

**STATE AGENCY ACTION REPORT**  
**CON APPLICATION FOR CERTIFICATE OF NEED**

**A. PROJECT IDENTIFICATION**

1. Applicant/CON Action Number

**Marion Community Hospital, Inc./CON #9477**

d/b/a Ocala Regional Medical Center  
1431 SW 1<sup>st</sup> Avenue  
Ocala, Florida 34478

Authorized Representative: Paul McCall, Consultant  
175 Salem Court  
Tallahassee, Florida 32301  
(850) 222-1625 ext. 103

2. Service District/Subdistrict

District 3/Subdistrict 4 (Marion County)

**B. PUBLIC HEARING**

A public hearing was not held or requested. However, the applicant did submit letters of support for the proposed project from 14 area physicians. A letter of opposition to the project was submitted by Munroe Regional Health System.

The majority of the support letters attest to the need for additional beds to meet area demand. The letter of opposition expresses concern with the large number of acute care beds coming on line in the county over the next two years and the potential detrimental impact additional beds will have on Munroe Regional's future occupancy levels and financial performance.

**C. PROJECT SUMMARY**

**D. Marion Community Hospital, Inc. (CON #9477)** proposes to add 18 acute care hospital beds to Ocala Regional Medical Center (Ocala Regional). Ocala Regional is currently licensed for 210 acute care beds and 20 skilled nursing beds for a total of 230 beds. However, previously issued CON #9228 authorizes the conversion of 20 skilled nursing beds (SNU beds), and the addition of 40 new acute care beds for the purpose of constructing a new satellite hospital in Marion County. An additional 10 licensed acute care beds are also authorized to move from the downtown campus to the satellite facility, giving it a total complement of 70 acute care beds. In the absence of the proposed project, the downtown campus will be reduced to 200 licensed beds by January 2003, the expected opening month/year for the new satellite hospital.

There is no renovation or construction associated with this project. The additional beds will be accommodated within the hospital, which has just completed a major renovation and expansion project. The only aspect of the downtown building that will change as the result of the project will be the patient room configuration. The project involves a total cost of \$30,375, involving project development costs only (consultants fees and CON application fee).

The applicant does not wish to accept any conditions relative to the proposed project.

**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, Roger Bell 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 Statutes.**

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 3, Subdistrict 4/Marion County.

District 3, Subdistrict 4 has a total of 533 licensed beds that experienced an occupancy rate of 78.84 percent for the reporting period January 2000 through December 2000. The currently licensed 75 acute care beds at Ocala Regional reported an average occupancy of 73.76 percent for the reported timeframe. The only other hospital within the subdistrict, Munroe Regional Medical Center, reported an average occupancy rate of 82.13 percent.

The proposed project is not submitted in response to the fixed need pool, but rather, involves what the applicant perceives are "not normal" circumstances.

These "not normal" circumstances are specific to the hospital and basically relate to increases in utilization, the area's population growth, and the seasonal influx of residents.

**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 falls short in meeting the 80 percent occupancy threshold with a reported occupancy average of 73.76 percent. Based on the most recent 12-month utilization data for the period July 2000-June 2001 (unpublished), Ocala Regional reported an average occupancy rate of 77.83 percent.

**c. Other Special Circumstances:**

The applicant contends that there are not normal circumstances in Subdistrict 4, which justifies approval of the 18 additional acute care beds requested. In particular, the applicant states that population growth in the sub-district has produced a situation where even as additional beds are approved and under construction, projected patient day estimates indicate there will be an unreasonable burden placed on Ocala Regional's acute care beds in the near future. The applicant contends that although Ocala Regional's acute care beds do not meet the 80 percent threshold stated in the special circumstances provision, the current rate has already caused the hospital to experience considerable operational difficulties, especially during the peak season. Additionally, the applicant contends that with the projected growth of the population in the service area over the next five years, particularly among the elderly, additional beds must be approved now in order to prevent serious disruptions in service delivery in the future. The applicant further contends that even with 158 currently approved beds for the sub-district, seasonal occupancy rates could run as high as 95 percent by the winter quarter of 2005, and close to 99 percent by 2007, if the proposed bed addition is not approved.

**CON Action Numbers: 9477**

The following table provides an overview of the approved acute care beds in the subdistrict by facility and chronological CON numbers:

**CON Acute Approved Beds for District 3/Subdistrict 4**

<b>Hospital</b>	<b>Net Acute Beds Added</b>	<b>CON Identification</b>
Munroe Regional	75	9072
Ocala Regional	-10	9228
Marion Community (new)	70	9228
Munroe Regional	23	9393
Total	158 beds	

Source: Hospital Bed Need Projections, Vol. One/Inventory/07/27/01/page 103

The applicant's analysis in support of the project addresses the following areas:

- service area definition and facility use distribution patterns;
- analysis of population characteristics, historic and projected growth.
- acute care bed need forecasts;
- and, the expected impact on existing area hospitals.

