



STATE OF WASHINGTON  
DEPARTMENT OF HEALTH  
*PO Box 47852 • Olympia, Washington 98504-7852*

July 5, 2016

CERTIFIED MAIL # 7009 0960 0000 5564 6515

Martina Sze, EVP  
US HealthVest, LLC  
32 East 57<sup>th</sup> Street, 17<sup>th</sup> Floor  
New York, New York 10022

RE: Certificate of Need Application #16-23

Dear Ms. Sze:

We have completed review of the Certificate of Need application submitted by US Health Vest, LLC proposing to establish a new 75 bed psychiatric hospital in Lacey within Thurston 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 US Health Vest, LLC agrees to the following in its entirety.

**Project Description:**

This certificate approves the construction of a 75-bed psychiatric hospital to be located in Lacey, within Thurston County. The hospital would provide a full range of psychiatric services for patients five years of age and older. These services include inpatient services, involuntary treatment services, day hospital/partial hospitalization, and intensive outpatient services as well as substance abuse treatment. Programs to be provided include adult psychiatric, active-duty military, extra mile veteran care, women's, dual diagnosis, geriatric, faith-based mental health and chemical dependency, child/adolescent, pain management, and mother-infant. The number of approved beds is summarized below.

	<b>Number of Beds</b>
Beds dedicated for patients ages 5 to 17 (child/adolescent)	10
Beds dedicated to patients age 18 and older (adult) beds	65
<b>Total Licensed Beds</b>	<b>75</b>

**Conditions:**

1. Approval of the project description as stated above. US HealthVest, LLC further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Prior to providing services at the hospital, US HealthVest, LLC will submit a copy of the adopted and approved Admission Policy for review and approval.
3. Prior to providing services at the hospital, US HealthVest, LLC 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.
4. The new 75-bed psychiatric hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. The new 75-bed psychiatric hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Southwest Region. Currently, this amount is 3.42% of gross revenue and 8.62% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.
5. Annual budgets, as required by WAC 246-454-030, submitted by the new 75-bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Southwest Region.
6. US HealthVest, LLC will finance this project using corporation reserves minus the \$10,000 Department of Commerce grant.
7. Prior to commencement of the project, US HealthVest, LLC will submit to the department for review and approval an executed Lease Agreement between Vest Thurston Realty, LLC and DM Ventures Woodland, LLC for the site. The executed lease must be consistent with the draft reviewed by the department.
8. Prior to providing services, US HealthVest, LLC will provide a copy of the executed intercompany "lease" between Vest Thurston Realty, LLC and Vest Thurston, LLC. No intercompany lease fees are to be included.
9. Prior to providing services at the hospital, US HealthVest, LLC 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.
10. Prior to providing services at the hospital, US HealthVest, LLC will submit to the department for review and approval a final listing of ancillary and support vendors for the 75-bed psychiatric hospital.

Martina Sze, EVP  
US HealthVest, LLC  
CN Application #16-23  
July 5, 2016  
Page 3 of 4

11. Prior to commencement of the project, US HealthVest, LLC will submit to the department for review and approval an executed Transfer Agreement. The executed Transfer Agreement must be consistent with the draft reviewed by the department.
12. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act (ITA) patients, US HealthVest, LLC will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at US HealthVest, LLC at the time of referral or if such referral is clinically inappropriate.

**Approved Costs:**

The approved estimated capital expenditure for this project is \$18,391,800.

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

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

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

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



**EVALUATION DATED JULY 5, 2016, OF THE CERTIFICATE OF NEED  
APPLICATION SUBMITTED BY US HEALTHVEST, LLC PROPOSING TO  
CONSTRUCT A 75-BED PSYCHIATRIC HOSPITAL IN THURSTON COUNTY**

**APPLICANT DESCRIPTION**

US HealthVest, LLC was formed in 2012. The majority of ownership [71.4%] is PVP US HealthVest, Inc. [52.1%] and Impresa Fund III Limited Partnership [19.3%]. The remaining ownership percentage of 28.6 is shared between 13 other owners. Ownership shares range from 8.28% to 0.28%. US HealthVest is led by the former management team of Ascend Health Corporation. Ascend Health Corporation was established in 2005; and in mid-year 2012 was purchased by Universal Health Services<sup>1</sup>. The management team of US HealthVest is listed below.

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

US HealthVest, LLC is not registered to do business in Washington State, rather US HealthVest, LLC created a wholly owned subsidiary known as Vest Thurston, LLC. This corporation is currently registered with the state of Delaware and the state of Washington.<sup>2</sup> For this project, US HealthVest, LLC<sup>3</sup> is the applicant and, if this project is approved, would be the certificate holder. If this project is approved, the hospital license would be issued to Vest Thurston, LLC. The hospital would be known as South Sound Behavioral Health Hospital.

**PROJECT DESCRIPTION**

HealthVest proposes to establish a 75-bed psychiatric hospital at 605 Woodland Square SE in Lacey [98503], within Thurston County.<sup>4</sup> The hospital would provide a full range of psychiatric services, including inpatient services, involuntary treatment services, day hospital/partial hospitalization, and intensive outpatient services as well as substance abuse treatment. Programs to be provided include adult psychiatric, active-duty military, extra mile veteran care, women’s, dual diagnosis, geriatric, faith-based mental health and chemical dependency, child/adolescent, pain management, and mother infant.

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<sup>1</sup>In 2011, the Certificate of Need program approved Universal Health Services (UHS)’s purchase of BHC Fairfax Behavioral Health in Kirkland. The BHC Fairfax-Kirkland facility was one of 25 hospitals in the overall UHS transaction. Other UHS Washington hospitals include BHC Fairfax Hospital North in Everett (9/2015), and Fairfax Behavioral Health Monroe in Monroe (12/2015). In February 2016, UHS and Providence Health & Services were issued Certificate of Need CN#1564 approving the formation of a new LLC, Spokane Behavioral Health, LLC, to build and operate a new 100 bed psychiatric hospital in Spokane.

<sup>2</sup> Established on May 16, 2013 with the Washington State Secretary of State office and Department of Revenue under UBI #603-574-125.

<sup>3</sup> For reader ease, throughout this analysis HealthVest will be used when referring to US HealthVest, LLC or Vest Thurston, LLC.

<sup>4</sup> “This project does not involve the construction of 12,000 square feet of new space...In discussions with the City of Lacey, Vest Thurston Realty understands that it will need to obtain a conditional use permit as an essential public facility. Vest Thurston has allowed nine months for this conditional use process in our development timeline.” [Source: Application, p6] The documents provided do indicate that the city of Lacey requires a Conditional Use Permit for approval as an essential public facility. [Source: Application: p14, March 22, 2016 Supplemental Material Attachment 4]

[Source: Application, pp2 thru 9] The proposed service area includes Thurston, Lewis, Mason, and Grays Harbor counties.

The capital expenditure associated with this project is \$18,391,800. Of that amount 80.4% is related to construction costs and fixed equipment; 3.3% for moveable equipment; and the remaining 16.3% is related to fees, permits, and state taxes. [Source: Application, p31]

HealthVest anticipates the 75-bed psychiatric hospital would become operational in October 2018. Under this timeline, year 2019 is full year one and year 2021 is full year three<sup>5</sup>. [Source: Application, p16]

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

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

### **EVALUATION CRITERIA**

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

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

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

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

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

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

- (i) Nationally recognized standards from professional organizations;*
- (ii) Standards developed by professional organizations in Washington State;*
- (iii) Federal Medicare and Medicaid certification requirements;*
- (iv) State licensing requirements;*
- (v) Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and*

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<sup>5</sup> This timeline assumes the project, if approved, is not delayed by 3rd party challenges.

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

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

**TYPE OF REVIEW**

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

**APPLICATION CHRONOLOGY**

<b>Action</b>	<b>HealthVest</b>
Letter of Intent Submitted	December 8, 2015
Application Submitted	January 14, 2016
Department’s Pre-review Activities <ul style="list-style-type: none"> <li>• Department’s 1st Screening Letter</li> <li>• Applicant’s Responses Received to 1st Screening Letter</li> <li>• Department’s 2nd Screening Letter</li> <li>• Applicant’s Responses Received to 2nd Screening Letter</li> </ul>	February 5, 2016 March 22, 2016 April 1, 2016 April 7, 2016
Beginning of Review	March 28, 2016 <sup>6</sup>
End of Public Comment <ul style="list-style-type: none"> <li>• Public comments accepted through the end of Public comment period</li> <li>• Public hearing conducted</li> </ul>	May 4, 2016 May 4, 2016
Rebuttal Comments Received	May 19, 2016
Department's Anticipated Decision Date	July 5, 2016
Department's Actual Decision Date	July 5, 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.*”

WAC 246-310-010(2) requires an affected person to first meet the definition of an “interested person.”

WAC 246-310-010(34) defines “interested person” as:

- (a) *The applicant;*

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<sup>6</sup> The department prematurely began the review for this application. It should have begun after receipt of the second screening questions. While this was a technical error, it did not impact the public’s ability or amount of time to provide the department with comments.

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

For this application seven individuals or entities sought interested person status. Of those two also requested affected person status. The following individuals or entities asked for “interested” and/or “affected person” status.

- Health Facilities Planning and Development
- MultiCare Health System
- Providence St. Peter Hospital
- SEIU Healthcare 1199NW
- John Bauder, CBRE/Brokerage Services
- Amy Lee, SEIU Oakland CA
- Mike McClure

#### Providence St. Peter Hospital

Providence St. Peter Hospital requested interested person status and to be informed of the department’s decision. Providence St. Peter Hospital is a licensed acute care hospital located in Olympia, Thurston County and provides inpatient psychiatric services. Providence St. Peter Hospital meets the definition of an “interested person” under WAC 246-310-010(34)(b). At the public hearing conducted on May 4, 2016, Providence St. Peter Hospital provided oral and written comments regarding the HealthVest proposal. Therefore, Providence St. Peter Hospital also qualifies as an “affected person”.

#### MultiCare Health Systems

MultiCare Health Systems requested interested person status and to be informed of the department’s decision. MultiCare Health Systems does not have an acute care hospital located in Olympia or Thurston County. Nor does MultiCare Health Systems have a psychiatric hospital located in Thurston County. MultiCare Health Systems does not meet the definition of an “interested person” under WAC 246-310-010(34). Because MultiCare Health Systems does not meet the definition of an “interested person”, it cannot qualify as an “affected person” as it relates to this application.

#### Providence/BHC Fairfax

Providence/BHC Fairfax, as a joint entity, does not provide services similar to the services under review and is not located in the Thurston County health service area. Therefore, Providence/BHC Fairfax does not qualify as an “interested person” under WAC 246-310-010(34)(b). On April 22, 2016 Providence/BHC Fairfax submitted four Letters of Intent (LOI) proposing to form a jointly owned entity to own and operate an 85-bed psychiatric hospital in Thurston County<sup>7</sup>. To qualify as an interested person under WAC 246-310-010(34)(e) a potential applicant must have submitted its LOI within the 12 months

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<sup>7</sup> The only difference in the LOIs in the estimated capital cost of the project.

prior to the date the application being considered by the department was received. HealthVest's application was submitted on January 14, 2016. Therefore, Providence/BHC Fairfax, as a joint entity, does not qualify as an interested person under WAC 246-310-010(34)(e) because their LOIs were submitted over 3 ½ months after the HealthVest application was submitted. The remaining subsections of (a), (c), (d), (f), and (g) do not pertain to Providence/BHC Fairfax. Because Providence/BHC Fairfax does not qualify to be an "interested person" it cannot meet the definition of an "affected person"<sup>8</sup> for the HealthVest application. Providence/BHC Fairfax provided oral comments at the public hearing as well as submitting written comments on the HealthVest application. They also submitted rebuttal comments on May 19, 2016. However, WAC 246-310-160(1)(a) limits the submission of rebuttal comments to the applicant and "affected persons". Because Providence/BHC Fairfax does not qualify to be an "affected person", the rebuttal comments submitted by Providence/BHC Fairfax will not be considered.

