



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

August 9, 2011

CERTIFIED MAIL # 7009 2250 0001 8669 3161

Robert Minor, Vice President of Development
Universal Health Services, Inc.
110 Westwood Place, #100
Brentwood, Tennessee 37027

RE: CN11-29

Dear Mr. Minor:

We have completed review of the Universal Health Services, Inc. application proposing to purchase Fairfax Hospital. For the reasons stated in this evaluation, the application submitted by Universal Health Services, Inc. proposing to purchase BHC Fairfax Hospital located in Kirkland, within Washington State is consistent with applicable criteria of the Certificate of Need Program, provided Universal Health Services, Inc. agrees to the following in its entirety.

Project Description:

Universal Health Services, Inc. is approved to purchase Fairfax Hospital located at 10200 Northeast 132nd Street in Kirkland, within King County. The hospital is currently a Medicare and Medicaid provider and holds a three-year accreditation from the Joint Commission. Universal Health Services, Inc. intends that Fairfax Hospital would continue participation in both the Medicare and Medicaid programs, and maintain all services currently offered by the hospital after the purchase.

Fairfax Hospital operates with two separate licenses in Washington State. The type of license and number of beds are summarized below.

| Type of License | Number of Beds |
|--|----------------|
| Alcohol and Chemical Dependency Hospital | 24 |
| Psychiatric Hospital | 133 |
| Total Number of Licensed Beds | 157 |

Conditions:

1. Approval of the project description as stated above.
2. Fairfax Hospital will provide charity care in compliance with the charity care policies provided in this Certificate of Need application, or any subsequent polices reviewed and



approved by the Department of Health. Fairfax 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 King County Region. Currently, this amount is 1.42% for gross revenue and 2.51% for adjusted revenue. Fairfax Hospital will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

3. By September 30, 2011, Universal Health Services, Inc. will provide to the department for review and approval a revised and adopted Admission Policy. The revised and adopted Admission Policy will include language to ensure that any patient requiring care will be accepted for treatment regardless of race, creed, gender, national origin or religious preference.

Approved Costs:

The estimated capital expenditure for all 25 healthcare facilities included in the transaction with Universal Health Services is \$3,100,000,000; of that amount, \$65,038,047 is related to the purchase of Fairfax Hospital.

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

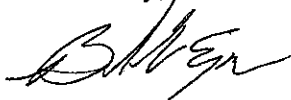
Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

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

Other Than By Mail:
Department of Health
Certificate of Need Program
310 Israel Road SE
Tumwater, WA 98501

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

Sincerely,



Steven M. Saxe, FACHE
Director, Health Professions and Facilities

Enclosure

EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY UNIVERSAL HEALTH SERVICES, INC. PROPOSING TO PURCHASE FAIRFAX HOSPITAL IN KIRKLAND, WASHINGTON

APPLICANT DESCRIPTION

Founded in 1978, Universal Health Services, Inc. (UHS) is one of the largest healthcare management companies in the United States. Through one of its subsidiaries, UHS operates acute care hospitals, behavioral health facilities, or ambulatory centers in 29 states, Puerto Rico, and the U.S. Virgin Islands. UHS is a publicly traded company and headquartered in King of Prussia Pennsylvania. As of the writing of this evaluation, UHS operates under the management of seven board of directors and 12 corporate officers. [source: UHS website and June 20, 2011, supplemental information, Attachment 1]

BACKGROUND INFORMATION

Before November 15, 2010, Fairfax Hospital was owned and operated by BHC Fairfax Hospital, Inc. a Tennessee corporation registered to do business in Washington State. BHC Fairfax Hospital, Inc. was an indirect subsidiary of Psychiatric Solutions, Inc. On November 15, 2010, through a merger of a subsidiary entity, UHS became the sole shareholder of Psychiatric Solutions, Inc. For a variety of reasons, UHS assumed that the merger transaction would not require prior Certificate of Need review and approval for Washington State. This assumption was incorrect. Since the transaction affected 25 hospitals in 32 states and Puerto Rico, the Certificate of Need Program agreed that the transaction would move forward as scheduled and allowed UHS to submit a Certificate of Need application post completion of the transaction. As a result, this application was submitted approximately six months post completion. [source: November 3, 2010, meeting attended by representative of UHS, Fairfax Hospital, and Certificate of Need Program staff]

PROJECT DESCRIPTION

For Washington State, UHS operates three healthcare facilities. One is Auburn Regional Medical Center, a 162-bed acute care hospital located in Auburn, within King County. Auburn Regional Medical Center provides general medical surgical services, intermediate obstetric services level II, and some psychiatric services. The other facility, Fairfax Hospital, operates with two separate licenses—one license for 133-bed psychiatric hospital and the other license for a 24-bed alcohol treatment hospital. This project focuses on Fairfax Hospital.

