

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

**A. PROJECT IDENTIFICATION**

1. Applicant/CON Action Number

**Osceola Regional Hospital, Inc./CON #9545**  
d/b/a Osceola Regional Medical Center  
P.O. Box 422589  
Kissimmee, Florida 34742-2589

Authorized Representative: Randy Gross  
(407) 518-3606

**Adventist Health System/Sunbelt, Inc./CON #9546**  
**d/b/a Florida Hospital**  
601 East Rollins Street  
Orlando, Florida 32803

Authorized Representative: Richard E. Morrison  
(407) 303-1607

2. Service District/Subdistrict

District 7, Subdistrict 3, Osceola County

**B. PUBLIC HEARING**

A public hearing was not held or requested with regard to the proposed projects. However, letters of support have been submitted for both projects. Mike Horner, President of the Chamber of Commerce of Kissimmee/Osceola County, cites the county's population of 180,000 but also states that in addition to residents, 150,000 visitors per day are hosted by Osceola County. Mr. Horner indicates that Osceola County hospitals need additional beds to have the capacity to serve its citizens and strongly encourages AHCA to consider any application for additional inpatient beds. He supports both facilities applications. Both applicants also include newspaper articles that chronicle the long delays in accessing inpatient beds in Osceola County facilities.

**Osceola Regional Hospital, Inc. (CON #9545)** has four letters of support for its project in addition to Mr. Horner's. Ms. Maria Grulich, Director of the Osceola County Economic Development Department, cites her concern for the number of beds in Osceola County and specifically at Osceola Regional Medical Center. She indicates that Osceola County has 13.3 percent fewer hospital beds per thousand population than the other District 7 counties and 29.5 percent fewer beds per thousand than the state average. Beverly Hougland, Chief Executive Officer of the Osceola County Council on Aging, wrote a letter of support stating that Osceola County's population is growing at an annual rate of 4.3 percent compared to 2.8 percent for the District and 1.8 for the state. She indicates that in CY 2001, Osceola County had 1.96 beds per thousand population, the district 2.26 and the state 2.78. She cites the high amount of charity care and Medicaid patient care provided by Osceola Regional and indicates that several local needs assessments have identified need for more hospital beds in the county.

Mrs. Marie S. Thompson, a concerned citizen, submitted a letter of support, which cites the long (sometimes as long as 13 hours) emergency room waits for family members and friends to have an available bed at Osceola Regional. Mrs. Thompson indicates that the Agency needs to re-think the way hospital census is taken. Rafeal Jimenez, M.D., President of the medical staff at Osceola Regional Medical Center, indicates that he has witnessed first hand the challenges Osceola Regional faces on a daily basis with regards to capacity issues. Dr. Jimenez states that the primary areas of ICU, PCU, medical and surgical are often at capacity throughout the regular work week, which ultimately leads to unacceptable wait times in the emergency department as patients are admitted and awaiting an available bed. The addition of the facility's Level II NICU and open heart surgery programs in 1999 and 2000<sup>1</sup>, respectively have made the capacity issues more and more prevalent, according to Dr. Jimenez.

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<sup>1</sup> Osceola Regional Medical Center's six Level II NICU Beds were licensed effective October 7, 1999. The unit averaged 27.32 percent utilization during the 12 months ending June 30, 2001. The Open Heart Surgery program's first reported procedure was performed on May 21, 2000. AHCA utilization data indicate that 268 open-heart surgeries were performed at Osceola Regional during CY 2001.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546)** has nine letters of support for Celebration Health's projects in addition to Mr. Horner's. Ms. Patsy Heffner, Osceola County Tax Collector, indicates that Osceola County is the fastest growing county in the state<sup>2</sup> and the county's medical facilities are woefully inadequate. The county's bed ratios have dropped from 34.4 per 10,000 population to 19.5 beds per 10,000 population, according to Ms. Heffner. It is noted that bed-to-population ratios do not take into account occupancy in existing hospitals and are therefore not considered to be good indicators of need. And as Ms. Heffner points out, they also do not consider the tourist population, which, according to Ms. Heffner, averaged 100,000 per days during CY 2001. She also indicates that due to high occupancy at the Osceola County hospitals, patients presumably including those tourists not included in the bed-to-population ratios are being forced to seek care in hospitals located outside the county. Mr. Robert Fernandez, Osceola County Manager indicates that as a result of the county's rapid growth during the past decade, much publicity has been given to the lack of available hospital beds in Osceola County and more hospital beds are needed.

