STATE OF WASHINGTON

DEPARTMENT OF HEALTH

Olympia, Washington 98504

June 22, 2016

Mike Fitzgerald
Franciscan Specialty Care, LLC
1145 Broadway Plaza, #1200
Tacoma, Washington 98402

RE: Certificate of Need Application #16-18

Dear Mr. Fitzgerald:

It has been brought to my attention that our recently released evaluation identified the charity care region within the conditions for your project as the Southwest region rather than the Puget Sound region. Only the name of the region was incorrect. Conditions number 7 and 9 are restated below showing the correct region.

7. The new 60-bed rehabilitation hospital will provide charity care in compliance with its final charity care policies reviewed by the Department of Health, or any subsequent policies reviewed by the Department of Health. The new 60-bed rehabilitation 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 ~~Southwest~~ Puget Sound Region. Currently this amount is 2.54% of gross revenue and 5.99% of adjusted revenue. The rehabilitation hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.

9. Annual budgets, as required by WAC 246-454-030 submitted by the new 60-bed rehabilitation hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the ~~Southwest~~ Puget Sound Region.

Correcting the name of the charity care region in these conditions does not change the department's decision. Those pages of the evaluation listing these conditions have also been corrected. A corrected copy is enclosed.

If you have any questions, please contact me at (360) 236-2955.

Sincerely,

Janis R. Sigman

Janis R. Sigman, Manager
Certificate of Need Program
Washington State Department of Health

Enclosure

STATE OF WASHINGTON

DEPARTMENT OF HEALTH

Olympia, Washington 98504

July 20, 2016

CERTIFIED MAIL # 7009 0960 0000 5565 0697

Mike Fitzgerald
Franciscan Specialty Care, LLC
1145 Broadway Plaza, #1200
Tacoma, Washington 98402

RE: Certificate of Need Application #16-18

Dear Mr. Fitzgerald:

We have completed review of the Certificate of Need application submitted on behalf of Franciscan Specialty Care, LLC proposing to establish a 60-bed acute rehabilitation hospital in Tacoma within Pierce County. Enclosed is a written evaluation of the application.

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

Project Description

This certificate approves the construction of a 60-bed dedicated level I rehabilitation hospital located in Tacoma to be known as CHI Franciscan Rehabilitation Hospital. Of the 60 beds, 27 will be new and the remaining 33 will come from St. Joseph Medical Center in Tacoma. St. Joseph Medical Center will close its rehabilitation unit and reduce the hospital's license beds by 33. Breakdowns of the beds at CHI Franciscan Rehabilitation Hospital and St Joseph Medical Center following project completion are shown below:

CHI Franciscan Rehabilitation Hospital
Rehabilitation Beds

Source	**Total # of Beds**
Relocated from SJMC	33
New	27
Total	**60**

St Joseph Medical Center
Bed Breakdown at Project Completion

Type	Total # of Beds
Medical Surgical	287
Psychiatric	23
Neonatal Intermediate Care Nursery Level II	18
Neonatal Intensive Care Nursery Level III	5
Rehabilitation	0
Total	**333**

Conditions

1. Approval of the project description as stated above. Franciscan Specialty Care 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, Franciscan Specialty Care will provide the final adopted and approved admission policy to the department for review and approval. This policy must be specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

3. Prior to providing services, Franciscan Specialty Care will provide the final adopted and approved assessment policy to the department for review and approval. This policy must be specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

4. Prior to providing services, Franciscan Specialty Care will provide the final adopted and approved non-discrimination policy to the department for review and approval. This policy must be specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

5. Prior to providing services, Franciscan Specialty Care will provide the final adopted and approved patients rights and responsibilities policy to the department for review and approval. This policy must be specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

6. Prior to providing services at the hospital, Franciscan Specialty Care will submit a copy of the adopted charity care policy approved by the Department of Health's Charity Care Program in the Office of Community Health Systems.

7. The new 60-bed rehabilitation hospital will provide charity care in compliance with its final charity care policies reviewed by the Department of Health, or any subsequent policies reviewed by the Department of Health. The new 60-bed rehabilitation 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 Southwest

Region. Currently, this amount is 2.54% of gross revenue and 5.99% of adjusted revenue. The rehabilitation hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.

8. Franciscan Specialty Care will amend the management agreement between FSC and CHC Management Services LLC to include language that requires CHC Management Services to provide charity care in conformance with the charity care policy while managing the CHI Franciscan Rehabilitation Hospital.

9. Annual budgets, as required by WAC 246-464-030, submitted by the new 60-bed rehabilitation hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Southwest Region.

10. Franciscan Specialty Care must finance the construction of the hospital as described in the application.

11. Franciscan Specialty Care must finance the startup and equipment costs as described in the application.

12. Prior to licensing the new hospital, Franciscan Specialty Care will submit to the department for review and approval the executed development agreement between Franciscan Specialty Care and Capital Growth Medvest for the site. The executed development agreement must be consistent with the draft reviewed by the department.

13. Prior to licensing the new hospital, Franciscan Specialty Care will submit to the department for review and approval the executed lease agreement between Franciscan Specialty Care and Capital Growth Medvest for the site. The executed lease agreement must be consistent with the draft reviewed by the department.

14. Prior to licensing the new hospital, Franciscan Specialty Care will submit to the department for review and approval an executed management agreement between Franciscan Specialty Care and CHC Management Services, LLC. The executed agreement must be consistent with the draft reviewed by the department and consistent with condition 8, above.

15. Prior to providing services at the hospital, Franciscan Specialty Care 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.

16. Prior to providing services at the hospital, Franciscan Specialty Care will submit to the department for review and approval the final, signed Medical Director agreement. This agreement must be consistent with the draft reviewed by the department.

17. Prior to providing services at the hospital, Franciscan Specialty Care will submit to the department for review and approval the final, signed transfer agreement between the

CHI Franciscan Rehabilitation Hospital and St Joseph Medical Center. This agreement must be consistent with the draft reviewed by the department.

18. Franciscan Specialty Care must maintain Medicare and Medicaid certification for all 60 rehabilitation beds.

19. Franciscan Specialty Care must obtain and maintain accreditation through the Commission on Accreditation of Rehabilitation Facilities (CARF) for the rehabilitation beds as described in the application.

20. CHI Franciscan, the parent company of Franciscan Specialty Care must de-license the existing 33-bed rehabilitation unit at St Joseph Medical Center prior to FSC offering services at the CHI Franciscan Rehabilitation Hospital.

Approved Capital Costs:

The approved capital expenditure associated with this project is $29,879,867.

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

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

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

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

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

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

Sincerely,

Bart Eggen, Acting Director
Community Health Systems

Enclosure

EXECUTIVE SUMMARY

CORRECTED EVALUATION DATED JULY 20, 2016 FOR TWO CERTIFICATE OF NEED APPLICATIONS, EACH PROPOSING TO ADD LEVEL I REHABILITATION BEDS TO PIERCE COUNTY

- **MULTICARE HEALTH SYSTEM PROPOSING TO ADD 23 LEVEL I REHABILITATION BEDS TO GOOD SAMARITAN HOSPITAL IN PUYALLUP**
- **FRANCISCAN SPECIALTY CARE, LLC PROPOSING TO CONSTRUCT A 60-BED LEVEL I REHABILITATION HOSPITAL IN TACOMA**

BRIEF APPLICANT AND PROJECT DESCRIPTIONS

MultiCare Health System

MultiCare Health System is a not-for-profit health system serving the residents of southwestern Washington State. MultiCare Health System (MHS) includes four hospitals, nearly 20 physician clinics, six urgent care facilities, and a variety of health care services, including home health, hospice, and specialty clinics in Pierce and King counties.

This project focuses on Good Samaritan Hospital (GSH) located in Pierce County. GSH is currently licensed for 286 acute care beds. Of those 25 are dedicated to level I rehabilitation services. This project proposes to add 23 level I rehabilitation beds to GSH. At project completion, GSH would be licensed and operating a total of 309 acute care beds, and of those, 48 would be dedicated level I rehabilitation beds.[1] [source: Application, p1 and CN historical files]

If approved, MHS intends that all 23 additional rehabilitation beds would be licensed and operational by the end of July 2018. [source: Application, p17 and January 29, 2016, screening response, p3-5]

The estimated capital expenditure for the project is $568,793. The costs are for minor remodeling and construction, equipment, and associated fees. [source: January 29, 2016, screening response, p7 & p13]

Franciscan Specialty Care, LLC

Franciscan Specialty Care, LLC (FSC) is a new joint-venture healthcare entity, 51% owned by CHI Franciscan Health System dba St Joseph Medical Center and 49% owned by RehabCare Development 4 – a 100% subsidiary of Kindred Healthcare, Inc.

This project focuses on the construction of a 60-bed rehabilitation hospital in Pierce County, to be known as CHI Franciscan Health Rehabilitation Hospital. The hospital will be located at 815 Vassault Street in Tacoma, Washington. If approved, the facility would be operated under a management agreement by CHC Management Services, LLC (CHC), a 100% subsidiary of Kindred Healthcare, Inc. [sources: FSC application p5 & Exhibit 1, FSC February 1, 2016 screening response Attachment 18]

Of the 60 beds, 33 are already in operation at CHI Franciscan's hospital St Joseph Medical Center (SJMC) in Tacoma, WA. SJMC is currently licensed for 366 beds. Of those, 33 are dedicated to rehabilitation services. If this project is approved, the existing 33-bed unit would close, and the beds would relocate to the new rehabilitation hospital. At project completion, SJMC would be licensed for 333 beds, and the CHI Franciscan Rehabilitation Hospital would be licensed for 60 dedicated rehabilitation beds, all capable of and licensed to provide level I rehabilitation services.

[1] Level I rehabilitation beds are also used to provide level II and level III rehabilitation services.

If approved, FSC anticipates the new hospital would become operational by January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. [source: FSC application p16]

The capital expenditure associated with the establishment of the 60-bed rehabilitation hospital is $29,879,867. Of that amount, 70.4% is dedicated to building construction, 7.5% is related to the land purchase and improvements, 7.9% is dedicated to moveable and fixed equipment purchases, and the remaining 14.2% is related to fees, permits, financing, taxes, and supervision and inspection. [source: FSC February 1, 2016 screening response p17]

APPLICABILITY OF CERTIFICATE OF NEED LAW

MultiCare Health System

MultiCare Health System's application is subject to review as the change in bed capacity of a health care facility which increases the total number of licensed beds under Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

Franciscan Specialty Care, LLC

Franciscan Specialty Care's application is subject to review as the construction, establishment, or other development of a health care facility under RCW 70.38.105(4)(a) and WAC 246-310-020(1)(a).

CONCLUSIONS

MultiCare Health System

For the reasons stated in this evaluation, the application submitted by MultiCare Health System proposing to add a total of 23 level I rehabilitation beds to Good Samaritan Hospital located in Puyallup within Pierce County is consistent with applicable criteria of the Certificate of Need Program, provided MultiCare Health System agrees to the following in its entirety.

Project Description:

This certificate approves the addition of 23 level I rehabilitation beds to Good Samaritan Hospital. The 23 beds will be added in two phases. At completion of both phases, Good Samaritan Hospital will be operating a total of 309 acute care beds. A breakdown of the beds at project completion is shown below.

Type	Total # of Beds
Medical Surgical	250
Level II Intermediate Care Nursery	11
Level I Rehabilitation	48
Total	**309**

Conditions:

1. Approval of the project description as stated above. MultiCare Health System 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 Health System shall finance the project using cash reserves as described in the application.

3. MultiCare Health System must maintain Medicare and Medicaid certification for all 48 rehabilitation beds.

4. MultiCare Health System must obtain and maintain accreditation through the Commission on Accreditation of Rehabilitation Facilities (CARF) for the rehabilitation beds as described in the application.

Approved Costs:

The approved capital expenditure for the 23-bed addition is $568,793.

Franciscan Specialty Care, LLC

For the reasons stated in this evaluation, the application submitted by Franciscan Specialty Care proposing to construct a 60-bed dedicate rehabilitation hospital in Tacoma within Pierce County is consistent with applicable criteria of the Certificate of Need Program, provided Franciscan Specialty Care agrees to the following in its entirety.

Project Description:

This certificate approves the construction of a 60-bed level I rehabilitation hospital located in Tacoma to be known as CHI Franciscan Rehabilitation Hospital. Of the 60 beds, 27 will be new and the remaining 33 will come from St. Joseph Medical Center in Tacoma. St. Joseph Medical Center will close its rehabilitation unit and reduce the hospital's license beds by 33. Breakdowns of the beds at CHI Franciscan Rehabilitation Hospital and St Joseph Medical Center following project completion are shown below:

CHI Franciscan Rehabilitation Hospital
Rehabilitation Beds

Source	Total # of Beds
Relocated from SJMC	33
New	27
Total	**60**

St Joseph Medical Center
Bed Breakdown at Project Completion

Type	Total # of Beds
Medical Surgical	287
Psychiatric	23
Neonatal Intermediate Care Nursery Level II	18
Neonatal Intensive Care Nursery Level III	5
Rehabilitation	0
Total	**333**

Conditions:

1. Approval of the project description as stated above. Franciscan Specialty Care 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, Franciscan Specialty Care will provide the final adopted and approved admission policy to the department for review and approval. This policy must be

specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

3. Prior to providing services, Franciscan Specialty Care will provide the final adopted and approved assessment policy to the department for review and approval. This policy must be specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

4. Prior to providing services, Franciscan Specialty Care will provide the final adopted and approved non-discrimination policy to the department for review and approval. This policy must be specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

5. Prior to providing services, Franciscan Specialty Care will provide the final adopted and approved patients rights and responsibilities policy to the department for review and approval. This policy must be specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

6. Prior to providing services at the hospital, Franciscan Specialty Care will submit a copy of the adopted charity care policy approved by the Department of Health's Charity Care Program in the Office of Community Health Systems.

7. The new 60-bed rehabilitation hospital will provide charity care in compliance with its final charity care policies reviewed by the Department of Health, or any subsequent policies reviewed by the Department of Health. The new 60-bed rehabilitation 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 ~~Southwest~~ Puget Sound Region. Currently, this amount is 2.54% of gross revenue and 5.99% of adjusted revenue. The rehabilitation hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.

8. Franciscan Specialty Care will amend the management agreement between FSC and CHC Management Services LLC to include language that requires CHC Management Services to provide charity care in conformance with the charity care policy while managing the CHI Franciscan Rehabilitation Hospital.

9. Annual budgets, as required by WAC 246-464-030, submitted by the new 60-bed rehabilitation hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the ~~Southwest~~ Puget Sound Region.

10. Franciscan Specialty Care must finance the construction of the hospital as described in the application.

11. Franciscan Specialty Care must finance the startup and equipment costs as described in the application.

12. Prior to licensing the new hospital, Franciscan Specialty Care will submit to the department for review and approval the executed development agreement between Franciscan Specialty Care and Capital Growth Medvest for the site. The executed development agreement must be consistent with the draft reviewed by the department.

13. Prior to licensing the new hospital, Franciscan Specialty Care will submit to the department for review and approval the executed lease agreement between Franciscan Specialty Care and Capital Growth Medvest for the site. The executed lease agreement must be consistent with the draft reviewed by the department.

14. Prior to licensing the new hospital, Franciscan Specialty Care will submit to the department for review and approval an executed management agreement between Franciscan Specialty Care and CHC Management Services, LLC. The executed agreement must be consistent with the draft reviewed by the department and consistent with condition 8, above.

15. Prior to providing services at the hospital, Franciscan Specialty Care 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.

16. Prior to providing services at the hospital, Franciscan Specialty Care will submit to the department for review and approval the final, signed Medical Director agreement. This agreement must be consistent with the draft reviewed by the department.

17. Prior to providing services at the hospital, Franciscan Specialty Care will submit to the department for review and approval the final, signed transfer agreement between the CHI Franciscan Rehabilitation Hospital and St Joseph Medical Center. This agreement must be consistent with the draft reviewed by the department.

18. Franciscan Specialty Care must maintain Medicare and Medicaid certification for all 60 rehabilitation beds.

19. Franciscan Specialty Care must obtain and maintain accreditation through the Commission on Accreditation of Rehabilitation Facilities (CARF) for the rehabilitation beds as described in the application.

20. CHI Franciscan, the parent company of Franciscan Specialty Care must de-license the existing 33-bed rehabilitation unit at St Joseph Medical Center prior to FSC offering services at the CHI Franciscan Rehabilitation Hospital.

Approved Costs:

The approved capital expenditure for the 60-bed hospital is $29,879,867.

