STATE AGENCY ACTION REPORT

CON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

Leesburg Regional Medical Center, Inc./CON #9479
600 Dixie Avenue
Leesburg, Florida 34748

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

2. Service District/Subdistrict

District 3/Subdistrict 7 (Lake County)

B. PUBLIC HEARING

A public hearing was not held or requested. However, the applicant did submit 79 letters of support of which 78 letters were from physicians and various providers in the area. A letter of support was also received from Representative Hugh Gibson III, Florida House of Representatives (District 42).

The majority of the support letters are similar in content and attest~~s~~ to the need for the project based on increased utilization at LRMC, the addition of new services, such as neurosurgery, and community growth.

C. PROJECT SUMMARY

Leesburg Regional Medical Center (CON #9479) proposes to add 15 acute care hospital beds to Leesburg Regional Medical Center's (LRMC) bed complement. LRMC is comprised of two separate campuses. LRMC is licensed for 238 acute care beds and LRMC-North is licensed for 56 beds consisting of 41 acute care and 15 comprehensive medical rehabilitation beds. The applicant received CON #9371 to relocate the 41 beds from the north campus to the main campus, thus terminating acute care services at the north campus.

LRMC is in the final stages of the bed consolidation and facility renovation program, which it contends can accommodate the requested 15 beds in addition to the 41 beds scheduled to be relocated and added to the main campus bed complement through CON #9371. The applicant states that the additional 15 beds can be implemented at virtually no cost, and can be brought on-line by January of 2003. The actual cost of the project is $24,285 for project development costs only (CON fee and consultants fees).

The applicant does not wish to accept any conditions regarding 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 architecturals 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 3, Subdistrict 7/Lake County.

District 3, Subdistrict 7 has a total of 480 licensed beds and 82 CON approved acute care beds. The licensed beds experienced an occupancy rate of 64.56 percent for the reporting period January 2000 through December 2000. The currently licensed 238 acute care beds at LRMC reported an average occupancy of 69.80 percent for the reported timeframe, while LRMC-North's 41 acute care beds experienced an average occupancy rate of 25.67 percent. For the most recent preliminary reporting period, July 2000 through June 2001, LRMC reported an average occupancy of 72.59 percent, while the north campus averaged 28.98 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, LRMC does not meet the 80 percent occupancy threshold with a reported occupancy average of 69.80 percent (25.67 percent for LRMC-North).

c. Other Special Circumstances:

In support of the project, the applicant presented several circumstances including population growth estimates for Lake County. According to the population estimates developed via the Florida Demographics Estimating Conference (FDEC), the population growth over the next five years is expected to be strong among those age 45 to 54 (21 percent), 55 to 64 (31.2 percent) and 75 and older (19.1 percent). The applicant states that the high rate of growth among the very elderly will further spur demand for acute care hospital services within the community.

As the largest acute care hospital in Subdistrict 7, and the only hospital to offer open heart surgery, the applicant contends that LRMC must maintain sufficient bed capacity to meet growing resident inpatient care needs at all times. The applicant contends that the growth in outpatient volumes at LRMC has adversely affected inpatient bed availability, as outpatients frequently occupy beds for less than 24 hours while undergoing observation and also add to the congestion within the facility. The applicant states that by excluding obstetrics

(16-bed OB unit) but including outpatient observation beds, overall utilization increases. The applicant cites its four-month winter season (January through April) as the hospital's busiest time with occupancy rates ranging from 86 to 89 percent for both inpatient services and outpatient observations. According to data presented by the applicant, inpatient days during this time period totaled 22,363 making inpatient occupancy only 78 percent for the four-month time period. Unlike the applicant's occupancy rates cited above, averages published by AHCA include obstetrical beds, which are considered acute care beds, but do not consider any outpatient activity. According to the applicant, outpatient observation days total 3,240 for the July 2000-June 2001 timeframe. It should be noted that if need exists for additional outpatient beds, these can be added without a CON review.

