

STATE AGENCY ACTION REPORT

CON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

Baptist Hospital, Inc./CON #9528

1000 West Moreno Street
Pensacola, Florida 32522-7500

Authorized Representative: David W. Sjoberg
(850) 469-2338

2. Service District/Subdistrict

District 1/Subdistrict 1 (Escambia & Santa Rosa Counties)

B. PUBLIC HEARING

A public hearing was not held or requested. However, Appendix G of the application included 207 letters of support for the project. Four of these letters were from J.D. Smith, Marie K. Young, John W. Nobles and Mike Wiggins, who are City of Pensacola Council Members. The council members indicate their support for the project based on Baptist Hospital's history of service to the medically needy, high quality health care and their understanding that the project would relocate beds to a fast growth area. The rest of the support letters were from health care professionals, community leaders and residents of Azalea Trace, a Baptist affiliated continuing care retirement center. These letters cite the applicant's history of service to the medically needy population, quality of care and indicate that the proposed new location will increase competition in the area as well as improve Baptist Hospital's financial base.

Letters in opposition to the project were received from West Florida Hospital, Sacred Heart Health System, and Santa Rosa Medical Center. The opponents basically state that the population proposed to be served by the applicant's new hospital has excellent geographic access and that there is no need for an additional hospital as existing providers have adequate capacity to serve present and projected future demand. They also contend that to be viable, the proposed hospital must take significant market share from existing providers, which would adversely affect these facilities.

C. PROJECT SUMMARY

Baptist Hospital, Inc. (CON #9528) is a not-for-profit health care provider that operates two hospitals, an ambulatory surgery center, an outpatient clinic, a skilled nursing facility and a home health agency in northwest Florida. The applicant proposes to establish a new satellite hospital via the relocation of 100 acute care beds from the existing 367 acute care beds at Baptist Hospital, located at 1000 West Moreno Street in Pensacola, Florida. The proposed satellite hospital will be located in an existing outpatient and medical office complex at Baptist Medical Park, 9400 University Parkway, Pensacola, Florida. The applicant indicates that the hospital will be made up of two parts: new construction of a 122,041 GSF four-story tower and penthouse and renovation of a 25,456 GSF area of the existing single story ambulatory surgery center. Presently, Baptist Hospital has 367 acute care beds, 42 adult inpatient psychiatric beds, 26 child/adolescent inpatient psychiatric and 57 skilled nursing beds for a total bed complement of 492 beds.

The satellite hospital will provide ancillary and support diagnostic and treatment services including, emergency, surgical services, cardiac diagnostic services, imaging services, pharmacy and laboratory services. The bed complement would consist of 88 medical/surgical beds and 12 critical care beds. The applicant does not provide the actual bed configuration of the downtown facility after the new project comes on line.

Baptist Hospital, Inc. proposes to condition CON approval upon delicensing 100 beds at the existing downtown campus.

The proposed project involves a total cost of \$57,251,119. Total construction cost is projected at \$27,780,795 and involves 122,041 GSF of new construction and 25,456 GSF of renovation, which the applicant indicates will be contiguous and adjacent to the existing ambulatory surgery center.

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, James B. McLemore, analyzed the application with consultation from the financial analyst, Doug Pierce, who reviewed the financial data and architect Joel Hill who evaluated the architectural and the schematic drawings.

E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA

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

1. Fixed Need Pool

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

On January 25, 2002, AHCA published a fixed need pool (FNP) in Volume 28, Number 4, Florida Administrative Weekly (F.A.W.) of zero (0) for additional hospital acute care beds in District 1, Subdistrict 1/Escambia and Santa Rosa Counties.

District 1, Subdistrict 1 had a total of 1,329 licensed beds that experienced an occupancy rate of 51.36 percent for the reporting period July 2000 though June 2001. Sacred Heart Hospital's approved CON #8803 to convert five acute care beds to hospital-based skilled nursing beds was voided March 26, 2002. Therefore, the revised licensed acute bed inventory for the subdistrict is 1,334. West Florida Regional Medical Center currently has an exemption (#0100011) for the addition of 40 acute care beds via conversion of a 40-bed HBSNU. Baptist Hospital's licensed 367 acute care beds reported an average occupancy of 48.95 percent during the reporting period. The applicant's acute care bed utilization is the third highest reported utilization of the six hospitals in Subdistrict 1 and the fifth highest utilization of the 10 acute care hospitals in District 1.

The proposed project is not submitted in response to the fixed need pool, but rather, involves the relocation of 100 of Baptist Hospital's existing acute care beds to establish a 100-bed satellite hospital. The applicant indicates that the need for the project is based on special circumstances, discussed in Section C below.

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.

Baptist Hospital's licensed 367 acute care beds reported an average occupancy of 48.95 percent during the June 2000 through July 2001 reporting period and therefore does not meet the special circumstances rule criterion.

c. Other Special Circumstances:

The applicant claims that other circumstances exist in the area that demonstrate need for this project. The special circumstances presented by the applicant include the need to renovate portions of the existing campus in order to provide state-of-the-art care. Baptist contends that due to the cost and operational difficulty associated with this renovation, constructing a new hospital is a more cost-effective and operationally efficient alternative than renovating the existing hospital. However, estimated costs associated renovating the existing hospital were not provided. Therefore, this contention cannot be verified. The applicant also indicates that the project will allow it to expand its patient volume through area population growth and by increasing its market share, improve payer mix and thus its overall financial position as the new hospital will be in area with more projected population growth than the hospital's present service area. According to the applicant, the positive financial impact created by the new facility will allow Baptist to continue to assure access to health care by the underserved population it traditionally serves. However, while the applicant's financial situation may improve, the projected population growth in the new proposed PSA for the year ending June 2006, (7.0 percent) is not much higher than the overall subdistrict (6.8 percent) projected population growth for that same period and it appears that the project would adversely affect the other two Medicaid disproportionate share providers in the subdistrict.

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This is discussed in more detail below. Baptist Hospital, Inc. further indicates that the proposed satellite hospital will improve access to Baptist Health Care's inpatient services for residents of the growth portion of central/northern Escambia and Santa Rosa Counties.

In support of the project, the applicant states that the downtown area zip codes adjacent to the existing hospital are experiencing no growth, are economically depressed and have a large population without health care insurance. Baptist provided the following table to demonstrate this situation.