CORRECTED EVALUATION DATED JULY 20, 2016 FOR TWO CERTIFICATE OF NEED APPLICATIONS, EACH PROPOSING TO ADD LEVEL I REHABILITATION BEDS TO PIERCE COUNTY

- **MULTICARE HEALTH SYSTEM PROPOSING TO ADD 23 LEVEL I REHABILITATION BEDS TO GOOD SAMARITAN HOSPITAL IN PUYALLUP**
- **FRANCISCAN SPECIALTY CARE, LLC PROPOSING TO CONSTRUCT A 60-BED LEVEL I REHABILITATION HOSPITAL IN TACOMA**

APPLICANT DESCRIPTIONS

MultiCare Health System

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, six 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 healthcare facilities owned and/or operated by MHS. [source: CN historical files, MultiCare Health System website]

Hospitals
Tacoma General / Allenmore, Tacoma[2]
Mary Bridge Children's Hospital, Tacoma[3]
Good Samaritan Hospital, Puyallup
Auburn Medical Center, Auburn

Home Health/Hospice
MultiCare Home Health, Hospice, & 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.[4]

Franciscan Specialty Care, LLC

Franciscan Specialty Care, LLC is a new joint-venture healthcare entity, 51% owned by CHI Franciscan Health System dba St Joseph Medical Center and 49% owned by RehabCare Development 4 – a 100% subsidiary of Kindred Healthcare, Inc.

Catholic Health Initiatives (CHI) is the parent company of Franciscan Health System dba St Joseph Medical Center. CHI, through its subsidiary CHI Franciscan Health System (FHS), owns or operates a variety of healthcare facilities under the "CHI Franciscan Health" name. Below is a listing of the eight hospitals, six dialysis centers, hospice care center, hospice agency, and an ambulatory surgery center owned or operated by CHI Franciscan Health in Washington State:

[2] While Tacoma General Hospital and Allenmore Hospital are located at two separate sites, they are operated under the same hospital license of "Tacoma General/Allenmore Hospital."
[3] Mary Bridge Children's Hospital is located within Tacoma General Hospital; the two hospitals are licensed separately.
[4] March 2016 progress report for Certificate of Need #1437E2.

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

Ambulatory Surgery Center
Gig Harbor Ambulatory Surgery Center

Dialysis Centers
Franciscan Bonney Lake Dialysis Center[5]
Franciscan Eastside Dialysis Center
Franciscan South Tacoma Dialysis Center
Greater Puyallup Dialysis Center
St Joseph Medical Center
St Joseph Dialysis Center Gig Harbor

Hospice Care Center
FHS Hospice Care Center

Hospice Agency
Franciscan Hospice, Tacoma

[sources: FSC application p2 & p55; FSC February 1, 2016 screening response p27; CHI Franciscan website]

Kindred Healthcare, Inc. (Kindred) is a for-profit entity and is the parent company of RehabCare Development 4, LLC (RehabCare) as well as CHC Management Services, LLC. Both Kindred and RehabCare are Delaware corporations. CHC Management Services is a Missouri LLC, acquired by Kindred in January of 2015. Kindred operates two hospital campuses in Washington State, along with nursing homes and in-home services through a variety of its subsidiaries, listed below. [sources: FSC application Exhibit 1, FSC February 1, 2016 screening response p8]

Hospitals
Kindred Hospital Seattle – Northgate
Kindred Hospital Seattle – First Hill

Nursing Homes
Kindred Nursing and Rehabilitation – Arden
Kindred Transitional Care and Rehab – Lakewood
Kindred Transitional Care and Rehab – Vancouver

<u>In-Home Services</u>

Home Health
Kindred at Home[6]

Hospice
Kindred Hospice[7]

RehabCare is a contracted rehabilitation provider, providing physical, occupational, and speech-language pathology rehabilitation services to facilities in 47 states. RehabCare provides these services across the spectrum of rehabilitative settings, from skilled nursing to outpatient facilities. [source: RehabCare website]

Franciscan Specialty Care is a new Washington State LLC and does not own or operate any healthcare facilities.

[5] Franciscan Bonney Lake Dialysis Center is recently approved and not yet operational.
[6] Kindred at Home is licensed to provide home health services in Clallam, Clark, Grays Harbor, Island, Jefferson, King, Kitsap, Lewis, Mason, Pacific, Pierce, San Juan, Skagit, Snohomish, Spokane, Thurston, Whatcom, and Whitman counties. Not all of the Kindred at Home agencies are Medicare and Medicaid certified.
[7] Kindred Hospice is licensed to provide hospice services in King, Spokane, and Whitman counties.

PROJECT DESCRIPTIONS

MultiCare Health System

This project focuses on Good Samaritan Hospital (GSH) located in Pierce County. GSH is located at 401-15th Avenue Southeast in Puyallup, within Pierce County and licensed for 286 acute care beds. The hospital provides a variety of general medical surgical services, level II intermediate obstetric services, and level I rehabilitation services. The hospital is currently a Medicare and Medicaid provider, holds a three-year accreditation from the Joint Commission[8], holds a three-year CARF accreditation[9], and holds Washington State designation for level III trauma hospital and a level I rehabilitation hospital. [source: Application, p6; April 8, 2016, screening response, Exhibits 23, 24, & 25; and CN historical files]

This project proposes to add 23 level I rehabilitation beds to GSH in two phases. Phase one is the addition of 13 beds; phase two is the addition of the remaining 10 beds. At project completion, GSH would be licensed and operating a total of 309 acute care beds, and of those, 48 would be dedicated level I rehabilitation beds. Below is a brief description of each phase.

Phase One

In December 2015, the Certificate of Need Program acknowledged that MHS would soon close the 13-bed level II rehabilitation unit operating at Auburn Medical Center in King County. These level II rehabilitation patients would receive the services at GSH. To accommodate the additional rehabilitation patients, GSH used 13 of its general medical/surgical beds for rehabilitation services, which would also accommodate additional level II patients.[10] As of the writing of this evaluation, GSH is currently operating a 38-bed rehabilitation unit, with the understanding that 25 beds are dedicated to level I services and 13 beds are dedicated to level II services. Phase one of this project adds 13 new beds to GSH that would be dedicated to rehabilitation services. The 13 beds currently in use for rehabilitation services would revert back to general medical/surgical use. The additional 13 beds would result in all 38 beds dedicated to level I rehabilitation services. These 38 beds are currently located in a section of the hospital known as "*Meadow Wing Level 2*." At phase one completion, GSH would be licensed for 299 acute care beds.

Phase Two

This phase requires relocation of post-surgical acute care to a new area within GSH. Minor remodeling is necessary to convert the space to accommodate level I rehabilitation services. This space, known as "*Forest Wing Level 3*" will be constructed to accommodate 20 rehabilitation beds in private rooms. At completion of phase two, GSH will operate a 48-bed dedicated level I rehabilitation unit in two separate areas of the hospital. Meadow Wing Level 2 will have six semi-private rooms (12 beds) and 16 private rooms, for a total of 28 beds. Forest Wing Level 3 will house 20 beds, all in private rooms.

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

[9] Founded in 1966 as the Commission on Accreditation of Rehabilitation Facilities, CARF International is an independent, nonprofit accreditor of health and human services in the several healthcare areas, including medical rehabilitation. [source: CARF International website]

[10] Level II rehabilitation services do not require prior Certificate of Need review because it is not a tertiary service listed in WAC 246-310-020(1)(d)(i).

Table 1 is a breakdown, by type, of GSH's current 286 acute care beds and its addition of 23 beds in two phases. To avoid confusion, the table shows 25 level I rehabilitation beds in operation at GSH and does not acknowledge the 13 medical surgical beds currently being used for level II rehabilitation services. [source: Application, p16]

Table 1
Good Samaritan Hospital
Current and Proposed Licensed Beds

Type	Current # of Beds	Phase 1 Addition	Phase 2 Addition	Total # of Beds
Medical Surgical	250	0	0	250
Level II Intermediate Care Nursery	11	0	0	11
Level I Rehabilitation	25	13	10	48
Total	**286**	**13**	**10**	**309**

If this project is approved, MHS intends that the 13 additional beds in phase one would be added to GSH immediately, and GSH's licensed bed capacity would be increased from 286 to 299. The remaining 10 beds in phase two would become operational by the end of July 2018. At that time, the licensed bed capacity at GSH would increase from 299 to 309. [source: Application, p17 and January 29, 2016, screening response, p3-5]

There are no capital costs associated with phase one of the project. Phase two costs are $568,793, and are related to the minor remodeling and construction, equipment, and associated fees. [source: January 29, 2016, screening response, p7 & p13]

Franciscan Specialty Care, LLC

Franciscan Specialty Care (FSC) proposes to construct a 60-bed rehabilitation hospital in Pierce County, to be known as CHI Franciscan Health Rehabilitation Hospital. The hospital would be located at 815 Vassault Street in Tacoma, Washington. FSC provided a purchase and sales agreement for the property. [sources: FSC application p5 & p8]

CHI Franciscan currently provides level II rehabilitation services in Pierce County at St Joseph Medical Center (SJMC) in Tacoma. SJMC is licensed for 366 beds – 33 of which are dedicated to rehabilitation. The hospital is currently a Medicare and Medicaid provider, holds a three year accreditation from the Joint Commission, and holds a three-year CARF-accreditation for their rehabilitation program. [source: FSC February 1, 2016 screening response Attachment 10]

This project proposes to construct a 60-bed dedicated level I rehabilitation hospital by relocating the existing 33 dedicated rehabilitation beds from SJMC, and adding 27 new level I rehabilitation beds. At project completion, SJMC would cease providing acute rehabilitation and reduce its licensed bed count from 366 to 333. Tables 2 and 3 contain a breakdown of beds at SJMC and the CHI Franciscan Rehabilitation Hospital following project completion. [sources: FSC application p5, FSC February 1, 2016 screening response p3]

Table 2
CHI Franciscan Rehabilitation Hospital
Rehabilitation Beds

Source	Total # of Beds
Relocated from SJMC	33
New	27
Total	**60**

Table 3
St Joseph Medical Center
Bed Breakdown at Project Completion

Type	Total # of Beds
Medical Surgical	287
Psychiatric	23
Neonatal Intermediate Care Nursery Level II	18
Neonatal Intensive Care Nursery Level III	5
Rehabilitation	0
Total	**333**

The hospital would be operated under a management agreement with CHC Management Services, LLC. CHC manages 14 Kindred-owned rehabilitation hospitals. [source: FSC February 1, 2016 screening response p4]

The capital expenditure associated with the establishment of the 60-bed rehabilitation hospital is $29,879,867. Of that amount, 70.4% is dedicated to building construction, 7.5% is related to the land purchase and improvements, 7.9% is dedicated to moveable and fixed equipment purchases, and the remaining 14.2% is related to fees, permits, financing, taxes, and supervision and inspection. [source: FSC February 1, 2016 screening response p17]

If this project is approved, FSC anticipates that construction would commence in late 2016 and CHI Franciscan Rehabilitation Hospital would become operational by January 1, 2018. Under this timeline, year 2018 is full year one and year 2020 is full year three. [source: FSC application p16]

APPLICABILITY OF CERTIFICATE OF NEED LAW

MultiCare Health System

MultiCare Health System's application is subject to review as the change in bed capacity of a health care facility which increases the total number of licensed beds under Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

Franciscan Specialty Care, LLC

Franciscan Specialty Care's application is subject to review as the construction, establishment, or other development of a health care facility under RCW 70.38.105(4)(a) and WAC 246-310-020(1)(a).

EVALUATION CRITERIA

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

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

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

(i) The consistency of the proposed project with service or facility standards contained in this chapter;

(ii) In the event the standards contained in this chapter do not address in sufficient detail for a required determination the services or facilities for health services proposed, the department may consider standards not in conflict with those standards in accordance with subsection (2)(b) of this section; and

(iii) The relationship of the proposed project to the long-range plan (if any) of the person proposing the project."

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

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

(i) Nationally recognized standards from professional organizations;

(ii) Standards developed by professional organizations in Washington State;

(iii) Federal Medicare and Medicaid certification requirements;

(iv) State licensing requirements;

(v) Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and

(vi) The written findings and recommendations of individuals, groups, or organizations with recognized expertise related to a proposed undertaking, with whom the department consults during the review of an application."

To obtain Certificate of Need approval, each 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. The concurrent review process promotes the expressed public policy goal of RCW 70.38 that the development or expansion of health care services is accomplished in a planned, orderly fashion and without unnecessary duplication. Specific to the projects submitted by each applicant, the concurrent review allows the department to review the applications proposing level I rehabilitation services in the same planning area—Pierce County—simultaneously to reach a decision that serves the best interests of the planning area's residents.

In a concurrent review, the department issues one single evaluation regarding whether any or all of the projects should be issued a Certificate of Need. A chronologic summary of both projects is on the following page.

APPLICATION CHRONOLOGY

Action	MHS	FSC
Letter of Intent Submitted	August 14, 2015	September 25, 2015
Application Submitted	November 19, 2015	November 25, 2015
Department's pre-review activities • DOH 1st Screening Letter • Applicant's Responses Received • DOH 2nd Screening Letter • Applicant's Responses Received	December 18, 2015 January 29, 2016 February 23, 2016 April 8, 2016	December 18, 2015 February 1, 2016 February 23, 2016 April 8, 2016
Beginning of Review	April 15, 2016	
Public Hearing Conducted	None Requested or Conducted	
Public comments accepted through end of public comment	May 20, 2016	
Rebuttal Comments Submitted[11]	June 6, 2016	
Department's Anticipated Decision Date	July 21, 2016	
Department's Actual Decision Date	July 20, 2016	

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.

Under concurrent review, each applicant is an affected person for the other application.

Below is a brief description of Providence and a determination of its status regarding these applications.

[11] All public comments expressed support for one of the two projects; no letters of opposition were submitted. Neither MHS nor FSC provided rebuttal comments.

Providence Health & Services

On September 29, 2015, Providence Health & Services (Providence) submitted a letter requesting all correspondence related to the MHS project, to be informed of any public hearing, and to receive a copy of the department's decision. Providence owns, manages, or operates 34 hospitals, 475 physician clinics, 22 long-term care facilities, 19 hospice and home health programs, and 693 supportive house units in 14 locations within the states of Alaska, California, Montana, Oregon, and Washington. Focusing on the hospitals located in Washington State, Providence owns and operates eight hospitals in six different counties.

Providence operates full service hospitals in Washington State, and many of them provide level I rehabilitation services. Providence does not operate a hospital in Pierce County. As a result, Providence does not meet the definition of an 'interested person' specific to WAC 246-310-010(34)(b) above. As a result, Providence does not meet the definition of an 'affected person' for this concurrent review. Even if Providence met the qualifications for 'interested person', Providence did not provide any written or oral comments for either project. As a result, Providence could not qualify for 'affected person' status.

In summary, only the two applicants qualify for affected person status for each other's application.

SOURCE INFORMATION REVIEWED

- MultiCare Health System's Certificate of Need application received November 19, 2015
- MultiCare Health System's screening response received January 29, 2016, and April 8, 2016
- Franciscan Specialty Care's Certificate of Need application received November 25, 2015
- Franciscan Specialty Care's screening response received February 1, 2016, and April 8, 2016
- Public comments accepted through May 20, 2016 for the two projects
- 1987 Washington State Health Plan
- Department of Health Hospital and Patient Data Systems Analysis dated July 7, 2016
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Licensing data provided by the Medical Quality Assurance Commission, Nursing Quality Assurance Commission, and Health Systems Quality Assurance Office of Customer Service
- Licensing information provided by the Aging and Long-Term Care Administration with the Washington State Department of Social and Health Services
- MultiCare Health System's website at www.multicare.org
- CHI-Franciscan Health's website at www.chifranciscan.org
- Kindred website at http://www.kindredhealthcare.com/
- RehabCare website at http://www.rehabcare.com/
- Capital Growth Medvest, LLC website at https://medvest.com/
- Joint Commission website at www.qualitycheck.org
- CARF International website at www.carf.org
- Certificate of Need historical files

CONCLUSIONS

MultiCare Health System

For the reasons stated in this evaluation, the application submitted by MultiCare Health System proposing to add a total of 23 level I rehabilitation beds to Good Samaritan Hospital located in Puyallup within Pierce County is consistent with applicable criteria of the Certificate of Need Program, provided MultiCare Health System agrees to the following in its entirety.

Project Description:

This certificate approves the addition of 23 level I rehabilitation beds to Good Samaritan Hospital. The 23 beds will be added in two phases. At completion of both phases, Good Samaritan Hospital will be operating a total of 309 acute care beds. A breakdown of the beds at project completion is shown below.

Type	Total # of Beds
Medical Surgical	250
Level II Intermediate Care Nursery	11
Level I Rehabilitation	48
Total	**309**

Conditions:

1. Approval of the project description as stated above. MultiCare Health System 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 Health System shall finance the project using cash reserves as described in the application.

3. MultiCare Health System must maintain Medicare and Medicaid certification for all 48 rehabilitation beds.

4. MultiCare Health System must obtain and maintain accreditation through the Commission on Accreditation of Rehabilitation Facilities (CARF) for the rehabilitation beds as described in the application.

Approved Costs:

The approved capital expenditure for the 23-bed addition is $568,793.

Franciscan Specialty Care, LLC

For the reasons stated in this evaluation, the application submitted by Franciscan Specialty Care proposing to construct a 60-bed dedicate rehabilitation hospital in Tacoma within Pierce County is consistent with applicable criteria of the Certificate of Need Program, provided Franciscan Specialty Care agrees to the following in its entirety.