Fairfax Hospital is located at 10200 Northeast 132nd Street in Kirkland, within King County and has been operating in Washington State for many years. The hospital is currently a Medicare and Medicaid provider and holds a three-year accreditation from the Joint Commission.¹ Fairfax Hospital operates with two separate licenses in Washington State. The type of license and number of beds are summarized on the following page. [source: Department of Health, ILRS database]

¹ An independent, not-for-profit organization, The Joint Commission accredits and certifies more than 19,000 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]

| Type of License | Number of Beds |
|--|----------------|
| Alcohol and Chemical Dependency Hospital | 24 |
| Psychiatric Hospital | 133 |
| Total Number of Licensed Beds | 157 |

For Certificate of Need purposes, only the 133-bed psychiatric hospital requires review if purchased. [source: Revised Code of Washington 70.38.105(4)(b)] As a result, this evaluation will focus on the 133-bed psychiatric hospital, with an underlying recognition that Fairfax Hospital also includes a 24-bed alcohol and chemical dependency hospital.

UHS intends that Fairfax Hospital would continue participation in both the Medicare and Medicaid programs, and maintain all services currently offered by the hospital after the purchase. Further, Fairfax Hospital would continue to operate under the name of Fairfax Hospital at its current location in Kirkland, within King County. [source: Application, pp2-3]

The estimated capital expenditure for all 25 healthcare facilities included in the transaction with UHS is \$3,100,000,000; of that amount, \$65,038,047 is related to the purchase of Fairfax Hospital. [source: Application, p12]

APPLICABILITY OF CERTIFICATE OF NEED LAW

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

CRITERIA EVALUATION

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

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

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

The review for the sale of a hospital is limited to only those criteria that would be affected by the sale. As a result, the department’s review will focus on applicable portions of need (WAC 246-310-210), financial feasibility (WAC 246-310-220), structure and process of care (WAC 246-310-230), and cost containment (WAC 246-310-240).²

APPLICATION CHRONOLOGY

| Action | UHS |
|---|--|
| Letter of Intent Submitted | November 15, 2010 |
| Application Submitted | April 19, 2011 |
| Department’s pre-review activities including screening and responses | April 20, 2011, through June 23, 2011 |
| Beginning of Review <ul style="list-style-type: none"> • public comments accepted throughout review; • no public hearing conducted under the expedited review rules | June 24, 2011 |
| End of Public Comment | July 14, 2011 |
| Rebuttal Comments Submitted ³ | July 29, 2011 |
| Department’s Anticipated Decision Date | August 18, 2011 |
| Department’s Actual Decision Date | August 9, 2011 |

² Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(1), (3), (5), and (6); WAC 246-310-240(2) and (3).

³ Two letters of support were provided as public comment and no letters of opposition. UHS chose to not provide rebuttal statements to the public comments.

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."*

Throughout the review of this project, no entities sought and received affected person status under WAC 246-310-010(2).

SOURCE INFORMATION REVIEWED

- Universal Health Services, Inc.'s Certificate of Need application submitted April 19, 2011
- Universal Health Services, Inc.'s supplemental information received June 20, 2011
- Public comments received by July 14, 2011
- Hospital and Patient Data Systems Analysis dated August 4, 2011
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Quality of Care survey responses submitted by the following states: Alaska, California, Colorado, Florida, Georgia, Indiana, Louisiana, Mississippi, Missouri, Nevada, New Mexico, North Dakota, Oklahoma, South Carolina, Tennessee, Texas, West Virginia, and Wyoming.
- The Joint Commission website for quality of care compare information for UHS facilities located in the following states: Alabama, Arkansas, Idaho, Illinois, Kentucky, Massachusetts, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, and Virginia.
- The Joint Commission website for quality of care compares information for UHS facilities located in Puerto Rico.
- Universal Health Services, Inc. website at uhsinc.com