**Baptist Hospital Downtown Campus
Comparative Profile**

	Baptist Downtown Adjacent Zip Codes*	Remainder of Escambia County	Escambia & Santa Rosa County	Florida
Population Growth 2001 – 2006	-433	+13,622	+28,540	1,367,699
Population Growth % 2001 – 2006	-0.4%	7.1%	6.8%	8.3%
Percent Households with Avg HH income below \$15,000	24.4%	13.7%	16.7%	NA
Percent of population under Age 65 without health insurance	17.2%	12.8%	13.9%	16.8%

Source: Baptist Hospital, Inc./CON page 25. Zip population estimates and forecasts and 2001 Florida economic data are from Claritas, 2002. Florida & County population estimate and forecast are from AHCA, 12/01 and 1999 uninsured data is from University of Florida, BEBR.

***The applicant indicates that the ZIP Codes adjacent to the hospital are 32501, 32503, 32505 and 32507.**

The applicant contends that as the largest provider of services to the population in the above zip codes, it needs to generate revenue and improve its payor mix from other portions of the its service area to be able to continue and expand its service to the medically needy in zip codes adjacent to Baptist Hospital.

Baptist Hospital, Inc. indicates that it provided 45.5 percent of all inpatient care to the residents of the four zip code area. However, Baptist Hospital was not the largest provider of inpatient care to these residents. The following table provides a breakdown of the patients from these zip codes during the July 2000 – June 2001 reporting period.

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**Acute Care Discharges
Residents of Zip Codes 32501, 32503, 32505 and 32507**

Zip code	Baptist	Sacred Heart	West FL. Reg	Gulf Breeze	Other	Total
32501	1,597	805	222	38	29	2,691
32503	1,145	2,193	597	82	72	4,089
32505	1,755	2,033	536	25	43	4,392
32507	1,234	1,263	393	46	48	2,984
Total	5,731	6,294	1,748	191	192	14,156
% of total pts from zips	40.5%	44.5%	12.3%	1.3%	1.4%	100%

Source: AHCA Hospital Discharge Data July 2000 - June 2001.

The applicant does not present a complete population projection for its existing service area, which could offer more insight and aid in validating its claim that its service area is not growing. However, as the chart above shows, Baptist Hospital is the largest inpatient provider in only one of the four zip codes that it shows as losing population. Sacred Heart Hospital, at 44.5 percent of the total area discharges, actually provided more inpatient care to residents in these zip codes than Baptist Hospital did at 40.5 percent. Therefore, based on these figures, it would seem that Sacred Heart, also a primary provider of care to the medically indigent in that zip code area, could face similar financial difficulties if it too does not capture more of the market or relocate in growing population areas. The applicant also indicates that it provided 47.2 percent of all Medicaid care and 61 percent of all self-pay care to the downtown population. Data reported to AHCA show that during FY 2000, Sacred Heart provided 23.5 percent of its total patient days to Medicaid patients and 2.3 percent to charity care compared to Baptist's 15.2 percent Medicaid and 1.4 percent charity care. Both facilities are Medicaid disproportionate share providers.

The applicant states that it based its need analysis on the following criteria: definition of the target geographic service area for the new facility, projected market size for the mix of inpatient services to be provided at the proposed facility, the portion of the target market expected to be captured by the proposed facility, volume anticipated to originate from outside the target area, and translation of this analysis into a forecast of future inpatient days at the new facility.

The applicant defines the service area as an 11 zip code area, which includes zip codes 32514, 32526, 32530, 32533, 32534, 32560, 32570, 32571, 32572, 32577, and 32583. Baptist Hospital projects an increase in population in these zip codes from 179,815 in 2001 to 192,477 in 2006. This is an overall seven percent growth rate. However, two of the applicant's zip codes (32530 and 32560) are post office box zip codes and therefore persons included in this are most likely residents of geographic zip codes already included in the applicant's analysis. The subdistrict population is projected to grow by 6.8 percent during the same time period (July 1, 2001 – July 1, 2006) per AHCA population data.

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Therefore, the projected service area growth at seven percent, which may include some double counting of residents, is consistent with the subdistrict's projected growth rate of 6.8 percent.

In reference to the projected market size for the mix of inpatient services to be provided at the proposed facility, the applicant reviewed AHCA discharge data excluding pediatric, obstetric/neonatal/behavioral health and tertiary care services for CY 2000. This results in 66,128 patient days that were generated by service area residents during CY 2000, according to the applicant. The applicant indicates that it applies age specific use rates with projected population growth by age cohort and concludes that 76,013 patient days will be generated in CY 2006 and 77,799 patient days will be generated in CY 2007. The applicant's projections indicate a 17 percent increase in five years. This may be optimistic when this 17 percent expected growth rate is applied to the past five-year growth in the subdistrict. While the subdistrict facilities provided 241,271 patient days during CY 2000, the same facilities provided 231,103 in CY 1996, or a total increase of only 4.4 percent over five years. The subdistrict's population increase from 382,604 in CY 1996 to 413,501 in CY 2000, or by 8.08 percent.

In reference to the market expected to be captured by the proposed facility, the applicant indicates that Baptist Hospital's current market share in the 11 zip code area is 19.2 percent and it will use 20 percent as the year one target and 30 percent for year two. This results in 15,203 (76,013/20 percent) patient days forecast for CY 2006 and 23,340 (77,799/30 percent) for CY 2007. The applicant then increases these projections by 10 percent to include patients from outside of its target area. This computes to a total of 16,892 patient days for 2006 and 25,933 for CY 2007. However, this appears to be based on optimistic patient day projections for the 11 zip code area.

The applicant next translates this analysis into a forecast of future inpatient days at the new facility by determining a 2007 average daily census of 71.05 (25,933/365). Projected utilization pro formas (Schedule 5) submitted by the applicant show these 100 beds are not expected to achieve an average annual occupancy of 70 percent in 2007. It is only in the second quarter of 2007 that Baptist projects reaching 70 percent occupancy, but it does not anticipate sustaining that occupancy. Following is a chart from page 92 of the application that projects patient days and expected utilization:

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Applicant's Utilization Pro Formas (Schedule 5) in 100 Acute Care Beds Second Year of Operation, 2007				
<i>Dates</i>	<i>Patient Days</i>		<i>% Utilization</i>	
10/1/06-12/30/06	5,498		60%	
1/1/07-3/31/07	6,331		70%	
4/1/07-6/30/07	6,045		66%	
7/1/07-9/30/07	5,926		65%	
	Total	23,800	Average	65%

Source: CON 9528, Schedule 5, page 92

As shown above, Baptist only anticipates an average annual occupancy of 65 percent in its second year of operation in the 100 acute care beds.