Project Description:

This certificate approves the construction of a 60-bed dedicated level I rehabilitation hospital located in Tacoma to be known as CHI Franciscan Rehabilitation Hospital. Of the 60 beds, 27 will be new and the remaining 33 will come from St. Joseph Medical Center in Tacoma. St. Joseph Medical Center will close its rehabilitation unit and reduce the hospital's license beds by 33. Breakdowns of

the beds at CHI Franciscan Rehabilitation Hospital and St Joseph Medical Center following project completion are shown below:

CHI Franciscan Rehabilitation Hospital
Rehabilitation Beds

Source	Total # of Beds
Relocated from SJMC	33
New	27
Total	**60**

St Joseph Medical Center
Bed Breakdown at Project Completion

Type	Total # of Beds
Medical Surgical	287
Psychiatric	23
Neonatal Intermediate Care Nursery Level II	18
Neonatal Intensive Care Nursery Level III	5
Rehabilitation	0
Total	**333**

Conditions:

1. Approval of the project description as stated above. Franciscan Specialty Care 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, Franciscan Specialty Care will provide the final adopted and approved admission policy to the department for review and approval. This policy must be specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

3. Prior to providing services, Franciscan Specialty Care will provide the final adopted and approved assessment policy to the department for review and approval. This policy must be specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

4. Prior to providing services, Franciscan Specialty Care will provide the final adopted and approved non-discrimination policy to the department for review and approval. This policy must be specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

5. Prior to providing services, Franciscan Specialty Care will provide the final adopted and approved patients rights and responsibilities policy to the department for review and approval. This policy must be specific to the CHI Franciscan Rehabilitation Hospital, and must be consistent with the policy provided with the application.

6. Prior to providing services at the hospital, Franciscan Specialty Care will submit a copy of the adopted charity care policy approved by the Department of Health's Charity Care Program in the Office of Community Health Systems.

7. The new 60-bed rehabilitation hospital will provide charity care in compliance with its final charity care policies reviewed by the Department of Health, or any subsequent policies reviewed by the Department of Health. The new 60-bed rehabilitation 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 ~~Southwest~~ Puget Sound Region. Currently, this amount is 2.54% of gross revenue and 5.99% of adjusted revenue. The rehabilitation hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.

8. Franciscan Specialty Care will amend the management agreement between FSC and CHC Management Services LLC to include language that requires CHC Management Services to provide charity care in conformance with the charity care policy while managing the CHI Franciscan Rehabilitation Hospital.

9. Annual budgets, as required by WAC 246-464-030, submitted by the new 60-bed rehabilitation hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the ~~Southwest~~ Puget Sound Region.

10. Franciscan Specialty Care must finance the construction of the hospital as described in the application.

11. Franciscan Specialty Care must finance the startup and equipment costs as described in the application.

12. Prior to licensing the new hospital, Franciscan Specialty Care will submit to the department for review and approval the executed development agreement between Franciscan Specialty Care and Capital Growth Medvest for the site. The executed development agreement must be consistent with the draft reviewed by the department.

13. Prior to licensing the new hospital, Franciscan Specialty Care will submit to the department for review and approval the executed lease agreement between Franciscan Specialty Care and Capital Growth Medvest for the site. The executed lease agreement must be consistent with the draft reviewed by the department.

14. Prior to licensing the new hospital, Franciscan Specialty Care will submit to the department for review and approval an executed management agreement between Franciscan Specialty Care and CHC Management Services, LLC. The executed agreement must be consistent with the draft reviewed by the department and consistent with condition 8, above.

15. Prior to providing services at the hospital, Franciscan Specialty Care 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.

16. Prior to providing services at the hospital, Franciscan Specialty Care will submit to the department for review and approval the final, signed Medical Director agreement. This agreement must be consistent with the draft reviewed by the department.

17. Prior to providing services at the hospital, Franciscan Specialty Care will submit to the department for review and approval the final, signed transfer agreement between the CHI

Franciscan Rehabilitation Hospital and St Joseph Medical Center. This agreement must be consistent with the draft reviewed by the department.

18. Franciscan Specialty Care must maintain Medicare and Medicaid certification for all 60 rehabilitation beds.

19. Franciscan Specialty Care must obtain and maintain accreditation through the Commission on Accreditation of Rehabilitation Facilities (CARF) for the rehabilitation beds as described in the application.

20. CHI Franciscan, the parent company of Franciscan Specialty Care must de-license the existing 33-bed rehabilitation unit at St Joseph Medical Center prior to FSC offering services at the CHI Franciscan Rehabilitation Hospital.

Approved Costs:

The approved capital expenditure for the 60-bed hospital is $29,879,867.

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 determines that MultiCare Health System **met** the applicable need criteria in 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 determines that Franciscan Specialty Care, LLC **met** the applicable need criteria in WAC 246-310-210.

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

WAC 246-310 does not contain a rehabilitation bed need forecasting method. The 1987 Washington State Health Plan (SHP) that was "sunset" has a numeric methodology for projecting non-psychiatric bed need. Rehabilitation beds are included in the list of non-psychiatric beds in the state health plan. As a result, the department uses the Hospital Bed Need Forecasting Method contained in the SHP to assist in its determination of need for acute care capacity. The acute care bed methodology is used because the rehabilitation beds are licensed acute care beds that are dedicated to a specific use.[12]

The 1987 methodology is a twelve-step process of information gathering and mathematical computation. This forecasting method is designed to evaluate need for additional capacity in general, rather than identify need for a specific project.

Each applicant provided a modified version of the acute care bed methodology that focuses on rehabilitation patients and patient days. Both applicants propose to add level I rehabilitation bed capacity to Pierce County. Level I rehabilitation services are considered tertiary services[13] and the planning area for tertiary services is typically much larger than the hospital's general acute care planning area. As a level I provider, each applicant is expected to also provide level II and level III rehabilitation services, which are not considered tertiary services. Therefore, the resulting numeric need presented by each applicant is considered conservative.

Below is the assumptions and factors used in each applicant's version of the methodology that focuses on rehabilitation patients and patient days.

MultiCare Health System

[source: Application, pp27-34 and Exhibit 8]

MHS proposes to add 23 level I rehabilitation beds to GSH located in Pierce County. For its project, MHS identified its assumptions and factors used in its numeric methodology:

- Rehabilitation Planning Area - Pierce County
- Historical Rehabilitation data – CHARS[14] data years 2005 through 2014

[12] The acute care bed methodology in the 1987 SHP divides Washington State into four separate HSAs that are established by geographic regions appropriate for effective health planning. Pierce County is located in HSA #1, which includes the following ten counties: Clallam, Island, Jefferson, King, Kitsap, Pierce, San Juan, Skagit, Snohomish, and Whatcom.

[13] "Tertiary health service" means a specialized service that meets complicated medical needs of people and requires sufficient patient volume to optimize provider effectiveness, quality of service, and improved outcomes of care. See RCW 70.38.025(14) and WAC 246-310-010(58)

[14] Comprehensive Hospital Abstract Reporting System.

- Projected Population – Age group is 14 and older and based on Office of Financial Management medium series data released November 2014. Historical population data 2005 through 2014; projected population data 2015 – 2028; intercensal and postcensal estimates are calculated.
- Rehabilitation DRGs
  - DRG[15] 462 – Rehabilitation with complication/co-morbidity and major complication/co-morbidity for historical years 2005 and 2006.
  - DRG 945 and 946 – Rehabilitation with complication/co-morbidity and major complication/co-morbidity for historical years 2007 through 2014.
- Psychiatric Data and DRGs – patients, patient days, and DRGs related to psychiatric services were excluded.
- Existing Rehabilitation Bed Capacity – a total of 51 beds, broken down by provider below.
  - Good Samaritan Hospital, Pierce County = 25
  - St Joseph Medical Center, Pierce County = 26

Table 4 below shows the results of MHS's numeric methodology for years 2015 through 2021 based on a weighted occupancy standard of 50%.

Table 4
MultiCare Health System Methodology
Projection Years 2015 through 2021

	2015	2016	2017	2018	2019	2020	2021
Gross Number of Beds Needed	97.6	99.8	102.1	104.5	106.9	109.6	112.3
Minus Existing Capacity-GSH	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Minus Existing Capacity-SJMC	26.0	26.0	26.0	26.0	26.0	26.0	26.0
Net Bed Need or (Surplus)	46.6	48.8	51.1	53.5	55.9	58.6	61.3

Franciscan Specialty Care, LLC

[source: Application, pp19-22 and Exhibit 12, February 1, 2016 screening response Attachment 16]

FSC proposes to establish a 60-bed level I rehabilitation hospital in Pierce County. For its project, FSC identified its assumptions and factors used in its numeric methodology:

- Rehabilitation Planning Area – Pierce County
- Historical Rehabilitation data – CHARS data years 2005 through 2014
- Projected Population – Age group is 15 and older and based on Office of Financial Management medium series data released May 2012. Historical population data 2005 through 2014; projected population data 2015 – 2024; intercensal and postcensal estimates are calculated.
- Rehabilitation DRGs
  - DRG 462 – Rehabilitation with complication/co-morbidity and major complication/co-morbidity for historical years 2005 and 2006.
  - DRG 945 and 946 – Rehabilitation with complication/co-morbidity and major complication/co-morbidity for historical years 2007 through 2014.
- Psychiatric Data and DRGs – patients, patient days, and DRGs related to psychiatric services were excluded.

[15] DRG=Diagnosis Related Group

- Existing Rehabilitation Bed Capacity – a total of 51 beds, broken down by provider below.
  - Good Samaritan Hospital, Pierce County = 25
  - St Joseph Medical Center, Pierce County = 26

Table 5 below shows the results of FSC's numeric methodology for years 2015 through 2024 based on a weighted occupancy standard of 55%.

Table 5
Franciscan Specialty Care Methodology
Projection Years 2015 through 2024

	2015	2016	2017	2018	2019
Gross Number of Beds Needed	89.0	91.0	93.0	95.0	98.0
Minus Existing Capacity-GSH	25.0	25.0	25.0	25.0	25.0
Minus Existing Capacity-SJMC	26.0	26.0	26.0	26.0	26.0
Net Bed Need or (Surplus)	38.0	40.0	42.0	44.0	47.0

	2020	2021	2022	2023	2024
Gross Number of Beds Needed	100.0	102.0	105.0	108.0	111.0
Minus Existing Capacity-GSH	25.0	25.0	25.0	25.0	25.0
Minus Existing Capacity-SJMC	26.0	26.0	26.0	26.0	26.0
Net Bed Need or (Surplus)	49.0	51.0	54.0	57.0	60.0

Public Comments
None

Department Evaluation
As shown in Table 4 above, MHS's methodology shows need for 46 rehabilitation beds in year 2015, which increases to 61 beds by the end of year 2021. It is noted, however, that MHS used a 50% occupancy standard, when 55% would have been the accurate standard to use. As a result, MHS's methodology could be slightly overstated. The resulting difference, though, would be negligible.

FSC's application proposes a new 60-bed hospital in the planning area. FSC limited their methodology projection to a 10-year horizon.

As shown in Table 5 above, FSC's methodology shows need for 38 rehabilitation beds in year 2015, which increases to 60 beds by the end of year 2024. It is noted, however, that FSC used a 55% occupancy standard, when 65% would have been the accurate standard to use. As a result, FSC's methodology could be slightly overstated. The resulting difference, though, would be negligible.

The bed need calculations provided by each applicant used the assumption that the current supply only included CN-approved beds. Both applicants notified the department that they would temporarily operate additional non-level I rehabilitation beds while they prepared formal Certificate of Need applications. Since December 2015, GSH has been operating with 13 additional beds, for a 38-bed rehabilitation unit. It should be noted that none of the additional 13 beds are PPS exempt. Since 2012, SJMC has been operating with 7 additional beds, for a 33-bed rehabilitation unit. Prior department review and approval was not required to change the use of

these beds from general acute care to non-level I rehabilitation. The department concludes that each applicant provided a methodology with reasonable assumptions.

Each applicant appropriately demonstrated need for acute rehabilitation services in Pierce County. However, neither MHS nor FSC provided calculations to show the impact of their respective projects on each other or the rehabilitation bed need for future years. MHS proposes to add 23 beds to GSH in two phases—13 beds in year 2016 and the remaining 10 beds by the end of year 2018. FSC proposes a new 60-bed level I rehabilitation hospital by using the existing 33-bed rehabilitation unit at St Joseph Medical Center, and adding another new 27 beds. The 33-bed unit at SJMC would continue operation until all 60 beds are licensed and operational, then would close. All 60 beds would become operational by January 1, 2018.

The department calculated the impact of the proposed projects on each applicant and future rehabilitation bed need focusing on years 2015 through 2021. Table 6 below shows the calculation of project impact using MHS's methodology as a base line. Table 7 below shows this calculation using FSC's methodology as a base line. Both tables deviate from the methodology provided by the applicants, as the "existing capacity" has been changed to accurately reflect how beds are currently assigned.

Table 6
MultiCare Health System Methodology
Projection Years 2015 through 2021

	2015	2016	2017	2018	2019	2020	2021
Gross Number of Beds Needed	97.6	99.8	102.1	104.5	106.9	109.6	112.3
Minus Existing Capacity-GSH	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Minus Existing Capacity-SJMC	26.0	26.0	26.0	0.0	0.0	0.0	0.0
Net Bed Need or (Surplus)	46.6	48.8	51.1	79.5	81.9	84.6	87.3
Minus MHS Project [+23 beds]	0.0	13.0	13.0	13.0	23.0	23.0	23.0
Minus FSC Project [+34 beds]	0.0	0.0	0.0	60.0	60.0	60.0	60.0
Net Bed Need or (Surplus)	46.6	35.8	38.1	6.5	(1.1)	1.6	4.3

Table 7
Franciscan Specialty Care Methodology
Projection Years 2015 through 2021

	2015	2016	2017	2018	2019	2020	2021
Gross Number of Beds Needed	89.0	91.0	93.0	95.0	98.0	100.0	102.0
Minus Existing Capacity-GSH	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Minus Existing Capacity-SJMC	26.0	26.0	26.0	0.0	0.0	0.0	0.0
Net Bed Need or (Surplus)	38.0	40.0	42.0	70.0	73.0	75.0	77.0
Minus MHS Project [+23 beds]	0.0	13.0	13.0	13.0	23.0	23.0	23.0
Minus FSC Project [+34 beds]	0.0	0.0	0.0	60.0	60.0	60.0	60.0
Net Bed Need or (Surplus)	38.0	27.0	29.0	(3.0)	(10.0)	(8.0)	(6.0)

As shown above in Table 6 in year 2019 both projects would be fully operational. MHS projects a surplus of one rehabilitation bed in the Pierce County planning area. Using FSC's methodology shown in Table 7 year 2019 shows a surplus of ten rehabilitation beds in the planning area. The

surplus steadily decreases in future years. Although not shown in the table, information within FSC's application shows the surplus becoming a need in year 2024. It should be noted that even though a surplus of six beds is shown in Table 7 above, these projections for FSC could be extended to 2029, as a 15-year projection horizon is appropriate for a new hospital.

Based on the need methodologies alone, each applicant demonstrated numeric need for their respective project. Additionally, each methodology demonstrates enough need in excess of the beds in their respective applications to accommodate the beds proposed in the competing application.

In addition to the numeric need methodology, the department must determine whether other services and facilities of the type proposed are not or will not be sufficiently available and accessible to meet that need.

MultiCare Health System

[source: Application, p6 and p27]

MHS stated that it is one of two inpatient rehabilitation providers in Pierce County and has been experiencing a high average daily census in its 38-bed rehabilitation unit. The majority—or 73%— of GSH's rehabilitation admissions are from MHS facilities; the rest of the admissions are generated from referrals from King, Pierce, Thurston, and Kitsap counties. With the recent closure of rehabilitation beds and services in south King County, GSH has been receiving more referrals from that area.

Population statistics also indicate a steady growth of residents in the Pierce County planning area. Without an increase in rehabilitation beds, the planning area will soon be unable to meet even the demand for county residents, let alone any demand in the adjacent counties.

Public Comments

The department received 38 letters of support for this project. Below are excerpts of statements related to this sub-criterion.

William Robertson, MHS President & CEO

"In the last several years we have reached capacity and have been unable to keep up with growing demand for services, which has forced us to turn away patients when they need us most. As you can imagine, getting care far from home puts a huge strain on families, whose involvement is so critical to positive outcomes for their loved ones. With the addition of 23 new beds, we will increase our capacity to provide expert rehabilitation care for families close to home, without having to send them out of area."

Senator Bruce Dammeier

"The fact that Good Samaritan's inpatient rehabilitation unit had to turn 63 patients away last year due to insufficient space, is a clear testament that additional beds are needed. More beds mean more patients receiving the rehab unit's exceptional care close to their homes and loved ones."

