

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

Lee Memorial Health System, Inc./CON #9501
8300 College Parkway
Fort Myers, Florida 33919

Authorized Representative: James R. Nathan
(941) 437-5647

2. Service District/Subdistrict

District 8/Subdistrict 5 (Lee County)

B. PUBLIC HEARING

No public hearing was requested on the proposed projects. However, the applicant includes 27 letters of support from local physicians. These cite the delays at peak season, overcrowded conditions and lack of available beds at HealthPark. They also cite emergency room diversion and lack of access to obstetrical services and pediatric care due to lack of available beds at HealthPark. Additional letters were received from local civic leaders and citizens praising the care provided by Lee Memorial Health System and indicating HealthPark has suffered from overcrowded conditions and lack of available beds. However, there was also a letter in opposition from a local Cape Coral citizen who contends that the transfer of 41 beds from Cape Coral Hospital could spell disaster in the event of a real emergency.

C. PROJECT SUMMARY

Lee Memorial Health System (CON #9501) is an independent special district health care provider that operates three hospitals, several outpatient treatment and diagnostic centers, two home health agencies and a nursing home in Lee County, Florida. The applicant is requesting to add 122 acute care beds to the existing 180 acute care beds at Lee Memorial HealthPark through the transfer of 81 beds from Lee Memorial Hospital – Cleveland and 41 beds from Cape Coral Hospital. The applicant has 18 acute care beds at Lee Memorial HealthPark approved via CON Exemption #0000241 that are yet to be licensed. The following chart shows Lee Memorial HealthParks’ currently licensed and approved 238 beds and the 122 acute care beds proposed bed complement.

Lee Memorial HealthPark Bed Distribution

	Current licensed & CON approved	CON #9501	Total
NICU II	27	0	27
NICU III	13	0	13
Pediatrics	25	15	40
Pediatric ICU	5	0	5
Obstetrics	36	20	56
Medical/Surgical	109	63	172
Med/surg ICU	23	24	47
Total	238	122	360

Source: CON #9501.

Lee Memorial Hospital HealthPark's 180 acute care beds averaged 81.28 percent occupancy during the calendar year 2000 reporting period. This compares to Lee Memorial Hospital – Cleveland’s 367 acute care beds average utilization of 46.23 percent and Cape Coral Hospital’s 281 acute care beds average of 45.27 percent during the reporting period. The applicant indicates that the beds to be delicensed at Lee Memorial – Cleveland and Cape Coral Hospital are all medical/surgical beds.

The applicant indicates on its *Conditions* page, that it will delicense the beds as stated above upon the licensure of the 122 acute care beds at HealthPark. No other conditions are proposed. The applicant does not have a condition on its existing acute care beds. However, Lee Memorial is a Medicaid disproportionate share provider. Lee Memorial HealthPark is a designated Regional Perinatal Intensive Care Center, one of 11 such facilities in the state.

The proposed project consists of new construction of 175,238 GSF and renovation of 43,674 GSF at a construction cost of \$43,538,238. The project involves a total cost of \$80,159,797.

D. REVIEW PROCEDURE

The evaluation process is structured by the certificate of need review criteria found in Section 408.035, Florida Statutes. 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 assessing the responses 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 best meets the review criteria.

Section 59C-1.010(2) (b), Florida Administrative Code, allows no application amendment information subsequent to the application being 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, James B. McLemore analyzed the application in its entirety with consultation from the Financial Analyst, Roger Bell who evaluated the financial data, and the Architect, Joel Hill who evaluated the architectural and the schematic drawings as part of the application.

E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA

The following indicate the level of conformity of the proposed project with the criteria and application content requirements found in Florida Statutes, sections 408.035, and 408.037; applicable rules of the State of Florida, Chapter 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.**

In Volume 27, Number 30, dated July 27, 2001 of the Florida Administrative Weekly, a fixed need pool of zero beds was published for additional acute care beds in District 8, Subdistrict 5 for the July 2001 review cycle. The applicant's project would not increase the subdistrict's bed count but is a transfer of acute care beds from two of its facilities to Lee Memorial – HealthPark. Therefore, the fixed need pool is not applicable to this project. The applicant presents the following special circumstances in support of the project.