**Service Area Definition.** The applicant states that Ocala Regional draws a majority of its patient population from Marion County. According to the applicant, during the 12-month period ending September 2000, 86 percent of the hospital's patient population resided in Marion County. The applicant expects this trend to continue with only 14 percent of cases derived from outside the service area (county).

The applicant states that almost 85 percent of Marion County residents seek hospital care within Marion County, with the majority (53 percent) discharged from Munroe Regional and 32 percent from Ocala Regional. This distribution is expected since Munroe Regional had in operation at that time 113 more beds than Ocala Regional. Another 9.6 percent of residents were discharged from hospitals in adjacent Alachua County.

Marion County population characteristics show an increasing population within the county that in most age categories exceeds projections in District 3 as well as the state. Although Marion County has the highest population in District 3, it is not the county in the district that is growing the fastest.

**CON Action Numbers: 9477**

The 2000 census data contained on the Governor's Internet website, "myflorida.com" at <http://www.labormarketinfo.com/census2000/PL94-171/fl-pl94-171/PCTCHANGE.doc> shows that for the period 1990 to 2000 Marion County's total population increased by 32.9 percent compared to an overall state population increase of 23.5 percent. Although data indicate that Marion County's population is growing at a faster rate than the state as a whole, AHCA population estimates and census data show that it is not growing or projected to grow in total population or in any age cohort, including the 75 and older age cohort, as fast as many other population areas in the state. For example, actual census data for other District 3 counties such as Gilchrist, Lake, Levy, and Sumter show that these counties experienced the same or higher overall percentage increases as Marion County during the same period of 49.3, 38.4, 32.9, 68.9 percent respectively. The applicant contends that the rapid increase in population in the service area underlies the projected patient days associated with the project and the calculated need for additional acute care beds.

**Acute Care Bed Demand Forecasts for Ocala Regional.** The applicant developed projections of demand for acute care beds in Marion County and at Ocala Regional based on the following assumptions:

- Utilization of inpatient hospital services among Marion County residents by age cohort will remain constant throughout the projection period;
- Ocala Regional's share of Marion County resident patient days will remain constant throughout the projection period;
- Ocala Regional will continue to deliver the same proportion of care in the future to persons from outside Marion County (13.7 percent) as experienced during the 12-month period ending September 2000.
- The 98 currently approved beds for Monroe Regional will begin operation in the summer of 2002;

## CON Action Numbers: 9477

- Ocala Regional's satellite facility of 70 beds will also begin operation in the summer of 2002;
- The Villages at Lady Lake, a 60-bed acute care hospital in Sumter County, will open, with 2003 being its first full year of operation.

The applicant used State of Florida generated population projections by age cohort to forecast a number of patient days using age specific use rates for the service area (Marion County).

The applicant's approach also considers several extenuating circumstances previously noted. The first circumstance involves the new 60-bed Villages at Lady Lake Hospital, located in Sumter County, just over the southern boundary of Marion County (CON #9075). This new facility, expected to initiate operations in 2003, originally projected to serve three zip areas in Marion County (32179, 34491, and 34492) as part of its primary service area, and five Marion County zip areas as part of its secondary service area (34420, 34421, 34472, 34476, and 34480). The Villages expects to attract an increasing share of acute care patients from these areas and assumed 20, 30 and 40 percent of the forecasted cases from the primary service area (PSA) from 2003 to 2005 and 1.9, 2.9 and 3.9 percent respectively from the secondary service area (SSA). In calculating area need, the applicant removed these projected shares from the projection of potential patient days. The remaining available patient days were then allocated to the hospitals that have traditionally served the area, with Munroe Regional taking the largest percent (53.2 percent) and Ocala Regional taking 31.2 percent (the remaining 15.7 percent represent Alachua County hospitals and other). The allocated percentage of patient days for Ocala Regional is then further affected by other circumstances, including Ocala Regional's inability to achieve optimal use of its bed capacity due to ongoing construction since 1997. The applicant contends that this downward trend has slowed or reversed with completion of construction work at the hospital and contends that the percent of Marion County resident discharges at Ocala Regional in 1997 (37.4 percent) better reflects the actual market share rather than the 32.4 percent for 2000. In addition, the applicant approximates that 13.7 percent of Ocala Regional's patient population will be derived from outside the service area. The applicant did not acknowledge that Ocala Regional also had more beds in operation in 1997 than it does today which could have an impact on market share, especially with the availability of more beds during peak times.