David Judish, MD from Rainier Rehabilitation Associates

"Good Samaritan's inpatient rehabilitation is to my knowledge the oldest comprehensive inpatient rehab unit in Washington, in place since it was founded by Dr. Sherburne Heath in the mid 1950's. …At one time, it had 40 inpatient beds, but now has fewer than 30 for a much larger inpatient

hospital than before in a region whose population is growing. …A lack of beds for a growing population will necessitate patient transfers outside the east Pierce County area."

Rebuttal Comments
None

Department Evaluation
MHS states that both Highline Medical Center and Virginia Mason Medical Center have closed their inpatient rehabilitation units. Since neither hospital operated a level I tertiary rehabilitation unit, the department is unable to verify the number of beds associated with the units.

The majority of the 38 letters of support provided for this project focused on the need for additional rehabilitation bed capacity at GSH. The excerpts above provide examples of the common theme throughout the letters.

MHS provided documentation intended to demonstrate additional rehabilitation beds are needed at GSH. The letters of support assist MHS with this demonstration. Based on the information received, the department concludes the existing capacity is not or will not be sufficiently available and accessible to meet the projected need. **This sub-criterion is met.**

Franciscan Specialty Care
FSC stated that SJMC is one of two inpatient rehabilitation providers in Pierce County and has experienced a 50% census increase in its 33 bed unit since 2010. In fact, in 2012 the hospital converted 7 beds from general medical/surgical care to level II rehabilitation to alleviate rehabilitation census pressures. [sources: FSC application p19, February 1, 2016 screening response p3]

The majority— nearly 75%— of SJMC's rehabilitation admissions are from FHS facilities; the rest of the admissions are generated from referrals from King, Pierce, Thurston, and Kitsap counties. [source: February 1, 2016 screening response p10]

Population statistics also indicate a steady growth of residents in the Pierce County planning area. Without an increase in rehabilitation beds, the planning area will soon be unable to meet even the demand for county residents, let alone any demand in the adjacent counties. [source: FSC application p24-25]

Public Comments
The department received 5 letters of support for this project. Below are excerpts of statements related to this sub-criterion.

Sherry Aliotta, RN; Pacific NW Division Director Care Management – CHI Franciscan Health
I can identify at least one patient at each of our hospitals every day who could have benefited from an Inpatient Rehabilitation Facility. These patients did not go to other existing rehabilitation facilities due to lack of available beds, distance from family support, or both.

"My association with CHI Franciscan Health makes me confident that this will continue to support our mission and provided high level of care and service to patients. I wholeheartedly support the request to expand the Inpatient Rehabilitation Facility capacity in Pierce County."

Mark Donaldson, President – Rainier Health Network
"This is a critical need in Pierce County and one that is best served by these two long standing health care providers coming together to serve our residents.

"Rainier Health Network is a clinically integrated network of over 2,100 community providers and facilities in the greater Pierce County market dedicated to the Triple Aim value proposition of lowering the cost of care while improving the quality and experience of care for the patients we serve. Having comprehensive and accessible health care services that integrate medical and rehabilitation health needs is vital to accomplishing that goal. Unfortunately, our community has a significant gap with inpatient rehabilitation health services and is challenged to recruit providers to fill that gap. I believe the proposed new rehabilitation facility will be able to address our inpatient health needs."

Rebuttal Comments
None

Department Evaluation
FSC stated that the existing unit at SJMC is facing census pressures that have caused an increase in delayed admissions and referrals outside of the planning area. The documentation provided in the application supports this statement.

Each of the five letters touched on how additional rehabilitation capacity is needed in the planning area. The excerpts above provide examples of the common theme throughout the letters.

FSC provided documentation intended to demonstrate additional rehabilitation beds are needed. The letters of support assist FSC with this demonstration. Based on the information received, the department concludes the existing capacity is not or will not be sufficiently available and accessible to meet the projected need. **This sub-criterion is met.**

(2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.
To evaluate this sub-criterion, the department evaluates an applicant's admission policies, willingness to serve Medicare and Medicaid patients, and to serve patients that cannot afford to pay for services.

The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

Medicare certification is a measure of an agency'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 agency'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 meet the applicable federal poverty level standards even if they have insurance. With the passage of the Affordable Care Act, the amount of charity care is expected to decrease, but not disappear.

MultiCare Health System

Admission Policy

MHS provided copies of the following policies used at all MHS hospitals, including GSH. [source: Application, Exhibit 9 and January 29, 2016, screening response, Exhibit 19]

- Admission Policy for all MHS facilities-Approved August 2012
- Patient Non-Discrimination Policy-Approved October 2015
- Patient Rights Policy-Approved March 2014

MHS also provided two policies specific to the rehabilitation program at GSH. A brief description of each policy is below. [source: Application, Exhibits 17 & 18]

- Good Samaritan Hospital Rehabilitation Unit Utilization Management
  This policy is used to admit and treat rehabilitation patients. It is the policy used to ensure that patients are receiving the most appropriate level of rehabilitation care. The policy outlines pre-admission screening, evaluation and treatment, and utilization review to ensure appropriate treatment. The policy also references that discharge planning should begin upon patient admission. The policy was approved in February 2015.

- Good Samaritan Hospital Rehabilitation Unit Discharge Policy
  This policy was approved in February 2015 and provides the criteria used to determine when a patient is ready for discharge. The policy specifically states that discharge planning begins at admission and is based, in part, on both the patient's progress and the family support. The policy also discusses coordination of care after discharge. Included with this policy is the process to be used to discharge an inpatient from the rehabilitation unit.

Medicare and Medicaid Programs

GSH is currently Medicare and Medicaid certified. MHS provided its projected source of revenues by payer for GSH as a whole and for the rehabilitation unit separately, shown below in Table 8.

Table 8
GSH Payer Mix

Source	GSH	Rehabilitation Only
Medicare	43.1%	62.0%
Medicaid	20.1%	15.0%
Commercial	33.0%	7.2%
Other	3.8%	15.8%
Total	**100.0%**	**100.0%**

[source: Application, p46]

Charity Care Policy

MHS provided a copy of the following policies used at all MHS hospitals, including GSH.

- Charity Care-Approved April 2015
- Financial Assistance Policy-Approved April 2015

[source: Application, Exhibit 15 and January 29, 2016, screening response, Exhibit 19]

Public Comments

None

Department Evaluation

MHS has been providing healthcare services to the residents of King and Pierce counties through its hospitals and medical clinics for many years. Healthcare services have been available to low-income, racial and ethnic minorities, handicapped and other underserved groups. [source: MultiCare Health System website]

All policies outline the criteria that the hospital uses to admit patients for treatment. The Admission and Non-Discrimination policies include language to ensure all patients would be admitted for treatment without regard to "*race, color, creed, religion, gender, age, disability status, national origin, sexual orientation, marital status, or any other illegal basis*."

For GSH, Medicare revenues are projected to be 43.1% of total revenues. Specific to the rehabilitation unit, Medicare revenues are projected to be 62.0% of total revenues. Additionally, the financial data provided in the application shows Medicare revenues. [source: Application, p19 and p46]

MHS also provided its projected percentage of Medicaid revenues for GSH and for the rehabilitation unit separately. For GSH, Medicaid revenues are projected to be 20.0% of total revenues. Specific to the rehabilitation unit, Medicaid revenues are projected to be 15.0% of total revenues. The financial data provided in the application also shows Medicaid revenues. [source: Application, p19 and p46]

The Admission Policies and Charity Care Policy are consistent with policies reviewed and approved by the Department of Health. Further, MHS demonstrated that it would continue to be available to serve the Medicare and Medicaid populations.

The Charity Care Policy has been reviewed and approved by the Department of Health's Hospital and Patient Data Systems office. The Financial Assistance Policy outlines the process to obtain charity care and is used in conjunction with the charity care policy. The pro forma financial documents provided in the application include a charity care 'line item' as a deduction of revenue

Charity Care Percentage Requirement

For charity care reporting purposes, HPDS divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Both projects propose additional rehabilitation beds in Pierce County within the Puget Sound Region. Currently there are

19 operating hospitals located within the region. Of the 19 hospitals, some did not report charity care data for years reviewed.[16]

Table 9 below compares the three-year historical average of charity care provided by the hospitals currently operating in the Puget Sound Region and GSH's historical charity care percentages for years 2012-2014.[17] The table also compares the percentage of charity care. [source: MHS Application, p46; and HPDS 2012-2014 charity care summaries]

Table 9
Charity Care Percentage Comparisons

	Percentage of Total Revenue	Percentage of Adjusted Revenue
Puget Sound Region Historical Average	2.54%	5.99%
Good Samaritan Hospital Historical Average	2.55%	6.39%
Good Samaritan Hospital Projected Average	3.07%	8.32%

As noted in Table 9 above, MHS intends that GSH would provide charity care above the regional average. The three-year historical average shows GSH has been providing charity care above the regional average. MHS has been providing charity care at GSH for many years and intends to continue to provide charity care if this project is approved. Based on the historical data and information provided in the application, the department concludes that a charity care condition for this project is not required.

Based on the information provided in the application and with MHS's agreement to the conditions as described above, the department concludes t**his sub-criterion is met.**

Franciscan Specialty Care, LLC

FSC provided copies of the following draft policies to be used at the new CHI Franciscan Rehabilitation Hospital. [source: FSC February 1, 2016 screening response pp234-255]

- Admission Policy (draft)
- Patient Non-Discrimination Policy (draft)
- Patient Rights Policy (draft)
- Patient Assessment Policy (draft)

Medicare and Medicaid Programs

FSC stated that it intends to become Medicare certified through The Joint Commission. FSC also provided its projected source of total revenues by payer, shown in Table 10 on the following page. [source: FSC application, p40]

[16] Forks Community Hospital in Forks did not report data in years 2012, 2013, and 2014. Whidbey General Hospital in Coupeville did not report data in years 2012, 2013, and 2014. EvergreenHealth-Monroe did not report data in years 2013 and 2014.

[17] As of the writing of this evaluation, charity care data for year 2015 is not available.

Table 10
Projected Revenue by Payer

Payer Source	Percentage
Medicare	62.3%
Medicaid	11.3%
Commercial	22.9%
Other	3.5%
Total	**100%**

Charity Care Policy
FSC provided a draft charity care policy to be used at CHI Franciscan Rehabilitation Hospital.

Public Comments
None

Department Evaluation
FSC provided the admission, assessment, non-discrimination, and patients rights and responsibilities policies as a single attachment. Therefore, the department concluded that these four draft policies would be used in conjunction with one another to fully meet the requirements of this sub-criterion.

These four policies outline the criteria that the hospital would use to admit patients for treatment. The Admission and Patient Assessment policies speak to the criteria and process for patient admission. The Patient Assessment policy goes on to describe how patient care will be coordinated by an interdisciplinary team, and outlines the roles and responsibilities of staff in determining and following through with appropriate care for patients. The Patient Rights and Non-Discrimination policies include language to ensure all patients would be admitted for treatment without regard to "*race, creed, color, national origin, ancestry, religion, sex, sexual orientation, marital status, source of payment, or on the basis of disability or age."* [source: FSC February 1, 2016 screening response p245]

If this project is approved, the department would attach a condition requiring that FSC provide the final approved admission, assessment non-discrimination, and patient rights and responsibilities policies to the CON program prior to providing services. These policies must be specific to the CHI Franciscan Rehabilitation Hospital, and must reference one another in such a way that it is clear that these policies do not stand alone.

The financial data provided in the application shows Medicare and Medicaid revenues consistent with Table 10 above. The department concluded that FSC intends to be accessible and available to Medicare and Medicaid patients based on the information provided. [source: FSC February 1, 2016 screening response pp64-66]

The charity care policy provided is specific to FSC, contains all definitions and the procedure for granting charity care. This charity care policy will be reviewed by the Department of Health's Hospital and Patient Data Systems office prior to licensure. Until approved by the department, this policy is considered a draft. In draft form, this policy outlines the process one must follow to obtain charity care and includes all applicable definitions. The pro forma financial documents provided in the application include a charity care line item as a deduction from revenue. If this

project is approved, the department would attach a condition that would require FSC to provide a final, signed charity care policy to the department prior to offering services. The policy must be consistent with the draft provided in the application.

Charity Care Percentage Requirement

Table 11 below compares the three-year historical average of charity care provided by the hospitals currently operating in the Puget Sound Region and FSC's projected charity care percentages for the first three years of operation. [source: FSC February 1, 2016 screening response, pp64-65; and HPDS 2012-2014 charity care summaries]

Table 11
Charity Care Percentage Comparisons

	Percentage of Total Revenue	Percentage of Adjusted Revenue
Puget Sound Region Historical Average	2.54%	5.99%
Franciscan Specialty Hospital Projected Average	0.70%	2.67%

Table 11 shows FSC has proposed to provide charity care, but at a level below the regional average. This alone would not be grounds to deny the application. To further evaluate the level of charity of care, the department reviewed both of the parent companies – FHS and Kindred. The historical charity care 3-year average for SJMC and Kindred are shown below in Table 12.

Table 12
Historical Charity Care at SJMC and Kindred Hospital

	Percentage of Total Revenue	Percentage of Adjusted Revenue
St Joseph Medical Center Historical Average	1.94%	4.04%
Kindred Hospital Historical	0%	0%

The department acknowledges that the Affordable Care Act will likely have a long-term impact on the amount charity care provided by facilities. The regional average used to measure an applicant's compliance with the charity care standard is a self-correcting three year rolling average. The department expects an applicant to make documented reasonable efforts to meet that level of charity care.

As shown in Table 12, SJMC has historically made efforts to provide charity care, but at levels below the regional average. Kindred has no documented history of providing charity care in Washington State through its hospitals. Kindred was previously issued CN #1328, CN #1328A, and CN #1328A2, each having a condition that the facility must provide charity care at the regional average.

Consistently with other Certificate of Need decisions, to ensure the new rehabilitation hospital would meet it charity care obligations, the department would attach a charity care condition requiring the hospital to provide charity care at or above the regional average.

The new hospital would be operated under a management agreement with CHC Management Services, LLC. CHC Management Services, LLC is a 100% subsidiary of Kindred. Due to Kindred's noncompliance with previous conditions on its Certificates of Need, the department would attach one further condition related to the management agreement. This condition would

require the management agreement to be amended to include a section that clearly outlines how CHC will adhere to the FSC charity care policy.

Based on the information provided in the application and with MHS's agreement to the conditions as described above, the department concludes t**his sub-criterion is met.**

Based on the information provided in the application and with FSC's agreement to the conditions as described above, the department concludes t**his sub-criterion is met.**

(3) The applicant has substantiated any of the following special needs and circumstances the proposed project is to serve.

(a) The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both, to individuals not residing in the health service areas in which the entities are located or in adjacent health service areas.

Department Evaluation
This sub-criterion is not applicable to either of the two applications.

(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 either of the two applications.

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

Department Evaluation
This sub-criterion is not applicable to either of the two applications.

(4) The project will not have an adverse effect on health professional schools and training programs. The assessment of the conformance of a project with this criterion shall include consideration of:

(a) The effect of the means proposed for the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.

Department Evaluation
This sub-criterion is not applicable to either of the two applications.

(b) If proposed health services are to be available in a limited number of facilities, the extent to which the health professions schools serving the area will have access to the services for training purposes.

Department Evaluation
This sub-criterion is not applicable to either of the two applications.

(5) The project is needed to meet the special needs and circumstances of enrolled members or reasonably anticipated new members of a health maintenance organization or proposed health maintenance organization and the services proposed are not available from nonhealth maintenance organization providers or other health maintenance organizations in a reasonable and cost-effective manner consistent with the basic method of operation of the health maintenance organization or proposed health maintenance organization.

Department Evaluation
This sub-criterion is not applicable to either of the two applications.

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

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that MultiCare Health System **met** the applicable financial feasibility criteria in WAC 246-310-220.

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Franciscan Specialty Care, LLC **met** the applicable financial feasibility criteria in WAC 246-310-220.

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

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

MultiCare Health System

The assumptions used by MHS to determine the projected number of admissions, patient days, and occupancy of its rehabilitation unit are summarized below. [source: Application, pp37-39]

- In December 2015, GSH added 13 beds to its 23 bed rehabilitation unit, resulting in 38 rehabilitation beds. Occupancy projections for calendar years 2016 and 2017 show 75.6% and 81.0%, respectively for the 38 bed unit.
- MHS states that the maximum feasible occupancy for 38 rehabilitation beds is 70%. Therefore, years 2016 and 2017 are considered operating above full capacity.
- The remaining 10 beds would be added in July 2018. Calendar years 2019 through 2021 show 48 rehabilitation beds in the unit. Occupancy percentages are 67.3%, 70.5%, and 74.2%, respectively for these projection years.
- The current and projected length of stay remains constant at approximately 14 days.
- GSH's market share of Pierce County planning area rehabilitation patients and patient days in 2014 was 46.1% and 42.1% respectively. The market shares have remained constant based on limited rehabilitation capacity at GSH.
- Projected planning area market shares are 67.0%, 68.5%, and 70.1% for years 2019 through 2021. GSH's market shares are expected to increase based on the increased availability of rehabilitation beds in the planning area.

