November 17, 2016

Ms. Jana Fussell
Certificate of Need Coordinator
Oregon Health Authority
800 NE Oregon Street, Suite 305
Portland OR 97232

RE: Public Comment Regarding NEWCO's Request to Establish a 100-Bed Inpatient Psychiatric Hospital in Washington County (CN #675)

Dear Ms. Fussell:

Introduction and Overview

On behalf of UHS, I am pleased to provide summary comments supporting our request to develop and operate a 100-bed freestanding psychiatric hospital---NEWCO Oregon, Inc., DBA Willamette Valley Behavioral Health ("NEWCO")---in Washington County, Oregon. The proposed hospital would provide voluntary and involuntary inpatient care to serve adolescents and adults, including older adults with less severe diagnoses but who nonetheless require inpatient psychiatric care. NEWCO will create and use an innovative, robust, and well-coordinated treatment model involving a partnership between private mental health / medical practitioners and inpatient psychiatric providers to deliver seamless professional care.

The proposed hospital is planned to begin providing services by January 1, 2018 and will be located in Wilsonville, a part of the Clackamas-Multnomah-Washington Service Area ("Service Area" or "Planning Area"). Existing inpatient psychiatric providers are operating near capacity based on quantitative analysis of historical utilization data and bed supply, as will be demonstrated later within this letter. Further, based on careful review of: (1) population data and forecasts; (2) inpatient psychiatric utilization statistics for Clackamas, Multnomah, and Washington County residents; and (3) preparation of an inpatient psychiatric bed need forecast model for adolescent and adult inpatients who are ages five years and older; we estimate there are current shortages of 132 inpatient psychiatric beds in 2016 and forecasted shortages of 187 beds in 2025 across these three counties.

NEWCO is a wholly owned subsidiary of Universal Health Services ("UHS"). UHS is also the owner of Cedar Hills Hospital, an 89-bed adult, inpatient psychiatric hospital, located in Portland Oregon. Cedar Hills Hospital has been operational for a number of years and UHS is committed to the same high quality care with NEWCO. NEWCO will bring local clinical expertise and market

knowledge of Cedar Hills as well as the very broad experience and expertise of UHS in developing and operating psychiatric hospitals.

Market Dynamics

Service Area population projected to grow

The Clackamas-Multnomah-Washington Service Area is a well populated region, with over 1.7 million residents.[1] Service Area average annual population growth is expected to show growth consistent with recent historical trends, averaging about 1.2% – 1.3% per year over the next ten to fifteen years, resulting in a projected population of approximately 2 million residents by 2026.[2]

Current inpatient psychiatric providers are at capacity

In the Service Area, there are currently eight acute care hospitals with adult inpatient psychiatric beds. As of 2014, these eight facilities had an average occupancy of 86%.[3] Provided below in Table 1 are historical occupancy rates for Planning Area adult inpatient psychiatric providers over a 6-year period. Every adult inpatient psychiatric provider has consistently shown occupancy rates between 70% to 90% of total capacity. These occupancy rates are very high for units with relatively few (<50) beds as they are aggregate averages and do not factor surges in demand that may reach total occupancy and limit access at intermittent periods. Further, the combination of the rapid growth experienced by Cedar Hills with the consistently high occupancy rates of Planning Area hospitals shows that Cedar Hills' growth has not affected other providers—this means additional beds are needed.

Table 1. Occupancy at Adult Psychiatric and Geropsychiatric Inpatient Providers in the Service Area, 2009-2014

Planning Area Hospitals With Adult Beds	Occupancy (%), Adults 18 Years and Older, Inpatient Psychiatric Care					
	2009	2010	2011	2012	2013	2014
Legacy Emanuel Hospital & Hlth Ctr	102%	107%	100%	105%	103%	99%
Tuality Healthcare	77%	79%	82%	80%	76%	77%
Legacy Good Samaritan Medical Center	89%	95%	93%	91%	91%	94%
Adventist Medical Center	91%	92%	90%	89%	90%	90%
Providence Portland Medical Center	70%	71%	71%	68%	63%	70%
Providence St Vincent Medical Center	92%	94%	91%	92%	90%	93%
OHSU Hospital	80%	77%	76%	75%	73%	78%
Cedar Hills		70%	96%	96%	97%	87%
Service Area Provider Total	**85%**	**81%**	**89%**	**88%**	**87%**	**86%**

*Psychiatric DRGs 876 & 880-887, as well as 056-057 for Tuality Healthcare in accordance with their March 2, 2016 letter.

