              |
| Dedicated or PPS exempt Rehabilitation   | 10             | 10              |
| <b>Total Licensed Beds</b>   | <b>95</b>      | <b>95</b>       |

The following services are currently offered at Lourdes Medical Center, and would continue to be available following the transaction:

- |                                  |  |
|----------------------------------|--|
| Acute Rehabilitation             | Laboratory                                   |
| Critical Care                    | Occupational Therapy                         |
| Diagnostic/Therapeutic Endoscopy | Pediatric Care                               |
| Dialysis (Acute)                 | Physical Therapy                             |
| Emergency Care                   | Speech Pathology                             |
| Imaging                          | Surgical Services – Inpatient and Outpatient |

The estimated capital expenditure for the purchase of Lourdes Medical Center is \$17,564,400 [source: Application p9]

**Agreements and Leases Provided in the Application**

This project requests a change of ownership of two hospitals associated with Lourdes Health Network. The two hospitals are:

- Lourdes Medical Center an acute care hospital operating in Pasco, within Franklin County; and
- Lourdes Counseling Center, a psychiatric hospital operating in Richland, within Benton County.

RCCH/Capella submitted two separate Certificate of Need applications to acquire each hospital. However, all agreements, whether draft or executed, provided in each of the applications reference both hospitals as a single purchase. Below is a brief description of each agreement or lease that was submitted for this project.

Operating Agreement [source: Application, Exhibit 6]

Status of Agreement: Executed on September 22, 2016

Between: Lourdes Hospital, LLC and Lourdes Holdings, LLC (both Delaware limited liability companies)

Term: Begins September 22, 2016 and continues in perpetuity.

Additional Information: Limited liability companies do not have articles of incorporation or bylaws. Only corporations and non-profit corporations have articles of incorporation and bylaws. LLCs are distinct legal entities. By statute, LLCs have “operating agreements” or “LLC agreements”. The LLC operating agreements are, in effect, the same as articles of incorporation and bylaws for LLCs. This is the executed agreement for Lourdes Hospital, LLC and Lourdes Holdings, LLC. No costs are associated with this document.

Operating Agreement [source: August 7, 2017, screening response, Attachment 2]

Status of Agreement: Executed on December 31, 2016

Between: Capella Healthcare, LLC and Capella Holdings, Inc. (both Delaware limited liability companies)

Term: Begins December 31, 2016 and continues in perpetuity.

Additional Information: Limited liability companies do not have articles of incorporation or bylaws. Only corporations and non-profit corporations have articles of incorporation and bylaws. LLCs are distinct legal entities. By statute, LLCs have “operating agreements” or “LLC agreements”. The LLC operating agreements are, in effect, the same as articles of incorporation and bylaws for LLCs. This is the executed agreement for Capella Healthcare, LLC and Capella Holdings, Inc. No costs are associated with this document.

Master Lease Agreement [source: August 7, 2017, screening response, Attachment 4A]

Status of Agreement: Executed September 28, 2016

Between: Capella Healthcare, Inc. and Lourdes Hospital, LLC (Lessee) and MPT of Pasco-RCCH, LLC (MPT Owner)

Additional Information: This document is specific to the Lourdes Transaction in Pasco. It is the agreement whereby MPT agrees to be the bank and provide the financing to RCCH/Capella for the acquisition of the Lourdes Health Network, which includes both Lourdes Medical Center and Lourdes Counseling Center. This Master Agreement sets the terms for how these new assets will be included as part of the overall financing structure between RCCH/Capella and MPT. The Master Agreement was entered into contemporaneously with Capella’s execution of the Asset Purchase Agreement with the Lourdes Health Network. (September 28, 2016). The lease based amount for the “Pasco Property” is \$17,500,500.

Under Washington law, any tenant under a lease is entitled to sole and exclusive possession of the leased buildings and property. That is the case here and set forth in the Master Lease Agreement with MPT. Under the Master Lease Agreement between Lourdes Hospital LLC and MPT of Pasco-

RCCH, LLC Capella through its subsidiary Lourdes Hospital LLC will have complete control and possession of the Lourdes real property. Since the sale/leaseback transaction is a financing mechanism to finance the acquisition and MPT has no interest in the operations of LCC; the Lease grants this control to the Operator and license holder, Lourdes Hospital LLC.

MPT of Pasco-RCCH, LLC will purchase the Lourdes Real Property and then lease the Lourdes Real Property to Lourdes Hospital, LLC. Though MPT of Pasco-RCCH, the LLC will own the Lourdes Real Property, pursuant to the Master Lease Agreement, Lourdes Hospital, LLC will have the legal and contractual right to sole and exclusive possession of the Lourdes Real Property during the term of the lease.

Amended and Restated Master Lease Agreement [source: August 7, 2017, screening response, Attachments 4B]

Status of Agreement: Draft (unsigned)

Between: RCCH/Capella and MPT-Pasco

Additional Information: This is the primary controlling document between RCCH/Capella and MPT that provides for the lease/leaseback financing for all of the properties financed by MPT for RCCH/Capella. It covers multiple properties in multiple states. At the close of the Lourdes transaction, the Lourdes properties (*i.e.*, all of the properties owned and leased by Lourdes Medical Center and Lourdes Counseling Center) will become part of this Amended and Restated Master Lease Agreement. The Amendment and Restated Master Lease Agreement is an existing, operating document that is currently in effect and that will continue regardless of when or if the Lourdes transaction closes. MPT-Pasco will have no ownership in either the medical center or the psychiatric hospital or day-to-day operations of them. Medical Properties Trust, Inc. and its affiliates do not operate hospitals or other health care facilities.

This is the lease document by which MPT leases the Lourdes properties back to RCCH/Capella. This is an existing and operating legal document. The Joinder Agreement (see below) of first screening response is a final document that has not been executed. It will be executed upon approval of the CN application and closing of the transaction.

Joinder Agreement [source: August 7, 2017, screening response, Attachment 4C]

Status of Agreement: Draft (unsigned)

Additional Information: The Joinder Agreement is the document that joins all of the Lourdes properties to the Amended and Restated Master Lease Agreement. The Joinder Agreement is only ever executed and signed if and when the Lourdes transaction closes. As discussed elsewhere, the parties anticipate that closing of the transaction would occur within 30 days of approval of the CN and Conversion applications.

Asset Purchase Agreement [source: August 7, 2017, screening response, Attachment 17]

Status of Agreement: Draft

Among: Lourdes Hospital, LLC, (Purchaser), Capella Healthcare, Inc., (Capella), and Our Lady of Lourdes Hospital at Pasco, d/b/a Lourdes Health Network, (Seller)

Term: Draft (Dated September 28, 2017, but unsigned)

Additional Information: This agreement identifies all Washington State assets included in the purchase, including Lourdes Medical Center, Lourdes Counseling Center, and Lourdes

Occupational Health Center. The agreement also identifies certain percentage of interest for Tri-Cities Cancer Center, Tri-Cities Laboratory, and BLT, LLC, a corporation that owns Burden Park Medical Center located in Pasco. The purchase price is defined as \$21,000,000 for this transaction.

For the draft agreements referenced above, the department would attach conditions if this project is approved. The conditions would require RCCH/Capella to provide executed versions of these draft agreements within thirty days of executing the agreements. The final executed agreements must be consistent with the drafts provided in the application.

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

This project is 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**

This application was reviewed along the same schedule as the non-profit conversion applications, outlined below.

**APPLICATION CHRONOLOGY**

| <b>Action</b>   | <b>Date</b>   |
|---|---|
| Letter of Intent Submitted  | November 2, 2016  |
| Application Submitted   | May 2, 2017   |
| Beginning of Screening <sup>2</sup>   | June 1, 2017  |
| Department’s pre-review activities <ul style="list-style-type: none"> <li>• DOH’s 1st Screening Letter</li> <li>• Applicant’s Responses Received</li> <li>• DOH’s 2nd Screening Letter</li> <li>• Applicant’s Responses Received</li> </ul> | June 22, 2017<br>August 7, 2017<br>September 14, 2017<br>October 30, 2017 |
| Beginning of Review   | February 28, 2018   |
| Public Comment <ul style="list-style-type: none"> <li>• Public comments accepted through end of public comment</li> <li>• Public hearing conducted</li> </ul>   | March 19, 2018<br>March 19, 2018  |
| Rebuttal Comments Due   | April 3, 2018   |
| Department’s Scheduled Decision Date  | August 6, 2018  |
| Department’s Actual Decision Date   | August 6, 2018  |

**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;*

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<sup>2</sup> During the initial screening of this application, the department discovered that there was an apparent discrepancy between the letter of intent and the application. Therefore, consistent with WAC 246-310-080(3), the application served as the new letter of intent and was held for thirty days.

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

During the review of this project, a number of persons asked to receive updates on both applications during the course of review, but did not request interested person status. Only Providence Health & Services submitted a request for interested and affected person status. A brief description of Providence Health & Services is below:

#### Providence Health & Services

Two representatives from Providence Health & Services requested interested person status as defined above. One representative from the larger entity of Providence Health & Services; and one from Kadlec Regional Medical Center, a Providence facility located in Benton County. Kadlec Regional Medical Center is a 270-bed hospital located in Richland, within Benton County. Services provided by the hospital include acute care services typically provided by a hospital, plus open heart surgery and cardiac catheterization, levels II and III neonatal intensive care services, and a variety of outpatient services.

On March 19, 2018, Providence Health & Services provided public comments on behalf of Kadlec Regional Medical Center. Both Providence Health and Services and Kadlec Regional Medical Center meet the definition of an “interested person” under WAC 246-310-010(34)(b). As a result both Providence Health & Services and Kadlec Regional Medical Center qualify as an “affected person.”

