



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

June 22, 2017

CERTIFIED MAIL # 7011 1570 0000 7808 8324

Theresa Boyle, Senior VP  
MultiCare Health System  
PO Box 5299  
Mail Stop 603-1-SBD  
Tacoma, WA 98415-0299

RE: CN Application 17-28

Dear Ms. Boyle,

We have completed review of the Certificate of Need (CN) application submitted by MultiCare Health System for the purchase of Deaconess Hospital in Spokane County.

For the reasons stated in the enclosed decision, this application is consistent with the applicable criteria of the Certificate of Need Program, provided that MultiCare agrees to the following conditions in their entirety.

Project Description

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

<b>Bed Type</b>	<b>Number of Licensed Beds</b>
General Medical/Surgical	344
Neonatal Level II Bassinets	15
NICU Level III Bassinets	29
<b>Total Licensed Beds</b>	<b>388</b>

Conditions

1. Approval of the project description as stated above. MultiCare 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. MultiCare shall finance the project using cash reserves and investments from MultiCare Health System, as described in the application.
3. Within 30 days of the acquisition, MultiCare will submit to the department for review and approval the adopted copies of its admissions policy, non-discrimination policy, charity care policy, end-of-life policy, and reproductive health policy. Each of these policies must be consistent with the drafts provided in the application.
4. Deaconess Hospital will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. Deaconess Hospital will use reasonable efforts to provide charity care in an amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Eastern Washington Region – whichever is greater. The amount identified in the application was 2.22% of gross revenue and 5.00% of adjusted revenue. Currently, the regional average is 1.86% gross revenue and 5.08% of adjusted revenue. Deaconess Hospital will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.
5. Deaconess Hospital will submit annual budgets (required under WAC 246-454-030) that include budgeted charity care of at least the amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Eastern Washington Region – whichever is greater.
6. MultiCare will continue providing the essential services identified in Exhibit F of the Asset Purchase Agreement for a minimum of ten years. These services are restated below:

24-Hour Emergency Care	Labor & Delivery (including C-Section)
Cardiac Catheterization	Mammography
Cardiovascular Surgery and CT Scanning	MRI Services
Diagnostic Radiology	Neonatal Intensive Care <sup>1</sup>
General Surgery	Nuclear Medicine
Inpatient Medical and Surgical Services	Outpatient Surgery
Intensive Care	Pharmacy
Lab Services	Therapy Services

Approved Capital Costs

The approved capital expenditure for this project is \$198 million.

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

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<sup>1</sup> Deaconess Hospital has CN approval for Level III NICU bassinets

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

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

Mailing Address:

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

Physical Address:

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

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

Sincerely,



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

Enclosure

**EVALUATION DATED JUNE 22, 2017 OF THE CERTIFICATE OF NEED APPLICATIONS SUBMITTED BY MULTICARE HEALTH SYSTEM PROPOSING TO PURCHASE VALLEY HOSPITAL AND DEACONESS HOSPITAL IN SPOKANE COUNTY**

**APPLICANT DESCRIPTION**

MultiCare Health System is a not-for-profit health system serving the residents of southwestern Washington State. MultiCare Health System (MHS) includes four hospitals, approximately 20 physician clinics, nine urgent care facilities, and a variety of health care services including home health, hospice, and specialty clinics in Pierce and King Counties. Below is a list of the licensed healthcare facilities owned and/or operated by MHS. [source: CN historical files, MultiCare Health System website]

**Hospitals**

Tacoma General/Allenmore Hospital<sup>1</sup>  
Mary Bridge Childrens Hospital and Health Center<sup>2</sup>  
MultiCare Good Samaritan  
MultiCare Auburn Medical Center

**In-Home Services**

Mary Bridge Infusion and Specialty Services  
MultiCare Home Health, Hospice and Palliative Care

In addition to the four hospitals listed above, on January 7, 2011, MHS received Certificate of Need approval to establish a new, 58-bed hospital in Covington, within King County. The hospital, to be known as Covington Medical center, is under construction and expected to be operational by the end of December 2017. [source: CN 1437E2 March 2017 progress report]

**BACKGROUND INFORMATION**

Community Health Systems (CHS) is a Delaware-based for-profit operator of over 140 acute care hospitals in 21 states. CHS currently owns four hospitals in Washington State – Valley Hospital and Deaconess Hospital within Spokane County, as well as Yakima Regional Medical and Cardiac Center and Toppenish Community Hospital within Yakima County. CHS purchased Yakima Regional Medical and Cardiac Center and Toppenish Community Hospital in 2014. The Certificate of Need program is currently reviewing two applications that propose that these hospitals be purchased from CHS. CHS purchased Valley Hospital and Deaconess Hospital from Empire Health Services in 2008. The total purchase price for both Spokane County hospitals was \$147,752,920. [source: CN historical files]

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<sup>1</sup> While Tacoma General Hospital and Allenmore Hospital are located at two separate sites in Tacoma, they are operated under the same hospital license: HAC.FS.00000176

<sup>2</sup> Mary Bridge Childrens Hospital and Health Center is located within the Tacoma General Hospital campus, but is licensed separately.

## **PROJECT DESCRIPTIONS**

### **Valley Hospital**

MultiCare Health System proposes to purchase Valley Hospital from CHS. This is part of a larger transaction that also includes the purchase of Deaconess Hospital in Spokane, and CHS's interest as a Class B Member in the Rockwood Clinic.

Valley Hospital is a 123-bed acute care hospital located at 12606 E Mission Avenue in Spokane Valley, WA. It is currently owned and operated by CHS, a for-profit healthcare system. Valley Hospital provides inpatient and outpatient services, as well as diagnostic imaging, medical, surgical and emergency services to the Spokane Valley community and surrounding areas. [source: ILRS, Valley Hospital website]

Valley Hospital is Medicare and Medicaid certified, and holds a three-year accreditation from the Joint Commission. It also holds Level III Adult Trauma designation from the Washington State Department of Health Trauma Services. These certifications and designations would continue following the proposed transaction. [sources: CMS Hospital Compare website, Joint Commission website, Washington State Department of Health website, Valley Application p8]

When Valley Hospital was purchased from Empire Health Services, the following services were identified as essential services. They are provided at Valley Hospital, and would continue to be provided following the transaction. [sources: Evaluation for Application #08-36; Valley March 24, 2017 screening response p104]

24-Hour Emergency Care	Mammography
Diagnostic Radiology	MRI Services
General Surgery	Nuclear Medicine
Inpatient Medical and Surgical Services	Outpatient Surgery
Intensive Care	Pharmacy
Lab Services	Therapy Services
Labor & Delivery (including C-Section)	

The estimated capital expenditure for the purchase of Valley Hospital is \$87 million. [source: Valley April 28, 2017 screening response p1]

### **Deaconess Hospital**

MultiCare Health System proposes to purchase Deaconess Hospital from CHS. This is part of a larger transaction that also includes the purchase of Valley Hospital in Spokane Valley, and CHS's interest as a Class B Member in the Rockwood Clinic.

Valley Hospital is a 388-bed acute care hospital located at 800 West 5th Avenue in Spokane, WA. It is currently owned and operated by CHS, a for-profit healthcare system. Deaconess Hospital provides inpatient and outpatient services, as well as diagnostic imaging, medical, surgical and emergency services to the Spokane community and surrounding areas. [source: ILRS, Deaconess Hospital website]

Deaconess Hospital is Medicare and Medicaid certified, and holds a three-year accreditation from the Joint Commission. It also holds Level III Adult Trauma designation from the

Washington State Department of Health Trauma Services. These certifications and designations would continue following the proposed transaction. [sources: CMS Hospital Compare website, Joint Commission website, Washington State Department of Health website, Deaconess Application p8]

When Deaconess Hospital was purchased from Empire Health Services, the following services were identified as essential services. They are currently provided at Deaconess Hospital, and would continue to be provided following the transaction. [sources: Evaluation for Application #08-35; Deaconess March 24, 2017 Screening Response p105]

24-Hour Emergency Care	Labor & Delivery (including C-Section)
Cardiac Catheterization	Mammography
Cardiovascular Surgery and CT Scanning	MRI Services
Diagnostic Radiology	Neonatal Intensive Care <sup>3</sup>
General Surgery	Nuclear Medicine
Inpatient Medical and Surgical Services	Outpatient Surgery
Intensive Care	Pharmacy
Lab Services	Therapy Services

The estimated capital expenditure for the purchase of Deaconess Hospital is \$198 million. [source: Deaconess April 28, 2017 screening response p1]

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

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

#### **EVALUATION CRITERIA**

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

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

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

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

In the event WAC 246-310 does not contain service or facility standards in sufficient detail to make the required determinations, WAC 246-310-200(2)(b) identifies the types of standards the

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<sup>3</sup> Deaconess Hospital has CN approval for Level III NICU bassinets

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**

These applications were reviewed concurrently under the expedited review timeline outlined in WAC 246-310-150, which is summarized below.

**APPLICATION CHRONOLOGY**

<b>Action</b>	<b>MultiCare Health System<sup>4</sup></b>
Letter of Intent Submitted	December 12, 2016
Application Submitted	January 26, 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>	February 16, 2017 March 24, 2017 April 14, 2017 April 21, 2017 April 28, 2017 <sup>5</sup>
Beginning of Review	April 28, 2017
Public Comment <ul style="list-style-type: none"> <li>• Public comments accepted through end of public comment</li> <li>• Public hearing conducted</li> </ul>	May 18, 2017  N/A <sup>6</sup>
Rebuttal Comments Due	June 2, 2017 <sup>7</sup>

<sup>4</sup> As stated under “Type of Review,” the applications to acquire Valley Hospital and Deaconess Hospital were reviewed concurrently. MultiCare submitted information for each application at the same time.

<sup>5</sup> Under WAC 246-310-090(2)(d), “The department shall not accept responses to the department’s screening letters later than ten days after the department has given ‘notification of beginning of review.’” MultiCare Health System provided further response to screening within this ten-day window.

<sup>6</sup> A public hearing is not conducted under an expedited review schedule

<sup>7</sup> MultiCare did not provide rebuttal comments.

Action	MultiCare Health System <sup>4</sup>
Department's Scheduled Decision Date	June 22, 2017
Department's Actual Decision Date	June 22, 2017

### **AFFECTED PERSONS**

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

“...an “interested person” who:

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

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

- (a) *The applicant;*
- (b) *Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;*
- (c) *Third-party payers reimbursing health care facilities in the health service area;*
- (d) *Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;*
- (e) *Health care facilities and health maintenance organizations which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;*
- (f) *Any person residing within the geographic area to be served by the applicant; and*
- (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. These persons, shown below, did not meet the definition of “interested person.”

- Michaela Poizner, Attorney, Nashville, TN
- Lori Nomura, Foster Pepper, Seattle, WA
- Lisa Nguyen, University of Washington, Lynnwood, WA
- Ele Hamburger, Sirianni Youtz Spoonemore Hamburger, Seattle, WA
- The Spokesman-Review, Spokane, WA

A total of four persons or healthcare providers sought interested person status. Some provided written comments on the project. Of the four persons or health care providers, one qualified as an affected person. A brief description of each is below:

#### **Providence Health & Services**

Providence Health & Services requested interested person status and to be informed of the department’s decision for both applications. Providence operates two hospitals within Spokane County: Providence Holy Family Hospital, and Providence Sacred Heart Medical Center and Children’s Hospital. Providence Health & Services meets the definition of an “interested



person” under WAC 246-310-010(34)(b). Providence Health & Services provided written comments regarding the acquisition of Valley Hospital and Deaconess Hospital. Therefore, Providence Health & Services qualifies as an “affected person.” [source: Providence Health & Services – Washington website]

#### SEIU 1199NW

SEIU 1199NW requested interested person status for Valley Hospital’s application. SEIU 1199NW is a statewide union of nurses and healthcare workers. According to the SEIU 1199NW website, nearly 1,200 healthcare workers employed at Valley and Deaconess Hospitals are members of the union. SEIU 1199NW provided written comments regarding the acquisition of Valley Hospital and Deaconess Hospital, updates throughout the CON process. Though SEIU 1199NW represents employees at both hospitals, it is not located within the applicant’s health service area. SEIU 1199NW does not qualify as an “affected person.” [source: SEIU 1199NW website]

#### Kootenai Health

Kootenai Health requested interested person status for both applications. Kootenai Health operates a 182-bed acute care hospital in Coeur D’Alene, Idaho. It is located approximately 13 miles from the Washington-Idaho border, and 23 miles and 32 miles from Valley and Deaconess Hospitals, respectively. Kootenai Health did not provide written comments regarding either project, nor is it located within the Spokane County planning area. Therefore, Kootenai Health does not qualify as an “affected person.” [source: Kootenai Health website, Google Maps]

#### Lori Aoyama, Health Facilities Planning & Development

Health Facilities Planning and Development (HFPD) is a healthcare consulting firm based in Seattle. Lori Aoyama, an employee of HFPD, requested interested person status and to be informed of the department’s decision. HFPD does not qualify as an “interested person,” as they do not provide healthcare services, set rates, reside in the service area, nor have they submitted a letter of intent for Spokane County within the last twelve months. Without meeting the definition of an “interested person,” HFPD could not meet the definition of an “affected person.”