The applicant's financial projections in Schedule 7 and 8 are not specific to the 100-bed facility, but rather show the project in terms of the overall effect on Baptist Hospital's entire bed complement. Therefore, while the chart above shows the facility's utilization at 65 percent in year two, pro formas show 54.4 percent utilization for the whole system. The applicant attempts to explain the discrepancy in notes to Schedule 7A, which indicate that the new facility will actually have 23,800 in year two (ending September 30, 2007) patient days but the project's net impact will be 19,849 days as there will be a 4,453 patient day reduction, but an addition of 502 tertiary care patient days at the downtown Baptist Hospital.

As discussed above, despite what appears to be confusing information, the applicant's projections appear to be generally optimistic and appear not to account for area patients currently being served by other area hospitals. West Florida Regional Medical Center, located approximately a mile from the proposed satellite location, is a 531-bed Class I general hospital with 360 and 40 CON approved acute care beds, 73 adult mental health beds and 58 rehabilitation beds. West Florida Regional Medical Center's 360 acute care beds operated at 39.73 percent utilization during the 12-month reporting period ending June 30, 2001. AHCA hospital discharge data for all Escambia and Santa Rosa County residents for the 12 months ending June 30, 2001, indicate that 5,334 of the facility's total discharges were residents of these zip codes. The hospital served 8,936 Escambia and Santa Rosa County residents during the reporting period. Therefore, 59.7 percent of West Florida's service to area residents were residents of the 11 zip code area. Santa Rosa Medical Center served 3,553 residents from this zip code area and 3,712 total Escambia and Santa Rosa County residents. Residents of the 11 zip code area account for 95.7 percent of Santa Rosa Medical Center's service to residents of the two county areas. Santa Rosa Medical Center averaged 31.69 percent utilization in its 119 acute care beds during the reporting period ending June 30, 2001. The data also show that Sacred

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Heart served 8,377 residents of its 19,256 subdistrict resident total and Baptist served 3,717 of its total of 12,820 subdistrict resident total discharges during the reporting period. The 11 zip code area accounted for only 28.9 percent of Baptist Hospital's total subdistrict discharges and 43.5 percent of Sacred Heart's.

Area Hospital's Percentage of Total Subdistrict Patients Served From Applicant's Proposed Primary Service Area (32514, 32526, 32530, 32533, 32534, 32560, 32570, 32571, 32572, 32577, 32583)	
Subdistrict 1 Hospital	% Served
Santa Rosa Medical Center	95.7%
West Florida Regional Medical Center	59.7%
Sacred Heart Hospital	43.5%
Baptist Hospital	28.9%

Source: AHCA Hospital Discharge data from July 1, 2000 through June 30,2001.

Clearly a move into this zip code area, which is currently served by three other area hospitals more so than Baptist, will offer Baptist Hospital a opportunity to expand its market. It is also clear that this project will impact these three other area hospitals. With occupancy rates of 39.73 and 31.69 percent at West Florida Regional Medical Center and Santa Rosa Medical Center respectively, and the percentage of patient days both hospitals reported from this zip code area, the impact is likely to be negative. As noted earlier, Santa Rosa Medical Center, is a Medicaid disproportionate share provider. Sacred Heart Hospital will also be impacted should this project be approved albeit to a lesser extent.

Baptist Hospital, Inc. does not reasonably demonstrate that population growth in the proposed service area shows a need for additional beds. In fact, there appears to be an overabundance of beds based on the utilization of existing providers in the area and the project could negatively effect three existing providers, two of whom, Sacred Heart Hospital and Santa Rosa Medical Center are Medicaid disproportionate share providers. Santa Rosa Medical Center, will likely be the most negatively impacted should this project be approved.

2. Local Health Plan Preferences

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

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

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

The applicant states that the proposed project is designed to establish an incremental revenue and margin stream to subsidize the operation of the downtown facility. The applicant also contends that its financial projections indicate that the development of the proposed satellite hospital will not result in the need to increase patient charge levels at the existing Baptist Hospital, Inc. facilities. The financial reviewer determined that Baptist Hospital is considered marginally cost-efficient when compared with similar hospitals (refer to the financial review below in E. 4.f.).

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

The project does not involve a joint venture and shared services. However, the applicant indicates that the facility will share the administrative, financial and information system functions of Baptist Hospital, Inc., and Baptist Health Care. This 100-bed satellite project will likely result in increasing existing resource efficiency.

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

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

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

According to Financial Schedule 7A, approximately 9.0 percent of the total patient days to be provided in the satellite facility will be Medicaid sponsored and the equivalent of about 1.4 percent of total patient days will be provided to indigent patients. The applicant does not wish to accept a condition regarding the provision of Medicaid and/or charity care services. It is noted that

the applicant has indicated its intent is to improve its parent hospital, a Medicaid disproportionate share provider's ability to serve the medically indigent population by improving its financial position through the implementation of this project. However, in order to meet this preference, the applicant might have offered to condition award of the CON upon providing a percentage of its patient days to the medically indigent at the parent hospital.

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

The applicant's project is the transfer of 100 beds from its existing hospital to the Parkway location and not the expansion of an existing facility.

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

The applicant states that the hospital has consistently been a strong provider of care to patients with HIV/AIDS and will continue to be strongly committed to providing care to this patient population.

According to the applicant, Baptist Hospital provided 337 patient visits for AIDS/HIV patient (inpatient and outpatient visits) and 737 inpatient days of care associated with these patients during CY 2001. However, the applicant has not agreed to condition award of the CON upon providing services to this population.

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

The hospital's project will relocate existing acute care beds, and does not involve the conversion of bed types.

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

The proposed project will relocate beds from the applicant's existing location to construct a new hospital. The applicant contends that the relocation of underutilized beds at the downtown campus will increase utilization at this campus as the satellite facility will result in an incremental increase in the patient days and an increase in the overall occupancy rate at Baptist Hospital, Inc.

