



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

June 6, 2016

Neil Kunkel, VP & Secretary  
Capella Healthcare, Inc.  
501 Corporate Center Drive, Suite 200  
Franklin, TN 37067

RE: Certificate of Need Application #16-21

Dear Mr. Kunkel:

It has been brought to my attention that our recently released evaluation of your project contained an error in describing how the \$100,000,000 capital expenditure was being allocated. Correcting that description does not change the department's decision. The evaluation has been corrected and a corrected copy is enclosed.

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

Sincerely,

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

Enclosure



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

June 6, 2016

R. Steven Hammer  
Executive VP & Chief Financial Officer  
MPT of Columbia –Capella, LLC  
1000 Urban Drive, Suite 501  
Birmingham, AL 35242

RE: Certificate of Need Application #16-21

Dear Mr. Hammer:

It has been brought to my attention that our recently released evaluation of your project contained an error in describing how the \$100,000,000 capital expenditure was being allocated. Correcting that description does not change the department's decision. The evaluation has been corrected and a corrected copy is enclosed.

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

Sincerely,

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

Enclosure

**CORRECTED EVALUATION DATED MAY 16, 2016 FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY COLUMBIA CAPITAL MEDICAL CENTER, LIMITED PARTNERSHIP PROPOSING THE SALE OF CAPITAL MEDICAL CENTER'S LAND AND BUILDINGS TO MPT OF OLYMPIA-CAPELLA, LLC AND LEASE OF THE MEDICAL CENTER BUILDINGS BY COLUMBIA CAPITAL MEDICAL CENTER, LIMITED PARTNERSHIP**

**APPLICANT DESCRIPTION**

Columbia Capital Medical Center, Limited Partnership is a subsidiary of Capella Healthcare, Inc. Capella Healthcare, Inc. Capella is a privately-held for-profit company founded in 2005 and which initially partnered with GTCR. GTCR's equity investments and commitment to Capella allowed the company to grow steadily throughout its first decade. Capital Medical Center located at 3900 – Capital Mall Drive SW Olympia in Thurston County is a 110 bed acute care hospital. It began operating in January 1985. It is accredited by the Joint Commission<sup>1</sup> and receives Medicare and Medicaid reimbursement. In addition to Capital Medical Center, Columbia Capital Medical Center LLP also has the following<sup>2</sup>:

<b>Hospital</b>	<b>Health Clinics</b>
Capital Medical Center <sup>3</sup>	Capital Eastside Family Practice, Olympia WA
	Capital Family & Sports Medicine, Olympia WA
	Capital Hawks Prairie Clinic, Lacey WA
	Capital McCleary Family and Internal Medicine, McCleary WA
	Capital Westside Internal Medicine, Olympia WA
	Olympia Family & Internal Medicine, Olympia WA
	Capital Diabetes & Weight Loss Center, Olympia WA
	Capital Infectious Disease Clinic, Olympia WA
	Capital Neurology, Olympia WA
	Capital Urology, Olympia WA

Medical Properties Trust (MPT), Inc. is a real estate investment trust (REIT) that focuses exclusively on providing capital to acute care facilities of all kinds through long-term triple-net leases. MPT provides 100 percent financing to reduce an organization's overall cost of capital by unlocking the value of its real estate assets. MPT has a number of subsidiaries.<sup>4</sup> The following subsidiaries are associated with this project. MPT Olympia is owned 100% by MPT Operating Partnership, L.P. and MPT Hospital is owned 100% by MPT Development Services, Inc. [Source: Application, pg. 2]

<sup>1</sup> The Joint Commission is an independent, not-for-profit organization that accredits and certifies more than 17,000 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.

<sup>2</sup> Capital Medical Center's website

<sup>3</sup> Hospital is also partially owned by physicians

<sup>4</sup> MPT, Inc. website at <http://www.medicalpropertytrust.com/content.asp?id=314968>

## **PROJECT DESCRIPTION**

Columbia Capital Medical Center, Limited Partnership proposes the sale of the buildings and land owned by the hospital to MPT (Medical Property Trust) of Olympia-Capella, LLC. MPT of Olympia-Capella, LLC would then lease the hospital buildings and properties to its affiliate MPT of Olympia-Capella Hospital, LLC. MPT of Olympia-Capella Hospital, LLC would then sublease the hospital buildings and properties to Columbia Capital Medical Center Limited Partnership subject to the terms of a sublease agreement. There are no operational changes expected in the healthcare services provided by Columbia Capital Medical Center, Limited Partnership.