### **SOURCE INFORMATION CONSIDERED**

- US HealthVest LLC's Certificate of Need application submitted January 14, 2016
- US HealthVest LLC's Screening Responses received March 22, 2016
- US HealthVest LLC's Screening Responses received April 7, 2016
- Public comments received by the department through the close of business May 4, 2016
- Public hearing comments received at the public hearing conducted on May 4, 2016
- US HealthVest rebuttal documents received May 19, 2016
- Providence Health & Services St. Peter Hospital rebuttal documents received May 19, 2016
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Department of Health's Hospital and Patient Data Systems financial feasibility and cost containment analysis received June 10, 2016
- Historical charity care data for years 2012, 2013, and 2014 obtained from the Department of Health Hospital and Patient Data Systems office
- Department of Health internal database-Integrated Licensing & Regulatory System (ILRS)
- Joint Commission quality check website at [[www.qualitycheck.org](http://www.qualitycheck.org)]
- Certificate of Need historical files

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<sup>8</sup> The department also does not find a written request from Providence Health & Services/Fairfax Behavioral Health to be recognized as an interested person and to be informed of the department decision.



## **CONCLUSIONS**

For the reasons stated in this evaluation, the application submitted by US HealthVest, LLC proposing to construct a 75-bed psychiatric hospital located Lacey, within Thurston County, is consistent with applicable criteria of the Certificate of Need Program provided US HealthVest, LLC agrees with the following project description and conditions in their entirety.

### **Project Description:**

This certificate approves the construction of a 75-bed psychiatric hospital to be located in Lacey, within Thurston County. The hospital would provide a full range of psychiatric services for patients five years of age and older. These services include inpatient services, involuntary treatment services, day hospital/partial hospitalization, and intensive outpatient services as well as substance abuse treatment. Programs to be provided include adult psychiatric, active-duty military, extra mile veteran care, women's, dual diagnosis, geriatric, faith-based mental health and chemical dependency, child/adolescent, pain management, and mother-infant. The number of approved beds is summarized below.

	<b>Number of Beds</b>
Beds dedicated for patients ages 5 to 17 (child/adolescent)	10
Beds dedicated to patients age 18 and older (adult) beds	65
<b>Total Licensed Beds</b>	<b>75</b>

### **Conditions:**

1. Approval of the project description as stated above. US HealthVest, LLC further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Prior to providing services at the hospital, US HealthVest, LLC will submit a copy of the adopted and approved Admission Policy for review and approval.
3. Prior to providing services at the hospital, US HealthVest, LLC 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.
4. The new 75-bed psychiatric hospital will provide charity care in compliance with its final charity care policies reviewed and approved by the Department of Health, or any subsequent policies reviewed and approved by the Department of Health. The new 75-bed psychiatric hospital will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Southwest Region. Currently, this amount is 3.42% of gross revenue and 8.62% of adjusted revenue. The psychiatric hospital will maintain records documenting the amount of charity care provided and demonstrating its compliance with its charity care policies.
5. Annual budgets, as required by WAC 246-454-030, submitted by the new 75-bed psychiatric hospital must include budgeted charity care amounts of at least the regional average amount of charity care provided by hospitals in the Southwest Region.
6. US HealthVest, LLC will finance this project using corporation reserves minus the \$10,000 Department of Commerce grant.
7. Prior to commencement of the project, US HealthVest, LLC will submit to the department for review and approval an executed Lease Agreement between Vest Thurston Realty, LLC and

DM Ventures Woodland, LLC for the site. The executed lease must be consistent with the draft reviewed by the department.

8. Prior to providing services, US HealthVest, LLC will provide a copy of the executed intercompany “lease” between Vest Thurston Realty, LLC and Vest Thurston, LLC. No intercompany lease fees are to be included.
9. Prior to providing services at the hospital, US HealthVest, LLC 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.
10. Prior to providing services at the hospital, US HealthVest, LLC will submit to the department for review and approval a final listing of ancillary and support vendors for the 75-bed psychiatric hospital.
11. Prior to commencement of the project, US HealthVest, LLC will submit to the department for review and approval an executed Transfer Agreement. The executed Transfer Agreement must be consistent with the draft reviewed by the department.
12. So long as the state desires to contract with the facility for providing care to Involuntary Treatment Act (ITA) patients, US HealthVest, LLC will contract with the state to provide that care. An ITA referral may only be rejected if there are no beds available at US HealthVest, LLC at the time of referral or if such referral is clinically inappropriate.

**Approved Costs:**

The estimated capital expenditure for this project \$18,391,800.

## **CRITERIA DETERMINATIONS**

### **A. Need (WAC 246-310-210)**

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

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

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

#### HealthVest—Numeric Need Methodology

- *"Located in Lacey, the project will be accessible to residents of Thurston, Mason, Lewis, and Grays Harbor Counties. The population in the proposed Service Area has grown nearly 13% over the past ten years while the psychiatric bed capacity, which is already extremely low, has not increased."* [Source: Application, p19]
- *"In order for the proposed Service Area to achieve the average psychiatric bed-to-population ratio of other Northwestern States of between 22.2-27.3 beds per 100,000, it needs a total of 100 to 123 beds today. The current supply is limited to Providence St. Peter's 18 beds, leaving a net need today of between 82 to 105 beds."* [Source: Application, p19]
- *"With 18 inpatient beds and a current (age 5+ years) population of 452,661, the Service Area's current bed to population ratio is 3.98 beds per 100,000; 82% less than the 2014 average of other Northwest States (85% less than the 2009 average) and more than 50% below the 2009 and 2014 averages of Washington State."* [Source: Application, p20]
- *"As depicted in the application, our primary service area is Thurston, Lewis, Mason and Grays Harbor Counties. Today, there are no (zero) acute inpatient psychiatric beds located in any County other than Thurston. As noted on page 20 of our application, within our defined three County service area there is a net need, today, for between 82 and 105 beds."*

*We understand that the Department's "first cut" of the bed need projections will likely be conducted for just Thurston County, though we surely expect significant in-migration. With just Thurston County, the bed need is 50 today, increasing to 66 by 2030."* [Source: March 22, 2016 Screening Responses, p4]

- *"Using a bed to population ratio of 27.25, Table 1 projects the net bed need in 2015 and in 2030 (15 years into the future). As Table 1 indicates, bed need for Thurston County is expected to be 66 beds. The actual projections by year are included in Attachment 5."*

**Table 1 Thurston County Estimated Psychiatric Bed Need, 2015 and 2030, Age 5+ 2015 2030**

	<b>2015</b>	<b>2030</b>
<i>Population (5+)</i>	250,570	308,872
<i>Bed to Pop Ratio</i>	27.25	27.25
<i>Gross Bed Need</i>	68.3	84.2
<i>Existing Bed Supply</i>	18	18
<b><i>Net Bed Need</i></b>	<b>50.2</b>	<b>66.2</b>
<i>Source: Applicant and OFM 2012 Estimates, Medium Series by County and Age, 5 year increments (for population)</i>		

*[Source: March 22, 2016 Screening Responses, p4]*

**Public Comment**

- *“WAC 246-310-080(1 ) (c) requires the applicant to define its proposed service area. This definition must then be consistently used throughout the CN application process and factored into the analysis, most importantly with respect to its use in calculating bed need.*

*In its Letter of Intent, Health Vest defines its proposed service area as follows:*

*The hospital's primary service area is expected to be Thurston, Lewis, Mason and Grays Harbor Counties.*

*In its application, HealthVest continues to define its service area to include the same four-county definition:*

*The primary service area is Thurston, Lewis, Mason and Grays Harbor Counties (Service Area).*

*The four-County service area is a complete departure from the single-county service area definition used by the Department in its evaluation of eleven inpatient psychiatric hospital certificate of need requests since 2014, and its approval of six of these requests. Please see Table 1 below for a list of inpatient psychiatric hospital CN evaluations since 2014, and the service area definition used by the Department in its evaluation.” [Source: Providence St. Peter public comment, p14]*

- *“The Department has recognized that Thurston County is the proper service area definition, as it explicitly asked for a psychiatric bed need model for Thurston County-only in its first round of screening questions. Health Vest responded with a Thurston County-only bed need forecast in its screening responses. Its analysis, presented in its Table 1, showed need for 66 beds in Thurston County in 2030. It appears Health Vest knew the proper planning area definition was Thurston County, given it stated: "We understand that the department's 'first cut' of the bed need projections will likely be conducted for just Thurston County, though we surely expect significant in-migration. With just Thurston County, the bed need is 50 today, increasing to 66 by 2030." In other words, limiting itself to Thurston County, the correct planning area for its project, HealthVest's own psychiatric bed need forecast could not demonstrate need for its requested 75-bed project.” [Source: Providence St. Peter public comment, p15]*
- *“It should be noted HealthVest did provide qualitative support in its application stating that it believes it will receive some level of referrals from military service members at Joint Base Lewis-McCord (JBLM). However, the JBLM base is in Pierce County, and thus is not even part of HealthVest's four-county service area definition. No further discussion pertaining to service area was provided in HealthVest's supplemental screening responses.” [Source: Providence St. Peter public comment, p15]*

- *“However, when the current capacity is increased from 18 to 20 beds to reflect Providence St. Peter's correct bed figures, then need calculated by the HealthVest bed need model is projected to be 64 beds.”* [Source: Providence St. Peter public comment, p15]

### HealthVest Rebuttal

- *“In large part, USHV developed the project to address the following:*
  - *The high need for additional psychiatric beds in the South Sound and the need to improve access,*
  - *The large outmigration for psychiatric services that South Sound residents currently experience, and*
  - *The need for additional behavioral health programming for specific patient populations.*

*For example, today there is no involuntary treatment; pediatric/adolescent or active military or veterans beds in the four County Service Area.”*
- *“Using a bed to population ratio of 27.25, our screening responses noted that the net bed need in Thurston County alone for the population age 5+ in 2015 was 50 beds and in 2030 (15 years into the future) was 66 beds, or nearly 90% of the total bed need we are seeking CN approval for. A 15-year planning horizon is reasonable for a new hospital, and consistent with prior CN decisions.”*
- *“The high volume of letters of support submitted in support of our CN application from Lewis, Mason, Grays Harbor (and even Pierce) demonstrate the great need and desire of key referring entities in these Counties to use our beds. The small in-migration we propose is reasonable”*
- *”As further noted in our screening, if Thurston, Lewis, Mason and Grays Harbor Counties are included the net need is for between 82 and 105 beds today.”*

### Department Evaluation

HealthVest identified its service area Thurston, Lewis, Mason, and Grays Harbor counties. Both Providence St. Peter and Providence/BHC Fairfax argue the correct service area for the HealthVest project is Thurston only. To assist the department in determining the reasonableness of the proposed service area, the following factors were considered:

- Past Certificate of Need decision for psychiatric beds in Thurston County and HealthVest’s other service area counties.
- Number of beds dedicated to in-patient psychiatric services in Thurston County and HealthVest’s other service area counties.

According to department records, as of November 16, 2015 the only psychiatric beds reported as being set-up and staffed in Thurston County is 18 at Providence St. Peter Hospital. This number of beds has been reported since 2003. There are no psychiatric beds reported as being set-up and staffed in Lewis, Mason, or Grays Harbor counties. [Source: CHARS Year End Reports]

The department records show that the last Certificate of Need for psychiatric beds in Thurston County occurred in September 1981. A Certificate of Need was issued to Providence St. Peter Hospital for the addition of 18 beds to their existing 8 psychiatric beds for a total of 26. The service area identified in that evaluation was Thurston, Lewis, Mason, Grays Harbor, and Pacific counties. [Source: 1981 Certificate of Need staff analysis CN#638-0] As noted above, only 18 beds have been reported as being set-up and staffed since 2003.



