



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

January 14, 2014

CERTIFIED MAIL # 7011 2000 0000 5081 8784

Martina Sze, Vice President
US HealthVest
32 East 57th Street, 17th Floor
New York, New York 10022

RE: CN 13-40

Dear Ms. Sze:

We have completed review of the Certificate of Need (CN) application submitted by US HealthVest proposing to establish a 75-bed psychiatric hospital in Snohomish County, within Washington State. For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided US HealthVest agrees to the following in its entirety.

Project Description:

This certificate approves the establishment of a new 75-bed psychiatric hospital to be located in Marysville, within Snohomish County. Psychiatric services would be available for patients five years of age and older. Services include a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment, day hospital/partial hospitalization, substance abuse treatment, and intensive outpatient services. The number of approved beds is summarized below.

	Number of Beds
Psychiatric beds	75
Total Licensed Beds	75

Conditions:

1. Approval of the project description as stated above. US HealthVest further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Prior to providing services at the hospital, US HealthVest will submit a copy of the adopted and approved Admission Policy for review and approval. The final policy must be consistent with the draft provided in the application.



3. Prior to providing services at the hospital, US HealthVest will submit a copy of the adopted Charity Care Policy approved by the Department of Health's Hospital and Patient Data System's office.
4. The new 75-bed psychiatric hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. The new 85-bed psychiatric hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.40 % of gross revenue and 5.21% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.
5. Annual budgets, as required by WAC 246-454-030, submitted by the new 75-bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Puget Sound Region.
6. Prior to commencement of the project, US HealthVest will submit to the department for review and approval an executed Purchase and Sales Agreement between Vest Seattle Realty, LLC and Smokey Point Boulevard, LLC for the site.
7. Prior to providing services at the hospital, US HealthVest will submit to the department for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.
8. Prior to providing services at the hospital, US HealthVest will submit to the department for review and approval a final listing of ancillary and support vendors for the 75-bed psychiatric hospital.

Approved Costs:

The approved capital expenditure for this project is \$18,830,000.

You have two options, either accept or reject the above in its entirety. If you accept the above in its entirety, your application will be approved and a Certificate of Need sent to you. If you reject any provision of the above, you must identify that provision, and your application will be denied because approval would not be consistent with applicable Certificate of Need review criteria. Please notify the Department of Health within 20 days of the date of this letter whether you accept the above in its entirety.

Martina Sze, Vice President
US HealthVest
January 14, 2014
Page 3 of 3

Your written response should be sent 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

Other Than By Mail:

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,



Steven M. Saxe, FACHE
Director, Community Health Systems

Enclosure

**EVALUATION DATED JANUARY 14, 2014, OF THE CERTIFICATE OF NEED
APPLICATION SUBMITTED BY US HEALTHVEST PROPOSING TO ESTABLISH A
75-BED PSYCHIATRIC HOSPITAL IN SNOHOMISH COUNTY**

APPLICANT DESCRIPTION

US HealthVest is a recently created entity owned by a variety of entities. The majority of ownership [71.4%] is PVP US HealthVest, Inc. [52.1%] and Impresa Fund III Limited Partnership [19.3%]. The remaining ownership percentage of 28.6 is shared between 13 other owners. Ownership shares range from 8.28% to 0.28%. US HealthVest is led by the former management team of Ascend Health Corporation. Ascend Health Corporation was established in 2005; and in mid-year 2012 was purchased by Universal Health Services. The management team of US HealthVest is listed below.

Name	Role
Richard A. Kresch, MD	President and Chief Executive Officer
Neal Cury	Chief Operating Officer
Martina Sze	Vice President
Stacie York	Vice President
Stephen Brady	Vice President Financial Operations

US HealthVest is not registered to do business in Washington State, rather US HealthVest created a wholly owned subsidiary known as Vest Seattle, LLC. This corporation is currently registered with the state of Delaware and the state of Washington.¹ For this project, US HealthVest is the applicant and, if this project is approved, would be the certificate holder. Since US HealthVest is not a Washington State corporation or registered to do business in this state, if this project is approved, the hospital license would be issued to Vest Seattle, LLC.

PROJECT DESCRIPTION

US HealthVest proposes to establish a 75-bed psychiatric hospital at 15621 Smokey Point Boulevard in Marysville [98270], within Snohomish County. The hospital would provide a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment services, day hospital/partial hospitalization, substance abuse treatment, and intensive outpatient services. [source: Application, p7]

The capital expenditure associated with the establishment of the 75-bed psychiatric hospital is \$18,830,000. Of that amount 75.2% is related to construction costs and fixed equipment; 5.5% for moveable equipment; and the remaining 19.3% is related to site preparation, fees, permits, and state taxes. [source: August 16, 2013, supplemental information, Attachment 8]

US HealthVest anticipates the 75-bed psychiatric hospital would become operational in early January 2016. Under this timeline, year 2016 is full year one and year 2018 is full year three. [source: August 16, 2013, supplemental information, Attachment 4]

¹ Established on May 16, 2013 with the Washington State Secretary of State office and Department of Revenue under UBI #603302718.

APPLICABILITY OF CERTIFICATE OF NEED LAW

US HealthVest's application is subject to review as the establishment of new health care facility under Revised Code of Washington 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1)(a).

EVALUATION CRITERIA

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

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

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

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

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

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

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

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment); and applicable portions of the 1987 Washington State Health Plan.²

² Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6).

TYPE OF REVIEW

This application was reviewed under the regular review timeline outlined in WAC 246-310-160, which is summarized below.

APPLICATION CHRONOLOGY

Action	US HealthVest
Letter of Intent Submitted	March 12, 2013
Application Submitted	May 21, 2013
Department's pre-review activities including screening and responses	May 22, 2013 through August 22, 2013
Beginning of Review	August 23, 2013
End of Public Comment <ul style="list-style-type: none">• public comments accepted through the end of public comment• Public hearing conducted	October 17, 2013
Rebuttal Comments	November 1, 2013
Department's Anticipated Decision Date	December 16, 2013
Department's Extended Anticipated Decision Date	January 17, 2014
Department's Actual Decision Date	January 14, 2014

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.*

For this application two entities sought affected person status, however, only one entity qualified for the status under the definitions above. The two entities are BHC-Fairfax Hospital, Inc. and Acadia Healthcare, Inc. Below is a summary of each and a determination of their respective status regarding this application.

BHC Fairfax Hospital, Inc.

On November 16, 2012, BHC Fairfax Hospital was issued Certificate of Need #1492 approving the establishment of a 30-bed adult psychiatric hospital to be located in Everett, within Snohomish County. With its recent approval, BHC Fairfax Hospital, Inc. qualifies as an interested and affected person for this project.

Acadia Healthcare, Inc.