The last circumstance considered by the applicant in calculating future need involves Ocala Regional's new 70-bed satellite facility under construction in the southwest portion of Marion County and scheduled to begin operation in 2002.

**CON Action Numbers: 9477**

As previously discussed, this newest acute care facility in the county is a result of the conversion and transfer of 30 beds<sup>1</sup> from Ocala Regional and the approval of 40 new beds. This facility is expected to take 75 percent of Ocala Regional's patient population that resides in the southwest region of the county. With Ocala Regional deriving 24.2 percent of its total patient days from this area, the new hospital will have a dynamic impact, reducing potential Ocala Regional patient days from 71,209 to 58,260 days, assuming the approval of the 18 requested beds. Even with the loss of these patient days the applicant contends that without the 18-bed addition, the hospital will still come close to operationally difficult occupancy levels. The following gives the expected average daily census (ADC) and occupancy levels, with and without approval of the requested project.

**Projected ADC and Occupancy at Ocala Regional**

<b>Year</b>	<b>ADC</b>	<b>Occupancy at 200 beds</b>	<b>Occupancy at 218 beds</b>
2003	160	79.85%	73.2%
2004	162	80.8%	74.1%
2005	164	82.1%	75.3%
2006	169	84.3%	77.3%
2007	173	86.4%	79.2%

Source: CON application/page 18

The applicant is anticipating 63,053 patient days in 2007 in the 200<sup>2</sup> acute care beds, an increase of 3,394 patient days over those reported during the period July 1, 2000 through June 30, 2001 in the 210 beds. Occupancy in the total 200 acute care beds in 2007 is therefore projected at 86.4 percent as shown in the chart above. The total occupancy in the 70-bed satellite hospital in 2007, is not known. However, according to the original CON proposal submitted for the satellite facility in October 1999 (CON #9228), the satellite facility is projected to have an occupancy rate of 74.4 percent based on total projected patient days that includes both the service area days and out-of-area days.

<sup>1</sup> Ten acute care beds and 20 hospital-based skilled nursing unit beds equals a total of 30 beds being delicensed at Ocala Regional.1

<sup>2</sup> The new 70-bed hospital is expected to be licensed, therefore the main facility acute care bed inventory will be reduced by 10 beds to equal 200 acute care beds.

**Impact on Existing Facilities.** It appears that Munroe Regional Medical Center, as the only other acute care hospital located in the subdistrict, is likely to be impacted by the addition of 18 acute care beds at Ocala Regional. This could be especially true with the addition of 98 new acute care beds at Munroe Regional via CON #9072 (75 beds) and CON #9293 (23 beds) and a shift in patients from Ocala Regional due to construction limitations. However, the applicant contends that the expected increase in population in the county will offset any serious impact on Munroe Regional's occupancy levels. As alluded to in the public hearing section of this SAAR, Munroe Regional Health System objects to the proposed project in view of a perceived negative impact on Munroe Regional's utilization. Munroe Regional argues that Ocala Regional's real capacity is 230 beds, which includes the 20-bed SNU that was previously approved for conversion to acute care but were essentially closed and never brought on line. Munroe Regional contends that had these beds been activated for acute care use, less pressure would have been placed on hospital beds within the community, especially during the peak seasonal months. Munroe Regional's position is that the agency not approve any additional acute care beds for the subdistrict until at least twelve months after all beds currently under construction are in place and actual bed utilization data becomes available. Munroe Regional further states that in the event Ocala Regional does reach the 80 percent occupancy threshold without adding the proposed beds, that the 80 percent rule will allow Ocala Regional to add up to 20 acute care beds without going through the CON process.

The applicant's projections are highly speculative. With additional beds expected to become available in 2002 and the addition of two new hospitals, the impact of adding 18 more beds in the subdistrict cannot be reasonably projected. As noted by Munroe Regional in its letter opposing this project, hospitals experiencing high occupancy may add acute through the CON exemption process. With 200 acute care beds, Ocala Regional could add up to 20 new acute beds through the exemption process. Additionally, there are provisions in CON law for the addition of temporary beds under the CON exemption process should a hospital experience high seasonal occupancy, but not high annual occupancy.