**There are no facility identifiers distinguishing between utilization inside or out of a hospital's designated psychiatric unit. This may result in occupancies near or even above 100%.

Source: Oregon Inpatient Discharge Data, 2009-2014; Internal Cedar Hills Data

[1] PSU PRC Annual Population Report

[2] OEA Long Term County Forecast

[3] 2014 Oregon Inpatient Database

According to the last available year of inpatient utilization data (2014) analyzed, there were two acute care hospitals in the Service Area that provided inpatient child/adolescent psychiatric beds. These two facilities operate child/adolescent psychiatric units comprising a total of 38 inpatient psychiatric beds for the entire child/adolescent population within the Service Area. By any standard, there is a shortage of inpatient psychiatric beds given capacity constraints with the current supply of beds for child and adolescent inpatients. Please see Table 2 below.

Table 2. Occupancy Rates at Child & Adolescent Psychiatric Inpatient Providers in the Service Area, 2014.

Planning Area Hospitals	Total Patient Days, Inpatient Psychiatric	Average Daily Census	Child & Adolescent Psychiatric Bed Count	Occupancy, 2014
Legacy Emanuel Hospital & Hlth Ctr	5,216	14.3	16	89.3%
Providence Portland Medical Center	0	0.0	N/A	N/A
Providence Willamette Falls Medical Center	4,455	12.2	22	55.5%
Service Area Total	**9,671**	**26.5**	**38**	**69.7%**

*Psychiatric DRGs used were 876 & 880-887

**It should also be noted that 22 bed Providence Wilamette Falls Medical Center opened an inpatient child and adolescent (C&A) unit in 2013 and closed its 16 bed unit in Providence Portland Medical Center.

Source: Oregon Inpatient Discharge Data, 2014

In addition to the historical occupancy statistics discussed above, current 2016 data demonstrates that Cedar Hills Hospital continues to face considerable and serious demand pressures. *Based on internal data provided by Cedar Hills, there were on average fifty patients 'deflected'[4] every month in CY2015. This trend has not only continued, but increased in 2016, with an average of ninety patients per month through October being deflected.* Roughly one-fourth of these "deflected" patients were later admitted to Cedar Hills, but this means three-fourths could not be treated at the Hospital. It is unknown where and whether these patients received inpatient care. Please see Table 3 below for the monthly deflection count at Cedar Hills Hospital.

[4] "Deflected" patients were those patients who could not be admitted to Cedar Hills due to lack of inpatient beds.

Table 3. Cedar Hills Hospital Monthly Deflection Count, 2015 and January 2016 - October 2016.

Month	2015	2016
January	36	111
Feburary	36	53
March	25	57
April	50	50
May	18	67
June	26	97
July	66	134
August	67	115
September	74	99
October	78	118
November	69	
December	64	

Source: Cedar Hills Internal Data.

ED Boarding is still an issue

The shortage of inpatient psychiatric beds is also documented in numerous Oregon State newspaper articles, with the bulk of the problem in the Service Area of interest. The result of this severe lack of inpatient psychiatric care is that many patients are "boarded" in Emergency Departments ("EDs"), or simply released before receiving an evaluation from a licensed provider. An article detailing this practice stated:

> The increasing number of individuals coming to Oregon EDs for psychiatric illness, along with a general lack of inpatient beds, has led to this all-too-common situation known as psychiatric patient 'boarding.' People coming to the ED with a psychiatric emergency are typically brought in by ambulance, police, or a concerned family member... In reality, inpatient beds are rarely available, so individuals board in the ED, often for days, awaiting transfer to a psychiatric inpatient bed somewhere in the state... the practice of psychiatric boarding is barbaric.[5]