Acadia Healthcare, Inc. a provider of inpatient behavioral healthcare services in 22 states and Puerto Rico. Acadia Healthcare, Inc. provides psychiatric and chemical dependency services to its patients in a variety of settings, including inpatient psychiatric hospitals, residential treatment centers, outpatient clinics, and therapeutic school-based programs. [source: Acadia Healthcare website]

Acadia Healthcare, Inc. does not meet the definitions of an ‘interested person’ under WAC 246-310-010(34) (a), (b), (c), (d), (f), and (g) above. The remaining definition (e) requires Acadia Healthcare, Inc. to submit a letter of intent within the 12 months prior to submission of US HealthVest’s application—between May 22, 2012, and May 21, 2013. Acadia Healthcare, Inc. submitted a letter of intent to add psychiatric bed capacity to Snohomish County on July 26, 2013, a full two months after US HealthVest submitted an application. For this reason, Acadia Healthcare, Inc. does not meet the definition of an ‘interested person’ and therefore, cannot meet the definition of an ‘affected person’ for this application. Lack of interested person standing does not preclude Acadia Healthcare, Inc. from submitting comments on the US HealthVest application.³

SOURCE INFORMATION REVIEWED

- US HealthVest’s Certificate of Need application submitted May 21, 2013
- US HealthVest’s supplemental information received August 16, 2013 and September 3, 2013
- Public comments received by October 17, 2013
- US HealthVest rebuttal documents received November 1, 2013
- BHC Fairfax rebuttal documents received November 1, 2013
- Hospital and Patient Data Systems Analysis dated August 4, 2011
- Licensing and/or survey data provided by the Department of Health’s Investigations and Inspections Office
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health’s Office of Hospital and Patient Data Systems
- Department of Health’s Hospital and Patient Data Systems financial feasibility and cost containment analysis received November 27, 2013
- Historical charity care data for years 2009, 2010, and 2011 obtained from the Department of Health Hospital and Patient Data Systems office
- Department of Health internal database-Integrated Licensing & Regulatory System (ILRS)
- Joint Commission quality check website at [www.qualitycheck.org]
- Acadia Healthcare website [www.acadiahealthcare.com]
- Certificate of Need historical files

³ Lack of affected person status precludes Acadia Healthcare, Inc. from submitting rebuttal comments to any public comments submitted on the US HealthVest application. Lack of interested and affected person status also precludes Acadia Healthcare, Inc. from submitting a reconsideration request related to the outcome of this evaluation.

REVIEW PROCESS CONCERNS

During the review of this application, representatives from BHC Fairfax Hospital and Acadia Healthcare, Inc. voiced concerns regarding the process used to review US HealthVest's application. The concerns focus on the August 16, 2013, supplemental information submitted by the applicant in response to the department's June 12, 2013, letter. Below is a summary of the concerns raised and the department's responses.

Site of the psychiatric hospital

Within the application submitted on May 21, 2013, US HealthVest identified the site for the psychiatric hospital to be 16201 – 25th Avenue in Lynnwood, within Snohomish County. The application did not include the following documents related to the site:

- zoning documentation;
- documentation related to usage or restrictions on usage; and
- Purchase and Sales Agreement.

[source: Application, p4]

Question #7 of the department's June 12, 2013 letter requested the documentation identified above. US HealthVest's August 16, 2013, supplemental information included all of the site documentation as requested above; however, the site for the hospital was changed from the Lynnwood site to the current site at 15621 Smokey Point Boulevard, in Marysville, still within Snohomish County. [source: August 16, 2013 supplemental information, p3 and Attachments 5& 6]

Representatives from BHC Fairfax Hospital and Acadia Healthcare, Inc. asserted that the site change should be viewed as an amendment to the application. Reasons cited include change in timeline to become operational and change in capital costs.⁴

For amendment purposes, a change in timeline is irrelevant to whether a project is considered an amendment. Certificates of Need are valid for two years from the date of issuance.⁵ Commencement of the project must occur during the two year validity period. WAC 246-310-010(13) defines 'commencement of the project' to mean:

"whichever of the following occurs first: In the case of a construction project, giving notice to proceed with construction to a contractor for a construction project provided applicable permits have been applied for or obtained within sixty days of the notice; beginning site preparation or development; excavating or starting the foundation for a construction project; or beginning alterations, modification, improvement, extension, or expansion of an existing building. In the case of other projects, initiating a health service."

Since US HealthVest's project required construction, the project must commence, but not necessarily be operational, within two years of issuance. Regardless of the site identified, the applicant provided a timeline that demonstrated the project would commence within the two year validity period.

⁴ Once a Certificate of Need has been issued, a change in the approved site is a trigger for an amendment. Appropriately, neither BHC Fairfax Hospital nor Acadia Healthcare asserts this rationale should be used to determine whether an amendment has occurred on US HealthVest's project.

⁵ WAC 246-310-580 allows for one six month extension to the validity of the certificate. The discussion in this evaluation does not address the option of an extension.

Change in Capital Costs

The application submitted on May 21, 2013, identified an estimated capital expenditure of \$23,200,000.⁶ Page 30 of the application provided a breakdown of the capital costs that included \$3,990,000 for ‘working capital.’ Question #13 of the department’s June 12, 2013, letter included the following question regarding the capital costs.

The capital cost breakdown shown on page 30 includes a line item entitled ‘working capital.’ Please explain what is meant by this line item and the rationale for including it in the capital cost breakdown.⁷

Question #13 also included the following footnote:

Based on one definition, this line item should be included in the balance sheet; another definition indicates this line item is necessary to sustain a business until revenues cover expenses. Both definitions suggest that working capital is not a capital expenditure as defined in WAC 246-310-010(10). [emphasis added]

In its August 16, 2013, responses, US HealthVest excluded the \$3,990,000 for working capital and provided revised costs for the site change. The revised costs are \$18,830,000.

Representatives from BHC Fairfax Hospital and Acadia Healthcare, Inc. asserted that the change in capital cost should be viewed as an amendment to the application because the change is more than 12% of \$23,200,000, the costs identified in the application.

Based on the department’s question #13 above, US HealthVest was required to exclude the working capital costs of \$3,990,000 in the application. This would have reduced the capital expenditure to \$19,210,000. Using \$19,210,000 as the correct capital expenditure and the baseline for determining the percentage of increase or decrease, the site change reduced the capital expenditure by less than 2% to \$18,830,000. This small percentage of change in capital costs does not justify an amendment.

WAC 246-310-100 provides guidance for determining whether an amendment of an application has occurred. Sub-section (1) states:

“The following changes to an application may be considered by the department an amendment of an application:

- (a) The addition of a new service or elimination of a service included in the original application.*
- (b) The expansion or reduction of a service included in the original application.*
- (c) An increase in the bed capacity.*
- (d) A change in the capital cost of the project or the method of financing the project.*
- (e) A significant change in the rationale used to justify the project.*
- (f) A change in the applicant.”*

A change in the timeline is not included in the events that may trigger an amendment. A change in capital costs is listed above; however, the decrease in costs is less than 2%. Therefore, neither of the two changes triggers an amendment.