- b. Approval Under Special Circumstances. 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). 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. (Chapter 59C-1.038(5), Florida Administrative Code.)**

For the appropriate period as specified by rule, January through December 2000, the hospital's 180 acute care beds averaged 81.28 percent occupancy. However, the applicant has approval for 18 acute care beds via CON Exemption #0000241.

c. Other Special Circumstances:

The applicant also contends that the following special circumstances support the need for its project. These include the following: the bed distribution between the Systems acute care facilities, the bed distribution between acute care service categories, HealthPark's emergency room routinely being on diversion, the level of secondary and tertiary level services available only at HealthPark, patient satisfaction surveys, Lee County population growth, patient day projections, and the support of community and medical staff which is addressed in Section B of the SAAR and below in discussing patient satisfaction. While the applicant focuses its discussion on its healthcare system, rather than the subdistrict, the review of the project will focus on the applicant's discussion of how the transfer of beds will benefit subdistrict residents in the following areas:

- **Efficiency:** The applicant notes that historically, HealthPark's occupancy has exceeded 70 percent occupancy since 1998 while both Lee Memorial and Cape Coral Hospitals have experienced historical acute care occupancies at or below 50 percent. Review of AHCA Hospital Bed Need Projections for the July 1999 – July 2001 batching cycles confirms this contention. The applicant also indicates that HealthPark's occupancy was 86.4 percent, Lee Memorial Cleveland 47.2 percent and Cape Coral 49.8 percent for the first nine months of CY 2001. The applicant indicates that its patient satisfaction surveys indicate that availability of room and speed of admission criteria have progressively worsened in recent quarters. The speed of admission score lowest point was Quarter 2 of FY 2000 (January – March as FYE September) at 78.9 percent and Quarter 2 of 2001. Patient satisfaction about the availability of rooms has dropped from 89.7 in Quarter 1 of FY 2000 to 80.2 in Quarter 3 of 2001. Physician complaints about these issues are included in Attachment 6. The applicant also includes a letter of support from H.C. "Chris" Hansen, Lee County Emergency Medical Services Manager which states HealthPark's emergency room is often on diversion and is located in and serves one of the fastest growing areas of the county. The following chart documents the number of times the subdistrict's ER's have been on diversion.

District 8 Subdistrict 5 Emergency Room Diversions by Hours Calendar Years 2000 and 2001 (9 Months)		
Facility	CY 2000	CY 2001
Lee Memorial HealthPark	858	988
Lee Memorial Cleveland	288	466
Cape Coral Hospital	256	721
Southwest Florida Reg. Med. Ctr.	159	220
Gulf Coast Hospital	65	51
East Pointe Hospital	2	19
Total	1,628	2,465

Source: CON 9501 from Lee County EMS.

The applicant notes that HealthPark was on diversion 988 hours during January – August 2001, which accounts for 40 percent of Lee County’s the total ER diversion time. The applicant states that when acute care beds are not available to move patients out of the ER and into an acute care bed, the ER becomes a holding place and there is no space to accept an emergency room patient. Therefore, the hospital will go on diversion status. However, it is interesting to note that Cape Coral Hospital (the applicant’s affiliate which will lose 41 beds) is the second highest ER on diversion in CY 2001 at 29.24 percent of the total. This represents an increase of 35.5 percent between CY 2000 and the nine months of 2001 at the Cape Coral. The applicant does not address the reasons for this dramatic rise of diversion time or impact of delicensing beds at Cape Coral Hospital.

The applicant’s project would redistribute available beds in the subdistrict to a higher utilized facility. The AHCA financial reviewer finds the project will add about \$816,000 to the applicant’s project year two operating surplus. The project should improve the applicant’s efficiency and the efficient delivery of services in the subdistrict, based on redistribution of beds to a higher utilized facility, the applicant’s projected increase in profit, and because Lee Memorial Health System has 59.44 percent (828/1393) of the subdistrict’s acute care beds.

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- **Access:** The applicant is the Medicaid disproportionate share provider in the subdistrict and the project would redistribute available beds in the subdistrict to a higher utilized facility, which has been encountering constraints to prompt admissions. Overall, Medicaid projections are slightly lower at 11.0 percent in year two of the project compared to actual AHCA FY 1999's 13.9 percent. However, the applicant's projection includes all three acute care facilities while the AHCA FY 1999 data does not include Cape Coral Hospital. Lee Memorial indicates that it will continue to serve the Medicaid and medically needy patient. The AHCA financial reviewer finds the project will add about \$816,000 to the applicant's project year two operating surplus. Therefore, the project will improve the applicant's ability to finance the cost of care to Medicaid and medically indigent patients.
- **Quality of Care:** The applicant indicates that 38 pediatric patients were unable to be admitted since January 2001 because beds were not available. Fifteen additional pediatric beds will be added to HealthPark as a result of this project. There are presently 36 obstetrical beds at HealthPark and the applicant presented utilization data, which indicates that these beds averaged 90.36 percent occupancy during the 12 months ending March 2001. Occupancy exceeded 95 percent during three months of this period. The applicant indicates that often times no beds are available and women in early stages of labor are diverted to other facilities. An additional 20 obstetrical beds would be added as a result of this project. The applicant compares its percentage of open heart surgery procedures to the Lee County average contending that HealthPark's high utilization during the peak months of December through March negatively impacts its overall yearly percentage. The applicant provides the stated time frame of December - March 2000 as an example of this and indicates that HealthPark only had 61.1 percent of Lee County's total during these months compared to 66.9 percent during off-season months. AHCA open-heart surgery program data