**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 North Central Florida Health Planning Council, Inc. adopted the following acute care preferences in October 2000 for both competing and non-competing applications:

**(1) Applicants proposing to expand services or establish services which are similar in type and level of care to services in existing facilities in the community shall receive preference if the applicant documents that these services will not negatively affect existing services. Such documentation shall include evidence that the following conditions are true:**

**a. Facilities located within 30 minutes or 25 miles of the proposed new service and providing the same type and level of care as the services proposes, operated at or above the applicable service-specific occupancy standards during the most recent 12-month period.**

The only facility that is within the above-defined boundary is Munroe Regional, which is located literally across the street from Ocala Regional. Munroe Regional reported an average occupancy of 82.13 percent for calendar year 2000, increasing to 84.13 percent for the most recent preliminary reporting period of July 2000 through June 2001. Munroe Regional's average occupancy levels exceed the service specific occupancy standards during the most recent 12-month period. However, Munroe Regional has expressed opposition to the proposed project, largely in view of the impact on utilization levels at Munroe Regional following the addition of beds that are scheduled to open in the subdistrict and contiguous areas over the next two years.

**b. The percent of Medicaid and charity care patient admissions to the proposed services will not be less than the average percent of these patients in facilities in the same community providing the same type and level of services.**

The following table provides the Medicaid and charity care percentages for the two existing hospitals in Marion County with a comparison provided with the district averages.

**Medicaid and Charity Care Percentages Provided for Ocala Regional Medical Center and Munroe Regional Medical Center**

<b>Hospital</b>	<b>Medicaid Percentage</b>	<b>Charity Care Percentage</b>
Ocala Regional	5.5%	1.0%
Munroe Regional	5.9%	2.8%
District 3 Average	8.3%	2.3%

Source: 1999 Hospital Financial Data Guide

As shown above, Ocala Regional falls short in meeting the average of Munroe Regional and the District 3 average for all acute care hospitals in the district.

- (2) **Applicants proposing to establish services in a community where they have not previously provided health services shall receive preference if community awareness and support of their projects is documented. Such documentation shall include letters of support from the medical community and from other providers such as home health agencies, nursing homes, and ambulatory surgical centers with whom the facility will need to coordinate services.**

The applicant intends to serve the same client base that it currently serves and does not propose the establishment of services not already provided.

- (3) **Applicants merit special preference for proposals to add beds by documenting the cost-effectiveness of acute care services in their existing facilities.**

According to the financial review analysis conducted by the Agency financial reviewer, the proposed project is considered cost-efficient when compared to Hospital Control Group 7. It was further concluded that with net revenues falling close to the median level, the facility is expected to consume health care resources in proportion to the services provided. The 1999 actual net revenue per adjusted patient day for Ocala Regional was between the group median and highest in that year.

**(4) In comparing competing proposals to add or establish beds and services, preference shall be given to applicants meeting one or more of the following conditions:**

- a. Provide a full range of services;**
- b. Propose to develop services in medically underserved area or communities with at least 25,000 people located at least 10 minutes from an existing facility.**
- c. Document, using AHCA data, a history of providing services to Medicaid and charity patients at least equivalent to the district averaged or establish a commitment to serve Medicaid and indigent patients in an amount equivalent to at least the district average.**

There are no competing proposals to add or establish beds and services. The hospital does not indicate the provision of a full range of services, including obstetric and pediatric services. The applicant also does not meet the medically underserved access criteria.

The applicant does not meet or commit to meet the preference regarding a to a history of providing Medicaid and charity care, equivalent to the district average, or a commitment to do so. As listed in the 1999 Hospital Financial Data Guide, Ocala Regional provided the following Medicaid and charity care payor group percentages, with a comparison with the district provided.

**Medicaid and Charity Care Percentages Provided by Ocala Regional in Comparison with the District 3 Averages**

<b>Hospital</b>	<b>Medicaid Percentage</b>	<b>Charity Care Percentage</b>
Ocala Regional	5.5%	1.0%
District 3 Average	8.3%	2.3%

Source: 1999 Hospital Financial Data Guide

As shown above, Ocala Regional falls short in meeting the District 3 average in both Medicaid and charity care categories.

**(5) Applicant proposing to establish a new acute care facility in a subdistrict that has achieved the occupancy standards defined in the Florida Administrative Code shall receive preference when the following conditions are met:**

- a. The proposed site for the new facility is located within 10 miles or 15 minutes travel time of a population totaling at least 25,000 residents; and**
- b. Hospital utilization projected for a three year planning horizon indicates that at least 12,000 discharge days will be generated by persons living in the target community; future hospital use is projected based on current age-specific use rates for area residents.**

The proposed project does not involve a new acute care facility but rather the addition of 18 acute care beds to the licensed acute care bed complement of Ocala Regional.