According to the terms of the draft sublease agreement provided in the application, Columbia Capital Medical Center, Limited Partnership would retain sole exclusive possession of the hospital property. To accomplish this, Columbia Capital Medical Center, Limited Partnership will sign a 15 year sublease agreement with MPT of Olympia-Capella Hospital, LLC [Source: Application, Exhibit 6]

The initial sublease base amount is \$8,000,000 per annum or 8% of the \$100,000,000 capital expenditure for the project. ~~Information provided in the application stated the entire \$100,000,000 would be allocated to personal property such as equipment or intangible assets such as beds rights or licenses.~~ Information provided in the application stated the parties agreed to allocate the entire \$100,000,000 purchase price to real property for purposes of all federal, state and local income taxes purposes. No part of the \$100,000,000 purchase price will be allocated to personal property such as equipment or intangible assets such as bed rights or licenses. [Source: Supplemental information received February 12, 2016] If approved, Columbia Capital Medical Center, Limited Partnership expects this project to commence immediately. [Source: Application, Exhibit 6 and supplemental information received February 12, 2016 and March 16, 2016] For ease of reference, Columbia Capital Medical Center, Limited Partnership d/b/a Capital Medical Center would be referred to as ('Capital'), MPT of Olympia-Capella, LLC as ('MPT Olympia), and MPT of Olympia-Capella Hospital, LLC ( as 'MPT Hospital').

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

This project is subject to Certificate of Need (CN) review because it is the sales, purchase or lease of all or part of an existing hospital under Revised Code of Washington (RCW) 70.38.105(4)(b) and Washington Administrative Code (WAC) 246-310-020(1)(b).

## **EVALUATION CRITERIA**

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

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

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

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

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

In the event 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.”*

To obtain Certificate of Need approval, Capital must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).<sup>5</sup>

**TYPE OF REVIEW**

Applications for hospital purchase or lease are reviewed under an expedited review timeline as outlined in WAC 246-310-150.

**APPLICATION CHRONOLOGY**

The timeline below represents the expedited review timeline for this project.

<b>Action</b>	<b>Capital</b>
Letter of Intent Submitted	September 10, 2015
Application Submitted	December 16, 2015
Department’s pre-review activities	
• DOH’s 1st Screening Letter	January 8, 2016
• Applicant’s Response Received	February 8, 2016
• DOH’s 2nd Screening Letter	March 4, 2016
• Applicant’s Response Received	March 14, 2016
DOH Additional Information Requested	March 21, 2016
Beginning of Review	March 24, 2016

<sup>5</sup> 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), (4), (5), (6) and WAC 246-310-240(2) and (3).

<b>Action</b>	<b>Capital</b>
Applicant's Response to March 21, 2016 Request	March 31, 2016
Public Comment <ul style="list-style-type: none"> <li>no public hearing is conducted under expedited review</li> <li>public comments accepted through end of public comment</li> </ul>	April 12, 2016
<ul style="list-style-type: none"> <li>Rebuttal Comments Due</li> </ul>	N/A <sup>6</sup>
Department's Anticipated Decision Date	May 16, 2016
Department's Actual Decision Date	May 16, 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.”*

Washington Administrative Code 246-310-010(34) defines "interested persons" means:

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

Throughout the review of this project, two entities sought affected person status.

#### **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. Providence St. Peter Hospital meets the definition of an “interested person” under WAC 246-310-010(34)(b). Providence St. Peter Hospital did not provide any written comments regarding Capital’s proposed project. Therefore, Providence St. Peter Hospital does not qualify 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

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<sup>6</sup> The department did not receive any public comment therefore no rebuttal comments were submitted

Olympia or 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.