Recently, a publication in Healthcare Finance summarized a survey of 1,500 emergency physicians conducted by the American College of Emergency Physicians ("ACEP") in December 2015. This review found that "[m]ore than 80% of emergency room physicians say the mental healthcare systems in their regions are dysfunctional, and do not adequately serve patients."[6] The review also pointed to data from the National Alliance on Mental Illness which found that "38% of mental health patients in the ER had waited more than 7 hours to see a mental health professional... in 21% of cases, the wait was more than 10 hours."[7] As pointed out by the article, this is an extremely long time to wait to receive care, particularly when these patients are

[5] Meieran, Sharon. "Rethink our system of 'boarding' psychiatric patients." The Oregonian. Feb. 26, 2014.
[6] Sandborn, B.J., "As emergency rooms fail in treating mental health, systems create new plans, centers." Healthcare Finance. April 2016. Please see: http://www.healthcarefinancenews.com/news/emergency-rooms-fail-treating-mental-health-health-systems-create-new-treatment-plans
[7] Ibid.

undergoing severe crisis. Finally, according to the ACEP review, approximately "one in 25 adults, or 13.6 million people, experience a mental illness in any given year that significantly impedes one of more 'major life activities.'"[8] While not specific to the State of Oregon, this article points to data that clearly indicates a current mental health crisis across the United States.

Adventist Health, Kaiser Permanente, Legacy Health and Oregon Health & Science University are collaborating to address the issue of ED boarding by creating the Unity Center for Behavioral Health—an emergency psychiatric facility for individuals experiencing a mental or behavioral health crisis.[9] However, the Unity Center for Behavioral Health has faced delays, as it was originally set to open in late 2016, but now is scheduled to open in January 2017.[10]

Based on its website, the Unity Center for Behavioral Health will offer emergency, inpatient, and outpatient psychiatric care in an integrated delivery approach. Our proposed project will be similar to Unity's inpatient/outpatient focus, and NEWCO will also provide crisis intervention and patient stabilization. Unity's inpatient beds will address equally acute cases as NEWCO's inpatient beds. However, the "new or additional" care offered by the Unity center will be the emergency services, which will not address the more acute psychiatric patients who will still require inpatient stabilization and care.

Legislative Impacts

There have been two key laws that have acted to increase demand for psychiatric care, as a covered insurance benefit. In our opinion, these laws will have an important impact on the demand for inpatient and outpatient psychiatric care. In November 2013, the final rules implementing the *Mental Health Parity and Addiction Equity Act* of 2008 were released and went into effect July 1, 2014. The parity law requires large employer-sponsored health plans that provide coverage for mental health services to cover those services equitably compared to medical and surgical services. The final rules clarify that the parity law includes coverage for a full continuum of behavioral health services, including inpatient, intermediate, and outpatient. At the same time, the Patient Protection and Affordable Care Act ("ACA") states that mental health and substance abuse disorder services are an essential health benefit and must be covered at parity by plans in the health insurance marketplace, beginning January 2014. Both of these laws have and will continue to increase demand by increasing coverage for mental health services.

In fact, we analyzed Oregon-specific psychiatric care in recent years to examine the general effect of insurance coverage expansion. Please see Table 4 below for a time-series analysis of service area inpatient days by Medicaid and self-pay patients for inpatient psychiatric care.

[8] Ibid.
[9] Please see Unity Center for Behavioral Health's website: http://unityhealthcenter.org/
[10] Ibid.

Table 4. Total Inpatient Psychiatric Patient Days by Service Area Residents (5+ Years Old) and Insurance Coverage

						Average Annual Growth	
	2010	2011	2012	2013	2014	2010-2013	2013-2014
Discharges							
MEDICAID (MANAGED CARE)	1,347	1,607	1,554	1,496	2,295	3.5%	42.8%
MEDICAID (FEE-FOR-SERVICE)	237	178	182	107	488	-26.5%	151.7%
SELF-PAY	682	468	563	682	194	0.0%	-125.7%
Patient Days							
MEDICAID (MANAGED CARE)	10,966	12,636	12,320	11,462	17,063	1.5%	39.8%
MEDICAID (FEE-FOR-SERVICE)	2,343	2,532	1,572	1,114	4,645	-24.8%	142.8%
SELF-PAY	4,544	2,997	3,413	3,782	1,283	-6.1%	-108.1%

