

STATE AGENCY ACTION REPORT
CON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

Fort Walton Beach Medical Center, Inc./CON #9474

d/b/a Fort Walton Beach Medical Center
1000 Mar-Walt Drive
Fort Walton Beach, Florida 32547

Authorized Representative: Wayne Campbell, CEO
(850) 862-1111

2. Service District/Subdistrict

District 1/Subdistrict 2 (Okaloosa County)

B. PUBLIC HEARING

A public hearing was not held or requested, nor were any letters of support for or letters of opposition to the project submitted.

C. PROJECT SUMMARY

Fort Walton Beach Medical Center, Inc. (CON #9474) proposes to add 20 acute care beds to the existing 179 acute care beds at Fort Walton Beach Medical Center (FWBMC), located in Fort Walton Beach in southern Okaloosa County. The hospital's acute care beds are currently configured into 81 medical/surgical beds, 23 ICU/CCU beds, 40 progressive care/telemetry (PCU) beds, 24 OB beds and 11 pediatric beds. FWBMC also operates 20 rehabilitation beds and 48 adult inpatient psychiatric beds for a total bed complement of 247 beds. The 20 additional beds sought will return the hospital acute care bed inventory to 199 beds, the number licensed prior to 1996. The hospital had previously reduced its acute care capacity from 199 beds to 161 beds in conjunction with the establishment of the comprehensive medical rehabilitation unit and an 18-bed skilled nursing unit (SNU). In April 1999 the facility received CON approval to convert the 18 SNU beds back to acute care use.

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FWBMC is currently in the midst of a large renovation project. The applicant-intends on shelling in space on the 4th floor of the hospital as part of the current construction project. The applicant states that this area will probably be used within the next five years to accommodate additional beds as needed. The present CON request will allow the applicant to complete its 4 East wing sooner than later by configuring the unit into 33 private medical/surgical beds: 20 new beds and 13 existing beds to be relocated from semi-private rooms on existing floors. The contractor for the project, projects construction savings of \$856,340 if the build-out (20,686 GSF) occurs concurrently with the current project rather than three years down the line. These savings amount to \$1,072,227 over a five-year build out (Fall 2006).

The applicant is requesting that as a condition of approval, it will donate a total of \$150,000 per year among several local charities, notably: Covenant Hospice, American Cancer Society, and United Way of Okaloosa/Walton Counties, Inc. The applicant notes it has agreed to this condition because it is more meaningful than proposing a very small percentage of its patient days to Medicaid and/or charity care. However, this is only true if the hospital only proposes a very small percentage.

The proposed project involves a total cost of \$4,931,758 and 20,686 GSF of new construction and \$2,482,320 in construction costs.

D. REVIEW PROCEDURE

The evaluation process is structured by the certificate of need review criteria found in Section 408.035, Florida Statutes, rules of the State of Florida, Chapters 59C-1 and 59C-2, Florida Administrative Code, and local health plans. These criteria form the basis for the goals of the review process. The goals represent desirable outcomes to be attained by successful applicants who demonstrate an overall compliance with the criteria. Analysis of an applicant's capability to undertake the proposed project successfully is conducted by evaluating the responses and data provided in the application, and independent information gathered by the reviewer.

Applications are analyzed to identify strengths and weaknesses in each proposal. If more than one application is submitted for the same type of project in the same district (subdistrict), applications are comparatively reviewed to determine which applicant(s) best meet the review criteria.

Rule 59C-1.010(2) (b), Florida Administrative Code, prohibits any amendments once an application has been deemed complete. The burden of proof to entitlement of a certificate rests with the applicant. As such, the applicant is responsible for the representations in the application. This is attested to as part of the application in the Certification of the Applicant.

As part of the fact-finding, the consultant, M. Riley Gibson, analyzed the application with consultation from the financial analyst, John C. Williamson, who reviewed the financial data and architect Joel Hill who evaluated the architectural and the schematic drawings.

E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA

The following indicate the level of conformity of the proposed project with the review criteria and application content requirements found in Sections 408.035, and 408.037; applicable rules of the State of Florida, Chapters 59C-1 and 59C-2, Florida Administrative Code; and Local Health Plans.

1. Fixed Need Pool

a. Does the project proposed respond to need as published by a fixed need pool? Or does the project proposed seek beds or services in excess of the fixed need pool? Ch. 59C-1.008(2), Florida Administrative Code.

On July 27, 2001, AHCA published a fixed need pool (FNP) in Volume 27, Number 30, Florida Administrative Weekly (F.A.W.) of zero (0) for additional hospital acute care beds in District 1, Subdistrict 2/Okaloosa County.

District 1, Subdistrict 2 had a total of 394 licensed beds that experienced an occupancy rate of 52.68 percent for the reporting period January 2000 through December 2000. There is currently an outstanding CON for 50 acute care beds approved for Sacred Heart Hospital of Pensacola (CON #9220) to construct a new 50-bed acute care hospital in Walton County, also in Subdistrict 2. The currently licensed 179 acute care beds at FWBMC reported an average occupancy of 65.31 percent for the same timeframe. The applicant's occupancy represents the highest reported utilization average of the four hospitals in Subdistrict 2 and the second highest utilization of all the hospitals in District 1.