### **SOURCE INFORMATION REVIEWED**

- Columbia Capital Medical Center, Limited Partnership Certificate of Need Application received December 16, 2015
- Columbia Capital Medical Center, Limited Partnership supplemental information received March 16, 2016, and April 4, 2016
- Historical charity care data obtained from the Department of Health's Hospital and Patient Data Systems (2012, 2013, and 2014 summaries)
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems received March 14, 2016
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Joint Commission website [[www.qualitycheck.org](http://www.qualitycheck.org)]
- Historical Certificate of Need files
- Medical Properties Trust, Inc. website [[www.medicalpropertytrust.com](http://www.medicalpropertytrust.com)]
- Columbia Capital Medical Center website [[www.capitalmedical.com](http://www.capitalmedical.com)]

### **CONCLUSION**

For the reasons stated in this evaluation, the application submitted by Columbia Capital Medical Center, Limited Partnership proposing the purchase and lease of Columbia Capital Medical Center, Limited Partnership is consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need should be issued provided Columbia Capital Medical Center, Limited Partnership agrees to the following in its entirety.

### **Project Description:**

This project approves:

1. The purchase of the real property assets of Columbia Capital Medical Center, Limited Partnership to MPT of Olympia- Capella, LLC.;
2. The lease of MPT Olympia-Cappella, LLC to MPT of Olympia-Capella Hospital, LLC; and
3. The sub-lease by MPT of Olympia-Capella Hospital, LLC of Columbia Capital Medical Center to Columbia Capital Medical Center, Limited Partnership.

There is no change in the number of approved beds. A breakdown of the beds by type is shown below.

**Capital Medical Center Number of Licensed Beds**

<b>Bed Type</b>	<b># of Licensed Beds</b>
General Medical/Surgical	110
<b>Total Licensed Beds</b>	<b>110</b>

**Conditions:**

1. Columbia Capital Medical Center, Limited Partnership and MPT of Olympia-Capella, LLC agree with the project description stated above. Columbia Capital Medical Center, Limited Partnership and MPT of Olympia-Capella, LLC further agree that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Columbia Capital Medical Center, Limited Partnership and MPT of Olympia-Capella, LLC must submit to the department for review and approval the executed purchase and sale agreement between MPT of Olympia-Capella, LLC and Columbia Capital Medical Center, Limited Partnership consistent with the draft agreement provided in the application.
3. Columbia Capital Medical Center, Limited Partnership and MPT of Olympia-Capella, LLC must submit to the department for review and approval the executed lease of MPT Olympia-Cappella, LLC to MPT of Olympia-Capella Hospital, LLC consistent with the draft agreement provided in the application. .
4. Columbia Capital Medical Center, Limited Partnership and MPT of Olympia-Capella, LLC must submit to the department for review and approval the executed sublease agreement with MPT of Olympia–Capella Hospital, LLC consistent with the draft sublease agreement provided in the application.
5. Columbia Capital Medical Center, Limited Partnership as a subsidiary of Capella Healthcare, Inc. agrees that approval of this transaction in no way changes or modifies Capital’s charity care obligations as outlined in the March 14, 2016 settlement agreement between the department and Columbia Capital Medical Center, Limited Partnership.
6. No later than 30 days after acceptance of these conditions, Capital must submit to the Department’s Hospital and Patient Data Section for review and approval the charity care policy as agreed to in the settlement agreement dated March 14, 2016. [M2014-1190]. Columbia Capital Medical Center, Limited Partnership will ensure the Hospital provides charity care in compliance with the approved settlement agreement.

**Approved Costs:**

The approved capital expenditure for this project is \$100,000,000.



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

Based on the source information reviewed and the applicant agreement to the conditions identified in the “Conclusion” section of this evaluation, the department determines that the applicant has met the applicable need criteria in WAC 246-310-210.

- (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.

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. The admission policies provided by the applicant demonstrates that patients would be admitted to the facility for treatment without regard to age, color, religion, sex national origin, handicap, or sexual preference, and will be treated with respect and dignity.

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.

Capital provided a copy of its Patient Admission, Transfer, Discharge, and/or Change In Admit Status policy currently used at the hospital. The policy will continued to be used by Capital after the purchase and lease of the hospital. The policy outlines the process/criteria that Capital currently uses to admit patients for treatment or care at the hospital. The policy provides the required non-discrimination statements to ensure that patients continue to have access to healthcare services provided at the hospital. [Source: Application Exhibit 4] The policy provided in the application is the same policy provided to the Department under the requirements of WAC 246-320-141(5). It is also the same policy posted to the hospital’s website as required under WAC 246-320-141(6).

