



December 27, 2021

Minnesota Department of Health
625 Robert Street North
P.O. Box 64975
St. Paul, MN 55164-0975

To the Office of the Commissioner of Health:

Enclosed please find a request from Fairview Health Services and Acadia Healthcare to begin a public interest review of a proposal to expand access to psychiatric inpatient services in Minnesota, by establishing an adult and geriatric mental health and addiction hospital with 144 licensed beds to be located at 559 N. Capitol Blvd. in St. Paul Minnesota.

Fairview and Acadia intend to seek an exception to the moratorium law permitting the creation of the new hospital and the issuance of 144 acute care hospital bed licenses for mental health in the 2022 legislative session. We will ask the Legislature to authorize commencement of demolition and construction prior to completion of the public interest review process.

We will be happy to provide additional information or answer your questions.

Thank you in advance for your attention to this matter.

Sincerely,

A handwritten signature in black ink that reads "Trudi Noel Trysla".

Trudi Noel Trysla

Executive Vice President and Chief Administrative Officer | General Counsel
Fairview Health Services

Received January 4, 2022

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Project Overview

Statement of Need. For years, experts have described the current state of mental health in the United States as a crisis. The last twenty months of a global pandemic have only added to the challenges that individuals and families across our country were already facing.

We know this crisis will not be solved by one hospital. It will take the concerted efforts of health care providers, community partners and others coming alongside local, county and state officials to ensure that we meet the needs of our patients and communities into the future. But we believe the investment of over \$50 million dollars into the mental health needs of Minnesotans through this project will be a significant and important step forward for our community.

The current St. Joseph’s Hospital facility, part of the Fairview Health Services health care system (“Fairview”), is not financially sustainable as an inpatient mental health hospital nor does it provide the physical environment that can provide the best therapeutic environment for patients into the future. Building a new state-of-the-art facility that would support the current and growing needs for mental health care in our community is a financial commitment that Fairview cannot do alone. In early 2020, Fairview sent out a request for community partnership locally seeking partners to work as a coalition to support and maintain the inpatient mental health and addiction medicine capacity that was then supplied at St. Joseph’s Hospital. Local partners did not come forward. This need for partnership and ensuing interest from non-local partners brought Fairview to Acadia Healthcare (“Acadia”) - a leading provider of mental healthcare services across the United States. Acadia responded to Fairview’s request for community partnership, eventually leading to this proposal.

Historically, Fairview staffed 105 inpatient mental health beds at St. Joseph’s Hospital, although that number had decreased more recently as a result of restrictions created by the COVID-19 pandemic and ongoing staffing challenges. The addition of 144 inpatient mental health beds at the proposed Mental Health Hospital will replace the historical St. Joseph’s Hospital beds and result in a net increase in mental health bed capacity in the state. It is anticipated that the addition of 144 mental health beds will have a positive financial and operational impact on regional hospitals, in particular reducing strain on local emergency departments, and getting patients the services they need. In addition, Fairview has continued and expanded its investment in outpatient mental health services such as EmPATH and Transition Care Services throughout the area and has made investments in community health with a desire to address and meet the need for mental health services before they become acute.

Project Description. To meet the growing community need for adult inpatient mental health beds, and to replace and expand the inpatient mental health bed capacity previously serviced by St. Joseph’s Hospital, Fairview will partner with Acadia. Together Fairview and Acadia will build and operate a 144-bed adult and geriatric mental health and addiction hospital (“Mental Health Hospital”) at the former site of Bethesda Hospital, located at 559 N Capitol Boulevard (“559 Capitol”).

The Mental Health Hospital will offer inpatient mental health and addiction services for geriatric and adult populations including treatment for both psychiatric and co-morbid substance use

disorder diagnoses along with a partial hospitalization program (PHP), and an intensive outpatient program (IOP). The Mental Health Hospital will not have an emergency department. Intake processes for patients will align with the process currently in-place at Fairview hospitals, including utilizing existing emergency room assessment and triage processes that occur in the Fairview system and other area hospitals. The Mental Health Hospital will continue to serve patients in alignment with the historical service area of St. Joseph's Hospital.