#### **SOURCE INFORMATION REVIEWED**

- MultiCare Health System’s Certificate of Need application for Valley Hospital, received January 26, 2017
- MultiCare Health System’s Certificate of Need application for Deaconess Hospital, received January 26, 2017
- MultiCare Health System’s Valley Hospital screening response dated March 24, 2017
- MultiCare Health System’s Deaconess Hospital screening response dated March 24, 2017
- MultiCare Health System’s Valley Hospital screening response dated April 21, 2017
- MultiCare Health System’s Deaconess Hospital screening response dated April 21, 2017
- Public comment received by 5:00 PM on May 18, 2017
- Hospital/Finance and Charity Care (HFCC) Financial Review dated June 7, 2017
- Years 2011 through 2016 historical hospital financial data obtained from <http://www.doh.wa.gov/DataandStatisticalReports/HealthcareinWashington/HospitalandPatientData/HospitalFinancialData>
- MultiCare Health System website at <https://www.multicare.org/>

- Rockwood Health System website at <http://rockwoodhealthsystem.com/>
- Valley Hospital website at <http://www.spokanevalleyhospital.com/>
- Deaconess Hospital website at <http://www.deaconessspokane.com/>
- Certificate of Need historical files

**CONCLUSIONS**

**Valley Hospital**

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

**Project Description**

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

<b>Bed Type</b>	<b>Number of Licensed Beds</b>
General Medical/Surgical	123
<b>Total Licensed Beds</b>	<b>123</b>

**Conditions**

1. Approval of the project description as stated above. MultiCare 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. MultiCare shall finance the project using cash reserves and investments from MultiCare Health System, as described in the application.
3. Within 30 days of the acquisition, MultiCare will submit to the department for review and approval the adopted copies of its admissions policy, non-discrimination policy, charity care policy, end-of-life policy, and reproductive health policy. Each of these policies must be consistent with the drafts provided in the application.
4. Valley Hospital will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. Valley Hospital will use reasonable efforts to provide charity care in an amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Eastern Washington Region – whichever is greater. The amount identified in the application was 2.22% of gross revenue and 4.72% of adjusted revenue. Currently, the regional average is 1.86% gross revenue and 5.08% of adjusted revenue. Valley Hospital will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.

5. Valley Hospital will submit annual budgets (required under WAC 246-454-030) that include budgeted charity care of at least the amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Eastern Washington Region – whichever is greater.
6. Valley Hospital will not provide elective cardiac catheterization procedures as described under WAC 246-310-705.
7. MultiCare will continue providing the essential services identified in Exhibit F of the Asset Purchase Agreement for a minimum of ten years. These services are restated below:

24-Hour Emergency Care	Mammography
Diagnostic Radiology	MRI Services
General Surgery	Nuclear Medicine
Inpatient Medical and Surgical Services	Outpatient Surgery
Intensive Care	Pharmacy
Lab Services	Therapy Services
Labor & Delivery (including C-Section)	

**Approved Costs**

The approved capital expenditure for this project is \$87 million.

**Deaconess Hospital**

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

**Project Description**

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

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Neonatal Level II Bassinets	15
NICU Level III Bassinets	29
<b>Total Licensed Beds</b>	<b>388</b>

**Conditions**

1. Approval of the project description as stated above. MultiCare 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. MultiCare shall finance the project using cash reserves and investments from MultiCare Health System, as described in the application.
3. Within 30 days of the acquisition, MultiCare will submit to the department for review and approval the adopted copies of its admissions policy, non-discrimination policy, charity care policy, end-of-life policy, and reproductive health policy. Each of these policies must be consistent with the drafts provided in the application.
4. Deaconess Hospital will provide charity care in compliance with its charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. Deaconess Hospital will use reasonable efforts to provide charity care in an amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Eastern Washington Region – whichever is greater. The amount identified in the application was 2.22% of gross revenue and 5.00% of adjusted revenue. Currently, the regional average is 1.86% gross revenue and 5.08% of adjusted revenue. Deaconess Hospital will maintain records of charity care applications received and the dollar amount of charity care discounts granted. The department requires these records to be available upon request.
5. Deaconess Hospital will submit annual budgets (required under WAC 246-454-030) that include budgeted charity care of at least the amount identified in the application or comparable to the average amount of charity care provided by hospitals in the Eastern Washington Region – whichever is greater.
6. MultiCare will continue providing the essential services identified in Exhibit F of the Asset Purchase Agreement for a minimum of ten years. These services are restated below:

24-Hour Emergency Care	Labor & Delivery (including C-Section)
Cardiac Catheterization	Mammography
Cardiovascular Surgery and CT Scanning	MRI Services
Diagnostic Radiology	Neonatal Intensive Care <sup>8</sup>
General Surgery	Nuclear Medicine
Inpatient Medical and Surgical Services	Outpatient Surgery
Intensive Care	Pharmacy
Lab Services	Therapy Services

**Approved Costs**

The approved capital expenditure for this project is \$198 million.

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<sup>8</sup> Deaconess Hospital has CN approval for Level III NICU bassinets

## **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 MultiCare Health System has met the applicable need criteria in WAC 246-310-210 for both applications.

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

In reviewing an application to acquire an existing healthcare facility such as these, the department does not complete a numeric need methodology. The numeric need for existing beds or services is considered met. WAC 246-310-210 does not provide specific review criteria with which to evaluate how existing facilities or services would be sufficiently available or accessible to absorb existing and projected volumes, in the event 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 Spokane County hospitals to assess this sub-criterion.

#### MultiCare Health System – Valley Hospital

MultiCare provided five years of inpatient days and outpatient visits for Valley Hospital, shown below. [source: Valley Application p12]

**Table 1**  
**Valley Hospital**  
**Inpatient Days and Outpatient Visits 2011-2015**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Valley Inpatient Days	16,634	24,407	22,433	20,586	20,307
Valley Outpatient Visits	54,895	53,001	62,323	56,321	54,960

In addition to the data above, MultiCare provided the following statements related to this sub-criterion specific to Valley Hospital:

*“An analysis of CHARS 2015 data (excluding DRG 795) shows Valley provided care to over 11% of the discharges of Spokane County residents, as well as care to over 500 discharges from patients in-migrating from outside the County. In addition to its general medical services,*

*Valley also has the following awards and accreditations:*

- *Accredited Chest Pain Center, Society of Cardiovascular Patient Care*
- *Blue Distinction® Center for Knee and Hip Replacement, Premera Blue Cross*
- *The Joint Commission, Certified Knee and Hip Replacement Program*
- *The Joint Commission, Top Performer on Key Quality Measures for 2010, 2011, 2012, 2013, 2014*
- *The Joint Commission, Quality Award, 2010 – 2011*
- *The Joint Commission Accreditation, Hospital and Laboratory*
- *2011 Large Business of the Year, Spokane Valley Chamber of Commerce*

- *Cancer Accreditation with Commendation, American College of Surgeons*
- *“Gold Standard” Accreditation for Labs, College of American Pathologists (CAP)*
- *Washington State Cardiac Level III EMS Designation*
- *Washington State Stroke Level II EMS Designation*
- *Washington State Level III Trauma Designation*

*The proposed project, i.e., operation of Valley by MultiCare, will ensure that Planning Area and regional residents will be able to continue to access such vitally needed general and specialty services currently provided at Valley Hospital, and have these health care services provided by MultiCare, an integrated, regionally-strong not-for-profit health care system.”* [source: Valley Application p14]

*“From MultiCare’s perspective, if this project were denied, MultiCare will not have the opportunity to acquire Valley, and Planning Area residents will miss opportunities to benefit from MultiCare’s integrated delivery network, including installation and use of EPIC, its electronic medical record network. MultiCare is a financially strong, not-for-profit health care provider, and it fully intends to strengthen Valley’ presence in the Planning Area. A locally and regionally strong health care provider can only benefit Planning Area residents’ access to high quality, affordable health care services.”* [Valley Application p15]

#### Public Comment

The department received 19 letters of support related to these two projects. Two spoke to access to care in the Spokane planning area, below:

#### Tom Johnson, President and CEO of the Spokane Teachers Credit Union

*“Rockwood Health System's hospitals, Deaconess and Valley, provide much needed health care services to the Spokane community and surrounding region. It is in the area's best interests that they remain viable, thriving facilities so area residents can have easy access to quality health care services.”* [source: STCU comments]

#### Bouten Construction Company

*“Any thriving community such as Spokane, must have a strong health care infrastructure to serve its citizens. Residents here rely on both of our healthcare systems to serve them on a routine basis and during their time of greatest need. By transferring ownership from CHS Washington Holdings, LLC to MultiCare, this will ensure that both Deaconess and Valley Hospitals are properly positioned for the future. Should this transaction not be approved, it could have serious consequences for both hospitals and for our community.”* [source: Bouten Construction comments]

#### Rebuttal

None

#### Department Evaluation

The evaluation of this sub-criterion will be combined with that of Deaconess Hospital, below.

MultiCare Health System – Deaconess Hospital

MultiCare provided five years of inpatient days and outpatient visits for Deaconess Hospital, shown below. [source: Deaconess Application p12]

**Table 2**  
**Deaconess Hospital**  
**Inpatient Days and Outpatient Visits 2011-2015**

	2011	2012	2013	2014	2015
Deaconess Inpatient Days	59,762	58,396	56,467	59,026	60,937
Deaconess Outpatient Visits	77,491	58,168	57,491	57,666	59,150

MultiCare provided the following statements related to this sub-criterion specific to Deaconess Hospital:

*“An analysis of CHARS 2015 data (excluding DRG 795) shows Deaconess provided care to over 20% of the discharges of Spokane County residents, as well as care to over 2,100 discharges from patients in-migrating from outside the County. In addition to its general medical services, Deaconess also has the following awards and accreditations:*

- *The Joint Commission, Hospital and Laboratory Accreditation*
- *The Joint Commission, Certified Primary Stroke Center*
- *The Joint Commission, Certified Knee and Hip Replacement Program*
- *The Joint Commission, Top Performer on Key Quality Measures, 2014*
- *Accredited Chest Pain Center, Society of Cardiovascular Patient Care*
- *Spokane’s only Bariatric Accredited Center, Metabolic and Bariatric Surgery Accreditation and Quality Improvement Program (MBSAQIP)*
- *Blue Distinction® Center for Bariatric Surgery, Premera Blue Cross*
- *Blue Distinction® Center+ for Cardiac Care, Premera Blue Cross*
- *Blue Distinction® Center+ for Knee and Hip Replacement, Premera Blue Cross*
- *Blue Distinction® Center+ for Spine Surgery, Premera Blue Cross*
- *Washington State Level III Trauma Designation*
- *Washington State Level III NICU*

*The proposed project, i.e., operation of Deaconess by MultiCare, will ensure that Planning Area and regional residents will be able to continue to access such vitally needed general and specialty services currently provided at Deaconess Hospital, and have these health care services provided by MultiCare, an integrated, regionally-strong non-for-profit health care system.”* [source: Deaconess Application pp14-15]

*“From MultiCare’s perspective, if this project were denied, MultiCare will not have the opportunity to acquire Deaconess, and Planning Area residents will miss opportunities to benefit from MultiCare’s integrated delivery network, including installation and use of EPIC, its electronic medical record network. MultiCare is a financially strong, not-for-profit health care provider, and it fully intends to strengthen Deaconess’ presence in the Planning Area. A locally and regionally strong health care provider can only benefit Planning Area residents’ access to high quality, affordable health care services.”* [source: Deaconess Application p16]

Public Comment

See public comment for Valley Hospital

Rebuttal

None

Department Evaluation – Valley and Deaconess Hospitals

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

There are six hospitals currently operational in Spokane County, shown below:

**Table 3  
Spokane County Hospitals**

<b>Hospital Name</b>	<b>Address</b>	<b>DOH License</b>
Deaconess Hospital	800 W 5th Ave Spokane, WA 99204	HAC.FS.60054542
Providence Holy Family Hospital	5633 N Lidgerwood St Spokane, WA 99208	HAC.FS.00000139
Providence Sacred Heart Medical Center and Children's Hospital	101 W 8th Ave Spokane, WA 99204	HAC.FS.00000162
Shriner’s Hospital For Children	911 W 5th Ave Spokane, WA 99204	HAC.FS.00000042
St. Luke’s Rehabilitation Institute	711 S Cowley St Spokane, WA 99202	HAC.FS.00000157
Valley Hospital	12606 E Mission Ave Spokane Valley, WA 99216	HAC.FS.60054580

Though all of these hospitals are licensed by the Washington State Department of Health as Acute Care Hospitals, only five will be discussed throughout this evaluation. St. Luke’s Rehabilitation Institute will be excluded. It is a long-term acute care hospital. Neither Valley Hospital nor Deaconess Hospital provides inpatient rehabilitation.