CONCLUSIONS

For the reasons stated in this evaluation, the application submitted by Universal Health Services, Inc. proposing to purchase BHC Fairfax Hospital located in Kirkland, within Washington State is consistent with applicable criteria of the Certificate of Need Program, provided Universal Health Services, Inc. agrees to the following in its entirety:

Project Description:

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3. By September 30, 2011, Universal Health Services, Inc. will provide to the department for review and approval a revised and adopted Admission Policy. The revised and adopted Admission Policy will include language to ensure that any patient requiring care will be accepted for treatment regardless of race, creed, gender, national origin or religious preference.

Approved Costs:

The estimated capital expenditure for all 25 healthcare facilities included in the transaction with Universal Health Services is \$3,100,000,000; of that amount, \$65,038,047 is related to the purchase of Fairfax Hospital.

A. Need (WAC 246-310-210)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department determines that Universal Health Services has met the need criteria in WAC 246-310-210(2).

- (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.

Fairfax Hospital is currently a provider of health care services to residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. As a psychiatric hospital, Fairfax Hospital currently participates in the Medicare and Medicaid programs. To determine whether all residents of the service area would continue to have access to a hospital's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment.

To demonstrate compliance with this sub-criterion, UHS provided a copy of the Admission Policy currently used at Fairfax Hospital both before and after the November 15, 2010, purchase became effective. The policy outlines the process/criteria that the hospital uses to admit patients for voluntary or involuntary psychiatric treatment or care at the hospital. [source: June 20, 2011, supplemental information, Attachment 4] It is noted, however, that this policy does not include the necessary language to ensure that all residents of the service area would have access to services at Fairfax Hospital. If this project is approved, the department would include a condition requiring UHS to revise its Admission Policy to include the required non-discrimination language and resubmit the revised policy for review and approval.

To determine whether the elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination. Fairfax Hospital currently provides services to Medicare eligible patients. Documents provided in the application demonstrate that UHS intends to maintain this status at the hospital. For this project, a review of the policies and data provided for Fairfax Hospital identifies the facility's financial pro forma includes Medicare revenues. [source: June 20, 2011, supplemental information, Attachment 5]

To determine whether low-income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. Fairfax Hospital also provides services to Medicaid eligible patients. Documents provided in the application demonstrate that UHS intends to maintain this practice. For this project, a review of the policies and data provided for Fairfax Hospital identifies the facility's financial pro forma includes Medicaid revenues [source: June 20, 2011, supplemental information, Attachment 5]

A facility's charity care policy should confirm that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would

have, access to healthcare services of the applicant. The policy should also include the process one must use to access charity care at the facility.

UHS states that its charity care policy, like the admission policy, would not change as a result of this transaction. To demonstrate its intent to continue to provide charity care to residents, UHS submitted its Department of Health approved charity care policy that outlines the process a patient uses to access this service. Further, UHS included a 'charity care' line item as a deduction from revenue within the pro forma financial documents for Fairfax Hospital. [source: Application, Exhibit 3; HPDS website; and June 20, 2011, supplemental information, Attachment 5]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Fairfax Hospital is one of 20 hospitals located in King County within the King County Region. According to 2007 - 2009⁴ charity care data obtained from HPDS, Fairfax Hospital has historically provided more than the average charity care provided in the region.⁵ Fairfax Hospital's most recent three-year (2007 - 2009) percentages of charity care for gross and adjusted revenues are detailed in Table 1 below.

**Table 1
Fairfax Hospital Charity Care Comparison (2007-2009)**

| | 3-Year Average King County Region | 3-Year Average Fairfax Hospital |
|---------------------------------------|--|--|
| Percentage of Gross Revenue | 1.83% | 2.18% |
| Percentage of Adjusted Revenue | 3.24% | 4.33%, |

The pro forma revenue and expense statements submitted by UHS for Fairfax Hospital indicate that the hospital will provide charity care at approximately 2.74% of gross revenue and 4.95% of adjusted revenue. RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. The department acknowledges that Fairfax Hospital's three-year historical average is above that for the region and UHS projects to continue providing charity care above the regional average. However, to ensure that the charity care averages will remain consistent with the regional averages under new ownership, the department concludes that a condition related to the percentage of charity care to be provided at Fairfax is necessary if this project is approved.