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The average occupancy for acute care beds in Subdistrict 2 for calendar year 2000 was 52.68 percent. According to the most recent utilization data for the period July 2000 through June 2001 (preliminary), the 394 acute care beds in Subdistrict 2 experienced an average occupancy rate of 56.33 percent, while FWBMC experienced an average occupancy of 68.58 percent for the same time period. The preliminary utilization averages indicate a slight increase in acute care utilization for both FWBMC and the subdistrict.

The proposed project is not submitted in response to the fixed need pool, but rather, involves what the applicant perceives are special circumstances. These special circumstances presented by the applicant include a demand for acute care services within the hospital's service area which has increased significantly over the last five years due to population growth and aging, and growth in the facility's active medical staff. The applicant states that these same factors are expected to place additional demands upon acute care bed resources in the future.

b. Approval Under Special Circumstances; Rule 59C-1.038(5):

Regardless of the subdistrict's average annual occupancy rate, need for additional acute care beds at an existing hospital is demonstrated if the hospital's average occupancy rate based on inpatient utilization of all licensed acute care beds is at or exceeds 80 percent. The determination of the average occupancy rate shall be made based on the average 12 months occupancy rate for the reporting period specified in section (4) above. Proposals for additional beds submitted by facilities qualifying under this subsection shall be reviewed in context with the applicable review criteria in Section 408.035, Florida Statutes.

Based on the average 12-month occupancy rate reported by the applicant for the period January 2000 to December 2000, the hospital does not meet the 80 percent occupancy threshold with a reported occupancy average of 65.31 percent. The most recent preliminary utilization data as reported to the local health council for the July 2000 to June 2001 reporting period has FWBMC at 68.58 percent. The utilization data for both reporting periods does not show the hospital exceeding the 80 percent utilization threshold. The occupancy rate for all existing acute care hospital beds in Subdistrict 2 for calendar year 2000 was 52.68 percent and increased slightly to 56.33 percent for the most recent preliminary reporting period.

c. Other Special Circumstances:

In support of the project, the applicant states that as the demand for acute care beds has increased over the years at FWBMC and with the limited flexibility/availability of some beds due to their present configuration, the hospital has experienced progressive bed availability issues requiring that patients be held in the emergency department, sometimes overnight, until an appropriate bed becomes available. The applicant cites several occasions when the hospital had to also open its post-anesthesia recovery room to critical patients because of a backlog in moving stable critical patients to a step-down bed. The applicant states that these situations have become especially frequent this year, with 60 patients thus far held overnight in either the ER or the PACU awaiting a bed. The applicant contends that such delays decrease patient and physician satisfaction, timeliness of treatment, and the efficiency of the facility. The applicant states that peak demand months (January, February and March 2001) produced average occupancy rates exceeding 85 percent in medical/surgical, ICU and CCU beds. A review of the preliminary agency data for the July 2000-June 2001 reporting period reveal that during this quarterly period in 2001, total acute care beds at FWBMC were used at a 74.63 percent occupancy average. This average includes all acute care beds including OB, pediatrics, and progressive care beds.

The applicant states that a large part of the resource management strategy behind FWBMC's renovation/expansion project currently underway is to maximize the flexibility and accessibility of its existing acute care beds by creating more private beds. In practice, beds in the facility's double occupancy rooms often become blocked from use, depending upon gender, age, disease or isolation/infection control requirements, or other special needs (disruptive or dying patients, dialysis patients, patients with seeing eye dogs, etc.) which limit utilization of the second bed. Similarly, the third beds in each of the hospital's three remaining three-bed wards have long been considered phantom beds, unusable because of patient/physician/staff dislike of this bed configuration. The renovation/expansion project now underway will officially eliminate the three-bed rooms in favor of semi-private rooms and relocate these three beds elsewhere so that the hospital once again has all 179 of its licensed acute care beds at its disposal; the project will also create 55 more private beds by moving beds from some of the semi-private rooms.

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While the current renovation/expansion project is intended to help maximize the flexibility and accessibility of many of the hospital's existing beds, the applicant states that continued utilization increases anticipated from this service area indicate that this facility will eventually require additional acute care beds to be able to fully manage these service demands without losing patient days and market share. Another consideration involves the hospital's efforts to attract needed primary care and specialty physicians to the community. According to the applicant's data, the physician staff at FWBMC has increased from 111 physicians in 1996 to 134 physicians in 2000. The annual increase in physicians of 5.2 percent also matches the applicant's purported annual increase in utilization of the hospital's acute care beds.

The applicant provided the following table to demonstrate demand for current beds at FWBMC by designated acute care service for its peak yearly demand months of January through March.

**Days with 90 Percent or Higher Occupancy
January-March 2000 and 2001**

Acute Care Designation	Days	Year 2000	Year 2001
Medical/ Surgical	# Days	29	34
	% Days	32%	38%
ICU	# Days	42	59
	% Days	46%	66%
CCU	# Days	57	74%
	% Days	63%	82%
PCU	# Days	1	-0-
	% Days	1%	0%
Pediatrics	# Days	1	1
	% Days	1%	1%
Obstetrics	# Days	-0-	-0-
	% Days	0%	0%

Source: FWBMC Internal Data/CON page 15

As shown above, medical/surgical beds, ICU, and CCU special care units experienced the most days with 90 percent utilization or higher, while PCU, pediatrics and obstetrics experienced either minimal impact or no impact as a result of these peak utilization periods experienced by the hospital. The applicant's plans to downsize the PCU, OB and pediatric units through the conversion of double occupancy rooms to single occupancy and new single occupancy medical/surgical beds should help alleviate to some degree the occupancy demands on certain special care units as well as medical/surgical beds. The following table provides a breakdown of the hospital's current bed configuration and the proposed configuration following the renovation/expansion plan currently underway:

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Current Configuration of Acute Care Beds and Proposed Configuration following Current Renovation/Expansion

Acute Care Bed Configuration	Current Bed Configuration	Proposed Bed Configuration
Medical/Surgical	81 beds	88 beds
Intensive Care (ICU)	13 beds	13 beds
Critical Care (CCU)	10 beds	10 beds
CVICU	0 beds	6 beds
Progressive Care (PCU)	40 beds	33 beds
Obstetrics (OB)	24 beds	21 beds
Pediatrics (Ped)	11 beds	8 beds
Totals	179 beds	179 beds

The applicant admits that the renovation project currently underway will help alleviate current annual and peak season patient loads and provide a cushion for future increases in demand for ICU/CCU beds. However, the applicant still contends that there will be little margin to deal with growth in the demand for medical/surgical beds.

The applicant also contends that anticipated population growth in the subdistrict is expected to further aggravate the strain on FWBMC's acute care beds. Based on State of Florida population estimates for the two-county subdistrict, total population is expected to increase 10.4 percent between 2001 and 2006 with the largest increase in the 55-64 (30.4 percent) and 75 plus (25.3 percent) age cohorts.

The applicant also addresses the pending CON #9363 for open heart surgery, which is currently in litigation. The applicant contends that should this program be implemented, additional demands will be placed on the hospital's acute care beds. The applicant anticipates that the open heart program will raise the average daily census of the hospital by 4.7 patients in 2003 and 8.2 percent in 2005. However, the net effect of the new South Walton Hospital is expected to reduce the average daily census at FWBMC by 4.3 patients in 2003 and 13.6 patients by 2007. Thus, the proposed impact of the open heart surgery program at FWBMC is expected to be offset by the opening of the south Walton facility. Despite any potential impact by either of these actions, the applicant still contends that the hospital's occupancy rate will push 80 percent by the year 2007 unless additional beds are added.

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The applicant maintains that the proposed 20-bed addition will help to maintain its market share, the referral patterns existing in the service area, as well as the hospital's financial viability. The applicant further maintains that the project should not have any adverse impact on other hospitals in the service area since those are also expected to experience increases in patient day volumes in response to an increasing and aging population. In addition, the applicant describes the geographic barriers within the subdistrict that divide the population centers. As a consequence, the applicant contends that there is not strong competition anyway for patients among the four existing subdistrict hospitals. The geographic dispersion of facilities does tend to support this contention. North Okaloosa Medical Center is located in Crestview (25 miles from FWBMC), Health Mark Regional is a 50 bed facility located in Defuniak Springs (44 miles) and Twin Cities Hospital located in Niceville. Both FWBMC and Twin Cities Hospital are HCA affiliates. A new 50-bed acute care hospital (South Walton Hospital) is currently under construction in Santa Rosa Beach, approximately 24 miles from FWBMC.

The need for the proposed 20-bed addition at FWBMC is specifically premised by the applicant on current and anticipated utilization at the hospital. Annual acute care patient days at FWBMC have grown from 34,981 in 1996 to 42,865 in 2000. Over this five-year period, annual patient days declined once in 1998 but increased 9.5 percent the following year (1999). Over the past five years, the hospital has experienced an average annual increase of 1,971 patient days. The applicant contends that it is reasonable to expect that patient days will continue to grow at this pace. On this basis, the applicant projects acute care patient days, average daily census and occupancy at FWBMC through calendar year 2007 as follows:

Facility Based Patient Day Forecast: 2001-2007

Year	Patient Days	Change		ADC	Occupancy	
		Number	Percent		179 beds	199 beds
2001	44,836	1,971	4.6%	122.8	69%	62%
2002	46,807	1,971	4.4%	128.2	72%	64%
2003	48,778	1,971	4.2%	133.0	75%	67%
2004	50,749	1,971	4.0%	139.0	78%	70%
2005	52,720	1,971	3.9%	144.4	81%	73%
2006	54,691	1,971	3.7%	149.8	84%	75%
2007	56,662	1,971	3.6%	155.2	87%	78%

Source: CON application, page 20

Without the requested bed addition, the applicant is projecting that overall annual occupancy, including obstetrics and pediatrics, is expected to rise to 81 percent by 2005. With the 20-bed addition, the applicant anticipates annual occupancy will be reduced to a more manageable level of 73 percent by 2005.

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The trend analysis presented by the applicant does not take into consideration two factors: (1) the opening of Sacred Heart's 50-bed South Walton Hospital at the beginning of 2003, and (2) the potential impact of FWBMC's pending open heart surgery program. In Sacred Heart's proposal (CON #9220), it was projected that FWBMC would experience the following loss of patient days during the new facility's first five years of operation.