Access to Care. The Mental Health Hospital will promote health for a broad cross-section of the community. The Mental Health Hospital is committed to providing access to patient care services based on medical necessity, without regard to the patient's race, creed, national origin, gender, payor source, or ability to pay, including individuals covered by Medicare and Medicaid. The estimated uncompensated care volume for the Mental Health Hospital is anticipated to remain the same as St. Joseph's Hospital experienced historically. The Mental Health Hospital will follow the same charity care policies as Fairview.

Project Partners and Roles. The project partners are Fairview and Acadia.

Fairview is a long-standing nonprofit, integrated academic health care system. Along with its affiliates and subsidiaries, Fairview one of the largest health care providers in Minnesota, currently operating 10 hospitals, 40 primary care and specialty clinics and employing over 30,000 people across the state. Fairview offers a broad continuum of health care services through its hospitals, clinics, and other health care related operations. Fairview is a Minnesota nonprofit corporation, exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code.

Acadia is a leading provider of mental healthcare services across the United States. Acadia operates a network of 230 mental healthcare facilities with approximately 10,200 beds in 40 states and Puerto Rico. With more than 20,000 employees serving approximately 70,000 patients daily, Acadia is the largest stand-alone mental health company in the U.S. Acadia is a world-class leader in the mental health space, with a proven track record of providing evidence-based care at its facilities and demonstrating an unwavering commitment to safety and quality.

Fairview and Acadia will jointly own and operate the Mental Health Hospital. Forging a partnership with Acadia allows Fairview to evolve its own care model and apply Acadia's proven record of innovation and excellent care. Notably, Fairview is the largest provider of mental health services in the Twin Cities and in the State of Minnesota. The provision of this disproportionate amount of mental health care results in a significant financial loss to Fairview. Creating an innovative solution for inpatient mental health services to better serve the community cannot be done alone. Fairview needs a partner to support the financial investment required to make the Mental Health Hospital a reality. As Fairview's partner, Acadia Health is making a long-term investment in this community.

Timeline. Assuming Legislative approval of the moratorium exception during the 2022 legislative session, Fairview and Acadia propose to begin demolition of the former Bethesda Hospital building in the summer of 2022. Demolition is expected to take approximately five (5) months. Construction of the Mental Health Hospital will follow a 12- to 18-month timeline for completion. The partners anticipate opening the new Mental Health Hospital in late 2023 or early 2024.

Description of Facility and Services

Patient Services. Fairview and Acadia propose to build a 144-bed inpatient mental health facility to serve the mental health needs of the adults in the primary service area, described in more detail below. In inpatient mental health services, the Fairview System has historically seen bed occupancy in excess of 85%, demonstrating a strong market demand for mental health services. Although Fairview is requesting 144 beds total, only 120 of the beds will be built out the day the Mental Health Hospital opens. The additional 24 beds will be shelled out during construction and subsequently completed to meet the needs of the service area once the Mental Health Hospital reaches 85% capacity.

St. Joseph's Hospital, located in St. Paul, Minnesota, historically operated as a general acute care hospital with 401 licensed beds. In late 2020, Fairview announced plans to convert a portion of the facility into a centralized hub of health and well-being services. These services will be provided by Fairview and a variety of partners in the St. Joseph's Hospital de Paul Tower, which will come to be known as the "Fairview Community Health and Wellness Hub". To better meet the upstream needs of the community today, the Fairview Community Health and Wellness Hub will evolve to address major factors that influence social determinants of health, including primary care, outpatient mental health and addiction, training and education, food security services and other wraparound support services. St. Joseph's Hospital's existing inpatient mental health beds are expected to ramp down at St. Joseph's Hospital campus into mid-2022 while Fairview is working on the Mental Health Hospital. The proposed Mental Health Hospital will replace and expand the St. Joseph's Hospital's mental health beds and add needed capacity to support the growing community need for adult inpatient mental health care. Fairview will provide the physician and advanced practitioner provider services needed to staff the Mental Health Hospital. The Mental Health Hospital will maintain an open medical staff.