Based on the above factors the department considers Thurston County as HealthVest’s primary service area. Their secondary service area is considered to be Lewis, Mason, and Grays Harbor counties. The number of available psychiatric beds is 18 for the entire primary and secondary service area.

The department performed separate bed projections for the adult population (18+) for the primary and secondary planning areas separately. The department performed separate bed projections for child/adolescents for the primary and secondary planning areas separately.<sup>9</sup> A 15-year projection horizon was used (2015 to 2030). Office Of Financial Management Population Data-medium series was used and a use rate of 27.25 beds per 100,000 population. Tables 1,2,3,4, and 5 present a summary of those projections. The department’s complete projections are contained in Appendix A.

**Table 1  
DOH Psychiatric Bed Need Projections  
Thurston County-Population 18 and Over**

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
Population	254,898	259,123	263,349	267,574	271,800	276,025	295,530	313,875
Use Rate/100,000	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	69.5	70.6	71.8	72.9	74.1	75.2	80.53	85.5
Minus Current Supply	18	18	18	18	18	18	18	18
<b>Net Bed Need</b>	<b>51</b>	<b>53</b>	<b>54</b>	<b>55</b>	<b>56</b>	<b>57</b>	<b>63</b>	<b>68</b>

**Table 2  
DOH Psychiatric Bed Need Projections  
Thurston County-Population Age 5-17**

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
Population	37,442	37,953	38,463	38,975	39,485	39,996	42,139	43,863
Use Rate/100,000	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	10	10	10	11	11	11	11	12
Minus Current Supply	0	0	0	0	0	0	0	0
<b>Net Bed Need</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>12</b>

**Table 3  
DOH Psychiatric Bed Need Projections  
Lewis, Mason, and Grays Harbor Counties-Population 18 and Over**

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
Population	173,749	175,041	176,330	177,622	178,911	180,201	186,454	192,228
Use Rate/100,000	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	47	48	48	48	49	49	51	52
Minus Current Supply	0	0	0	0	0	0	0	0
<b>Net Bed Need</b>	<b>47</b>	<b>48</b>	<b>48</b>	<b>48</b>	<b>49</b>	<b>49</b>	<b>51</b>	<b>52</b>

<sup>9</sup> Consistent with its Snohomish decision, child/adolescent is considered ages 5 to 17.

**Table 4**  
**DOH Psychiatric Bed Need Projections**  
**Lewis, Mason, and Grays Harbor Counties-Population Age 5-17**

	2015	2016	2017	2018	2019	2020	2025	2030
Population	28,342	28,528	28,716	28,903	29,091	29,279	30,608	32,035
Use Rate/100,000	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	8	8	8	8	8	8	8	9
Minus Current Supply	0	0	0	0	0	0	0	0
<b>Net Bed Need</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>9</b>

**Table 5**  
**DOH Psychiatric Bed Need Projections**  
**Combined-Population Age 5 and Older**

	2015	2016	2017	2018	2019	2020	2025	2030
Thurston County-18+ and older	51	53	54	55	56	57	63	68
Thurston County-Population Age 5-17	10	10	10	11	11	11	11	12
<b>Sub-Total</b>	<b>61</b>	<b>63</b>	<b>64</b>	<b>67</b>	<b>67</b>	<b>68</b>	<b>74</b>	<b>80</b>
Lewis, Mason, and Grays Harbor Counties-Population Age 18+	47	48	48	48	49	49	51	52
Lewis, Mason, and Grays Harbor Counties-Population Age 5-17	8	8	8	8	8	8	8	9
<b>Sub-Total</b>	<b>55</b>	<b>56</b>	<b>56</b>	<b>56</b>	<b>57</b>	<b>57</b>	<b>59</b>	<b>61</b>
<b>Combined Total for All Counties</b>	<b>116</b>	<b>119</b>	<b>120</b>	<b>123</b>	<b>124</b>	<b>127</b>	<b>133</b>	<b>141</b>

As shown in Table 5, in 2015 Thurston County alone had a need for 51 adult beds and 10 children/adolescent beds or a total of 61 beds. This need increases to 80 beds by 2030. Using just Thurston County the number of beds proposed by HealthVest would be supported. The need is even greater if the need projected for HealthVest’s secondary service area is included.

In addition to the numeric need, 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.

HealthVest

- *“This project has been developed to address at least the following identified needs:
 
  - *The high need for additional psychiatric beds in the Service Area and the need to improve access;*
  - *The large outmigration for services; and*
  - *The need for additional behavioral health programming for specific patient populations. For example, today there is no involuntary treatment; pediatric/adolescent or active military or veteran’s beds in the Service Area.*” [Source: Application, p19]*

- “There is one current provider of inpatient psychiatric services in the Service Area: Providence St. Peter (18 beds). As documented earlier (see Table 3), there is a significant undersupply of beds in the Service Area and Providence St. Peter’s unit is operating at capacity (93% occupancy). For these reasons, we have concluded that this project does not represent an unnecessary duplication.” [Source: Application, p28]
- “A review of the CHARS inpatient database demonstrates that about 50% of patients from the Service Area actually accessing inpatient care received that care outside of the Service Area. Although fluctuating slightly between years, in general at least half the population has consistently outmigrated for services (in 2012, about 57% out-migrated). The high out-migration is not surprising for several reasons: 1) there are only 18 beds available to serve the region, 2) the existing unit at Providence St. Peter operates virtually full and 3) there is a lack of programming in the service area that causes outmigration. Table 4 confirms the outmigration.

**Table 4**  
**2014 Grays Harbor, Lewis, Mason, and Thurston County MDC 19**  
**Resident Patient Days by Provider**

<i>Hospital</i>	<i>2014 Patient Days</i>	<i>2014 Market Share</i>	<i>County Added by Department</i>
<i>Providence St. Peter Hospital</i>	5,367	50.9%	Thurston
<i>BHC Fairfax Hospital</i>	1,599	15.2%	King
<i>MultiCare Auburn Regional</i>	450	4.3%	King
<i>Seattle Children’s Hospital</i>	379	3.6%	King
<i>St. Joseph Medical Center -Tacoma</i>	359	3.4%	Pierce
<i>Harborview Medical Center</i>	337	3.2%	King
<i>Lourdes Counseling Center</i>	288	2.7%	Franklin
<i>Cascade Behavioral Center</i>	252	2.4%	King
<i>Swedish Edmonds</i>	249	2.4%	Snohomish
<i>Peace Health St. John Medical Center</i>	239	2.3%	Cowlitz
<i>Other Grays Harbor, Lewis, Mason, and Thurston County Providers</i>	205	1.9%	
<i>Other</i>	827	7.8%	
<b>Total</b>	<b>10,551</b>	<b>100.0%</b>	

Source: WA State CHARS Database, MDC 19

[Source: Application, pp20-21]

- “As depicted in Table 6, in FYs 2013 and 2014 combined, nearly 390 individuals were boarded in an inpatient facility in the Service Area’s Regional Support Network (RSN) areas awaiting admission.”

**Table 6**  
**Thurston, Lewis, Mason and Grays Harbor**  
**Resident Boarding Volumes FY 2013-2014**

	<i>FY2013</i>	<i>FY2014</i>
<i># of Patients Boarded in ED</i>	123	266
<i># of Patient Boarding Days</i>	239	970

Source: Washington State Department of Social and Health Services, Division of Behavioral Health and Recovery, RSN Annual Reports. Grays Harbor, Thurston County and Timberlands RSN(includes Lewis, Pacific, and Wahkiakum)

[Source: Application: p22]

## Public Comment

- *“Because of Providence's long-standing presence in this community, we understand better than anyone the current unmet needs for behavioral health care.” [Source: Providence St. Peter Hospital public comment]*
- *“...Our community has a critical need for additional psychiatric beds...”[Source: Jessica Bateman, Olympia Councilmember-public comment opposing HealthVest]*
- *“A psychiatric hospital would fill a critical gap in the services we provide to people from all backgrounds and circumstances in our community. .... Because Olympia serves as the medical draw area for five counties, our community must address the needs of a population that is often not only economically challenged, but must travel some distance to receive the care our community provides. Therefore, we must be prepared to be creative and flexible in how we provide health care services.... Do we need a psychiatric hospital in the Olympia area? Yes....” [Source: Patricia Gilmer, M.D. and President of the Board of Directors for the Providence St. Peter Foundation-public comments- opposing HealthVest]*
- *“I clearly see the critical need for an inpatient behavioral hospital that will serve our residents who are so badly in need of this kind of facility.” [Source: Priscilla Terry, Prime Locations, Inc.- public comment opposing HealthVest]*
- *“Psychiatric care is one of the most difficult services to access in Washington State. Even the VA medical system is limited and is unable to tend to every veteran who needs acute psychiatric services. I have great interest in this facility becoming operational as soon as possible as it will serve as a barometer for establishing at a later date a facility at one of our existing campuses for the care of veterans.” [Source: Lourdes E. Alvarado-Ramos, Director Department of Veterans Affairs-public comment supporting HealthVest]*
- *“Grays Harbor Regional Support Network supports the development of additional inpatient psychiatric beds in the southwest Washington region. People in Grays Harbor County have a disproportionately difficult time accessing inpatient psychiatric treatment compared to other Washington Counties, and it is crucial that we act to address the problem. Currently, it is a challenge to find an appropriate bed when an individual is in crisis resulting in people being held in emergency departments, traveling long distances, and being separated from their family support systems while in crisis..... There are no hospitals in Grays Harbor County willing to provide psychiatric treatment and our search for other hospitals anywhere else in the State are frequently fruitless.” [Source: Joan Brewster, Director Grays Harbor County Public Health and Social Services Department-public comment supporting HealthVest]*
- *“Currently, our community members needing inpatient psychiatric care languish in an emergency department of our local hospital waiting for a more appropriate setting for treatment. There are no inpatient settings in Lewis County.” [Source: Danette D. York, MPH, CPH Lewis County Public Health & Social Services Director-public comments supporting HealthVest]*
- *“Currently, it is a challenge to find an appropriate bed when a patient is in crisis resulting In patients being held in emergency departments, traveling long distances, and being separated from their family support systems while in crisis. This is also a serious issue impacting the Thurston County Corrections Facility. The high volume of in custody individuals requiring psychiatric care or affected by drugs must be housed alone which forces the use of contract housing at other facilities at great expense to the Sheriff's Office and taxpayers. Having more options to address these Issues prior to incarceration would significantly reduce the burden of care on the jail medical staff, Corrections Officers, and other population.” [Source: John D. Snaza, Sheriff Thurston County]*

### HealthVest Rebuttal

- *“We are very appreciative of the nearly 100 personalized and compelling letters describing the magnitude and the extent of the unmet need that were submitted in support of our project. These letters were provided by fire, criminal justice, schools, providers and families.”*
- *“Sadly, we have had several instances in our work with youth in crisis, where no inpatient placements were available and we had no option but to refer clients in crisis to local hospital emergency room. The additional pediatric and adolescent inpatient treatment beds that US Health Vest intends to develop in Lacey would provide a much needed resource to families and clinicians in this area. Mike Hickman, Assistant Superintendent, Student Support Services, Capital Region Educational Service District, May 4, 2016”*
- *“In contrast to these compelling letters, the opposition to our project is for all practical purposes limited to PSP and Universal Health (UHS). These two parties suggest that they will, at some unknown time in the future, submit a certificate of need application in an effort to address the exact same need we propose to address. In addition to identical letters from both of these parties, another approximately 45 letters were submitted in opposition, purportedly by the public. The fact is that 39 or 85% of these letters were submitted by PSP employees, PSP contracted providers, PSP affiliates/related organizations or PSP board (community and foundation) members. These letters, in contrast to the letters of support are largely "form letters" in nature, with the overarching theme that the need is best addressed by these two parties and that the State should "wait" for some future undefined application.”*

### Department Evaluation

Typically, the department would use historical CHARS data to determine whether current services and facilities of the type proposed are sufficiently available and accessible. With psychiatric beds that evaluation is only partially helpful. The CHARS data only represents those that were able to access services. The CHARS data presented by HealthVest shows that about 50% of the patients in the four county service area had to access psychiatric services outside of their county of residence. Patients had to travel to King, Pierce, Cowlitz, and even Snohomish and Franklin counties. The department considered the public comments whether supporting or opposing HealthVest’s project.<sup>10</sup> What is clear to the department from the public comments is that whether opposing or supporting HealthVest’s proposed project there is universal agreement that the current services and facilities of the type proposed are not sufficiently available and accessible to meet the current need for psychiatric beds in Thurston County and neighboring counties much less any projected future need.