shows HealthPark had 60.6 percent (214 of 342) of the county's total during the January - March 2000 period and 63.68 percent (705 of 1,107) of the county's total for the 12 months ending March 2000. However, AHCA open heart surgery program data shows HealthPark had 65.11 percent (224 of the 334 total) of the county's total for January - March 2001. HealthPark had 66.2 percent (721 of 1,089) of the total for the 12-month period ending March 2001. While there is some impact, the overall impact appears minimal. The applicant's number of procedures and market share increased as its competitor, Southwest Florida Regional Medical Center, lost market share and performed less total procedures in 1st quarter 2001 compared to the 1st quarter of 2000. This also holds true for the 12-month periods ending March 2001 and 2000.

- **Competition:** As previously stated, the applicant is the Medicaid disproportionate share provider in the subdistrict. The AHCA financial reviewer finds the applicant is cost efficient when compared to control group hospitals. The project will add about \$816,000 to the applicant's project year two operating surplus but is expected to have a minimum amount of impact on competition and cost effectiveness.

Next, the applicant discusses projected Lee County population growth, and presents the following chart.

Lee County Population Estimates Calendar Years 2000, 2005 and 2010			
	CY 2000	CY 2005	CY 2010
Population	440,888	489,900	539,300
Total growth from 2000		11.12%	22.32%
Annual compound growth		2.13%	1.94%

Source: CON #9501 from Florida Population Studies, Projections of Florida Population by County University of Florida, Bureau of Business and Economic Research, May 2001.

Florida Executive Office of the Governor Population Estimates published by the Agency in September of 2000, indicates Lee County will have approximately 512,379 residents by January 2010 and 473,500 as of January 2005. Lee County had 424,270 residents as of January 1, 2000 per AHCA's published projections. The applicant's projections indicate that Lee County's population is projected to grow from 440,888 to 489,900 from CY 2000 to 2005 or 11.12 percent. This project is not driven by overall county population growth, as there will be no additional beds in the county as a result of this project. However, the facility is located in the south Fort Myers area, just north of Bonita Springs.

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These areas comprise 110,342 and 45,656 or almost 36 percent of the total population as of CY 2000 and are projected to grow at a rate of 12.2 and 18.9 respectively between CY 2000 and CY 2005. The applicant contends this project is necessary for HealthPark to support its service area's large and growing population.

The projected occupancy for Lee Memorial Health System facilities with the redistribution of beds within the system in CY 2007 and 2008 is contained in the chart below.

**Lee Memorial Health System
Projected Occupancy CY 2007 and 2008**

Facility	Acute Care Beds	CY 2007		CY 2008	
		Patient Days	Occupancy	Patient Days	Occupancy
Lee Memorial HealthPark	320	85,224	73.0%	88,467	75.5%
Lee Memorial Cleveland	286	69,729	66.8%	72,382	69.1%
Cape Coral Hospital	240	66,409	75.8%	68,936	78.5%

Source: CON #9501.

The table above shows that the projected occupancies for each facility are balanced out from the CY 2000 actual occupancies. In summary, the applicant's strongest argument for support of this project is the fact Lee Memorial Health Systems is a disproportionate share Medicaid provider and the applicant would be able to transfer beds from its existing underutilized facilities to its highly utilized facility.

The project should improve the applicant's efficiency and the efficient delivery of services in the subdistrict, based on redistribution of beds to a higher utilized facility, the applicant's projected increase in profit, and because Lee Memorial Health System has 59.44 percent (828/1393) of the subdistrict's acute care beds. Access should be improved as the new beds would be available to handle the pediatric bed shortage, obstetrics and address the emergency diversions at HealthPark. The project should have minimal impact on the quality of care, and competition in the subdistrict.

2. Local Health Plan Preferences

Is need for the project proposed supported by the applicable district plan? ss. 408.035(1); 408.037(1), Florida Statutes.

The October 2000 District 8 CON Allocation Factors Report lists the following preferences relevant to acute care beds:

- a. Preference shall be given to applications for the addition of general acute care beds, including obstetrical and pediatric beds, that contain a provision to accept all persons in need, especially the medically underserved and the indigent**

Lee Memorial Health System emphasizes that it is a public hospital system that does not receive local government or special tax district subsidy but serves all members of the community, especially the medically underserved and indigent. Lee Memorial is a disproportionate share Medicaid provider. Schedule 7A shows the applicant projects Medicaid to account for eight percent of the project's total patient days in year two and Medicaid HMO days three percent. However, the applicant's proposed charity care could not be determined and the applicant does not propose any Medicaid or charity care conditions on this project.