Within the applications, MultiCare provided the statements that Valley Hospital was responsible for over 11% of Spokane County resident discharges, and that Deaconess Hospital was responsible for over 20% of Spokane County resident discharges.

Historical CHARS Data is consistent with these statements, and is shown below. Patient Days associated with inpatient rehabilitation services, inpatient psychiatric services, and Levels II, III, and IV of neonatal care bassinets. [source: CHARS Data 2012-2016]



**Table 4**  
**Spokane County Resident Discharges from Spokane County Hospitals**  
**2012-2016**

<b>Spokane Residents Discharged From:</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Deaconess Hospital	22.41%	21.12%	21.05%	21.32%	20.77%
Providence Holy Family Hospital	19.61%	20.15%	19.70%	19.04%	17.83%
Providence Sacred Heart Medical Center and Children's Hospital	41.75%	42.24%	44.02%	45.54%	45.11%
Shriner's Hospital For Children	0.21%	0.19%	0.20%	0.13%	0.13%
Valley Hospital	14.09%	14.38%	12.98%	11.94%	11.86%
Any other WA Hospital	1.93%	1.92%	2.05%	2.03%	4.30%

Though Spokane County residents make up the majority of discharges from Spokane County hospitals, the hospitals have historically been a resource for residents of adjacent counties, shown below for Valley and Deaconess Hospitals. [source: 2016 CHARS Data]

**Table 5**  
**Valley 2016 Discharges**  
**By Patient County**

<b>Patient County</b>	<b>Number of Discharges</b>	<b>% of Total Discharges</b>
Spokane	4,941	90.93%
"Other"	331	6.09%
Lincoln	33	0.61%
Stevens	27	0.50%
Whitman	25	0.46%
All Washington Counties <sup>9</sup>	77	1.42%
<b>Total</b>	<b>5,434</b>	<b>100%</b>

**Table 6**  
**Deaconess 2016 Discharges**  
**By Patient County**

<b>Patient County</b>	<b>Number of Discharges</b>	<b>% of Total Discharges</b>
Spokane	8,651	81.01%
"Other"	724	6.78%
Stevens	318	2.98%
Lincoln	143	1.34%
Whitman	137	1.28%
All Washington Counties <sup>10</sup>	706	6.61%
<b>Total</b>	<b>10679</b>	<b>100.00%</b>

<sup>9</sup> Includes Washington State counties other than those listed above.

<sup>10</sup> Includes Washington State counties other than those listed above.

**Table 7**  
**Spokane Planning Area Hospitals Combined 2016 Discharges**  
**By Patient County**

<b>Patient County</b>	<b>Number of Discharges</b>	<b>% of Total Discharges</b>
Spokane	39,856	75.56%
“Other”	4,643	8.80%
Stevens	2,345	4.45%
Grant	894	1.69%
Pend Oreille	707	1.34%
All Washington Counties <sup>11</sup>	4,299	8.15%
<b>Total</b>	<b>52,744</b>	<b>100.00%</b>

In CHARS, “other” means out-of-state patients. As shown above, the second highest source of patients in Valley and Deaconess Hospitals in 2016 was from out-of-state. This is consistent with patient origin statistics for the two Providence hospitals in Spokane, with 71.90% of patients from Spokane County, and 9.65% from out of state.

While similar data to CHARS is not available for Idaho hospitals, it is reasonable to conclude that patients from Idaho routinely use hospital services in Spokane. Without quantifiable data, the department cannot conclude that services aren’t available to residents of bordering communities in Idaho. However, based on the last five years of utilization data, it is clear that Idaho residents consistently make up approximately 8-9% of the patients in Spokane County Hospitals, and that hospitals in Spokane County may be more accessible to some residents of bordering states.

**Table 8**  
**2012-2016 Out of State Resident Discharges**  
**Spokane Acute Care Hospitals**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Total Discharges	51,972	50,423	50,909	52,439	52,679
Spokane Resident Discharges % of Total	76.23%	76.16%	75.82%	76.18%	75.55%
Out-of-State Resident Discharges % of Total	8.62%	8.85%	8.88%	8.33%	8.81%

[source: CHARS Data 2012-2016]

In order to assess whether the other hospitals in the planning area would be sufficiently available and accessible to the residents of Spokane County and surrounding areas, the department completed an analysis of the existing supply of beds at each hospital, and the ideal occupancy for these hospitals. [source: 2015 year-end financial reports submitted to DOH, CN historical files, 1987 State Health Plan]

<sup>11</sup> Includes Washington State counties other than those listed above.

**Table 9**  
**2015 Spokane Historical Hospital Occupancy**

	<b>2015 Patient Days</b>	<b>Calculated Average Daily Census</b>	<b>Current Available Acute Care Bed Count<sup>12</sup></b>	<b>Current Occupancy</b>	<b>1987 SHP Ideal Occupancy</b>
Deaconess Hospital	60,937	166.95	352	47.43%	75%
Providence Holy Family Hospital	36,474	99.93	182	54.91%	70%
Providence Sacred Heart Medical Center and Children's Hospital	157,326	431.03	556	77.52%	75%
Shriner's Hospital For Children	1,154	3.16	30	10.54%	50%
Valley Hospital	20,307	55.64	113	49.24%	65%
<b>Total Planning Area</b>	<b>276,198</b>	<b>756.71</b>	<b>1,233</b>	<b>61.37%</b>	<b>N/A<sup>13</sup></b>

As shown above, nearly all Spokane hospitals are operating with occupancy levels below the standard set out in the 1987 State Health Plan, with a total planning area occupancy of approximately 61%. In the event that the beds at Valley and Deaconess Hospitals were no longer available to Spokane and surrounding area residents, the planning area occupancy would increase dramatically within the remaining beds, shown below using 2015 volumes.

**Table 10**  
**Spokane 2015 Planning Area Beds and Occupancy**  
**Minus Valley and Deaconess Beds**

Spokane Planning Area Bed Count, Minus Valley and Deaconess Hospitals	768
Spokane Planning Area Calculated Average Daily Census	756.71
Planning Area Calculated Occupancy	98.53%

Though there are alternative sources of care within the planning area, it appears that if Valley and Deaconess Hospitals were no longer available and accessible to Spokane County and surrounding area residents, it would not be possible for existing hospitals to absorb even the historical volumes from the two hospitals, much less any increase in volumes as a result of population growth. Public comment supports that the availability of these two hospitals allows for patient choice, as well as easy access to services. **This sub-criterion is met.**

<sup>12</sup> This count excludes beds dedicated to inpatient rehabilitation services and inpatient psychiatric services. The most recent year-end financial reports available for all hospitals were from 2015.

<sup>13</sup> Occupancy is calculated at the facility level, not the planning area level for planning purposes

- (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>14</sup> With the passage of the Affordable Care Act, the amount of charity care is expected to decrease, but not disappear.

#### MultiCare Health System – Valley and Deaconess Hospitals

MultiCare Health System provided copies of the policies that are currently in place at Valley and Deaconess Hospitals, listed below:

- Admissions Policy [Valley Application Exhibit 7A; Deaconess Application Exhibit 7A]
- Non-Discrimination Policy [Valley Application Exhibit 8A; Deaconess Application Exhibit 8A]
- Charity Care Policy [Valley Application Exhibit 10A; Deaconess Application Exhibit 10A]
- End of Life Policy [Valley Application Exhibit 11A; Deaconess Application Exhibit 11A]
- Reproductive Health Policy [Valley Application Exhibit 12A; Deaconess Application Exhibit 12A]

MultiCare Health System provided draft copies of the policies that would be in place under MultiCare ownership at both Valley and Deaconess Hospitals:

- Admissions Policy [Valley Application Exhibit 7B; Deaconess Application Exhibit 7B]
- Non-Discrimination Policy [Valley Application Exhibit 8B; Deaconess Application Exhibit 8B]
- Charity Care Policy [Valley Application Exhibit 10B; Deaconess Application Exhibit 10B]

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<sup>14</sup> WAC 246-453-010(4)

- End of Life Policy [Valley Application Exhibit 11B; Deaconess Application Exhibit 11B]
- Reproductive Health Policy [Valley March 14, 2017 screening response Revised Exhibit 12B; Deaconess March 14, 2017 screening response Revised Exhibit 12B]

Valley and Deaconess Hospitals are currently Medicare and Medicaid certified. MultiCare provided CHS’s current revenue sources by payer for Valley and Deaconess Hospitals, as well as the expected payer mix following the proposed transaction. The payer mixes are shown below for each hospital. [source: Valley Application p12, Deaconess Application p13]

**Table 11  
Payer Mix  
Before and After Transaction**

	<b>CHS Ownership Valley Hospital</b>	<b>MultiCare Ownership Valley Hospital</b>	<b>CHS Ownership Deaconess Hospital</b>	<b>MultiCare Ownership Deaconess Hospital</b>
Medicare	30.5%	30.5%	33.7%	33.7%
Medicaid	22.5%	22.5%	21.9%	21.9%
Private (No Insurance)	1.2%	1.2%	0.8%	0.8%
Insurance – Other	11.8%	11.8%	11.4%	11.4%
HMO	29.0%	29.0%	25.8%	25.8%
Other Government (L&I, etc.)	5.0%	5.0%	6.3%	6.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

MultiCare provided their assumptions for the payer mixes:

*“There was no assumed impact on market share or strategic realignment, the payer mix was held constant and the ratio of the service line mix of inpatient discharges to outpatient visits has been held constant.”* [source: Valley Application p12; Deaconess Application p12]

In addition to the policies and payer mix information, MultiCare provided the following information related to uncompensated care provided by MultiCare.