With agreement to the conditions regarding the charity care percentages and the revised Admission Policy, the department concludes that all residents, including low income, racial and ethnic minorities, handicapped, and other under-served groups would continue to have access to the services provided by Fairfax Hospital. **This sub-criterion is met.**

⁴ Year 2010 charity care data is not available as of the writing of this evaluation.

⁵ Harborview Medical Center is subsidized by the state legislature to provide charity care services. Charity care percentages for Harborview make up almost 50% of the total percentages provided in the King County Region. Therefore, for comparison purposes, the department excluded Harborview Medical Center's percentages.

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department determines that the applicant 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.

The estimated capital expenditure for all 25 healthcare facilities included in the transaction with UHS is \$3,100,000,000. Of that amount, \$65,038,047, or approximately 2.0%, is related to the purchase of Fairfax Hospital. There were no covenants or outstanding long term debts for Fairfax Hospital that affected the transaction. [source: Application, p12 & p14] The purchase price was funded through two separate credit institutions. JP Morgan Chase Bank funded 65% of the amount and the remaining 35% was funded through Deutsche Bank Securities. Inc.

To demonstrate that the hospital would generate the revenue necessary to meet immediate and long range capital and operating costs for this project, UHS provided pro forma financial statements for years 2011 - 2014 showing the hospital’s first four calendar years of operation under the new ownership structure. [source: June 20, 2011, supplemental information, Exhibit 5]

**Table 2
Fairfax Hospital
Projected Revenue and Expenses for Years 2012 through 2014**

| | 2011 | 2012 | 2013 | 2014 |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| # Admissions | 2,992 | 3,082 | 3,174 | 3,269 |
| # Patient Days | 27,475 | 28,299 | 29,148 | 30,023 |
| % Occupancy | 47.9% | 49.4% | 55.4% | 52.4% |
| Net Patient Revenue* | \$ 24,241,003 | \$ 24,974,635 | \$ 25,841,365 | \$ 26,737,377 |
| Plus Other Operating Revenue | \$ 4,214,412 | \$ 4,340,844 | \$ 4,471,069 | \$ 4,605,202 |
| Total Revenues | \$ 28,455,415 | \$ 29,315,479 | \$ 30,312,434 | \$ 31,342,579 |
| Minus Expenses | \$ 18,633,164 | \$ 19,022,132 | \$ 19,419,558 | \$ 19,825,634 |
| Net Profit or (Loss) EBITDA | \$ 9,822,251 | \$10,293,347 | \$ 10,892,876 | \$ 11,516,945 |
| Minus Additional Expenses** | \$ 5,868,361 | \$ 6,188,119 | \$ 6,024,095 | \$ 6,220,159 |
| PreTax Income | \$ 3,953,890 | \$ 4,105,228 | \$ 4,868,781 | \$ 5,296,786 |

* Includes inpatient and outpatient revenue, deductions for charity care and contractual allowance

** Includes interest expenses, depreciation, management fees, and allocated costs

UHS based its projections shown in Table 2 above on the key assumptions summarized below. [source: Application, p14]

- The number of set up, licensed beds remains at 133 psychiatric and 24 alcohol and chemical dependency.
- No change in the scope of services is assumed.
- No change in payer mix is assumed.
- No capital investments are planned for the first three years under UHS ownership.
- Volumes are projected to increase at the rate of 3% annually based on the most recent increase from years 2009 to 2010.
- 'Other Operating Revenue' includes revenue from the two alternative schools operated by Fairfax Hospital.
- Deductions from revenue have been assumed at approximately 68% of gross charges, which is based on its historical rates.
- Charity care is budgeted at 2.8% of total revenue
- Operating expenses have been assumed to increase by 1% - 3% per year.
- 'Additional Expenses' includes allocated costs.