#### **SOURCE INFORMATION REVIEWED**

- RCCH/Capella’s Certificate of Need application for Lourdes Medical Center received May 2, 2017
- RCCH/Capella’s Lourdes Medical Center screening response received August 7, 2017 and October 30, 2017
- Public comment received by 5:00 pm on March 19, 2018
- Hospital/Finance and Charity Care (HFCC) Financial Review dated June 7, 2017
- Years 2014 through 2017 historical hospital financial data obtained from <http://www.doh.wa.gov/DataandStatisticalReports/HealthcareinWashington/HospitalandPatientData/HospitalFinancialData>
- Comprehensive Hospital Abstract Reporting System (CHARS) Data 2013-2017
- Joint Commission website at [www.jointcommission.org](http://www.jointcommission.org)
- Lourdes Health Network website at <https://www.yourlourdes.com>
- Ascension Health website at [www.ascension.org](http://www.ascension.org)

- Certificate of Need historical files

**CONCLUSIONS**

For the reasons stated in this evaluation, the application submitted by RCCH/Capella proposing to purchase Lourdes Medical Center from Ascension Health is consistent with the applicable review criteria of the Certificate of Need Program, provided that RCCH/Capella agrees to the following in its entirety.

**Project Description**

This certificate approves the purchase of Lourdes Medical Center by RCCH/Capella. There is no change in the number of approved beds. A breakdown of beds by type is shown below:

| <b>Bed Type</b>  | <b>Current</b> | <b>Proposed</b> |
|--|----------------|-----------------|
| 24 hr. assigned and set-up (General Medical/Surgical)  | 25             | 25              |
| 24 hr. assignable-not set-up (General Medical/Surgical).<br><i>These are spaces that meet licensure standards and the hospital has ready access to required movable equipment.</i> | 60             | 60              |
| Dedicated or PPS exempt Rehabilitation   | 10             | 10              |
| Total Licensed Beds  | 95             | 95              |

**Conditions**

1. Approval of the project description as stated above. RCCH/Capella 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. RCCH/Capella will maintain its participation in the Medicare and Medicaid programs at Lourdes Medical Center.
3. RCCH/Capella will continue providing the services identified in the application at Lourdes Medical Center for a minimum of ten years. These services are restated below:
 

|                                  |  |
|----------------------------------|--|
| Acute Rehabilitation             | Laboratory                                   |
| Critical Care                    | Occupational Therapy                         |
| Diagnostic/Therapeutic Endoscopy | Pediatric Care                               |
| Dialysis (Acute)                 | Physical Therapy                             |
| Emergency Care                   | Speech Pathology                             |
| Imaging                          | Surgical Services – Inpatient and Outpatient |
4. Within 30 days of the acquisition, RCCH/Capella 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 for Lourdes Medical Center. Each of these policies must be consistent with the drafts provided in the application.
5. Within 30 days of the acquisition, RCCH/Capella will submit to the Certificate of Need Program a copy of the adopted charity care policy for Lourdes Medical Center that has been reviewed and approved by the Charity Care Program within the Department of Health.



6. RCCH/Capella will provide charity care at Lourdes Medical Center 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. Lourdes Medical 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 1.54% of gross revenue and 3.84% of adjusted revenue. Currently, the regional average is 1.08% gross revenue and 2.73% of adjusted revenue. RCCH/Capella will maintain records of charity care applications received at Lourdes Medical Center and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.
7. Within 30 days of the acquisition, RCCH/Capella will submit to the department for review and approval the executed copy of the Asset Purchase Agreement. The executed copy must be consistent with the draft agreement provided in the application.
8. Within 30 days of the acquisition, RCCH/Capella will submit to the department for review and approval the executed copy of the Amended and Restated Master Lease Agreement. The executed copy must be consistent with the draft agreement provided in the application.
9. Within 30 days of the acquisition, RCCH/Capella will submit to the department for review and approval the executed copy of the Joinder Agreement. The executed copy must be consistent with the draft agreement provided in the application.
10. RCCH/Capella shall finance the project as described in the application.
11. RCCH/Capella must agree to the conditions outlined in the Non-Profit Conversion evaluation.

**Approved Costs**

The approved capital expenditure for this project is \$17,564,400.

## **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 RCCH/Capella has met the applicable need criteria in WAC 246-310-210.

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

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 the 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 Benton and Franklin County hospitals to assess this sub-criterion. It should be noted that numeric need is not evaluated in hospital change of ownership reviews such as this. The review will focus on the continued availability and accessibility of existing services only.

#### RCCH/Capella

RCCH/Capella provided five years of inpatient days and outpatient visits for Lourdes Medical Center, shown below. [source: Application p7]

**Table 1**  
**Lourdes Medical Center**  
**Inpatient Days and Outpatient Visits 2012-2016<sup>3</sup>**

|                   | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> |
|-------------------|-------------|-------------|-------------|-------------|-------------|
| Inpatient Days    | 7,150       | 7,079       | 6,775       | 7,148       | 7,686       |
| Outpatient Visits | 169,902     | 169,677     | 190,336     | 206,017     | 210,775     |

In addition to the data above, RCCH/Capella provided the following comments related to the continued availability and accessibility of LMC moving forward. [source: Application p11]

*“As outlined in the APA, Capella has agreed to continue to operate the hospital as an acute care hospital, continue to provide general surgery, general medicine and emergency services, and not make any material reductions to, or changes in, the mix or levels of services offered for a period of at least 5 years from the date of acquisition.*

*In addition, Capella has committed to investing \$18 million in the aggregate, to be used for Lourdes and/or Lourdes Counseling. This financial commitment will further the long-term goal of LHN, as discerned by the Board, to be a community provider of unique high-quality healthcare services that are needed by the Benton/Franklin community.*

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<sup>3</sup> This application was submitted in 2017, meaning that the most recently available data was from 2016.

*Capella has also agreed to retain all at-will employees in good standing at the time of acquisition.”*

Public Comment

The department received several letters of support related to this sub criterion. Excerpts from a few representative examples are below. [source: Public Comment received by March 19, 2018]

Kathy Ruggles, Washington Trust Bank, Lourdes Foundation Board Chair

*“As a local banker with Washington Trust Bank, I also know how the health of our community depends on a strong network of healthcare providers and options for every patient. Employers must have excellent healthcare resources to attract and maintain great employees. The acquisition of Lourdes by Capella/RCCH will infuse an additional \$18 million in capital improvements in the next five years. That means increased healthcare options for local businesses.*

*By approving the CN, DOH will ensure a more sustainable and financially viable system of coordinated care will be available through Lourdes. It will help ensure the rapidly growing community continues to have quality options for their care.”*

Robert Gear, Fire Chief, City of Pasco

*“On behalf of the Pasco Fire Department I am writing to give our full support for the proposed acquisition of the Lourdes Health Network by Capella/RCCH and encourage approval of the Certificate of Need application by the State of Washington.*

*The Pasco Fire Department works closely with Lourdes and we need their excellent services to continue in our community. The Lourdes Hospital emergency room is the best in our area and our emergency medical teams must have that local access. We need Lourdes to have a stable financial future and this acquisition by Cappella/RCCH will provide that horizon.*

*The use of our emergency medical services is something we track very closely and one of the most important indicators of our ability to deploy our medics is our "out of service" time. Our partnership with Lourdes, mean our crews are "out of service" an average of only 20 minutes and can get back out to take other calls within minutes of transporting emergency patients. Those times would double if we had to transport to other medical facilities. We know the providers, staff and administrators at Lourdes and we have established a relationship that means the difference literally between life and death in some cases.”*

Mary Dye, State Representative of 9<sup>th</sup> Legislative District

*“The health of our community is built upon important foundations - good schools, good businesses and good healthcare. We fully support the sale of Lourdes Health Network to Capella/RCCH. It is a crucial step to ensure our foundation is strong for the future.*

*The Tri-Cities community will benefit from the proceeds of the transaction which are dedicated to local charitable purposes. Lourdes will again have a local board of trustees with representation from the facilities' active medical staff and local community leaders.*

*We have been assured that Capella/RCCH will continue to work with state and local governments to ensure Lourdes Medical Center in Pasco and Lourdes Counseling Center in Richland remain important cornerstones of healthcare delivery in the Tri-Cities.*

*Employers must have excellent healthcare resources to attract and maintain great employees. The acquisition of Lourdes by Capella/RCCH will infuse an additional \$18 million in capital improvements in the next five years. That means increased healthcare options for local businesses.*

*We are a diverse community with diverse cultural needs. Having diverse options for healthcare meets the demands of our growing population. The application for a Certificate of Need to allow the acquisition of Lourdes by Capella/RCCH should be approved and is supported throughout our community.”*

The department also received one letter that highlights concerns with the proposed acquisition:

Kadlec Regional Medical Center

*“Ultimately, we are submitting these comments because we believe it is in the best interest of the community to do so. As noted above, LMC and Lourdes have been valued partners in making certain all members of the community have adequate access to health care services. If LMC ceases to function in the role it has played in the past, the community will be at risk.*

*Moreover, a change in LMC's traditional role will have a substantial impact on Kadlec and the other health care facilities and providers in the community, who will be required, within a short timeframe, to fill in the gaps created by any change in LMC's mission.*

*Capella has only committed to operate LMC for five (5) years, which is an extraordinarily short period of time and should raise concerns about the anticipated longevity of Capella as a partner in the community. The potential for LMC to cease hospital operations will impact Kadlec and other health care providers in the community, who will be required, within a short timeframe, to fill in the gaps created by a change in LMC's mission. The Asset Purchase Agreement ("APA") sets forth the terms of the acquisition, including Capella's rights and duties with respect to the post-closing operation of LMC. 4 Section 6.24 ("Service Commitment") of the APA provides:*