- b. Preference shall be given to applications based on shared services and transfer arrangements that mutually increase existing resource efficiency.**

The applicant indicates that as a regional perinatal intensive care center, it receives patient referrals and transfers from other District wide hospitals and physicians. However, occupancy has run in excess of 90 percent for these beds during 10 of the past 15 months ending March 2001. The 20 obstetric beds proposed in this project will be utilized to improve the facility's ability to participate in this regional based program. The applicant also discusses its open heart surgery program, which has a transfer agreement with Cleveland Clinic Naples and contends that the projected will also improve its ability to serve these patients.

- c. **Preference shall be given to applications for the transfer of beds within a subdistrict if the applicant can demonstrate a more cost-efficient method than the renovation and/or expansion of the existing facility.**

The applicant proposes to condition CON approval to the transfer of 122 beds from its other facilities. However, this project involves both renovation and new construction.

- d. **Preference shall be given to applications for the transfer of beds within a Subdistrict if the applicant is able to improve the physical plant of an existing facility as the result of the bed transfer.**

The applicant indicates that the following areas will be improved as a result of its project: the entire facility will comply with the Americans with Disabilities Act, life safety features and disaster preparedness, patient privacy and increased storage space. However, the applicant does not address the improvement of Cape Coral Hospital and Lee Memorial Cleveland as a result of this project.

- e. **Preference shall be given to applications for the addition of general acute care beds, including obstetrical and pediatric beds, when equal to existing levels in the subdistrict. The application shall demonstrate acceptance of all persons in need, especially the medically underserved, including Medicaid and charity patients. "Uncompensated care" includes charity and the difference between average payments and average costs for Medicaid and Medicare patients.**

The following table provides the percentage of Medicaid and charity provided by each of the subdistrict's acute care facilities.

District 8 Subdistrict 5 Medicaid & Charity Care % Patient Days - FY 1999		
Facility	% Medicaid	% Charity Care
Cape Coral Hospital	6.6%	0.6%
East Pointe Hospital	9.4%	0.1%
Gulf Coast Hospital	11.8%	0.2%
Lee Memorial Health System	13.9%	3.4%
Southwest Florida Reg. Med. Ctr	2.6%	0.3%

Source: AHCA Hospital Financial Data FY 1999.

Note: Lee Memorial Health System includes both Lee Memorial Cleveland and Lee Memorial HealthPark.

The table above shows that Lee Memorial Health System first in provision of Medicaid and charity care. Schedule 7A indicates that the applicant projects Medicaid and Medicaid HMO patient days will account for 11 percent of the project's acute care patient days. The applicant indicates charity care provided during FYE September 30, 2000 and September 30, 1999 was \$21,987,000 and \$18,333,000. However, the applicant's proposed charity care for this project could not be determined. The applicant does not propose any charity care or Medicaid conditions for this project.

- f. Preference shall be given to applications that demonstrate renovation is more economical than new construction or vice versa.**

The applicant states that whenever possible, the expansion program will utilize existing space but there is not enough space within HealthPark to accommodate all of the additional beds and related services, so this project involves both renovation and new construction.

- g. Preference shall be given to licensed hospitals that exceed a 90 percent occupancy level during the period of January through March on an annual basis, and in the event of multiple locations under one license any individual location applies. (During the months January through March, the District's population increases significantly due to the influx of tourists and part-time residents. This seasonal increase in population results in increased demands for inpatient services that can exceed available bed capacity).**

HealthPark Medical Center Acute Care Patient Days & Occupancy Levels January - March (1st Quarter) Calendar Years 1999-2001		
	Patient Days	% Occupancy
1999	13,825	85.34%
2000	14,851	90.67%
2001	15,246	94.11%

Source: AHCA Hospital Bed Need Projections July 2001 and 2000 Batching Cycles and preliminary AHCA utilization for 1st Quarter 2001.

Note: The facility's acute care bed count as remained at 180 beds during these reporting periods.

The chart above demonstrates the increasing utilization of the facility's acute care beds during the peak season of each year.

3. **Agency Rule Criteria**

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-1.038(6) (a) & (b), Florida Administrative Code

- 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 cites its history of provision of care to Medicaid and charity care patients and indicates that it will continue to do so. For a discussion on the comparison of the applicant's Medicaid and charity care provision, see 2.e. above.

- b. **When there are competing applications within a subdistrict, 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 for additional acute care beds in District 8, Subdistrict 5. The applicant is proposing the transfer of underutilized beds at Lee Memorial Cleveland and Cape Coral Hospital to Lee Memorial HealthPark, which experienced 81.28 percent occupancy during the calendar year 2000 reporting period.