*“MultiCare strongly supports the statewide voluntary pledge of all hospitals to provide a minimum level of charity care discounts to low income uninsured patients. In accordance with MultiCare’s financial assistance program policy (Exhibit 10B), patients at MultiCare are given full charity care if their gross family income is equal to or below 300% of the Federal poverty guidelines, as adjusted for family size. MultiCare further provides additional discounts, on a sliding scale basis, for patients whose gross family income is equal to or below 500% of the Federal poverty guidelines, as adjusted for family size.*

*In 2015, MultiCare provided more than \$207 million in community benefit programs and services as follows:*

- \$127,326,000 Payment shortfalls in Medicaid, fee-for-service, managed care plans and other state-subsidized health care programs.
- \$19,000,000 Cost of services provided to charity care patients.
- \$61,152,000 Community services including subsidized community and health services, health research, community outreach and building, health professionals education, and community sponsorships.
- 30,616 volunteer hours given to the community by MultiCare employees

*In addition to its charity care and financial assistance programs, MultiCare provides a number of services and programs that benefit residents of the region it currently serves (including Pierce County, King County, Kitsap County, and Thurston County). Among the services MultiCare provides are programs dedicated to cancer prevention and screening, children with disabilities, seniors, new and expecting parents, immunization and health education, victims of abuse, and the uninsured/underinsured. Additionally, MultiCare provides programs dedicated to serving the needs of community members with mental, chronic, and/or terminal diseases and their loved ones. Further, in spring 2015, we established the MultiCare Community Partnership Fund. This fund helps us better partner with organizations that contribute to the health and vitality of our community in areas such as health improvement, economic well-being, education and the arts. In 2015, MultiCare awarded grants totaling \$498,523 to 45 local, not-for-profit organizations throughout the region.*

*MultiCare will apply these same policies and bring a similar level of community support to the Spokane Planning Area with this acquisition.” [sources: Valley Application pp16-17, Deaconess Application p17]*

#### Public Comment

The department received 19 letters of support related to these two projects. One spoke directly to the policies and procedures proposed by MultiCare:

#### Anthony Chiang, President, Empire Health Foundation

*“Rockwood Health System's hospitals and clinics, in Spokane, have been a significant community healthcare resource, portions of which have existed for over 100 years. For the majority of those years, the hospitals operated as not-for-profit community-based organizations. With the approval of this CON, the hospitals will, once again, become charitable organizations that will regain its historical level of services to indigent populations as well as the general community.*

***I am writing to express Empire Health Foundation's support for the approval of the CON that will transfer ownership of the Rockwood System in Spokane, WA to MultiCare Health System. During the review of our right of first refusal granted under the 2008 CHS asset purchase agreement, it became abundantly clear that Spokane and our region's health community would be significantly enhanced by the presence of MultiCare. MultiCare's values and policies mirror those of the Foundation and the not-for-profit operators of all Spokane hospitals.”*** (emphasis in original) [source: Empire Health Foundation comments]

The department also received 3 letters during public comment that neither supported nor opposed the projects. Of these, two were from Providence Health & Services, and they spoke directly to charity care at Valley and Deaconess Hospitals.

#### Providence Health & Services

*"In its certificate of need application, MultiCare states that it "strongly supports the statewide voluntary pledge of all hospitals to provide a minimum level of charity care discounts to low income uninsured patients." Under MultiCare's financial assistance policy, patients receive full financial assistance if their gross family income is equal to or below 300% of federal poverty guidelines as adjusted for family size. MultiCare also provides discounts on a sliding scale basis for patients with a gross family income equal to or below 500% of the federal poverty guidelines as adjusted for family size.*

*If the Department grants MultiCare's certificate of need request, MultiCare should be required to meet or exceed the Washington State average (or the Eastern Washington regional average, whichever is higher) for charity care levels with respect to MultiCare's operation of Valley [Deaconess] Hospital. This requirement would be consistent with MultiCare's stance on charity care and its commitment to serving low-income patients. In addition, in its charity care forecast for Valley [Deaconess] Hospital, MultiCare has projected charity care amounts using the three year (2012-2014) Eastern Washington regional average charity levels (specifically, 2.22% of total patient revenues).<sup>3</sup> We expect that MultiCare will be obligated to follow through on its intention, as stated in the certificate of need application, to meet minimum average levels of charity care with respect to Valley [Deaconess] Hospital." [sources: Providence Health & Services comments]*

#### Rebuttal

None

#### Department Evaluation – Valley and Deaconess Hospitals

If MultiCare proposed to modify the existing policies and procedures for Valley and Deaconess Hospitals, the department would compare the two. However, MultiCare is proposing to replace the existing policies and procedures with those that are either similar to or exactly the same as those in use at other MultiCare facilities. Therefore, the department focused its evaluation on the policies that MultiCare proposed. The draft policies and procedures proposed by MultiCare Health System for each hospital are identical to those in place at their existing hospitals in Western Washington. Therefore, the department will evaluate the hospitals together.

None of the proposed policies provided by MultiCare mention either Valley or Deaconess by name or by inference, but instead are applicable to all MultiCare Hospitals (with the exception of the Reproductive Health Policy, which specifies the existing MultiCare facilities). All of the policies proposed by MultiCare are considered to be in draft form until they are adopted at Valley and Deaconess Hospitals.

MultiCare Health System has been providing healthcare services to the residents of Western Washington for many years. Healthcare services have been available to low-income, racial and ethnic minorities, handicapped, and other underserved groups. [source: MultiCare website]

The draft admission policy proposed by MultiCare for both Valley and Deaconess Hospitals includes the process for admitting patients, as well as the required non-discrimination language.

The draft non-discrimination policy proposed by MultiCare for both hospitals is consistent with the approved policies for their Washington State Hospitals.

The draft end-of-life policy proposed by MultiCare for both hospitals is consistent with the policies in place at their existing Washington State Hospitals.

The draft reproductive policy proposed by MultiCare for both hospitals is consistent with the policies in place at their existing Washington State Hospitals.

It appears that the draft end-of-life and reproductive policies proposed by MultiCare do not limit access to existing services, and may provide better access to some services not currently available under CHS ownership.

If approved, the department would attach a condition requiring that MultiCare provide final adopted copies of each of the above policies within 30 days of approval. The final adopted policies must be consistent with those provided with the application.

MultiCare projects that Medicare revenues will make up 30.7% of total revenues at Valley Hospital. MultiCare projects that Medicaid revenues will make up 22.5% of total revenues. These figures are consistent with the current payer mix, and financial data within the application support these projections.

MultiCare projects that Medicare revenues will make up 33.7% of total revenues at Deaconess Hospital. MultiCare projects that Medicaid revenues will make up 21.9% of total revenues. These figures are consistent with the current payer mix, and financial data within the application support these projections.

Commercial and other revenues are also expected to remain the same at Valley and Deaconess Hospitals, at approximately 47% and 44.3%, respectively.

The draft Financial Assistance Policy (Charity Care) provided in the application has been reviewed and approved by the HFCC program for the hospitals currently under MultiCare's ownership. The policy outlines the process one would use to obtain financial assistance or charity care. The policy was approved in April 2015. This is the same policy posted to the department's website for MultiCare Auburn Medical Center, MultiCare Good Samaritan Hospital, Mary Bridge Hospital, and Tacoma General/Allenmore Hospital. The pro forma financial documents provided in the application include a charity care line item as a deduction of revenue.



The department notes that this policy sets a time limit on patients to request charity care if they are above 200% of the Federal Poverty Level. The department is concerned that there may be patients who would otherwise qualify for charity care if not for this time limit. Although the department has concerns, the charity care statute only prohibits this time limitation for patients that are at or below 200% of the federal poverty level.

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. Valley and Deaconess Hospitals are located within Spokane County, within the Eastern 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>15</sup>

Table 12 below compares the historical three-year average of charity care provided by the hospitals currently operating in the Eastern Region and Valley and Deaconess Hospitals’ historical charity care for years 2013-2015. The table also includes the projected percentage of charity care and projected charity care percentages.

**Table 12  
Charity Care Comparison**

	<b>Percentage of Total Revenue</b>	<b>Percentage of Adjusted Revenue</b>
Eastern Region Historical Average <sup>16</sup>	1.86%	5.08%
Valley Hospital Historical Average	1.44%	3.99%
Valley Hospital Projected Average	2.22%	4.72%
Deaconess Hospital Historical Average	0.87%	2.28%
Deaconess Hospital Projected Average	2.22%	5.00%

As shown above, Valley and Deaconess Hospitals have historically been providing charity care well below the regional average. MultiCare projects that following the change of ownership, both hospitals would exceed the regional average as a percentage of total revenues.

MultiCare Health System has been providing health care services in King and Pierce counties for many years. The department evaluated MultiCare’s historical provision of charity care in King and Pierce counties, and how historical charity care levels have measured compared to their respective regional averages. The percentages are shown below:

<sup>15</sup> For year 2015, the following hospitals did not report data: Ferry County Memorial Hospital, Garfield County Memorial Hospital, Othello Community Hospital, and Whitman Medical Center. For year 2014, the following hospitals did not report data: Dayton General Hospital, East Adams Rural Hospital, Ferry County Memorial Hospital, Garfield County Memorial Hospital, and Othello Community Hospital. For year 2013, the following hospitals did not report data: Dayton General Hospital, Ferry County Memorial Hospital, Newport Community Hospital, and Othello Community Hospital.

<sup>16</sup> As of the writing of this evaluation, 2015 is the most recent year for which there is charity care data.

**Table 13**  
**MultiCare King County Historical Charity Care**

	<b>Percentage of Total Revenue</b>	<b>Percentage of Adjusted Revenue</b>
MultiCare Auburn Regional Medical Center Average <sup>17</sup>	1.98%	6.09%
King County Average	1.93%	3.84%

**Table 14**  
**MultiCare Pierce County Historical Charity Care**

	<b>Percentage of Total Revenue</b>	<b>Percentage of Adjusted Revenue</b>
MultiCare Good Samaritan Hospital	2.00%	4.75%
Tacoma General/Allenmore Hospital	2.54%	5.93%
Mary Bridge Children’s Hospital and Health Center	0.61%	1.54%
Puget Sound Average	1.88%	4.65%

The information above supports that the charity care levels proposed in the two Spokane hospitals would be reasonable.

Providence Health and Services provided public comment related to this sub-criterion, requesting that the department attach a condition that MultiCare must provide at least the regional average of charity care at Valley and Deaconess Hospitals. This is consistent with the department’s expectation for all hospitals. MultiCare refers to the requirement to provide charity care as a “voluntary pledge.” Washington State Law, RCW 70.170.060 and WAC 246-453 require hospitals to provide appropriate hospital-based medical services provided to persons whose income is equal to or below 200% of the Federal Poverty Level. The hospitals maybe have adopted policies for identifying individuals above that level that may also be eligible for charity care.

If these projects are approved, the department would attach conditions requiring both hospitals to make reasonable efforts to provide charity care at a level consistent with the most recent three-year average of charity care within the region or the levels proposed in the applications, whichever is greater. The condition would also require MultiCare 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. MultiCare 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 MultiCare’s agreement to the conditions above for both Valley and Deaconess Hospitals, **this sub-criterion is met.**

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<sup>17</sup> MultiCare Auburn Regional Medical Center is the only operational MultiCare hospital within King County.

(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 MultiCare Health System has met the applicable financial feasibility criteria in WAC 246-310-220 for both applications.

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

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

### MultiCare Health System – Valley Hospital

MultiCare provided the following assumptions that were used to determine the projected number of discharges, patient days, and occupancy at Valley Hospital:

*“Inpatient discharges, days and payer mix are based on 2015 admission data provided by Seller. Outpatient visits are based on 2015 year-end reports accessed via the Washington State Department of Health. Projected growth is reflective of population growth, while holding the following factors constant: market (defined as Spokane County) inpatient usage rate, inpatient market discharge share, percent inpatient discharges that in-migrate, average length of stay, payer mix based on discharges, outpatient visit to inpatient discharge ratio.”*  
[source: Valley application p20]

*“Volume in the model is based off of annualized 2016 volumes provided by Seller for both inpatient and outpatient activity at both facilities. An annual growth rate of 0.92%, consistent with Spokane County population growth is applied to all volumes as outlined in the Utilization section of the application.”* [source: Valley application p33]

- *“2016 year-to-date figures for Valley Hospital, as of September 30, 2016, were annualized for inpatient days and outpatient visits.*
- *An annual growth rate of 0.92% was used to extrapolate the 2016 annualized figures forward each year over the forecast period. This growth rate is based on Spokane County population growth.*
- *There was no assumed impact on market share or strategic realignment, the payer mix was held constant and the ratio of the service line mix of inpatient discharges to outpatient visits has been held constant.”* [source: Valley March 14, 2017 screening response p4]

Services are expected to remain consistent with those offered currently under CHS ownership:

*“Until September 30, 2018, the Buyer Entities will continue to operate the Hospitals as general acute care facilities and will continue to provide, at a minimum, those essential services set forth on Exhibit F. [source: Valley March 14, 2017 screening response MultiCare and CHS Asset Purchase/Sale Agreement, Schedule 10.18, Exhibit F]*

- *24 Hour Emergency Care*
- *CT Scanning*
- *Diagnostic Radiology*
- *Endoscopy*
- *General Surgery*
- *Inpatient Medical and Surgical Services*
- *Intensive Care*
- *Lab Services*
- *Labor and Delivery*
- *Mammography*
- *MRI Services*
- *Nuclear Medicine*
- *Outpatient Surgery*
- *Pharmacy*
- *Therapy Services*

Using the assumptions stated above, MultiCare projected the number of inpatient admissions, patient days, average length of stay, and occupancy percentages at Valley Hospital. The projections shown below begin with year 2018:

**Table 15  
Valley Hospital  
Projections for Years 2018-2020**

	<b>CY 2018</b>	<b>CY 2019</b>	<b>CY 2020</b>
Total Licensed Beds	123	123	123
Total Admissions	5,626	5,678	5,731
Total Patient Days	20,497	20,686	20,876
Average Daily Census	56.16	56.67	57.19
Occupancy Percentage	45.66%	46.08%	46.50%

The assumptions MultiCare used to project revenue, expenses, and net income for Valley Hospital for projection years 2018 through 2020 are below. [source: Valley application pp33-34]

- *“Revenue rates per patient day for inpatient volume and per visit for outpatient volume are established by payer category and are based on annualized 2016 data.*
- *Revenue rates per patient day and per visit assume no inflation growth for any payer category.*
- *Annualized 2016 bad debt and contractual allowance rates for each payer category are being carried forward in the projection period. These rates fluctuate with volume and assume no inflation growth.*
- *Charity care in the amount of 2.22% of gross patient services revenues is used in the model to project charity care. This percentage is equal to the most recent three-year, published Eastern WA Region average (2012-2014) of gross revenues. It is likely very*

- conservative given the decrease of charity care in the region due to the implementation of the Affordable Care Act.*
- *YTD 2016 expense rates per inpatient day and per outpatient visit for each expense category have been used as the basis for direct expenses, in general.*
  - *Expense rates per inpatient day and per outpatient visit assume no inflation growth in the projection period.*
  - *A portion of the tax expense which is not applicable to a not-for-profit owner is excluded from the projections.*
  - *Annual corporate overhead expense of \$5 million is applied to Deaconess and \$3 million is applied to Valley. This corporate overhead allocation expense is categorized under ‘All Other’ expenses and is held constant in the projection period. It reflects corporate administration, legal services, human resources, IT, marketing, implementation of EPIC, etc.*
  - *An annual corporate interest expense of 5.0% was applied to the allocated purchase price of each facility. Deaconess was allocated \$7.93 million on a purchase price of \$198.2 million and Valley was allocated \$3.46 million on a purchase price of \$86.7 million. This corporate interest allocation expense is classified as an interest expense in the projections.”*

Historical and annualized revenues, expenses, and net income are shown below in Table 16 MultiCare projected revenue, expenses, and net income for Valley Hospital for years 2018 through 2020 are shown in Table 17 below. [source: Valley application pp27-30]

**Table 16  
Valley Hospital  
Historical and Annualized Revenues and Expenses  
Years 2018-2020**

	Historical		Annualized	
	2014	2015	2016	2017
Net Revenue	\$113,104,000	\$113,367,000	\$118,529,000	\$119,604,000
Total Expenses	\$90,164,000	\$87,333,000	\$88,387,000	\$90,648,000
<b>Net Profit / (Loss)</b>	\$22,940,000	\$26,034,000	\$30,142,000	\$28,956,000

**Table 17  
Valley Hospital  
Projected Revenues and Expenses  
Years 2018-2020**

	2018	2019	2020
Net Revenue	\$121,753,000	\$122,864,000	\$123,983,000
Total Expenses	\$109,966,000	\$110,660,000	\$111,367,000
<b>Net Profit / (Loss)</b>	\$11,787,000	\$12,204,000	\$12,616,000

The ‘Net Revenue’ line item is gross inpatient and outpatient hospital revenue. The ‘Total Expenses’ line item includes all expenses related to hospital operations, including all staff salaries/wages and allocated costs from Valley Hospital to MultiCare.

Public Comment

None

Rebuttal

None

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by MultiCare to determine the projected number of admissions, patient days, and occupancy of Valley Hospital under new ownership. Historical and projected figures are shown below, with the first three quarters of 2016 data annualized, and partial year 2017 annualized. [sources: Valley application pp19-20]

**Table 18**  
**Historical and Projected**  
**Valley Hospital Admissions, Patient Days, ADC, Occupancy**

	CHS Historical		CHS Annualized		MultiCare Projected		
	CY2014	CY2015	CY2016	CY2017	CY2018	CY2019	CY2020
Total Licensed Beds	113	113	113 <sup>18</sup>	113	123	123	123
Total Admissions	5,813	5,512	5,524	5,576	5,626	5,678	5,731
Total Patient Days	20,586	20,307	20,125	20,312	20,497	20,686	20,876
Average Daily Census	56.40	55.64	55.14	55.65	56.16	56.67	57.19
Occupancy Percentage	49.91%	49.24%	48.79%	49.25%	45.66%	46.08%	46.50%

When compared to historical data (years 2014-2015) provided within the application, the department notes that admissions have fallen since CHS acquired Valley Hospital. This is consistent with year-end financial data. The reasons for this are not known. Therefore, MultiCare took what they described as a “conservative approach,” and only inflated admissions (and consequently, the patient days and occupancy) based on population growth in Spokane County. Occupancy is expected to increase slightly throughout the projection years, as admissions increase by approximately 1%, while the bed supply remains constant.

MultiCare based its revenue and expenses for Valley Hospital on the assumptions referenced above. MultiCare also used CHS’s current operations as a base-line for the revenue and expenses shown in Table 16 with the noted adjustments, including a change in corporate allocation, tax-status change, and an increase in budgeted charity care. Historical information shows that CHS operated Valley Hospital with revenue exceeding expenses.

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<sup>18</sup> The most recently available year-end financial data for Valley Hospital showed 113 available beds. This value has been carried forward until the projection years 2018-2020, in which MultiCare stated they will operate 123 beds.

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 MultiCare would meet its immediate and long-range capital costs, the HFCC Program reviewed MultiCare’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 MultiCare and MultiCare as of 2015. Also detailed are the three years following completion of the project. The applicant did not provide facility-specific balance sheets for future years, so ratios that use those numbers are not included. Statewide 2015 ratios are included as a comparison and are calculated from all community hospitals in Washington State whose fiscal year ended in that year. The data is collected by the Washington State Dept. of Health Community Health Systems section of the Health Systems Quality Assurance division. On the following page is a table showing the results.*

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

MultiCare Valley				2018	2019	2020
Ratio Category	Trend	State-15	MHS15	CONyr1	CONyr2	CONyr3
Long Term Debt to Equity	B	0.564	0.486	-	-	-
Current Assets/Current Liabilities	A	2.029	1.904	3.640	4.790	6.030
Assets Funded by Liabilities	B	0.442	0.365	0.114	0.100	0.089
Operating Expense/Operating Revenue	B	0.965	0.882	0.903	0.901	0.898
Debt Service Coverage	A	4.345	7.517	4.980	5.224	5.479
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					
Note: Balance Sheet information from MultiCare corporation level pro-forma						

*CON year 3 (third year following purchase of Valley) fiscal year end ratios for MultiCare Valley are better than the 2015 State averages. The hospital is breaking even in each year of the projections.*

*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 Valley 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.**

MultiCare Health System – Deaconess Hospital

MultiCare provided the following assumptions that were used to determine the projected number of discharges, patient days, and occupancy at Deaconess Hospital:

*“Inpatient discharges, days and payer mix are based on 2015 admission data provided by Seller. Outpatient visits are based on 2015 year-end reports accessed via the Washington*



*State Department of Health. Projected growth is reflective of population growth, while holding the following factors constant: market (defined as Spokane County) inpatient usage rate, inpatient market discharge share, percent inpatient discharges that in-migrate, average length of stay, payer mix based on discharges, and outpatient visit to inpatient discharge ratio.” [source: Deaconess application p20]*

*“Volume in the model is based off of annualized 2016 volumes provided by Seller for both inpatient and outpatient activity at both facilities. An annual growth rate of 0.92%, consistent with Spokane County population growth is applied to all volumes as outlined in the Utilization section of the application.” [source: Deaconess application p34]*

- *“2016 year-to-date figures for Deaconess Hospital, as of September 30, 2016, were annualized for inpatient days and outpatient visits.*
- *An annual growth rate of 0.92% was used to extrapolate the 2016 annualized figures forward each year over the forecast period. This growth rate is based on Spokane County population growth.*
- *There was no assumed impact on market share or strategic realignment, the payer mix was held constant and the ratio of the service line mix of inpatient discharges to outpatient visits has been held constant.” [source: Deaconess March 14, 2017 screening response pp4-5]*

Services are expected to remain consistent with those offered currently under CHS ownership:

*“Until September 30, 2018, the Buyer Entities will continue to operate the Hospitals as general acute care facilities and will continue to provide, at a minimum, those essential services set forth on Exhibit F. [source: MultiCare and CHS Asset Purchase/Sale Agreement, Schedule 10.18, Exhibit F]*

<i>24 Hour Emergency Care</i>	<i>Lab Services</i>
<i>Cardiac Catheterization</i>	<i>Labor and Delivery</i>
<i>Cardiovascular Surgery and Services</i>	<i>Neonatal Intensive Care<sup>19</sup></i>
<i>CT Scanning</i>	<i>Mammography</i>
<i>Diagnostic Radiology</i>	<i>MRI Services</i>
<i>Endoscopy</i>	<i>Nuclear Medicine</i>
<i>General Surgery</i>	<i>Outpatient Surgery</i>
<i>Inpatient Medical and Surgical Services</i>	<i>Pharmacy</i>
<i>Intensive Care</i>	<i>Therapy Services</i>

Using the assumptions stated above, MultiCare projected the number of inpatient admissions, patient days, average length of stay, and occupancy percentages at Deaconess Hospital. The projections shown below begin with year 2018:

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<sup>19</sup> Deaconess Hospital has CN approval for Level III NICU bassinets

**Table 19**  
**Deaconess Hospital**  
**Projections for Years 2018-2020**

	<b>CY 2018</b>	<b>CY 2019</b>	<b>CY 2020</b>
Total Licensed Beds	388	388	388
Total Admissions	11,399	11,503	11,608
Total Patient Days	59,184	59,728	60,278
Average Daily Census	162.15	163.64	165.15
Occupancy Percentage	41.79%	42.17%	42.56%

The assumptions MultiCare used to project revenue, expenses, and net income for Deaconess Hospital for projection years 2018 through 2020 are below. [source: Deaconess application pp34-35]

- *“Revenue rates per patient day for inpatient volume and per visit for outpatient volume are established by payer category and are based on annualized 2016 data.*
- *Revenue rates per patient day and per visit assume no inflation growth for any payer category.*
- *Annualized 2016 bad debt and contractual allowance rates for each payer category are being carried forward in the projection period. These rates fluctuate with volume and assume no inflation growth.*
- *Charity care in the amount of 2.22% of gross patient services revenues is used in the model to project charity care. This percentage is equal to the most recent three-year, published Eastern WA Region average (2012-2014) of gross revenues. It is likely very conservative given the decrease of charity care in the region due to the implementation of the Affordable Care Act.*
- *YTD 2016 expense rates per inpatient day and per outpatient visit for each expense category have been used as the basis for direct expenses, in general.*
- *Expense rates per inpatient day and per outpatient visit assume no inflation growth in the projection period.*
- *A portion of the tax expense which is not applicable to a not-for-profit owner is excluded from the projections.*
- *Annual corporate overhead expense of \$5 million is applied to Deaconess and \$3 million is applied to Valley. This corporate overhead allocation expense is categorized under ‘All Other’ expenses and is held constant in the projection period. It reflects corporate administration, legal services, human resources, IT, marketing, implementation of EPIC, etc.*
- *An annual corporate interest expense of 5.0% was applied to the allocated purchase price of each facility. Deaconess was allocated \$7.93 million on a purchase price of \$198.2 million and Valley was allocated \$3.46 million on a purchase price of \$86.7 million. This corporate interest allocation expense is classified as an interest expense in the projections.”*

Historical and annualized revenues, expenses, and net income are shown below in Table 20 MultiCare projected revenue, expenses, and net income for Deaconess Hospital for years 2018 through 2020 are shown in Table 21 below. [source: Deaconess application pp28-31]

**Table 20**  
**Deaconess Hospital**  
**Historical and Annualized Revenues and Expenses**  
**Years 2018-2020**

	Historical		Annualized	
	2014	2015	2016	2017
Net Revenue	\$243,026,000	\$250,669,000	\$269,199,000	\$271,712,000
Total Expenses	\$251,526,000	\$261,492,000	\$274,092,000	\$279,200,000
<b>Net Profit / (Loss)</b>	<b>\$3,463,000</b>	<b>(\$543,000)</b>	<b>\$5,903,000</b>	<b>\$3,308,000</b>

**Table 21**  
**Deaconess Hospital**  
**Projections for Years 2018-2020**

	2018	2019	2020
Net Revenue	\$284,916,000	\$287,439,000	\$289,982,000
Total Expenses	\$271,448,000	\$273,239,000	\$275,084,000
<b>Net Profit / (Loss)</b>	<b>\$13,468,000</b>	<b>\$14,200,000</b>	<b>\$14,898,000</b>

The 'Net Revenue' line item is gross inpatient and outpatient hospital revenue. The 'Total Expenses' line item includes all expenses related to hospital operations, including all staff salaries/wages and allocated costs from Deaconess Hospital to MultiCare.