Mark W. Weimer, City of Kissimmee Chief of Police, states that with the rapid population growth, influx of tourists and the transient population, local hospitals have not been able to meet the demand for hospital beds and the shortage has reached a critical point. Chief Weimer indicates that with the growth the area is experiencing and projected additional growth, the need for services will only worsen if current shortages are not addressed. Blaine A. Muse, Superintendent of Osceola County Schools, indicates that the school district grew by 3,000 students from the last school year and another huge increase is projected for the 2002-2003 school year. Further, the school district had approximately 1,000 of its employees/dependents recently choose Florida Hospital network for health care. Therefore, along with the overall population growth in Osceola County, Celebration Health can expect in increase in need for hospital services because of health insurance choices made by the school district employees.

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<sup>2</sup> Agency for Workforce Innovation data indicate that from CY 1995 through CY 2000, Osceola County was the 7<sup>th</sup> fastest growing county in the state.

**CON Numbers: 9545, 9546 & 9546P**

Vidor Friedman, MD, medical director of the emergency department at Florida Hospital Celebration Health, presents a brief history of the hospital's ER. Dr. Friedman indicates that in 1998, the facility's ER was seeing only about 20-25 patients. By July of 1999, the facility was averaging more than 60 patients per day, during the summer of 2000; more than 85 patients per day were being seen. In 2001, the occasional patient was being held for more than two to three hours in the ER awaiting a bed and approximately 33,000 patients or about 90 per 24-hour period were being treated. The ER's CY 2001 volume increased 10 percent from CY 2000 despite the decreases in volume for several months after September 11, according to Dr. Friedman. Admissions from the ER to the hospital during January 2002 went up to 13 percent-and frequently none of the hospital's monitored beds were available for non-admitted patients. Dr. Friedman is referring to an observation bed when discussing "non-admitted patients" and it is noted that Adventist could easily add this type of bed anytime, without CON review. Dr. Friedman indicates that since the beginning of 2002, the facility has admitted up to 20 patients per day. With the average stay over three days, Dr. Friedman states that this is an unsafe situation for a 60-bed hospital and the emergency department is projected to see over 40,000 patients during CY 2002. Dr. Friedman concludes that patient access cannot be provided without the additional beds.

Max B. Medary, M.D. with the Greater Orlando Neurosurgery & Spine, PA, indicates that he performed 400 operative cases with additional non-operative admissions during CY 2001. Dr. Medary indicates that his group is the only source of neurosurgical coverage for all hospitals in the area and another neurosurgeon has been added to his group. During CY 2002, in addition to non-operative admissions, over 700 operative cases will be performed, according to Dr. Medary. Celebration Health has invested in the technology required for complex neurosurgical cases resulting in a high number of patient transfers for this type surgery. This along with the exponential population growth of the West Orange, Osceola, Lake and Polk Counties, has lead to delays in patient transfer or resulted in treatment at a facility not well equipped to handle complex cases. Dr. Medary concludes these problems are not in the patient's best interest and that they interfere with his group's care for their patients.

Robert T. Marema, M.D., President of the Bariatric Centers for Weight Loss Surgery, indicates that his company will be opening a center at Florida Hospital Celebration Health around June 1<sup>st</sup>, 2002. Dr. Marema indicates that his group is currently one of the top five volume surgical weight loss programs in the United States and projects it services approximately seven percent of the total U.S. population, equating to 19 million surgical candidates. There are only approximately 200 established surgical programs in the United States according to Dr. Marema. The Celebration center will be initially have one and subsequently two full time surgeons who will be performing approximately 500 procedures annually. This leads to an average daily census of 10 or more for one surgeon and 20 for two. The anticipated length of stay will be 3.8 days with a certain percentage of patients requiring readmission for minor problems.

James R. Lightfoot, Member of the United States Congress from 1985-1997, submitted a letter of support in which he relates his recent experience in the ER at Celebration. While there he saw first hand the shortage of available beds when a patient was in need of admission. Congressman Lightfoot indicated that while the patient did get a bed, the hospital staff was under great pressure to find him one. Congressman Lightfoot indicates that due to Celebration's location close to the Disney complex, many of the hospital's patients are not from the local area and in addition the City of Celebration's population growth, this is also putting pressure on the facility. He concludes that the additional beds are needed to address the situation.