Based on the information reviewed the department concludes need for additional psychiatric beds to be located in Thurston County has been demonstrated. **This sub-criterion is met**

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

To evaluate this sub-criteria, the department evaluates an applicant’s Admission policies, willingness to serve Medicare patients, Medicaid patients, and to serve patients that cannot afford to pay for services.

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<sup>10</sup> The department did confirm the rebuttal statement by HealthVest that about 85% of those testifying in opposition at the May 4, 2016 public hearing had either current or former employment, medical staff, board member or foundation relationships with Providence.



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

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, or do not qualify for Medicaid. With the passage of the Affordable Care Act, the amount of charity care is expected to decrease, but not disappear.

**HealthVest**

HealthVest is not currently a provider of health care services to the residents of Washington State<sup>11</sup>. HealthVest’s application states, “Admission to South Sound Behavioral will be based upon clinical need. Services will be available to all persons regardless of race, color, creed, sex, national origin, or disability.” The admission policy also states, “All patients will be accepted regardless of ability to pay.” [Source: Application, p25 & Admission policy, p64] The application states “South Sound Behavioral intends to operate a program for the involuntarily detained (“ITA”). Under State law, ITA beds are used for persons who, as a result of a mental disorder, present a danger to self, others or property, and/or are unable to provide for their basic needs of safety or health.” [Source: Application, p25]

HealthVest provided a copy of the draft Admission Policy to be used at the psychiatric hospital. The policy outlines the criteria that the hospital uses to admit patients for psychiatric treatment at the hospital. [Source: Exhibit 4] Table 6, presents HealthVest’s estimated payor mix by percentage.

**Table 6  
HealthVest Payor Mix By Percentage**

Payor	%
Medicare	26%
Medicaid	23%
Managed Care/Commercial	10%
TriCare	25%
Self-Pay/Uncompensated Care	3%
Total	100%

[Source: Application, p36]

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<sup>11</sup> US HealthVest has been approved to construct a 125 psychiatric hospital in Snohomish County that is currently under construction.

HealthVest also provided a copy of its draft charity care policy to be used at the psychiatric hospital. The policy is draft policy outlines the process one must follow to obtain charity care. The draft policy states:

***Purpose***

*To define the policy for providing financial relief based on Federal Poverty Guidelines to patients with no health insurance or other state, or federal health payor assistance, and to establish protocols for the requesting and processing of the Financial Assistance Disclosure Forms and supporting income validation documentation.*

***Policy***

*Uninsured Charity discounts may be provided to all patients. A financial disclosure form should be completed to ensure that no portion of the patient's medical services will be paid by any federal or state governmental health care program (e.g., Medicare, Medicaid, Champus, Medicare HMO, Medicare secondary payor), private insurance company, or other private, nongovernmental third-party payor source."* [Source: Application, p66]

**Public Comment**

- *"An applicant's admission policy must identify basic admitting criteria and processes, i.e., who can or cannot be admitted, and the process to be followed. The HealthVest Draft Admission Policy mentions inclusion criteria for inpatients, but there is absolutely no description of the process of admitting patients into inpatient care. As such, it is unclear if HealthVest will appropriately screen and evaluate all potential patients, particularly special cases such as children and adolescents and co-morbid patients, and it is unknown what procedures, forms, or personnel will be utilized for this process."* [Source: Providence St. Peter public comment received May 4, 2016, p18]
- *"An applicant's admission policy must identify basic admitting criteria and processes, i.e., who can or cannot be admitted, and the process to be followed. The HealthVest Draft Admission Policy mentions inclusion criteria for inpatients, but there is absolutely no description of the process of admitting patients into inpatient care. As such, it is unclear if HealthVest will appropriately screen and evaluate all potential patients, particularly special cases such as children and adolescents and co-morbid patients, and it is unknown what procedures, forms, or personnel will be utilized for this process."* [Source: Providence/BHC Fairfax public comment received May 4, 2016, p18]
- *"An applicant's draft charity care policy must contain not only a statement of who qualifies for charity, consistent with RCW 70.170.060(5), but also the process to be followed for approval of charity care... The Charity Care Policy should identify all patients who fall below federal poverty guidelines, not just those who are uninsured, as the draft policy states. Patients should receive assistance even if they are insured but the insurance does not cover all the costs of their care if they meet qualifying income criteria, i.e., family incomes below federal poverty guidelines. Further, the draft policy should explicitly adjust for family size, which HealthVest's draft policy does not mention."* [Source: Providence St. Peter Hospital public comment, p19]
- *"An applicant's draft charity care policy must contain not only a statement of who qualifies for charity, consistent with RCW 70.170.060(5), but also the process to be followed for approval of charity care... The Charity Care Policy should identify all patients who fall below federal poverty guidelines, not just those who are uninsured, as the draft policy states. Patients should receive assistance even if they are insured but the insurance does not cover all the costs of their care if they meet qualifying income criteria, i.e., family incomes below federal poverty guidelines. Further, the draft policy should explicitly adjust for family size, which*

*HealthVest's draft policy does not mention.*" [Source: Providence/BHC Fairfax public comment, p19]

### HealthVest Rebuttal

- *"USHV is confident that our policies adhere and/or exceed all requirements. We would gladly accept any conditions .that the Program deems necessary."* [Source: HealthVest Rebuttal, p17]
- *"USHV is well aware of the admission and charity care policy requirements of the Washington State CN Program having already submitted and secured two CN approvals. The draft admission and charity care policies submitted in this application are virtually identical to those used in our prior two successful CN applications. In other recent CN applications, Providence and UHS have raised similar issues about other applicant's policies, and the Program has dismissed these comments. Related to a draft admission policy, the Program wrote:*  
  
*"Signature provided a draft Admission Policy. The draft policy identifies criteria used to admit patients for psychiatric treatment at the hospital and includes required nondiscrimination language. Providence/UHS implies that because the draft policy does not identify who would conduct patient evaluations, the general procedure for evaluation of new patients, or how it will handle special cases, the policy is not a valid draft. The policy as submitted meets the criteria for a Draft Admission Policy. If Signature's project is approved, the department would attach a condition related to the approval requiring Signature to provide a copy of its final Admission Policy for department review and approval. **The issue raised is not grounds for denial of Signature's project.** (emphasis added) Despite the fact that the Fairfax admission policy did not meet CN Program requirements, it was not grounds for denial of the Fairfax application."* [Source: HealthVest Rebuttal, p16. Quote taken from evaluations dated February 8, 2016, for three Certificate of Need applications Each proposing to establish psychiatric hospitals in Spokane Co., p35]
- *"For charity care, the program concluded:*  
*Springstone provided a draft Charity Care Policy. The draft policy outlines the process one must follow to obtain charity care. Providence/UHS implies that the policy may not allow charity care to a segment of the low income population and may not be a valid draft. The policy as submitted meets the criteria for a Draft Charity Care Policy. If Springstone's project is approved, the department would attach a condition related to the approval requiring Springstone to provide a copy of its Charity Care Policy that has been reviewed and approved by the Department of Health's Hospital and Patient Data Systems [HPDS] office. **The issue raised is not grounds for denial of Springstone's project.**"* [Source: HealthVest Rebuttal, pp 16 & 17, Quote taken from evaluations dated February 8, 2016, for three Certificate of Need applications Each proposing to establish psychiatric hospitals in Spokane Co., p37]

### Department Evaluation

HealthVest provided a draft Admission Policy. The draft policy states admission will be based upon clinical need. It outlines eight broad mental health categories that a potential patient must have at least one of to be admitted into the hospital. It also states *"All patients will be accepted for treatment without regard to race, color, religion, sex, or national origin"*. The draft policy also states *"All patients will be accepted regardless of ability to pay."* Providence St. Peter and Providence/BHC Fairfax in their public comments imply that because the draft policy does not identify who would

conduct patient evaluations, the general procedure for evaluation of new patients, or how it will handle special cases, the policy is not a valid draft. The policy as submitted meets the criteria for a Draft Admission Policy. If HealthVest's project is approved, the department would attach a condition related to the approval requiring HealthVest to provide a copy of its final Admission Policy for department review and approval. The issue raised is not grounds for denial of HealthVest's project. However, if this project is approved the department would include a condition regarding its admission policy.

Information presented within the application stated the applicant would seek Medicaid certification. Anticipated revenue sources shows that HealthVest expects 23% to be from Medicaid. [Source: Application, P36 and March 22, 2016, Screening Responses, Attachment 1] Using the information contained in HealthVest pro forma income statement, the department confirmed HealthVest expects 23% of its projected revenue to come from Medicaid. Based on the information reviewed, the department concludes HealthVest will serve low income patients as evidenced by its willing to become Medicaid certified.

Information presented within the application stated the applicant would seek Medicare certification. Anticipated revenue sources shows that HealthVest expects 26% to be from Medicare. [Source: Application, P36 and March 22, 2016, Screening Responses, Attachment 1] Using the information contained in HealthVest's pro forma income statement, the department confirmed HealthVest expects 26% of its projected revenue to come from Medicare. Based on the information reviewed, the department concludes HealthVest will serve elderly patients as evidenced by its willingness to become Medicare certified.

HealthVest provided a copy of its draft charity care policy to be used at the psychiatric hospital. The policy outlines who would qualify for charity care. Providence St. Peter and Providence/UHS in their public comments imply that because the draft policy does not include the process to be followed for approval of charity care it is not a valid charity care policy. This draft policy is the same as the department previously approved in HealthVest's Snohomish County hospital. Since the policy is a draft and the proposed hospital is not operational, the policy has not been reviewed and approved by the Department of Health's Charity Care Program in the Office of Community Health Services<sup>12</sup>. The issue raised is not grounds for denial of HealthVest's project. However, if this project is approved the department would include a condition regarding its charity care policy.

Using the information contained in HealthVest's pro forma income statement, the department calculated HealthVest's charity care at 2.2% of total revenue and 4.3% of adjusted revenue. [Source: Application, Exhibit 4 & March 22, 2016, Screening Responses, Attachment 1] Based on the information reviewed, the department concludes HealthVest will provide charity care.

To determine whether HealthVest's level of charity care is comparable to other hospitals the department uses HPDS charity report data. For charity care reporting purposes, HPDS divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. HealthVest's psychiatric hospital will be located in Thurston County within the Southwest Region. There are a total 14 general acute care hospitals within the Southwest Region.

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<sup>12</sup> On July 1, 2016 the Charity Care functions of the Hospital and Patient Data Systems [HPDS] office were moved to the office of Community Health Systems.