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

The applicant projects an increase in net profit and believes the project will improve its ability to provide quality care to the indigent population as well as increase the amount of care provide to this population. Although in one set of pro formas, Baptist indicates that its hospital system¹ will experience an increase in Medicaid patient days (by 1,778 days) should this project be approved, it is reasonable to assume that these patients would have otherwise gone to either Santa Rosa Hospital or Sacred Heart Hospital. Both Sacred Heart Hospital and Santa Rosa oppose the project and both are Medicaid Disporportionate Share providers.

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

Baptist Hospital, Inc. indicates that while it has the ability to bring all of its licensed beds on line as required by AHCA regulations, the development of the proposed satellite facility will allow for more appropriate spaces and support areas that meet all current licensure and community standards. The applicant indicates that its existing 492 licensed bed facility is constrained in its ability to operate its full-bed complement and rather than attempt an unreasonably costly and operationally difficult renovation to correct these restraints, it contends this project is a more effective and operationally efficient alternative. As previously stated,

¹ Pro formas indicate that three hospitals are included: Baptist's main campus, Gulf Breeze and this proposal.

Baptist Hospital, Inc. does not provide sufficient information for this review to assess the scope and costs of renovation at the existing facility in order to compare them to the project's costs. AHCA hospital licensure records show Baptist Hospital's life safety inspection conducted on January 16 and 17, 2002, found problems with lights, egress and storage. The facility's plan of correction for these deficiencies was approved on April 17, 2002. Therefore, there do not appear to be any licensure concerns with the existing facility. Additionally, the architectural review of the project indicates that the project, as proposed, may not meet licensure standards. (Refer to E. 4. h below).

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

The applicant contends that the impact of the new facility would be diluted because there are six providers presently serving the new hospital's projected service area. These include three Baptist Health Care affiliated hospitals² Sacred Heart Hospital, West Florida Medical Center and Santa Rosa Medical Center. All three non-Baptist affiliated hospitals sent letters in opposition to the applicant's proposed project. Sacred Heart Hospital, a disproportionate share Medicaid provider in the subdistrict, contends the project will have an adverse financial impact on its financial ability to provide care to charity and Medicaid patients. Santa Rosa Medical Center, another of the subdistrict's disproportionate share Medicaid providers, also opposes the project. See item 1.c.

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

The applicant states that existing campus is "built out", with little flexibility to "add additional facilities to the campus in an efficient or cost-effective manner, the ability to create new space to establish state-of-the-art facilities". However, it does not address

² AHCA Discharge Patient Data for the 12 months ending June 30, 2001, show the Baptist affiliates, Jay Hospital with 143 discharges or 0.67 percent (143/21,390) and Gulf Breeze Hospital with 221 resident discharges or 1.03 percent of the total from the satellite's proposed zip code area.

how the space in the existing hospital will be renovated or used after the construction and licensure of the new satellite hospital.

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

The applicant's proposed project is to be located in an area that is presently served by existing facilities, three of which are Medicaid disproportionate share providers. There is no evidence that this project will improve access for Medicaid and indigent patients in either this area of the subdistrict or in the areas now served by Baptist. Refer to E. 4. i. below.

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

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

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

Baptist Hospital is JCAHO accredited hospital with various programs in place to monitor, evaluate and improve the level and quality of services provided by the hospital. Baptist Hospital, Inc. indicates that it has ongoing internal evaluation and performance improvement activities that are a critical part of the organization's corporate structure. These include utilization of performance targets, development of departmental 90-day action plans to resolve problems and achieve improvement targets, utilization of rapid-return patient satisfaction findings and response teams and performance improvement teams for clinical improvement. The applicant also has classes directed toward individual employee improvement and quality.

3. Agency Rule Preferences

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

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

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

According to AHCA FY 2000 Hospital Financial Data, Baptist Hospital provided 15.2 percent of its total patient days to Medicaid patients and 1.4 percent to charity care patients. The applicant's Medicaid percentage is greater than the District 1 average of 13.6 percent and the Subdistrict 1 average of 14.6 percent. The applicant's charity care is less than the District 1 average of 2.2 percent and the Subdistrict 1 average of 2.3 percent to charity care patients.

According to Financial Schedule 7A, approximately nine percent of the total patient days to be provided in the satellite facility will be Medicaid sponsored and the equivalent of about 1.4 percent of total patient days will be provided to indigent patients. The applicant does not wish to accept a condition regarding the provision of Medicaid and/or charity care services. Baptist Hospital, Inc. is a Medicaid disproportionate share provider for state fiscal year 2001-2002. As noted earlier, although in one set of pro formas, Baptist indicates that its hospital system³ will experience an increase in Medicaid patient days (by 1,778 days) should this project be approved, it is reasonable to assume that these patients would have otherwise gone to either Santa Rosa Hospital or Sacred Heart Hospital. Both Sacred Heart Hospital and Santa Rosa oppose the project and both are Medicaid Disproportionate Share providers.

³ Pro formas indicate that three hospitals are included: Baptist's main campus, Gulf Breeze and this proposal.

It is again noted that the applicant has indicated its intent is to improve its parent hospital, a Medicaid disproportionate share provider's ability to serve the medically indigent population by improving its financial position through the implementation of this project. However, the applicant might have offered to condition award of the CON upon providing a percentage of its patient days to the medically indigent at the parent hospital.

- 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. There is no need for additional beds in the subdistrict and the project does not involve the addition of 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.**

As previously noted, acute care utilization averaged only 51.36 percent among the six hospitals in Subdistrict 1 during the 12-month reporting period ending June 2001. However, the project is not in response to numeric need and does not increase the number of beds in the subdistrict. The applicant is planning to relocate these beds approximately 8.6 miles from the existing downtown location.