Public Comment

None

Rebuttal

None

Department Evaluation

To evaluate this sub-criterion, the department first reviewed the assumptions used by MultiCare to determine the projected number of admissions, patient days, and occupancy of Deaconess Hospital under new ownership. Historical and projected figures are shown below, with the first three quarters of 2016 data annualized, and partial year 2017 annualized. [sources: Deaconess application pp19-21]

**Table 22**  
**Historical and Projected**  
**Deaconess Hospital Admissions, Patient Days, ADC, Occupancy**

	CHS Historical		CHS Annualized		MultiCare Projected		
	CY2014	CY2015	CY2016	CY2017	CY2018	CY2019	CY2020
Total Licensed Beds	352	352	352 <sup>20</sup>	352	388	388	388
Total Admissions	10,943	11,216	11,191	11,295	11,399	11,503	11,608
Total Patient Days	59,026	60,934	55,444	58,648	59,184	59,728	60,278
Average Daily Census	161.72	166.94	151.90	160.68	162.15	163.64	165.15
Occupancy Percentage	45.94%	47.43%	43.15%	45.65%	41.79%	42.17%	42.56%

When compared to historical data (years 2014-2015) provided within the application, the department notes that admissions have increased since CHS acquired Deaconess Hospital. MultiCare took what they described as a “conservative approach,” and only inflated admissions (and consequently, the patient days and occupancy) based on population growth in Spokane County. Occupancy is expected to increase slightly throughout the projection years, as admissions increase by approximately 1%, while the bed supply remains constant.

MultiCare based its revenue and expenses for Deaconess Hospital on the assumptions referenced above. MultiCare also used CHS’s current operations as a base-line for the revenue and expenses shown in Table 20 with the noted adjustments, including a change in corporate allocation, tax-status change, interest, and an increase in budgeted charity care. Historical information shows that CHS operated Deaconess Hospital with revenue exceeding expenses in many years, but showing losses in 2015. Historical financial statements show Deaconess with expenses related to interest at the corporate level exceeding \$19 million. MultiCare only allocated 5% interest on the purchase price to Deaconess, approximately \$9 million. With the change in ownership and corresponding business practice changes, MultiCare projected that Deaconess Hospital will consistently operate with revenue exceeding expenses. The difference in interest alone will account for much of this difference.

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 MultiCare would meet its immediate and long-range capital costs, the HFCC Program reviewed MultiCare’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 MultiCare and MultiCare as of 2015. Also detailed are the three years following completion of the project. The applicant did not provide facility-specific balance sheets for future years, so ratios that use those numbers are not included. Statewide 2015 ratios are included as a*

<sup>20</sup> The most recently available year-end financial data for Deaconess Hospital showed 352 available beds. This value has been carried forward until the projection years 2018-2020.

comparison and are calculated from all community hospitals in Washington State whose fiscal year ended in that year. The data is collected by the Washington State Dept. of Health Community Health Systems section of the Health Systems Quality Assurance division. On the following page is a table showing the results.

The A means it is better if the number is above the State number and B means it is better if the number is below the state number.

MultiCare Deaconess				2018	2019	2020
Ratio Category	Trend	State-15	MHS15	CONyr1	CONyr2	CONyr3
Long Term Debt to Equity	B	0.564	0.486	-	-	-
Current Assets/Current Liabilities	A	2.029	1.904	2.358	2.730	3.159
Assets Funded by Liabilities	B	0.442	0.365	0.122	0.117	0.111
Operating Expense/Operating Revenue	B	0.965	0.882	0.953	0.951	0.949
Debt Service Coverage	A	4.345	7.517	4.370	4.547	4.731
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					
Note: Balance Sheet information from MultiCare corporation level pro-forma						

CON year 3 (third year following purchase of Deaconess) fiscal year end ratios for MultiCare Deaconess are better than the 2015 State averages. The hospital is breaking even in each year of the projections.

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 Deaconess 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.

MultiCare Health System – Valley Hospital

The capital expenditure associated with MultiCare Health Systems’ purchase of Valley Hospital, Deaconess Hospital, and membership within Rockwood Health System is \$425 million. Of that, approximately 20% has been allocated to Valley Hospital, for a total

allocated purchase price of \$87 million. [source: Valley April 21, 2017 screening response financial letter]

There are no traditional “start up costs,” as Valley Hospital is already fully operational, however, MultiCare identified that Valley Hospital requires \$7.9 million of net working capital following the transaction. Of that amount, \$1.5 million was included in the purchase. MultiCare would provide the remaining \$6.4 million out of cash reserves. [source: Valley March 24, 2017 screening response p3]

MultiCare provided the following statements related to the project’s impact on costs and charges for healthcare services:

*“Integration into MultiCare’s system of care will improve efficiency and provide economies of scale. MHS is dedicated to continuously improving its clinical and business models, i.e., increasing efficiency and quality. MultiCare will be able to share best practices with Valley Hospital. MHS is also proactively developing its population health management competencies and continuing to shift to accountable care and value based reimbursement payment structures. In 2014, MultiCare Connected Care, LLC (“MCC”), a clinically integrated network, was established by MultiCare as a wholly independent business entity with a mission to improve health care’s quality, lower cost and improve every patient’s experience with MCC. Further, as described above, installation and use of EPIC will improve quality and the efficiency of care delivery, lowering costs.”* [source: Valley application p15]

***“Impact on Hospital Operating Costs***

- *Connection to a much larger system of care within the region and greater organizational infrastructure will also provide greater efficiency and economies of scale through shared administrative and support staff and shared purchasing agreements, which would lower operating costs. (Advantage)*
- *MultiCare plans to continue providing the same services post-purchase. However, MultiCare will integrate services/programs and improve operating efficiency as quickly, as feasible. Therefore, there may be operating cost reductions, even over the short term. (Advantage)”* [source: Valley application p25]

**Public Comment**

None

**Rebuttal**

None

**Department Evaluation**

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

**Table 23**  
**Valley Calculated Rates from HFCC Analysis**

<b>MultiCare Valley</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	5,626	5,678	5,731
Patient Days	20,497	20,686	20,876
Average Length of Stay	3.64	3.64	3.64
Gross Revenue	604,367,000	609,927,000	615,538,000
Deductions From Revenue	483,777,000	488,228,000	492,719,000
Net Patient Billing	120,590,000	121,699,000	122,819,000
Other Operating Revenue	1,164,000	1,164,000	1,164,000
Net Operating Revenue	121,754,000	122,863,000	123,983,000
Operating Expense	109,966,000	110,660,000	111,368,000
Operating Profit	11,788,000	12,203,000	12,615,000
Net Profit	12,315,000	13,179,000	14,082,000
Operating Revenue per Admission	\$ 21,641	\$ 21,638	\$ 21,634
Operating Expense per Admission	\$ 19,546	\$ 19,489	\$ 19,433
Net Profit per Admission	\$ 2,189	\$ 2,321	\$ 2,457
Operating Revenue per Patient Day	\$ 5,940	\$ 5,939	\$ 5,939
Operating Expense per Patient Day	\$ 5,365	\$ 5,350	\$ 5,335
Net Profit per Patient Day	\$ 601	\$ 637	\$ 675

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

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

MultiCare references “MultiCare Connected Care” (MCCC) under this sub-criterion. MCCC is an Accountable Care Organizations (ACO),<sup>21</sup> but it does not appear that this ACO is active

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<sup>21</sup> According to the MCCC website, *“An accountable care organization (ACO) is an organization of doctors, hospitals and other health professionals working together to provide the best possible care at a lower cost to participating patients.”*

*“An ACO focuses on managing the health of the people they serve. This means instead of simply treating our patients when they are sick, we help patients be as healthy as they can be. We accomplish this by:*

- *Increasing access to high-performing, high-quality, low-cost providers*
- *Committing to being accountable for our patients’ health*
- *Improving communication with health care teams, for both patients and providers*
- *Partnering with our patients and empowering them to take charge of their health*

*Unlike the traditional “fee for service” health care model – where each visit, service, test and procedure has a separate cost – an ACO’s foundation is built first and foremost on providing quality care for the right price. We use specific measures to determine how well doctors, hospitals and other providers are keeping healthy people healthy, effectively treating illnesses, and helping people better manage their chronic conditions. In this way, all the participating providers share the responsibility of providing quality, efficient, cost-effective care.*

and available to residents of Spokane County. Upon reviewing the MCCC website, it appears that MultiCare, as a system, has taken steps to reduce costs through this ACO.

Based on the above information, the department concludes that MultiCare's purchase of Valley Hospital would probably not have an unreasonable impact on the costs and charges for healthcare services in Spokane County. **This sub-criterion is met.**

#### MultiCare Health System – Deaconess Hospital

The capital expenditure associated with MultiCare Health Systems' purchase of Valley Hospital, Deaconess Hospital, and membership within Rockwood Health System is \$425 million. Of that, approximately 47% has been allocated to Deaconess Hospital, for a total allocated purchase price of \$198 million. [source: Deaconess April 21 screening response financial letter]

The hospital is already full operational, and no additional services are proposed beyond those already in place. While there are no traditional "start up costs," MultiCare identified that Deaconess Hospital requires \$21.3 million of net working capital following the transaction. Of that amount, \$5.3 million was included in the purchase. MultiCare would provide the remaining \$16 million out of cash reserves. [source: Deaconess March 24, 2017 screening response p4]

MultiCare provided the following statements related to the project's impact on costs and charges for healthcare services:

*"Integration into MultiCare's system of care will improve efficiency and provide economies of scale. MHS is dedicated to continuously improving its clinical and business models, i.e., increasing efficiency and quality. MultiCare will be able to share best practices with Deaconess Hospital. MHS is also proactively developing its population health management competencies and continuing to shift to accountable care and value based reimbursement payment structures. In 2014, MultiCare Connected Care, LLC ("MCC"), a clinically integrated network, was established by MultiCare as a wholly independent business entity with a mission to improve health care's quality, lower cost and improve every patient's experience with MCC. Further, as described above, installation and use of EPIC will improve quality and the efficiency of care delivery, lowering costs."* [source: Deaconess application p15]

#### ***"Impact on Hospital Operating Costs***

- *Connection to a much larger system of care within the region and greater organizational infrastructure will also provide greater efficiency and economies of scale through shared administrative and support staff and shared purchasing agreements, which would lower operating costs. (Advantage)*
- *MultiCare plans to continue providing the same services post-purchase. However, MultiCare will integrate services/programs and improve operating efficiency as*

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*ACOs most commonly offer enrollment through an employer's health benefits offerings. ACO enrollment may also be available to individuals through licensed insurance brokers."*



*quickly, as feasible. Therefore, there may be operating cost reductions, even over the short term. (Advantage)”* [source: Deaconess application p26]

Public Comment

None

Rebuttal

None

Department Evaluation

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

**Table 24  
Deaconess Calculated Rates from HFCC Analysis**

<b>MultiCare Deaconess</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	11,399	11,503	11,608
Patient Days	59,184	59,728	60,278
Average Length of Stay	5.19	5.19	5.19
Gross Revenue	1,320,447,000	1,332,595,000	1,344,854,000
Deductions From Revenue	1,046,327,000	1,055,952,000	1,065,668,000
Net Patient Billing	274,120,000	276,643,000	279,186,000
Other Operating Revenue	10,796,000	10,796,000	10,796,000
Net Operating Revenue	284,916,000	287,439,000	289,982,000
Operating Expense	271,447,000	273,239,000	275,083,000
Operating Profit	13,469,000	14,200,000	14,899,000
Net Profit	13,922,000	15,033,000	16,181,000
Operating Revenue per Admission	\$ 24,995	\$ 24,988	\$ 24,981
Operating Expense per Admission	\$ 23,813	\$ 23,754	\$ 23,698
Net Profit per Admission	\$ 1,221	\$ 1,307	\$ 1,394
Operating Revenue per Patient Day	\$ 4,814	\$ 4,812	\$ 4,811
Operating Expense per Patient Day	\$ 4,586	\$ 4,575	\$ 4,564
Net Profit per Patient Day	\$ 235	\$ 252	\$ 268

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

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

MultiCare references “MultiCare Connected Care” (MCCC) under this sub-criterion. MCCC is an Accountable Care Organizations (ACO),<sup>22</sup> but it does not appear that this ACO is active

<sup>22</sup> See footnote 20.

and available to residents of Spokane County. Upon reviewing the MCCC website, it appears that MultiCare, as a system, has taken steps to reduce costs through this ACO.