Capital currently provides services to Medicare patients receiving care at the hospital. The proposed transaction would not change this. Hospital-wide financial data provided in the application shows that Capital expects to continue to receive Medicare revenues. [Source: Application, Pages 18-21 and supplemental information received February 12, 2016, Attachment 5]

Capital currently provides healthcare services to Medicaid patients at the hospital. The proposed transaction would not change this. Hospital-wide financial data provided in the application shows that Capital expects to continue to receive Medicaid revenues. [Source: Application, Pages 18-21 and supplemental information received February 12, 2016, Attachment 5]

Capital provided a copy of its current charity care policy approved by the Department of Health’s Hospital and Patient Data Section (HPDS). [Source: Supplemental information received February 12, 2016, Attachment 3] The policy contained in the application is the same policy provided to the Department February 2016 under the requirements of WAC 246-453-070. It is also the same policy currently posted to the hospital’s website as required under WAC 246-320-141(6) and the Department’s website under WAC 246-320-141(5). Capital included a ‘charity care’ line item as a deduction from revenue within its pro forma financial documents. [Source: Supplemental information received February 12, 2016, Attachment 5] Table 1 shows the projected amount of charity care to be provided by Capital for years 2016, 2017, and 2018.

**Table 1  
Capital Projected Charity Care**

<b>Year</b>	<b>Charity Care As a Percent of Total Revenue</b>	<b>Charity Care As a Percent of Adjusted Revenue</b>
2016	0.29%	0.77%
2017	0.30%	0.81%
2018	0.32%	0.84%
Three Year Average	0.30%	0.80%

For charity care reporting purposes, the Department’s HPDS, divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Capital is located in Thurston County within the Southwest Washington Region. Currently there are 14 hospitals located within the region, including Capital. According to the 2012-2014<sup>7</sup> charity care data obtained from HPDS, Capital has historically provided less than the average charity care provided in the region.

RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. Table 2 below shows a comparison of the most recent three-year (2012-2014) average of charity care as a percentage of total revenue and adjusted revenue for the Southwest Washington Region, Capital’s historical, and Capital’s projected level of charity care. [Source: HPDS 2012-2014 charity care summaries and Supplemental information received February 12, 2016, Attachment 5 ]

**Table 2  
Charity Care Percentage Comparison**

	<b>% of Total Revenue</b>	<b>% of Adjusted Revenue</b>
Southwest Washington Region	2.98%	7.73%
Capital 3-year historical average	0.63%	1.07%
Capital 3-year projected	0.30%	0.80%

<sup>7</sup> Year 2015 charity care data is not available as of the writing of this evaluation.

As shown in table 2, Capital’s historical three-year charity care average is below the regional charity care and is projected to remain below the average. Capital’s charity care levels have been the subject of a recent adjudicative appeal. In March 2016 the Department reached a settlement with Capital regarding its failure to make reasonable efforts to meet the regional average of charity as agreed to in a previous settlement agreement relating the to the Department’s approval of an adult elective percutaneous interventional (PCI) program at Capital. That settlement changed the charity care policy that is to be used by Capital and is different than the one provided in this application. [Source: M2014-1190 Motion and Order Approving Settlement and Dismissing Case dated March 14, 2016] As of the writing of this analysis that modified charity care policy had not been provided to the Department’s Hospital and Patient Data Section for review and approval. In addition to modifying Capital’s charity care policy, the settlement agreement changed the comparison hospitals used to measure Capital’s charity care level. Rather than the 14 hospitals in the Southwest Washington region that is typically used, the settlement agreement limits the comparison to the hospitals in Thurston, Lewis, Mason, and Grays Harbor counties or 7 hospitals. Table 3 presents a comparison of the 7 hospitals from the settlement agreement to Capital.