Using the assumptions stated above, MHS's projected number of rehabilitation inpatient admissions, patient days, average daily census, and occupancy percentages for GSH are shown in Table 13 below. [source: Application, p38]

Table 13
Good Samaritan Hospital
Rehabilitation Cost Center Projections for Years 2016 through 2021

	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021
Rehabilitation Beds	38	38	43*	48	48	48
Admissions	717	803	823	843	885	930
Patient Days	10,513	11,235	11,518	11,796	12,386	13,006
Average Daily Census	28.7	30.8	31.6	32.3	33.8	35.6
Occupancy Percentages	75.6%	81.0%	73.3%	67.3%	70.5%	74.2%

*The notation of 43 beds in 2018 assumes 5 beds over the full year, which is the equivalent of 10 beds over six months.

The assumptions MHS used to project revenue, expenses, and net income for the rehabilitation cost center for projection years 2016 through 2021 are summarized below. [source: Application, pp44-46; January 29, 2016, screening response, Exhibit 20; April 8, 2016, screening response, pp3-4]

- MHS operates the rehabilitation unit as a cost center of GSH. The rehabilitation cost center includes both inpatient and outpatient revenues and expenses.
- Payer mix is based on current 2014 actuals and is not expected to change with the additional rehabilitation beds. Projected hospital-wide and rehabilitation unit only payer mix is shown below in Table 14

Table 14
GSH Payer Mix

Source	GSH	Rehabilitation Only
Medicare	43.1%	62.0%
Medicaid	20.1%	15.0%
Commercial	33.0%	7.2%
Other	3.8%	15.8%
Total	**100.0%**	**100.0%**

- No inflation was assumed for gross revenues.
- Deductions from revenues for contractual allowances, bad debt, and charity care are not calculated in hospital cost center reports.
- Expenses are estimated using 2014 actuals as a baseline.
- Expenses include salaries and wages for FTEs directly associated with the rehabilitation services at GSH.
- Salaries and wages for ancillary FTEs and services are also included.
- All costs associated with physician staffing are included.
- Medical director fees are not included because there is no additional compensation for physicians acting as the medical director of rehabilitation services.

MHS's projected revenue, expenses, and net income for the rehabilitation cost center at GSH are shown in Table 15 on the following page. [source: Application, Exhibit 15]

Table 15
Good Samaritan Hospital Revenue and Expense Statement
Rehabilitation Cost Center Projected Years 2016 through 2021

In Thousands	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021
Net Revenue	$ 37,463	$ 41,784	$ 43,158	$ 44,520	$ 46,968	$ 49,496
Total Expenses	$ 6,774	$ 7,572	$ 7,824	$ 8,074	$ 8,524	$ 8,990
Net Profit / (Loss)	$ 30,689	$ 34,212	$ 35,334	$ 36,446	$ 38,444	$ 40,506

The 'Net Revenue' line item is gross inpatient and outpatient rehabilitation revenue. The 'Total Expenses' line item includes all expenses related to the rehabilitation services, including salaries and wages.

For operational purposes, the rehabilitation service is a cost center of GSH. To further demonstrate that the project is financially viable, MHS provided the projected revenue and expense statements for GSH showing the impact of this project on the financial viability of the hospital. The projections are shown in Table 16 below. [source: Application, Exhibit 15 and January 29, 2016, screening response, pp13-14]

Table 16
Good Samaritan Hospital
Revenue and Expense Statement Projected Years 2016 through 2021

In Thousands	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021
Net Revenue	$ 448,613	$ 454,972	$ 460,858	$ 466,800	$ 474,629	$ 480,156
Total Expenses	$ 401,743	$ 405,200	$ 408,383	$ 411,708	$ 415,932	$ 418,942
Net Profit / (Loss)	$ 46,870	$ 49,772	$ 52,475	$ 55,092	$ 58,697	$ 61,214

The 'Net Revenue' line item is gross hospital inpatient, outpatient, and other operating revenue, minus any deductions from revenue for contractual allowances, bad debt, and charity care. The 'Total Expenses' line item includes salaries and wages and all costs associated with operations of the hospital, including the rehabilitation cost center. The 'Total Expense' line item also includes allocated costs for MHS, leases, depreciation of building and equipment, repair and maintenance, and medical director costs.

Public Comments
None

Department Evaluation
To evaluate this sub-criterion, the department first reviewed the assumptions used by MHS to determine the projected number of admissions, patient days, and occupancy of the proposed rehabilitation hospital. When compared to the three year historical data [years 2012-2014] provided in the application, the department notes that overall admissions are expected to increase with the increase in rehabilitation beds. The occupancy percentages are expected to decrease in calendar year 2019 when the final ten beds are added to the rehabilitation unit. In year 2021—the third year of operation with 48 rehabilitation beds in service—GSH's average daily census is projected to be 35.6. After reviewing MHS's admission and patient day assumptions, the department concludes they are reasonable.

MHS based its revenue and expenses for both GSH as a whole and the rehabilitation unit on the assumptions referenced above. MHS also used its current operations as a base-line for the revenue and expenses shown in Table 15. Historical information shows that MHS operates GSH at a profit. With an additional 23 level I rehabilitation beds, GSH will continue operating at a profit.

To assist the department in its evaluation of this sub-criterion, Hospital and Patient Data Systems (HPDS)[18] also provided a financial analysis. To determine whether MHS would meet its immediate and long range capital costs, HPDS reviewed 2014 historical balance sheets for MHS as a whole. The information is shown in Table 17 below. [source: HPDS analysis, p2]

Table 17
MultiCare Health System Balance Sheet for Year 2014

Assets		**Liabilities**	
Current Assets	$ 458,183,000	Current Liabilities	$ 344,102,000
Board Designated Assets	$ 1,453,160,000	Other Liabilities	$ 206,786,000
Property/Plant/Equipment	$ 1,298,230,000	Long Term Debt	$ 878,393,000
Other Assets	$ 88,791,000	**Equity**	**$ 1,869,083,000**
Total Assets	**$ 3,298,364,000**	**Total Liabilities and Equity**	**$ 3,298,364,000**

After reviewing the balance sheet above, HPDS concluded that the capital expenditure of $568,792 would have little financial effect on MHS. [source: HPDS analysis, p2]

For hospital projects, HPDS typically provides 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. Projected balance sheet data is used in the analysis. HPDS notes that MHS does not maintain or prepare separate balance sheets for its hospitals. As a result, MHS did not provide the pro forma balance sheet data for GSH needed to complete the financial ratio analysis. The only ratio reviewed by HPDS is the total operating expense to total operating revenue ratio. HPDS used 2014 data for comparison with projected years 2017 through 2021 for this ratio. Table 18 on the following page shows projection years 2017 through 2020. [source: HPDS analysis, p3]

[18] Effective July 1, 2016, HPDS will no longer provide the financial analyses used by the program to assist with the financial feasibility determination for hospital projects. In the future, this analysis will be performed by the Charity Care Program within the Office of Community Health Systems. HPDS was in the process of completing the analyses for these applications prior to July 1, 2016. Therefore, HPDS completed the analyses for the MHS and FSC applications.

Table 18
Current and Projected HPDS Debt Ratios for Good Samaritan Hospital

Category	Trend *	State 2014	GSH 2017	GSH 2018	GSH 2019	GSH 2020
Long Term Debt to Equity	B	0.448	N/A	N/A	N/A	N/A
Current Assets/Current Liabilities	A	2.702	N/A	N/A	N/A	N/A
Assets Funded by Liabilities	B	0.385	N/A	N/A	N/A	N/A
Operating Expense/Operating Revenue	B	0.954	0.891	0.886	0.882	0.876
Debt Service Coverage	A	4.990	N/A	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 is above the ratio; and B is better if below the ratio.

When comparing GSH's projected years total operating expense to total operating revenue ratio with the most current statewide ratio, HPDS states that GSH is in a strong financial position. [source: HPDS analysis, p3]

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.**

Franciscan Specialty Care, LLC

The assumptions used by FSC to project admissions, patient days, and occupancy are summarized below:

- Patient days, admissions, and average daily census are all based on actual performance in the existing FHS SJMC dedicated rehabilitation unit.
- Occupancy rates have steadily increased at the existing dedicated rehabilitation unit within SJMC since 2010, and the existing unit currently operates at 80%.
- FSC identified a 55% target occupancy for rehabilitation services, consistently with previous CN decisions
- All 60 beds would come online in 2018, and the existing SJMC unit would close, transferring all volumes to the new Franciscan Specialty Care Rehabilitation Hospital.
- Calendar years 2018 through 2020 show 60 beds at the hospital, with occupancy percentages of 50.6%, 80.0%, and 83.3%, respectively for the projection years.
  [sources: FSC application p5; February 1, 2016 screening responses p31]

Table 19, on the following page, shows the 2014 historical and projected rehabilitation inpatient admissions, patient days, average daily census, and occupancy percentages for the existing SJMC unit through 2017. The same table shows projections for the proposed rehabilitation hospital beginning in 2018. [source: February 1, 2016 screening responses pp3, 5]

Table 19
Historical SJMC and Projected FSC Volumes, Census, Occupancy

Year	Discharges	Patient Days	ADC	Number of beds	Occupancy
2014	598	9,582	26.3	33	79.6%
2015	611	9,636	26.4	33	80.0%
2016	623	9,829	26.9	33	81.6%
2017	635	10,025	27.5	33	83.2%
2018	820	11,071	30.3	60	50.6%
2019	1,298	17,520	48.0	60	80.0%
2020	1,352	18,250	50.0	60	83.3%

The assumptions FSC used to project revenue, expenses, and net income for the rehabilitation hospital for projection years 2018 through 2020 are listed below: [sources: April 8, 2016 screening response p12, February 1, 2016 screening response p68]

- Payer mix is based on actual performance at SJMC, with a minor adjustment that assumes more Medicare patient volume and revenue
- Patient revenue and associated deductions are based on actual experience at SJMC providing rehabilitation services, without inflation
- Expenses are estimated based on 2015 performance and expense levels on a per patient day basis of Kindred's existing 11 rehabilitation hospitals that are managed by CHC.
- Bad debt is assumed at 1% of non-Medicare revenue
- Charity care is assumed at 2% of net patient services revenue
- Expenses include salaries and wages for all FTEs
- Medical director fees are included

The projections for revenue, expenses, and net income for the rehabilitation hospital are shown in Table 20, below. [source: February 1, 2016 screening response Attachment 7]

Table 20
Franciscan Specialty Care Revenue and Expense Statement
Projected Years 2018 through 2021

	CY 2018	CY 2019	CY 2020	CY 2021
Net Revenue	$15,726,152	$24,821,462	$27,579,403	$27,579,403
Total Expenses	$16,694,660	$20,121,784	$21,760,898	$21,815,428
Net Profit / (Loss)	**($968,508)**	**$4,699,678**	**$4,818,505**	**$5,763,975**

The 'Net Revenue' line item includes gross hospital inpatient, outpatient, and other operating revenue, minus any deductions from revenue for contractual allowances, bad debt, and charity care. The 'Total Expenses' line item includes all expenses, including salaries and wages.

These assumptions rely on a payer mix and revenue sources as described in Table 21 on the following page. [source: February 1, 2016 screening response p6]

Table 21
SJMC and Proposed Hospital Payer Mix
By Patient Days and by Projected Revenue

Payer	Proposed FSC Patient Days	Proposed FSC Patient Revenue
Commercial/HMO	18.0%	22.9%
Medicaid	16.0%	11.3%
Medicare	62.0%	62.3%
Other	4.0%	3.5%
Total*	**100.0%**	**100.0%**

*slightly off due to rounding

Public Comments
None

Department Evaluation
To evaluate this sub-criterion, the department first reviewed the assumptions used by FSC to determine the projected number of admissions, patient days, and occupancy of the proposed rehabilitation hospital. These projections are based on actual volumes and growth at the existing rehabilitation unit at SJMC. The numeric need methodology presented under the WAC 246-310-210(1) demonstrates that need for rehabilitation will continue to grow consistently throughout the projection years. The numeric need methodology accounts for factors such as population growth, in-migration, and out-migration.

As shown in Table 20 FSC expects that the new hospital will operate at a loss in the first year of operation, but will make a profit by year two.

When compared to the historical data provided in the application (year 2014), the department notes that overall admissions are expected to increase with the increase in rehabilitation beds. The occupancy percentages are expected to decrease in calendar year 2018 when the 33 beds at SJMC are eliminated and become operational as a part of the 60-bed hospital. In year 2020—the third year of operation with 60 rehabilitation beds in service—FSC's average daily census is projected to be 50.0. After reviewing FSC's assumptions regarding payer mix, revenue, bad debt, and charity care, along with the historical volumes stated above, the department concludes they are reasonable.

To assist the department in its evaluation of this sub-criterion, the department's Hospital and Patient Data Systems (HPDS)[19] reviewed historical balance sheets for CHI and Kindred, the parent companies of FSC. The information is shown in Tables 22 and 23 on the following page. [source: HPDS analysis, p2]

[19] Effective July 1, 2016, HPDS will no longer provide the financial analyses used by the program to assist with the financial feasibility determination for hospital projects. In the future, this analysis will be performed by the Charity Care Program within the Office of Community Health Systems. HPDS was in the process of completing the analyses for these applications prior to July 1, 2016. Therefore, HPDS completed the analyses for the MHS and FSC applications.

Table 22
CHI Consolidated Balance Sheet for Year 2014

Assets		**Liabilities**	
Current	$4,021,019,000	Current	$3,586,592,000
Board Designated	$7,141,528,000	Long Term Debt	$7,146,399,000
Property/Plant/Equipment	$8,942,520,000	Other	$1,962,691,000
Other	$1,705,510,000	**Equity**	**$9,116,895,000**
Total	**$21,812,577,000**	**Total**	**$21,812,577,000**

Table 23
Kindred Consolidated Balance Sheet for Year 2015

Assets		**Liabilities**	
Current	$1,500,899,000	Current	$1,111,212,000
Board Designated	-	Other	$564,652,000
Property/Plant/Equipment	$971,996,000	Long Term Debt	$3,137,025,000
Other	$4,046,041,000	**Equity**	**$1,706,047,000**
Total	**$6,518,936,000**	**Total**	**$6,518,936,000**

To assist the department in its evaluation of this sub-criterion, 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 compared the projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2014 data for comparison with historical years 2014 and 2015 for CHI and Kindred, respectively. Year 2014 data was also used as comparison for projected years 2018 through 2010 for the FSC Rehabilitation Hospital. The ratio comparisons are shown in Table 24 on the following page. [source: HPDS FSC analysis, p3]

Table 24
Current and Projected HPDS Debt Ratios for FSC Rehabilitation Hospital

Category	Trend*	State 2014	FSC 2018	FSC 2019	FSC 2020
Long Term Debt to Equity	B	0.448	0.097	0.096	0.087
Current Assets/Current Liabilities	A	2.702	6.762	5.641	5.734
Assets Funded by Liabilities	B	0.385	0.142	0.151	0.149
Operating Expense/Operating Revenue	B	0.954	1.062	0.811	0.789
Debt Service Coverage	A	4.990	(7.864)	75.373	98.272
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 is above the ratio; and B is better if below the ratio.

After evaluating the hospital's projected ratios and statement of operations, staff from HPDS provided the following analysis. [source: HPDS analysis, p3]

"By the end of the third year of operation all of the ratios are in a very strong position. The main reason for this is the plant, property and equipment is leased and there is minimal long term debt.

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."

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

The capital expenditure associated with the addition of 23 rehabilitation beds at GSH is $568,793. A breakdown of the capital expenditure is shown in Table 25 on the following page. [source: Application, p41]

Table 25
Good Samaritan Hospital
Estimated Capital Expenditure Breakdown

Item	Cost
Building Construction/Minor Remodel	$ 124,250
Moveable Equipment	$ 327,150
Architect/Engineering/Consulting Fees	$ 13,425
Site Preparation/Supervision/Inspection	$52,085
Sales Tax	$ 42,883
Total	**$ 568,793**

Within the application, MHS clarifies that there are no costs associated with the addition of 13 rehabilitation beds in phase one. Phase two requires relocation of acute post-surgical care services to a new location within the hospital. The costs identified above include costs associated with the relocation of these services. MHS states that the 20 rooms in the Forest Wing Level 3 that will be converted from acute care to rehabilitation will be fully furnished, including, beds, tables, chairs, supply carts, monitors, shelving, and wall mounted fixtures. The moveable equipment referenced in the table above includes additional equipment, such as patient lifts and a pediatric crash cart. Since level I rehabilitation services are already provided at GSH, no start-up costs are required. [source: Application, pp41-42 and January 29, 2016, screening response, p6 & p16]

MHS provided a letter from the construction company identifying $121,674 in construction costs for the project and confirming reasonableness of the costs. [source: Application, Exhibit 13]

MHS stated that no changes in costs or charges for rehabilitation services at GSH are anticipated. The addition of rehabilitation beds will allow the program to grow and better meet the community need. [source: Application, p42]

Public Comments
None

Department Evaluation
Based on the above information, the department concludes that this bed addition project would probably not have an unreasonable impact on the costs and charges for healthcare services in Pierce County. **This sub-criterion is met.**

Franciscan Specialty Care, LLC
The capital expenditure associated with the establishment of a new 60-bed level 1 rehabilitation hospital is $29,879,867. Of this amount, 70.4% would be associated with building construction, 7.5% with the land purchase and improvements, 5.5% with moveable equipment, and 6.6% with financing costs. The remaining 10% is associated with fixed equipment, fees, and taxes. In response to screening, FSC provided a contractor's estimate attesting that the construction costs proposed appear to be reasonable.