Year	Patient Days
2003	1,563
2004	3,172
2005	4,819
2006	4,892
2007	4,953

Source: CON, page 21

The applicant incorporated the above projected potential losses into its facility based forecast to show that under this scenario the net effect of the opening of the new South Walton Hospital would be to reduce the average daily census at FWBMC by 4.3 patients in 2003 (the first year) and 13.6 patients by 2007. The applicant contends that despite this potential impact, the hospital's annual occupancy rates are forecast to push 80 percent by the year 2007 if the hospital retains only 179 beds and reduced to 71 percent with the requested 20-bed addition. With the proposed location of the new South Walton Hospital now known and located approximately 24 miles from FWBMC, the applicant contends that the impact of the new facility should be minimal. In an effort to offset some of this loss to the new facility, the applicant also factors in the potential impact to its utilization of its open heart surgery program that is currently under appeal. Should the applicant be approved for this program, open heart surgery is expected to increase patient days at FWBMC by 1,705 (2003), 2,334 (2004), and 2,973 (2005). Based on these factors, the applicant is projecting the following average projected occupancy rates for both the current bed complement and the proposed bed complement:

Utilization Forecast Incorporating South Walton Impact and Open Heart Surgery

Year	179 Beds	199 Beds
2001	69%	62%
2002	72%	64%
2003	75%	67%
2004	76%	69%
2005	78%	70%
2006	81%	73%
2007	84%	75%

Source: CON, page 22

As shown above, and addressing both the South Walton Hospital factor and the open heart surgery factor, the applicant is projecting that the 20 proposed beds will reduce occupancies to 67 percent in 2003, rising to 75 percent in 2007. Assuming the open heart program is not approved, annual occupancy is expected by the applicant to range from 68 percent in 2003 to 71 percent in 2007.

The applicant reasonably demonstrated that FWBMC is experiencing capacity constraints in special care units during the peak quarter of the year (January-March). However, with regard to overall acute care beds, the average occupancy is less than the recommended 75 percent threshold. Although the applicant presented a "worst case" scenario regarding the potential impact of the new South Walton Hospital, it is the applicant's contention that the reduction of patient days at FWBMC will be partially offset by approval of its pending open heart surgery case. However, the fate of the open heart surgery proposal is unclear at this point.

Additionally, the applicant did not demonstrate that patients are experiencing a delay in admission to the hospital on a yearly basis. Although the proposed project would appear to be a cost-effective opportunity to add 20 new acute care beds and spread out other existing beds by building out the 33-bed patient care unit on 4 East, there is no clear indication that 20 additional beds will be needed.

2. Local Health Plan Preferences

Is need for the project proposed supported by the applicable district plan? ss. 408.035(1); 408037(1), Florida Statutes.

The Northwest Florida Health Council, Inc. has adopted the following acute care preferences for both competing and non-competing applications:

- (1) Preference shall be given to the CON applicant best demonstrating cost efficiency, and least increase to patient charges.**

The applicant states that the proposed project is designed to take advantage of cost savings by undertaking the project in conjunction with a renovation/expansion project now underway at FWBMC. Although the financial projections indicate that the project will incur losses through the first two years of operations,

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the project is expected to become self sufficient beyond that point. The applicant contends that its ability to realize savings in its construction costs will result in lower costs per bed, higher patient days reported, and thus lower costs per patient day in the next few years, which can then be reflected in lower patient charges.

- (2) Preference shall be given to CON applications based on joint ventures and shared services that mutually increase existing resource efficiency over unilateral CON applications.**

The project does not involve a joint venture or shared services.

- (3) Preference shall be given to CON applications for facilities specifying that patients will receive care regardless of the ability to pay over those not so specifying**

The applicant states its commitment to the preference. See Item 4i for discussion regarding the applicant's history of providing services to Medicaid patients and the medically indigent and the applicant's intent with regard to these groups.

- (4) Preference shall be given to CON applications specifying the provision of services to the greatest reasonable percentage of Medicaid and indigent patients. These commitments should be included on the granted CON as a condition of that CON.**

According to Financial Schedule 7A, approximately 10.4 percent of the total patient days to be provided in the expanded facility will be Medicaid sponsored and the equivalent of about 2.0 percent of total patient days will be provided to indigent patients. The applicant does not wish to accept a condition regarding the provision of Medicaid and/or charity care services.

- (5) Preference shall be given to CON applications for bed expansion to be added onto existing facilities over CON applications for the establishment and construction of a freestanding facility.**

The applicant intends to expand on an existing facility, thus meeting the intent of this preference.

- (6) **Preference shall be given to CON applicants that demonstrate a history of or a willingness to commit to provide health care services to patients with HIV/AIDS**

The applicant states that the hospital has in place all appropriate policies and operating procedures, as required by state law, to care for all patients, regardless of whether or not an HIV+ determination has been made.

According to the applicant, FWBMC served 21 known AIDS patients during the 12-month period ending September 30, 2000.

- (7) **Preference shall be given to CON applications to convert bed types with low utilization to bed types of higher utilization within the facility.**

The hospital's current renovation/expansion project will reconfigure existing acute care beds, recognizing a need for more critical care beds. This reconfiguration should help alleviate capacity constraint problems in several areas of the hospital. However, the applicant contends that the 20-bed addition is needed to meet future needs and improve operational efficiencies.

- (8) **Preference shall be given to an applicant proposing a bed transfer from one licensed hospital to another licensed hospital who demonstrates that the overall occupancy rate at both facilities will increase as a result of the transfer.**

The proposed project does not involve a transfer of beds between facilities.

- (9) **Preference shall be given to an applicant who demonstrates that the transfer of beds from one licensed hospital to another licensed hospital is necessary to maintain or improve the quality and amount of care currently provided to the district's indigent population.**

The proposed project does not involve a transfer of beds between facilities.

- (10) Preference shall be given to an applicant who demonstrates that the transfer of beds from one licensed hospital to another licensed hospital is necessary to ensure that services meet licensure standards.**

The proposed project does not involve a transfer of beds between facilities.