**(6) Even when established occupancy standards are not met in the subdistrict, preference shall be given to proposals for new hospitals that meet the following conditions:**

- a. The new facility will consist of currently licensed and underutilized acute care beds relocated within the subdistrict; or**
- b. The new facility will substantially improve access to hospital services by locating a facility within a previously underserved area. An underserved area is defined as a community located at least 25 miles from an existing facility and meeting the community size and projected utilization standards.**

The proposed project is not a new hospital.

**(7) Preference shall be given to an applicant for the transfer of beds who proposes a reduction of excess beds in the existing facility.**

The proposed project does not involve the transfer of beds.

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

The proposed project does not involve the transfer of beds.

- (9) Preference shall be given to an applicant for the transfer of beds who will be able to improve the physical plant of an existing facility as a result of the transfer.**

The proposed project does not involve the transfer of beds.

- (10) Preference shall be given to an applicant for the transfer of beds if the applicant can demonstrate that the transfer is more cost efficient than the renovation and expansion of the existing facility.**

The proposed project does not involve the transfer of beds.

- (11) Preference shall be given to an applicant for the transfer of beds who proposes to locate the beds in an area that will improve access to Medicaid and indigent patients.**

The proposed project does not involve the transfer of beds.

### **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.**

The applicant's history of providing services to medically indigent patients or a commitment to do so is considered an important factor in examining access to quality health care. The applicant asserts a history of providing Medicaid and charity care and a commitment to continue doing so in the future. However, according to the 1999 Hospital Financial Data Guide, Ocala Regional provided a lower percentage of Medicaid and Charity Care services than the average of all hospitals in District 3. Ocala Regional is not a Medicaid Disproportionate Share Provider and the applicant does not wish to accept any conditions regarding the provision of Medicaid and/or charity care services.

- 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 and the applicant contends that it has no existing underutilized beds to convert.

#### 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.**

The applicant contends that without the requested 18 beds, Ocala Regional will be experiencing occupancies of 92 percent or more for the entire winter quarter throughout the forecast period beginning in 2003. The applicant further contends that this level of occupancy will result in Ocala Regional having to deny admissions, and go on emergency bypass, due to lack of available beds. The applicant maintains that even with the project the winter occupancy rates at Ocala Regional are estimated to range from 84.4 percent, in 2003 to 91.3 percent in 2007. While these rates are still high, the applicant states that they are manageable for one quarter of the year, but not for subsequent years when even higher months of utilization occur. The applicant basically contends that the 18 beds will enhance access to acute care services at Ocala Regional,

**CON Action Numbers: 9477**

especially during historically peak utilization periods. However, one of the supporting factors presented by the applicant in CON #9228 in support of the 70-bed satellite facility involves "balancing bed demand between the two campuses". With occupancy rates projected to be in the low to mid 70 percentile at the satellite facility between 2003 and 2005, it would appear that some balancing of bed demand between the two campuses can help alleviate some seasonal demands on beds at the main campus.

Opposition to the project has been expressed by Munroe Regional Health System (Munroe Regional Medical Center). Munroe Regional basically alleges that in view of additional beds scheduled to become operational over the next few years in the subdistrict and contiguous area, that availability of acute care services may not be enhanced as a result of the proposed project and could have an adverse impact on Munroe Regional's financial performance.

The applicant contends that efficiency will be increased through approval and implementation of the proposed project, since it can be implemented for no capital cost, and will result in increased patient days in future periods, leading to reduced costs per patient day. The financial analyst concluded that the applicant's level of managed care will have minimal positive impact on competition, to promote quality assurance and cost-effectiveness.

**Existing and CON Approved Acute Care Beds  
District 3/Subdistrict 4, Marion County**

<b>Hospital</b>	<b>#Licensed</b>	<b>CY 2000 Occupancy</b>	<b># Approved</b>	<b>Total</b>
Ocala Regional	210	73.76%	60*	270
Munroe Regional	323	82.13%	98	421
<b>Total</b>	<b>533</b>	<b>78.84%</b>	<b>158</b>	<b>691</b>

Source: *Florida Hospital Bed Need Projections for July 2001 Batching Cycle*

\*NOTE: 70-bed new hospital, but only 60 new beds being added

As shown above, there are a total of 158 CON approved acute care beds in Subdistrict 4. Average occupancy for calendar year 2000 was below 80 percent in the applicant's facility and below 80 percent in the subdistrict.

With additional acute care beds approved for the subdistrict, the need for the project is not 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.

- 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. The applicant states that the hospital has established and maintains a comprehensive performance improvement program and a copy of this 1998 document was provided in the CON application. The goal of the performance improvement plan is to develop and maintain an effective mechanism for monitoring the assessment and improvement of the quality of the hospitals governance, management, clinical, and support processes. The hospital also has in place a utilization Management Plan, designed to assess and improve the delivery of care to all patients.