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.**

In reference to availability, the applicant talks about its occupancy rate at its three hospitals and demonstrates how it projects the occupancy rate at all three will improve as a result of this project. The applicant emphasizes that its project will increase availability and access to services at HealthPark. HealthPark has the highest acute care utilization (81.28 percent) in the subdistrict. This compares with 45.84 percent average occupancy rate in the subdistrict. The new beds would be available to handle the pediatric bed shortage, obstetrics and address the emergency diversions at HealthPark, but subdistrict-wide the beds are not needed.

The applicant did not question the quality of care provided by other hospitals in the subdistrict. See item 4.c. for a discussion of the applicant's quality of care.

In respect to efficiency, the applicant's pro formas indicate that the costs associated with adding 122 acute care beds at HealthPark and delicensing 41 at Cape Coral and 81 at Lee Memorial Cleveland are reasonable and a good use of the applicant's resources.

The project should improve the applicant's efficiency and the efficient delivery of services in the subdistrict, based on redistribution of beds to a higher utilized facility, the applicant's projected increase in profit, and because Lee Memorial Health System has 59.44 percent (828/1393) of the subdistrict's acute care beds. Access should be improved as the new beds would be available to handle the pediatric and obstetrics bed shortage and address the emergency diversions at HealthPark. The project should have minimal impact on the quality of care, and competition in the subdistrict.

District 8, Subdistrict 5 is comprised of six acute care hospitals in one county with a total of 1,393 beds. The average occupancy in the acute care beds in District 8, Subdistrict 5 was 45.84 percent during calendar year 2000.

The following table shows the number of acute care beds and occupancy rates for District 8, Subdistrict 5.

District 8 Subdistrict 5 Occupancy Rates Calendar Year 2000		
Hospital	# of Acute Care Beds	Percent Occupancy
Cape Coral Hospital	281	45.27%
East Pointe Hospital	75	32.19%
Gulf Coast Hospital	110	26.70%
Lee Memorial - Cleveland	367	46.23%
Lee Memorial - HealthPark	180	81.28%
Southwest Florida Reg. Med. Ctr	380	37.32%
TOTALS	1,393	45.84%

Source: Florida Hospital Bed and Service Utilization by District, Vol. II, July 2001.

Need for the project is not evidenced by the utilization of like and existing services in the service area. However, it appears that the project would increase the applicant's ability to serve the subdistrict. While the applicant notes the occupancy of the other three hospitals in the subdistrict, it does not address the impact of this project on these providers.

- 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.**

Lee Memorial Health System indicates that it has a long history of providing quality care and all three of its hospitals are JCAHO accredited. The applicant also provides a description of its performance improvement and quality management programs. Attachment 2 contained a copy of Lee Memorial Healthcare System's performance improvement plan, which includes all three hospitals. Additionally, the applicant's hospitals participate in the Medicaid and Medicare programs and are in compliance with the conditions of participation for these programs.

- 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 equipment or services, which are not 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.**

The applicant indicates that it participates with local colleges to provide clinical training sites for students. However, the proposed project will not be located in a teaching hospital, nor is the project's primary purpose research or physician education.

- 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.**

Lee Memorial Health System (CON #9501) presents brief bibliographies of key management personnel and a good description of operational resources. The applicant indicates that its employee turnover ratio is 7.1 percent, which is significantly below the Florida Hospital Association average of 11.3 percent. Schedule 6A indicates that 462.8 FTEs will be added by the end of year two (June 30, 2008). However, notes to this schedule indicate that many of these FTEs will be filled by employees who will transfer from Lee Memorial (Cleveland) and Cape Coral Hospital, so the actual numbers of new FTEs to the System could not be determined. Regardless, the applicant does provide a good description of its employee benefits and recruitment policies.

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The audited financial statements for the periods listed below were reviewed to assess the financial position as of the balance sheet date and the financial strength of its operations for the period presented. Key financial account balances along with specific ratios are presented for this analysis.

Lee Memorial Health System: CON 9501

FINANCIAL INDICATORS AND RATIOS	09/30/2000	09/30/1999
Current Assets	\$ 289,568,000	\$ 248,232,000
Cash and Current Investment	\$ 174,918,000	\$ 149,298,000
Assets Restricted for Capital Funding	\$ 0	\$ 0
Total Assets	\$ 736,442,000	\$ 726,771,000
Current Liabilities	\$ 70,437,000	\$ 73,907,000
Total Liabilities	\$ 456,610,000	\$ 460,654,000
Total Equity	\$ 279,832,000	\$ 266,117,000
Net Operating Revenues	\$ 371,230,000	\$ 348,407,000
Interest Expense	\$ 13,080,000	\$ 12,763,000
Net Profit - Operations	\$ 14,963,000	\$ 19,007,000
Net Income	\$ 12,946,000	\$ (2,071,000)
Cash Flow Provided by Operating Activities	\$ 22,080,000	\$ 23,184,000
Working Capital	\$ 219,131,000	\$ 174,325,000
Current Ratio (CA/CL)	4.1	3.4
Long-Term Debt to Equity (TL-CL/TE)	1.4	1.5
Operating Cash Flow (CFO/CL)	0.3	0.3
Equity to Total Assets (TE/TA)	38.0%	36.6%
Operating Margin (NPO/NOR)	4.0%	5.5%
Total Margin (NI/NOR)	3.5%	-0.6%
Return on Assets (NI/TA)	1.8%	-0.3%
Operating Cash Flow to Assets (CFO/TA)	3.0%	3.2%