⁶ The capital expenditure is consistent with the amount identified in the March 8, 2013, letter of intent.

⁷ [see footnote reference above].

Additionally, sub-section (2) of WAC 246-310-100 provides additional guidance to determine whether an amendment of an application has occurred. It states:

“Direct responses to screening questions will not be considered amendments.”

Since an amendment is not triggered under WAC 246-310-100, and the information is a direct response to the department’s request for supplemental information (screening), the change in site is not an amendment.

CONCLUSIONS

For the reasons stated in this evaluation, the application submitted by US HealthVest proposing to establish 75-bed psychiatric hospital located Marysville, within Snohomish County is consistent with applicable criteria of the Certificate of Need Program, provided the applicant agrees to the following in its entirety.

Project Description:

This certificate approves the establishment of a new 75-bed psychiatric hospital to be located in Marysville, within Snohomish County. Psychiatric services would be available for patients five years of age and older. Services include a full range of psychiatric services, including inpatient services, voluntary and involuntary treatment, day hospital/partial hospitalization, substance abuse treatment, and intensive outpatient services. The number of approved beds is summarized below.

	Number of Beds
Psychiatric beds	75
Total Licensed Beds	75

Conditions:

1. Approval of the project description as stated above. US HealthVest further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Prior to providing services at the hospital, US HealthVest will submit a copy of the adopted and approved Admission Policy for review and approval. The final policy must be consistent with the draft provided in the application.
3. Prior to providing services at the hospital, US HealthVest will submit a copy of the adopted Charity Care Policy approved by the Department of Health’s Hospital and Patient Data System’s office.
4. The new 75-bed psychiatric hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent polices reviewed and approved by the Department of Health. The new 75-bed psychiatric hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 2.40 % of gross revenue and 5.21% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.
5. Annual budgets, as required by WAC 246-454-030, submitted by the new 75-bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Puget Sound Region.

6. Prior to commencement of the project, US HealthVest will submit to the department for review and approval an executed Purchase and Sales Agreement between Vest Seattle Realty, LLC and Smokey Point Boulevard, LLC for the site.
7. Prior to providing services at the hospital, US HealthVest will submit to the department for review and approval a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.
8. Prior to providing services at the hospital, US HealthVest will submit to the department for review and approval a final listing of ancillary and support vendors for the 75-bed psychiatric hospital.

Approved Costs:

The estimated capital expenditure for this project \$18,830,000.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department concludes US HealthVest has met the need criteria in WAC 246-310-210.

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

WAC 246-310 does not contain an acute care bed forecasting method. The determination of numeric need for acute care hospital beds is performed using the Hospital Bed Need Forecasting method contained in the 1987 Washington State Health Plan (SHP). Though the SHP was “sunset” in 1989, the department has concluded that this methodology remains a reliable tool for predicting baseline need for acute care beds. The 1987 SHP also has a numeric methodology for projecting psychiatric bed need; however the department is unable to obtain the required data to apply this methodology. As a result, the evaluation of the need criterion for psychiatric beds begins with an evaluation of the numeric need methodology provided by the applicant.

US HealthVest’s Numeric Need Methodology

[source: Application, 26-27 and August 16, 2013, supplemental information, p71]

The applicant’s numeric need methodology was based on the following factors: planning area, population estimates and forecasts, use rate, and current capacity. The table below shows in the factors used.

Table 1
US HealthVest’s Methodology Assumptions and Data

Assumption	Data Used
Planning Area	Snohomish County
Population Forecasts	Office Of Financial Management Population Data released May 2012. Age group of 5 years and older. Forecast years 2012 through 2020.
Use Rate	27.25 per 100,000 population. On October 22, 2012, the department approved the addition of 30 psychiatric beds in Snohomish County. In that application, the applicant applied an average use rate of other Northwest states. The department concurred that this was a reasonable determination of a use rate. US HealthVest used this same approach.
Current Capacity	53 psychiatric beds <ul style="list-style-type: none">• Swedish-Edmonds-23• BHC Fairfax-30

Based on the assumption and data above, US HealthVest projected the number of psychiatric beds needed in Snohomish County for years 2012 through 2020. The table below show years 2014 through 2018.

Table 2
US HealthVest's Psychiatric Bed Need Projections

	2014	2015	2016	2017	2018
Population	694,599	702,557	711,817	721,493	731,605
Use Rate/100,000	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	189.3	191.4	194.0	196.6	199.4
Minus Current Supply	53.0	53.0	53.0	53.0	53.0
Net Bed Need	136.3	138.4	141.0	143.6	146.4
US HealthVest # of Beds	-0-	-0-	75.0	75.0	75.0
Unmet Bed Need	136.3	138.4	66.0	68.6	71.4

The 'net bed need' line item shows that more than 130 psychiatric beds are needed in the Snohomish County planning area in 2014, which increases to more than 145 in 2018. The 'unmet bed need' line item shows that even with US HealthVest providing psychiatric services with 75 beds in year 2016, additional psychiatric beds may be needed in Snohomish County.

During the review of this project, no entities submitted comments directly related to the numeric methodology used by the applicant.

In summary, based on the department's review of US HealthVest's numeric need methodology, need for additional psychiatric bed capacity in Snohomish County is justified.

US HealthVest also provided statements related to the population's need for the psychiatric services. The statements are summarized below. [source: Application, pp18-24]

- A study published in the August 2011 Archives of General Psychiatry evaluated data for the period of 1996-2007 from the National Hospital Discharge Survey, an annual survey conducted by the National Center for Health Statistics to determine hospitalization rates. The data found that hospitalization rates increased the most for children ages 5-12. Among teens, the rate increased from 683 to 969 per 100,000. The adult rate increased from 921 to 995 per 100,000. By contrast, the rate declined among the elderly, from 977 to 807 per 100,000. US HealthVest proposes to serve patients five years and older.
- Snohomish County's population grew by 17.7% from year 2000 to year 2010, and is projected to grow another 8.1% by year 2017. Both adult and older adult populations are increasing at a faster rate than the population in general.
- In addition to the general adult population in Snohomish County, the new psychiatric hospital expects to serve the military through specialty programming focused on combat post-traumatic stress disorder, addiction, and dual diagnoses. Currently there are more than 70,000 active duty personnel in Western Washington.⁸ Data gathered by the Armed Forces Health Surveillance Center estimates that 6.87% of the active military population suffers from a form of depressive disorder.⁹
- Recent media releases focus on Snohomish County's lack of psychiatric beds and the resulting burdens placed on emergency rooms and jails in the area.

⁸ US HealthVest identified the active duty sites to include Joint Base Lewis McChord, Naval Base Kitsap, Whidbey Island Naval Base, Naval Station Everett, and National Guard.