- 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.**

Ocala Regional is not a statutorily defined teaching hospital. However, the hospital does have agreements with various educational institutions to provide clinical training sites for students. Participating schools include: Central Florida Community College (nursing); University of Central Florida (nursing), Santa Fe Community College (respiratory therapy), University of Florida (pharmacy/nursing), and Marion County School Board-Adult Health Occupations Program (radiation technician).

- 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 of Marion Community Hospital, Inc. 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:

**CON Action Numbers: 9477****Financial Accounts and Ratios  
Marion Community Hospital, Inc.**

	<u>12/31/2000</u>	<u>12/31/1999</u>
Current Assets	\$ 24,607,541	\$ 29,364,083
Cash and Current Investment	\$ 87,325	\$ 22,136
Assets Restricted for Capital Projects	\$ 0	\$ 0
Total Assets	\$ 79,297,343	\$ 80,851,737
Current Liabilities	\$ 8,617,536	\$ 9,238,195
Total Liabilities	\$ 12,935,642	\$ 22,894,263
Total Equity	\$ 66,361,701	\$ 57,957,474
Net Operating Revenues	\$ 119,477,377	\$ 117,217,017
Interest Expense	\$ 398,976	\$ 1,492,422
Net Profit – Operations	\$ 13,472,609	\$ 14,206,424
Net Income	\$ 8,404,227	\$ 8,411,489
Cash Flow from Operations	\$ 17,849,410	\$ 12,429,539
Working Capital	\$ 15,990,005	\$ 20,125,888
Current Ratio (CA/CL)	2.9	3.2
Cash Flow to Current Liabilities (CFO/CL)	2.1	1.3
Long-Term Debt to Equity (TL-CL/TE)	0.1	0.2
Times Interest Earned (NPO+Int/Int)	34.8	10.5
Equity to Total Assets (TE/TA)	83.7%	71.7%
Operating Margin (NPO/NOR)	11.3%	12.1%
Total Margin (NI/NOR)	7.0%	7.2%
Return on Assets (NI/TA)	17.0%	10.4%
Operating Cash Flow to Assets (CFO/TA)	22.5%	15.4%

**Short-term position:**

The applicant's current ratio of 2.9 indicates current assets are almost three times that of short-term liabilities, a good position. The working capital (current assets less current liabilities) of \$16 million is also good in relation to the entity's size. The ratio of cash flow to current liabilities of 2.1 is excellent for Florida hospitals. The applicant has a very good short-term position.

**Long-term position:**

The long-term debt to equity of 0.1 means equity is 10 times the size of this debt, a good position. The cash flow to assets of 22.5 percent is very good. The most recent year had an operating profit of \$13.5 million, resulting in a margin of 11.3 percent, a relatively high level. The total equity of \$66.4 million with the equity to assets of 83.7 percent is also very strong. The applicant has a very good long-term position.

**Capital requirements:**

Schedule 2 indicates the applicant has total capital projects of \$53.8 million.

**Available capital:**

Schedule 2 indicates funding for these projects will come from cash on hand and the parent corporation, HCA The Healthcare Company. Neither a commitment letter from the parent nor their audited financial statements were provided in the application. The applicant does not have significant cash on hand; however, its cash flows appear to average between \$15 million and \$20 million a year.

**Conclusion:**

Notes to Schedule 2 indicate the parent company will fund all capital projects. We can therefore assume a probability exists for this funding source. Even without this funding, the applicant's cash flows should be adequate to fund most, if not all capital projects. And in addition, the applicant's strong financial position and activity would enable sufficient borrowings if needed. Funding for this and 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.

Comparative data were derived from hospitals in peer groups that reported data in 1999; the applicant will be compared to the hospitals in group 7. Per diem rates are projected to increase by an average of 3.6 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

**CON Action Numbers: 9477**

Net revenue per adjusted patient day (NRAPD) of \$1,468 in year one and \$1,498 in year two is a little below the control group median value of \$1,518 in year one and \$1,559 in year two. The median level is generally viewed as a reasonable indication of economies of operation. With net revenues falling close to the median level, the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table). The 1999 actual NRAPD for this hospital of \$1,365 was between the group median and highest in that year.

Projected cost per adjusted patient day of \$1,384 in year one and \$1,412 in year two is similar to the control group median values of \$1,347 in year one and \$1,384 in year two. This application is considered cost-efficient when compared to the control group. (See Comparative Table). The 1999 actual data reported the applicant's costs per adjusted patient day of \$1,178, which was just over the group's median.