The applicant contends that the project is needed to ensure the availability of and accessibility to un-/under-funded care is maintained in the downtown Pensacola area and to allow Baptist to better use its existing facility resources at both the downtown and the Baptist Medical Park campus. Baptist also contends the proposed project will enhance availability and accessibility to quality care for its affiliated non-acute care services currently located in the north Pensacola area. These include Baptist Medical Park, University of West Florida's Student Health Center, Azalea Trace and the Baptist Manor. The applicant concludes that in addition to Baptist-specific gains, the local market will benefit from new competition as other local providers can naturally be expected to re-evaluate their current operations and services offerings, to increase emphasis on patient/client service and to enhance existing facility access and amenities. However, as discussed in the "special circumstances"

section of E. 1. above, the applicant's projections show an underutilized facility, with expected occupancy in the 100 beds to only reach an average of 65 percent in the second year of operation (2007), and has not shown that overall access or bed availability will improve. Further, while the applicant claims to need to relocate these 100 beds to maintain access to the medically needy at its downtown facility, it has not proposed to condition the application upon serving some portion of the medically needy population at its main facility. Additionally, the applicant's claim that the local market will benefit from new competition is not fully supported by financial pro formas. The financial review shows that at least the projected level of managed care at 13.0 percent is likely to have little impact on competition to promote quality assurance and cost-effectiveness because the applicant's projections are below the subdistrict average of 23.6 percent. (Refer to E. 4. i. Below)

As noted earlier, this project does not appear to improve access to the medically indigent population in Subdistrict 1 and there is concern that approval of this project will adversely impact two of the three Medicaid disproportionate share provider hospitals in the subdistrict: Santa Rosa Medical Center and Sacred Heart Hospital. The project is also expected to adversely impact West Florida Regional Medical Center, which is physically located approximately one mile from the proposed site of this new 100-bed satellite hospital.

The applicant indicates that the new facility will provide state-of-the-art services and that its existing campus is "built out". AHCA hospital licensure records show Baptist Hospital's life safety inspection conducted on January 16 and 17, 2002, found minor problems with exit lights, egress and storage. The facility's plan of correction for these deficiencies was approved on April 17, 2002. Therefore, there do not appear to be any licensure concerns with the existing facility. Additionally, the architectural review of the project indicates that the project, as proposed, may not meet licensure standards. (Refer to E. 4. h below)

The applicant did not reasonably demonstrate that population growth in the proposed service area shows a need for additional beds. It was also not demonstrated that care or access to the medically indigent would be improved and it appears that existing Medicaid disproportionate share providers will be negatively impacted if this project is approved. Need for the project is not evidenced by the availability, quality of care, efficiency, accessibility and extent of utilization of existing health care facilities in this area.

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

Baptist Hospital, Inc. demonstrated 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. Baptist Hospital states that it has been rated as one of the Top Ten Places to Work (#10 in the county) by Fortune Magazine in February 2002 and is the first health care organization to be a finalist in the Malcolm Baldrige National Quality Award process. The applicant states this is a quality competition in which Baptist has been a finalist during the past two consecutive years. According to the applicant, Baptist Hospital has received the VHA Leadership Award for the Voluntary Hospitals of America, the Marriott Service Excellence Award from Marriott and Modern Healthcare Magazine, and the USA/Today/RIT Quality Award and has also been rated in the top one percent of U.S. hospitals for the past four years.

As previously stated, Baptist indicates that it has ongoing internal evaluation and performance improvement activities that are a critical part of the organization's corporate structure. These include utilization of performance targets, development of departmental 90-day action plans to resolve problems and achieve improvement targets, utilization of rapid-return patient satisfaction findings and response teams and performance improvement teams for clinical improvement. The applicant also has classes directed toward individual employee improvement and quality.

A review of licensure records, indicates that Baptist Hospital has an approved plan of correction for minor deficiencies. The applicant's plan of correction approved April 2002, indicates that it has corrected all deficiencies.

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

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

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

Baptist Hospital is not a statutorily defined teaching hospital, nor is its primary purpose research or physician education. However, the applicant states that the new hospital would have a positive effect upon the clinical needs of health professional training programs in the service area. The hospital currently has agreements with various schools and programs in the area including: University of West Florida (nursing, medical technology, social services), Pensacola Jr. College (nursing, radiologic technologist, respiratory therapist, records technician), Pensacola Christian College (nursing), Jefferson Davis College (nursing), University of Florida (pharmacy, physical therapy), Florida State University (social services), University of South Alabama (nursing, nurse practitioner, physical therapy), and Auburn University (pharmacy). While the applicant indicates its project would allow students the ability to train in a state-of-the-art hospital with direct operational linkage to an ambulatory surgical center, Baptist Hospital is a fully accredited hospital and the applicant is currently able to provide this training.

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

The audited financial statements for the periods ending September 30, 2001 and 2000 were analyzed for the purpose of evaluating the applicant's ability to provide the capital and operational funding necessary to implement the project. The following is a list of accounts and ratios used in the analysis:

CON Action Numbers: 9528**Baptist Hospital, Inc.(CON 9528)
Financial Indicators and Ratios**

	09/30/2001	09/30/2000
Current Assets	\$ 68,351,000	\$ 63,463,000
Cash and Current Investment	\$ 30,327,000	\$ 29,128,000
Assets Restricted for Capital Funding	\$ 8,788,000	\$ 9,601,000
Total Assets	\$ 199,477,000	\$ 193,255,000
Current Liabilities	\$ 25,951,000	\$ 26,122,000
Total Liabilities	\$ 129,212,000	\$ 127,580,000
Total Equity	\$ 70,265,000	\$ 65,675,000
Net Operating Revenues	\$ 214,955,000	\$ 189,629,000
Interest Expense	\$ 5,486,000	\$ 5,322,000
Net Profit – Operations	\$ 7,702,000	\$ 310,000
Net Income	\$ 8,544,000	\$ 2,576,000
Cash Flow Provided by Operating Activities	\$ 16,266,000	\$ 11,201,000
Working Capital	\$ 42,400,000	\$ 37,341,000
Current Ratio (CA/CL)	2.6	2.4
Long-Term Debt to Equity (TL-CL/TE)	1.5	1.5
Operating Cash Flow (CFO/CL)	0.6	0.4
Equity to Total Assets (TE/TA)	35.2%	34.0%
Operating Margin (NPO/NOR)	3.6%	0.2%
Total Margin (NI/NOR)	4.0%	1.4%
Return on Assets (NI/TA)	0.4%	1.2%
Operating Cash Flow to Assets (CFO/TA)	8.2%	5.8%

Short-term position:

The applicant's current ratio of 2.6 indicates current assets are over two times that of short-term liabilities, a strong position. The working capital (current assets less current liabilities) of \$42.4 million indicates somewhat robust short-term liquidity. The applicant has a strong short-term position.