*"For a period of at least five (5) years after the Effective Time, except as provided by the Local Board, Purchaser shall or shall cause its Affiliates to (a) continue to operate the Hospital as a general acute care hospital, (b) continue to provide general surgery, general medicine and emergency department services at the Hospital and (c) not make any material reductions to, or changes in, the mix or level of services offered at the Hospital as of the calendar day immediately prior to the Effective Time."*

*Thus, five years after completion of the acquisition, Capella will have the authority to (1) stop operating LMC "as a general acute care hospital," (2) stop providing "general surgery, general medicine and emergency department services" at LMC, and/or (3) make "material reductions to, or changes in, the mix or level of services offered at" LMC prior to the acquisition. In other words, after only five years Capella will have the ability to do whatever it wants with LMC and its current complement of services. Furthermore, the clause, "except as provided by the Local Board," could be interpreted as permitting the Local Board to take any of these actions prior to the end of the five-year period.*

*The ability to "discontinue" any "service commitment" that is "commercially unreasonable" gives Capella carte blanche to restructure LMC's operations as it sees fit prior to the expiration of the limited five-year operating commitment. The fact that the Seller is required to "consent" to the termination of any "commercially unreasonable" service does not place any constraints upon Capella given that (1) the "Seller's consent shall not be unreasonably withheld," and (2) the Seller will effectively cease to have any meaningful existence after the acquisition is completed.*

*Accordingly, under the terms of the Asset Purchase Agreement, it is entirely possible that, after five years, LMC will cease operating as a "general acute care hospital," or will no longer provide basic services such as "general surgery, general medicine and emergency department services," or will experience "material reductions to, or changes in, the mix or level of services" currently provided at the hospital. It also is entirely possible existing services will be eliminated prior to the end of the five-year operating commitment if Capella deems them to be "commercially unreasonable."*

*Capella has only committed to continue LMC's participation in the Medicaid and Medicare programs for 10 years after the acquisition takes place. This is an extraordinarily short commitment, especially considering LMC's history and role in the community. Section 6.21 (b) of the Asset Purchase Agreement provides:*

*"For a period of ten (10) years after the Effective Time, Purchaser shall cause the Hospital to continue to participate in the Medicare and Medicaid programs."*

*Capella may again argue the existence of the Local Board under Section 6.20 of the APA will permit local input into any decision by Capella to terminate LMC's participation in the Medicaid or Medicare programs. However, as discussed in Section 1, the Local Board will likely be controlled by Capella, and, moreover, the Board will cease to exist at some point. Of course, terminating LMC's participation in either of the programs will effectively eliminate LMC's long-standing mission to provide health care services to the financially*

*vulnerable and elderly members of the community. In 2016, Medicare patients constituted 53.2% of inpatient admissions (1,084 patient admissions) and accounted for 61.8% of inpatient days at LMC. In 2016, Medicaid patients constituted 13.2% of admissions (269 patient admissions) and accounted for 12.6% of inpatient days at LMC. Thus, Capella's ability to cease LMC's participation in the Medicaid and Medicare programs after only 10 years enables it to eliminate LMC's commitment to provide care to these two highly important patient populations.”*

#### Rebuttal

RCCH/Capella did not provide rebuttal to any of the letters of support, but provided the following comments in response to Kadlec:

*“The irony of these comments is that the terms of the APA between Capella and Lourdes are nearly identical to those contained in the APA that Providence entered into with HMA related to the sale of its Yakima and Toppenish hospitals in 2003. First and foremost, we remind the Department and the Office of the Attorney General of Washington State (AG) that the discernment process used by Lourdes vetted all parties who responded to LHN’s request for proposal to partner with LHN, including a response from Providence Health & Services. Lourdes determined that Providence’s response provided an inferior level of commitment to LHN and the community as compared to Capella’s superior proposal which it selected. We further note that Capella/RCCH is a proven hospital operator. In a rapidly growing market such as Benton/Franklin County, it makes absolutely no sense that Capella (or any operator) would buy hospitals, make capital investments and then close them. Additionally, it is nonsensical to think that opting out of Medicare (Medicare is the payer for 26% of the discharges in Franklin County) and Medicaid (Medicaid is the payer for 22% of the discharges) would be a prudent business decision.”*

In addition to the comments above, RCCH/Capella provided a table that highlights the similarities between the APA relevant to this project and the APA executed between Providence and HMA from 2003.

#### Department Evaluation

In order to evaluate RCCH/Capella’s ability to meet this sub-criterion for Lourdes Medical Center, the department analyzed the reasonableness of the statements within the application. Ordinarily, the department would complete an analysis of discharge patterns and occupancy statistics within the planning area to assess whether the existing healthcare system could support the community need if the project were not approved. However, Lourdes Medical Center is the only acute hospital in Franklin County. There are no other acute care hospitals in Franklin County for the department to evaluate in this context.

There are four acute care hospitals currently operational in Benton and Franklin Counties, shown below:

**Table 2**  
**Benton and Franklin County Hospitals**

| <b>Hospital Name</b>           | <b>Address</b>                              | <b>DOH License</b> |
|--------------------------------|---|--------------------|
| Lourdes Medical Center         | 520 N 4th Ave<br>Pasco, WA 99301-5257       | HAC.FS.00000022    |
| TRIOS Health                   | 900 S Auburn St<br>Kennewick, WA 99336-5621 | HAC.FS.00000039    |
| Kadlec Regional Medical Center | 888 Swift Blvd<br>Richland, WA 99352-3514   | HAC.FS.00000161    |
| PMH Medical Center             | 723 Memorial St<br>Prosser, WA 99350-1524   | HAC.FS.00000046    |

Though hospitals in Benton County have historically been available and accessible to Franklin County residents, it is inconsistent with historical practice in the CN program to evaluate availability and accessibility of out-of-planning area providers.

Furthermore, public comment from the Pasco Fire Department highlights the inefficiency of transporting patients out of the county to receive emergency care. Public comment from Kadlec Regional Medical Center – which highlighted concerns related to the transaction – acknowledged that if LMC no longer operated, *“the community will be at risk.”*

Patient volumes and outpatient visit statistics provided in the application are consistent with end-of-year financial data accessed by the department. The department will not definitively determine whether these volumes could be absorbed by Benton County providers, as they are outside of the planning area.

Kadlec provided comments highlighting concerns regarding the applicant’s commitment to providing essential services and continued participation in the Medicare and Medicaid programs. RCCH/Capella refuted these claims and highlighted applicable sections of their APA. The analysis of RCCH/Capella’s continued participation in the Medicare and Medicaid programs at LMC are further highlighted under WAC 246-310-210(2).

It is standard practice for the department to attach conditions related to projects such as this. Therefore, if this project is approved, the department would attach conditions related to continued participation in the Medicare and Medicaid programs, as well as continued operation of essential services.

Public comment received by the department as well as testimony at the public hearing support that the availability of Lourdes Medical Center allows for patient choice, as well as easy access to necessary services. **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.<sup>4</sup> With the passage of the Affordable Care Act, the amount of charity care is expected to decrease, but not disappear.

#### RCCH/Capella

RCCH/Capella provided copies of the policies that are currently in place at Lourdes Medical Center, listed below:

- Admissions Policy [Application Exhibit 8]
- Non-Discrimination Policy [Application Exhibit 8]
- Charity Care Policy [Screening 2 Attachment 5]
- End of Life Policy [Application Exhibit 8]
- Reproductive Health Policy [Application Exhibit 8]

RCCH/Capella provided the following statement related to adopting these existing policies:

*"Capella proposes to adopt the existing policies."* [source: Application p14]

Lourdes Medical Center is currently Medicare and Medicaid certified. RCCH/Capella provided LMC's current revenue sources by payer, as well as the expected payer mix following the proposed transaction. The payer mix is shown below. [source: Application p9]

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<sup>4</sup> WAC 246-453-010(4)



**Table 3  
Payer Mix  
Before and After Transaction**

|                        | <b>2016 Actuals</b> | <b>Projected</b> |
|------------------------|---------------------|------------------|
| Medicare               | 38.8%               | 38.9%            |
| Medicaid               | 21.2%               | 21.4%            |
| Insurance-Other        | 24.1%               | 24.0%            |
| Private (no insurance) | 3.1%                | 3.1%             |
| Other                  | 12.9%               | 12.7%            |
| <b>Total</b>           | <b>100.0%</b>       | <b>100.0%</b>    |

RCCH/Capella based these volumes on existing volumes with a slight change due to Medicaid expansion, described below:

*“The change in Medicaid is insignificant (from 21.2% currently to 21.4%% with the proposed acquisition). Given that LMC has already experienced the growth in Medicaid anticipated under the Affordable Care Act and Washington’s Medicaid expansion, we assumed that Medicaid would stay at virtually the same percentage. The ever so slight difference is simply a result of the rounding of the additional patient days assigned to the payer class.”* [source: August 7, 2017 screening response p6]

In addition to the policies and payer mix information, RCCH/Capella provided the following information related to community programs and uncompensated care. [source: Application p11]

*“As outlined in the APA, Capella has agreed to:*

- 1) For a period of at least 10 years, implement reasonable policies for community benefit programs that are generally consistent with the community benefit policies of LHN at the time of acquisition. Capella has also assumed the same level of charity care in its pro forma financials that Lourdes provided in 2016.*
- 2) For a period of at least 10 years, continue to participate in Medicare and Medicaid programs.*
- 3) Implement reasonable policies for treatment of indigent patients that are generally consistent with the charity care policies of LHN at the time of acquisition.*

*Capella is committed to providing services consistent with the level of services currently enjoyed by service area residents. No elimination or reduction of services is anticipated with approval of this project.”*

**Public Comment**

The department received one letter of that highlighted concerns specific to this sub-criterion:

Kadlec Regional Medical Center [source: March 19, 2018, public comment]  
Capella Has Not Made A Long-Term Commitment To Provide Services To "All Residents Of The Service Area." Accordingly, Its Application Fails To Satisfy The CON Need Criteria.