⁹ Armed Forces Health Surveillance Center, Medical Surveillance Monthly Report, September 2011, Volume 18, Number 9.

During the review of this project and at the October 17, 2013, public hearing, the department received several letters of support from healthcare, law enforcement, and other entities in Snohomish County and surrounding areas. The chart below is a summary of the support submitted.

Healthcare

Sunrise Community Mental Health, Snohomish and Skagit counties
National Alliance on Mental Illness (NAMI)
Stillaguamish Tribe of Indians, Behavioral Health Programs, Snohomish County
NAMI Skagit [National Alliance on Mental Illness]
Snohomish County Health District
Psychiatrist in Western Washington
Psychiatrist certified in addiction medicine
Certified domestic violence counselor with Follman Agency in Burlington, Skagit County
Consultant & psychiatric RN
Okanogan County Public Health
Domestic violence and chemical dependency counselor
Snohomish County psychiatrist
Snohomish County Health District

Law Enforcement

Lynnwood Police Department, Snohomish County
Everett Police Department, Snohomish County
Sheriff Department, Snohomish County
Marysville Police Department, Snohomish County
Sheriff Department, Whatcom County

Other Entities

Everett Housing Authority, Snohomish County
Senior Services of Snohomish County
Lynnwood Economic Development, Snohomish County
City of Marysville, Snohomish County
resident of Everson, Whatcom County
St. Mary Catholic Church in Marysville, Snohomish County
Snohomish County Council, Snohomish County
City of Arlington, Snohomish County
Marysville Tulalip Chamber of Commerce, Snohomish County
City of Sultan, Snohomish County

The majority of the letters centered on the need for psychiatric services in Snohomish County. Some provided statistical data to support their position that Snohomish County needs additional psychiatric beds. Others provided very descriptive personal experiences of a family member to support the need. Law enforcement support focused on the need for additional detox services and overcrowded emergency rooms that 'house' these psychiatric patients when beds are not available. For the healthcare or other entities outside of Snohomish County, the support was focused on the need for additional psychiatric beds and services located beyond King County and south Snohomish County.

Two letters of opposition were provided during this review—one from BHC Fairfax and one from Acadia Healthcare. During the public hearing, a representative from each of the opposing facilities stated that additional psychiatric beds were needed in Snohomish County. The concept of “*who should be approved to add psychiatric bed capacity*” was the focus of the opposition, rather than whether there is need for additional psychiatric beds in the county.¹⁰

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

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

US HealthVest is not currently a provider of health care services to the residents of Washington State. To ensure that all residents of the service area would have access to the services provided by this applicant, US HealthVest must provide specific documentation to demonstrate availability to all residents of the service area and a commitment to maintain its Medicare and Medicaid participation and provide a percentage of charity care in the planning area.

Admission Policy

To determine whether all residents of Snohomish County would have access to the proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any 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.

To demonstrate compliance with this sub-criterion, US HealthVest provided a copy of the Admission Policy to be used at the psychiatric hospital. The policy is a draft, and outlines the criteria that the hospital uses to admit patients for psychiatric treatment at the hospital. The policy demonstrates patients would be admitted to the facility for treatment without regard to race, color, religion, sex, national origin, or ability to pay. [source: August 16, 2013, supplemental information, Attachment 11]

Medicare and Medicaid Programs

The department uses Medicare certification to determine whether the elderly would have access or continue to have access to the proposed services. To demonstrate compliance with this sub-criterion, US HealthVest provided its projected source of revenues by payer for the psychiatric hospital. Medicare revenues are projected to be 26% of total revenues at the hospital. Additionally, the financial data provided in the application shows Medicare revenues.

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

¹⁰ On October 7, 2013, Acadia Healthcare submitted an application to add bed capacity to Snohomish County. On November 12, 2013, BHC Fairfax also submitted an application to add psychiatric bed capacity to Snohomish County. [Applications #14-11 and 14-15, respectively] Both applications were submitted after US HealthVest submitted this application.

compliance with this sub-criterion, US HealthVest also provided its projected percentage of Medicaid revenues at 23.0% for the psychiatric hospital. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application p35 and August 16, 2013, supplemental information, Attachment 3]

Charity Care Policy

A facility’s charity care policy should confirm that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to healthcare services of the applicant. The policy should also include the process one must use to access charity care at the facility.

To demonstrate compliance with this sub-criterion, US HealthVest provided a copy of its charity care policy to be used at the psychiatric hospital. The policy is a draft and outlines the process one must follow to obtain charity care. Since the policy is a draft and the proposed hospital is not operational, the policy has not been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. The pro forma financial documents provided in the application also include a charity care 'line item' as a deduction of revenue. [source: August 16, 2013, supplemental information, Attachments 3 & 12]

For charity care reporting purposes, HPDS divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. US HealthVest’s psychiatric hospital would be located in Snohomish County within the Puget Sound Region. Currently there are 19 operating hospitals located within the region and one recently approved, yet not operational hospital in the region. The 19 operating hospitals are general acute care hospitals, and with the exception of Swedish-Edmonds, typically provide psychiatric services to a small number of patients in the planning area. Swedish Edmonds has a 23-bed psychiatric unit and provides more extensive psychiatric services than the other acute care hospitals in the region. The CN approved, yet not operational, hospital is the recently approved 30-bed BHC Fairfax Hospital to be located within space at Providence Regional Medical Center-Everett.

The table below shows the three-year average of charity care provided by the 19 operational hospitals in the region and the three year average of charity care projected to be provided at US HealthVest’s psychiatric hospital. [source: August 16, 2013, supplemental information, Attachment 3 and HPDS 2009-2011 charity care summaries]

**Table 3
Charity Care Percentage Comparisons**

	% of Total Revenue	% of Adjusted Revenue
Puget Sound Region	2.40%	5.21%
Applicant-Projected	2.54%	4.99%

As noted in the table above, US HealthVest intends to provide charity care near the regional average. Since the 75-bed hospital will be a new facility in the Puget Sound Region and only one of two psychiatric hospitals in the county, to ensure the hospital meets its charity care obligations, the department concludes that a charity care condition is necessary to ensure continued compliance with this sub-criterion.

Since the Admission Policy and Charity Care Policy are in draft format, the department would also attach a condition to require US HealthVest to submit adopted and approved policies consistent

with the drafts provided in the application. Further, since the Charity Care Policy has not been reviewed and approved by the department's HPDS office, the charity care condition would also include final review by them.

During the review of this project, BHC Fairfax submitted comments regarding the charity care policy provided in the application. Specifically, BHC Fairfax asserted that the policy is inadequate because it does not include a '*sliding fee schedule for determination of discounts from charges for persons who qualify for such discounts.*' [source: BHC Fairfax public hearing documents, p4]

Department's Review

Since HPDS must review and approve all charity care policies for Washington State hospitals, all appropriate information will be included in the policy and reviewed by HPDS before the 75-bed hospital can become operational. With the charity care policy and percentage conditions referenced above, the department accepts that US HealthVest's new hospital will be consistent with the charity care requirements referenced in this sub-criterion.