Based on the above information, the department concludes that MultiCare's purchase of Deaconess Hospital would probably not have an unreasonable impact on the costs and charges for healthcare services in Spokane 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.

MultiCare Health System – Valley Hospital

MultiCare provided a letter of financial commitment from Anna Loomis, CFO, as well as the following statement, committing corporate reserves to fund the project. [source: Valley application Exhibit 15]

*“This transaction will be funded by existing cash and investments which exceed \$1 .6 billion and are more than adequate to cover the \$425 million purchase price and post close working capital needs.”* [source: Valley March 24, 2017 screening response p9]

Public Comment

None

Rebuttal

None

Department Evaluation

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

*“MultiCare’s CN capital expenditure for the purchase of the existing 123-bed Valley Hospital is projected to be \$87,000,000. The funding will come from existing cash reserves and investments of MultiCare Health Systems (MultiCare). Documents in the application indicate that MultiCare may seek to re-finance the facility with tax-exempt bonds after the acquisition is complete (Application, Exhibit 16, October 26, 2016 resolution of the MultiCare board of directors).*

*Below is a summary of the balance sheet from the application.*

<b>MultiCare Health System</b>			
From application 2015 audited			
Assets		Liabilities	
Current	522,443,000	Current	274,378,000
Board Designated	-	Long Term Debt	993,686,000
Property/Plant/Equipment	1,281,457,000	Other	160,187,000
Other	1,668,301,000	Net Assets	2,043,950,000
<b>Total</b>	<b>3,472,201,000</b>	<b>Total</b>	<b>3,472,201,000</b>

*MultiCare’s 2016 balance sheet shows its assets are sufficient to fund this project from a combination of cash and investments.*

*MultiCare will use existing cash and investments. This investment represents 2.5% of total assets. MultiCare’s net assets of over \$2,000,000,000, and favorable long term debt to equity and debt service coverage ratios indicate ample ability to continue its operations whether existing assets or new debt are used to finance the project after the purchase is complete.*

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

In the HFCC analysis, it is stated that MultiCare may refinance the costs of this project using bond-financing after the acquisition is complete. The application contained none of the required information needed for the department to analyze this type of financing. Therefore, no such analysis was performed.

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

MultiCare Health System – Deaconess Hospital

MultiCare provided a letter of financial commitment from Anna Loomis, CFO, as well as the following statement, committing corporate reserves to fund the project. [source: Deaconess application Exhibit 15]

*“This transaction will be funded by existing cash and investments which exceed \$1 .6 billion and are more than adequate to cover the \$425 million purchase price and post close working capital needs.” [source: Deaconess March 24, 2017 screening response p10]*

Public Comment

None

Rebuttal

None

Department Evaluation

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

*“MultiCare’s CN capital expenditure for the purchase of the existing 388-bed Deaconess Hospital is projected to be \$198,000,000. The funding will come from existing cash reserves and investments of MultiCare Health Systems (MultiCare). Documents in the application indicate that MultiCare may seek to re-finance the facility with tax-exempt bonds after the acquisition is complete (Application, Exhibit 16, October 26, 2016 resolution of the MultiCare board of directors).*

*Below is a summary of the balance sheet from the application.*

<b>MultiCare Health System</b>			
From application 2015 audited			
Assets		Liabilities	
Current	522,443,000	Current	274,378,000
Board Designated	-	Long Term Debt	993,686,000
Property/Plant/Equipment	1,281,457,000	Other	160,187,000
Other	1,668,301,000	Net Assets	2,043,950,000
Total	3,472,201,000	Total	3,472,201,000

*MultiCare’s 2016 balance sheet shows its assets are sufficient to fund this project from a combination of cash and investments.*

*“The CN project capital expenditure for this purchase is \$198,000,000. MultiCare will use existing cash and investments. This investment represents 5.7% of total assets. MultiCare’s net assets of over \$2,000,000,000, and favorable long term debt to equity and debt service coverage ratios indicate ample ability to continue its operations whether existing assets or new debt are used to finance the project after the purchase is complete.*

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

In the HFCC analysis, it is stated that MultiCare may refinance the costs of this project using bond-financing after the acquisition is complete. The application contained none of the required information needed for the department to analyze this type of financing. Therefore, no such analysis was performed.

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

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

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

#### MultiCare Health System – Valley Hospital

MultiCare provided the following statements related to this sub-criterion. [source: Valley application p22]

*“There are no anticipated changes in staffing.”*

*“There are no anticipated changes in physician privileges.”*

#### Public Comment

SEIU 1199NW provided comments related to this sub-criterion.

*“On behalf of the 29,000 nurses and healthcare workers of SEIU Healthcare 1199NW and our nearly 1,100 members at Valley and Deaconess Hospitals, we are writing to respectfully request that the Department of Health approve MultiCare's Certificate of Need application to transfer the two Certificates of Need for the licensed beds of Rockwood Health System's Deaconess Hospital and Valley Hospital from CHS Washington Holdings, LLC, to MultiCare.*

*“MultiCare is a Washington-based, not-for-profit health care organization with a long history of providing quality health care to the communities it serves. We believe that the organization is uniquely positioned to meet the health care needs of Spokane area residents due to its deep knowledge of and history of service in Washington State, technological leadership and infrastructure, and its innovative health care delivery model. MultiCare's participation in our Innovative training partnership, the SEIU Healthcare 1199NW Multi-Employer Training Fund, also shows a deep commitment to career paths for caregivers and improvements in the quality of care.*

*“The patients and healthcare workers of the Spokane region will clearly benefit from MultiCare's acquisition of Rockwood Health System and for that reason SEIU Healthcare 1199NW supports MultiCare's Certificate of Need applications.”* [source: SEIU 1199NW comments]

## Rebuttal

None

## Department Evaluation

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

The public comments from SEIU 1199NW indicate that there are over 1,100 staff members between Valley and Deaconess who will benefit from this transaction.

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

## MultiCare Health System – Deaconess Hospital

MultiCare provided the following statements related to this sub-criterion. [source: Deaconess application p23]

*“There are no anticipated changes in staffing.”*

*“There are no anticipated changes in physician privileges.”*

## Public Comment

SEIU 1199NW provided comments related to this sub-criterion.

*“On behalf of the 29,000 nurses and healthcare workers of SEIU Healthcare 1199NW and our nearly 1,100 members at Valley and Deaconess Hospitals, we are writing to respectfully request that the Department of Health approve MultiCare's Certificate of Need application to transfer the two Certificates of Need for the licensed beds of Rockwood Health System's Deaconess Hospital and Valley Hospital from CHS Washington Holdings, LLC, to MultiCare.*

*“MultiCare is a Washington-based, not-for-profit health care organization with a long history of providing quality health care to the communities it serves. We believe that the organization is uniquely positioned to meet the health care needs of Spokane area residents due to its deep knowledge of and history of service in Washington State, technological leadership and infrastructure, and its innovative health care delivery model. MultiCare's participation in our Innovative training partnership, the SEIU Healthcare 1199NW Multi-Employer Training Fund, also shows a deep commitment to career paths for caregivers and improvements in the quality of care.*

*“The patients and healthcare workers of the Spokane region will clearly benefit from MultiCare's acquisition of Rockwood Health System and for that reason SEIU Healthcare*

1199NW supports MultiCare's Certificate of Need applications.” [source: SEIU 1199NW comments]

Rebuttal

None

Department Evaluation

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

The public comments from SEIU 1199NW indicate that there are over 1,100 staff members between Valley and Deaconess who will benefit from this transaction.

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

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

WAC 246-310 does not contain specific WAC 246-310-230(2) as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what relationships, ancillary and support services should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials contained in the application.

MultiCare Health System – Valley Hospital

*“In the Spokane Planning Area, MultiCare is also acquiring other facilities and organizational resources from Seller, including Deaconess Hospital, ambulatory surgery facilities, urgent care clinics, and the rights and interests of Seller as the Class B Member of Rockwood Clinic, P.S., which owns and operates Rockwood Clinic locations. MultiCare will link these facilities and operations together, as it has done in with its care providers and facilities across south Puget Sound.* [source: Valley application p23]

Public Comment

None

Rebuttal

None

Department Evaluation

Valley Hospital 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 MultiCare will to maintain the necessary relationships with ancillary and support services at Valley Hospital 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.**

MultiCare Health System – Deaconess Hospital

*“In the Spokane Planning Area, MultiCare is also acquiring other facilities and organizational resources from Seller, including Valley Hospital, ambulatory surgery facilities, urgent care clinics, and the rights and interests of Seller as the Class B Member of Rockwood Clinic, P.S., which owns and operates the Rockwood Clinic locations. MultiCare will link these facilities and operations together, as it has done in with its care providers and facilities across south Puget Sound.”* [source: Deaconess application p24]

Public Comment

None

Rebuttal

None.

Department Evaluation

Deaconess Hospital 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 MultiCare will to maintain the necessary relationships with ancillary and support services at Deaconess Hospital 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.



MultiCare Health System – Valley Hospital

MultiCare 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.

*“MultiCare has not had any such compliance issues.”* [source: Valley application p23]

Public Comment

None

Rebuttal

None

Department Evaluation

The evaluation of this sub-criterion will be combined with that of Deaconess Hospital, below.

MultiCare Health System – Deaconess Hospital

MultiCare 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.

*“MultiCare has not had any such compliance issues.”* [source: Deaconess application p25]

Public Comment

None

Rebuttal

None

Department Evaluation

As a 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>23</sup> The department reviewed information within the application and the quality of care compliance history for all healthcare facilities owned, operated, or managed by MultiCare in Washington State.

Washington State Facilities

Using the department’s internal database, the department reviewed Washington State survey data for the 8 licensed facilities and agencies owned by, MultiCare Health System in

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<sup>23</sup> WAC 246-310-230(5)

Washington State. This includes 4 hospitals<sup>24</sup>, and 4 in-home service agencies – shown below in Table 25. [source: Department of Health Office of Investigation and Inspection]

**Table 25  
MultiCare Facilities and License Status**

<b>Facility Name</b>	<b>License Number</b>	<b>Surveys Since 2014?</b>	<b>Substantially Compliant?</b>
MultiCare Auburn Medical Center	HAC.FS.60311052	2	yes
MultiCare Good Samaritan Hospital	HAC.FS.60221541	1	yes
Tacoma General / Allenmore Hospital	HAC.FS.00000176	2	yes
Mary Bridge Children’s Hospital	HAC.FS.00000175	2	yes
Mary Bridge Infusion and Specialty Services	IHS.FS.00000372	1	yes
MultiCare Home Health, Hospice and Palliative Care*	IHS.FS.60081744	1	yes
MultiCare Home Health, Hospice and Palliative Care*	IHS.FS.60639376	1	yes
MultiCare Home Health, Hospice and Palliative Care* <sup>25</sup>	IHS.FS.60223505	2	yes

\*indicates provision of Medicare/Medicaid home health or hospice services

During the course of screening, the department discovered a discrepancy between the number of licensed beds, and the number of bed spaces meeting licensing requirements.