Source: Oregon Inpatient Discharge Data Set, 2010-2014.
*Psychiatric DRGs used 876 & 880-887

As evident in Table 4, there has been a significant increase in both psychiatric discharges and days by Medicaid patients between 2013 and 2014. Correspondingly, there has been a dramatic drop in the number of self-pay Planning Area residents between 2013-2014. Table 4 also shows that the increase in Medicaid significantly outpaces that of the decrease in self-pay patients. This demonstrates the "insurance effect" of additional health care coverage—the increased demand for inpatient health care.

There was also a recent article in Modern Healthcare that pointed to the increased demand for mental healthcare services across the nation, and cited specific states' experiences: "[By 2016], an estimated 2 million previously uninsured people between the ages of 18 and 64 will receive behavioral healthcare services under ACA," HHS' Substance Abuse and Mental Health Services Administration determined in May of 2014.[11] Of this population, 1.2 million will be Medicaid eligible, and the other 800,000 will be eligible for new health insurance exchanges brought about by the ACA. However, according to the National Association of State Mental Health Program Directors, states have reduced their mental health spending by $4.35 billion between 2009 and 2012. These cuts could limit access for newly insured persons seeking care. Chris Bouneff, executive director of NAMI Oregon, stated the following:

> We are receiving more reports of longer wait times for initial appointments at some of our larger nonprofit mental health providers. Medicaid recipients seeking mental health services have been restricted to small provider panels. And the influx of new members appears to be exacerbating that problem.[12]

This article confirms the impact of the ACA in general, and specifically for the State of Oregon. These statements clearly indicate that there is increasing demand for mental health care services while simultaneously identifying a lack of current capacity for these services.

[11] http://www.modernhealthcare.com/assets/pdf/CH95913812.PDF
[12] http://www.modernhealthcare.com/article/20140812/NEWS/308129964

Significant Net Need

As discussed above, the Service Area comprises over 1.7 million residents and is forecasted to grow to over 2 million by 2026. Further, current inpatient psychiatric providers are nearly at full occupancy and do not have the capacity to meet the current and growing demand for inpatient care. To forecast future psychiatric need for psychiatric beds, we prepared a quantitative analysis incorporating a target bed ratio that was adjusted for each age cohort's (i.e. child/adolescent, adult, and geriatric) respective utilization.

The target bed ratio of 26.1 inpatient psychiatric beds per 100,000 residents was derived from the national average bed to population ratio from the American College of Emergency Physicians' ("ACEP") *America's Emergency Care Environment, A State-by-State Report Card – 2014* report. However, this target bed ratio is meant to apply to the general population covering all ages and does not address specific need by any particular age cohort. Therefore, specific adjustments, based on relative per capita patient day use rates, were made to the base target bed ratio for the following age cohorts: 5 to 17 years, 18 to 64 years, and 65+ years. These adjustments reflect patient day and population data from the 2014 Oregon Inpatient Discharge Data Set and PSU PRC Annual Population Report, respectively.

The adjusted target ratio in turn was applied to each of the respective resident populations forecasts to determine future bed need by age cohort in the Service Area. The findings are provided below in Tables 5 and 6. Please note that while our original bed need models and service mix proposed services for children in the 5 to 11 year-old age cohort, we have since revised our service mix to include adolescents, adults, and older adults (i.e. patients 12 years and older). This revision was necessary to properly meet required separation between clinical units to treat the different patient age cohorts within the planned facility.

Table 5. Service Area Psychiatric Inpatient Bed Need Projections by Age Cohort, 2015 – 2030.