*In order to be approved, Capella's application to acquire LMC must satisfy all of the applicable CON review criteria relating to need set forth in WAC 246-3 10-210 ("Determination of Need"). In this case, the Department's evaluation of the application's compliance with the criteria takes place within an important local historical context: LMC has been in existence for more than 100 years and has a long-established tradition of caring for all members of the community, regardless of their circumstances. It is essential this tradition of service be preserved and continued.*

*Accordingly, the following need criterion is of paramount importance in the Department's review of Capella's application:*

*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.*

*The Department's evaluation of whether Capella's application meets this criterion "shall include an assessment of" the following sub-criteria:*

*(a) The extent to which medically underserved populations currently use the applicant's services in comparison to the percentage of the population in the applicant's service area which is medically underserved, and the extent to which medically underserved populations are expected to use the proposed services if approved;*

*\* \* \**

*(c) The extent to which Medicare, Medicaid, and medically indigent patients are served by the applicant.*

*As discussed in detail in Sections I through 4, Capella's CON application, as well as its separate application seeking approval of its acquisition of a nonprofit hospital, establish that the proposed acquisition of LMC is structured in a manner that enables Capella to substantially alter the current mission of LMC within a short period of time. Specifically, the Asset Purchase*

*Agreement permits Capella to:*

- Stop operating LMC, and/or stop providing selected services, after 5 years;*
- Terminate LMC's participation in the Medicaid and Medicare programs after 10 years;*
- Reduce LMC's commitment to the provision of charity care;*
- Reduce LMC's community benefit programs.*

*The powers conferred upon Capella under the Agreement raise significant concerns about the application's ability to satisfy the key need criterion requiring the provision of services to "all*

*residents of the service area." These concerns are heightened by Capella's history in Washington and Oregon, as examples. As discussed in Sections 5 and 6, Capella's operation of Capital Medical Center in Olympia and Willamette Valley Medical Center in McMinnville, Oregon, raise substantial questions about Capella's commitment to providing charity care and services to medically underserved populations.*

*In sum, Capella's representations that it will continue the long-standing community mission of LMC are, given the terms of the Asset Purchase Agreement, illusory. In the absence of a true long-term commitment to serve "all residents of the service area," and in light of Capella's operating history in Washington and Oregon, the application does not satisfy the key need criteria. Accordingly, we respectfully request the Department to deny the application. If the Department elects to approve the application, we request it to impose conditions on the CON that require Capella to, on a long-term basis, (1) continue operating LMC, (2) maintain LMC's current complement of services, (3) continue LMC's participation in the Medicaid and Medicare programs, and (4) maintain LMC's charity care policies and level of charity care."*

#### Rebuttal

Some of the rebuttal applicable to this section has already been presented in this evaluation under WAC 246-310-210(1). This section will not be restated here.

Rebuttal comments specific to this sub-criterion are below:

*"Providence expresses that "Lourdes has been a valuable partner in making certain all members of the community have adequate access to health care." Providence goes on to state that a change in their traditional role will have a substantial impact on Kadlec, but absolutely no data to substantiate this claim is included in the record. Based on the most current charity care data*

*(2015) available from the Department, Lourdes and Lourdes Counseling's combined charity care as a percentage of adjusted patient services revenue (3.922%) is nearly 45% higher than Kadlec's (2.710%). See DOH "Total Patient Service Revenue, Adjusted Patient Service Revenue, and Amount of Charity Care as a Percent" attached as Attachment 2; also <https://www.doh.wa.gov/Portals/1/Documents/2300/HospPatientData/CharityCare2015-2006.xlsx> .*

...

*Providence also raises the issue of Columbia Capital Medical Center's (another subsidiary of Capella) lawsuit with the AG regarding the functioning of the charity care program at Capital Medical Center (CMC).*

*Regarding the CMC lawsuit, in 2016, the AG began an investigation into CMC's charity care program, policies and procedures. Capella and CMC cooperated with the AG in the investigation. CMC and Capella had a good faith belief that they were on the path to a settlement that might have included a corrective action plan for alleged violations of the state*

*charity care law, as well as monetary penalties. Independently, during 2016, CMC reviewed all of its charity care policies and procedures and made changes necessary to bring CMC's policies and practices into conformity with the AG's interpretation of the charity care law. Despite these good faith efforts on the part of CMC and the AG, the AG chose to file a law suit, alleging violations of the state Consumer Protection Act (CPA) based on failure to follow the AG's interpretation of the charity care law. The alleged violations in the law suit involve conduct from 2012 until 2016.*

*The matter is on-going and trial is expected to take place sometime in 2019. CMC intends to defend the matter vigorously. In the interim, CMC and Capella will continue to monitor their practices to ensure they are performing their obligations, at a minimum, in compliance with state law. Capella remains open to settlement possibilities with the AG if such should arise. Capella is committed to providing charity care to those in all communities served by Capella, and to do so in a manner that conforms with best practices as well as Washington State law.”*

#### Department Evaluation

If RCCH/Capella proposed to modify the existing policies and procedures for Lourdes Medical Center, the department would compare the two. However, RCCH/Capella is proposing adopt the existing policies in place at Lourdes entirely. These policies have been reviewed by the department of health, and are acceptable. All of the policies proposed by RCCH/Capella are considered to be in draft form until they are adopted at LMC under RCCH/Capella's ownership.

Until these policies are adopted, they are considered drafts for the purpose of this evaluation.

The draft Admission Policy outlines the process Lourdes Health Network will use to admit patients into either Lourdes Medical Center or Lourdes Counseling Center. The Admission Policy includes the following language:

*“In compliance with the DOH requirements, as part of every Inpatient, Observation, and Same day surgery registration each patient is queried about Advance Directives. Responses are documented in the Meditech system. Upon request, patients are provided information for Advance Directives, POLST, Living Will, Healthcare Proxy and Healthcare Power of Attorney.*

*As a Catholic hospital, Lourdes Health adheres strictly to a non-discrimination policy. Ethics/Values Statements are posted at every major entrance point. We do not discriminate based on age, race, color, creed, ethnicity, religion, national origin, marital status, sex, sexual orientation, gender identity or expression, disability, veteran or military status, or any other basis prohibited by federal, state or local law. Race and religion are documented on each account for reporting purposes. If no payment source is available, appropriate application of uninsured discount is automated through our billing system. Financial counseling is available M-Sat 9a-930p.*

Given that the policy references Catholic affiliation of the hospitals, the policies must be revised to for consistence to RCCH/Capella requirements. The Admission Policy is used in conjunction with the patient Non-Discrimination Policy. The draft Patient Non-Discrimination Policy includes the following language:

*“This policy applies to all members of Lourdes Health Network including employees, medical staff members, contracted service providers, and volunteers, and to all vendors, representatives, and any other individuals providing services to or on behalf of Lourdes Health Network.”*

The draft policy ensures that all patients will be treated with dignity and without regard to age, race, color, creed, ethnicity, religion, national origin, marital status, sex, sexual orientation, gender identity or expression, disability, veteran or military status, or any other basis prohibited by federal, state, or local law.

The draft Charity Care Policy includes roles and responsibilities for both the hospital and the patient related to charity care. The hospital’s roles and responsibilities include informing the patient about charity care, identifying the process one must use to obtain charity care, and providing the process Lourdes Health Network would use to determine charity care eligibility. Patient roles and responsibilities outlined in the draft policy include documentation that must be provided to the hospital to obtain charity care and the percentages of Federal Poverty Guidelines used by hospitals to assist in determining eligibility.

Since all policies are in draft format, if this project is approved, the department would attach conditions requiring that RCCH/Capella provide copies of all final policies within 30 days of the change of ownership. Specific to the Charity Care Policy, the condition would specify that the policy be approved by the Department of Health’s Hospital Charity Care and Financial Data office.

RCCH/Capella projects that Medicare revenues will make up 38.8% of total revenues and Medicaid revenues will make up 21.4% of total revenues at LMC. These figures are generally consistent with the current payer mix, and financial data within the application support these projections. Commercial and other revenues are also expected to remain generally the same. Within the application and within rebuttal, RCCH/Capella asserted that they will continue to participate in the Medicare and Medicaid programs. As noted in the previous section, this project is approved, the department would attach a condition requiring continued participation in both programs.

The Financial Assistance Policy (Charity Care) provided in the application has been reviewed and approved by the HFCC program. The policy outlines the process one would use to obtain financial assistance or charity care. The policy was updated in October 2017. This is the same policy posted to the department’s website for Lourdes Medical Center. The pro forma financial documents provided in the application include a charity care line item as a deduction of revenue. In public comment, Kadlec highlighted concerns with RCCH/Capella’s intent to provide charity care once they assume ownership of Lourdes Medical Center. It should be noted that RCCH/Capella intends to adopt the Lourdes policy in its entirety, and that this policy

is not the same as the policy in place at Capital Medical Center. Consistent with past CON decisions, the department would attach a condition related to provision of charity care.

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. Lourdes Medical Center is located within Franklin County, within the Central Region. Currently there are 21 hospitals operating within the region. Of the 21 hospitals, some did not report charity care for the years reviewed.<sup>5</sup>

Table 4 below compares the historical three-year average of charity care provided by the hospitals currently operating in the Central Region and LMC’s historical charity care for years 2013-2015. The table also includes the projected percentage of charity care and projected charity care percentages.