Long-term position:

The long-term debt to equity ratio of 1.5 is less than the 70th percentile statewide. Long-term debt of \$98.2 million is moderately significant. Net income totaled \$8.5 million in 2001 or 4.0 percent, which is approximately the 50th percentile for all Florida acute care hospitals of 4.5 percent. Net assets total \$70.3 million. The long-term position is adequate.

Capital requirements:

Schedule 2 indicates capital projects total \$81.4 million. Maturities on long-term debt through 2006 total \$20.1 million. The total capital requirement is estimated at \$101.5 million.

Available capital:

The applicant has set aside \$8.8 million in board-designated assets for capital improvements. The applicant also has \$30.3 million in short term investments that could be used to fund this project. Operating cash flows totaled \$42.4 million in 2001. The assumptions for Schedule 2 states that the applicant will generate all funding for the project. The applicant also states that they have access to the substantial resources of Baptist Health Care Corporation (the Parent), if needed.

Conclusion:

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

Health Manpower:

Schedule 6 indicates that the new hospital will have 414.0 total FTE staff by the end of year two (September 30, 2007). One hundred thirty-six of these personnel will be RNs, 12 will be LPNs and 8.0 will be nurses' aides. "Other" nursing positions include four FTEs, other ancillary positions include 251 FTEs, and the remaining three FTEs are one each for dietary supervisor, social service director and maintenance supervisor. The applicant indicates that the proposed project will take full advantage of the existing and available infrastructure and resources of Baptist Hospital and Baptist Health Care.

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.

CON Action Numbers: 9528

Comparative data were derived from hospitals in peer groups that reported data in 2000. The applicant has stated that the new hospital will serve the same patient population as the main campus, except for a marginal number of tertiary care patients who will continue to be admitted to Baptist Hospital-Pensacola. We tested the case mix data, using patient discharges from the indicated zip codes during 2000, excluding all DRG's set forth in the application. The computed case mix index for these cases was 1.2819. Therefore based on the range of services offered, number of beds and estimated patient days, as well as the computed case mix index; the applicant will be compared to the hospitals in Group 4. Per Diem rates are projected to increase by an average of 3.3 percent per year through 2007. 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 outpatient revenues into the per patient day computation.

Net revenue per adjusted patient day (NRAPD) of \$1,438 in year one and \$1,431 in year two is between the control group median and highest values of \$1,352 and \$1,602 in year one and \$1,393 and \$1,650 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 highest level, the hospital is expected to consume health care resources in a somewhat greater proportion to the services provided. (See Financial Analysis Table).

Projected cost per adjusted patient day of \$1,504 in year one and \$1,386 in year two is also between the group median and highest values of \$1,267 and \$1,547 in year one and of \$1,305 and \$1,594 in year two. This applicant is considered marginally cost-efficient when compared to the control group. (See Financial Analysis Table).

The year two operating profit for the hospital is estimated at \$1,493,485 which computes to an operating margin per adjusted patient day of \$44. This falls between the peer group median and highest values of \$38 and \$261. The operating margin computes to 3.1 percent, which is above the 50th percentile for Florida hospitals of 2.0 percent. The year two profit for the satellite hospital is an approximately 200 percent increase over the loss of \$1,435,529 projected in the first year of operation. Given the overly optimistic nature of their projections, the likelihood of revenue estimates being accurate is questionable making the projected profit uncertain. Given the still uncertain general economic situation and the

CON Action Numbers: 9528

possibility that the Pensacola area's overall economy could be adversely affected by the next round of military base closings, projected to occur in federal FY 2003-2004, the projected profitability of the satellite cannot be assured. However, with the overall support of Baptist Health Care Corporation (the Parent) the project is financially feasible.

Baptist Hospital, Inc. (PENSACOLA): CON #9528

Financial Analysis Table

PEER GROUP 4

	2007	YEAR 2	INFLATION ADJ. VALUES		
	YEAR 2 ACTIVITY	ACTIVITY PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	13,100,339	388	1,043	538	335
INPATIENT AMBULATORY	0	0	101	54	28
INPATIENT SURGERY	13,125,494	388	0	0	0
INPATIENT ANCILLARY SERVICES	57,551,232	1,703	4,010	2,090	1,408
OUTPATIENT SERVICES	58,831,000	1,741	2,282	1,611	900
TOTAL PATIENT SERVICES REV.	142,608,065	4,219	7,436	4,293	2,671
OTHER OPERATING REVENUE	68,000	2	204	8	1
TOTAL REVENUE	142,676,065	4,221	6,913	3,960	2,810
DEDUCTIONS FROM REVENUE	94,321,464	2,791	*	*	*
NET REVENUES	48,354,601	1,431	1,680	1,418	1,142
EXPENSES					
ROUTINE	4,707,645	139	301	218	157
ANCILLARY	17,575,900	520	583	459	355
AMBULATORY	0	0	0	0	0
TOTAL PATIENT CARE COST	22,283,545	659	884	677	512
ADMINISTRATIVE & OVERHEAD	12,382,658	540	807	608	407
PROPERTY	5,885,649	*	*	*	*
TOTAL HOSPITAL EXPENSE	40,551,852	1,200	1,652	1,376	1,224
OTHER OPERATING EXPENSE	6,309,264	0	0	0	0
TOTAL EXPENSE	46,861,116	1,386	1,623	1,329	1,016
OPERATING INCOME (MARGIN)	1,493,485	44	261	38	-120
PERCENT OPERATING MARGIN	3.1%				
PERCENTAGES NOT INFLATION ADJUSTED					
PATIENT DAYS	19,847				
ADJUSTED PATIENT DAYS	33,800				
TOTAL BED DAYS AVAILABLE	36,500				
ADJ. FACTOR	0.5872				
TOTAL NUMBER OF BEDS	100				
PERCENT OCCUPANCY			90.2%	49.4%	26.8%
<u>PAYER CLASS</u>					
	PATIENT DAYS	PERCENT OF TOTAL			
SELF-PAY	781	3.9%	2.3%	8.0%	0.1%
MEDICAID	1,778	9.0%	12.4%	4.7%	1.3%
MEDICAID HMO	98	0.5%			
MEDICARE	10,360	52.2%	77.9%	50.3%	28.7%
MEDICARE HMO	1,152	5.8%			
INSURANCE	3,612	18.2%			
HMO/PPO	1,326	6.7%	53.7%	35.4%	10.1%
TOTAL	19,847	100.0%			

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

In year two, managed care patient days, including Medicare and Medicaid managed care days, are estimated at 13.0 percent of total patient days. The control group median value is 35.4 percent. The level of managed care is also significantly below the average for the subdistrict hospitals of 23.6 percent. This level of managed care is likely to have little significant positive impact on competition, or to promote quality assurance and cost-effectiveness.