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

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that US HealthVest has met the financial feasibility criteria in WAC 246-310-220.

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

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

If this project is approved, US HealthVest expects to begin providing psychiatric services in Snohomish County in January 2016. [source: August 16, 2013, supplemental information, Attachment 4] Based on this timeline, year 2016 would be full calendar year one with a 75-bed hospital and 2018 would be year three.

To evaluate this sub-criterion, the department first reviewed the assumptions used by US HealthVest to determine the projected number of patients for the new hospital. The assumptions are summarized below. [source: Application, pp27-28 and August 16, 2013, supplemental information, pp5-6]

The projections are based on two distinct populations: general (non-military population) and military population.

Non-Military Patients

- Non-military would represent 75% of the total patient days.
- Patient resident zip codes assumed 75% from Snohomish County and 25% from other areas [25% in-migration]
- The four counties north of Snohomish County—Island, San Juan, Skagit, and Whatcom—have psychiatric bed to population ratios well below the Washington State average. This information is shown in the tables below.

Island County	Current Year-2013	Year 1-2016	Year 3-2018
Population	78,794	80,726	81,639
# of Psychiatric Beds	0	0	0
Bed to Population Ratio	0/100,000	0/100,000	0/100,000

San Juan County	Current Year-2013	Year 1-2016	Year 3-2018
Population	15,792	15,939	16,058
# of Psychiatric Beds	0	0	0
Bed to Population Ratio	0/100,000	0/100,000	0/100,000

Skagit County	Current Year-2013	Year 1-2016	Year 3-2018
Population	119,586	122,818	125,397
# of Psychiatric Beds	15	15	15
Bed to Population Ratio	12.5/100,000	12.2/100,000	12.0/100,000

Whatcom County	Current Year-2013	Year 1-2016	Year 3-2018
Population	206,252	212,859	218,829
# of Psychiatric Beds	20	20	20
Bed to Population Ratio	9.7/100,000	9.4/100,000	9.1/100,000

- Based on 2011 CHARS data, 53.7% of Skagit County residents and 31.2% of Whatcom County residents seek psychiatric care outside of their respective county of residence.
- With no psychiatric beds in either Island or San Juan counties, 100% of those residents seek psychiatric care outside of the county.
- Based on 2011 CHARS data, the average percentage of in-migration for all psychiatric programs in Washington State is 33%. Using 25% is reasonable and conservative.
- Based on 2010-2012 CHARS data for Snohomish County, an average length of stay (ALOS) of 9 was assumed.

Military Patients

- Military patients would represent 25% of the total patient days.
- Using Dr. Kresch’s experience with his previous ownership of psychiatric hospitals [Ascend], ALOS of 32 days was assumed.

Using the assumptions above, US HealthVest projected the total number of discharges, patient days, and occupancy for the 75-bed psychiatric hospital. Years 2016 through 2018 are shown on the following page. [source: August 16, 2013, supplemental information, Attachment 2]

**Table 4
US HealthVest Non-Military Projections**

	Year 2016	Year 2017	Year 2018
# of Discharges	820	1,550	1,875
Total Patient Days	7,383	13,950	16,875
Average Length of Stay	9.0	9.0	9.0
Average Daily Census	20.2	28.2	46.2

**Table 5
US HealthVest Military Projections**

	Year 2016	Year 2017	Year 2018
# of Discharges	77	145	176
Total Patient Days	2,461	4,650	5,625
Average Length of Stay	32.0	32.0	32.0
Average Daily Census	6.7	12.7	15.4

**Table 6
US HealthVest Total Projections**

	Year 2015	Year 2016	Year 2017
# of Discharges	897	1,695	2,051
Total Patient Days	9,844	18,600	22,500
Average Length of Stay	11.0	11.0	11.0
Average Daily Census	27.0	51.0	61.6
% Occupancy with 75 beds	35.9%	67.9%	82.2%

During the review of this project, Acadia Healthcare, Inc. and BHC Fairfax both submitted comments regarding the applicant’s utilization projections. [source: Acadia Healthcare, Inc. public hearing documents, pp7-8; and BHC Fairfax public hearing documents, p7] The comments are summarized below.

- No rationale for volume projections at the new site. The Marysville site is nearly 25 miles further north and less populated than the previous Lynnwood site. New volume projections should be submitted to account for the change. [Acadia]
- The applicant does not explain why the military population from Joint Base Lewis McChord [JBLM] would bypass the ‘existing (and soon to be expanded) Cascade-operated facility’ in King County. [Acadia]
- US HealthVest’s occupancy percentages rely on 25% in-migration from outside Snohomish County with no rationale for this assumption. [Fairfax]
- The application’s occupancy percentages also rely on 25% of its total patient days from military patients, yet provides no rationale for this assumption. [Fairfax]

US HealthVest provided the following statements in response to the comments summarized above. [source: US HealthVest rebuttal documents, pp14-16]

- The new 75-bed psychiatric hospital will provide a comprehensive array of behavioral health and chemical dependency services as outlined in our application and screening responses. It will provide geropsychiatric services as well as specialized services for active duty military.

- The projections are not unreasonably high. The behavioral and psychiatric un-met need for military is significant. In Washington State, there are no dedicated specialized programs designed to meet the unique needs of service members suffering from combat-related post-traumatic stress. Any active duty service member stations in the state must be referred out-of-state for such care. The new hospital will provide these services.

Department's Review

It is unclear why both competitors assert that the patient days and occupancy are unreasonable. A review of the assumptions used by US HealthVest to project its patient days demonstrates that the applicant appropriately focused on psychiatric services/patients in a four county area. Military personnel could come from any branch within any county in the state, including JBLM in Pierce County. There is no reason to assume that a number of military would not bypass the King County facility owned by Cascade and obtain services in Snohomish County.

At the October 17, 2013, public hearing, community members in support of the project stated that, for privacy or other personal reasons, they would welcome an opportunity to obtain needed psychiatric services in a facility that was not located within their county of residence.

Additionally, at the October 17, 2013, public hearing, representatives from both Acadia Healthcare, Inc. and BHC Fairfax agreed that Snohomish County needed additional dedicated psychiatric beds.

Based on the assumptions above and taking into consideration the results of the numeric need methodology, the projections provided by US HealthVest are considered reasonable.