FSC provided the following statements related to the costs of the project, the decision to finance the project through a Real Estate Investment Trust (REIT), and the development and lease agreements between FSC and Capital Growth Medvest, LLC.

"Franciscan Specialty Care, LLC selected the lease option as it allows both members [Kindred and FHS] *to retain their capital for other needed investments. Two of the options described on page 38, reserves and an interfund loan, would require the members of the LLC to capitalize the LLC for these options. Therefore, these options were ruled out. A capital allowance is no longer a funding option allowed under the regulations set forth by the Federal Accounting Standards Board ("FASB"). Given the above, the proposed lease, with a maximum price for the development of the proposed rehab hospital provides a more cost effective option."* [source: February 1, 2016 screening response p21]

"The building lease will be triple net (NNN). A triple net lease designates the lessee (the tenant, Franciscan Specialty Care LLC) as being solely responsible for all of the costs relating to the asset being leased in addition to the rent schedule applied under the lease. The structure of this type of lease requires the lessee to pay for net real estate taxes on the leased asset, net building insurance and net common area maintenance. The lessee has to pay the net amount of three types of costs, which how this term got its name (NNN).

"This type of arrangement is referred to as 'fee-simple'. In summary, the developer/REIT owns the land and constructs the building, and provides a low-capital entry for the start-up of the rehab hospital. This method preserves capital for both FHS and Kindred." [source: February 1, 2016 screening response p7]

In addition, FSC stated that the proposed hospital would be operated under a management agreement with CHC Management Services, Inc. CHC is responsible for the management of all Kindred joint-venture inpatient rehabilitation facilities. A draft management agreement was provided with the application. [source: February 1, 2016 screening response p4 & Attachment 18]

FSC acknowledged that rezoning and a SEPA determination will need to take place before construction can commence. FSC provided a letter from the City of Tacoma that outlines the rezoning process and voices support for the project by the city.[20]

The capital expenditure associated with the establishment of a 60-bed dedicated rehabilitation hospital is $29,879,867. A breakdown of the capital expenditure is shown in Table 26 on the following page. [source: February 1, 2016 screening response p17]

[20] WAC 246-03-030 states, in part, that Certificate of Need applications are subject to State Environmental Policy Act (SEPA) requirements whenever the applicant proposes to construct a new hospital or to construct major additions to the existing service capacity of such an institution. The rule further states that the Department of Health shall not issue a Certificate of Need approving hospital construction until the applicant has supplied it with a determination of non-significance or a final environmental impact statement (EIS), and until seven days after the issuance by the lead agency of any final EIS. Nothing in WAC 246-03-030 precludes the Department of Health from making a commitment to issue a Certificate of Need to an applicant, then issuing the Certificate of Need after receipt of an appropriate environmental impact statement or determination of non-significance.

Table 26
FSC Estimated Capital Expenditure

Item	Cost	Responsible Entity
Building Construction	$21,024,912	REIT
Land Purchase/Improvements/Prep	$2,635,647	REIT[21]
Moveable Equipment	$1,645,601	Kindred
Fixed Equipment	$727,260	Kindred
Fees	$1,004,293	REIT
Financing	$1,970,334	REIT
Taxes	$871,820	Construction – REIT Equipment – Kindred
Total	**$29,879,867**	

In addition to the capital expenditures identified above, FSC identified an additional $992,730 would be needed for startup costs. These costs are to be funded by Kindred, and are detailed below in Table 27: [source February 1, 2016 screening response p19]

Table 27
FSC Startup Costs

Line Item	Projected Budget
Salaries/Benefits	$355,730
Recruiting/Relocation	$77,500
Legal and Consulting Fees	$455,000
Other*	$104,500
Total	**$992,730**

*includes policy and procedure development, licensure fees, tax preparation, and travel.

Public Comments
None

Department Evaluation
FSC identified the location of the proposed hospital as 815 Vassault Street in Tacoma. The applicant provided a draft lease agreement between FSC (tenant) and Capital Growth Medvest, LLC (landlord).[22] The agreement identifies the location of the site, lease costs, and certain requirements for use of the facility by the tenant. The agreement outlines the roles and responsibilities of both tenant and landlord. The agreement is for a 15 year lease that provides for three ten year extensions of the lease. [source: February 1, 2016 screening response Attachment 13]

The department accepts draft lease documents provided 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.

[21] While the land was purchased by Kindred, FSC indicated in response to screening that the cost of the land purchase would be assigned to the REIT. [source February 1, 2016 screening response p7]
[22] As a part of its review, the department verified that Capital Growth Medvest, LLC regularly provides services as described in the application. [source: https://medvest.com/]

When draft leases are submitted, if a project is approved, the department attaches a condition requiring the applicant to provide a copy of the final, executed agreement consistent with the draft agreement. If the FSC project is approved, the department would attach a similar condition.

The draft management agreement between FSC and CHC outlines the roles and responsibilities for both parties, and all associated costs. As stated above under the lease agreement, drafts are acceptable if they meet those applicable criteria. If the project is approved, the department would attach a condition requiring FSC to provide a copy of the final, executed agreement consistent with the draft agreement.

FSC provided a letter from a contractor, attesting that the construction estimate within the application is reasonable. FSC identified that start-up costs are based upon Kindred's actual experience with establishing dedicated rehabilitation hospitals throughout the country. [source: April 8, 2016 screening response, Attachment 2]

In their financial review, HPDS confirmed that the rates proposed by FSC are similar to Washington statewide averages. [source: HPDS analysis p3]

FSC stated under WAC 246-310-220(1) stated the payer mix is not expected to significantly change with the transfer of services to the new rehabilitation hospital. Further, FSC stated that all assumptions related to costs and charges are based on current rates in the existing unit at SJMC with no proposed changes. [source February 1, 2016 screening response p21]

Based on the above information, the department concludes that the establishment of the new 60-bed rehabilitation hospital would probably not have an unreasonable impact on the costs and charges for healthcare services in Pierce 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

MHS intends to fund the project using cash reserves and provided a letter of financial commitment from MultiCare Health System's chief financial officer. In addition to the financial commitment letter, MHS provided its fiscal years 2012, 2013, and 2014 audited financial statements to demonstrate it has sufficient reserves to finance the project. [source: Application, Exhibit 14 & Exhibit 16A and 16B]

Public Comments

None

Department Evaluation

The department concludes that MHS's rehabilitation bed addition project can be appropriately financed. If this project is approved, the department would attach a condition requiring MHS to finance the project consistent with the financing description in the application. With the financing condition, the department concludes **this sub-criterion is met.**

Franciscan Specialty Care, LLC

FSC provided a letter from Kindred, committing to fund the startup costs. In this letter, Kindred also committed to financing all equipment purchases for the new hospital. The total amount of financial commitment is $4,391,130. In addition to this, FSC also provided a terms sheet from ServisFirst Bank. This terms sheet shows that FSC will have access to up to $1,500,000 in credit at 3.25% interest. [source February 1, 2016 screening response attachments 5 & 6]

The remainder of the capital expenditure would be assigned to Capital Growth Medvest Tacoma LLC (CGMT), a real estate investment trust (REIT). Under this arrangement, the REIT will be responsible for the development of the property, which will then be leased to FSC. In response to screening, FSC provided a letter that demonstrates the REIT's ability to finance the project. The letter from is from Sterling Bank to Capital Growth Medvest, LLC, and it outlines terms for a $26,000,000 construction draw at 4.5% interest [sources: February 1, 2016 screening response pp 6-7, April 8, 2016 screening response Attachment 1]

Public Comments

None

Rebuttal Comments

FSC did not provide rebuttal comments related to this sub-criterion.

Department Evaluation

The application and screening responses included draft development and lease agreements between FSC and CGMT. The draft development agreement identifies both parties, their responsibilities, and is specific to the site identified in the application. Both the development agreement and statements in the application consistently identify and assign all costs. The draft development agreement identifies a maximum price for the development of the proposed hospital. [sources: February 1, 2016 screening response p35, Attachments 7 & 13]

The office of HPDS evaluated the financing methods for this application and provided the following statement:

"Franciscan Specialty Care, LLC CN capital expenditure is projected to be $29,870,867. This project will be financed through Capital Growth Medvest, a REIT (real estate investment trust) that will develop and lease the property to Franciscan Specialty Care, LLC. Capital Growth Medvest will own the land and constructs the building. Franciscan Specialty Care, LLC will agree to a maximum price for development of the proposed rehabilitation hospital through a development agreement.

"Review of the financing information show that the financing method is appropriate." [source: HPDS review p4]

The department concludes that FSC's new rehabilitation hospital project can be appropriately financed. If this project is approved, the department would attach a condition requiring FSC 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 determines that MultiCare Health System **met** the applicable structure and process of care criteria in 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 determines that Franciscan Specialty Care, LLC **met** the applicable structure and process of care criteria in WAC 246-310-230.

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

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of FTEs 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

GSH currently provides level I rehabilitation services. At project completion, GSH would be operating a 48-bed level I rehabilitation unit. [source: Application, p16]

Table 28 below provides a breakdown of current and projected FTEs [full time equivalents] for the rehabilitation unit. Current year is 2015 and projected years are 2016 through 2021. [source: January 29, 2016, screening response, p15-16]

Table 28
Good Samaritan Hospital
Current and Proposed FTEs for Years 2015-2021

FTE by Type	CY 2015 Current	CY 2016 Increase	CY 2017 Increase	CY 2018 Increase	CY 2019 Increase	CY 2020 Increase	CY 2021 Increase	Total FTEs
Management	3.3	0.0	0.0	0.0	0.0	0.0	0.0	**3.3**
Provider	2.7	0.0	0.0	0.0	0.0	0.0	0.0	**2.7**
Nursing	56.5	7.8	5.3	4.1	3.9	3.7	3.7	**85.0**
Tech/Specialists	14.8	3.9	2.8	2.0	1.8	1.6	1.8	**28.7**
Support	8.9	2.0	1.4	1.0	0.9	0.8	0.9	**15.9**
Total FTEs	**86.2**	**13.7**	**9.5**	**7.1**	**6.6**	**6.1**	**6.4**	**135.6**

MHS provided the following description of the FTEs referenced in the table.

- Management = supervisors and above
- Providers = physicians
- Nursing = registered nurses, licensed practice nurses, and certified nursing assistants
- Techs/Specialists = physical, occupational, speech, and therapist; physical and occupational therapy assistants, and psychologists.
- Support = housekeeping, security, laundry, and business office

[source: January 29, 2016, screening response, p16]

MHS states it does not expect difficulty recruiting the additional staff needed for GSH's rehabilitation unit. The rehabilitation unit has been in operation at the hospital for many years and

MHS states that the current turnover rate of the unit is 5.3%. Many of the rehabilitation staff have been with the rehabilitation unit for more than ten years and provide training to new rehabilitation staff. GSH also has a nursing student and residency program in place. [source: Application, p49]

Public Comments
None

Department Evaluation
As shown in Table 28 above, GSH has the majority of its rehabilitation staff in place. From current year 2015 to projection year 2021, MHS expects to add another 49.4 FTEs to the rehabilitation unit. The majority of the additional FTEs would be in the categories of nursing and tech/specialists which are direct patient care positions. The table shows that the FTEs would be added incrementally based on the projected utilization and average daily census of the unit.

Information provided in the application demonstrates that MHS is a well-established provider of healthcare services in King and Pierce counties. Specific to GSH, it has been part of MHS since 2006. GSH has been providing rehabilitation services since approximately 1954 and rehabilitation services have expanded to meet the needs of the community. [source: MHS-Good Samaritan Hospital website] Based on the above information, the department concludes that MHS has the ability and expertise to recruit and retain a sufficient supply of qualified staff for this project. **This sub-criterion is met.**

Franciscan Specialty Care, LLC
FSC anticipates that the bulk of necessary staff will be recruited by the time the 60-bed level I rehabilitation hospital is opened. The remaining FTEs will increase incrementally with the projected increase in patients and patient days. Table 29 below provides a breakdown of the projected FTEs for the hospital for the first three years of operation. [source: FSC application p16]

Table 29
CHI Franciscan Rehabilitation Hospital
Proposed FTEs for Years 2018-2020

	Year 1	Year 2	Year 3	
FTE by Type	**CY2018 Proposed**	**CY2019 Increase**	**CY2020 Increase**	**Total FTEs**
Management	6.00	0.00	0.00	6.00
Nursing	42.10	19.20	7.50	68.80
Techs/Specialists	23.25	9.50	2.50	35.25
Support	17.90	5.40	0.00	23.30
Operations	11.00	2.50	1.50	15.00
Total	**100.25**	**36.60**	**11.50**	**148.35**

[source: February 1, 2016 screening response p314]

FSC provided specific information regarding the recruitment and retention strategies used by its parent company, Kindred.

"Although this project proposes the establishment of a new rehabilitation hospital, it will not be a true start up, and the core staff required will be available from the SJMC program. With the relocation of the existing service from SJMC, we will have access to a group of experienced, highly

qualified staff and an opening census of patients. All existing employees will have the opportunity to apply for positions at CHI Franciscan Rehab.

"As we expand, Franciscan Specialty Care, LLC will rely on Kindred's proven practices and CHI Franciscan's reputation for recruiting staff. As a national leader in the provision of acute rehabilitation services, Kindred is well aware that successful employee recruitment and retention is critical to the success of its facilities, and offers the following specific recruitment/retention strategies.

- *Competitive wages and benefits.*
- *Ongoing continuing education.*
- *Employee referral program for employees for referring friends and family.*
- *Nationwide recruitment through website posting and local community online postings.*
- *Attending local job fairs to be able to reach out to potential candidates in the local area.*

"Given the above, we do not expect any significant problems recruiting and retaining needed staff." [source FSC application p42]

Public Comments
None

Department Evaluation
The new CHI Franciscan Rehabilitation Hospital is dependent on the closure of the 33-bed dedicated inpatient rehabilitation unit currently operating at SJMC. FSC stated in their application that "*the core staff required will be available from the SJMC program.*" In response to screening, FSC clarified that upon the closure of the SJMC unit, existing staff will have the opportunity to transfer to the new rehabilitation hospital. For the 108 identified current employees, their employer would change from CHI Franciscan to FSC. [sources: FSC application p42, February 1, 2016 screening response p23]

Key staff, including the medical director, have not yet been identified for the new hospital. FSC provided a draft medical director agreement that outlines the roles, responsibilities, and compensation for the medical director. [source: FSC application Exhibit 5]

If this project is approved, the department would attach two conditions related to this sub-criterion. The first would require FSC to provide the department with a listing of key staff for the hospital prior to offering services. Key staff includes all credentialed or licensed management staff, including the director of nursing and the medical director. The second condition would require FSC to submit a copy of the final signed medical director agreement, consistent with the draft provided to the department within the application.

Information provided related to this sub-criterion supports that FHS and Kindred are well-established providers in Washington State. Further, FHS is already an established provider of inpatient rehabilitation services in Pierce County at SJMC. Based on the above information, the department concludes that FSC has the ability and expertise to recruit and retain a sufficient supply of qualified staff for this project. **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.

MultiCare Health System

MHS states that GSH has been providing rehabilitation services, including level I services in Puyallup for many years, ancillary and support services are already in place. This project proposes an expansion of beds in the rehabilitation unit and MHS does not expect the existing ancillary and support services to change. The most common ancillary and support services associated with rehabilitation services include imaging, laboratory, nutritional/dietary, and orthotics/prosthetics. Consultation services include neurology, cardiology, internal medicine, urology, orthopedics, podiatry, pulmonary, and infection disease control. GSH already works with other community providers to ensure appropriate community-based care for rehabilitation patients and these relationships are also expected to continue. [source: Application, p49 and January 29, 2016, screening response, pp7-8]

A medical director is required for a level I rehabilitation program and MHS identified Paul Nutter, MD as the current medical director for GSH. Dr. Nutter intends to remain as medical director for this project. MHS provided a copy of the physician employment agreement with Dr. Nutter. The agreement clarifies that there is no additional compensation for level I rehabilitation medical director services. This agreement is not expected to change as a result of this project. [source: January 29, 2016, screening response, p11 & Exhibit 20 and April 8, 2016, screening response pp3-4]

Public Comments

None

Department Evaluation

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that MHS will continue to maintain the necessary relationships with ancillary and support services to provide rehabilitation services, including level I services, at GSH. The department concludes that approval of additional beds to the rehabilitation unit at GSH would not negatively affect existing healthcare relationships. **This sub-criterion is met.**

Franciscan Specialty Care, LLC

FSC provided the following statement relating to ancillary and support services required for their proposed project:

"CHI Franciscan Rehab will purchase ancillary and support services that it does not offer onsite from FHS." [source: application p43]

"Although CHI Franciscan Rehab is a new hospital it will enjoy the distinct advantage of being able to leverage and build on the relationships that SJMC has nurtured during the many years it has operated an acute rehab unit." [source: application p44]

FSC provided a draft purchased services agreement that details the relationship between the new rehabilitation hospital and FHS for contracted ancillary services. This includes lab services, medical imaging, cardiac testing, surgical services, endoscopy, and pharmacy coverage, among others. [source: February 1, 2016 screening response Attachment 17]

FSC provided a draft transfer agreement between CHI Franciscan Rehabilitation Hospital and St Joseph Medical Center.