5 to 17 Year Old Inpatient Psychiatric Bed Need Model

	Base Year 2015	Year 1 2016	Year 10 2025	Year 15 2030
Service Area Resident Population, 5 to 17 Year Olds	275,078	276,069	289,421	303,832
Forecast Psychiatric Bed Need--Proposed Ratio--2014 Average				
Age-Adjusted Target Bed Ratio Per 100,000 Residents	16.8	16.8	16.8	16.8
Gross Bed Need at Target Ratio	46.3	46.5	48.7	51.1
Current Supply	38	38	38	38
Psych Bed Net Need	**8.3**	**8.5**	**10.7**	**13.1**

18 to 64 Year Old Inpatient Psychiatric Bed Need Model

	Base Year 2015	Year 1 2016	Year 10 2025	Year 15 2030
Service Area Resident Population, 18 to 64 Years Olds	1,122,940	1,132,569	1,225,438	1,280,217
Forecast Psychiatric Bed Need--Proposed Ratio--2014 Average				
Age-Adjusted Target Bed Ratio Per 100,000 Residents	31.63	31.6	31.6	31.6
Gross Bed Need at Target Ratio	355.2	358.2	387.6	404.9
Current Supply	246	246	246	246
Psych Bed Net Need	**109.2**	**112.2**	**141.6**	**158.9**

65+ Year Old Inpatient Psychiatric Bed Need Model

	Base Year 2015	Year 1 2016	Year 10 2025	Year 15 2030
Service Area Resident Population, 65+ Years Old	228,711	239,017	341,513	387,351
Forecast Psychiatric Bed Need--Proposed Ratio--2014 Average				
Age-Adjusted Target Bed Ratio Per 100,000 Residents	22.1	22.1	22.1	22.1
Gross Bed Need at Target Ratio	50.5	52.8	75.4	85.5
Current Supply	41	41	41	41
Psych Bed Net Need	**9.5**	**11.8**	**34.4**	**44.5**

As demonstrated in Table 5 above, all three age cohort models project net need for additional inpatient psychiatric beds within the Service Area, with a cumulative net need well over the 100-bed NEWCO proposal. Please see Table 6 on the following page.

Table 6. Summary of Net Inpatient Psychiatric Bed Need by Age Cohort

Age Cohort	Base Year 2015	Year 1 2016	Year 10 2025	Year 15 2030
5 to 17 Years Old - Net Bed Need	8.3	8.5	10.7	13.1
18 to 64 Years Old - Net Bed Need	109.2	112.2	141.6	158.9
65+ Years Old - Net Bed Need	9.5	11.8	34.4	44.5
Total Net Bed Need - All Ages	**127.0**	**132.5**	**186.7**	**216.6**

Experience and Known Quality of Universal Health Services

Universal Health Services, NEWCO's parent company, is one of the largest and most respected hospital management companies in the nation, with a mission to provide superior quality healthcare services. As of February 26, 2016, UHS subsidiaries owned and/or operated 24 inpatient acute care hospitals, 3 freestanding emergency departments, and 213 inpatient and 16 outpatient behavioral health care facilities located in 37 states, Washington, D.C., the United Kingdom, Puerto Rico, and the U.S. Virgin Islands.[13] As of December 31, 2015, it operated 21,116 licensed behavioral health beds, providing 5,835,134 behavioral patient days.[14]

For 37 years, UHS facilities have provided compassionate and high quality care to millions of patients. Our longevity and success is due to our unwavering commitment to provide the highest quality healthcare to our patients. As a result of the dedication of the hardworking employees, medical professionals, and administration at our facilities, over the past 4 years, 83 UHS facilities (both acute care and psychiatric) have been designated Top Performers in Key Quality Measures by The Joint Commission. This list includes 19 UHS facilities in Texas that received this esteemed designation.

The Joint Commission bestows such high recognition to facilities that attain excellence based on accountability-measured performance. In our Behavioral Health Division, over half of our eligible facilities have received this distinguished recognition. The percentage of UHS Behavioral Health ("BH") facilities comprising the total Top Performers nationwide over the past four years is more than double the percentage of Top Performer facilities of UHS competitors. In addition, UHS Behavioral Health facilities exceed the national average in HBIPS (Hospital-Based Inpatient Psychiatric Services) core measure scores. Thus, UHS has decades of operations experience, provided with a commitment to quality, comprehensive behavioral health care. UHS has learned the most effective approach is to provide excellent general inpatient and outpatient care as well as specialized care delivery, offered as complementary care, with a focus on specific treatment needs of particular populations.