For years 2008, 2009, and 2010, Fairfax Hospital operated at a net profit of \$6,550,025, \$6,381,292, and \$7,968,862 respectively. With the assumptions above, UHS expects that the hospital will continue to operate at a net profit. As shown in Table 2 above, for year 2011, UHS expects the hospital will reduce its net profit to \$ 3,953,890, and expects the 2014 net profits to be \$5,296,786 under the new ownership structure. UHS attributes the decrease in net revenues from year 2010 - 2011 to the substantial increase in interest and allocated costs associated with this transaction. [source: June 20, 2011, supplemental information, Exhibit 5]

To determine whether UHS would meet its immediate and long range capital costs, the department's Hospital and Patient Data Systems (HPDS) reviewed 2010 historical balance sheet for UHS as a whole and the 2010 historical balance sheet for Fairfax Hospital. The information is shown in Tables 3A and 3B shown below and on the following page. [source: HPDS analysis, p2]

**Table 3A
Universal Health Services Balance Sheet for Year 2010**

| Assets | | Liabilities | |
|-------------------------|-------------------------|-------------------------------------|-------------------------|
| Current Assets | \$ 1,331,116,000 | Current Liabilities | \$ 826,299,000 |
| Fixed Assets | \$ 3,252,967,000 | Long Term Debt | \$ 3,912,102,000 |
| Board Designated Assets | \$ 0 | Other Liabilities | \$ 765,764,000 |
| Other Assets | \$ 2,943,853,000 | Equity | \$ 2,023,771,000 |
| Total Assets | \$ 7,527,936,000 | Total Liabilities and Equity | \$ 7,527,936,000 |

**Table 3B
Fairfax Hospital Balance Sheet for Year 2010**

| Assets | | Liabilities | |
|-------------------------|----------------------|-------------------------------------|----------------------|
| Current Assets | \$ 4,720,000 | Current Liabilities | \$ 1,440,971 |
| Fixed Assets | \$ 5,525,589 | Long Term Debt | (\$ 22,535,185) |
| Board Designated Assets | \$ 0 | Other Liabilities | \$ \$ 0 |
| Other Assets | \$ 0 | Equity | \$ 31,340,025 |
| Total Assets | \$ 10,245,811 | Total Liabilities and Equity | \$ 10,245,811 |

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

“The UHS balance sheet shows a strong position and that it has the assets to easily handle this project. Fairfax [Hospital] shows board designated assets are zero as the company is a for-profit and any extra funds are treated as equity. Since those funds are held at a higher corporate level, the long term debt is negative.”

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

For Certificate of Need applications, HPDS compared the projected ratios with the most recent year financial ratio guidelines for hospital operations. For this project, HPDS used 2009 data for comparison with historical year 2010 for UHS. Year 2009 data was also used as comparison for projected years 2011 through 2013 for Fairfax Hospital. The ratio comparisons are shown in Table 4 below. [source: HPDS analysis, p3]

**Table 4
Current and Projected HPDS Debt Ratios for UHS and Fairfax Hospital**

| Category | Trend ⁶ | State 2009 | UHS 2010 | Fairfax 2011 | Fairfax 2012 | Fairfax 2013 |
|-------------------------------------|--------------------|--|----------|--------------|--------------|--------------|
| Long Term Debt to Equity | B | 0.551 | 1.933 | N/A | N/A | N/A |
| Current Assets/Current Liabilities | A | 2.221 | 1.611 | 3.276 | 3.604 | 5.003 |
| Assets Funded by Liabilities | B | 0.433 | 0.629 | (2.059) | (0.050) | (0.476) |
| Operating Expense/Operating Revenue | B | 0.942 | 0.909 | 0.709 | 0.861 | 0.860 |
| Debt Service Coverage | A | 5.928 | 6.560 | N/A | N/A | N/A |
| Definitions: | | Formula | | | | |
| Long Term Debt to Equity | | Long Term Debt/Equity | | | | |
| Current Assets/Current Liabilities | | Current Assets/Current Liabilities | | | | |
| Assets Funded by Liabilities | | Current Liabilities + Long term Debt/Assets | | | | |
| Operating Expense/Operating Revenue | | Operating expenses / operating revenue | | | | |
| Debt Service Coverage | | Net Profit+Depr and Interest Exp/Current Mat. LTD and Interest Exp | | | | |

⁶ A is better if above the ratio, and B is better if below the ratio.

Comparing UHS's year 2010 ratios with the most current statewide ratios revealed that the long term debt to equity ratio is out of range, however, the board designated assets are very strong, which offset this ratio.