US HealthVest provided its pro forma revenue and expense statements using the assumptions summarized below. [source: Application, p35; August 16, 2013, supplemental information, Attachments 2 & 3]

- The statements include both inpatient and outpatient revenue and expenses.
- Payer mix is 26.0% Medicare; 23.0% Medicaid, 51.0% commercial/other/self-pay.
- Operating expenses were calculated using the experience of previous owners of psychiatric hospitals [Ascend].
- Medical director will be an employee and the compensation is included in the wages/salaries expense line item.
- Charity care is calculated at 2.54% of gross patient revenue.
- Bad debt is calculated at 2.5% of gross patient revenue.
- Contractual allowances are calculated to be approximately 61% of gross patient revenue.
- The number of outpatient visits is projected at 2,064, 3,914, and 4,697 respectively for years 2016, 2017, and 2018.

Using the assumptions above, the table on the following page illustrates the projected revenue, expenses, and net income for CY 2016 through 2018 for US HealthVest's 75-bed psychiatric hospital. [source: August 16, 2013, supplemental information, Attachment 3]

Table 7
US HealthVest 75-bed Psychiatric Hospital
Projected Revenue and Expenses for Calendar Years 2015 - 2017

	CY 1 2016	CY 2 2017	CY 3 2018
Net Revenue	\$ 5,790,268	\$ 15,561,898	\$ 19,097,804
Total Expenses	\$ 10,558,552	\$ 15,211,360	\$ 17,819,679
Net Profit or (Loss)	(\$ 4,768,284)	\$ 350,538	\$ 1,278,125

[2] includes depreciation and loan principal expenses

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

As shown in the table, US HealthVest projects the new psychiatric hospital would operate at a loss in year one, and profit in years two and three.

To assist in the evaluation of this sub-criterion, the department’s Hospital and Patient Data Systems (HPDS) office reviewed projected balance sheets for years one and three. The information is shown in the tables below. [source: November 27, 2013, HPDS analysis, p2]

Table 8A
US HealthVest Balance Sheet
Projected Year 2016

Assets		Liabilities	
Current Assets	\$ 1,475,605	Current Liabilities	\$ 479,468
Fixed Assets	\$ 18,585,000	Long Term Debt	\$ 0
Board Designated Assets	\$ 0	Other Liabilities	\$ 0
Other Assets [depreciation]	(\$ 491,643)	Equity	\$ 19,089,494
Total Assets	\$ 19,568,962	Total Liabilities and Equity	\$ 19,568,962

Table 8B
Projected Year 2018

Assets		Liabilities	
Current Assets	\$ 5,864,882	Current Liabilities	\$ 676,813
Fixed Assets	\$ 17,084,004	Long Term Debt	\$ 0
Board Designated Assets	\$ 0	Other Liabilities	\$ 0
Other Assets [depreciation]	(\$ 1,553,914)	Equity	\$ 20,718,159
Total Assets	\$ 21,394,972	Total Liabilities and Equity	\$ 21,394,972

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

“US HealthVest’s capital expenditure for the Certificate of Need project is \$18,830,000. ...US HealthVest was created for this hospital project. All the current assets are available for the costs of the project which are sufficient for this project.”

HPDS also provided a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are 1) long-

term debt to equity; 2) current assets to current liabilities; 3) assets financed by liabilities; 4) total operating expense to total operating revenue; and 5) debt service coverage. If a project's ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, HPDS reviews a project's projected statement of operations to evaluate the applicant's immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2011 data for comparison with projected years 2016 through 2018. The ratio comparisons are shown in the table below. [Source: November 27, 2013, HPDS analysis, p3]

**Table 9
Current and Projected HPDS Debt Ratios for UHS and Fairfax North**

Category	Trend*	State 2011	Projected Year 1 2016	Projected Year 2 2017	Projected Year 3 2018
Long Term Debt to Equity	B	0.565	N/A	N/A	N/A
Current Assets/Current Liabilities	A	2.029	3.078	5.087	8.665
Assets Funded by Liabilities	B	0.442	0.025	0.029	0.032
Operating Expense/Operating Revenue	B	0.965	1.823	0.977	0.933
Debt Service Coverage	A	4.340	N/A	N/A	N/A
Definitions:	Formula				
Long Term Debt to Equity	Long Term Debt/Equity				
Current Assets/Current Liabilities	Current Assets/Current Liabilities				
Assets Funded by Liabilities	Current Liabilities + Long term Debt/Assets				
Operating Expense/Operating Revenue	Operating expenses / operating revenue				
Debt Service Coverage	Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp				

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

As noted above, two of the ratios—long term debt to equity and debt service coverage—are not used because no debt is associated with the project. US HealthVest intends to fund the project using corporate reserves. The remaining three ratios are in range by year three.

During the review of this project, BHC Fairfax submitted comments regarding the pro forma financial statements provided by US HealthVest. [source: BHC Fairfax public hearing documents, p7] The comments are summarized below.

- The applicant failed to provide the following necessary financial statements
 - revenue and expense;
 - balance sheet with financial ratios;
 - deductions from revenue;
 - cost center financial statements; and
 - FTE wages and salary scheduled, by type of employee.
- There is no discussion of any underlying assumptions used in the financial statements.

In response to the concerns raised by BHC Fairfax, US HealthVest asserts that it provided all of the documents listed above. [source: US HealthVest rebuttals documents, pp16-17]

Department's Review

A review of the application and supplemental information demonstrates that US HealthVest provided the information and documents listed above.

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

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

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

The capital expenditure associated with the establishment of the 75-bed psychiatric hospital is \$18,830,000. A breakdown of the costs is shown below. [source: August 16, 2013, supplemental information, Attachment 8]

Item	Cost	% of Total
Land Purchase	\$ 1,030,000	5.47%
Construction Costs [includes fixed equipment]	\$ 14,167,000	75.24%
Moveable Equipment	\$ 365,600	1.94%
Architect/Engineering Fees	\$ 1,000,000	5.31%
Consulting Fees	\$ 200,000	1.06%
Site Preparation	\$ 500,000	2.66%
Supervision & Inspection	\$ 200,000	1.06%
Sales Tax	\$ 1,367,400	7.26%
Total	\$ 18,830,000	100.00%

US HealthVest, LLC proposes the new 75-bed psychiatric hospital would be located at 15621 Smokey Point Boulevard in Marysville, within Snohomish County. To demonstrate compliance with this sub-criterion, US HealthVest provided three documents related to the site. A summary of each document is provided below. [source: August 16, 2013, supplemental information Attachments 1, 5, & 6; and September 3, 2013, supplemental information, Attachments 1, 2, & 3]

- Executed Option Agreement
This agreement is between Vest Seattle Realty, LLC [optionee] and Smokey Point Boulevard, LLC [owner]. Vest Seattle Realty, LLC is a Washington State corporation specifically formed to purchase the real estate for this project. This executed agreement identifies the location of the site, purchase price, earnest money paid. It recognizes that the owner has agreed to grant the optionee exclusive option to purchase a portion of the land identified in the Option Agreement. The agreement became effective on August 15, 2013.
- Draft-Purchase and Sale Agreement
This agreement is between Vest Seattle Realty, LLC [purchaser] and Smokey Point Boulevard, LLC [seller]. The agreement identifies the location of the site, purchase price, and certain regulatory requirements that must be obtained by the purchaser. The agreement outlines roles and responsibilities of both purchaser and seller. Since the agreement is a draft, if this project is approved, the department would attach a condition requiring US HealthVest to provide a copy of the final, executed agreement.