The applicant presented forecasts of acute care bed utilization at LRMC for the first year of operation (2003) through 2006 incorporating historic growth, the impact of the opening of The Villages Tri-County Medical Center in 2002, and future county population growth. Accounting for the 41 beds to be relocated to LRMC for a total of 279 acute care beds, the applicant arrived at utilization forecasts of 69.3 percent in CY 2003 and increasing to 80.2 percent in CY 2006. The inclusion of the 15 additional beds, increasing the hospital's total acute care beds to 294 beds, reduced the forecasted occupancy to 65.7 percent in CY 2003, increasing gradually to 76.1 percent in CY 2006. Thus, the applicant contends that without the additional 15 beds, by year four the hospital will be experiencing over 80 percent occupancy.

The applicant expects that the proposed 15-bed increase will have little or no effect on other hospitals within the subdistrict (Lake/Sumter Counties), due to LRMC's own facility specific needs.

At present, LRMC's principal competitor is Florida Hospital-Waterman, located approximately 15 miles from LRMC in Eustis, Florida. In 2003, Waterman will be relocated to a new site five miles closer to LRMC, leaving the two hospitals approximately 10 miles apart. As part of this relocation, Waterman's acute care bed capacity will increase from 153 beds to 175 beds (CON #9230 and CON #9076). Waterman only recently increased its acute care bed complement to 153 beds through the conversion of 20 HBSNU beds (CON #9397). According to its CON application, Waterman does not expect the 20 new beds to negatively affect existing services in the area. However, Waterman does intend to increase its market share within its primary service area (PSA) by five percent upon relocation.

The applicant acknowledges the potential Waterman impact, and contends that although there is some overlapping of PSA, impact should be minimal. The applicant states that five out of 13 zip codes for LRMC's service area fall within Waterman's 17 zip code PSA. The applicant contends that given the location of Waterman's replacement hospital, approximately five miles southeast of the existing location, any impact from Waterman would appear to be confined to zip code areas 32778 (Tavares) and 34788 (Leesburg). The applicant reports 5,355 discharge days from these two zip code areas for the period July 1999-June 2000. The applicant contends that had Waterman's market share in these two areas been five percent higher, it would have resulted in 481 less discharge days or an average daily census decline of 1.31 patients at LRMC.

The applicant expects that LRMC's main competitor may be the new Villages Tri-County Medical Center, a 60-bed acute care hospital to be located in Lady Lake approximately 19 miles north of the main campus, and scheduled to open in the Summer of 2002. However, the applicant now owns the Villages Medical Center, and expects any impact to be more cooperative than competitive. Not withstanding, LRMC can be expected to lose patient days to this new facility. According to The Villages CON application (CON #9075), LRMC can be expected to lose 9.8 percent of its patient days in the first year of operation, and 10.4 percent annually thereafter.

The applicant does not expect that the other hospital in Lake County, South Lake Hospital, located in Clermont, will be impacted by the proposed project. South Lake Hospital is located approximately 25 miles from Leesburg and primarily serves a population clustered in the southernmost portion of Lake County.

The applicant reasonably demonstrated that LRMC is experiencing high seasonal peaks in its utilization. However, the applicant did not demonstrate that subdistrict residents are experiencing difficulty in accessing acute care services or experiencing admission delays to the hospital, especially during the peak winter months. Although the applicant minimizes the impact of the relocated Waterman facility and the new Villages facility in close proximity to LRMC, it would appear that these two facilities will certainly have some impact LRMC's PSA. Based on the relatively stable utilization levels of the hospital, with the peak season exception noted, the need for additional beds is not demonstrated. It should be noted that the hospital will have the option of adding beds to the hospital once utilization of 80 percent is maintained in the 279 beds without going through the CON process.

(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 following hospitals are located in the subdistrict and within reasonable distance to LRMC:

Hospital	Beds	Utilization CY 2000	Utilization 7/2000-6/2001 (Preliminary)
Leesburg Regional (main)	238	69.80%	72.59%
Leesburg Regional (north)	41	25.67%	28.98%
South Lake Hospital	68	48.82%	52.56%
Florida Hospital-Waterman	153	75.23%	71.32%
Totals	500	64.56%	65.78%

Source: Hospital Bed Need Inventory 7/27/01 and Preliminary Hospital Bed Need Inventory 1/25/02

As previously discussed, LRMC is located within 25 miles of all the currently licensed acute care hospitals in the subdistrict. The existing hospitals are all averaging less than the optimal 75 percent occupancy standard for the district and the 80 percent facility specific occupancy standard. In addition to the above listed facilities, the new Villages Tri-County Medical Center is located in Lady Lake, located approximately 19 miles from LRMC. The applicant acknowledges that this latter facility is expected to be the main competitor to LRMC, although the facility is now owned by Leesburg Regional Medical Center, Inc.