Public Comments
None

Department Evaluation
While FSC would be a new provider in the service area, acute rehabilitation services are already being provided by FHS in Pierce County at SJMC. Upon the establishment of the new hospital and closure of the existing unit, these relationships would transfer.

The proposed hospital will be exclusively dedicated to acute rehabilitation and will not provide emergency services. Therefore, FSC provided a draft transfer agreement between CHI Franciscan Rehabilitation Hospital and St Joseph Medical Center. The agreement outlines the conditions for patient transfer, procedures, and financial responsibilities. If this project is approved, the department would attach a condition requiring FSC submit to the department the final signed agreement that is consistent with the draft reviewed and approved by the department.

Based on the information reviewed in the application, the department concludes that there is reasonable assurance that FSC will have the necessary relationships with ancillary and support services to provide level I rehabilitation healthcare services at CHI Franciscan Rehabilitation Hospital. **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.

MultiCare Health System
MHS owns and operates a variety of healthcare facilities in Washington State, including four hospitals, a home health and a hospice agency, and a residential treatment facility. MHS does not own or operate any out-of-state facilities. [source: CN historical files, MultiCare Health System website]

MHS states that GSH operates a CARF accredited rehabilitation program and is designated as a level I trauma rehabilitation center for Washington State. [source: Application, p50]

Public Comments
None

Department Evaluation

As part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.[23] To accomplish this task, the department reviewed the quality of care compliance history for all healthcare facilities owned, operated, or managed by MHS.

The four hospitals owned and operated by MHS are Tacoma General/Allenmore located in Tacoma, Mary Bridge Children's Hospital located in Tacoma, Auburn Medical Center located in Auburn, and Good Samaritan Hospital located in Puyallup. All four hospitals are accredited by the Joint Commission.[24] Specific to Good Samaritan Hospital, the hospital has also achieved special certification in year 2014 from the Joint Commission.[25] [source: Joint Commission website]

Using the department's internal database, the department reviewed survey data for each of the four hospitals, MHS's home health agency, and its residential treatment facility.[26] Since 2012, a total of 14 surveys have been conducted and completed by Washington State surveyors.[27] All surveys resulted in no significant non-compliance issues. [source: ILRS survey data]

In addition to the facilities owned and operated by MHS, the department also reviewed the compliance history for the rehabilitation staff currently employed at GSH, including the physicians and the medical director. All current GSH rehabilitation employees, including the medical director, are expected to continue employment if this project is approved. The department conducted a quality of care check for all licensed staff identified within the application and screening responses. In this process, the Certificate of Need program used compliance data from the Medical Quality Assurance Commission (MQAC), Nursing Quality Assurance Commission (NQAC), and Health Systems Quality Assurance Office of Customer Service (HSQA OCS). This review found that all staff associated with the current unit are licensed and in good standing.

Given the compliance history of the health care facilities owned and operated by MHS and the rehabilitation staff currently associated with GSH, including the physicians and the medical director, there is reasonable assurance that GSH's level I rehabilitation services would continue to be operated and managed in conformance with applicable state and federal licensing and certification requirements.

Based on the above information, the department concludes that MHS demonstrated reasonable assurance that GSH's rehabilitation services would continue to be operated in compliance with state and federal requirements if this project is approved. **This sub criterion is met.**

[23] WAC 246-310-230(5).

[24] Tacoma General/Allenmore is accredited through year 2017; Mary Bridge Children's Hospital is accredited through year 2017; Auburn Medical Center is accredited through year 2018, and Good Samaritan Hospital is accredited through year 2019.

[25] The 2014 certification identifies the hospital as a primary stroke center.

[26] Defined in WAC 246-337-005(33) a residential treatment facility or 'RTF' means a facility for purposes of evaluation and treatment or evaluation and referral of any individual with a chemical dependency or mental disorder.

[27] Quality of care surveys conducted in February 2012, December 2012, and March 2013 for the Good Samaritan Outreach RTF; December 2012 and March 2015 for the home health and hospice agency; November 2012, March 2014, and September 2015 for Tacoma General/Allenmore Hospital; February 2013 and February 2014 for Mary Bridge Children's Hospital and Health Center; November 2013 and September 2014 for Auburn Medical Center; and March 2013 and August 2015 for Good Samaritan Hospital.

Franciscan Specialty Care, LLC

FSC provided the following statement related to this sub-criterion:

"CHI Franciscan Rehab will be licensed as an acute care hospital under RCW 70.41. All beds will operate as Level I rehabilitation beds. CHI Franciscan Rehab will also seek The Joint Commission (TJC) accreditation and deemed Medicare status as an inpatient rehabilitation facility (IRF) PPS Hospital.

"CHI Franciscan Rehab will also seek accreditation from the Commission for Accreditation of Rehabilitation Facilities (CARF) as a Comprehensive Integrated Inpatient Rehabilitation facility. Within the first 2-3 years of operation, CHI Franciscan Rehab will also seek Stroke Specialty program status from both CARF and TJC as well as Brain Injury Specialty program status from CARF." [source: FSC application p3]

"Neither Franciscan Health System nor RehabCare Development 4, LLC (the members of the LLC) have any history with respect to the criteria described in WAC 248-19-390(5) (a) now codified at WAC 246-310-230 (5) (a)." [source: FSC application p4]

Public Comments

None

Department Evaluation

FSC does not currently operate any healthcare facilities in Washington State. However, its parent companies, FHS and Kindred operate several healthcare facilities and services throughout Washington State. Kindred Healthcare operates nationwide through a number of subsidiaries. FHS's parent company, CHI Franciscan also operates nationwide. [sources: FSC application Exhibits 3 &4, February 1, 2016 screening response Attachment 11, CHI website, FHS website, Kindred website]

As part of this review, the department must conclude that the proposed services provided by an applicant would be provided in a manner that ensures safe and adequate care to the public.[28] To accomplish this task, the department reviewed the quality of care compliance history for healthcare facilities owned, operated, or managed by FSC's two parent companies, FHS and Kindred.

Washington Facilities

The eight hospitals owned or operated by FHS include Harrison Medical Center in Bremerton and Silverdale, Highline Medical Center in Burien, Regional Hospital located in Burien, St Anthony Hospital located in Gig Harbor, St Clare Hospital located in Lakewood, St Elizabeth Hospital located in Enumclaw, St Francis Community Hospital located in Federal Way, and St Joseph Medical Center located in Tacoma.

Seven of the eight hospitals are accredited by the Joint Commission.[29] Highline Medical Center and St Joseph Medical Center have additional advanced certification as Primary Stroke Centers. [source: Joint Commission website, CN historical files]

[28] WAC 246-310-230(5).

[29] Harrison Medical Center is accredited through year 2016, Highline Medical Center through 2016, Regional Hospital through 2018, St Anthony Hospital through 2018, St Clare Hospital through 2017, St Francis Community Hospital through 2017, and St Joseph Medical Center through 2017. St Elizabeth Hospital does not hold Joint Commission accreditation.

Kindred operates one hospital with two campuses in Washington State – Kindred Hospital Seattle. It is Joint Commission accredited through 2016.

Using the department's internal database, the department reviewed survey data for each of the hospitals, FHS's home health and hospice agencies, end-stage renal disease facilities, and in-home service agencies operated by Kindred's subsidiary, Gentiva. Since 2012, a total of 42 surveys have been conducted and completed by Washington State surveyors of these facilities and services. All surveys resulted in no significant non-compliance issues. [source: ILRS, Department of Health Office of Investigation and Inspection]

CHC Facilities

The following facilities are inpatient rehabilitation facilities (IRFs) that are owned or operated by Kindred. They were selected because they are managed by CHC Management Services, LLC (CHC) – a management company that is a 100% subsidiary of Kindred. In the application, FSC identified that CHC will be responsible for the management of the CHI Franciscan Specialty Hospital. [source: FSC application p9, February 1, 2016 screening response Attachment 18]

Table 30
Kindred IRFs Managed by CHC Management Services, LLC

Hospital Name	Location	Joint Commission Accredited?
Mercy Rehabilitation Hospital – St Louis	St. Louis, MO	yes
Methodist Rehabilitation Hospital	Dallas, TX	yes
Texas Rehabilitation Hospital	Fort Worth, TX	yes
Mercy Rehabilitation Hospital – OKC	Oklahoma City, OK	yes
Mercy Rehabilitation Hospital – Springfield	Springfield, MO	yes
Lancaster Rehabilitation Hospital	Lancaster, PA	yes
Rehabilitation Hospital of Wisconsin	Waukesha, WI	yes
University Hospitals Rehabilitation Hospital	Cleveland, OH	yes
Community Rehabilitation Hospital	Indianapolis, IN	yes
St. Mary Rehabilitation Hospital	Langhorne, PA	yes
Baptist Rehabilitation Hospital	Memphis, TN	yes
Arlington Rehabilitation Hospital	Arlington, TX	yes
University of WI Rehabilitation Hospital	Madison, WI	yes
University Hospitals Rehabilitation – West	Cleveland, OH	yes

[source: February 1, 2016 screening response p4, Joint Commission website]

The department reviewed information from the licensing authorities for each of the above named facilities, and concluded that all CHC facilities are substantially compliant with state licensure and Medicare conditions of participation.

Other States

In addition to a review of all Washington State facilities owned and operated by FSC's parent companies, the department also examined a sample of Kindred and CHI facilities nationwide. According to their respective websites, Kindred operates in 46 states and CHI operates in 19 states.

In addition to the facilities listed above, the department randomly selected and examined the compliance history for all Kindred facilities in 10 selected states.[30] Quality of care information was obtained from each respective state's website. The reports reviewed by the department indicated minor non-compliance issues typical of the type of healthcare facility being surveyed. The department did not identify facility closures or decertification.

The following CHI hospitals were randomly selected and reviewed for their compliance as well:

Table 31
CHI Rehabilitation Hospitals

Hospital Name	Location	Joint Commission Accredited?
St Vincent Rehabilitation Hospital	Sherwood, AR	yes
St Anthony Hospital	Lakewood, CO	yes
Jewish Hospital	Louisville, KY	yes
CHI Mercy Hospital	Devils Lake, ND	yes
Good Samaritan Hospital	Dayton, OH	yes
CHI Mercy Medical Center	Roseburg, OR	yes
CHI Memorial	Chattanooga, TN	yes
CHI St Luke's Heath Memorial	Lufkin, TX	yes

[sources: February 1, 2016 screening response Attachment 11, Joint Commission website]

The department reviewed information from the licensing authorities for each of the above named facilities, and concluded that these facilities are substantially compliant with state licensure and Medicare conditions of participation.

In addition to the facilities owned and operated by CHI and Kindred, the department also reviewed the compliance history for the rehabilitation staff currently employed at SJMC, as FSC indicated that they would be offered employment at the new CHI Franciscan Rehabilitation Hospital following the closure of the existing unit. In this process, the Certificate of Need program utilized compliance data from the Medical Quality Assurance Commission (MQAC), Nursing Quality Assurance Commission (NQAC), and Health Systems Quality Assurance Office of Customer Service (HSQA OCS). This review found that all staff associated with the current unit are licensed and in good standing.

Based on the above information, the department concludes that FSC demonstrated reasonable assurance that FSC's rehabilitation services would be operated in compliance with state and federal requirements if this project is approved. **This sub criterion is met.**

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

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how to measure unwarranted fragmentation of services or what

[30] Arizona, Colorado, Florida, Georgia, Kentucky, New Hampshire, Pennsylvania, Tennessee, Texas, and Wyoming.

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

MHS states that continuity in the provision of rehabilitation health care services will be accomplished in a variety of ways. The expansion of level I rehabilitation beds will allow more Pierce County patients to receive services in a Pierce County facility, rather than travelling to a provider in another county. In 2015, 61 patients were referred to other inpatient rehabilitation programs due to lack of available beds GSH. If possible, GSH refers patients to a facility closest to the patient's community. For higher acuity patients, the majority are referred to either Harborview Medical Center or University of Washington Medical Center, both located in King County.

As a Level I Trauma Rehabilitation Center, patients come to GSH with a variety of diagnoses and acuities, in addition to the need for rehabilitation services. The additional rehabilitation beds will allow GSH to continue to provide the necessary care to these patients with co-morbidities.

GSH also holds CARF accreditation, which requires extensive referral relationships to ensure a continuum of care necessary for rehabilitation patient recoveries to the fullest extent possible. Examples of these relationships include behavioral health, assisted living centers, skilled nursing centers, and community-based healthcare providers. These relationships already exist with GSH and the additional rehabilitation beds will allow for continued continuity of care for its rehabilitation patients. [source: Application, p50 and January 29, 2016, screening response, pp1-2]

Public Comments

The department received 38 letters of support for this project. Many of the letters provided support for GSH's rehabilitation bed addition, however some also focused on the ancillary and support services either offered by GSH or referred by GSH. Below are excerpts of statements related to this sub-criterion.

Jackie and Phil Pope

"*As [patient] was being settled in by the nursing staff, a team of experts in what seemed to be every field of medicine arrived to evaluate his situation, status, and needs. …Throughout our stay, weekly meetings were held by the team to discuss his progress and what more could be done, what needed to be changed. Evaluations were made consistently. Their dedication and patience were unparalleled. …We met weekly with staff psychologist to discuss the worries we had in our life to the impact of role changes. They made sure our home was ready and suggested equipment that would make life easier for us.*"

Jeanne Salvini

"…[Patient] was on a ventilator and needed 24 hour care. …About six weeks into stay, [patient was able to] participate in therapies, as well as classes, to learn more about spinal cord injuries. … The team of doctors who assisted in direction of his care worked well together. With electronic medical records they are able to access records and manage all persons working on his care."

Rebuttal Comments

MHS did not provide rebuttal comments.

Department Evaluation

Of the 38 letters of support, more than 50% were submitted by someone either employed or affiliated with MHS or GSH. The seven letters sent by former rehabilitation patients of GSH provide unique perspectives related to this sub-criterion. The excerpts above demonstrate the importance of teamwork and relationships for rehabilitation patients and patient care plans. As a long-time provider of rehabilitation services, GSH has the basic infrastructure in place to readily and quickly expand its rehabilitation services.

If this project is approved, the department would attach a condition requiring MHS to maintain CARF accreditation for GHS's rehabilitation unit.

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 with additional rehabilitation beds at GSH. **This sub-criterion is met.**

Franciscan Specialty Care, LLC

FSC provided several statements related to continuity in the provision of rehabilitation health care services under this sub-criterion. Although the FSC will be a new provider, it will be able to *"leverage and build on the relationships that SJMC has nurtured during the many years it has operated an acute rehab unit."*

FSC provided information regarding historical current occupancy volumes at the existing SJMC rehabilitation unit, shown below in Table 32. [sources: FSC application p44, February 1, 2016 screening response p3]

Table 32
SJMC Historical Volumes

Year	Patient Days	ADC	Beds	Average Occupancy
2010	6,242	17.1	26	65.77%
2011	6,678	18.3	26	70.38%
2012	9,121	25.0	33[31]	75.76%
2013	9,277	25.4	33	76.97%
2014	9,582	26.3	33	79.70%

FSC states that at these current volumes, *"SJMC is increasingly having to delay admissions, which increases costs, but more importantly delays initiation of care to patients."* FSC provided further information regarding the current process for delaying admissions or transferring patients to other facilities when current census prevents patient admissions:

"If/when SJMC is unable to accommodate a patient due to a lack of available bed, SJMC presents two options to the patient: 1) delay admission until a bed becomes available at SJMC or 2) utilize another facility (assuming there is another facility with an available bed). Historically, patients have chosen both options. Patients have elected to delay their admission for a number of different reasons but the primary has been the preference to have their care provided at SJMC to facilitate

[31] The SJMC acute rehabilitation unit provided level II rehabilitation services. Because level II rehabilitation is not a tertiary service, the reallocation of beds from general medical/surgical to rehabilitation was not reviewed by the department.

continuity of care; and/or due to the geographic location of SJMC relative to the patient's own home or the home of family member/caregiver, etc. Patients more typically choose this option if the delay is expected to be relatively short. To accommodate these patients, SJMC staff has provided additional rehabilitation services while they have awaited placement in rehabilitation. While not the same level of rehabilitation, it does help to minimize the impact that the delay can have on a patient's progress.