The Mental Health Hospital will offer inpatient services for geriatric and adult populations, in collaboration with services across the mental health and addiction service line. Both psychiatric and co-morbid substance use disorder diagnoses will be accepted and treated in the Mental Health Hospital. The Mental Health Hospital will also include a partial hospitalization program (PHP) and an intensive outpatient program (IOP). Electroconvulsive therapy Services (ECT) will also be offered as an extension of services offered by Fairview currently.

By separating the patient populations by major diagnostic classifications and severity of illness, the Mental Health Hospital will be better able to provide care that is tailored to the individual needs of patients in an environment that is safe, efficient, and highly reliable. The facility will initially open five different units – each unit consisting of 24 beds. The first treatment unit will consist of 24 beds specializing in the care of patients who require treatment for co-occurring, dual diagnoses. The second treatment unit will be 24 beds for adult psychiatric patients with mood disorders. The third treatment unit will be 24 beds for patients with thought disorders. The fourth unit will consist of 24 geriatric beds. Finally, the fifth treatment unit will include 24 beds for general psychiatry including step-down level of care.

The new state-of-the-art Mental Health Hospital will be purpose-built from the ground up to deliver the highest quality specialty health care in the Twin Cities. Unlike remodeled medical-surgical spaces in existing hospitals, this purpose-built mental health and addiction treatment facility design will incorporate high-end finishes to promote patient dignity, open sight lines for patient safety, wide hallways, elevated ceilings, abundant natural light, and open, flexible meeting spaces. Specially designed furnishings and fixtures will help ensure patient safety in acute hospital environments while also providing a home-like setting and avoiding an institutional experience. Unlike primary medical spaces, the Mental Health Hospital will provide adequate space for patient privacy, small and large group/team meeting spaces, noisy and quiet activity spaces, and unobstructed flow between areas within the same unit. Every detail of the facility design has been tested and refined to locate nursing stations, conference spaces, medication rooms, ingress, and egress into the most functional environment possible balancing the security of the environment with patient safety and comfort. Team members working in purpose-built psychiatric spaces report a greater sense of safety, comradery, and inclusion than those challenged by delivering care in repurposed units designed for primary medical services which are often long out of date and inconsistent with modern design and treatment goals.

The design for the Mental Health Hospitals' mental health and addiction programs begin with intense focus on the behavioral health facility design requirements (FGI), while also considering Acadia's depth of experience in operating stand-alone psychiatric facilities and incorporating a modern facility design aesthetic. Community members come to regard these new hospital facilities as a critical resource and center of excellence. Unlike the monolithic institutional designs of the last century, the goal of the Mental Health Hospital is to provide a beautiful campus where patients and families choose to receive necessary care to improve their overall quality of life.

Unit design, décor, coloration, fixtures, and equipment may be standardized or supporting special populations including:

- Adult Psychiatric Units focused on Thought Disorders (psychosis, schizophrenia, delusions, etc.)
- Adult Psychiatric Units focused on Mood Disorders (depression, anxiety, and bipolar disorders)
- Adult Dual Diagnosis Unit (Psychiatric and Substance Use including Detox)
- Older-Adult/Geriatric Psychiatric Units (mild/moderate neurodegenerative disorders with co-occurring psychiatric conditions that may include mood disorders, thought disorders, and disturbance of mood and behavior)
- Intensive Outpatient (IOP) and Partial Hospitalization Programs (PHP) to support patients throughout the continuum of care
- Neuromodulation services for patients whose condition is no longer responsive to traditional medication management
- Trauma informed care that includes specialized therapeutic techniques, paired with traditional cognitive behavioral therapies.

Less apparent to those outside the behavioral health industry, but critical to the Mental Health Hospital is the very "personality" and location of the hospital itself. From a welcoming lobby for

family members, warm knowledgeable reception staff, private intake/admission and assessment areas and large comfortable group rooms for outpatient therapy and partial hospital programs, the behavioral health focus of the environment of care will be evident throughout. The Mental Health Hospital will feature a full range of personal health and wellness services, including nutritional counseling, smoking cessation support, access to a nationwide network of longer-term substance use disorder treatment for sustained recovery, and recreation areas to support physical health and wellness. Among other features, the Mental Health Hospital is designed with multiple courtyards, walking paths, a full gymnasium, and dedicated space for adjunctive therapies (art, music, creative expression, yoga, and life skills).