**Table 4  
Charity Care Comparison**

|  | <b>Percentage of Total Revenue</b> | <b>Percentage of Adjusted Revenue</b> |
|--|------------------------------------|---------------------------------------|
| Central Region Historical Average <sup>6</sup> | 1.08%                              | 2.73%                                 |
| LMC Historical Average                         | 1.88%                              | 4.90%                                 |
| LMC Projected Average                          | 1.54%                              | 3.84%                                 |

RCCH/Capella provided the following basis for their assumed charity care level:

*“For the pro forma financials, charity care, as a percentage of total revenue, has been based on actual 2016 levels. Both Capella and the CN Program recognize that the charity care percentages have been decreasing with Medicaid expansion and the establishment of the Health Care Exchange. In recent CN evaluations, the CN Program has stated that that the three year average will be self-correcting and has allowed applicants to use the most recent year end charity care percentages, as opposed to three year averages.”*

As shown above, Lourdes Medical Center has historically been providing charity care well above the regional average. RCCH/Capella projects that following the change of ownership, the hospital would continue to exceed the regional average as a percentage of total revenues. If RCCH/Capella adopts all of Lourdes existing policies and maintains the existing payer mix, the department does not see why this trend should not continue. Furthermore, the department notes no incentive for RCCH/Capella to provide charity care at lesser volumes, as their pro forma incorporates this level of charity care while still showing positive net revenue after expenses. This will be discussed further under Financial Feasibility.

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<sup>5</sup> For years 2014 and 2015, the following hospitals did not report data: Confluence Wenatchee Valley, Quincy Valley, and Sunnyside Community Hospital

<sup>6</sup> As of the writing of this evaluation, 2016 is the most recent year for which there is charity care data.

RCCH/Capella has been providing health care services in Washington State in Thurston County (Southwest Washington Region) for a short period of time, since 2016. The department evaluated RCCH/Capella’s historical provision of charity care in Thurston County, and how historical charity care levels have measured compared to their respective regional averages. The percentages for 2016 are shown below:

**Table 5  
Historical Charity Care**

|                              | Percentage of<br>Total Revenue | Percentage of<br>Adjusted Revenue |
|------------------------------|--------------------------------|-----------------------------------|
| Capital Medical Center       | 0.33%                          | 0.57%                             |
| Southwest Washington Average | 0.85%                          | 2.71%                             |

The information above supports the addition of a charity care condition if this project is approved.

The conditions suggested by Kadlec Regional Medical Center in their comments are largely consistent with standard conditions the department would place on any hospital change of ownership.

If these project is approved, the department would attach conditions requiring the hospital 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 RCCH/Capella to maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department would require that these records be available upon request. RCCH/Capella must 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 RCCH/Capella’s agreement to the conditions above, **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 no 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 this application

(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 this application

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

Department Evaluation

This sub-criterion is not applicable to this application

(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 this application

(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 this application

(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 this application

**B. FINANCIAL FEASIBILITY (WAC 246-310-220)**

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that RCCH/Capella has met the applicable financial feasibility criteria in WAC 246-310-220.

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

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



RCCH/Capella

RCCH/Capella provided the following assumptions that were used to determine the projected number of discharges, patient days, and occupancy at Lourdes Medical Center:

*“Given the current uncertainty in the healthcare climate, a projection beyond one-year is challenging (e.g. what will happen with the ACA in congress). However, we do feel a linear approach, which is what we selected, is best given Washington has expanded Medicaid and has a more robust individual exchange market than most states today.*

*In other words, we based growth on population change. We did not include any market share gains given that we have not yet had the opportunity to conduct an in-depth strategic analysis with the Board and leaders of LHN, and will not until the transaction is closed.*

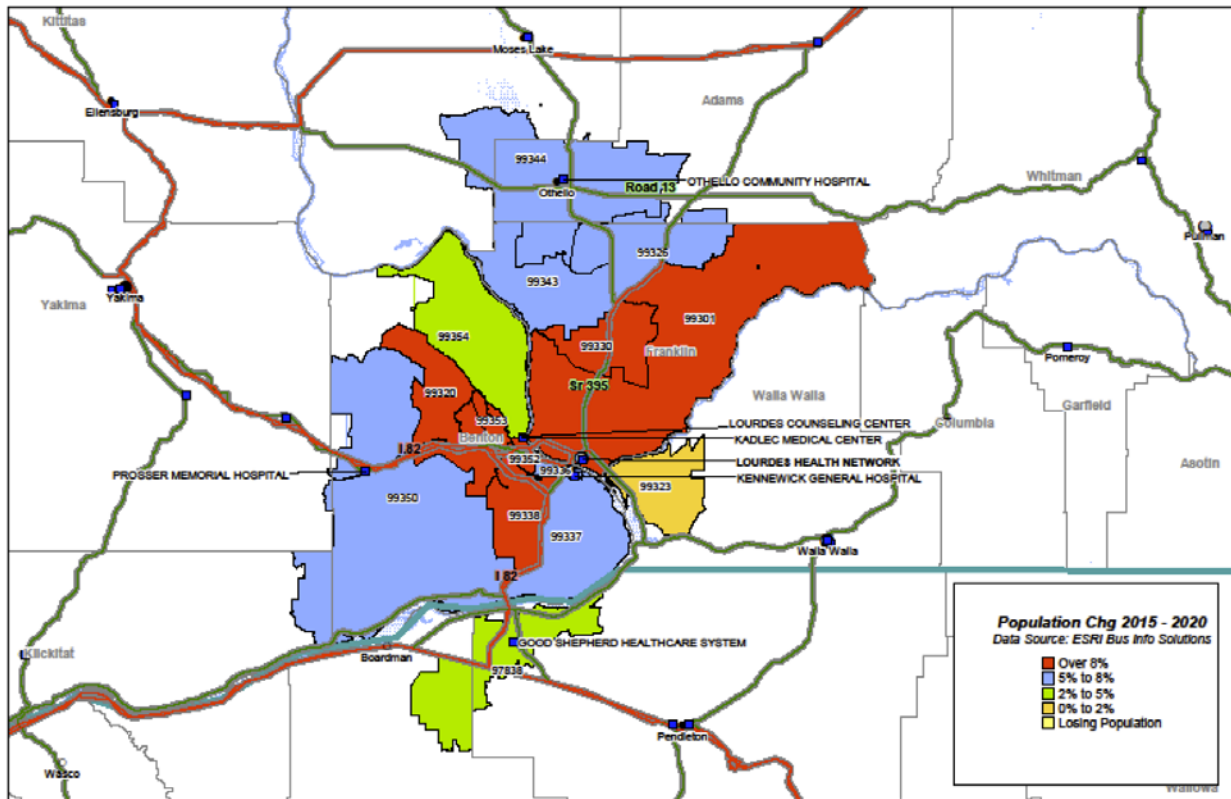
*Our pro forma statistics are very conservative and we anticipate outperforming these initial budgets as we build our annual strategic plans.”* [source: August 7, 2017 screening response p11]

RCCH/Capella expanded upon this in response to screening:

*“At the time the financial projections were developed, the historical operating experience for the period of 2014-2016 was reviewed. Capella also reviewed budget projections prepared by LHN for 2017 (the base year), and used these projections for the Year 1 estimates. For the period of 2018-2020 (and now 2021), we assumed an average volume growth rate of approximately 1% per year. The 1% assumed a slightly higher growth rate for Medicaid (approximately 1.5% per year) and slightly less for commercial patients (less than 1%, on average, per year).*

*The population predominantly served by LHN is depicted in Figure 1 and it includes approximately 273,000 residents in the Tri-Cities including portions of Franklin and Benton Counties. According to OFM, between 2010-2017, Franklin County was the fastest growing County in the State (16.5%) and Benton was the fifth fastest growing County in the State (10.5%).*

## Lourdes Health Network



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09/08/2015

**iVantage**  
Health Analytics

*“Please note, we are confident that the financial performance of LHN will improve each year of operation with Capella. As we discussed with the Program, once we have the benefit of access to hospital management, Board and the Senior Leadership team, we will prepare an in-depth strategic plan (as noted in our response to question #5, this will happen post close of the transaction).”*

*This strategic plan will consider market factors and capital investment initiatives, among other factors that will further refine our projections and lead to sustained growth and improved financial performance.*

*Because the market is growing so rapidly, it is important to note that simply assuming population growth (no efficiencies, no new programming, no new provider recruitment, etc.) is sufficient to produce a sustainable forecast for LHN.”* [source: October 30, 2017 screening response pp2-3]

Services are expected to remain consistent with those offered currently under RCCH/Capella ownership:

Using the assumptions stated above, RCCH/Capella projected the number of inpatient admissions and patient days. The department calculated average length of stay and occupancy percentages at Lourdes Medical Center using the applicant's figures. The projections shown below begin with year 2018. [source: August 7, 2017 screening response attachment 7]

**Table 6**  
**Lourdes Medical Center**  
**Projections for Years 2018-2020**

|                      | <b>CY 2018</b> | <b>CY 2019</b> | <b>CY 2020</b> |
|----------------------|----------------|----------------|----------------|
| Total Licensed Beds  | 35             | 35             | 35             |
| Total Admissions     | 2,073          | 2,089          | 2,107          |
| Total Patient Days   | 7,826          | 7,897          | 7,971          |
| Average Daily Census | 21             | 22             | 22             |
| Occupancy Percentage | 61.26%         | 61.82%         | 62.40%         |

Additional assumptions include:

- The revenue and expense statements includes both inpatient and outpatient revenue
- Revenue rates per inpatient and outpatient volumes are shown below:

| <b>Payer</b>         | <b>Percentage</b> |
|----------------------|-------------------|
| Medicare             | 38.9%             |
| Medicaid             | 21.4%             |
| Private-no insurance | 3.1%              |
| Insurance            | 24.0%             |
| Other                | 12.7%             |
| <b>Total</b>         | <b>100.0%</b>     |

- Other includes self-insurance, grants, CHAMPUS & Smart Health.
- Charity care is calculated at 1.54% of gross patient revenue.
- Other adjustments identified in the deductions from revenue category include uninsured discounts, prompt pay discounts, small balance write-offs, and other operating and administrative adjustments.
- Other operating revenues include auxiliary gift shop income, revenues from cafeteria, vending machines, retail sales, unrestricted donations, and other miscellaneous revenue.
- Supply expense includes general medical supplies, pharmaceuticals, food supplies, environmental services supplies, linen and bedding supplies, and office supplies.
- Purchased Services – Other includes pest control, security services, and water service.
- Depreciation represents the cost of property plant and equipment allocated over its estimated useful life for land improvements, service equipment, lease improvements, fixed equipment, automobiles, computer hardware, and moveable equipment.
- Under current ownership, the rentals and leases line item included equipment (\$9,434) and Building (\$35,598). In the Pro forma, the entire MPT lease has been reflected in a separate line item on the LMC entity (again, one singular Tax Identification number covering LCC and all related entities).