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 four existing hospitals in Lake County with a comparison provided with the district and subdistrict averages.

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

Hospital	Medicaid Percentage	Charity Care Percentage
LRMC (both campuses)	8.7%	1.4%
South Lake Hospital	4.2%	1.8%
Florida Hosp-Waterman	7.0%	2.4%
Subdistrict Average	6.6%	1.9%
District 3 Average	8.3%	2.3%

Source: 1999 Hospital Financial Data Guide

As shown above, LRMC exceeds both the District 3 and subdistrict average Medicaid utilization but falls short in meeting the district and subdistrict average for charity care. LRMC is not a designated Medicaid Disproportionate Share Provider for the current fiscal year.

(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 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 between the median and the highest 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 LRMC 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 provides a full range of services, including obstetrics, pediatrics, and 24-hour physician staffing of emergency care. The applicant also does not meet the medically underserved access criteria.

The applicant does not meet or commit to meet the preference regarding 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, LRMC provided the following Medicaid and charity care payor group percentages, with a comparison with the district provided.

Medicaid and Charity Care Percentages Provided by LRMC in Comparison with the District 3 Averages

Hospital	Medicaid Percentage	Charity Care Percentage
LRMC	8.7%	1.4%
District 3 Average	8.3%	2.3%

Source: 1999 Hospital Financial Data Guide

As shown above, LRMC exceeds the district average with regard to the provision of Medicaid, but falls short in meeting the District 3 average for charity care.

(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 15 acute care beds to the licensed acute care bed complement of LRMC.

(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. However, as previously shown, LRMC exceeds the District 3 Medicaid average but falls short in meeting the district average for charity care.

LRMC is not a Medicaid disproportionate share hospital and the applicant does not wish to accept any CON conditions regarding the provision of Medicaid and/or charity care.

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 that can be converted to acute care 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.**

The applicant reasonably demonstrated that LRMC is experiencing high seasonal peaks in its utilization at its main campus. However, the applicant’s north campus is not experiencing high occupancy and the 41 beds approved to be transferred from the north campus to the main campus is expected to relieve any seasonal capacity constraints. Additionally, the applicant did not demonstrate that subdistrict residents are experiencing difficulty in accessing acute care services or experiencing delays in admission to the hospital during the winter months. The applicant minimizes the impact of the relocated Waterman facility and the new Villages facility in close proximity to LRMC. However, it is likely that these two facilities will impact LRMC's PSA.

Based on the average 12-month occupancy rate reported by the applicant for the period January 2000 to December 2000, LRMC does not meet the 80 percent occupancy threshold with a reported occupancy average of 69.80 percent (25.67 percent for LRMC-North). The most recent preliminary utilization data for LRMC for the July 2000-June 2001 reporting period, indicates an increase in overall utilization for LRMC to an average of 72.59 percent. However, this is still below the 80 percent utilization threshold standard.

At present, LRMC's principal competitor is Florida Hospital-Waterman, located approximately 15 miles from LRMC in Eustis, Florida. In 2003, Waterman will be relocated to a new site five miles closer to LRMC, leaving the two hospitals approximately 10 miles apart. As part of this relocation, Waterman's acute care bed capacity will increase from 153 beds to 175 beds (CON #9230 and CON #9076). Waterman only recently increased its acute care bed complement to 153 beds through the conversion of 20 HBSNU beds (CON #9397) and expects to increase its market share within its primary service area (PSA) by five percent upon relocation.

The new Villages Tri-County Medical Center is a 60-bed acute care hospital to be located in Lady Lake approximately 19 miles north of the LRMC. Although this facility is owned by the applicant, LRMC can expect to lose patient days to this new facility. According to The Villages' CON application (CON #9075), LRMC can be expected to lose 9.8 percent of its patient days in the first year of operation, and 10.4 percent annually thereafter.