Comparing the Fairfax Hospital's 2011 – 2013 projected ratios show all ratios are within the range, and are projected to improve each year. After evaluating the hospital's projected ratios and statement of operations, staff from HPDS provided the following analysis. [source: HPDS analysis, p3]

"...For Fairfax [Hospital], because of the negative long term debt, ratios involving that field are not useful. CON year 3 fiscal year end ratios for Fairfax [Hospital] are within acceptable range of the 2009 state average. The hospital is projected to break even in the third year of operation."

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

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

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

As stated in the project description section of this evaluation, UHS intends to maintain all current services at Fairfax Hospital. As indicated in the pro forma projections in Table 2 and further demonstrated within the application, UHS does not intend to increase charges for health services or change the payer mix to make a net profit. [source: Application, pp14-19]

Based on the information provided above, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health services within the service area. **This sub-criterion is met.**

(3) *The project can be appropriately financed.*

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

The estimated capital expenditure for all 25 healthcare facilities included in the transaction with UHS is \$3,100,000,000; of that amount, \$65,038,047 (approximately 2%) is related to the purchase of Fairfax Hospital. UHS also provided its methodology for determining the purchase price of \$3.1 billion, and Fairfax Hospital's portion of that amount. [source: Application, p12]

The purchase price of \$65,038,047 was funded through two separate credit institutions. The institutions and amounts are broken down below. [source: Application, pp12-13]

| Funding Source | Amount | % of Total |
|-------------------------------------|----------------------|----------------|
| JP Morgan Chase Bank at 65% funding | \$ 41,162,581 | 65% |
| Deutsche Bank Securities, Inc. | \$ 22,164,466 | 35% |
| Total Capital Costs | \$ 63,327,047 | 100.00% |

UHS also estimated Fairfax Hospital’s annual depreciation at \$358,602 for projection years 2011 through 2014. The average depreciable life used for buildings were calculated at 30 years; building improvements at 10 years; and equipment at 8 years.

The department reviewed UHS’s most recent financial data submitted to the department’s Hospital and Patient Data Systems office. The historical financial data covers full year 2010. Based on UHS’s historical financial review, even with the recent downturn in the economy, UHS continues to be in strong financial health. [source: Full year 2010 financial reports obtained from HPDS] **This sub-criterion is met.**

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department determines that the applicant 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.

UHS states that there are no anticipated changes in hospital clinical staffing or physician privileges. The current Fairfax Hospital medical staff will remain, although there may be some coordination of administrative functions. There are no immediate planned changes in staffing since the scope of services and projected number of admissions and patients days are not expected to significantly change. [source: Application, p14]

Based on the information provided in the application, the department concludes that UHS provided documentation to demonstrate that it would continue to retain the necessary staff to provide psychiatric services at the hospital. **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.

UHS states that Fairfax Hospital is one of the largest psychiatric hospitals in Washington State, and as such, actively partners with other hospitals and social service agencies to ensure adequate behavioral health services are available to the residents of the state. Since Fairfax Hospital exclusively delivers behavioral health and alcohol/chemical dependency treatment services, the hospital draws patients from all areas of the state. In year 2009 and 2010, Fairfax Hospital served patients from 27 of the 39 Washington State counties and from neighboring states.

UHS provided a summary of its internal process it uses to cover the needs of the patients in Fairfax Hospital from admission through discharge. Fairfax Hospital uses its behavioral health navigator staff to ensure appropriate patient triage, assessment, referrals, and admissions. Additionally, Fairfax Hospital works with other community providers to ensure appropriate community-based care for patients unwilling to accept inpatient care at the hospital. [source: Application, p22]

Documentation provided in the application demonstrates that UHS continues to work closely with existing providers to the betterment of the community. UHS does not intend to change the existing service area or community partnerships or relationships as a result of the ownership transaction, but may consider additional relationships as opportunities arise.

The department concludes that there is reasonable assurance that UHS will continue to maintain the necessary relationships with ancillary and support services to provide healthcare in the communities. Approval of this project would not negatively affect these relationships. **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.