MultiCare contacted Construction Review Services during the course of this application in order to verify that Deaconess Hospital had the physical bed spaces for the total 388 beds. According to the department’s 2011 on-site count of acute care beds on the Deaconess campus, there were only 353 licensable bed spaces. In the event that the physical space does not meet the licensing requirements, a facility cannot legally license that bed under WAC 246-320-199.<sup>26</sup>

CRS completed an on-site review to count the number of bed spaces meeting licensing requirements, beyond the 344 beds identified in the Deaconess application as being set-up. The comments provided by CRS as a result of this on-site review are below:

<sup>24</sup> Not including MultiCare Covington Medical Center, which is not yet operational and has no survey data

<sup>25</sup> This agency is one and the same with IHS.FS.60639376, following MultiCare’s purchase of Hospice of Kitsap County

<sup>26</sup> WAC 246-320-199 states that hospitals must “Include bed spaces assigned for less than twenty-four hour patient use as a part of the licensed bed capacity when: (i) Physical plan requirements of this chapter are met without moveable equipment; and (ii) The hospital currently possesses the required movable equipment and certifies this fact to the department.”

*“Attached are my findings from my site visit via Floor Plan Diagrams and Room Data Worksheets:*

- *3rd North Rooms 1 thru 22 = 28 beds*
- *5th North rooms 1 thru 12 = 17 beds*
- *Total addition<sup>27</sup> beds = 45 beds – All Acute Care Beds”*

CRS concluded that Deaconess has the physical space meeting licensing requirements for all 388 beds. [source: CRS on-site review]

Based on the above information, the department concludes that MultiCare demonstrates reasonable assurance that MultiCare would operate Valley and Deaconess Hospitals in compliance with state and federal requirements if these projects are 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.

#### MultiCare Health System – Valley Hospital

*“Upon approval, Valley’s existing relationships will not only continue, but will be improved. MultiCare, due to its existing infrastructure, deep knowledge of and history of service to its communities, technological leadership, and innovative health care delivery model, is well positioned to build upon and enhance acute and ambulatory care services for Planning Area residents.*

*In Pierce County, MultiCare employs the largest number of primary and specialty providers in the county, and is the operator of the largest clinic network in South King County. MultiCare links these patients, as necessary, to MultiCare’s main tertiary hospitals in Tacoma and Puyallup, where MultiCare provides the highest level of adult and pediatric medical and surgical care.*

*In the Spokane Planning Area, MultiCare is also acquiring other facilities and organizational resources from Seller, including Deaconess Hospital, ambulatory surgery facilities, urgent care clinics, and the rights and interests of Seller as the Class B Member of Rockwood Clinic, P.S., which owns and operates Rockwood Clinic locations. MultiCare will link these facilities and operations together, as it has done in with its care providers and facilities across south Puget Sound.*

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<sup>27</sup> Beds in addition to the 2011 count of acute care beds

*Furthermore, MultiCare will improve the existing relationships at Valley by efficiently connecting the hospital with area providers through advanced technology, including EPIC, the electronic medical record in-place across all MultiCare operations. MultiCare has a proven track record of innovation in providing integrated health care across its many outpatient and inpatient sites. Moreover, MultiCare is a recognized national and statewide leader in implementing electronic health record technology – already in use at all of its South King County and Pierce County clinics and hospitals. This system makes complete patient records, digital imaging, and other test results available instantly to providers, which improves the safety, quality, and efficiency of health care. In addition, the system provides patients with online access to their medical records and physician offices so they can be active partners in managing their health care. These actions improve patient access and quality, as well as expand and improve working relationships between providers.” [source: Valley application p23]*

*“MultiCare anticipates continuing and improving current relationships established by Valley. Very likely, this integration across providers will create new linkages and working relationships. At a minimum, MultiCare plans to develop relationships between Valley-based health care providers and other clinical and non-clinical staff across the rest of the MultiCare Health System who are primarily located within the Puget Sound region.” [source: Valley application p24]*

#### Public Comment

Nearly all of the letters of support received by the department spoke to continuity of care. The comment below contains language included in many of those letters.

#### David Condon, Mayor, Spokane

*“MultiCare is a Washington-based, not-for-profit health care organization with a long history of providing quality health care to the communities it serves. I believe that the organization is uniquely positioned to meet the health care needs of Spokane area residents due to its deep knowledge of and history of service in Washington State, technological leadership and infrastructure, and its innovative health care delivery model. MultiCare's deep commitment to their communities is clear and I am confident this commitment will extend to our region as well.” [source: City of Spokane comments]*

#### Rebuttal

None

#### Department Evaluation

The letters provided by local community members provide a valuable perspective related to this sub-criterion. The excerpt above demonstrates the community's knowledge of MultiCare's existing partnerships in western Washington. The department expects MultiCare will establish similar relationships in Spokane and the surrounding areas as it becomes familiar with Eastern Washington and its health delivery system.

Information within the application demonstrates that Valley Hospital under MultiCare ownership will continue to operate with the necessary relationships that will foster continuity in the provision of health care services in Spokane County.

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

MultiCare Health System – Deaconess Hospital

*“Upon approval, Deaconess’ existing relationships will not only continue, but will be improved. MultiCare, due to its existing infrastructure, deep knowledge of and history of service to its communities, technological leadership, and innovative health care delivery model, is well positioned to build upon and enhance acute and ambulatory care services for Planning Area residents.*

*In Pierce County, MultiCare employs the largest number of primary and specialty providers in the county, and is the operator of the largest clinic network in South King County. MultiCare links these patients, as necessary, to MultiCare’s main tertiary hospitals in Tacoma and Puyallup, where MultiCare provides the highest level of adult and pediatric medical and surgical care.*

*In the Spokane Planning Area, MultiCare is also acquiring other facilities and organizational resources from Seller, including Valley Hospital, ambulatory surgery facilities, urgent care clinics, and the rights and interests of Seller as the Class B Member of Rockwood Clinic, P.S., which owns and operates the Rockwood Clinic locations. MultiCare will link these facilities and operations together, as it has done in with its care providers and facilities across south Puget Sound.*

*Furthermore, MultiCare will improve the existing relationships at Deaconess by efficiently connecting the hospital with area providers through advanced technology, including EPIC, the electronic medical record in-place across all MultiCare operations. MultiCare has a proven track record of innovation in providing integrated health care across its many outpatient and inpatient sites. Moreover, MultiCare is a recognized national and statewide leader in implementing electronic health record technology – already in use at all of its South King County and Pierce County clinics and hospitals. This system makes complete patient records, digital imaging, and other test results available instantly to providers, which improves the safety, quality, and efficiency of health care. In addition, the system provides patients with online access to their medical records and physician offices so they can be active partners in managing their health care. These actions improve patient access and quality, as well as expand and improve working relationships between providers.” [source: Deaconess application p24]*

*“MultiCare anticipates continuing and improving current relationships established by Deaconess. Very likely, this integration across providers will create new linkages and working relationships. At a minimum, MultiCare plans to develop relationships between Deaconess-based health care providers and other clinical and non-clinical staff across the rest of the MultiCare Health System who are primarily located within the Puget Sound region.” [source: application p24]*

Public Comment

The public comments for this sub-criterion were identical to those provided for Valley Hospital. See above.

Rebuttal

None

Department Evaluation

The letters provided by local community members provide a valuable perspective related to this sub-criterion. The excerpt above demonstrates the community's knowledge of MultiCare's existing partnerships in western Washington. The department expects MultiCare will establish similar relationships in Spokane and the surrounding areas as it becomes familiar with Eastern Washington and its health delivery system.

Information within the application demonstrates that Deaconess Hospital under MultiCare ownership will continue to operate with the necessary relationships that will foster continuity in the provision of health care services in Spokane County.

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

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

Department Evaluation

For both applications, this sub-criterion is evaluated in sub-section (3) above, and is **met**.

**D. COST CONTAINMENT (WAC 246-310-240)**

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that MultiCare Health System has met the applicable cost containment criteria in WAC 246-310-240 for both applications.

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

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

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

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

#### Step One:

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

#### Step Two:

##### MultiCare Health System

As it relates to both Valley and Deaconess Hospitals, the only options MultiCare considered were the proposed projects, and no projects.

MultiCare identified the following advantages of the requested projects. [sources: Valley application pp25-26; Deaconess application pp26-27]

- *Connection to a much larger system of care within the region and greater organizational infrastructure will also provide greater efficiency and economies of scale through shared administrative and support staff and shared purchasing agreements, which would lower operating costs.*
- *MultiCare Health System has an excellent track record in Washington State for recruiting qualified staff to meet the needs of its system that includes multiple hospitals and outpatient medical parks, clinics, surgery centers, and other sites.*
- *MultiCare has comprehensive charity care policies in place for patients who require financial assistance.*
- *Connection to a much larger system of care and greater organizational infrastructure will provide greater efficiency and economies of scale. This would be expected to lower operating costs, in turn, lowering patient costs.*

MultiCare identified the following disadvantages of not moving forward with the requested projects. [sources: Valley application pp25-26; Deaconess application pp26-27]

- *Without linkage to MultiCare, there would be no benefits associated with a larger system of care.*
- *In the short run, hospital costs may not be impacted but over time, without realizing economies of scale, hospital costs would increase.*

Public Comment

One letter spoke to MultiCare’s ability to meet this sub-criterion

William O. Bouten, President, Bouten Construction Company

*“Rockwood Health System will return to non-profit ownership once the acquisition by MultiCare is complete. This is will have a profound impact on our community because of MultiCare's commitment to serve all citizens regardless of their ability to pay. Since 1882, MultiCare has been deeply involved in Tacoma and the communities they serve, something we anticipate will carry over to Spokane.”* [source: Bouten Construction comments]

Rebuttal

None

Department Evaluation

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

The department’s HFCC program provided the following analysis:

*“The applicant considered only one alternative to the purchase of Valley [Deaconess] Hospital: not purchasing it. MultiCare concluded that the purchase of Deaconess and Valley hospitals, along with Rockwood Clinic, would contribute to improved efficiency and economies of scale through shared overhead costs and purchasing agreements. MultiCare also contends that its purchase of the hospital will result in improved workforce retention and recruitment. Finally, MultiCare contends that patients should see benefits of lower costs due to system efficiencies and increased levels of charity care.*

*Staff is satisfied that MultiCare’s assertions are reasonable and this purchase is an appropriate option. In addition, MultiCare’s general acute care hospitals have provided higher levels of charity care in recent years than the current operators of Valley [Deaconess].”* [source: HFCC Valley and Deaconess analyses, p4]

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

Taking all of this into account, the department concurs that the requested projects are reasonable and the best available options for the planning area and surrounding communities.

**This sub-criterion is met.**



Step Three:

Though MultiCare Health System’s applications to purchase Valley Hospital and Deaconess Hospital were reviewed concurrently, the two applications were not competitive. Furthermore, numeric need was considered met for both hospitals under WAC 246-310-210. Therefore, it is not necessary to identify a superior project, as both are approvable. For both applications, **this sub-criterion is met.**

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

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

Department Evaluation

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

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

Department Evaluation

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

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

MultiCare Health System – Valley and Deaconess Hospitals

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

*“Once part of MultiCare, Valley [Deaconess] and MultiCare will become integrated. MultiCare has the vision, expertise and resources to further integrate care, appropriately utilize current and emerging technologies to improve health care delivery, and provide inpatient and outpatient care delivery when and where it is needed.*

*The acquisition and operation of Valley [Deaconess] will further the MultiCare Vision— provide lower cost, higher quality and more efficient health care delivery in the communities served by MultiCare, including services provided in a population health environment. This will be achieved by completing its system of care through linkages to MultiCare’s electronic health record and provider network. It will also allow for significant economies of scale through shared administrative and support staff as well as shared purchasing agreements— this will improve staff efficiency and productivity as well as system efficiency.” [sources: Valley application p26; Deaconess application p27]*

*“MHS is also proactively developing its population health management competencies and continuing to shift to accountable care and value based reimbursement payment structures. In 2014, MultiCare Connected Care, LLC (MCC), a clinically integrated network, was established by MultiCare as a wholly independent business entity with a mission to improve*

*health care quality, lower cost and improve every patient's experience with MCC.*" [sources: Valley application p15, Deaconess application p15]

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 MultiCare's acquisition of [Valley and] Deaconess Hospital 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 p4]

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

MultiCare provided information related to their ACO, MultiCare Connected Care. Though MCCC is not yet available in Eastern Washington, this information supports that MultiCare has committed to providing quality health care at a lower cost in their existing facilities.

This project has the potential to improve delivery of acute care services to the residents of Spokane County and surrounding communities with MultiCare's acquisition of Valley and Deaconess Hospitals. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**