**Table 3  
Charity Care Percentage Comparison-Per Settlement Agreement**

	<b>% of Total Revenue</b>	<b>% of Adjusted Revenue</b>
Settlement Agreement Hospitals-3 year average	2.79%	7.31%
Capital 3-year historical average	0.63%	1.07%
Capital 3-year projected	0.30%	0.80%

As shown in table 3, Capital has not met the 3-year average using the comparison hospitals identified in the March 2016 settlement agreement. Capital’s 3-year projected level of charity care would suggest that Capital is not projecting to meet the four county average as identified in the March 2016 settlement. Of significance to this criterion, the March 2016 settlement agreement includes a cash payment to one or more local organizations that provides medical care to indigent persons<sup>8</sup> for every year Capital fails to meet its charity care requirement. Approval of this transaction does not change Capital’s obligations under the settlement agreement. If this application is approved charity care conditions would be necessary. With Capital’s agreement to the charity care conditions in the conclusion section of this analysis **this sub-criterion is met.**

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

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department determines that the applicant has met the financial feasibility criteria in WAC 246-310-220.

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<sup>8</sup> The organization or organizations must be un-affiliated with Capital in terms of ownership or governance. The department must approve the organization or organizations after it consults with Providence St. Peter Hospital.

(2) 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.

To demonstrate compliance with this sub criterion Capital stated this application proposes a change in the ownership of the hospital’s real property and no operational changes in the day-to-day administration of the hospital is expected as result. The capital expenditure associated with this project is \$100,000,000. Information presented in the application stated, *“In excess of 90% of the purchase price to acquire the Hospital Property shall be paid in a series of transactions the result of which is the assignment (or forgiveness) of Capella Healthcare, Inc. affiliated group indebtedness to MPT Camaro Opco, LLC. The remaining purchase price shall be funded out of the “cash and cash equivalent” of Medical Properties Trust, Inc. and MPT Operating Partnership, L.P. ...The remaining transactions are leases, and do not involve any initial capital outlay. The funds required to pay amounts due under the lease will come from the funds generated by CMC’s operations during it normal course of business”*. [Source: Application, Page 12]

In its review of Capital’s pro forma financial statements, staff from the Department’s HPDS compared Capital’s proposed costs for services under the sublease agreement to the costs for services of existing hospitals statewide. Table 4 summarizes Capital’s rates for years 2016 through 2019. HPDS staff used this information to determine that Capital’s rates are similar to Washington statewide averages. [Source: Supplemental information received February 12, 2016, Attachment 5 and HPDS analysis Page 3]

**Table 4  
Capital Medical Center Projected Pro Forma  
Financial Statement 2016- 2019**

<b>Capital Medical Center</b>	2016	2017	2018	2019
<b>Rate per Various Items</b>	<b>CONyr1</b>	<b>CONyr2</b>	<b>CONyr3</b>	<b>CONyr4</b>
Patient Days	14,325	14,468	14,613	14,759
Gross Revenue	500,023,000	536,637,000	575,936,000	618,116,000
Deductions From Revenue	378,772,000	410,563,000	445,034,000	482,415,000
Net Patient Billing	121,251,000	126,074,000	130,902,000	135,701,000
Other Operating Revenue	1,340,000	1,394,000	1,447,000	1,500,000
Net Operating Revenue	122,591,000	127,468,000	132,349,000	137,201,000
Operating Expense	113,348,000	117,547,000	121,823,000	126,165,000
Operating Profit	9,243,000	9,921,000	10,526,000	11,036,000
Net Profit	4,721,000	5,068,000	5,377,000	5,637,000
Operating Revenue per Patient Day	\$ 8,464	\$ 8,714	\$ 8,958	\$ 9,194
Operating Expense per Patient Day	\$ 7,913	\$ 8,125	\$ 8,337	\$ 8,548
Net Profit per Patient Day	\$ 330	\$ 350	\$ 368	\$ 382

Capital’s application proposes to sell the hospital real property to MPT Olympia and this entity would then would sublease the buildings to MPT Hospital who would then sublease the building to Capital. HPDS staff reviewed MPT Olympia’s 2015 balance sheet statements and concluded MPT Olympia has the assets to complete this transaction. [Source: HPDS analysis Page 2] Table 5 shows HPDS’s summary of MPT Olympia year 2015 historical balance sheet statement.