Fairview and Acadia believe the first step in reducing stigma associated with mental health and substance use disorders is to provide access to critically needed care for their mental illness and substance use conditions by promoting dignity, self-worth, a sense of pride and purpose in their recovery, and building a team of subject matter experts to deliver this highly specialized care. The proposed Mental Health Hospital is purposefully located close to other healthcare systems and services to promote accessibility by public and others modes of transportation, and to promote family interaction with the patient and treatment team and their loved ones during the course of treatment and aftercare. Taken together, these thoughtful and intentional considerations serve a significant role in effective treatment, family dynamic support and deliver on our mission to improve the lives of our patients, their families and community.

Project Site. The Mental Health Hospital will be located at 559 N. Capitol Blvd. in St. Paul Minnesota (“559 Capitol”). 559 Capitol is the site of the former HealthEast Bethesda Hospital, which converted to a COVID hospital early in the pandemic and has relocated to the DePaul tower at St. Joseph’s Hospital. Fairview plans to demolish the existing buildings at 559 Capitol and the Fairview and Acadia will construct the Mental Health Hospital (depicted below) on the site.



3D model depicting Mental Health Hospital to be constructed at 559 Capitol in St. Paul.

Fairview is currently working through the Capitol Area Architectural and Planning Board (“CAAPB”) process regarding design of the 559 Capitol site for the Mental Health Hospital. If the CAAPB process prohibits the project’s timely completion of the Mental Health Hospital at 559 Capitol, the facility will be constructed at another East Metro location on land owned by Fairview.

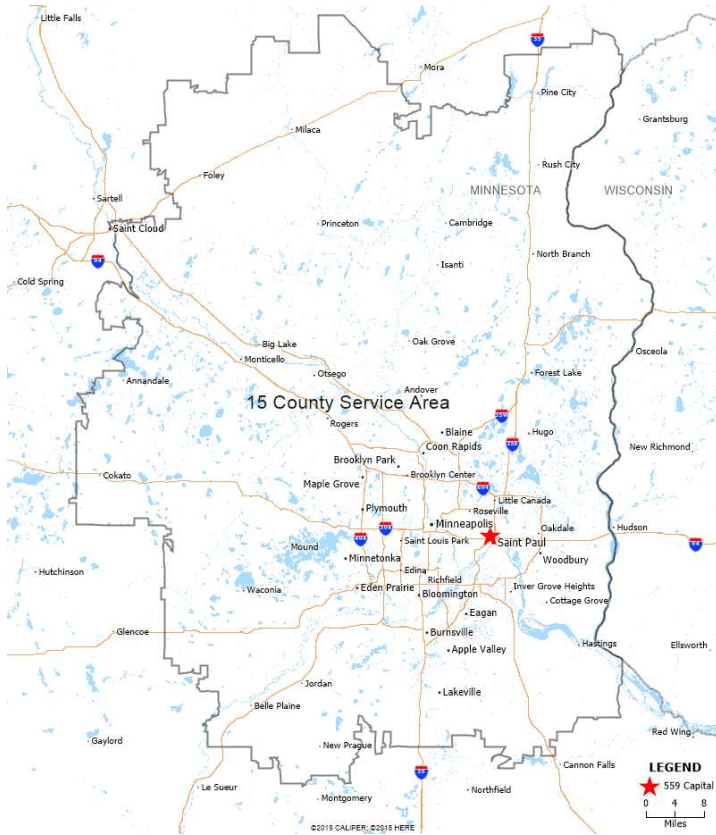
Project Budget. The current capital cost projections for the Mental Health Hospital are estimated at \$57M - \$65M, with breakouts of the projected costs reflected in the table below. Fairview will provide the land and Acadia will provide a capital infusion to build the Mental Health Hospital.

Description	Projected Cost
Construction	81.6%
FFE	5.5%
Contingency & Ancillary	4.5%
Pro Fees	4.2%
Information Systems	2.3%
Permits, Printing, Insurance	1.9%

Primary Service Area

The Mental Health Hospital will largely serve the 15-county region including Wright, Hennepin, Ramsey, Washington, Dakota, Anoka, Sherburne, Carver, Scott, Isanti, Chisago, Benton, Mille Lacs, Kanabec, and Pine counties.