[13] 2015 Form 10-K Annual Report. p. 1
[14] Ibid. p. 3

Dedicated to the Pacific Northwest Community

UHS has five facilities currently operational in the Pacific Northwest: Cedar Hills Hospital located in Portland, Oregon; Fairfax Behavioral Health, a 157-bed adolescent and adult psychiatric hospital located in Kirkland, Washington; Fairfax Behavioral Health Everett, a 30-bed adult psychiatric hospital located in Everett Washington; Schick Shadel Hospital, an alcohol and drug rehabilitation hospital in Seattle, Washington; and Fairfax Behavioral Health Monroe, a 34-bed hospital, in Monroe Washington.

Further, UHS and Providence Health & Services have come together in a joint venture in Spokane County in the State of Washington and have received Certificate of Need approval by the Washington State Department of Health to develop and operate a 100-bed freestanding psychiatric hospital. UHS and Providence Health & Services are also currently in the Certificate of Need process for approval of another joint venture to develop and operate an 85-bed freestanding psychiatric hospital in Thurston County, Washington. UHS has a clear commitment to the Pacific Northwest region and we wish to continue and expand on this commitment through the development and operation of NEWCO.

Project Information

NEWCO proposes to develop and operate a 100-bed freestanding psychiatric hospital located in Wilsonville, Oregon. The proposed hospital would provide inpatient care to serve adolescents 12 to 17 years of age, and adults 18 years of age and older, including geriatrics with less severe diagnoses but who nonetheless require inpatient psychiatric care. The proposed bed configuration includes the following: 24 beds for adolescents, 52 beds for adults, and 24 beds for geropsychiatric services. NEWCO will care for both elements of demand for voluntary and involuntary inpatient care services. The project offers both inpatient and complementary outpatient care services. Where appropriate, it will collaborate with Cedar Hills Hospital, located 13 miles north of our proposed new facility, in clinical delivery, staffing, and ancillary/support services.

With respect to timing, the proposed start-up date is January 1, 2018. As stated on page 52 of our Application, total estimated capital expenditures are $35,834,324 (Form CN-3). UHS has more than sufficient cash reserves to fund the requested project and provide working capital, as required. We also provided a letter from UHS' Chief Operating Officer committing funds to the project. Further, based on UHS' audited financial statement for calendar year 2015, included as part of its 10-K filing with the Security and Exchange Commission, it had $1.021 billion in net cash provided by operating activities in 2015 alone. This is a very strong measure of its liquidity.[15] Further, on its consolidated balance sheet, in 2015, UHS had $61,228,000 in cash and cash equivalents and a total of $1,718,304,000 in Current Assets.[16] UHS routinely funds capital projects, including new hospitals, from working capital. UHS will bring its broad experience and specialized expertise of financing and operating psychiatric hospitals, just as it has successfully done in the case of Cedar Hills Hospital.

[15] Page 65. UHS 10 K report. Please see: https://www.last10k.com/sec-filings/uhs#fullReport
[16] Ibid, p. 87.

The treatment philosophy at NEWCO will continue UHS' principles of caring for patients who need mental health services with compassion, kindness, dignity, excellence, and respect, while providing a supportive environment and treatment to help patients heal. NEWCO's vision is to be recognized as the premier regional provider of innovative and compassionate behavioral health services, enhancing the overall health of the community. NEWCO will exceed the expectations of those served, maintain the highest standards of excellence, and promote a rewarding work environment. In addition, the new psychiatric hospital will continue to optimize the collaborative relationship that has been formed in recent years by Cedar Hills with other community providers and partner organizations in the region to provide a seamless continuum of care. The confluence of factors presented above resulted in strong support from Wilsonville officials and many others within the local community. Further to this point, there was a unanimous vote in support of the project by the Planning Board.

I would be pleased to answer any questions you may have on our requested project. I can be reached at 425.821.2000, extension 1500, or at ron.escarda@uhs.com

Thank you in advance regarding this important certificate of need request.

Yours Truly,

Ron Escarda
Chief Executive Officer
Fairfax Behavioral Health