**Table 5  
MPT Olympia Historical Balance Sheets 2015**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets	\$332,235,000	Current	\$123,888,000
Board Designated	-	Long Term Debt	\$3,364,119,000
Property/Plant/Equipment	-	Other	\$32,713,000
Other	\$5,301,088,000	Equity	\$2,112,603,000
<b>Total</b>	<b>\$5,633,323,000</b>	<b>Total</b>	<b>\$5,633,323,000</b>

To analyze the short and long-term financial feasibility of hospital projects and to assess the financial impact of a project on overall facility operations, the department uses financial ratio analysis. HPDS assesses the financial position of an applicant both historically and prospectively. The financial ratios utilized are: **1)** long-term debt to equity ratio; **2)** current assets to current liabilities ratio; **3)** assets financed by liabilities ratio; **4)** total operating expense to total operating revenue ratio; and **5)** debt service coverage ratio. If a project’s ratios are within the expected value range, the project can be expected to be financially feasible.

For Certificate of Need applications, HPDS staff compared the projected ratios with the most recent year’s financial ratio guidelines for hospital operations. For this project, HPDS uses 2014 data for the comparison. The ratio comparison shown in table 6 are Capital’s 2014, projected ratios for the hospital operation under the sublease agreement. [HPDS analysis, Page 2]

**Table 6  
Capital Medical Center Current & Projected Operating Expense /Operating Revenue**

<b>Category</b>	<b>Trend<sup>9</sup></b>	<b>State 2014</b>	<b>Current 2016</b>	<b>Year 2017</b>	<b>Year 2018</b>	<b>Year 2019</b>
Long Term Debt to Equity	B	0.553	-	-	-	-
Current Assets/Current Liabilities	A	2.702	-	-	-	-
Assets Funded by Liabilities	B	0.385	-	-	-	-
Operating Expense/Operating Revenue	B	0.954	0.925	0.922	0.920	0.920
Debt Service Coverage	A	4.990	-	-	-	-
<b>Definitions:</b>	<b>Formula</b>					
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					
Operating Expense/Operating Revenue	Operating Expenses / Operating Revenue					
Debt Service Coverage	Net Profit+Depr and Interest Expense/Current Mat. LTD and Interest Expense					

<sup>9</sup> “A” is better if the hospital number is above the State number and “B” is better if the hospital number is below the state number.

As shown in Table 6, HPDS's analysis of Capital operating expenses and operating revenue shows Capital's immediate and long-range capital expenditures of the hospital can be met. Further, in its analysis HPDS stated, "*The only ratio appropriate for this review is the Operating Expenses/Operating Revenue ratio for Capital Medical Center. The hospital is breaking even during the first year of this project*". [HPDS analysis, Page 2]

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

(3) *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.

This project does not involve construction. The capital expenditure for this project is \$100,000,000 is allocated to personal property such as equipment's or intangible assets such as beds rights and licenses. Within the application, the applicant provided a draft sublease agreement between itself and MPT Hospital. The sublease agreement initial term is for 15 years with the option of four additional five year periods or a total of 35 years. The base amount is \$8,000,000 per annum or 8% of the \$100,000,000. [Source: Application, Exhibit 6]

With agreement to the conditions related to the lease and sublease agreements and based on the information provided above, the department concludes that **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.

To demonstrate compliance with this sub criterion Capital stated, "*In excess of 90% of the purchase price to acquire the Hospital Property shall be paid in a series of transactions the result of which is the assignment (or forgiveness) of Capella Healthcare, Inc. affiliated group indebtedness to MPT Camaro Opco, LLC. The remaining purchase price shall be funded out of the "cash and cash equivalent" of Medical Properties Trust, Inc. and MPT Operating Partnership, L.P....The remaining transactions are leases, and do not involve any initial capital outlay. The funds required to pay amounts due under the lease will come from the funds generated by CMC's operations during it normal course of business*". [Source: Application, Page 12] Based on the information provided above, the department concludes **this sub-criterion is met.**

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

Based on the source information reviewed and 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.