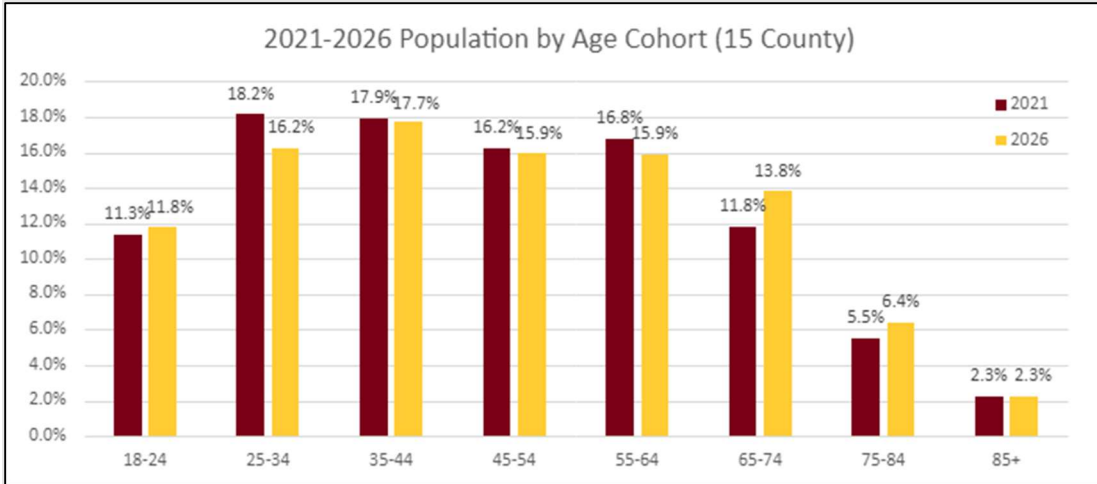
The primary service area (depicted below) aligns with the historical service area served by St. Joseph's Hospital and represents over 90% of the discharges from St. Joseph’s Hospital in 2019.



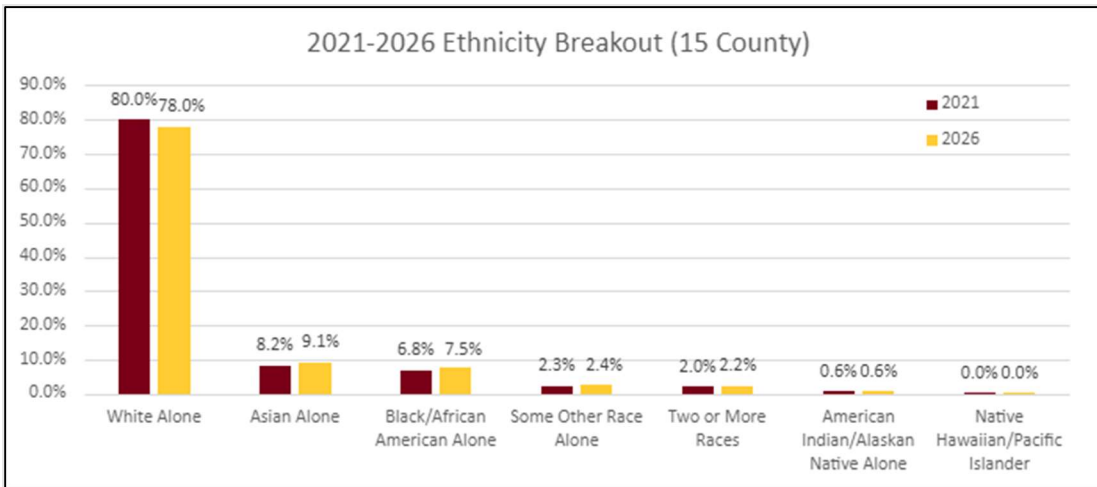
Primary service area includes the 15-county service area for St. Joseph’s Mental Health services and corresponds with the new Mental Health Hospital’s projected service area.