Table 7 shows the three-year average of charity care provided by the hospitals in the Southwest region and the three year average of charity care projected to be provided at HealthVest.<sup>13</sup> [Source: March 22, 2016 Screening Responses, Attachment 1 and HPDS 2012-2014 charity care summaries]

**Table 7  
Charity Care Percentage Comparisons**

	% of Total Revenue	% of Adjusted Revenue
Southwest Region 3-yr. average	3.42%	8.62%
HealthVest—Projected	2.20%	4.31%

As shown in Table 7, HealthVest projects to provide charity care below the regional average. This alone would not be grounds to deny the application. Consistent with other Certificate of Need decisions, to ensure the new psychiatric hospital would meet its charity care obligations, the department would attach a charity care condition requiring the hospital to provide charity care at or above the regional average.

Based on the information reviewed and with HealthVest’s agreement to the conditions identified above, the department concludes **this 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 criterion is not applicable to this application.

(b) The special needs and circumstances of biomedical and behavioral research projects designed to meet a national need and for which local conditions offer special advantages.

Department Evaluation

This criterion is not applicable to this application.

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

Department Evaluation

This criterion is not applicable to this application.

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

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<sup>13</sup> 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.



(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 criterion is not applicable to this application.

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

Department Evaluation

This criterion is not applicable to this application.

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

Department Evaluation

This criterion is not applicable to this application.

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

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

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

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

HealthVest

HealthVest expects to begin providing psychiatric services in Thurston County in October 2018. [Source: Application p16] Based on this timeline, year 2019 would be the first full calendar year of operation for the 75-bed hospital and 2021 would be year three.

HealthVest projected its patient days through the third full year of operation. Table 8 shows those projections.

**Table 8  
HealthVest Total Projections**

	<b>Year 2018 (3 months)</b>	<b>Year 2019</b>	<b>Year 2020</b>	<b>Year 2021</b>
# of Discharges	225	1,524	2,005	2,407
Average Length of Stay	9.1	9.1	9.1	9.1
Total Patient Days	2,048	13,870	18,250	21,900
Average Daily Census	16.8	38.0	50.0	60.0
% Occupancy with 75 beds	22.4%	50.7%	66.7%	80.0%

Key assumptions used by HealthVest to make these projections include:

- 85% of the days will be generated by Service Area residents.
- Average length of stay is estimated at 9.1. This is based on the Service Area’s resident actual ALOS per CHARs for 2014.
- Fill rate is based on the experience of HealthVest’s leadership in other similar markets. [Source: Application, p29]

Table 9 is a summary of HealthVest’s projected revenue, expenses, and net income for CY 2019 through 2021 for the 75-bed hospital. [Source: March 22, 2016, Screening Responses, Attachment 1]

**Table 9  
Summary HealthVest 75-bed Psychiatric Hospital  
Projected Revenue and Expenses for Calendar Years 2019 - 2021**

	<b>CY 1 2019</b>	<b>CY 2 2020</b>	<b>CY 3 2021</b>
Net Revenue	\$ 11,558,195	\$ 15,603,731	\$ 19,385,993
Total Expenses	\$ 12,670,573	\$ 14,869,292	\$ 16,643,821
Net Profit or (Loss)	(\$ 1,082,378)	\$ 734,439	\$ 2,742,172

HealthVest provided its assumptions used to make these financial projections and are summarized below. [Source: Application, p36; March 22, 2016, Screening Responses, Attachments 1 & 10]

- The income statements include both inpatient and outpatient revenue and expenses.
- Payer mix is 26.0% Medicare; 23.0% Medicaid, 51.0% commercial/other/self-pay.
- Operating expenses were calculated using the previous experience in operating psychiatric hospitals of owners.
- Medical director will be an employee and the compensation is included in the wages/salaries expense line item.
- Charity care is calculated at 2.2% of gross patient revenue.
- Bad debt is calculated at 3% of gross patient revenue.
- Contractual allowances are calculated to be approximately 61% of gross patient revenue.
- The number of outpatient visits are projected for 2019 at 1,888; 2020 at 2,545; and 2021 at 3,166

- Revenue projections are based on operating experience.

Public Comment

- None

Department Evaluation

The department reviewed the assumptions used by HealthVest to project its patient days. These projections are based on HealthVest’s assumption that not only would it provide psychiatric services to residents of Thurston County but also residents of Mason, Lewis, and Grays Harbor counties. As shown in the department’s need assessment Thurston County alone projects a need for a total of 67 beds in 2019. This increases to 80 beds by 2030. For Mason, Lewis and Grays Harbor counties, which have no dedicated inpatient psychiatric services, the department projected a total bed need of 57 in 2019 increasing to 61 by 2030. Therefore, even if the department only considered Thurston County alone, there are enough total projected patient days for HealthVest to meet its projected patient volumes for 2019 through 2021. The department concludes the patient projections provided by HealthVest are reasonable.

As shown in Table 9, HealthVest projects the new psychiatric hospital would operate at a loss in 2019, its first full year of operation. By year two the new hospital is projected to make a profit.

To assist in the evaluation of this sub-criterion, the department’s Hospital and Patient Data Systems (HPDS) office reviewed the unaudited balance sheets for January 31, 2016 and for the projected year three. The information is shown in the tables 10A and 10B. [Source: June 10, 2016, HPDS analysis, p2]

**Table 10A  
HealthVest Balance Sheet  
January 21, 2016**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$28,389,582	Current Liabilities	\$5,884,246
Fixed Assets	\$15,375,127	Long Term Debt	\$19,877,559
Board Designated Assets	\$0	Other Liabilities	\$0
Other Assets [depreciation]	\$15,929,268	<b>Equity</b>	\$33,932,172
<b>Total Assets</b>	<b>\$59,693,977</b>	<b>Total Liabilities and Equity</b>	<b>\$59,693,977</b>

**Table 10B  
US Health Vest Balance Sheet  
Projected Year 2021**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$6,269,307	Current Liabilities	\$594,136
Fixed Assets	\$17,546,002	Long Term Debt	\$ 0
Board Designated Assets	\$0	Other Liabilities	\$ 0
Other Assets [depreciation]		<b>Equity</b>	<b>\$23,221,173</b>
<b>Total Assets</b>	<b>\$23,815,309</b>	<b>Total Liabilities and Equity</b>	<b>\$23,815,309</b>

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

*“HealthVest’s capital expenditure for the Certificate of Need project is \$18,391,800. ...US HealthVest was created for this hospital project. All the current assets are available for the costs of the project which are sufficient for this project.”*

HPDS also provided a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically analyzed are 1) long-term debt to equity; 2) current assets to current liabilities; 3) assets financed by liabilities; 4) total operating expense to total operating revenue; and 5) debt service coverage. If a project’s ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, HPDS reviews a project’s projected statement of operations to evaluate the applicant’s immediate ability to finance the service and long term ability to sustain the service.

For Certificate of Need applications, HPDS compares projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2014 data for comparison with projected years 2019 through 2021. The ratio comparisons are shown in the Table 11. [Source: June 10, 2016, HPDS analysis, p3]

**Table 11  
Current and Projected HPDS Debt Ratios for HealthVest Thurston**

<b>Category</b>	<b>Trend*</b>	<b>State 2014</b>	<b>HealthVest 2014</b>	<b>Full Year 1 2019</b>	<b>Full Year 2 2020</b>	<b>Full Year 3 2021</b>
Long Term Debt to Equity	B	0.448	N/A	N/A	N/A	N/A
Current Assets/Current Liabilities	A	2.702	4.825	3.991	5.789	10.552
Assets Funded by Liabilities	B	0.385	0.432	0.023	0.025	0.025
Operating Expense/Operating Revenue	B	0.954	7.623	1.093	0.953	0.859
Debt Service Coverage	A	4.990	N/A	N/A	N/A	N/A
<b>Definitions:</b>				<b>Formula</b>		
Long Term Debt to Equity				Long Term Debt/Equity		
<b>Definitions:</b>				<b>Formula</b>		
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+Depreciation and Interest Expense/Current Mat. LTD and Interest Expense		

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

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

HPDS concluded in its review of the financial and utilization information show that the immediate and long-range capital expenditure can be met. [Source: June 10, 2016 HPDS analysis, p3].

Based on the source information reviewed, 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.

HealthVest

HealthVest proposes to locate the new 75-bed hospital at 605 Woodland Square Loop, in Lacey, within Thurston, County.

US Health identified the capital expenditure associated with the construction of the 75-bed psychiatric hospital is \$18,391,800. This project is renovating of an existing building. A non-binding cost estimator letter from Miro Petrovic, Architect, HealthVest<sup>14</sup> was provided. A breakdown of the costs is shown in Table 12. [Source: Application, p31 and March 22, 2016 Screening Responses, p75]

**Table 12**  
**HealthVest 75 Bed Psychiatric Hospital**

<b>Item</b>	<b>Cost</b>	<b>% of Total</b>
Construction Costs [includes fixed equipment]	\$14,784,840	80.4%
Moveable Equipment	\$600,000	3.3%
Architect/Engineering Fees	\$1,034,939	5.6%
Consulting Fees	\$300,000	1.6%
Supervision & Inspection	\$200,000	1.1%
Sales Tax	\$1,472,021	8.0%
<b>Total</b>	<b>\$18,391,800</b>	<b>100.0%</b>

HealthVest provided a draft lease agreement between Vest Thurston Realty, LLC [tenant] and DM Ventures Woodland, LLC [landlord]. HealthVest also submitted a Letter of Intent to Lease Property and Facilities between Vest Thurston Realty, LLC and Vest Thurston, LLC. [Source: March 22, 2016 Screening Responses, p14]

HealthVest states it will need to obtain a conditional use permit as an essential public facility and has allowed nine months for this conditional use process in the development timeline. [Source: Application, p6]

Public Comment

- *“Site control is a standard element of a CN application and is required of every applicant. In many cases, applicants do not provide signed lease or purchase/sale agreements. However, applicants must provide signed letters of intent (or similar legally binding documents) evidencing a binding obligation on the subject entity to either sell the land or lease the building, as applicable, to the applicant if the CN is approved.”* [Source: Providence St. Peter Hospital public comments, p3]

<sup>14</sup> Miro Petrovic’s Washington State Registration No. 11155



- *“After its application had been placed under review by the Department on March 28, 2016, HealthVest announced it is evaluating a second site. Unlike the site identified in its application, which is an existing building HealthVest would renovate, this second site would entail development of a new inpatient psychiatric hospital facility on an undeveloped parcel of land. Compounding the problem, HealthVest has not provided any information to the Department regarding this second site. Since site selection and characteristics fundamentally affect virtually all aspects of a CN application, without knowing anything about this new site, it is impossible for the Department to evaluate the HealthVest CN.”* [Source: Providence St. Peter Hospital public comments, p3]
- *“Multiple site evaluation, without supporting documentation, makes financial feasibility evaluation impossible. The Department's financial feasibility evaluation of HealthVest's application requires site specific information. HealthVest identified and included just one site in its application. Yet, as noted above, it is now evaluating two sites---after the Department began review of its project. Site selection drives key elements of capital expenditures, including land purchase {if required}, site preparation and development (particularly if the site is a vacant, unimproved parcel), and construction. Capital expenditures will be very different if HealthVest builds a new building on vacant land as compared to leasing an existing building and renovating it. The extent of such differences is unknown without additional information, thus making Financial Feasibility analysis of the HealthVest application impossible.”* [Source: Providence/BHC Fairfax public comments, p5]
- *“The original site identified by HealthVest in its CN application is located in the City of Lacey, where the essential public facility ("EPF") siting process is conducted as part of the City's conditional use permitting process. HealthVest recognized the EPF siting process will apply. However, it failed to state that, as part of the EPF siting process, HealthVest is required to analyze alternative sites. HealthVest apparently was not aware of the EPF siting process requirements, and as a consequence, it has provided the Department with a CN application that, by definition, is incomplete, i.e., includes just one, not alternate sites, as required by the EPF siting process. In other words, the entire HealthVest CN includes information and analysis for just one site, not the two sites it is required to consider.”* [Source: Providence St. Peter Hospital public comments, p3]
- *“We are the owners of a project called "The Hub", which includes this building. We wish to communicate that we are in support of US Healthvest locating at The Hub due to the many benefits it will bring to Thurston County including: ... When we were approached by US Healthvest, we spent a fair amount of time researching them. We called some of their other locations around the country and interviewed neighbors that are located near their existing facilities. We heard over and over that US Healthvest is a quiet and respectful neighbor to surrounding tenants and property owners. We also learned that they are known for giving back to the communities they choose to locate in....The economic impact of \$20 million in construction, hundreds of new jobs, and an 80,000 square foot community partner cannot be overlooked. This one tenant will have significant positive economic impact to Thurston County.”* [Source: Michael McClure, Partner in DM Ventures, public comment]