- Licenses and taxes line item includes federal and state taxes. Post closing, as a for-profit, RCCH/Capella will pay state and local taxes (property, B&O), etc.
- RCCH/Capella does not have a line item for “allocated expenses” and thus reflects any services provided in each line item (e.g. insurance, employee benefits, purchased services, other direct expenses – management fees).

Projections for revenue, expenses, and net income for Lourdes Medical Center for projection years 2018 through 2020 are below. [source: October 30 screening response Attachment 1]

**Table 7**  
**LMC**  
**Historical and Projected Revenues and Expenses**  
**Years 2018-2020**

|                            | <b>Historical</b> | <b>Projected</b> |               |               |               |
|----------------------------|-------------------|------------------|---------------|---------------|---------------|
|                            | <b>2017</b>       | <b>2018</b>      | <b>2019</b>   | <b>2020</b>   | <b>2021</b>   |
| Total Operating Revenue    | \$102,982,148     | \$103,984,996    | \$105,002,961 | \$106,036,280 | \$107,085,195 |
| Total Expenses             | \$98,545,153      | \$99,509,230     | \$100,720,920 | \$101,946,557 | \$103,187,379 |
| <b>Net Profit / (Loss)</b> | \$4,436,995       | \$4,475,766      | \$4,282,041   | \$4,089,723   | \$3,897,816   |

The ‘Net Revenue’ line item is gross inpatient and outpatient hospital revenue, minus contractual adjustments, charity care, and bad debt. The ‘Total Expenses’ line item includes all expenses related to hospital operations, including all staff salaries/wages and allocated costs.

Public Comment

None

Rebuttal

None

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by RCCH/Capella to determine the projected number of admissions, patient days, and occupancy of LMC under new ownership. Historical and projected figures are shown below. [source: Application pp19-20]

**Table 8**  
**Historical and Projected**  
**LMC Admissions, Patient Days, ADC, Occupancy**

|                      | Lourdes Historical |        |        | RCCH/Capella Projected |        |        |
|----------------------|--------------------|--------|--------|------------------------|--------|--------|
|                      | CY2015             | CY2016 | CY2017 | CY2018                 | CY2019 | CY2020 |
| Total Licensed Beds  | 35                 | 35     | 35     | 35                     | 35     | 35     |
| Total Admissions     | 1,953              | 2,037  | 2,054  | 2,073                  | 2,089  | 2,107  |
| Total Patient Days   | 7,148              | 7,686  | 7,757  | 7,826                  | 7,897  | 7,971  |
| Average Daily Census | 20                 | 21     | 21     | 21                     | 22     | 22     |
| Occupancy Percentage | 55.95%             | 60.16% | 60.72% | 61.26%                 | 61.82% | 62.40% |

When compared to historical data provided within the application, the department notes that admissions have increased steadily. Further, this is a well-utilized hospital, with average occupancy of the facility exceeding the baseline of 50% (the identified target occupancy from the State Health Plan for a hospital with fewer than 50 beds). RCCH/Capella stated that their projections relied on very modest growth, and did not anticipate they would change their market share. RCCH/Capella took what they described as a “conservative approach,” and only inflated admissions (and consequently, the patient days and occupancy) at 1%. This is less than the projected population growth in the county. Occupancy is expected to increase slightly throughout the projection years, as admissions increase slightly while the bed supply remains constant. The department agrees that this conservative approach is appropriate. As a critical access hospital with 25 acute care beds and 10 dedicated rehabilitation beds, there is relatively limited capacity for LMC to increase volumes without giving up their Critical Access Hospital status.

RCCH/Capella based its revenue and expenses for LMC on the assumptions referenced above. RCCH/Capella also used LMC’s current operations as a base-line for the revenue and expenses. Historical information shows that Ascension operated LMC with revenue exceeding expenses.

The department noted in screening that LMC is projected to have revenue exceed expenses in the projection years, but that this margin decreased by approximately \$200,000 annually. The department asked RCCH/Capella to respond to this trend. Their response is below:

*“Capella assumed continued rate pressure due to cuts in Medicare and Medicaid revenues, continued rate pressure from managed care payors, potential growth in self-insured, etc. It is Capella’s intent to continually find efficiencies to offset these negative reimbursement pressures with expense reductions.”*

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 Capella

would meet its immediate and long-range capital costs, the HFCC Program reviewed RCCH/Capella’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 RCCH and MPT as of 2017. Also detailed are the three years following completion of the project. The data was collected from the application and screening responses, information obtained from MPT’s website, and financial information submitted to the Department by Lourdes as a part of its required annual financial and utilization reports. The resulting table is on the following page.*

*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.*

| RCCH/Capella<br>Ratio Category      | Trend  | State-17 | MPT-17 | RCCH-17 | Lourdes 17 | 2018<br>CONyr1 | 2019<br>CONyr2 | 2020<br>CONyr3 |
|-------------------------------------|--|----------|--------|---------|------------|----------------|----------------|----------------|
| Long Term Debt to Equity            | B  | 0.446    | 1.277  | 6.474   | 3.367      | 2.320          | 1.897          | 2.070          |
| Current Assets/Current Liabilities  | A  | 3.396    | 2.065  | 1.462   | 0.872      | 1.481          | 1.476          | 1.476          |
| Assets Funded by Liabilities        | B  | 3.730    | 0.566  | 0.820   | 0.880      | 0.797          | 0.764          | 0.774          |
| Operating Expense/Operating Revenue | B  | 0.978    | 0.598  | 1.021   | 0.970      | 0.957          | 0.959          | 0.961          |
| Debt Service Coverage               | A  | 4.906    | 3.353  | 1.231   | 14.572     |                |                |                |
| 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 |          |        |         |            |                |                |                |

*All of the current-year ratios for RCCH are outside the preferred ranges. The projected ratios for the hospital after purchase are also outside the preferred ranges, with the exception of operating expense to operating revenue and assets funded by liabilities. Operating expense to operating revenue is within the preferred range during the projection period. Debt service coverage is not calculated because no interest expense or current maturities of long-term debt will be assigned to this new LLC. The remaining two ratios are outside the preferred range, but demonstrate improvement in the projection period. The ratios that are not particularly strong may indicate that the hospital might not have capacity to incur much new debt in the future, the applicant does not project acquiring additional debt for renovation or operation of the facility. The applicant states that it intends to invest an additional \$18 million between Lourdes Medical Center and Lourdes Counseling Center during the first five years of ownership. The source of that additional \$18 million is not identified, but we note that RCCH currently has over \$383 million in current assets. Unless significant amounts of borrowing are necessary in the near future, it appears that RCCH should have the ability to complete the purchase of Lourdes, make its planned capital investments, 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 Analysis pp2-3]

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.

#### RCCH/Capella

The capital expenditure associated with RCCH/Capella's purchase of Lourdes Medical Center and Lourdes Counseling Center is \$21 million. Of that, approximately 84% has been allocated to Lourdes Medical Center, for a total allocated purchase price of \$17,564,400. [source: Application pp13-14]

There are no traditional "start up costs," as Lourdes Medical Center is already fully operational, however, Capella identified that RCCH will invest at least \$18 million in LHN in the first five years following the transaction. [source: August 7, 2017 screening response p9]

RCCH/Capella provided the following outline for this \$18 million investment:

*"The \$18 million will be utilized to fund growth projects, add new services lines, expand existing service lines, expand primary care or specialty care clinics, and/or add new or replace equipment related to the delivery of healthcare services (e.g. – MRI or CT Scanner). That said, until Capella has had the opportunity to build a strategic plan with the LHN Board and leadership, post the issuance of the CN and close of the transaction, we cannot delineate the funds that will be used for LMC versus LCC. Again, Capella contemplates acquiring both facilities and we view them as one singular system."* [source: August 7, 2017 screening response p9]

RCCH/Capella provided the following explanation of the funding for the working capital. [source: August 7, 2017, screening response, p18]

*"Since Capella is acquiring accounts receivable that exist as of the close date, and the collections from those accounts receivable, there will be no interruption in cash flow to the facilities. The same is true for inventory, since we are acquiring inventory that exists at the facility as of the close date, there is no need to make a large expenditure to restock inventory. Capella does not anticipate needing to seek any other third-party financing to fund working capital."*

RCCH/Capella provided the following statements related to the project’s impact on costs and charges for healthcare services. [source: Application, p27]

*“Provides a vision for the future, which is likely to assist with staff recruitment and retention. Capella has made a commitment to provide the same level of access to indigent patients as that provided by Lourdes.”*

Public Comment

None

Rebuttal

None

Department Evaluation

In their financial review, the HFCC Program confirmed that the rates proposed by RCCH/Capella for LMC Hospital are similar to Washington statewide averages, shown below. [source: HFCC analysis p3]