- Zoning Information

US HealthVest provided a map of the Marysville area where the hospital would be located, and specific zoning information for the site. According to the map, the site is zoned: ‘general commercial.’ The applicant also provided a copy of an e-mail from the real estate broker with an attachment showing a description of the ‘general commercial’ zoning and a matrix showing permitted uses. The matrix demonstrates that a hospital is a permitted use for the site.

During the review of this project, Acadia Healthcare, Inc. submitted comments regarding the applicant’s demonstration of site control. [source: Acadia Healthcare, Inc. public hearing documents, pp6-7] The comments are summarized below.

- The option agreement is merely an unenforceable agreement to agree.
- The unsigned, draft purchase and sale agreement makes clear the sale is contingent upon future negotiation between parties.
- The purchase and sale agreement does not identify the site or specific the final purchase price.

In response to the comments regarding site control, US HealthVest provided the following statements. [source: US HealthVest rebuttal documents, pp6-7]

- The option agreement is signed by both parties. It contains all of the prerequisite information for an enforceable contract. It also identifies the purchase price.¹¹

Department’s Review

Focusing on the Option Agreement, Acadia Healthcare, Inc. does not specifically identify why this signed and executed agreement is not enforceable, instead it simply asserts that it is not. As noted in the department’s review above, the agreement is signed by both parties, dated, identifies the site, and costs. Without specific reasons why a signed agreement is not enforceable, the department must conclude it is. This conclusion is consistent with other executed documents provided by Certificate of Need applicants.

The department notes that US HealthVest did not respond to criticisms regarding the draft Purchase and Sales Agreement. Regardless of the applicant’s position related to the comments, the department has a long-standing history of accepting draft documents in an application. Draft purchase and sale documents are acceptable if the draft:

- a) identifies all parties associated with the documents;
- b) outlines all roles and responsibilities of the parties entities; and
- c) identifies all costs associated with the contract.

If a project with draft documents is approved, the approval is contingent on the applicant providing executed documents consistent with the draft provided. A condition is attached to the approval. The department will not treat this US HealthVest application differently in this respect than any other applicant reviewed by the department.

The draft agreement provided by US HealthVest includes the information necessary to determine compliance with the sub-criterion and allow for a specific condition related to the document.

¹¹ US HealthVest’s rebuttal comments also include specific cited court cases.

Based on the information provided in the application and with US HealthVest's agreement to the conditions related to the purchase and sale agreement, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health services within the service area. **This sub-criterion is met.**

(3) The project can be appropriately financed.

WAC 246-310 does not contain specific source of financing criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how a project of this type and size should be financed. Therefore, using its experience and expertise the department compared the proposed project's source of financing to those previously considered by the department.

The capital expenditure associated with the establishment of the 75-bed psychiatric hospital is \$18,830,000. The costs include purchase of the land, constructing and equipping the building, all construction and consultant fees, plus Washington State sales tax.

US HealthVest intends to fund the project using its reserves. US HealthVest is a new corporation created especially to establish this hospital in Washington State.

To demonstrate it has the funds to support the financing, US HealthVest provided its current [year 2013] balance sheet for the corporation. The balance sheet shows more than \$36,000,000 in current assets. [source: Application, Appendix 1] The documents demonstrate that the funds necessary to finance the project are available.

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

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

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department concludes Fairfax North has met the structure and process of care criteria in WAC 246-310-230.

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

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

The hospital is expected to become operational in January 2016 with all 75 psychiatric beds. Under this timeline, full calendar year one is 2016 and full year three is 2018. Staffing for the psychiatric hospital is based on the projected occupancy of 36% in year one, 68% in year two, and 82% in year three. Projected staffing is shown in the table on the following page. [source: August 16, 2013, supplemental information, p8]

Table 10
US HealthVest 75-bed Psychiatric Hospital

	Year 1-2016	Year 2-2017 Increase	Year 3-2018 Increase	Total
Nursing	40.70	15.30	12.60	68.60
Other Clinical*	24.00	9.50	3.10	36.60
Support	33.10	12.20	8.30	53.60
Outpatient	2.80	0.70	0.00	3.50
Physicians**	8.00	0.00	0.00	8.00
Total	108.60	37.70	24.00	170.30

* includes medical social workers and administrative staff

** physicians, including the medical director, are employees and included in the table

As noted in the table, US HealthVest intends to recruit the majority of its staff in year 2015 to ensure appropriate staffing upon opening in January 2016. In years two and three, staff will increase proportionately as occupancy of the hospital increases.

As a new corporation, the applicant has no documented experience in staff recruitment and retention. However, the management team of US HealthVest has five years of experience under the Ascend Health Corporation before its purchase in 2012. To ensure appropriate staff is available for this project, US HealthVest states it intends to *"work closely with the existing local providers to develop recruitment and retention strategies that would support existing systems and do not exacerbate any challenges faced by the existing providers."*

US HealthVest provided it staff recruitment strategies, which includes the points below.

- Specifically seeking individuals with an interest in behavioral health.
- Nationwide postings of job openings on the corporation website, national recruiting websites, and local community online posting.
- Establishing relationships with local colleges and universities by offering internships, training, and job opportunities.
- Offering a generous wage and benefit package that is comparable to the industry.
- Working with local employment agencies and attending job fairs.

[source: Application, pp37-38]

Key staff, including the medical director, have not yet been identified for the new hospital. Since the medical director will be an employee, no medical director contract will be established. US HealthVest provided a job description with roles and responsibilities, for the medical director position. [source: August 16, 2013, supplemental information, p9 and Attachment 9]

If this project is approved, the department would attach a condition requiring US HealthVest to provide the department with a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.

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

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

US HealthVest expects the new psychiatric hospital to become operational in January 2016. As a result, formal and informal working relationships with area healthcare providers have not yet been established. To demonstrate compliance with this sub-criterion, the applicant provided a listing of common ancillary and support services necessary for a 75-bed psychiatric hospital. Patient services anticipated to be provided on-site include pharmacy, dietary, and therapy; lab services are expected to be under contract with a local provider.

The psychiatric hospital would provide both inpatient and outpatient psychiatric services. US HealthVest intends to establish formal and informal working relationships with community healthcare providers to ensure continuity of care for the patients after discharge. Community providers include mental health providers, hospitals, physicians, nursing homes, home care, and, when necessary, local schools. [source: Application, p40 and August 16 2013, supplemental information, p9]

Given that US HealthVest has not yet established ancillary and support agreements for the new hospital, if this project is approved, the department would attach a condition requiring US HealthVest to provide a final listing of ancillary and support vendors for the 75-bed psychiatric hospital.