### HealthVest Rebuttal

- *“USHV's draft lease agreement is consistent with the above requirement.”*
- *“In addition, despite PSP and UHS assertion to the contrary, the draft lease agreement is with the owner of the building. Included with the public comment, is a letter from Michael McClure, a partner with DM Ventures who stated:*

*“This letter is being written in support of US Healthvest locating a new behavioral health facility at 605 Woodland Square Loop in Lacey, Washington. We are the owners of a project called "The Hub, " which includes this building.”*

*Finally, to completely tie our site control documentation altogether, included in Attachment 4 is information from the Thurston County Assessor's office documenting that the property owner is DM Ventures, LLC. Clearly, USHV has site control.”*

- *“In addition, PSP and UHS suggest that USHV is now considering a second site. As the Program is well aware, this is misleading. The new USHV hospital is considered an essential public facility (EPF), Type two. As such, as part of the zoning process, USHV is required to provide an analysis of the alternative sites considered for the proposed facility and the city zoning code REQUIRES an alternate facility be listed to start the notice process. To be clear, the Woodland site is the only site USHV is considering but in order to comply with the City of Lacey code, we were required to list another site. A copy of the zoning requirement is included as Attachment 5. The zoning process requires a 90-day notice process before the application can be filed. We started this process on April 7, 2016 and a public information session was held on May 3, 2016. Our zoning application will be filed by July 6, 2016.”*

#### Department Evaluation

HealthVest identified the location of the proposed hospital as 605 Woodland Square Loop, in Lacey. The applicant provided a draft lease agreement between Vest Thurston Realty, LLC [tenant] and DM Ventures Woodland, LLC [landlord]. The agreement identifies the location of the site, lease costs, and certain requirements for use of the facility by the tenant. The agreement outlines roles and responsibilities of both tenant and landlord. The agreement provides for two ten year extensions of the lease. [Source: March 22, 2016 Screening Responses, Attachment 7]

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.

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 HealthVest project is approved, the department would attach a similar condition.

In addition to the draft lease between Vest Thurston Realty, LLC and DM Ventures Woodland, LLC, the applicant submitted a signed Letter of Intent to Lease Property and Facilities between Vest Thurston Realty, LLC and Vest Thurston, LLC. This later agreement includes the follows:

*“Vest Thurston, LLC is the entity that will own the business operations of the proposed psychiatric hospital. Vest Thurston Realty, LLC is the entity that will lease the real estate.*

*Both Vest Thurston Realty, LLC and Vest Thurston, LLC are 100% owned by US HealthVest, LLC.*

*Upon Certificate of Need approval, there will an intercompany transfer between Vest Thurston and Vest Thurston Realty whereby Vest Thurston, LLC will lease the building from Vest Thurston Realty, LLC. Vest Thurston will comply with the terms of the lease agreement with*

*MJR Development. Since both entities are fully owned by US HealthVest, LLC, there will be no intercompany fee associated with this lease.*” [Source: March 22, 2016 Screening Responses, p14]

The approach described above is one that the department has seen many times where an applicant has one subsidiary own the real property and the other own the business operations. Under these arrangement, there may or may not be an intercompany lease fees involved. For this proposed project no intercompany lease fees are expected. If this project is approved, the department would include a condition regarding limiting the lease fees for this agreement.

Although HealthVest provided a draft lease, Providence St. Peter and Providence/BHC Fairfax suggested HealthVest does not have site control. Michael McClure, a partner in DM Ventures, owners of the property and building where the proposed hospital is to located submitted a letter of support and also testified at the May 4, 2016 public hearing. In response to Providence St. Peter and Providence/BHC Fairfax stated concerns, as additional documentation, HealthVest submitted documentation from the Thurston County Assessor’s office showing DM Ventures does own the property at Woodland Square Loop. [Source: HealthVest rebuttal, p51] The department is satisfied that HealthVest has appropriate site control.

In addition to site control, Providence St. Peter and Providence/BHC Fairfax also suggest that HealthVest is now considering an additional or alternative site for the proposed project and therefore the department cannot determine financial feasibility. In its application, HealthVest states, *“In discussions with the City of Lacey, Vest Thurston Realty, LLC understands that it will need to obtain a conditional use permit as an essential public facility. Vest Thurston, LLC has allowed nine months for this conditional use process in the development timeline.”* [Source: Application, p6] HealthVest also stated *“To be clear, the Woodland site is the only site USHV is considering but in order to comply with the City of Lacey code, we were required to list another site.”* HealthVest provided a copy of the zoning requirements. [Source: HealthVest rebuttal, p15 and Attachment 5]

Department staff attended the public information session held on May 3, 2016 by HealthVest as required by Lacey zoning requirements. The focus of that public information session focused on the Woodland Square Loop site, not on any alternative site. The department had also reviewed the zoning requirements prior to that public information session. The department agrees with HealthVest’s description it provided as part of its rebuttal comments concerning the essential public facility (EPF) review that is part of the conditional use permitting process. Therefore, the department does not agree with Providence St. Peter and Providence/BHC Fairfax’s financial feasibility analysis position.

US Heath identified the capital expenditure associated with the construction of the 75-bed psychiatric hospital is \$18,391,800. These costs are for renovating the existing Woodland Square Loop building to bring it up to applicable state, federal and Joint Commission psychiatric hospital licensing and accreditation standards. A non-binding cost estimator letter from Miro Petrovic, Architect, HealthVest was provided consistent with the project’s estimated costs. The department reviewed the cost of previous psychiatric hospital projects. The costs proposed by HealthVest are comparable to those projects.

Based on the information reviewed and with HealthVest’s agreement to the conditions identified above, the department concludes the cost of the project will probably not result in an unreasonable impact on the costs and charges for health services. **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.

HealthVest

The capital expenditure associated with the 75-bed psychiatric hospital is \$18,391,800. HealthVest intends to fund the project using its reserves. [Source: Application, p11] In October of 2015, US HealthVest submitted a successful grant request to the Washington State Department of Commerce requesting \$10,000 to establish a 75 bed psychiatric hospital in Thurston County. [Source: Application, p18] HealthVest provided Consolidated Audited Financial Statements and Supplemental Information for the year ending December 31, 2014 and the period from March 1, 2013 (inception) through December 31, 2013. [Source: Application, Appendix 2] It also provided a corrected 2014 Audit and Auditor letter. [Source: March 22, 2016 Screening Responses, Attachment 6] The un-audited January 31, 2016 balance sheet for HealthVest was also provided. [Source: March 22, 2016 Screening Responses, p78]

HealthVest provided a letter of financial commitment from the organization's Chief Financial Officer. [Source: March 22, 2016 Screening Responses, p77] HealthVest also provided a copy of the grant award letter from the Washington State Department of Commerce for the Olympia hospital project. [Source: April 7, 2016 Screening Responses, p99]

Public Comment

- *“HealthVest has not provided documents that demonstrate financial strength. In fact, it appears HealthVest has more capital expenditure obligations than cash reserves. The Department should evaluate its ability to fund multiple projects with relatively little cash reserves. The Department specifically questioned HealthVest's cash position in its screening question, when it asked: "The project is expected to cost \$18.3 million, however the 2014 audited statement shows only \$5 million is cash and no other assets which can be liquidated easily. Where will the investment come from? In response, HealthVest provided an unaudited January 2016 consolidated Balance Sheet that showed Cash and Cash Equivalents of \$23.6 million. It is unclear whether HealthVest has adequate reserves to finance this project request, its Georgia project(s), and the Snohomish County project. ”* [Source: Providence St. Peter Hospital and Providence/BHC Fairfax public comments, p21]
- *With very high capital cost commitments already in place and operating losses from its only operational facility. HealthVest wants the Department to believe it can somehow fund yet another multi-million dollar project. Based on what has been provided by HealthVest, it seems virtually impossible for it to finance all these projects from reserves-those reserves are simply not there, and operations are generating losses, not positive net income.* [Source: Providence St. Peter Hospital and Providence/BHC Fairfax public comments, p22]

HealthVest Rebuttal

- *“Since creation in 2013, USHV's ownership has remained constant and is consistent with the January 2014 Snohomish County psychiatric Hospital approval. In addition, USHV's core management team is also the same.”*

- *“PSP and UHS question USHV's ability to finance the construction and start-up of South Sound Behavioral. The record must reflect that USHV has over \$27 million in cash today and this is more than sufficient to cover the \$18.4 million in capital costs for the Thurston CN project.”*
- *“PSP and UHS also inaccurately state that our Chicago Behavioral Hospital project operates with a negative margin. This is not correct. USHV is generating positive cash flow from operations on this hospital, having successfully turned around its operations in just 15 months. In November 2014, USHV acquired the 115-bed psychiatric hospital from a local non-profit system and renamed it Chicago Behavioral Hospital. The non-profit system intended to close the hospital and focus on other core parts of its mission. The hospital only served children and adolescents and upon acquisition had a patient census of only 5 patients and operating losses of \$5 million annually. USHV invested money to upgrade and renovate the hospital and expand service offerings to adults and senior adults. We added specialty programs that include Extra Mile Veteran Care™, a women-only program, a faith-based program, a psychiatric intensive care program and a dual diagnosis program. Today, Chicago Behavioral Hospital has a census of 115 patients and has generated \$2 million in net income, year-to-date as of April 30, 2016.”*

#### Department Evaluation

As noted earlier, the capital expenditure associated with this of the 75-bed psychiatric hospital is \$18,391,800. HealthVest intends to fund the project using its reserves. Included in HealthVest’s April 7, 2016 screening responses, was a copy of the grant award letter from the Washington State Department of Commerce for the HealthVest’s Olympia hospital project. During the 2015 Legislature session, as part of the capital budget, dollars were identified for either specific projects or were available through an application process which were to be used to help build mental health capacity. This application process was separate and distinct from the Certificate of Need review process. The amount awarded to HealthVest for their Thurston County project was \$10,000 which represents 0.05% of the total cost of the project. This amount does not alter the overall financing plan to finance the project out of company reserves.