- (11) Preference shall be given to an applicant who demonstrates that the transfer of beds from one licensed hospital to another licensed hospital will not adversely impact the Medicare and private pay markets of area hospitals providing a disproportionate share of charity care and Medicaid patient days.**

The proposed project does not involve a transfer of beds between facilities.

- (12) Preference shall be given to an applicant who will be able to improve the physical plant of an existing facility as a result of the bed transfer from one licensed hospital to another licensed hospital.**

The proposed project does not involve a transfer of beds between facilities.

- (13) Preference shall be given to an applicant who proposes to locate transferred beds from one licensed hospital to another licensed hospital in an area that will improve access to Medicaid and indigent patients.**

The proposed project does not involve a transfer of beds between facilities.

- (14) Preference shall be given to a CON applicant who proposes the conversion of an acute care hospital to a critical access hospital.**

The proposed project does not involve the conversion of an acute care hospital to a critical access hospital.

- (15) **Preference shall be given to a CON applicant who will commit to provide quality services based on internal evaluation criteria including ongoing training with an emphasis on ethics of health care professionals on their staff.**

FWBMC is a JCAHO and CARF accredited hospital with various programs in place to monitor, evaluate and improve the level and quality of services provided by the hospital. Such programs include the Performance Improvement Program, the Utilization Management Plan and the Plan for the Provision of Care.

3. Agency Rule Preferences

Does the project respond to preferences stated in agency rules? Indicate how each applicable criteria for the type of service proposed is met. Ch. 59C-1.031-.044, Florida Administrative Code.

The following criteria and standards found in Chapter 59C-01.038(6) of the Florida Administrative Code are applicable to a request for additional acute care beds:

- a. **Priority consideration for initiation of new acute care services or capital expenditures shall be given to applicants with a documented history of providing services to medically indigent patients or a commitment to do so.**

According to the 1999 Hospital Financial Data Guide, FWBMC provided 9.3 percent of its total patient days to Medicaid patients and 1.4 percent to charity care patients. These percentages are less than District 1 averages of 14.1 percent for Medicaid and 1.7 percent for respectively for charity care and the Subdistrict 2 average of 10.1 percent for Medicaid. FWBMC provided a slightly higher percentage of charity care than the subdistrict average of 1.2 percent.

According to Financial Schedule 7A, approximately 10.4 percent of the total patient days to be provided in the expanded facility will be Medicaid sponsored and the equivalent of about 2.0 percent of total patient days will be provided to indigent patients. The applicant does not wish to accept a condition regarding the provision of Medicaid and/or charity care services. FWBMC is not a Medicaid disproportionate share provider.

- b. When there are competing applications within a sub-district, priority consideration shall be given to the applications, which meet the need for additional acute care beds in a particular service through the conversion of existing underutilized beds.**

There are no competing applications within the subdistrict. The project is being filed under facility specific provisions of the rule based on facility specific utilization considerations at FWBMC. The applicant contends that the proposed 20-bed addition is needed above and beyond the capacity, which can be provided through increased utilization of existing beds.

4. Statutory Review Criteria

- a. Is need for the project evidenced by the availability, quality of care, efficiency, accessibility and extent of utilization of existing health care facilities and health services in the applicant's service area? ss. 408.035(2), 408.035(7), Florida Statutes.**

As previously noted, acute care utilization averaged only 52.68 percent among the four hospitals in Subdistrict 2 during calendar year 2000, which does not yield a numeric need for additional beds. However, the applicant contends that when FWBMC's occupancy is examined more closely, a persuasive case is made for taking advantage of the present low cost opportunity to build out an additional patient floor to accommodate 20 new beds and to spread out some of the hospital's existing beds.

FWBMC reasonably demonstrated that it has experienced increases in the number of patient days provided over the past five years, matched by increases in the number of physicians on its active medical staff. The applicant reports an average acute care utilization of 69.6 percent for the period September 2000-August 2001. This is only slightly higher than the preliminary utilization data received from the local health council for the period July 2000-June 2001, which reveals an average utilization for FWBMC of 68.58 percent. The acute care utilization average at FWBMC represents the highest utilized hospital in Subdistrict 2 and the second highest utilized hospital in District 1. However, the hospital's average utilization is still less than the facility specific recommended average of 80 percent and the recommended district average of 75 percent. The applicant reasonably demonstrated that any current acute care capacity constraints will be largely alleviated by the reconfiguration of beds and services via the expansion and renovation project currently underway at the hospital. The applicant also reasonably demonstrated that based on population

growth in the area and peak utilization months, the requested 20 beds will enhance the availability and accessibility of acute care services as well as the quality of care provided by the hospital. However, the actual impact of the new South Walton Hospital to be completed in 2003 and the outcome of the applicant's appeal regarding the proposed open heart surgery program on the hospitals projected utilization is questionable.

The current renovation project underway at FWBMC is expected to maximize the flexibility and accessibility of the hospital's existing beds, thus enhancing efficiency. The proposed 20-bed addition is proposed as a cost-effective measure that can be accomplished within the renovation project currently underway and address what the applicant perceives as future need for additional beds at the facility. However, need for the project is not evidenced by the availability, quality of care, efficiency, accessibility and extent of utilization of existing health care facilities in this area.

b. Does the applicant have a history of and demonstrated the ability to provide quality care? ss. 408.035(3), 408.035(12), Florida Statutes.