The year two operating profit for the hospital of \$8.2 million computes to an operating margin per adjusted patient day of \$87 which falls between the peer group median and highest values of \$73 and \$341. The operating margin ratio computes to 5.8 percent. The project is expected to account for a \$182,931 addition to the operating surplus in year two. The audited financial statements indicated the hospital had an operating profit of \$13 million in 2000 with a margin ratio of 11.3 percent and in 1999 it had a profit of \$14 million with a margin ratio of 12.1 percent.

The projected net revenues and costs per patient day are reasonable when compared to the control group and the applicant's own 1999 activity. The operating profitability of 5.8 percent of revenues is in the average range for Florida hospitals. This profit level, while significantly below the actual 1999 and 2000 profits, is considered a conservative but reasonable forecast. Considering the projections taken as a whole this project is financially feasible.

**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 18.8 percent of its patient days. This is between the control group lowest and median levels of nine percent and 27 percent and is just below the hospital's own 1999 managed care level of 19.2 percent of total patient days. The applicant's level of managed care will have minimal positive impact on competition, to promote quality assurance and cost-effectiveness.

**CON Action Numbers: 9477**

**COMPARATIVE FINANCIAL TABLE**

CON # 9477					
Marion 1999 DATA Peer Group 7	2004	YEAR 2	INFLATION ADJ. VALUES		
	YEAR 2	ACTIVITY	Highest	Median	Lowest
	ACTIVITY	PER DAY			
ROUTINE SERVICES	37,374,942	394	822	558	320
INPATIENT AMBULATORY	3,625,071	38	111	44	28
INPATIENT ANCILLARY SERVICES	321,536,162	3,392	3,312	2,354	1,373
OUTPATIENT SERVICES	113,242,294	1,195	1,620	1,118	697
OTHER OPERATING REVENUE	776,936	8	136	16	8
TOTAL REVENUE	476,555,405	5,028	5,230	4,135	2,490
DEDUCTIONS FROM REVENUE	334,563,006	3,530	*	*	*
NET REVENUES	141,992,399	1,498	1,761	1,559	1,292
EXPENSES					
ROUTINE	27,474,039	290	336	214	179
ANCILLARY	38,351,744	405	668	507	421
AMBULATORY	6,869,802				
OVERHEAD	61,096,447	645	888	611	446
OTHER	0	0			
TOTAL EXPENSES	133,792,032	1,412	1,650	1,384	1,116
OPERATING INCOME	8,200,367	87	341	73	-71
		5.8%			
PATIENT DAYS	72,103		NOT INFLATION ADJUSTED		
ADJUSTED PATIENT DAYS	94,780				
TOTAL BED DAYS AVAILABLE	105,120				
ADJ. FACTOR	0.7607				
TOTAL NUMBER OF BEDS	288				
PERCENT OCCUPANCY	68.6%		82.0%	57.0%	24.0%
<u>PAYER TYPE</u>	<u>PATIENT DAYS</u>	<u>% TOTAL</u>			
MEDICARE	48,544	67.3%	75.0%	52.0%	19.0%
COMMERCIAL	2,119	2.9%			
MEDICAID	4,696	6.5%	24.0%	6.0%	2.0%
PRIVATE	2,932	4.1%			
HMO/PPO	13,589	18.8%	59.0%	27.0%	9.0%
OTHER	224	0.3%			
TOTAL	72,104	100.0%			

- 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 proposal is to add 18 acute care beds at the downtown campus. If this is approved, the number of acute care beds will increase from 200 to 218 at this campus, according to the plans. The actual construction of the southwest satellite has not been completed.

**CON Action Numbers: 9477**

The CON application states that only some patient room configurations will be affected if the application is accepted. The enclosed plans do not indicate exactly what changes will take place, but the spatial arrangement appears to be satisfactory architecturally.

The bed count shown on Page 3, Paragraph C of the project summary appears to be in error. The proposed bed distribution shows 116 beds rather than 118 beds. However, the correct bed count is shown on the submitted plans. The application proposes an increase of six beds on the second floor, five beds on the third floor and seven beds on the fourth floor. This totals 18 additional beds.

The contract documents for the current construction have been approved without comment by the AHCA Office of Plans and Construction. Therefore it can be assumed that there were no outstanding architectural issues as of the last plan review. This does not insure that problems will not be encountered during the construction stage which is expected to last until January 2003.

Overall there do not appear to be any negative architectural concerns with the project.

- 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.**

The following table provides the Medicaid and charity care percentages for Ocala Regional with a comparison provided with the district averages.