While the department may prefer audited financial statements, it has accepted un-audited. HealthVest provided its Consolidated Audited Financial Statements and Supplemental Information for the year ending December 31, 2014 and the period from March 1, 2013 (inception) through December 31, 2013. [Source: Application, Appendix 2] It also provided a corrected 2014 Audit and Auditor letter<sup>15</sup>. [Source: March 22, 2016 Screening Responses, Attachment 6] The un-audited January 31, 2016 balance sheet for HealthVest was also provided. [Source: March 22, 2016 Screening Responses, p78] The department notes that HealthVest’s Cash and Cash Equivalents have increased from \$5,136,371 as of December 31, 2014 to \$23,569,490 as of January 31, 2016. Total equity increased from \$27,697,130 to \$33,932,172. In response to Providence St. Peter and Providence/BHC Fairfax stated concerns, as additional documentation, HealthVest submitted an

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<sup>15</sup> The change to the audited financial statements is as follows: *“Our initial report issued March 25, 2015 stated that US HealthVest did not accept direct pay patients. However, this was poor wording and it was determined after issuance that it may be misleading. We subsequently changed the wording contained within Note 1 to state that the Company did not have accounts receivable from direct pay patients, and therefore the Company has not established an allowance for doubtful accounts.*

*We did not feel this change warranted a re-dating of the statements, and therefore we have left our issuance date as March 25, 2015.”* [Source: March 22, 2016 Supplementary Material, Cover letter from Tobin & Company Certified Public Accountants, PC, p24]

April 30, 2016 pro forma consolidated Balance Sheet for HealthVest showing Cash as being \$27,441,606 and Total Equity as being \$43,944,372. in its rebuttal comments. [Source: May 19, 2016 Rebuttal, Attachment 6] Additionally HealthVest provided a letter from City Bank Texas stating “*the aggregate deposit balance of these accounts as of May 13, 2016, was \$27,326,184.*”

In response to Providence St Peter and Providence/BHC Fairfax comments regarding the Chicago Behavioral Hospital operating with a negative income. HealthVest provided a reasonable explanation about the operation of the hospital. HealthVest also reported that Chicago Behavioral Hospital currently has a census of 115 patients and has generated \$2 million in net income, year to date as of April 30, 2016.

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

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

Based on the source information reviewed and US HealthVest, LLC’s agreement to the conditions identified in the conclusion section of this evaluation, the department concludes US HealthVest, LLC’s application has met the structure and process of care criteria in WAC 246-310-230.

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

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

HealthVest

HealthVest’s projected staffing is shown in table 13. [Source: March 22, 2016, Screening Responses, p7 & Attachment 11]

**Table 13  
HealthVest 75 bed Psychiatric Hospital**

	<b>Year 1-2019</b>	<b>Year 2-2020 Increase</b>	<b>Year 3-2021 Increase</b>	<b>Total</b>
<b>Physicians</b>				
Medical Director	1	0	0	1
Physicians	5.00	1.00	1.00	7.0
<b>Physician Total</b>	<b>6.00</b>	<b>1.00</b>	<b>1.00</b>	<b>8.00</b>
<b>Nursing/Direct Care</b>	<b>39.20</b>	<b>7.00</b>	<b>9.80</b>	<b>56.0</b>
<b>Other Clinical</b>				
Social Services	9.1	1.9	2.0	13.0
Nursing Admin	6.2	0.00	0.00	6.2
Quality Improvement	1.00	0.00	0.00	1.0

	<b>Year 1-2019</b>	<b>Year 2-2020 Increase</b>	<b>Year 3-2021 Increase</b>	<b>Total</b>
Security, Trans. Rec. Therapy	4.90	0.70	0.0	5.6
Pharmacy	2.4	0.00	0.00	2.4
<b>Other Clinical Total</b>	<b>23.6</b>	<b>2.6</b>	<b>2.0</b>	<b>28.2</b>
<b>Support</b>				
Dietary	5.20	1.30	0.00	6.5
Utilization Review	4.50	0.50	0.00	5.0
Maint. & Housekeeping	6.40	0.90	0.00	7.3
Medical Records	2.00	1.00	1.00	4.0
Bus Office, Finance, & Admin.	11.5	0.0	1.0	12.5
Intake	9.4	1.0	1.0	11.4
Human Resources	1.00	0.00	0.00	1.0
Community Relations	3.00	0.00	0.00	3.0
<b>Support Total</b>	<b>43.00</b>	<b>4.70</b>	<b>3.00</b>	<b>50.70</b>
<b>Outpatient</b>				
	<b>4.00</b>	<b>0.00</b>	<b>0.00</b>	<b>4.0</b>
<b>Total FTEs</b>	<b>115.8</b>	<b>15.3</b>	<b>16.0</b>	<b>146.9</b>

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

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

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

HealthVest provided a job description with roles and responsibilities, for the medical director position. [Source: March 22, 2016 Screening Responses, Attachment 12]

#### Public Comment

- None

#### Department Evaluation

The hospital is expected to become operational in October 2018 with all 75 psychiatric beds. Under this timeline, full calendar year one is 2019 and full year three is 2021. Staffing for the psychiatric hospital is based on the projected occupancy of 50.7% in year one, 66.7% in year two, and 80% in year three. As noted in Table 15, HealthVest intends to recruit the majority of its staff in year 2019 to ensure appropriate staffing upon opening. In years two and three, staff will increase proportionately as occupancy of the hospital increases.

To ensure appropriate staff is available for this project, HealthVest states it intends to "*work closely with the existing local providers to develop recruitment and retention strategies that would support existing systems and do not exacerbate any challenges faced by the existing providers.*" The strategies identified by HealthVest are consistent with those of other applicants reviewed and approved by the department.

Key staff, including the medical director, have not yet been identified for the new hospital. Since the medical director will be an employee, no medical director contract will be established. HealthVest provided a job description with roles and responsibilities, for the medical director position. [Source: March 22, 2016 Screening Responses, Attachment 12] If this project is approved, the department would attach a condition requiring HealthVest to provide the department with a listing of key staff for the hospital. Key staff includes all credentialed or licensed management staff, including the director of nursing and medical director.

Based on the information reviewed and with HealthVest's agreement to the condition identified above, the department concludes, **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.

#### HealthVest

- Required on-site ancillary and support services include pharmacy, dietary and recreational therapy. In addition, South Sound Behavioral will contract with a local provider for lab support. [Source: Application, p39]
- Ancillary and support services include pharmacy, dietary, recreational and activity therapy. In addition, South Sound Behavioral Hospital will contract with a local provider for lab support. [Source: March 22, 2016 Screening Responses, p8]
- A draft transfer agreement with a local acute care hospital was provided.
- A letter of support from the Thurston Mason RSN. [Source: March 22, 2016 Screening Responses, Attachment 14]

#### Public Comment

- None

#### Department Evaluation

HealthVest expects the new psychiatric hospital to become operational in October 2018. As a result, formal and informal working relationships with area healthcare providers have not yet been established. The applicant provided a listing of common ancillary and support services necessary for a 75-bed psychiatric hospital. Those anticipated to be provided on-site include pharmacy, dietary, and therapy. Lab services are expected to be under contract with a local provider.



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

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

Based on the information reviewed and with HealthVest's agreement to the condition identified above, the department concludes, **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.

#### HealthVest

- “South Sound Behavioral will seek Joint Commission accreditation, and neither it, nor any of its principal partners or Leadership Team have any history with respect to the actions noted in CN criterion WAC 248-19-390 (5) (a).” [Source: Application, p42]
- “South Sound Behavioral will operate in compliance with all applicable federal laws, rules and regulations for the operation of a health care facility.” [Source: Application, p42]

#### Public Comment

- None

#### Department Evaluation

As a new hospital it does not have a history of Medicare certification or inspections by the Department of Health. HealthVest is currently operating one hospital in Chicago. Chicago Behavioral Health is accredited by Joint Commission and the last full survey was on January 27, 2016. Prior to that date, the hospital was January 23, 2013 and received accreditation on June 21, 2013.

Since HealthVest management team were also the management team of Ascend Health Corporation before its purchase in 2012 the department also reviewed that company's quality of care. As part of its review on an application submitted by Ascend in 2012 prior to its sale, the Department reviewed the accreditation information on the Joint Commission<sup>16</sup> website for the out-of-state behavioral health hospitals previously owned and operated by Ascend. Of the nine hospitals, two did not have

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<sup>16</sup> The Joint Commission is an independent, not-for-profit organization that accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards. [Source: Joint Commission website]

Joint Commission accreditation. The remaining seven hospitals all were considered comparable to the national patient safety and quality improvement goals during the time owned by Ascend Health Corporation.<sup>17</sup> There were no adverse licensing actions as a result of these surveys. [Source: Department historical application records, CN12-12]

Based on the information reviewed, the department concludes **this sub-criterion is met.**

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

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

#### HealthVest

- *“Due to our highly experienced leadership team and their knowledge regarding the full range of behavioral health services, not just inpatient, we are acutely aware of the benefits of supporting patients as they transfer back into the community. To this end, Vest Thurston will establish and work with a vast and comprehensive array of community-based programming including, but not limited to:*
  - *Family/significant others*
  - *Private outpatient providers*
  - *Community Mental Health Centers*
  - *Designated mental health professionals*
  - *Chemical dependency care providers*
  - *Adult Protective Services*
  - *Geriatric Specialists*
  - *Regional Support Network staff*
  - *Interpreter services*
  - *In home care providers*
  - *Medical care providers*
  - *Schools”* [Source: Application, p40]
- *“By virtue of the acute shortage of inpatient psychiatric beds in the Service Area, South Sound Behavioral will serve a patient population that is currently underserved; and too often these patients experience fragmentation due to the lack of services. Many of the patients we propose to serve are currently held in hospital emergency departments and a smaller percentage are admitted to general acute care beds.*

*It is our intent to offer a wide range and level of inpatient service programming including ICU (crisis stabilization) inpatient step-down and intensive outpatient services. We will also work closely with existing local community-based providers to ensure continuity of care. South Sound Behavioral envisions being a resource to, and establishing partnerships with, the area's current mental health providers, hospitals, physicians, nursing homes, home care,*

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<sup>17</sup> Accreditation surveys completed in years 2010, 2011, and January to June 2012.

*schools and others to ensure timely and appropriate access to services in time of crisis and when patients are ready for discharge.” [Source: Application, p41]*

- *“As discussed in response to previous questions, discharge planning begins at admission. Staff review discharge options throughout the patient’s stay to ensure that continuity of care is achieved, while also ensuring that the patient receives the most appropriate level of care.” [Source: Application, p41]*

#### Public Comment

- None

#### Department Evaluation

Since the new hospital will not become operational in October 2018 working relationships with area healthcare providers have not been established yet. HealthVest expects to develop working relationships with community healthcare providers that include mental health providers, hospitals, physicians, nursing homes, home care, and, when necessary, local schools. Given the experience and expertise of the current management team, HealthVest does not anticipate any difficulty establishing the necessary formal and informal agreements with the community providers. Nothing in the information reviewed by the department would suggest that HealthVest would not be able to develop these relationships.

Based on the information reviewed, the department concludes **this sub-criterion is met**.

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

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

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

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

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

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

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

## Department Evaluation

### **Step One**

The department determined HealthVest met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two.