The applicant reasonably demonstrates that it has a history of providing quality of care. The hospital is currently JCAHO accredited and meets all licensure requirements of the State of Florida. FWBMC is also CARF accredited. The applicant states that the hospital has established and maintains a comprehensive performance improvement program. This program monitors the assessment and improvement of the quality of the hospital's governance, management, clinical, and support processes. The hospital also has developed a comprehensive "Plan for the Provision of Patient Care". This document provides descriptions of the manner in which care is to be provided at the hospital and is designed to support improvement and innovation in patient care services, patient outcomes, and patient satisfaction.

A review of licensure records, indicates that FWBMC had no uncorrected deficiencies.

- c. **Is the applicant proposing special health care services for its service area that are not reasonably and economically accessible in adjacent service areas? ss. 408.035(4), Florida Statutes.**

The proposed project does not involve special health care services that are not reasonably or economically accessible in adjacent districts.

- d. **Is the project to be located in a research or teaching hospital? Will the program affect the clinical needs of health professional training programs in the service area? ss. 408.035(5), Florida Statutes.**

FWBMC is not a statutorily defined teaching hospital, nor is its primary purpose research or physician education. However, the applicant states that the hospital does have a positive effect upon the clinical needs of health professional training programs in the service area through the provision of opportunities for clinical rotations for medical residents, nursing students, and nurses aides. The hospital currently has agreements with various schools and programs in the area including: Eglin Air Force Base, Pensacola Jr. College, University of West Florida, Okaloosa Applied Technical Center, Jefferson Davis College, Florida State University, University of South Alabama, Okaloosa Walton Community College, and Walton Vocational Tech.

- e. **What resources, including health manpower, management personnel, and funds for capital and operating expenditures, are available for project accomplishment and operation? ss. 408.037(6), Florida Statutes.**

The audited financial statements for the periods ending December 31, 2000 and 1999 were analyzed for the purpose of evaluating the applicant's ability to provide the capital and operational funding necessary to implement the project. The following is a list of accounts and ratios used in the analysis:

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Applicant's Financial Accounts and Ratios

	12/31/2000	12/31/1999
Current Assets	\$ 18,174,491	\$ 14,439,999
Cash and Current Investment	\$ 0	\$ 0
Assets Restricted for Capital Projects	\$ 0	\$ 0
Total Assets	\$ 95,639,878	\$ 71,617,557
Current Liabilities	\$ 8,566,910	\$ 8,974,353
Total Liabilities	\$ 8,566,910	\$ 8,974,353
Total Equity	\$ 87,072,968	\$ 62,643,204
Net Operating Revenues	\$ 121,942,911	\$ 106,341,151
Interest Expense	\$ 14,490	\$ 26,922
Net Profit – Operations	\$ 35,187,452	\$ 23,163,009
Net Income	\$ 24,429,764	\$ 15,553,169
Cash Flow from Operations	\$ 25,409,742	\$ 25,196,036
Working Capital	\$ 9,607,581	\$ 5,465,646
Current Ratio (CA/CL)	2.1	1.6
Cash Flow to Current Liabilities (CFO/CL)	3.0	2.8
Long-Term Debt to Equity (TL-CL/TE)	0.0	0.0
Times Interest Earned (NPO+Int/Int)	2429.4	861.4
Equity to Total Assets (TE/TA)	91.0%	87.5%
Operating Margin (NPO/NOR)	28.9%	21.8%
Total Margin (NI/NOR)	20.0%	14.6%
Return on Assets (NI/TA)	36.8%	32.3%
Operating Cash Flow to Assets (CFO/TA)	26.6%	35.2%

Short-term position:

Fort Walton Beach Medical Center's current ratio of 2.1 is near the average of other Florida hospitals. The working capital (current assets less current liabilities) of \$9.6 million is adequate in relation to the entity's size. The ratio of cash flow to current liabilities of 3.0 is strong. Overall, the applicant has a good short-term position.

Long-term position:

The ratio of long-term debt to equity of 0.0 and the ratio of cash flows to assets of 26.6 percent is strong. The most recent year had net income of \$24.4 million, resulting in a profit margin of 20.0 percent, a strong position. Total equity is \$87 million with the ratio of equity to assets 91.0 percent, also a very strong position. Overall, the applicant has a strong long-term position.

Capital requirements:

Schedule 2 indicates capital projects of \$37.7 million.

Available capital:

Funding for these projects will come from \$24.1 million cash in hand and \$13.6 million from funds assured but not in hand. The applicant states that funding for all projects will come from HCA, the parent of the applicant. A commitment letter from HCA was provided as well as HCA's June 30, 2001 10-Q and December 31, 2000 10-K. The 10-K Report filed with the SEC for the period ended December 31, 2000 disclosed \$1.5 billion in cash flows and approximately \$888 million available under HCA's revolving credit facility.

Conclusion:

Based on the audited financial statements of the applicant and HCA's 10-K Report, funding for this project and for all other capital projects should be available as needed.

f. What is the immediate and long term financial feasibility of the proposal? ss. 408.037(8), Florida Statutes.