"As noted above, patients are also given the option of being referred to another facility. As noted throughout this application, the closest facility, MultiCare Good Samaritan (MHS Good Sam), also operates at high occupancy. Therefore, it has been a challenge for patients to be able to be referred to MHS Good Sam when SJMC is full. If MHS Good Sam cannot accommodate the referral, patients would be referred to the next closest facility, which would likely be in Seattle." [source: February 1, 2016 screening response p8]

FSC stated that the current practice of delaying admissions reduces access to needed healthcare services, and by establishing this dedicated hospital, will promote continuity of care. [source: FSC application p44]

Public Comments

Four letters were submitted to the department relating to this sub-criterion from existing providers. Three were from Kindred physicians. One was from the division director for care management for CHI Franciscan. Below are sections of the letters that submitted comments related to this sub-criterion.

Paul Mathews, DO; Hospitalist – Kindred Hospital First Hill

"In my practice I have seen many patients who would have benefited from the care provided at a rehabilitation hospital if more beds were available…There are many patients who, after treatment of their complex medical needs and stabilization, require intensive therapies and expertise that rehabilitation hospitals provide."

Mohommed Alhyraba, MD; Critical Care Physician – Kindred Hospitals Seattle

"These hospitals are an important discharge option for the complex patients that need this level of care and treatment. I support the opportunity to have a rehabilitation hospital in Pierce County and Franciscan Specialty Care in their efforts. The location of a rehabilitation hospital in Pierce County will enhance post-acute care services and will offer patients and their families continuity of care and easy access to this important resource."

Lauren M Suaraz, CEO – Kindred Hospital Seattle

"…the expansion of beds in Pierce County would help to facilitate discharges and help us provide the best care for our patients."

Sherry Aliotta, RN; Pacific NW Division Director Care Management – CHI Franciscan Health

"I am the Pacific NW Division Director of Care Manager at CHI Franciscan Health. A most challenging aspect of my care managers' and social workers' role is the arrangement of continued treatment and rehabilitation care for patients who need a wide range of health services that require this specialized type of care. This process is difficult considering reimbursement issues and the dwindling number of facilities willing to accept medically complex patients. I can identify at least one patient at each of our hospitals every day who could have benefited from an Inpatient

Rehabilitation Facility. These patients did not co to other existing rehabilitation facilities due to lack of available beds, distance from family support, or both.

"My association with CHI Franciscan Health makes me confident that this will continue to support our mission and provided high level of care and service to patients. I wholeheartedly support the request to expand the Inpatient Rehabilitation Facility capacity in Pierce County."

Rebuttal Comments
FSC did not provide rebuttal comments.

Department Evaluation
The CHI Franciscan Rehabilitation Hospital would represent a new dedicated facility to the planning area. The public comments above speak directly to the value of establishing an acute rehabilitation hospital in the provision of continuity of care.

The new hospital is to be CARF accredited which requires extensive referral relationships to ensure a continuum of care necessary for rehabilitation patient recoveries to the fullest extent possible. With CARF accreditation, the department expects the new hospital to have these relationships. If this project is approved, the department would attach a condition requiring FSC to obtain and maintain CARF accreditation for the hospital.

Based on the information provided in the application, the department concludes there is reasonable assurance that this project will promote continuity in the provision of health care services in the community with the establishment of the CHI Franciscan Rehabilitation Hospital. **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.

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

Franciscan Specialty Care, LLC
This sub-criterion is addressed 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 determines that MultiCare Health System **met** the applicable cost containment criteria in WAC 246-310-240.

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

(1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.
To determine if a proposed project is the best alternative, 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 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 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 use 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.

MultiCare Health System

Step One

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

Step Two

Before submitting this application, MHS considered the two options discussed below. [source: Application, pp52-55]

Status quo or do nothing

This option means that GSH would continue to operate the 25-bed level I rehabilitation unit. Status quo would not improve access to rehabilitation care and it would neither improve nor degrade cost efficiency. MHS rejected this option.

Addition of 40 beds, rather than 23 beds.

MHS also considered the option of adding more than 23 beds to the rehabilitation unit. The addition of 40 rehabilitation beds would result in a 65-bed rehabilitation unit. MHS rejected this option because of space constraints at GSH. Currently there is no area in the hospital that would easily accommodate another 40 rehabilitation beds without significant construction and disruption to staff and patients.

Public Comments

None

Department Evaluation

As part of this review, the department identified another option for MHS to consider: the option of adding only 13 rehabilitation beds to GSH. The 13 beds represent the number of beds GSH added to its 25 rehabilitation unit in December 2015 by converting medical/surgical beds to rehabilitation use. The addition of 13 beds would not increase the total number of beds at GSH. Since the

addition of 13 beds represent phase one of the proposed project, it would not require any capital expenditure. [source: Department's December 18, 2015, screening letter]

MHS provided an extensive review of the option in its responses which is summarized below. [source: January 29, 2016, screening response, pp8-10]

Add 13 rehabilitation beds to GSH

This option would improve access to rehabilitation services, however, the improved access has already occurred since GSH is already operating 13 additional rehabilitation beds. This option continues the occupancy constraints of the rehabilitation currently experienced at GSH. While this option would not require additional staff, it was not MHS's preferred choice. This option was considered by MHS to be a disadvantage when compared to the proposed project.

Based on the discussion provided by MHS, the option of 'do nothing' was appropriately rejected. The option of adding only 13 rehabilitation beds was considered and rejected based, in part, on current occupancy constraints of the rehabilitation unit. MHS also rejected the option of adding more than 38 rehabilitation beds to GSH primarily based on two connected factors: cost and space constraints. In order to accommodate more than 38 additional rehabilitation beds, MHS would need to engage in significant construction at GSH. Taking into account the public comments related to need for additional rehabilitation beds at GSH and the options considered by MHS, the department concurs that these two options were reasonably rejected.

Step Three

Step Three of the department evaluation of the MHS project will be discussed below, concurrently with the FSC Step Three evaluation.

Franciscan Specialty Care, LLC

Step One

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

Step Two

FSC provided the following statement related to their consideration of alternatives prior to submitting this project:

"Kindred and CHI Franciscan have been in active conversations regarding a post-acute continuum for the past three years. Several alternatives were considered, including:

- *Status quo- continuing to operate the acute rehabilitation unit at SJMC, with no expansion;*
- *Expand the SJMC Program;*
- *Continue the current SJMC Program but develop a smaller freestanding hospital; or*
- *Integrate the SJMC Program (but not the beds) into a new joint venture acute rehabilitation hospital*

"The status quo option was easily ruled out because of the high occupancy of the SJMC unit and the other program in the County, MHS Good Sam, is also experiencing high occupancy.

"The option of expanding the SJMC unit was eliminated because of the overall occupancy of the hospital (85% midnight occupancy on acute care beds), the lack of any additional nursing unit space to add more acute rehabilitation beds, and the extraordinary high cost to expand the physical shell of the current hospital. Further, at the System level, CHI Franciscan has determined that the highest and best use of the acute rehab space at SJMC is, as census warrants, additional medical/surgical or critical care space. CHI Franciscan fully understands that prior CN review and approval would be necessary should it wish to add additional acute care beds." [source: application p47]

"The members did evaluate maintaining the current unit at SJMC and developing a new freestanding hospital in the 30-40 bed range. This option was ruled out only after a financial analysis identified significant duplicative costs (manager, medical staffing and other staffing) and overall higher costs for operating a new 30-40 bed hospital versus a 60 bed hospital.

"Once the decision was made to joint venture and integrate the SJMC program into the new entity, the last decision regarded the number of beds. 60 beds was deemed to be the "right size" in terms of operating efficiency and community demand; as clearly demonstrated by the bed need estimates." [source: application p48]

FSC provided further comments related to the third alternative – to develop a smaller freestanding hospital:

"A 40-bed hospital would still be financially feasible, however – the overall financial feasibility of the hospital was evaluated against the demand for inpatient rehabilitation services. Franciscan Specialty Care, LLC found that 40 beds would not adequately serve CHI Franciscan's internal patient demand (the demand for rehab within the eight hospital CHI Franciscan system, the 100 primary and specialty care clinics and the more than 600 providers exceeds 40 beds), much less the unmet demand of patients in the broader South Sound market.

"A 40-bed hospital would also compromise the ability to offer the advanced clinical programming capabilities that a 60-bed hospital does allow for (e.g., brain injury unit, stroke unit). This is due to the fact that a 40-bed hospital would not have sufficient bed capacity to accommodate all of the specialty services that the proposed 60-bed hospital will provide." [source: February 1, 2016 screening response p25]

Public Comments
None

Department Evaluation
Information provided in the FSC application and within public comments demonstrates that there is need for additional acute rehabilitation bed capacity in Pierce County. The existing units are operating near full capacity and claim they regularly delay or refer admissions. Therefore, a "do nothing" option was appropriately ruled out by the applicant.

Once it was determined that additional rehabilitation bed capacity needed to be added to the planning area, several options were considered. These included expansion of the existing unit, and the establishment of a smaller hospital. These options were rejected do to the high cost of expanding the shell at SJMC, and the operational limitations of a smaller hospital. Related to the expansion of SJMC, FHS determined that the existing space, once vacated by the rehabilitation

unit, may be more appropriately utilized to provide acute care.[32] Related to the establishment of a smaller hospital, FSC stated that a 60-bed hospital would have the capacity to provide a greater breadth of specialty services than a 40-bed hospital.

The statements provided in relation to this sub-criterion can be substantiated, and the department did not identify any alternative that was a superior alternative in terms of cost, efficiency, or effectiveness that is available or practicable.

MultiCare Health System and Franciscan Specialty Care

Step Three

The department asked both applicants to provide rationale as to why their project should be considered a superior alternative if only one project could be approved. Each applicant stated that both projects were approvable. More detail is provided below.

MultiCare Health System

"There is a current and substantial unmet need for rehabilitation beds at our facility and in Pierce County as a whole. In fact, our level I rehabilitation bed need forecast demonstrates need for both our request for an additional 23 level I rehabilitation beds and the Franciscan Specialty Care, LLC request for 60 level I rehabilitation beds. The Franciscan Specialty Care LLC application states the 26-bed unit at St. Joseph Medical Center will close when the new facility opens, scheduled for 2018. Thus, net need would increase by 26 beds from 2018 forward. This means that in 2021 there would be need for 87 beds (61+26)." [source: January 29, 2016, screening response, p11]

In response to the question, FSC lead with the following statement that *"the bed need projections submitted with both applications suggest that both are approvable."* [source: FSC February 1, 2016 screening response p25]

Further, neither applicant provided any comment in opposition of their respective competitor.

WAC 246-310 does not contain any service or facility-specific criteria for determining superiority between competing applications for acute rehabilitation bed capacity. MHS is an existing provider in the planning area and has demonstrated that it meets the applicable criteria under WAC 246-310-210, 220, 230, and 240. FSC, while not an existing provider, proposes to establish a new hospital using some existing capacity from its parent company, FHS. FSC demonstrated that it meets applicable criteria under WAC 246-310-210, 220, 230, and 240. Further, the proposed number of beds between both projects does not exceed the planning area's need for acute rehabilitation beds. Since there is projected bed need for both projects and each have been determined to meet the other applicable review criteria, it is not necessary for the department to identify one project as being superior.

For both applicants, **this sub-criterion is met.**

[32] As stated on page 47 of the application, "*Franciscan fully understands that prior CN review and approval would be necessary should it wish to add additional acute care beds.*"

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

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

MultiCare Health System

MHS states that no construction is required for the addition of 13 beds in phase one; minor remodel is required to add the remaining 20 beds in phase two. The 20 beds are to be located within existing patient care space currently used as post-surgical care. This space, known as "*Forest Wing Level 3*" will be constructed to accommodate all 20 rehabilitation beds in private rooms. No planned modifications to the physical plant are required for this project. [source: Application, pp55-56 and January 29, 2016, screening response, pp4-5]

Public Comments

None

Department Evaluation

The office of HPDS provided the following statements regarding the construction costs, scope, and method:

"*The costs of the project are the cost for construction, planning and process. MultiCare Good Samaritan Hospital projections are below.*

Table 33
HPDS Analysis – GSH Cost per Bed

Total Capital	$568,962
Beds/Stations/Other (Unit)	23
Total Capital per Unit	$24,737

The costs shown are within past construction costs reviewed by this office. Also construction cost can vary quite a bit due to type of construction, quality of material, custom vs. standard design, building site and other factors. Staff is satisfied the applicant plans are appropriate." [source: HPDS analysis, p4]

Based on the information provided in the application, the demonstrated need for additional rehabilitation beds at GSH, and the analysis from HPDS, the department concludes **this sub-criterion is met.**

Franciscan Specialty Care, LLC

FSC provided the following statements regarding this sub-criterion:

"This building design is a prototypical plan that has been developed with the purpose of operational efficiency and cost reduction. The areas of focus for this facility is the "patient care" areas that have been sized appropriately to accommodate all the staffing and material needs required to provide superior clinical service to the patients. The building was designed as a two story structure to keep all the patient services/amenities (Therapy Gym, Dining, Open Courtyard) convenient to the patients in regards to travel distance as well as efficient for the staff.

"The construction costs are further managed through the use of efficient systems (HVAC, ELEC) that service the facility. The footprint of the facility allows for fully contained packaged air handler units as well as smaller, more efficient boilers due to the shorter run of domestic water and

ductwork. This yields lower construction costs than typical facilities incur as well as lower operational costs. Additionally, as this is a prototypical design, the inherent knowledge that is gained as each project is completed yields more efficient construction delivery and better cost management." [source: FSC application pp48-49]

Public Comments
None

Department Evaluation
The office of HPDS provided the following statement regarding the construction costs, scope, and method:

"*The costs of the project are the cost for construction, planning and process. Franciscan Specialty Care, LLC projections are below.*

Table 34
HPDS Analysis – FSC Cost per Bed

Total Capital	$29,870,867
Beds/Stations/Other (Unit)	60
Total Capital per Unit	$497,848

The costs shown are within past construction costs reviewed by this office. Also construction cost can vary quite a bit due to type of construction, quality of material, custom vs. standard design, building site and other factors. Franciscan is constructing a new building to healthcare services standards and to the latest energy and hospital standards. Staff is satisfied the applicant plans are appropriate." [source: HPDS review p4]

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

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

MultiCare Health System
MHS stated that this project is the best balance for GSH's rehabilitation services because the project allows expansion of rehabilitation capacity at GSH with minimal costs. For these reasons MHS states there is no impact to the costs and charges to the public.

Public Comments
None

Department Evaluation
This project involves minor construction in phase two. With need for additional rehabilitation beds at GSH and the assumptions related to the costs and charges discussed under the Financial Feasibility section of this evaluation, the department does not anticipate this project would have an unreasonable impact on the costs and charges to the public. Therefore, the department concludes **this sub-criterion is met.**

Franciscan Specialty Care, LLC
FSC provided a numeric need methodology that shows need in excess of the 27 additional beds requested. Related to this sub-criterion, FSC provided the following comment regarding the impact of their project on existing providers in the planning area:

"The bed need projections submitted with both applications suggest that both are approvable." [source: FSC February 1, 2016 screening response p25]

Public Comments
None

Department Evaluation
This project involves construction. With need for 64 additional beds by 2025, and the assumptions related to the costs and charges discussed under the Financial Feasibility section of this evaluation, the department does not anticipate an unreasonable impact on the costs and charges to the public as a result of providing rehabilitation services in a free-standing dedicated rehabilitation hospital. Therefore, the department concludes **this sub-criterion is met.**

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

MultiCare Health System
MHS asserts that the addition of 23 rehabilitation beds to GSH would improve the delivery of health services to Pierce County and surrounding communities. This rationale is primarily based on the current out-migration of Pierce County patients that is anticipated to continue without the additional rehabilitation beds at GSH.

Public Comments
None

Department Evaluation
This project has the potential to improve delivery of acute rehabilitation services to the residents of Pierce County and surrounding communities with the addition of 23 beds to GSH. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**

Franciscan Specialty Care, LLC
FSC asserts that the establishment of a new 60-bed rehabilitation hospital would improve the delivery of rehabilitation services to the residents of Pierce County and surrounding communities. The existing 33-bed unit at SJMC would relocate to the new hospital, with the net addition of 27 beds to the planning area. This rationale is based primarily on the current delay of admissions to existing units and out-migration of Pierce County patients that is anticipated to continue without the additional rehabilitation bed capacity to be provided at the new CHI Franciscan Rehabilitation Hospital.

Public Comments
None

Department Evaluation

This project has the potential to improve delivery of acute rehabilitation services to the residents of Pierce County and surrounding communities with the establishment of the new 60-bed rehabilitation hospital. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**