The applicant stated that the provision of charity services at the satellite hospital would parallel the experience of the main campus. Based on the information contained in the application, the satellite will provide 1.4 percent of its patient service revenue in charity service. This figure is the same as provided by Baptist Hospital-Pensacola in FY 2000. Notwithstanding the claim of the applicant, that charity service is central to its health care mission; charity service provided by Baptist Hospital in FY 2000 was only 61 percent of that provided by Sacred Heart Hospital.

COMPARISON OF SELECTED INDICATORS FOR
SUB-DISTRICT ONE HOSPITALS

			1	2	3	4
HOSPITAL NAME	COUNTY	DIST LHC	NRAPD	CAPD	PERCENT OF CHARITY SERVICE	PERCENT HMO/PPO DAYS
BAPTIST HOSPITAL OF PENSACOLA	Escambia	01	1,093	1,088	1.4%	26.7%
SACRED HEART HOSPITAL OF PENSACOLA	Escambia	01	1,200	1,093	2.3%	32.9%
WEST FLORIDA REGIONAL MEDICAL CENTER	Escambia	01	1,362	1,203	1.2%	26.0%
SANTA ROSA MEDICAL CENTER	Santa Rosa	01	1,083	1,061	1.3%	17.5%
JAY HOSPITAL	Santa Rosa	01	747	715	1.4%	14.8%
AVERAG						
E			1,097	1,032	1.5%	23.6%

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.

Baptist Hospital proposes to relocate 100 general acute care beds from the existing Baptist Hospital to a new satellite hospital facility adjacent to and “encapsulating spaces within the existing” Baptist Medical Park in Pensacola. Part of the Medical Park is an Ambulatory Surgical Center (ASC) and an area of it is slated to be renovated. The renovated area is to be retrofitted so that there will be a two-hour rated wall separating it from the rest of the existing ASC building. The application also proposes a four-hour fire rated wall to be built to separate the new hospital from the existing ASC space which was built to a lesser construction type.

Various wording is used to describe the different parts of this proposed healthcare complex. The application states in one place that the renovated area of the existing ASC will “support the new hospital”. From the description of the renovated portion, it can be inferred that this area would be considered part of the hospital because of the reference to its change of occupancy to Healthcare/Institutional. Additionally, Page 114 states that the “form of the hospital will be made up of two parts”. Part two being the renovated space of the existing ASC. On Page 122, the renovated space is said to be “an ancillary mixed-use” area.

Significantly, it is not possible from the application narrative and architectural plans to tell exactly where the ASC will end and the hospital begin. The varying terminology relating to the renovated space is quite confusing. The renovated area may be either part of the new hospital or part of the existing ASC, but may not be part of both. The narrative and the plans support the conclusion that the renovated ASC space will be part of the proposed hospital. The floor plans clearly show certain comparable functions in both facilities located adjacently and in effect, being treated as one “Suite”, part in the hospital and part in the ASC separated by the four-hour wall.

The application states on page 115 that Surgery will have a total of seven operating rooms, four new and three existing in the ASC. The new hospital’s surgical suite is adjacent to the ASC surgical suite with corridors aligning and a door located in the four-hour wall. An identical situation exists with the new (hospital) and existing (ASC) recovery areas. Item 4 on Page 115 is worded so that similar functional rooms in the hospital and the ASC are in effect merged in the way these spaces will function.

Although there are instances where an ASC and a hospital are co-located, their functions may not be co-mingled. The proposed four-hour rated wall separating these buildings would not be allowed to have any openings, including fire-rated doors.

The arrangement of the critical areas on the first floor plan is based on the joint, co-mingling of the surgical and recovery spaces. Without the door openings in the four-hour wall, the activities could not function as designed. Additionally, there would be no pre-op area to serve the hospital. There would also not be any corridor connections which would inhibit joint functioning.

The application states that the “hospital will be developed on and integrated into the applicant’s 112,000 square feet existing ambulatory care center”. Page 114 says that “The hospital will fit within the existing

campus masterplan, allowing for integrated medical care for both inpatients and outpatients”. The floor plans show that it is difficult to envision the hospital as being separate and distinct from the existing ASC. The separation by either two or four-hour walls would only be evident by looking at a floor plan and would not be obvious to anyone in the building.

Additionally, electrical and other services, including emergency generators would have to be fully separated to serve the ambulatory surgical center and the hospital. The application touches on the subject of services on pages 119, 120 and 122. Page 119 indicates that the upper three floors of the new proposed patient tower will be served by new air-handling units in the penthouse. However, the applicant states that the existing ground floor areas, (including portions of the new hospital which are existing), would be served by existing units. This does not conform with the requirement that the hospital services be fully separated from the ASC services. There is a proposed new central utility plant to be “constructed to support the project”, which must mean the new (hospital) construction.

The application indicates that the “inpatient and outpatient PACU’s will allow overflow between units for the most flexible and efficient use of space”.

The same paragraph on Page 115 states that there will be “2 new pre-op cubicle bays added to the Prep area for a total of 7”. Again, spaces in the hospital are being described as being “added” to the existing ASC spaces. Clearly, new spaces are seen as augmenting the ASC spaces.

The Women’s Center is being moved from its current location and is proposed to be relocated to a part of the ASC that will be renovated. Its occupancy would be changed to Healthcare/Institutional. No change is indicated to the layout of the space that the Women’s Center now occupies. The application does not address the proposed use of this existing area which is indicated as part of the existing ASC.

The application includes a site plan, and floor plans of all floors and the penthouse as well as larger scale plans of typical patient rooms. The hospital layout appears to be well thought out and the patient rooms are generous and appear to meet all code requirements.