**Medicaid and Charity Care Percentages Provided for Ocala Regional Medical Center and Munroe Regional Medical Center**

<b>Hospital</b>	<b>Medicaid Percentage</b>	<b>Charity Care Percentage</b>
Ocala Regional	5.5%	1.0%
District 3 Average	8.3%	2.3%

Source: 1999 Hospital Financial Data Guide

As shown above, Ocala Regional falls short in meeting the average of Munroe Regional and the District 3 average for all acute care hospitals in the district.

**CON Action Numbers: 9477**

The applicant asserts a history of providing Medicaid and charity care and a commitment to continue doing so in the future. However, according to the 1999 Hospital Financial Data Guide, Ocala Regional provided a lower percentage of Medicaid and Charity Care services than the average of all hospitals in District 3. Ocala Regional is not a Medicaid Disproportionate Share Provider and the applicant does not wish to accept any conditions regarding the provision of Medicaid and/or charity care services.

According to Financial Schedule 7A, the applicant is projecting that Medicaid will account for 6.5 percent of total patient days in year two. The applicant does not specifically allocate a charity care allowance in Schedule 7A.

The applicant has a history of providing health services to Medicaid patients but no substantial history of providing services to the medically indigent.

**F. SUMMARY**

**Marion Community Hospital, Inc. (CON #9477)** proposes to add 18 acute care hospital beds to Ocala Regional Medical Center (Ocala Regional). Ocala Regional is currently licensed for 210 acute care beds and 20 skilled nursing beds for a total of 230 beds.

There is no renovation or construction associated with this project. The additional beds will be accommodated within the hospital which has just completed a major renovation and expansion project. The only aspect of the downtown building that will change as the result of the project will be the patient room configuration. The project involves a total cost of \$30,375, involving project development costs only (consultants fees and CON application fee).

The applicant does not wish to accept any conditions relative to the proposed project.

## **CON Action Numbers: 9477**

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

### **Fixed Need Pool:**

- The proposed project is not submitted in response to the fixed need pool that indicates zero need for additional acute care beds in District 3, Subdistrict 4.
- The applicant presents "not normal", hospital-specific special circumstances that include the anticipated lack of bed capacity at Ocala Regional due to increasing utilization, the area's population growth, and the seasonal influx of residents. However, the applicant's projection of bed need appear highly speculative. With additional beds expected to become available in 2002 and the addition of two new hospitals, the impact of adding 18 more beds in the subdistrict cannot be reasonably demonstrated.
- Provisions in the CON law allow for the addition of beds through the CON exemption process, provided hospitals are experiencing high occupancy. Additionally, there are provisions in CON law for the addition of temporary beds under the exemption process should a hospital experience high seasonal occupancy, but not high annual occupancy.

### **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.

### **Cost/Financial Analysis:**

- The applicant has a strong financial position, which assures along with parent company support, that adequate funding is available to complete the proposed project as well as all capital projects.

## **CON Action Numbers: 9477**

- The applicant's net revenues and costs per patient day are reasonable when compared to the control group and the applicant's own 1999 activity. The operating profitability of 5.8 percent of revenues is in the average range for Florida hospitals. The profit level, while below the actual 1999 and 2000 profits, is considered a conservative but reasonable forecast. The project appears financially feasible.
- The applicant projects managed care to represent 18.8 percent of its patient days. This is between the control group lowest and median levels of nine percent and 27 percent and is just below the hospital's own 1999 managed care level of 19.2 percent of total patient days. The applicant's level of managed care is expected to have minimal positive impact on competition, to promote quality assurance and cost-effectiveness.

### **Medicaid/Indigent Charity Care Commitment:**

- The applicant asserts a history of providing Medicaid and charity care and a commitment to continue doing so in the future. However, Ocala Regional provided a lower percentage of Medicaid and charity care services than the average of all hospitals in District 3. Ocala Regional is not a Medicaid Disproportionate Share Provider and the applicant does not wish to accept any conditions regarding the provision of Medicaid and/or charity care services.
- According to Financial Schedule 7A, the applicant is projecting that Medicaid will account for 6.5 percent of total patient days in year two. The applicant does not specifically allocate a charity care allowance in Schedule 7A. The applicant's charity care history is not substantial.

### **Architectural Analysis:**

- The contract documents for the current construction have been approved without comment by the AHCA Office of Plans and Construction. Therefore it can be assumed that there were no outstanding architectural issues as of the last plan review.
- Overall there does not appear to be any negative architectural reasons for not granting the increase in bed count from 200 to 218. However, there is a discrepancy in the narrative regarding the distribution of beds within the hospital.

**G. RECOMMENDATION**

Deny CON #9477.

**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**