The applicant contends that efficiency will be increased as a result of the project since it can be implemented at no cost, will result in increased patient days and lead to reduced costs per patient day. However, the applicant appears to need additional observation, rather than inpatient beds, which may be added without CON review. Need for 15 additional acute inpatient beds has not been demonstrated and it is not clear that efficiency will be improved at the facility or within the subdistrict with the approval of this project.

Based on the relatively stable utilization levels of the hospital, with the peak season exception noted, the need for additional beds 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 hospital has also been selected as one of the "100 Top Hospitals-Benchmarks for Success" since 1996 by HCIA, Inc.

The applicant states that the hospital has established and maintains a comprehensive performance improvement program. The plan is revisited at least annually to determine whether it requires updates or modification.

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.

LRMC 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: Lake-Sumter Community College (nursing), Lake-Sumter Vo-Tech School for LPNs and CNAs, Central Florida Community College, and University of Central Florida (nursing).

Copies of these agreements with educational institutions was provided in the application.

The applicant also provided a discussion of the hospital's in-service training program for staff.

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 Leesburg Regional Medical Center, Inc. for the periods ending June 30, 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:

Financial Accounts and Ratios

	06/30/2000	06/30/1999
Current Assets	$ 106,509,440	$ 63,448,245
Cash and Current Investment	$ 66,995,154	$ 24,001,041
Assets Restricted for Capital Projects	$ 17,319,528	$ 17,445,950
Total Assets	$ 230,557,705	$ 175,187,512
Current Liabilities	$ 21,501,534	$ 18,588,033
Total Liabilities	$ 78,599,576	$ 77,571,164
Total Equity	$ 151,958,129	$ 97,616,348
Net Operating Revenues	$ 158,045,968	$ 139,480,421
Interest Expense	$ 3,214,406	$ 3,580,391
Net Profit – Operations	$ 12,552,812	$ 10,952,735
Net Income	$ 18,458,081	$ 15,795,097
Cash Flow from Operations	$ 31,926,560	$ 17,716,050
Working Capital	$ 85,007,906	$ 44,860,212
Current Ratio (CA/CL)	5.0	3.4
Cash Flow to Current Liabilities (CFO/CL)	1.5	1.0
Long-Term Debt to Equity (TL-CL/TE)	0.4	0.6
Times Interest Earned (NPO+Int/Int)	4.9	4.1
Equity to Total Assets (TE/TA)	65.9%	55.7%
Operating Margin (NPO/NOR)	7.9%	7.9%
Total Margin (NI/NOR)	11.7%	11.3%
Return on Assets (NI/TA)	5.4%	9.0%
Operating Cash Flow to Assets (CFO/TA)	13.8%	10.1%

Short-term position:

The applicant's current ratio of 5.0, meaning current assets are 5 times that of current liabilities is excellent. The working capital (current assets less current liabilities) of $85 million is also excellent. The ratio of cash flow to current liabilities of 1.5 is very good. The applicant has an excellent short-term position.

Long-term position:
The long-term debt to equity of 0.4 indicates the applicant's long-term debt is modest when compared to its equity, a good position. The cash flows to assets of 13.8 percent, the operating margin of 7.9 percent, and the total margin of 11.7 percent all indicate a good activity level. The total equity of $151 million with the equity to assets of 65.9 percent is very good. Overall the applicant has a very strong long-term financial position.

Capital requirements:
Schedule 2 indicates capital projects of $70 million. This did not include maturities of long-term debt of $6.4 million through 2003, which when added to capital projects would total $76.4 million in funding needed.

Available capital:
The schedule indicated these projects will be funded by $40 million cash in hand, and the balance from bonds and borrowings. Supporting documentation for the bonds and borrowings were not given. The applicant's most recent audited financial statements disclosed $67 million cash on hand $17 million in board designated assets, and $32 million in cash flows. Using the average cash flow for 1999 and 2000, and extending it to 2003 would produce $74 million, which when added to the other available funds makes $158 million potentially available to fund these projects.

Conclusion:
The applicant's own financial strength and reserves are adequate to fund all capital needs.

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.

Net revenue per adjusted patient day (NRAPD) of $1,634 in year one and $1,686 in year two are between the control group median and highest values of $1,511 and $1,707 in year one and $1,552 and $1,753 in year two. With net revenues per adjusted patient day falling between the median and highest, the hospital is expected to consume health care resources in proportion to the services provided. (See Comparative Table). The 1999 actual NRAPD for this hospital was $1,310, which fell between the group median and highest in that year. The increase in projected 2003 NRAPD per adjusted patient day from the actual 1999 NRAPD is 25 percent or 6.25 percent per year and may be slightly overstated.