The cost and construction methods appear to be in the reasonable range.

- i. Does the applicant have a history of providing health services to Medicaid patients and the medically indigent? Does the applicant**

propose to provide health services to Medicaid patients and the medically indigent? ss. 408.035(11), Florida Statutes.

According to AHCA FY 2000 Hospital Financial Data, Baptist Hospital provided 15.2 percent of its total patient days to Medicaid patients and 1.4 percent to charity care patients. The applicant's Medicaid percentage is greater than the District 1 average of 13.6 percent and the Subdistrict 1 average of 14.6 percent. The applicant's charity care is less than the District 1 average of 2.2 percent and the Subdistrict 1 average of 2.3 percent to charity care patients. Baptist Hospital is a Medicaid disproportionate share provider for state fiscal year 2001-2002 .

According to Financial Schedule 7A, approximately nine percent of the total patient days to be provided in the satellite facility will be Medicaid sponsored and the equivalent of about 1.4 percent of total patient days will be provided to charity care patients. The applicant does not wish to accept a condition regarding the provision of Medicaid and/or charity care services. It is again noted that the applicant has indicated its intent is to improve its parent hospital, a Medicaid disproportionate share provider's ability to serve the medically indigent population by improving its financial position through the implementation of this project.

Although the applicant does not agreed to condition award of the CON upon serving an increased level of indigent patients, one set of pro formas submitted by the applicant show that within the Baptist System (which in this case appears to include the downtown campus, Gulf Breeze and the satellite), patient days will increase by 1,778 days (somewhere between 360 and 450 patients). However, since no current access problems were shown, it appears that these patients are currently being served by either Santa Rosa or Sacred Heart. As noted earlier, both Medicaid disproportionate share providers oppose the project.

F. SUMMARY

Baptist Hospital, Inc. (CON #9528) proposes to establish a new satellite hospital via the relocation of 100 acute care beds from the existing 367 acute care beds at Baptist Hospital, located at 1000 West Moreno Street in Pensacola, Florida. The satellite hospital's bed compliment will consist of 88 medical/surgical beds and 12 critical care beds. The applicant does not provide the actual bed configuration of the downtown facility after the new project comes on line.

Baptist Hospital Inc., proposes to condition CON approval to the project being located at 9400 University Parkway and that it will delicense 100 beds at the existing downtown campus.

The proposed project involves a total cost of \$57,251,119. Total construction cost is projected at \$27,780,795 and involves 122,041 GSF of new construction and 25,456 GSF of renovation to the existing ambulatory surgery center, which the applicant indicates will be contiguous and adjacent to the satellite hospital on the same grounds as the satellite hospital.

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

Need:

- The applicant contends that the project is needed to ensure the availability of and accessibility to un-/under-funded care is maintained in the downtown Pensacola area and to allow Baptist to better use its existing facility resources at both the downtown and the Baptist Medical Park campus. Baptist also contends the proposed project will enhance availability and accessibility to quality care for its affiliated non-acute care services currently located in the north Pensacola area. These include Baptist Medical Park, University of West Florida's Student Health Center, Azalea Trace and the Baptist Manor. The applicant concludes that in addition to Baptist-specific gains, the local market will benefit from new competition as other local providers can naturally be expected to re-evaluate their current operations and services offerings, to increase emphasis on patient/client service and to enhance existing facility access and amenities. However, the applicant's projections show an underutilized facility, with expected occupancy in the 100 beds to only reach an average of 65 percent in the second year of operation (2007). No evidence was presented which demonstrates that overall access or bed availability will improve. The applicant did not reasonably demonstrate that population growth in the proposed service area shows a need for additional beds. It was also not demonstrated that care or access to the medically indigent would be improved and it appears that existing Medicaid disproportionate share providers will be negatively impacted if this project is approved. Additionally, the applicant's claim that the local market will benefit from new competition is not fully supported by financial pro formas. The financial review shows that at least the projected level of managed care at 13.0 percent is likely to have little impact on competition to promote quality assurance and cost-effectiveness because the applicant's projections are below the subdistrict average of 23.6 percent.

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 audited financial statements provide evidence of an adequate long-term financial position. Based on the applicant's financial position and the support of the parent company, funding for the proposed project and all other capital projects will likely be available.
- Based on the existing available beds that serve the proposed service area, the applicant's projected utilization appears to be optimistic. Patient day estimates not realized will produce less revenues and anticipated profit. However, with the overall support of Baptist Health Care, the project appears to be financially feasible.
- The project managed care level of 13.0 percent is likely to have little impact on competition to promote quality assurance and cost-effectiveness because it is significantly lower than the 23.6 percent average for the subdistrict's hospitals.

Medicaid/Indigent Charity Care Commitment:

- According to AHCA FY 2000 Hospital Financial Data, Baptist Hospital provided 15.2 percent of its total patient days to Medicaid patients and 1.4 percent to charity care patients. The applicant's Medicaid percentage is greater than the District 1 average of 13.6 percent and the Subdistrict 1 average of 14.6 percent. The applicant's charity care is less than the District 1 average of 2.2 percent and the Subdistrict 1 average of 2.3 percent to charity care patients. The applicant is a Medicaid disproportionate share provider for State Fiscal Year 2001-2002.
- The applicant projects that 9.0 percent of the total projected patient days will be provided to Medicaid patients and the equivalent of 1.4 percent of total patient days will be provided to indigent patients. The applicant does not wish to accept a condition regarding the provision of Medicaid and/or charity care

services. The applicant's proformas show the charity care will be 1.4 percent of gross revenues with or without the project. Although the applicant does not agreed to condition award of the CON upon serving an increased level of indigent patients, in addition to the charity care, one set of pro formas shows that within the Baptist System (which in this case appears to include the downtown campus, Gulf Breeze and the satellite), patient days will increase by 1,778 days. However, since no access problems were shown, it appears that these patients are currently being served by either Santa Rosa or Sacred Heart. Both Medicaid disproportionate share providers oppose the project.

Architectural Analysis:

- Narrative presented on the physical plant is confusing. It appears from schematics presented that the new hospital will be integrated with an existing ambulatory surgery center. Assuming this to be the case major revisions are necessary in order to bring the project to acceptable standards.

G. RECOMMENDATION

Deny CON #9528.

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