**Table 9  
LMC Calculated Rates from HFCC Analysis**

| <b>Lourdes Med Ctr</b>            | <b>2018</b>   | <b>2019</b>   | <b>2020</b>   |
|-----------------------------------|---------------|---------------|---------------|
| <b>Rate per Various Items</b>     | <b>CONyr1</b> | <b>CONyr2</b> | <b>CONyr3</b> |
| Admissions                        | 2,073         | 2,089         | 2,107         |
| Patient Days                      | 7,826         | 7,897         | 7,971         |
| Average Length of Stay            | 3.78          | 3.78          | 3.78          |
| Gross Revenue                     | 258,309,920   | 260,838,655   | 263,405,531   |
| Deductions From Revenue           | 158,656,728   | 160,209,905   | 161,786,507   |
| Net Patient Billing               | 99,653,192    | 100,628,750   | 101,619,024   |
| Other Operating Revenue           | 4,331,804     | 4,374,211     | 4,417,257     |
| Net Operating Revenue             | 103,984,996   | 105,002,961   | 106,036,281   |
| Operating Expense                 | 99,509,230    | 100,720,920   | 101,946,557   |
| Operating Profit                  | 4,475,766     | 4,282,041     | 4,089,724     |
| Net Profit                        | 4,475,766     | 4,282,041     | 4,089,724     |
| Operating Revenue per Admission   | \$ 50,162     | \$ 50,265     | \$ 50,326     |
| Operating Expense per Admission   | \$ 48,003     | \$ 48,215     | \$ 48,385     |
| Net Profit per Admission          | \$ 2,159      | \$ 2,050      | \$ 1,941      |
| Operating Revenue per Patient Day | \$ 13,287     | \$ 13,297     | \$ 13,303     |
| Operating Expense per Patient Day | \$ 12,715     | \$ 12,754     | \$ 12,790     |
| Net Profit per Patient Day        | \$ 572        | \$ 542        | \$ 513        |

*“RCCH’s projected rates are similar to the Washington statewide averages. This criterion is satisfied.”* [source: HFCC Analysis p4]

RCCH/Capella stated under WAC 246-310-220(1) that the payer mix is not expected to change significantly as a result of this project. Further, Capella stated that all assumptions related to costs and charges are based on actual performance at Lourdes Medical Center.



Based on the above information, the department concludes that RCCH/Capella’s purchase of LMC would probably not have an unreasonable impact on the costs and charges for healthcare services in Franklin 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.

RCCH/Capella

The capital expenditure associated with the purchase of Lourdes Medical Center and Lourdes Counseling Center and a variety of healthcare facilities associated with Lourdes Health Network is \$21,000,000. Of that amount, \$17,564,400 is associated with the purchase of Lourdes Medical Center. [source: Application, p10]

RCCH/Capella provided a breakdown of the costs and funding sources specific to Lourdes Medical Center. [source: Application, p21],

**Table 10**  
**Lourdes Medical Center**  
**Sources and Amounts of Financing**

| <b>Source of Financing</b>    | <b>Amount</b>       |
|-------------------------------|---------------------|
| MPT Purchase of Real Property | \$8,098,025         |
| MPT Assignment Fee            | \$6,538,975         |
| RCCH Cash Reserves            | \$2,927,400         |
| <b>Total</b>                  | <b>\$17,564,400</b> |

As previously stated, there are no traditional “start up costs,” because both Lourdes Medical Center and Lourdes Counseling Center are fully operational. RCCH/Capella also identified approximately \$6,297,000 would be necessary for net working capital following the transaction. Of that amount, \$5,397,000 would be for Lourdes Medical Center and \$900,000 would be used for Lourdes Counseling Center. The funding source for the working capital is identified as “accounts receivable and inventory.” [source: August 7, 2017, screening response, p18]

Public Comment

None

Rebuttal

None

Department Evaluation

After reviewing the balance sheet, the HFCC Program provided the following statements:

*“RCCH’s CN capital expenditure for the purchase of the existing 95-bed Lourdes Medical Center is projected to be \$17,564,400. At the closing of the purchase, RCCH will assign its rights to purchase the real property and certain equipment to MPT. MPT will provide a total of \$14,637,000 from its cash reserves, with the remaining \$2,927,400 to come from the cash reserves of RCCH. RCCH will lease the property from MPT as part of a master lease covering several other facilities operated by RCCH. (Application, pp 8-10). The cash outlays for the purchase of this facility represent less than one percent of total assets for each party.*

*Below are summaries of the most recent available balance sheets for RCCH and MPT.*

| <b>RCCH 2017</b>         |                      |                |                      |
|--------------------------|----------------------|----------------|----------------------|
| 2017 Audited Financials  |                      |                |                      |
| Assets                   |                      | Liabilities    |                      |
| Current                  | 383,600,000          | Current        | 262,400,000          |
| Board Designated         | 20,000,000           | Long Term Debt | 1,424,200,000        |
| Property/Plant/Equipment | 951,500,000          | Other          | 150,900,000          |
| Other                    | 702,400,000          | Equity         | 220,000,000          |
| <b>Total</b>             | <b>2,057,500,000</b> | <b>Total</b>   | <b>2,057,500,000</b> |
| <b>MPT 2017</b>          |                      |                |                      |
| 2017 Audited Financials  |                      |                |                      |
| Assets                   |                      | Liabilities    |                      |
| Current                  | 436,034,000          | Current        | 211,188,000          |
| Board Designated         | -                    | Long Term Debt | 4,898,667,000        |
| Property/Plant/Equipment | 7,965,551,000        | Other          | 75,228,000           |
| Other                    | 618,703,000          | Equity         | 3,835,205,000        |
| <b>Total</b>             | <b>9,020,288,000</b> | <b>Total</b>   | <b>9,020,288,000</b> |

*Both involved entities’ balance sheets indicate adequate reserves to fund their portions of this purchase.*

*The CN project capital expenditure for this purchase is \$17,564,400, divided between RCCH and MPT. Each party will use existing reserves for its portion. This investment represents less than one percent of total assets for each party. While neither RCCH nor MPT has a debt service coverage ratio at or above the state average, both parties’ ratios indicate sufficient cash flow to cover their debt. Use of reserves for the purchase of this facility will not increase debt for either party, nor will it significantly reduce either party’s available assets.*

*The financing methods used are appropriate business practice. This criterion is satisfied.”*  
 [source: HFCC analysis pp2-4]

If this project is approved, the department would attach a condition requiring RCCH/Capella 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 RCCH/Capella has met the applicable structure and process (quality) of care criteria in WAC 246-310-230.

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

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

RCCH/Capella

RCCH/Capella provided the following statements related to this sub-criterion. [source: Application p22]

*“No change in hospital staffing is proposed as a result of this project. In fact, Capella has made a commitment to hire all employees in good standing at the time of acquisition. No change in physician privileges is proposed as a result of this project.”*

RCCH/Capella also provided a staff table and explanation of job titles currently used at Lourdes Medical Center. The table is shown below. [source: August 7, 2017, screening response, p16 and October 30, 2017, screening response, p6]

**Table 11  
Lourdes Medical Center – Current and Proposed Staffing**

| <b>Type of Staff</b>          | <b>Job Title Includes</b>  | <b>Year 2017 and Projected</b> |
|-------------------------------|--|--------------------------------|
| Management                    | Senior management including but not limited to: CEO, CFO, COO, DNS, Department managers, Program Directors, etc. | 78.87                          |
| Nursing                       | Patient care: registered nurses, licensed nurses and nursing assistants  | 219.45                         |
| Tech/Professional             | Allied health professionals (medical assistants, therapists, mental health professionals; social worker; etc.    | 97.02                          |
| Support Staff                 | Dietary, maintenance, central supply, supply distribution and other support staff                                | 54.24                          |
| Other-Clerical/Administrative | Clerical and administrative support staff including business office functions                                    | 111.80                         |
| Psychiatrist                  | Physicians (MD, DO) and ARNP   | 32.30                          |
| Pharmacist                    | Pharmacists and licensed techs   | 4.55                           |
| <b>TOTAL ALL FTES</b>         |  | <b>598.23</b>                  |

Public Comment

None

Rebuttal

None

Department Evaluation

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

The department is not aware of any staff shortage issues at Lourdes Medical Center. Based on the above information provided by the applicant, the department concludes that RCCH/Capella does not need to recruit additional staff as a result of this project, but likely has the expertise and ability to do so 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.

RCCH/Capella

*“Lourdes has provided health care services in Franklin County and has served Benton and Franklin Counties since 1916. This history has resulted in well-established working relationships with the other health care providers and community organizations. Lourdes has established relationships with skilled nursing facilities (for referral of patients), home health and hospice providers, and other acute and primary care providers. Each of these relationships will be maintained under Capella.”* [source: Application p23]

*“While no new working relationships are contemplated as a direct result of this project, Lourdes will, following the change of ownership, begin to evaluate ways to strengthen and grow existing relationships to assure community needs continue to be addressed.”* [source: Application p23]

*“Lourdes is a CAH that relies on select specialty services offered by other providers in the Tri-Cities, which is within our primary service area. There are however, certain tertiary services that patients need that are not available locally. Currently, Lourdes works with both Seattle and Spokane providers for these services. These relationships will be maintained. Also, please note that RCCH has an affiliation agreement with UW Medicine. Under the affiliation, UW Medicine is the choice for complex tertiary and quaternary care for RCCH’s Capital Medical*

*Center in Olympia's patients. In addition, the affiliation supports the organizations in working together to continue improving the quality, safety and cost-effectiveness of care."* [source: Application p24]

Public Comment

None

Rebuttal

None

Department Evaluation

Lourdes Medical Center is currently operational and has established ancillary and support agreements. The Asset Purchase and Sale 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 RCCH/Capella will to maintain the necessary relationships with ancillary and support services at LMC following the transaction. The department did not see any information that would suggest that these relationships wouldn't continue, and therefore 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.