The applicant, Lee Memorial Health System, is an independent special district health care provider that operates three hospitals, several outpatient treatment and diagnostic centers, two home health agencies and a nursing home in Lee County, Florida. The applicant is requesting to add 122 acute care beds to the existing 220 beds at its Healthpark hospital in Fort Myers, Florida. This is to be accomplished through the transfer of 81 beds from Lee Memorial Hospital and 41 beds from Cape Coral Hospital. The initial cost of this project is expected to be \$80,159,797, with incremental operating costs projected to be \$22,450,220 in the first year and \$22,511,746 in the second year.

Short-term position:

The applicant's current ratio of 4.1 indicates current assets are over four times that of short-term liabilities, a very strong position. The working capital (current assets less current liabilities) of \$219.1 million indicates an extremely robust short-term liquidity. The applicant has a very strong short-term position.

Long-term position:

The long-term debt to equity ratio of 1.4 is less than the 70th percentile statewide. Long-term debt of \$369.5 is significant, but is not excessive considering the overall financial condition of the applicant. Net income totaled \$12.9 million in 2000 or 3.5 percent, which is slightly less than the statewide average of 4.4 percent. Net assets total \$279.8 million. The long-term position is adequate.

Capital requirements:

Schedule 2 indicates capital projects total \$124.1 million. Maturities on long-term debt through 2008 total \$55.3 million. The total capital requirement is estimated at \$179.5 million.

Available capital:

Since no specific fund is indicated for capital improvements, any substantial projects will have to be funded with cash from operations or with proceeds from additional debt. The applicant states that \$53.0 million of the capital requirements are currently on hand and that \$85.3 million will be generated from ongoing operations. The balance will come from commercial financing. Operating cash flows totaled \$22.1 million in 2000. The audited balance sheet of the applicant indicated it had working capital of \$219 million of which \$175 million are cash and investments. The underwriter, Public Financial Management gave a favorable letter of intent on the ability of the applicant to obtain financing for this project.

Conclusion:

Funding is likely to be available for this project as well as the entire capital budget.

f. What is the immediate and long-term financial feasibility of the proposal? ss. 408.035(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 6. Per Diem rates are projected to increase by an average of 3.5 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

Gross revenues, net revenues, and costs were obtained from Schedules 7 and 8 in the financial portion of the application. These were compared to the control group as a calculated amount per adjusted patient day. The adjustment is made to factor out the outpatient revenues in the per patient day computation.

Net revenue per adjusted patient day (NRAPD) of \$1,469 in year one and \$1,498 in year two is between the control group median and lowest values of \$1,662 and \$1,217 in year one and \$1,706 and \$1,250 in year two. The median is generally viewed as the best balance between financial feasibility and economies of operation. With net revenues per adjusted patient day falling between the median and the lowest level, the hospital is expected to consume health care resources in lesser proportion to the services provided. (See Comparative Table). The hospital's NRAPD for 1999 was \$1,303 which was a little below the group's median of \$1,376.

Projected cost per adjusted patient day of \$1,379 in year one and \$1,410 in year two is between the group median and lowest values of \$1,464 and \$1,228 in year one and \$1,503 and \$1,261 in year two. This applicant is considered cost efficient when compared to the control group. (See Comparative Table). The hospital's 1999 CAPD was \$1,200 which was a little below the group's median of \$1,282.

The year two operating profit for the hospital is estimated at \$33 million which computes to an operating margin per adjusted patient day of \$89. This falls between the peer group median and lowest values of \$103 and \$-159. The operating margin computes to 5.9 percent, which is above the average for Florida hospitals. The audited financial statements for the years ending September 30, 1999 and September 30, 2000 had operating margins of 5.5 percent and 4.0 percent respectively. The project is expected to add about \$816 thousand to the operating surplus in year two. The project is financially feasible.