A comparison of the applicant's estimates to the control group values provides for an objective evaluation of financial feasibility, (the likelihood that the services can be provided under the parameters and conditions contained in Schedules 7 and 8), and efficiency, (the degree of economies achievable through the skill and management of the applicant). In general, projections that approximate the median are the most desirable, and balance the opposing forces of feasibility and efficiency. In other words, as estimates approach the highest in the group, it is more likely that the project is feasible, because fewer economies must be realized to achieve the desired outcome. Conversely, as estimates approach the lowest in the group, it is less likely that the project is feasible, because a much higher level of economies must be realized to achieve the desired outcome. These relationships hold true for a constant intensity of service through the relevant range of outcomes. As these relationships go beyond the relevant range of outcomes, revenues and expenses may, either go beyond what the market will tolerate, or may decrease to levels where activities are no longer sustainable.

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Comparative data were derived from hospitals in peer groups that reported data in 1999; the applicant will be compared to the hospitals in peer group 2. Per diem rates are projected to increase by an average of 3.5 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

Projected net revenues per adjusted patient day (NRAPD) of \$1,399 in year one and \$1,456 in year two are between the control group median and highest values of \$1,313 and \$2,009 in year one and \$1,349 and \$2,063 in year two. The highest level is generally viewed as the practical upper limit on economies of operation. With net revenues falling between the median and highest level, the facility is expected to consume health care resources in proportion to the services provided. The 1999 actual NRAPD for this hospital was \$1,162, between the control group median and highest values of \$1,017 and \$1,607 in that year.

Projected cost per adjusted patient day of \$1,034 in year one and \$1,080 in year two is between the group lowest and median values of \$1,010 and \$1,228 in year one and \$1,037 and \$1,261 in year two. Compared to the control group these costs are efficient. The 1999 actual data reported Fort Walton Beach Medical Center's costs per adjusted patient day of \$857, between the group lowest and median values of \$811 and \$995.

The year two operating profit for the hospital of \$37.2 million computes to an operating margin per adjusted patient day of \$376 which falls between the group median and highest values of \$30 and \$462. The computed operating margin ratio is 25.8 percent. The 1999 actual data reported an operating margin ratio of 26.2 percent. This application appears to be financially feasible.

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Comparative Table

CON # 9474					
Ft Walton Beach Medical Ctr., Inc.	2005	YEAR 2	INFLATION		
1999 DATA Peer Group 2	YEAR 2	ACTIVITY	ADJUSTED VALUES		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	51,344,392	518	782	481	316
INPATIENT AMBULATORY	3,244,655	33	120	41	22
INPATIENT ANCILLARY SERVICES	287,424,261	2,902	2,811	1,865	1,016
OUTPATIENT SERVICES	174,968,713	1,766	2,548	1,329	732
OTHER OPERATING REVENUE	558,545	6	46	7	1
TOTAL REVENUE	517,540,566	5,225	5,779	3,704	2,184
DEDUCTIONS FROM REVENUE	373,315,775	3,769	*	*	*
NET REVENUES	144,224,791	1,456	2,063	1,349	833
EXPENSES					
ROUTINE	23,246,807	235	321	196	150
ANCILLARY	26,508,368	268	577	433	251
AMBULATORY	4,405,418				
OVERHEAD	52,829,205	533	820	597	425
OTHER	0	0			
TOTAL EXPENSES	106,989,798	1,080	1,612	1,261	1,037
OPERATING INCOME	37,234,993	376	462	30	211
		25.8%			
PATIENT DAYS	66,979		NOT INFLATION ADJUSTED		
ADJUSTED PATIENT DAYS	99,052				
TOTAL BED DAYS AVAILABLE	97,455				
ADJ. FACTOR	0.6762				
TOTAL NUMBER OF BEDS	267				
PERCENT OCCUPANCY	68.7%		80.3%	59.0%	27.2%
PAYER TYPE	PATIENT DAYS	% TOTAL			
MEDICARE	39,775	59.4%	77.0%	59.5%	39.2%
COMMERCIAL	1,958	2.9%			
MEDICAID	6,905	10.3%	18.8%	8.3%	2.0%
PRIVATE	1,970	2.9%			
HMO/PPO	15,530	23.2%	45.0%	20.0%	8.0%
OTHER	840	1.3%			
TOTAL	66,978	100.0%			

- g. Will the proposed project foster competition to promote quality and cost-effectiveness? ss. 408.035(9), Florida Statutes.**

The applicant projects managed care to represent 23.2 percent of its patient days. This is between the control group median and highest level of activity of 20.0 percent and 45.0 percent. Fort Walton Beach Medical Center's actual reported 1999 level was 18.0 percent. The projected levels, if realized, may have a positive impact on competition to promote quality assurance and cost-effectiveness.

- h. Are the proposed costs and methods of construction reasonable? Do they comply with statutory and rule requirements? ss. 408.035(10), Florida Statutes; Ch. 59A-3 or 59A-4, Florida Administrative Code.**

The Fort Walton Beach Medical Center is currently in the process of adding significant square footage to the existing facility. The space required for this proposal is currently under construction as empty shell space. The costs indicated for this CON request are essentially the funds projected to complete the interior build-out of the portion of the shell space that will house the proposed new beds. There would also be some adjustment of existing patient rooms to improve efficiency. For instance, three patient rooms currently housing three patients each will be converted to semi-private rooms and the extra beds will be relocated. Costs for this kind of internal renovation are minimal when compared to the expense of building out the shell space.

Should this CON request not be granted, the space (4th Floor East) will continue to be built according to current plans. However, there will be a significant cost saving for the hospital of over \$856,000 if this space is built-out concurrently with the ongoing project and put into service as acute care beds with the required ancillary functions.