Demographic Projections. As demonstrated in the charts below, the primary service area for the Mental Health Hospital will serve a broad cross section of Minnesotans. These demographic estimates and projections were sourced from Claritas¹.

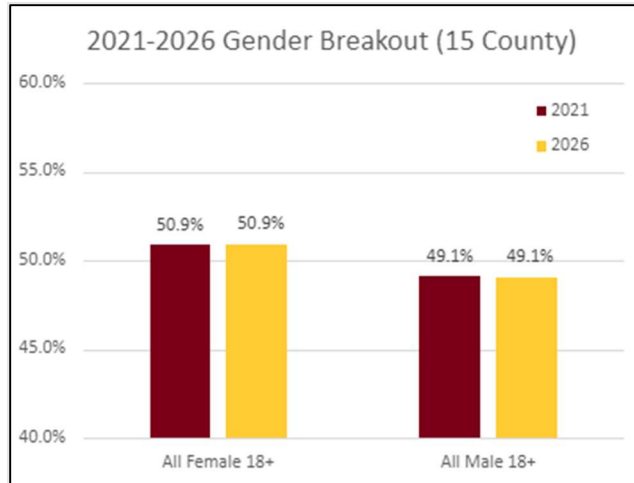
¹ Claritas utilizes multiple data sources for their estimates including but not limited to: US Census Bureau, American Community Survey (ACS), US Postal Service, Federal Housing Finance Agency (FHFA), Federal Housing Finance Agency (FHFA), Valassis, Bureau of Economic Analysis (BEA), and Internal Revenue Service (IRS).



Projected breakdown of Mental Health Hospital patient population by age over 15-county service area in 2021-2026.



Projected breakdown of Mental Health Hospital patient population by race over 15-county service area in 2021-2026.



Projected breakdown of Mental Health Hospital patient population by gender over 15-county service area in 2021-2026.

Patient Access to Care

Patients in the primary service area currently pay for care through commercial insurance, Medicaid, Medicare, and self-pay. The table below describes the breakdown of how patients pay for mental health and addiction services in the primary service area. The table below includes all hospitals' payor mix regardless of patient origin.

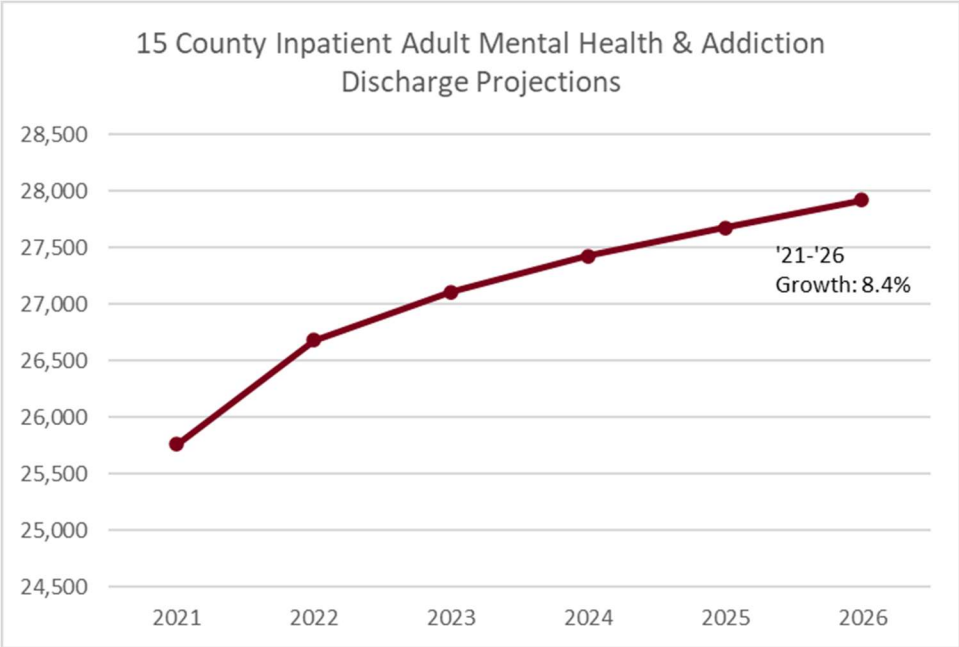
Constructing the Mental Health Hospital as a new standalone facility will not result in any adverse impacts on patients' ability to access inpatient mental health care when they require it. The Mental Health Hospital will have a 24-hour intake process in the event people arrive to the facility and urgently need care, keeping them safe, supported and comfortable while teams determine the next best step for their needs. Staff will work closely with teams at emergency departments within the Fairview system and at other area hospitals as Fairview currently does on a daily basis to ensure admission into inpatient care for patients who need it, no matter where they seek care. Similar to cancer patients staying in an oncology unit, or a heart patient staying in a cardiology unit, or orthopedic patients being treated in outpatient surgery centers, Fairview and Acadia are excited to offer a state-of-the-art facility designed to focus on providing innovative psychiatric care. And even in these specialized settings, the Mental Health Hospital will treat the whole person with an integrated, holistic approach. It will be standard practice to collaborate across our system to assure care connection across the continuum for mental health services, as well as medical services. The Mental Health Hospital will provide specialized care in a state-of-the-art and therapeutic environment.