Lee Memorial Health System: CON 9501

CON # 9501					
Lee Memorial 1999 DATA Peer Group 6	2008	YEAR 2	INFLATION ADJ. VALUES		
	YEAR 2	ACTIVITY	Highest	Median	Lowest
	ACTIVITY	PER DAY			
ROUTINE SERVICES	298,272,494	790	876	637	352
INPATIENT AMBULATORY	0	0	82	41	20
INPATIENT ANCILLARY SERVICES	944,529,565	2,501	4,202	3,106	2,028
OUTPATIENT SERVICES	453,953,527	1,202	1,871	1,294	874
OTHER OPERATING REVENUE	6,221,592	16	54	11	0
TOTAL REVENUE	1,702,977,178	4,509	6,354	5,321	3,725
DEDUCTIONS FROM REVENUE	1,137,160,757	3,011	*	*	*
NET REVENUES	565,816,421	1,498	2,559	1,706	1,250
EXPENSES					
ROUTINE	158,270,595	419	413	236	201
ANCILLARY	162,151,891	429	1,023	616	419
AMBULATORY	0				
OVERHEAD	157,713,670	418	1,186	598	466
OTHER	54,199,584	144			
TOTAL EXPENSES	532,335,740	1,410	2,658	1,503	1,261
OPERATING INCOME	33,480,681	89	488	103	-159
		5.9%			
PATIENT DAYS	255,382		NOT INFLATION ADJUSTED		
ADJUSTED PATIENT DAYS	377,672				
TOTAL BED DAYS AVAILABLE	338,720				
ADJ. FACTOR	0.6762				
TOTAL NUMBER OF BEDS	928				
PERCENT OCCUPANCY	75.4%		83.7%	48.1%	34.0%
<u>PAYER TYPE</u>	<u>PATIENT DAYS</u>	<u>% TOTAL</u>			
MEDICARE	123,859	48.5%	73.3%	50.4%	23.8%
COMMERCIAL	12,769	5.0%			
MEDICAID	19,154	7.5%	13.9%	4.2%	1.1%
PRIVATE	10,955	4.3%			
HMO/PPO	79,169	31.0%	49.0%	33.5%	5.4%
OTHER	9,476	3.7%			
TOTAL	255,382	100.0%			

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

Managed care patient days are estimated at 31.0 percent of total patient days. The control group median value is 33.5 percent. This projected level of managed care is consistent with data reported in 1999 and is likely to have a minimum amount of 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.

Lee Memorial Health System proposes to add 122 acute care beds to the Lee Memorial Health Park facility by delicensing a comparable number of beds at Cape Coral Hospital and Lee Memorial Hospital. The application will not result in the addition of any new beds to the Lee Memorial Health System's total complement of beds. The new beds at HealthPark include:

Pediatric beds:	15 for a total of 40
Obstetrics:	20 for a total of 56
Medical Surgical:	63 for a total of 172
Med/Surg Intensive Care:	24 for a total of 47

The project will consist of both new construction and renovation in the existing facility. The budget shows approximately 43 million dollars for new construction and seven million for renovation. Other costs including movable equipment raise the total estimated project cost to the 80 million level.

There is a significant architectural/code problem with the planning of this project as presented on Page A4 of Schedule 9. The applicant states that:

“Although the existing 1st floor elevation is below the Category 3 (Saffir-Simpson Scale) under the 59A-3.081(55) ‘Physical Plant Requirements for Disaster Preparedness’ certain new and renovated areas will be constructed in this project to house non-critical hospital support spaces.”

Section 55 cited above states under site standards:

- b. The floor elevation of all new occupied patient area(s) and all patient support area(s) and patient support utilities, including mechanical, electrical except as noted in (55)9.b.(I), and food services shall be located above the 100-year flood plain or hurricane Category 3 (Saffir-Simpson scale) hurricane surge inundation elevations, whichever requires the highest elevation, or

- c. New additions or floors added to existing facilities, as determined by their site locations, shall be so designed and constructed as to be in compliance with the current standards of the National Flood Insurance Program (NFIP) of the Federal Emergency Management Agency (FEMA), Technical Bulletins 1-5, 1993; FEMA 213/May 1991; 44 CFR Parts 59-78, October 1, 1997; NFIP Rules and Regulations, October and December, 1997, incorporated by reference and available from Federal Emergency Management Agency, Federal Insurance Administration, Attn. Publications, P.O. Box 70274, Washington, D.C. 20024.

Therefore, renovation of any existing space which is below either of the two elevations referred to above is permitted by the code. However, if space in the existing building is to be used to house patients/staff from the new addition(s), it must also comply with all standards for new construction where patients/staff would be housed during a disaster/emergency. Any such space in the existing building that is not in compliance must be upgraded to meet current requirements for patient sheltering.

The finished floor of any new construction for patient or patient support areas must be above the higher of the two elevations above or must be in compliance with FEMA guidelines.

The application does not appear to contain any information relative to the 100-year flood plain.