Overall the project is basic and straightforward and the arrangement and room configuration is consistent with the layout of the existing hospital. The areas that will be affected by this request are efficient and functional with good spatial relationships to all service functions.

The proposed project, as submitted, does not pose any architectural concerns. The proposed costs appear to be reasonable, based on the fact that the shell space for this proposal is already budgeted and under construction. Denial of this request will not change the scope of the current project, but would result in increased construction costs as stated above if the acute care beds were to be added after the construction in progress is completed.

- i. **Does the applicant have a history of providing health services to Medicaid patients and the medically indigent? Does the applicant propose to provide health services to Medicaid patients and the medically indigent? ss. 408.035(11), Florida Statutes.**

According to the 1999 Hospital Financial Data Guide, FWBMC provided 9.3 percent of its total patient days to Medicaid patients and 1.4 percent to charity care patients. These percentages are less than District 1 averages of 14.1 percent and 1.7 percent respectively and the Subdistrict 2 average of 10.1 percent for Medicaid. FWBMC provided a slightly higher percentage of charity care than the subdistrict average of 1.2 percent.

According to Financial Schedule 7A, approximately 10.4 percent of the total patient days to be provided in the expanded facility will be Medicaid sponsored and the equivalent of about 2.0 percent of total patient days will be provided to indigent patients. The applicant does not wish to accept a condition regarding the provision of Medicaid and/or charity care services. FWBMC is not a Medicaid disproportionate share provider.

F. SUMMARY

Fort Walton Beach Medical Center, Inc. (CON #9474) proposes to add 20 acute care beds to the existing 179 acute care beds at Fort Walton Beach Medical Center (FWBMC), located in Fort Walton Beach in southern Okaloosa County. The 20 additional beds sought will return the hospital acute care bed inventory to 199 beds, the number licensed prior to 1996.

The applicant is proposing to add 20 new acute care beds in conjunction with a renovation project aimed in part to eliminate three-bed wards at the hospital and create more private rooms. The contractor for the project projects construction savings of \$856,340 if the build-out (20,686 GSF) occurs concurrently with the current project rather than three years down the line. These savings amount to \$1,072,227 over a five-year build out (Fall 2006).

The applicant is requesting that as a condition of approval, it will donate a total of \$150,000 per year among several local charities, notably: Covenant Hospice, American Cancer Society, and United Way of Okaloosa/Walton Counties, Inc.

The proposed project involves a total cost of \$4,931,758 and 20,686 GSF of new construction and \$2,482,320 in construction costs.

After weighing and balancing all relevant criteria, the following issues are presented:

Need:

- The proposed project is not submitted in response to the fixed need pool that indicates zero need for additional acute care beds in District 1, Subdistrict 2.
- The applicant presents "not normal", hospital-specific special circumstances that include the lack of bed capacity at FWBMC due to increasing utilization, the area's population growth, the cost-efficiency of adding the beds now, and the seasonal influx of residents to demonstrate need for an additional 20 acute care beds.
- Although the applicant reasonably demonstrated some capacity restraints, it did not demonstrate that patients are or will experience a delay in admission to the hospital or that access is being denied based on a shortage of beds.

Quality of Care:

- The applicant reasonably demonstrates that it has a history of providing quality of care, an indication being the hospital's JCAHO accreditation and compliance with all licensure requirements of the State of Florida. The applicant also reasonably describes its current performance improvement program.
- The current project and inclusion of the proposed addition is designed to upgrade existing programs and reduce operating stresses. This in turn should enhance the quality of care provided by the hospital.

Cost/Financial Analysis:

- The applicant's audited financial statements provide evidence of a strong financial position. Based on the applicant's financial position and the support of the parent company (HCA), funding for the proposed project and all other capital projects is assured.

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- With net revenues falling between the median and the highest level, the facility is expected to consume health care resources in proportion to the services provided. The applicant appears to be financially feasible.
- The project managed care level of 23.2 percent, if realized, may have a negative impact on competition to promote quality assurance and cost-effectiveness.

Medicaid/Indigent Charity Care Commitment:

- The hospital's Medicaid and charity care allowances is less than the District 1 averages. The applicant is not a Medicaid disproportionate share provider for State Fiscal Year 2000-2001.
- The applicant projects that 10.4 percent of the total projected patient days will be provided to Medicaid patients and the equivalent of about 2.0 percent of total patient days will be provided to indigent patients. The applicant does not wish to accept a condition regarding the provision of Medicaid and/or charity care services.

Architectural Analysis:

- The proposed project is basic and straightforward and the arrangement and room configuration is consistent with the layout of the existing hospital. The areas that will be affected by the proposed request are efficient and functional with good spatial relationships to all service functions. The proposed project, as submitted, does not pose any architectural concerns. The proposed costs appear to be reasonable, based on the fact that the shell space for this proposal is already budgeted and under construction. Denial of this request will not change the scope of the current project, but would result in increased construction costs as stated above if the Acute Care beds were to be added after the construction in progress is completed.

G. RECOMMENDATION

Deny CON #9474.

AUTHORIZATION FOR AGENCY ACTION

Authorized representatives of the Agency for Health Care Administration adopted the recommendation contained herein and released the State Agency Action Report.

DATE: _____

Karen Rivera
Health Services and Facilities Consultant Supervisor
Certificate of Need

Jeffrey N. Gregg
Chief, Bureau of Health Facility Regulation