Based on the above information, the department concludes that US HealthVest will promote continuity in the provision of health care services in the community with the establishment of a 75-bed psychiatric hospital in Marysville. **This sub-criterion is met**

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

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Since this project requests the establishment of a new hospital, the hospital itself does not have a history of Medicare certification or inspections by the Department of Health. Since US HealthVest is a new corporation, it too does not have a history of providing healthcare services. Members of the management team of US HealthVest are former members of the management team of Ascend Health Corporation before its purchase in 2012. Ascend Health Corporation was established in 2005 and operated nine behavioral health facilities in the following five states: Arizona, Oregon, Texas, Utah, and Washington. [source: Application, p1]

The department reviewed the accreditation information on the Joint Commission¹² website for the out-of-state behavioral health hospitals previously owned and operated by Ascend. Of the nine hospitals, two did not have Joint Commission accreditation. Focusing on information before the purchase in 2012 for the remaining seven hospitals, all were considered comparable to the national patient safety and quality improvement goals during the time owned by Ascend Health Corporation.¹³ There were no adverse licensing actions as a result of these surveys. [source: Joint Commission compare website]

Based on the recent compliance history of Ascend and taking into consideration that the members of the management team of US HealthVest are former members of the management team of Ascend Health Corporation, the department concludes there is reasonable assurance that the new 75-bed psychiatric hospital located in Snohomish County would be operated in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how to measure unwarranted fragmentation of services or what types of relationships with a services area's existing health care system should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

As previously stated, the new psychiatric hospital would become operational in January 2016 and working relationships with area healthcare providers have not yet been established. Since the psychiatric hospital would provide both inpatient and outpatient psychiatric services, working relationships with community healthcare providers include mental health providers, hospitals, physicians, nursing homes, home care, and, when necessary, local schools. [source: Application, p40 and August 16 2013, supplemental information, p9]

Given the experience and expertise of the current management team, US HealthVest does not anticipate any difficulty establishing the necessary formal and informal agreements with the community providers. Provided that the applicant agrees to the condition related to sub-criterion (2) above, the department concludes that approval of this project is not expected to result in unwarranted fragmentation in the community. **This sub-criterion is met**

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

This sub-criterion is addressed in sub-section (3) above and **is met.**

¹² The Joint Commission is an independent, not-for-profit organization that accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards. [source: Joint Commission website]

¹³ Accreditation surveys completed in years 2010, 2011, and January to June 2012.

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

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that US HealthVest has met the cost containment criteria in WAC 246-310-240.

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

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

If the project met WAC 246-310-210 through 230 criteria, the department would move to step two in the process and assess the other options the applicant or applicants considered prior to submitting the application under review. If the department determines the proposed project is better or equal to other options the applicant considered before submitting their application, the determination is either made that this criterion is met (regular or expedited reviews), or in the case of projects under concurrent review, move on to step three.

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

Step One

For this project, US HealthVest met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two

Once the applicant determined there was need for additional psychiatric hospital beds in the planning area, three options were evaluated to meet the need. The options and US HealthVest's evaluation of each option is discussed below. [source: Application, pp42-43 and August 16, 2013, supplemental information, pp9-10]

Locate the psychiatric hospital within space at an existing acute care hospital in Snohomish County

After a lengthy search, this option was ruled out because the amount of space necessary to accommodate a 75-bed psychiatric hospital was not available.

Enter into a lease/sale agreement to convert an existing building into a psychiatric hospital

This option was initially selected as the preferred option. US HealthVest pursued a site in the Lynnwood area of Snohomish County and determined the renovations necessary to accommodate the 75-bed psychiatric hospital and space for ancillary services. A non-binding letter of intent to purchase the site was provided in the application. The estimated costs for this project were

\$19,210,000¹⁴. Prior to finalizing the purchase agreement, the site owner refused to enter into a final agreement that was contingent upon US HealthVest obtaining prior state approvals. This option was ultimately rejected in favor of the option below.

Purchase land and build a new hospital from the ground up

Initially this option was rejected because of the additional costs and time involved to build a new facility when compared to renovations of an existing facility. Under the renovation option discussed above, US HealthVest expected the psychiatric hospital would become operational in January 2015 at a cost of \$19,210,000.

Once US HealthVest chose this option and selected a site in Marysville, within Snohomish County, the timeline for operation of the 75-bed psychiatric hospital was extended by one year to January 2016. However, the estimated costs for this option are comparable to the costs for renovation at \$18,830,000.

The department did not identify any other alternatives to those presented by the applicant.

Step Three

This step is used to determine between two or more approvable projects which is the best alternative. Since no other application was reviewed with this project, this step does not apply.

Department's Review

Information provided in this application and during the public hearing, demonstrate need for additional psychiatric beds in Snohomish County. As a result, a 'do nothing' option was appropriately not evaluated by the applicant.

There are four acute care hospitals located in Snohomish County. Basic information on each of the four hospitals is below. [source: Department of Health internal database-ILRS]

Name/City Location	# of Licensed Beds
Cascade Valley Hospital/Arlington	48
Providence Regional Medical Center-Everett/Everett	501
Swedish Edmonds/Edmonds	217
Valley General Hospital/Monroe	72

As noted above, of the four hospitals, two are currently licensed for less than 75 beds. This indicates that neither would have the available space needed for a 75-bed psychiatric hospital. The Providence facility in Everett may have space, however, on November 16, 2012, CN #1492 was issued to BHC Fairfax Hospital in Kirkland. This certificate approves the establishment of a 30-bed psychiatric hospital within space at Providence Everett. As a result, this site could not be considered viable by US HealthVest.

While Swedish Edmonds may have space to accommodate a 75-bed hospital, the facility is located in South Snohomish County near King County hospitals with psychiatric services. Establishment

¹⁴ The letter of intent and the application both identified an estimated capital cost of \$23,200,000. During screening of the application, staff noted the costs included \$3,990,000 in working capital. For Certificate of Need purposes, working capital is not included in an estimated capital expenditure. This correction would have reduced the costs for this option to \$19,210,000.

of a 75-bed psychiatric hospital in the southern portion of the Snohomish County would not significantly increase access to psychiatric services for the residents of the northern and western counties of Whatcom, Skagit, San Juan, and Island. US HealthVest's rejection of this option is reasonable.

The remaining two options considered by the applicant are similar and equally feasible. Given that the owner of the building to be renovated was unwilling to enter into a definitive agreement for the site, US HealthVest chose the option of building a new facility in north Snohomish County.

Based on the information above, the department concludes this project continues to be the best available alternative for the residents Snohomish County and surrounding communities. **This sub-criterion is met.**