Fairfax Hospital will continue to provide Medicare and Medicaid services to the residents of King County and surrounding communities. The Department of Health's Investigations and Inspections Office (IIO) has completed a total of five surveys at Fairfax Hospital since 2006. Of the five surveys, two focused on the 24-bed alcohol and chemical dependency hospital and three focused

on the 133-bed psychiatric hospital.⁷ There were no adverse licensing actions as a result of these surveys. [source: facility survey data provided by the IIO]

Since UHS also operates Auburn Regional Medical Center in Washington State, the department reviewed its quality of care information. IIO completed a total of six surveys at the hospital since 2007. Of those, one focused on the acute care hospital; two focused on the home care agency known as Angel Advocates, and the remaining three focused on the state institution known as Juvenile Rehabilitation Administration.⁸ There were no adverse licensing actions as a result of these surveys. [source: facility survey data provided by the IIO]

Both Fairfax Hospital and Auburn Regional Medical Center contract with the Joint Commission to survey and accredit the quality of service provided. For Fairfax Hospital, its most recent survey with The Joint Commission was January 2009; Auburn Regional Medical Center's most recent Joint Commission survey was July 2010. The Joint Commission lists both UHS hospitals in full compliance with all applicable standards following their most recent on-site surveys.⁹

UHS also operates acute care hospitals, behavioral health facilities, or ambulatory centers in 30 states, Puerto Rico, and the U.S. Virgin Islands. To assure that Fairfax Hospital would continue to provide quality healthcare services under the UHS ownership, the department requested quality of care histories from the states where UHS, or any of its subsidiaries, owns or operates healthcare facilities--which represents a total of 107 health care facilities in 30 states. Through either return of the quality of care survey or by accessing The Joint Commission website, the department was able to obtain information representing all 30 states and Puerto Rico. A review of data from the 30 states revealed that three states—Florida, Louisiana and Mississippi—reported substantial non-compliance issues at one healthcare facility each that is currently operated by UHS or one of its subsidiaries. All of the non-compliance issues occurred before November 15, 2010, when the facilities were under the sole ownership of Psychiatric Solutions, Inc. Since UHS became the sole shareholder of Psychiatric Solutions, Inc. no further substantial non-compliance issues have occurred at the three facilities. According to documents provided by the out-of-state licensing agencies, the significant non-compliance issues have been resolved and no disciplinary actions were taken by the out-of-state surveying agencies. The quality of care histories for the facilities in the remaining states show no substantial non-compliance issues occurred.

Based on the compliance history of UHS, Fairfax Hospital, and Auburn Regional Medical Center and its associated healthcare facilities, there is reasonable assurance that the UHS would continue to operate Fairfax Hospital in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met.**

⁷ Alcohol and chemical dependency surveys completed June 2006 and March 2009; psychiatric hospital surveys completed August 2007, August 2008, and December 2010.

⁸ Acute care surveys completed February 2007; in home services surveys completed October 2007 and October 2009; and JRA surveys completed June 2007, June 2008, and June 2009. The Juvenile Rehabilitation Administration serves Washington State's highest-risk youth. The Department of Social and Health Services has oversight of these facilities.

⁹ <http://www.qualitycheck.org>

- (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.

Currently Fairfax Hospital has formal and informal working relationships with area healthcare providers to ensure appropriate patient care for all patients. Through its database, Fairfax Hospital tracks all calls, referrals, walk-in patients, community visits, assessments, admissions, readmissions, and discharges by a variety of factors. UHS intends to maintain these processes and existing relationships for the hospital. [source: Application, p22]

Based on the above information, the department concludes that UHS will continue to promote continuity in the provision of health care services in the community for Fairfax Hospital. **This sub-criterion is met**

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

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 the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department determines that the applicant has met the cost containment criteria in WAC 246-310-240.

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

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

Step three of this assessment is to apply any service or facility specific criteria (tie-breaker) contained in WAC 246-310. The tiebreaker criteria are objective measures used to compare

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

Step One

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

Step Two

As stated in the project description portion of this evaluation, UHS assumed that this project would not require prior Certificate of Need review and approval. Since that assumption was incorrect, UHS was required to submit a Certificate of Need application. No other options were considered by UHS.

As a result, submission of this application was the only option available to UHS, even post transaction. Since there are no anticipated changes in the number of beds, type or scope of services, payer mix, or charity care percentages, resulting from this application, community members should see a seamless transition of ownership at the hospital. Moving forward with this application and the transaction is ultimately the best option for the residents of the community.

Step Three

This step is used to determine between two or more approvable projects which is the best alternative. This step does not apply to this project.

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