As is standard practice across the Fairview system, specialists will consult and partner in a patient's care to meet identified health needs. Patients needing significant medical care will be transferred to a medical unit.

15 County Top Share Hospitals Mental Health and Addiction Inpatient Payor Mix		
Payor Group	2019	2020
Commercial	31%	30%
Medicaid	38%	41%
Medicare	21%	20%
Other	5%	5%
Uninsured/Self Pay	4%	4%

Fairview and Acadia anticipate that the Mental Health Hospital will continue to see a payer mix described in this table among its patients.

The amount of adult mental health and addiction discharges are projected to meaningfully increase in the Mental Health Hospital’s primary service area over the next five years, emphasizing the need for additional mental health beds. Specifically, discharges are projected to increase by 8.4% for the 15-county primary service area. The graph below shows these projections and the specific number of discharges expected overtime.



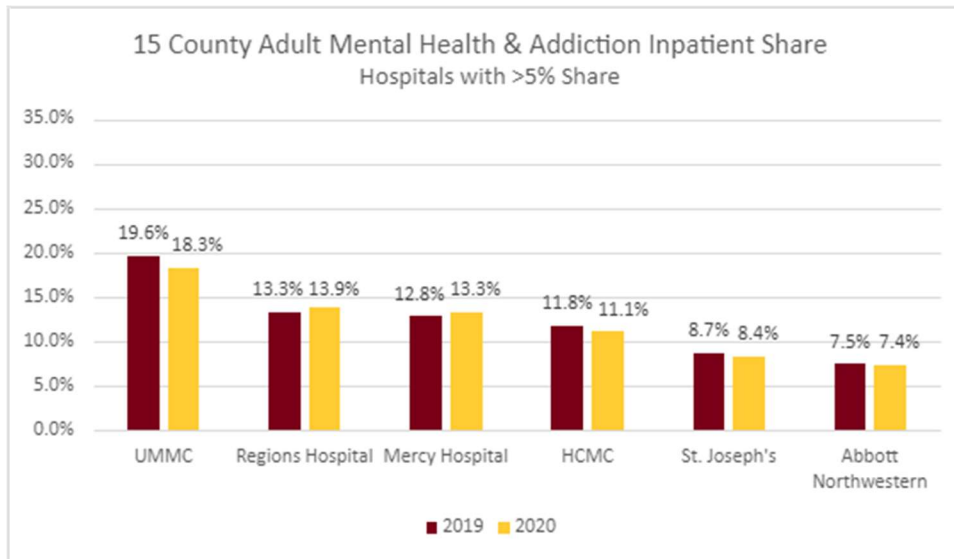
Projected growth of adult mental health and addiction discharges in 15-county service area from 2021-2026.

Projected Financial Impact

Market Analysis. The Mental Health Hospital will create minimal financial impact on market participant hospitals. At current rates and projections, market demand for mental health services outpaces bed availability. The new hospital will serve as a release valve on emergency departments (ED) with the potential to improve market regional emergency department flow, which could lead

to a positive financial impact on market hospital financials. Further, med-surg acute care hospitals typically provide mental health services at a financial loss.