RCCH/Capella

RCCH/Capella 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 Capella nor its parent, RCCH have been subject to any of the above actions."* [source: Application p24]

Public Comment

During the review of this project, Kadlec Regional Medical Center provided comments related to an ongoing complaint against a RCCH/Capella-owned hospital in Washington State known as 'Capital Medical Center.' Specifically, on September 21, 2017, the Attorney General of Washington filed a "Complaint for Injunctive and Other Relief under the Consumer Protection

Act" ("Complaint") against Capital Medical Center. The Complaint focuses on Capital Medical Center's charity care processes for year 2012 through year 2016.

Generally, this type of complaint would be addressed in this sub-criterion. However, since it was reviewed and addressed under WAC 246-310-210(2) of this evaluation, it will not be repeated in this section. The conditions identified in the 'conclusion' section of this evaluation address the concerns raised related to future charity care at Lourdes Medical Center.

Rebuttal

Since the comments were addressed in WAC 246-310-210(2) of this evaluation, the rebuttal comments were also included. As with the public comments, rebuttal comments related to this sub-criterion will not be repeated in this section.

Department Evaluation

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.<sup>7</sup> To accomplish this task, the department reviewed the quality of care compliance history for all healthcare facilities owned, operated, or managed by RCCH/Capella in Washington State. The department also reviewed the compliance history of a random selection of facilities owned by, operated by, or affiliated with RCCH and Capella outside of Washington State.

RCCH is based out of Brentwood, TN, and operates several healthcare facilities and services nationwide through a number of subsidiaries. Its Washington facilities are operated under the Capella subsidiary. [source: Application, Exhibit 3]

The current sole RCCH/Capella facility in Washington State is Capital Medical Center located in Olympia, within Thurston County. Using the department's internal database, the department reviewed survey data for Capital Medical Center. Since 2015, CMC has had one survey which did not result in significant non-compliance issues. [source: Department of Health Office of Investigation and Inspection]

RCCH and its affiliates operate all across the United States. The department randomly selected RCCH and RCCH-affiliated facilities in Montana, Arizona, Alabama, and Texas to review for their compliance with state and federal standards, shown on the following page.

**Table 12  
RCCH and Affiliated Facilities Outside of Washington**

| <b>Facility Name</b>           | <b>State</b> | <b>Joint Commission?</b> | <b>State Enforcement Action since 2015?</b> |
|--------------------------------|--------------|--------------------------|---|
| Community Medical Center       | MT           | yes                      | no  |
| Canyon Vista Medical Center    | AZ           | yes                      | yes   |
| Shoals Hospital                | AL           | yes                      | no  |
| Eliza Coffee Memorial Hospital | AL           | yes                      | no  |

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<sup>7</sup> WAC 246-310-230(5)

| Facility Name                 | State | Joint Commission? | State Enforcement Action since 2015? |
|-------------------------------|-------|-------------------|--------------------------------------|
| Paris Regional Medical Center | TX    | yes               | no <sup>8</sup>                      |

As shown above, out-of-state RCCH facilities have demonstrated compliance with applicable state and federal regulations. The one example of enforcement action in Arizona was resolved and the facility paid a \$1,750 civil penalty. No evidence on any of the state licensing websites indicated that any of the above facilities have ever been closed or decertified from participation in Medicare or Medicaid as a result of compliance issues.

Based on the above information, the department concludes that RCCH/Capella demonstrated reasonable assurance that Lourdes Medical Center would continue to operate in compliance with state and federal requirements if this project is approved. **This sub criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that 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.

RCCH/Capella

*“Lourdes has provided health care services in Franklin County and has served Benton and Franklin Counties since 1916. This history has resulted in well-established working relationships with the other health care providers and community organizations. Lourdes has established relationships with skilled nursing facilities (for referral of patients), home health and hospice providers, and other acute and primary care providers. Each of these relationships will be maintained under Capella.”* [source: Application p23]

Public Comment

Nearly all of the letters of support received by the department spoke to continuity of care. The comment below is representative of those received by the department.

Robert Gear, Fire Chief, Pasco

*“The use of our emergency medical services is something we track very closely and one of the most important indicators of our ability to deploy our medics is our "out of service" time. Our partnership with Lourdes, mean our crews are "out of service" an average of only 20 minutes and can get back out to take other calls within minutes of transporting emergency patients. Those times would double if we had to transport to other medical facilities. We know the*

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<sup>8</sup> The Texas Enforcement Action lookup only retains enforcement action for the last year. No enforcement actions noted in the last year.

*providers, staff and administrators at Lourdes and we have established a relationship that means the difference literally between life and death in some cases.”*

Rebuttal

None

Department Evaluation

Many of the letter provided by local community members and healthcare entities provide a valuable perspective related to this sub-criterion. The excerpt above demonstrates the existing healthcare system’s intense interest in the continuing operation of Lourdes Medical Center.

Information within the application demonstrates that Lourdes Medical Center under RCCH/Capella ownership will continue to operate with the necessary relationships that will foster continuity in the provision of health care services in Franklin county, and surrounding areas.

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 RCCH/Capella’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

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 RCCH/Capella has met the applicable cost containment criteria in WAC 246-310-240.

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

To determine if a proposed project is the best alternative, in terms of cost, efficiency, or effectiveness, the department takes a multi-step approach. 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:

RCCH/Capella met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two:

RCCH/Capella

The only options RCCH/Capella considered were the proposed project, and no project:

*“Capella was selected through a competitive RFP process to be the entity acquiring LHN. Upon notification of selection, Capella had two options: 1) do nothing or 2) move forward to complete the acquisition. Since we believed we were uniquely qualified to build on the 100 year history of LHN, we elected to proceed.”*

RCCH/Capella identified the following advantages of the requested project. [source: Application p27]

|  | <i>Acquisition of Lourdes</i>  | <i>“No Action”</i>  |
|--|--|---|
| <i>Advantages/Disadvantages</i>                                  | <i>Provides for the continued operation of a high quality and needed resource</i>  | <i>Lourdes would not receive the needed investment and resources offered by a vested owner.</i>   |
| <i>Impact on operating costs, staffing and costs to patients</i> | <i>Provides a vision for the future, which is likely to assist with staff recruitment and retention. Capella has made a commitment to provide the same level of access to indigent patients as that provided by Lourdes.</i> | <i>The Benton/Franklin market is a growing market. Without the investments Capella is proposing, Lourdes would, over time, continue to experience higher costs associated with aging facilities. Staff turnover could also increase resulting in higher operating costs</i> |

|                                |   |  |
|--------------------------------|---|--|
| <i>Physical Hospital Space</i> | <i>Capella has made a commitment to invest \$18 million which will be a start in upgrading the hospital physical space.</i> | <i>No commitment and continued aging of physical hospital space.</i> |
| <i>Legal</i>                   | <i>Requires prior CN review and approval.</i>   | <i>None.</i>   |

The applicant’s Table below is the discussion of the four options identified by the department in its screening of the application. [source: August 7, 2017, screening response, p24]

*Applicant’s Table*

*Other Options Considered for Acquisition of Lourdes Counseling and Lourdes Medical Centers*

| <b><i>Option</i></b>  | <b><i>Discussion</i></b>  |
|---|---|
| <i>Purchasing the hospital outright without a lease through MPT</i>       | <i>Leasing the hospital through MPT allows Capella to use less cash reserves for this transaction. While Capella could have easily chosen to purchase outright, leasing from MPT means that Capella has additional reserves available for other uses.</i>               |
| <i>A management agreement with LHN or another entity</i>                  | <i>Capella owns and operates hospitals and is not a hospital management company. The request for proposal from LHN was to acquire the facilities, not for management.</i>   |
| <i>Different financial arrangements than described in the application</i> | <i>The transaction negotiated is a fair and reasonable transaction to all parties and provides significant ongoing commitments to LHN that are deemed important and valuable. From the beginning, this transaction was contemplated to be an acquisition of assets.</i> |
| <i>Co-ownership with another entity</i>                                   | <i>The simplest and least complicated transaction is a single party transaction. We chose the simplest and least complicated transaction to expedite the process and timeframe to close.</i>  |

Public Comment

None

Rebuttal

None

Department Evaluation

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

The department’s HFCC program provided the following analysis:

*“The applicant considered only one alternative to the purchase of Lourdes Medical Center: not purchasing it. RCCH concluded that the purchase of the two Lourdes facilities would*

*provide the Benton/Franklin area with additional investment in healthcare services that would likely not occur otherwise. RCCH also contends that its purchase of the hospital will result in improved workforce retention and recruitment.*

*Staff is satisfied that RCCH's assertions are reasonable and this purchase is an appropriate option. In addition, RCCH has also committed to maintaining charity care programs consistent with those provided by the current operators.” [source: HFCC analysis, p4]*

The department did not identify any alternative that was superior in terms of cost, efficiency, or effectiveness that is available or practicable. Furthermore, this was the sole application received by the department for the change of ownership.

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

Step Three:

Though RCCH/Capella's applications to purchase Lourdes Medical Center and Lourdes Counseling Center were submitted at the same time and reviewed under the same timeline, the two applications are not competitive. Rather, they are a 'packaged deal' for RCCH/Capella's purchase of Lourdes Health Network. In other words, the purchase of both hospitals, would provide a range of benefits, services, and concessions, all of which need to be accepted or rejected in one transaction. As a result, this step does not apply.

(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 this 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 this 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.

RCCH/Capella

Capella provided the following comments related to this sub-criterion:

*“In the short term, no changes in staff efficiency or productivity are anticipated and Lourdes will continue ‘business as usual’. In the long term, however, Capella will certainly evaluate*

*opportunities to achieve additional economies of scale that could result as it becomes part of Capella and a more regional delivery system.” [source: Application p27]*

Public Comment

None

Rebuttal

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 RCCH’s acquisition of Lourdes Medical Center 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: HFCC analyses p5]*

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

The department is satisfied the project is appropriate and needed. This **sub-criterion is met.**

# APPENDIX A