Capital states no changes in hospital staffing or physician privilege is expected as result of this project. The operational day-to-day operation of healthcare services at the hospital would continue to be provided by Capital. Within the application, Capital stated that it would continue to remain the hospital operator and licensure. Therefore, based on the information, 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(2) 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.

Capital has been operating an acute care hospital in Thurston County since 1985. Within the application, Capital stated that it has working relationships with many ancillary and support providers in the local area. Capital provided the names of the local providers that it have relationship with to support these claims. Within the application, Capital stated no new relationships are anticipated and the purchase and lease of the hospital would have no impact on existing relationships.

Nothing in the application considered by the department would suggest these relationships would change because of this project. Based on source documents reviewed, 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.

Capella Healthcare, Inc. is a physician management group entity located in the State of Tennessee. Capella Healthcare, Inc. owns or operates healthcare facilities in Arkansas, South Carolina, Oklahoma and Oregon. [Source: Application, Page 4] Capella Healthcare, Inc. is the parent entity of Capital. As part of its review, the department must conclude that healthcare services provided Capella Healthcare, Inc. affiliates would continue to be provided in a manner that ensures safe and adequate care to the public<sup>10</sup>.

For this application, the department reviewed the most recent Joint Commission on-site survey of the facilities own or operated by Capella Healthcare, Inc. and its affiliates. Table 7 shows the dates Joint Commission surveyed those facilities.

**Table 7  
Capella Healthcare, Inc. Facilities Joint Commission Surveys**

<b>Facility Name</b>	<b>Location</b>	<b>Last onsite Survey Date</b>
Carolina Pines Regional Medical Center	South Carolina	5/7/2015
Capital Medical Center	Washington	6/13/2013
Kershaw Health	South Carolina	8/14/2015
Southwestern Medical Center	Oklahoma	8/3/2015
East Star Health System	Oklahoma	-
National Park Medical Center	Arkansas	10/18/2013
Saint Mary Regional Medical Center	Arkansas	-
Willamette Valley Medical Center	Oregon	1/29/2016

As part of its review, the department must conclude that Capital would continue to provide healthcare services in a manner that ensures safe and adequate care to the public.<sup>11</sup> The department’s Investigations and Inspections Office (IIO) conducts quality of care and compliance surveys for hospitals, home health, and hospice agencies in Washington. Below is the compliance surveys of the healthcare facilities owned or operated by Cappella Healthcare, Inc. and its affiliates in Washington.

The Department of Health’s Investigations and Inspections Office (IIO) last surveyed Capital on September 10, 2014. The compliance survey revealed some minor non-compliance Capital submitted and implemented acceptable plans of corrections. [Source: Facility survey data provided by the IIO]

Based on the compliance histories of the out of state healthcare facilities own or operated by Capella Healthcare, Inc. and its affiliates, the department concludes there is reasonable assurance that Capital would continue to be operated in conformance with applicable state and federal licensing and certification requirements. **This sub-criterion is met.**

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<sup>10</sup> WAC 246-310-230(5).

<sup>11</sup> WAC 246-310-230(5)



- (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.

Capital has been providing health care services to the residents of Thurston County and surrounding communities since 1985. Information provided in the application states that Capital have relationships with many healthcare, ancillary and support providers in the local community. The applicant does not expect these relationships to change. [Source: Application, Pages 27-28]

Based on the information provided in the application, the department concludes that Capital would continue to promote continuity in the provision of health care services in the community and maintain appropriate relationships with the existing health care system. **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 **it is met.**

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

Based on the source information reviewed and the applicant's agreement to the terms and 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).

- (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 through 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 (tiebreaker) 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, Capital's project met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

### **Step Two**

Within the application Capital stated, *"This application simply reflects a business decision designed to create near term-value creation and long-term repositioning of the parent and local hospital for sustainable growth. No local options were considered"*. [Source: Application, Page 31]

Additionally, Capital stated the proposed purchase and lease of the hospital was a business decision that would ensure the long-term viability and growth of both the applicant and its parent entity. The department did not identify any other alternatives to the proposed project.

### **Step Three**

There were no competing applications, therefore step three is not applicable.

After reviewing the option considered and discussed above, the department concludes the proposed purchase, lease, and sublease of Capital Medical Center is the best available alternative. **This sub-criterion is met.**