The graph below shows the market share of hospitals that have a five percent or more market share. Fairview is affiliated with two of the hospitals listed in the table, and as stated above, St. Joseph’s Hospital will close in July of 2022. As of 2020, Fairview held a combined market share in mental health and addiction inpatient beds of nearly 27%.



2019 and 2020 market shares of hospitals with 5% or more market share for mental health and addiction services over 15-county service area.

The following tables describe the percentages of patients discharged from various hospitals who resided in the fifteen-county service area in 2019 and 2020, respectively.

2019 Percentages of Patients Discharged					
Hospital	15 County SA	Greater MN	Western WI	Greater WI/ND/SD/IA	Greater USA & International
UMMC	92.9%	4.8%	0.5%	0.5%	1.2%
Regions Hospital	90.7%	2.0%	0.3%	2.7%	4.4%
Mercy Hospital	93.7%	4.8%	0.1%	0.6%	0.8%
HCMC	95.8%	2.5%	0.5%	0.2%	1.0%
St. Joseph's	90.8%	7.1%	0.4%	0.8%	0.9%
Abbott Northwestern	89.0%	8.5%	0.3%	0.9%	1.2%
United Hospital	88.8%	6.4%	0.5%	2.8%	1.5%

2020 Percentages of Patients Discharged					
Hospital	15 County SA	Greater MN	Western WI	Greater WI/ND/SD/IA	Greater USA & International
UMMC	92.8%	4.8%	0.5%	0.7%	1.1%
Regions Hospital	89.7%	3.0%	0.5%	3.0%	3.9%
Mercy Hospital	93.7%	4.7%	0.3%	0.6%	0.6%
HCMC	94.8%	2.9%	0.4%	0.3%	1.6%
St. Joseph's	93.7%	4.2%	0.2%	0.9%	0.9%
Abbott Northwestern	88.8%	9.2%	0.2%	1.0%	0.7%
United Hospital	90.3%	5.8%	0.4%	2.4%	1.0%

Staffing and Capacity. The Mental Health Hospital will pay market competitive rates, which will create no meaningful impact on existing hospital staff in the region. The Mental Health Hospital will employ approximately 200 full-time equivalent employees by the end of year two with approximately half of that employee volume attributable to nurses and mental health therapists. Fairview intends to retain all the staff currently working on the St. Joseph’s campus in the system, requiring no reduction of staff.

With Acadia’s national recruitment department and well-established network of facilities in 40 states and Puerto Rico, Acadia is uniquely positioned to attract new clinical staff and physicians to the Mental Health Hospital. The members of Acadia’s recruitment teams have significant experience sourcing, contacting, and recruiting psychiatrists, physician assistants, and nurse practitioners, nurses and support staff. These results-oriented professionals serve as true partners with hospital CEOs, providing a single point of contact at the corporate level to identify staff needs and provide vetted lists of quality prospects. Acadia has a large and growing talent acquisition department focused on recruitment and professional and career growth.

Acadia is committed to training and development of staff at all levels. Acadia has a combination of ways in which employees are trained, i.e. individual, classroom or e-learning. This includes training sessions that pertain to all employees as well as job specific training. Due to the tight labor market and demand for talent all organizations are facing, Acadia’s training programs are centered around developing and promoting talent from within and growing the career path of existing staff. The Mental Health Hospital may have its own employee rewards programs as a key tool for staff engagement and retention.

Furthermore, the new Mental Health Hospital will leverage national staff and relationships with schools of nursing and academic institutions. Many Acadia partner facilities have developed partnerships with local graduate schools to provide robust internship programs for students studying relevant fields. In addition, most of Acadia’s partner facilities provide internship opportunities for a wide range of clinicians including nursing, psychology, social work, pharmacy, and counseling.

Conclusion

The Mental Health Hospital proposed by Fairview and Acadia will significantly improve much needed access to state-of-the-art facilities and treatment of psychiatric patients. The Mental Health Hospital will reduce the overwhelming burden on already taxed care delivery systems, alleviate the enormous pressure faced by emergency departments holding psychiatric patients in need of inpatient care, and focus on holistic quality patient care.