Schedule 10 of the Application indicates that the architect/engineer contracts are expected to be signed by March 2002 and the projected completion date of the project is March 2006. The schematic plans submitted were done by an architectural firm that has extensive healthcare experience and it is evident that the applicant has worked out a detailed program of spaces and needs with the designer. The time schedule appears to be reasonable for a project of this size. It is almost a certainty that the design/construction team that will be contracted to do this project will have healthcare experience.

Obviously, a project of this magnitude which includes renovations will have to be phased and the applicant understands this. The submission correctly acknowledges that the project will be designed to meet the provisions of the new Florida Building Code.

- 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.**

Lee Memorial Health System is a disproportionate share Medicaid provider and has a long history of commitment to charity and Medicaid patients. Fiscal Year (FY) 1999 Actual Data prepared by AHCA indicates the applicant provided 13.9 percent of its total patient days to Medicaid patients and 3.4 percent to charity care patients. This figure includes both Lee Memorial HealthPark and Lee Memorial Cleveland. Cape Coral Hospital, the applicant's other facility, reported 6.6 percent of its total annual patient days were Medicaid and charity care accounted for 0.6 percent.

Schedule 7A indicates that traditional Medicaid will account for eight percent and Medicaid HMO patient days will account for three of the project's total patient days. The applicant's proposed provision of charity care could not be determined. However, the applicant indicates that it will continue to serve Medicaid and indigent patients.

F. SUMMARY

Lee Memorial Health System (CON #9501) proposes to add 122 acute care beds at Lee Memorial HealthPark in District 8, Subdistrict 5, through the transfer of 81 beds from Lee Memorial Cleveland and 41 beds from Cape Coral Hospital. This project will not increase the total number of acute care beds in the subdistrict and will transfer beds from two facilities that traditionally have occupancy of approximately 50 percent to a facility averaging approximately 80 percent.

After weighing and balancing all applicable review criteria, the following relevant factors are listed with regard to the hospital project in District 8, subdistrict 5, Lee Memorial Health System d/b/a Lee Memorial HealthPark.

Need/Other Special Circumstance:

The agency published no need for acute care beds in District 8, Subdistrict 5.

The applicant's occupancy rate was at or above 80 percent but the facility has an exemption for 18 additional acute care beds.

The applicant does not apply under the fixed need pool, but applies under special circumstances.

The applicant demonstrated that the additional beds at HealthPark could benefit the System's provision of care to subdistrict residents. The project should increase availability of pediatric, obstetrics and medical surgical beds at Lee Memorial HealthPark. The project should improve the efficient delivery of services in the subdistrict, based on redistribution of beds to a higher utilized facility, the applicant's projected increase in profit, and because Lee Memorial Health System has almost 60 percent of the subdistrict's acute care beds.

Quality of Care:

Lee Memorial HealthPark is JCAHO accredited, and currently has quality improvement procedures in place.

The project should have minimal impact on the subdistrict's quality of care.

Medicaid/charity care:

The applicant is a disproportionate share Medicaid provider. Schedule 7A indicates that the applicant projects Medicaid and Medicaid HMO patient days will account for 11 percent of the project's acute care patient days. The applicant indicates charity care provided during FYE September 30, 2000 and September 30, 1999 was \$21,987,000 and \$18,333,000. However, the applicant's purposed charity care as a result this project could not be determined. The applicant does not propose any charity care or Medicaid conditions for this project.

The applicant's project increase in profit could be used to offset the costs of its provision of its high amount of Medicaid and charity care.

Financial Feasibility:

The financial review of the applicant indicates that its project is financially feasible. The applicant's working capital shows indicates that an extremely robust short-term liquidity and a very strong short-term position. The long-term position is adequate. Capital requirements for all projects is likely to be available.

Architectural Analysis:

Overall, there is a significant architectural code problem with the project based on the existing first floor being below the hurricane category 3 (Saffir-Simpson Scale) and below the 100 year flood plain, of which there is no information provided by the applicant.

Renovation of any existing space which is below either of the two elevations referred to above is permitted by the Code. The finished floor of any new construction for patient or patient support areas must be above the higher of the two elevations above or must be in compliance with FEMA guidelines.

G. RECOMMENDATION

Approve CON #9501 to add 122 acute care beds to the existing 180 acute care beds at Lee Memorial HealthPark through the delicensure of 81 beds at Lee Memorial-Cleveland and 41 beds at Cape Coral Hospital. The project costs total \$80,159,797 and involve 175,238 GSF of renovation and 43,674 GSF of new construction. Construction costs are \$43,538,238.

CONDITIONS:

- (1) Delicense 81 beds at Lee Memorial-Cleveland.
- (2) Delicense 41 beds at Cape Coral Hospital.

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