### **Step Two**

#### HealthVest

- *“After evaluating the shortage of beds in South Sound a decision was made to pursue the establishment of a new psychiatric hospital. The first decision was whether the new hospital should be sized to meet the needs of just Thurston County or whether it should be sized to accommodate expected need and demand from adjacent Counties. After considerable conversation with key informants in the adjacent communities and after review of available data, we ruled out sizing only for Thurston County and opted to include capacity for Grays Harbor, Mason and Lewis Counties. In addition, and based on the Leadership Team’s experience and relationships with the military, and specifically with JBLM, we did assume in-migration for active military and veterans. A number of different bed sizes and programmatic considerations were evaluated (for example whether or not to include child and adolescents) and ultimately US HealthVest selected the 70-80 bed range which allows for distinct units and provides an economical operating configuration. It was also decided to locate the unit in Thurston County, the ‘center’ of the Service Area (both geographically and population wise).” [Source: Application, p43]*
- *“Once the decision was made to pursue a hospital in the 70-80 bed range, US HealthVest evaluated numerous siting options including both greenfield sites and existing buildings that could be converted to psychiatric hospital use. Two sites meeting our design requirements were identified. The first site was greenfield, which would allow for the design and build out of a hospital to our exact specifications, but there were significant land use and wetland issues that would have delayed the start of the project by about 9-12 months. The second site, the selected site, contains a building of approximately 82,650 square feet (of which, 74,040 will be renovated for the proposed hospital). The building’s configuration was found to be a very workable for a psychiatric hospital, and as such, became the selected option.” [Source: Application, p43]*
- *“As USHV evaluated the needs in the South Sound, it was initially envisioned that the hospital would be sized for Thurston County and an estimated bed capacity of 50-60 beds was initially explored. However, in discussions, and upon review of data provided to us by key providers in the South Sound we became convinced that a facility in the size of only 50-60 beds would be ‘full from day one’. Therefore, 70-80 beds was the smallest bed size that we considered. We did evaluate 100 beds, but felt that was likely too large given alternatives to inpatient*

*acute care that are being created and promoted.”* [Source: March 22, 2016 Screening Responses, p9]

### Public Comment

- *“In order to approve HealthVest's CN Application, the Department is required to evaluate whether the project satisfies the cost containment criteria set forth in WAC 246-310-240. That evaluation must include a finding that "superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable." WAC 246-310-240(1). However, given HealthVest's unusual and inconsistent approach to identifying the possible site of its facility, the Department cannot at this point even identify which site HealthVest intends to pursue. Accordingly, as discussed below, it is impossible for the Department to conduct a superior alternative analysis because (1) the ultimate site is unknown, and (2) Health Vest has only provided information regarding a single site.”* [Source: Providence St. Peter Hospital public comment, pp23-24]
- *“This course of action by Health Vest precludes the Department, both as a matter of fact and as a matter of law, from conducting the superior alternative analysis that is required under the cost containment regulation. It is impossible for the Department to perform such an analysis because HealthVest has only provided information regarding a single site: the leased building at 605 Woodland Square SE in Lacey. The Department possesses no information whatsoever regarding HealthVest's second site at the Hill-Betti Business Park in Lacey. It is very simple: in the absence of any information about the second site, the Department cannot conduct a superior alternative analysis, and thus cannot make a finding that HealthVest's project satisfies the cost containment criteria set forth in WAC 246-310-240. Health Vest's CN Application must therefore be denied.”* [Source: Providence St. Peter Hospital public comment, p24]
- *“... We believe over the long term that there is a better solution to working on a central issue for our community by providing affordable mental health care services through another opportunity....”* [Source: Public Testimony, Gerald Pumphrey, chair of the Providence St. Peter's Hospital Community Administrative Board]
- *“...On the other hand, the partnership that Providence is proposing with Fairfax will help to close the gap in the continuum of care for mental health services, bridge services throughout the community, and begin a long-term solution for vulnerable people....”* [Source: Public Testimony, Jackie Brown, Director of Critical Care and Emergency Services Providence St. Peter.]

### HealthVest Rebuttal

- *“No application, and in fact, no letter of intent was filed by that date [March 25]. . The parties had more than 90 days' notice from the time we submitted our LOI to our application being deemed complete. PSP, by virtue of its multiple letters requesting interested party status was well aware of our application. Its failure to act means that USHV is the only application in front of the Program. Our quality, community responsive application meets and exceeds all applicable standards and consistent with WAC 246-310-240, there is no superior alternative.”*
- *“As we met with the community, we heard repeated concerns about the loss of the chemical dependency beds, and the lack of ITA and pediatric/adolescent beds. A new provider will increase services and offer choice to the community.”*
- *“In addition, PSP and UHS suggest that USHV is now considering a second site. As the Program is well aware, this is misleading. The new USHV hospital is considered an essential public facility (EPF), Type two. As such, as part of the zoning process, USHV is required to*

*provide an analysis of the alternative sites considered for the proposed facility and the city zoning code REQUIRES an alternate facility be listed to start the notice process. To be clear, the Woodland site is the only site USHV is considering but in order to comply with the City of Lacey code, we were required to list another site. A copy of the zoning requirement is included as Attachment 5. The zoning process requires a 90-day notice process before the application can be filed. We started this process on April 7, 2016 and a public information session was held on May 3, 2016. Our zoning application will be filed by July 6, 2016.”*

### Department Evaluation

Information provided in this application and during the public hearing, demonstrate need for additional psychiatric beds in Thurston County. There are no dedicated psychiatric beds in Lewis, Mason and Grays Harbor counties therefore a 'do nothing' option was appropriately not evaluated by the applicant.

Once HealthVest determined there was need for additional psychiatric hospital beds in the planning area, two options were evaluated to meet the need. Building a hospital from the ground up or lease an existing building and renovate it. Leasing an existing building was selected as the preferred option. HealthVest pursued the site in the Lacey of Thurston County. Building the hospital from the ground up was rejected because of the additional costs and time involved to build a new facility. The site available was not as good a site as the one available for renovation.

Providence St. Peter and Providence/BHC Fairfax public comments argue that the department cannot make a cost containment determination because HealthVest identified an alternative site it considered as part of the essential public facility review. Department staff attended the public information session held on May 3, 2016 by HealthVest as required by Lacey zoning requirements. The focus of that public information session focused on the Woodland Square Loop site, not on any alternative site. The department had also reviewed the zoning requirements prior to that public information session. The department agrees with HealthVest’s description it provided as part of its rebuttal comments concerning the essential public facility (EPF) review that is part of the conditional use permitting process. Therefore, the department does not agree with Providence St. Peter and Providence/BHC Fairfax’s cost containment analysis position.

The HealthVest application is the only application under review by the department. A sampling of those testifying at the May 4, 2016 public hearing stated:

- *“...I have been overseeing the Emergency Department at St. Peter for over ten years and see on a daily basis the struggles that our community faces related to providing care and services to mental health and substance abuse patients...”* [Jackie Brown-public comment opposing HealthVest]
- *“...As we sit here today, I think roughly, give or take, about 40 percent of the folks in our county jail have a diagnosed mental illness, which means that unfortunately our county jail is the largest mental health facility currently in Thurston County.”* [John Tunheim, Prosecuting Attorney Thurston County-public comment neutral/with concerns to HealthVest]
- *“...As still a practicing physician and a resident of Thurston County, I see how the lack of behavioral services impacts our community. Our emergency room and hospitals are inundated with patients suffering from mental illness and drug abuse. Many of these patients do not need to be admitted to an acute-care hospital, but because of the lack of community resources, they linger in the hospital for days to weeks...”* [Zack Rafeh, Head of the Hospitalist Program at Providence St. Peter Hospital-public comment opposing HealthVest]

These and others like them show that Thurston County alone does not have the in-patient psychiatric bed need capacity to meet the need. The department did not identify any other alternative that was a superior alternative, in terms of cost, efficiency, or effectiveness, that is available or practicable.

#### Department Evaluation

##### **Step Three**

This step is applicable only when there are two or more approvable projects. HealthVest's application is the only application under review to add psychiatric bed capacity in Thurston County. Therefore this step does not apply.

Based on the information above, the department concludes **this sub-criterion is met.**

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

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

WAC 246-310 does not contain specific WAC 246-310-240(2)(a) criteria as identified in WAC 246-310-200(2)(a)(i). There are known minimum building and energy standards that healthcare facilities must meet to be licensed or certified to provide care. If built to only the minimum standards all construction projects could be determined to be reasonable.

#### HealthVest

- *“Once the decision was made to pursue a hospital in the 70-80 bed range, US HealthVest evaluated numerous siting options including both greenfield sites and existing buildings that could be converted to psychiatric hospital use. Two sites meeting our design requirements were identified. The first site was greenfield, which would allow for the design and build out of a hospital to our exact specifications, but there were significant land use and wetland issues that would have delayed the start of the project by about 9-12 months. The second site, the selected site, contains a building of approximately 82,650 square feet (of which, 74,040 will be renovated for the proposed hospital). The building’s configuration was found to be a very workable for a psychiatric hospital, and as such, became the selected option.”* [Source: Application, p43]
- *“South Sound Behavioral is proposing to lease an existing building. The building is well suited to the proposed use, and building egress will all be maintained. The proposed facility has been designed to maximize the existing building footprint while minimizing the amount of new construction necessary to support the services proposed to be offered. In addition, the building already exists and will not require a SEPA or other time consuming land use review processes. This will reduce the development timeframe by more than 12-18 months.”* [Source: Application, p45]
- *“South Sound Behavioral will integrate elements of the Green Guide for Health Care and LEED for Healthcare® rating system as the design progresses. For example, the design team will investigate day-lighting strategies to reduce energy draws while reducing cooling costs. Materials with low reflectivity will be selected for the exterior elements to reduce heat absorption, cooling needs and building glare. It is anticipated that implementation of these elements will result in lower operational costs throughout the life of the project.”* [Source: Application, p46]

Public Comment

- None

Department Evaluation

The information reviewed by the department is consistent with similar hospital construction projects. Therefore, 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.*

This project involves construction. With only 18 inpatient psychiatric hospital beds in Thurston County and because of the demonstrated need for those bed, the department does not anticipate an unreasonable impact on the costs and charges to the public of providing these type services by others. 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.*

This project will improve the delivery of health services. Because there are only 18 inpatient psychiatric hospital beds in Thurston County and a much greater need for those services, the construction costs for this project will appropriately improve the delivery of health services. Therefore, the department concludes this sub-criterion is met.



# APPENDIX A

**Thurston County Inpatient Psychiatric Bed Projections**

<b>Children &amp; Adolescent</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
Population 5-17	37,442	37,953	38,463	38,975	39,485	39,996	40,424	40,853	41,282	41,710	42,139	42,484	42,829	43,174	43,518	43,863
Use Rate	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	10.2	10.3	10.5	10.6	10.8	10.9	11.0	11.1	11.2	11.4	11.5	11.6	11.7	11.8	11.9	12.0
Minus Current Supply	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net Bed Need</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>

<b>Age 18+</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
Population 18+	254,898	259,123	263,349	267,574	271,800	276,025	279,926	283,827	287,728	291,629	295,530	299,199	303,067	306,936	310,803	313,875
Use Rate	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	69.5	70.6	71.8	72.9	74.1	75.2	76.3	77.3	78.4	79.5	80.5	81.5	82.6	83.6	84.7	85.5
Minus Current Supply	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18
<b>Net Bed Need</b>	<b>51</b>	<b>53</b>	<b>54</b>	<b>55</b>	<b>56</b>	<b>57</b>	<b>58</b>	<b>59</b>	<b>60</b>	<b>61</b>	<b>63</b>	<b>64</b>	<b>65</b>	<b>66</b>	<b>67</b>	<b>68</b>

**Greys Harbor, Lewis, and Mason Counties Inpatient Psychiatric Bed Projections**

<b>Children &amp; adolescent</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
Population 5-17	28,342	28,528	28,716	28,903	29,091	29,279	29,545	29,810	30,076	30,341	30,608	30,893	31,179	31,464	31,750	32,035
Use Rate	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	7.7	7.8	7.8	7.9	7.9	8.0	8.1	8.1	8.2	8.3	8.3	8.4	8.5	8.6	8.7	8.7
Minus Current Supply	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net Bed Need</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>9</b>	<b>9</b>	<b>9</b>

<b>Age 18+</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
Population 18+	173,749	175,041	176,330	177,622	178,911	180,201	181,452	182,703	183,953	185,204	186,454	187,609	188,678	189,747	190,816	192,228
Use Rate	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25	27.25
Gross Bed Need	47.3	47.7	48.0	48.4	48.8	49.1	49.4	49.8	50.1	50.5	50.8	51.1	51.4	51.7	52.0	52.4
Minus Current Supply	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net Bed Need</b>	<b>47</b>	<b>48</b>	<b>48</b>	<b>48</b>	<b>49</b>	<b>49</b>	<b>49</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>52</b>	<b>52</b>	<b>52</b>