Projected cost per adjusted patient day of $1,543 in year one and $1,584 in year two are between the control group median and highest values of $1,341 and $1,600 in year one and $1,378 and $1,643 in year two. (See Comparative Table). Compared to the control group these costs are efficient. The 1999 actual data reported the hospital's costs per adjusted patient day of $1,197, which was just above the group's median. The increase in projected 2003 CAPD per adjusted patient day from the actual 1999 CAPD is 29 percent or 7.25 percent per year. Considering the rate of inflation, these estimates could be overstated. However, with uncertainties and salary premiums affecting the availability of nursing staff, these estimates may be realistic.

The year two operating profit for the hospital of $11.3 million computes to an operating margin per adjusted patient day of $103 which falls between the peer group median and highest of $73 and $341. The computed operating margin ratio is 6.1 percent. The hospital's operating margin ratio in 2000 was 7.9 percent. The project is expected to add no incremental operating surplus in year two. This application appears to be financially feasible.

COMPARATIVE FINANCIAL TABLE

CON # 9479					
Leesburg	2004	YEAR 2	INFLATION ADJ. VALUES		
1999 DATA Peer Group 7	YEAR 2	ACTIVITY			
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	49,229,561	445	818	556	319
INPATIENT AMBULATORY	7,707,397	70	111	43	28
INPATIENT ANCILLARY SERVICES	261,593,107	2,366	3,298	2,343	1,367
OUTPATIENT SERVICES	125,457,467	1,135	1,613	1,113	694
OTHER OPERATING REVENUE	1,163,847	11	136	16	8
TOTAL REVENUE	445,151,379	4,026	5,207	4,117	2,479
DEDUCTIONS FROM REVENUE	258,715,423	2,340	*	*	*
NET REVENUES	186,435,956	1,686	1,753	1,552	1,286
EXPENSES					
ROUTINE	39,827,598	360	334	213	178
ANCILLARY	64,336,532	582	665	505	419
AMBULATORY	8,007,352				
OVERHEAD	62,920,128	569	885	608	444
OTHER	0	0			
TOTAL EXPENSES	175,091,610	1,584	1,643	1,378	1,111
OPERATING INCOME	11,344,346	103	341	73	71
		6.1%			
PATIENT DAYS	79,114		NOT INFLATION ADJUSTED		
ADJUSTED PATIENT DAYS	110,563				
TOTAL BED DAYS AVAILABLE	112,785				
ADJ. FACTOR	0.7156				
TOTAL NUMBER OF BEDS	309				
PERCENT OCCUPANCY	70.1%		82.0%	57.0%	24.0%
PAYER TYPE	PATIENT DAYS	% TOTAL			
MEDICARE	58,331	73.7%	75.0%	52.0%	19.0%
COMMERCIAL	4,585	5.8%			
MEDICAID	4,791	6.1%	24.0%	6.0%	2.0%
PRIVATE	3,565	4.5%			
HMO/PPO	7,416	9.4%	59.0%	27.0%	9.0%
OTHER	426	0.5%			
TOTAL	79,114	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 9.4 percent of its patient days. This is just above the control group lowest level of 9.0 percent and is below the hospital's own 1999 managed care level of 10.6 percent of patient days. If this projected level of managed care is assumed to be reasonable, it will have no significant 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 application states that there are "no costs" in adding the proposed new beds, that the "resources are in place and available", and that they can be "integrated into the existing complement of beds by January 2003".

The "resources", as they might refer to the headwall and similar items, should not be "in place and available" since approval has not been granted to add these 15 beds. Licensed beds must have headwalls, nurse call capability and similar accommodations that are not allowed to be in place and active unless the beds are licensed (and built).

Reference is made to the fact that the facility is "in the final stages of an extended bed consolidation and facility renovation program". Even though it appears that the patient rooms in question are under construction, there will be costs involved to provide the required accommodations to make the beds license-ready. The cost to upgrade the services for the new beds should be negligible.

The application includes three floor plans showing that the proposed beds will be located on the 2nd, 3rd and 4th floors. In all cases, the new beds are shown to be located in private rooms, turning them into semi-private patient rooms. There are large scale plans of the proposed layout of these spaces, which meet the square footage requirements. No additional curtain track is shown for the second bed and this would be necessary in a shared room. Several of the proposed rooms have limited wall space opposite the added bed due to the fact that the door to the patient toilet room is located in that position. This should not be a major issue .

Other than the fact that no costs are stated in the application, there are no negative architectural issues. The rooms are adequately sized and well designed, except for the minor curtain situation.

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 the four existing hospitals in Lake 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

Hospital	Medicaid Percentage	Charity Care Percentage
LRMC (both campuses)	8.7%	1.4%
South Lake Hospital	4.2%	1.8%
Florida Hosp-Waterman	7.0%	2.4%
Subdistrict Average	6.6%	1.9%
District 3 Average	8.3%	2.3%

Source: 1999 Hospital Financial Data Guide

As shown above, LRMC exceeds the district and subdistrict average Medicaid utilization but falls short in meeting the district and subdistrict average for charity care. LRMC is not a designated Medicaid Disproportionate Share Provider for the current fiscal year.

The applicant does not wish to accept any conditions relative to the provision of Medicaid and/or charity care services.

The applicant has a reasonable history of providing health services to Medicaid patients but not the medically indigent.

F. SUMMARY

Leesburg Regional Medical Center (CON #9479) proposes to add 15 acute care hospital beds to Leesburg Regional Medical Center's (LRMC) bed complement.

LRMC is currently in the final stages of an extended bed consolidation and facility renovation program, which can accommodate the requested 15 beds in addition to the 41 beds scheduled to be relocated and added to the main campus bed complement through CON #9371. The applicant states that the additional 15 beds can be implemented at virtually no cost, and can be brought on-line by January of 2003. The actual cost of the project is $24,285 for project development costs only (CON fee and consultants fees).

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

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 7.

- The applicant presents "not normal", hospital-specific special circumstances that include the lack of bed capacity at LRMC due to population growth, fluctuating demand for beds, and outpatient demands on inpatient bed capacity. The applicant did not demonstrate that area residents are being denied admission or experienced admission delays due to the lack of acute care beds. In addition, the construction of two new hospitals in the contiguous vicinity of LRMC, as well as the relocation of 41 beds to LRMC through the closure of LRMC-North, does not appear to support the need for additional 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.

Cost/Financial Analysis:

- The applicant's financial strength supports the funding for the project and all other hospital capital projects.

- With net revenues per adjusted patient day falling between the median and highest, the hospital is expected to consume health care resources in proportion to the services provided. Projected cost per adjusted patient day is comparative to the control group costs. The project appears to be financially feasible.

- Assuming the projected level of managed care is reasonable, there should be no positive impact on competition, to promote quality assurance and cost-effectiveness.

Medicaid/Indigent Charity Care Commitment:

- LRMC has a reasonable history of providing health services to Medicaid patients. The applicant is not a Medicaid disproportionate share provider for State Fiscal Year 2001-2002.

- The applicant does not wish to accept any conditions regarding the provision of Medicaid and/or charity care services.

Architectural Analysis:

- The applicant states that there are no costs involved in bringing the additional beds on line, other than minimal project development costs. However, the architectural review indicates that there will be costs involved to provide the required accommodations to make the beds license-ready. The cost to upgrade the services for the new beds should be negligible but were not listed.

- The project actually involves converting existing rooms to semi-private rooms to accommodate the additional 15 beds. There are large scale plans of the proposed layout of these spaces, which meet the square footage requirements. No additional curtain track is shown for the second bed and this would be necessary in a shared room. Several of the proposed rooms have limited wall space opposite the added bed due to the fact that the door to the patient toilet room is located in that position. This should not be a major issue. Other than the fact that no costs are proposed, there are no negative architectural issues. The rooms are adequately sized and well designed, except for the minor curtain situation.

G. RECOMMENDATION

Deny CON #9479.

CON Action Numbers: 9479

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: ______________________

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Karen Rivera
Health Services and Facilities Consultant Supervisor
Certificate of Need

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Jeffrey N. Gregg
Chief, Bureau of Health Facility Regulation