Charles A. Rogers, SunTrust Vice President & Manager of the Celebration Market, indicated in his letter of support that the growth of the community and surrounding area has resulted in an alarming demand for inpatient beds that are not currently available. Mr. Rogers concludes that the beds are needed in order for Celebration Health to keep up with the significantly increased patient volume.

C. **PROJECT SUMMARY**

**Osceola Regional Hospital, Inc. (CON #9545)** operates Osceola Regional Medical Center (Osceola Regional), a 171-bed facility consisting of 165 acute care and six Level II NICU beds, located in Kissimmee, Florida. The applicant proposes to add 40 acute beds with this project.

Certificate of Need #9089, which authorized the construction of a replacement facility, conditioned Osceola Regional to provide 14.1 percent of the 165 acute beds total patient days to Medicaid patients and 1.26 percent to charity care patients. The replacement facility was licensed July 28, 1999 and AHCA records indicate the facility has complied with these conditions through CY 2001. In this application, Osceola Regional proposes to condition the total facility to 11.9 percent of the 205-bed facility's total patient days to Medicaid patients and 0.8 percent to charity care patients. Therefore, the applicant proposes to lower both conditions with the approval of this project. However, the applicant is a Medicaid disproportionate share provider and the only hospital in the subdistrict with a CON condition to provide services to Medicaid and charity patients.

The proposed project consists of 29,000 GSF of construction and construction costs of \$5,230,200. The project involves a total cost of \$8,057,465.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546)** operates seven acute care hospitals and one behavioral health facility in District 7. Adventist Health System/Sunbelt Inc.'s total District 7 bed count is 1,783. Two facilities, Florida Hospital Kissimmee and Florida Hospital Celebration Health are located in Subdistrict 3 (Osceola County). The applicant proposes to add 60 beds, or in the alternative 40 beds, to the existing 60 acute care beds at Florida Hospital Celebration Health. This facility has a CON (#8741) for the original 60 beds, which requires reporting on conditions that are not related to Medicaid and charity care. AHCA records indicate the applicant has complied with the conditions on this CON since it was licensed in May 1998 through CY 2001.

**CON Numbers: 9545, 9546 & 9546P**

The applicant does not propose to condition CON approval to the provision of Medicaid and charity care. However, the financial projections indicate that Medicaid will comprise 8.3 percent of the applicant/system's year two total patient days with the 60-bed project and 8.4 percent with the 40-bed partial project. Charity care is projected at 2.3 percent of total charges of the facility with both projects.

The proposed 60-bed project consists of 39,147 GSF of renovation and renovation costs of \$5,170,500. The project involves a total cost of \$10,394,263.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON 9546P):** The proposed 40-bed project consists of 28,639 GSF of renovation and renovation costs of \$3,447,000. The project involves a total cost of \$6,904,615.

In generally comparing both projects as summarized above, the following is noted:

- Both projects result in a net bed increase to the subdistrict. Osceola proposes to add 40 and Adventist proposes to add 60 beds, or 40 beds with its partial project.
- Adventist is proposing to renovate an existing site for 60 beds, at higher overall costs than Osceola with 40 beds. The Adventist partial project would add 40 beds at a lower cost than Osceola's new construction for 40 beds.
- Osceola Regional is proposing to condition award of the CON upon providing a relatively high percentage of its patient days in the 205 acute care bed facility to Medicaid patients. Pro formas more than support this proposed condition. Adventist has made no formal commitment to the indigent population, despite evidence in pro formas that indicate it intends to provide care to this population (however, at a lesser percentage than Osceola Regional).

**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 meet 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 projects 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 (F.A.C.); 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 7, Subdistrict 3/Osceola County.

District 7, Subdistrict 3 had a total of 349 licensed beds that experienced an occupancy rate of 63.87 percent for the reporting period July 2000 through June 2001. As of January 25, 2002, Subdistrict 3 has no CON approved or exemption for new acute care beds.<sup>3</sup> Osceola Regional Medical Center's licensed 165 acute care beds reported an average occupancy of 67.62 percent during the reporting period. Osceola's acute care bed utilization is the second highest reported utilization of the four hospitals in Subdistrict 3. Florida Hospital - Celebration Health's licensed 60 acute care beds reported an average occupancy of 67.35 percent during the reporting period, the third highest utilization of the four acute care hospitals in Subdistrict 3.

The proposed projects are not submitted in response to the fixed need pool. The applicants indicate that the need for the project is based on special circumstances, which will be discussed in Section C below.

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<sup>3</sup> However, AHCA has indicated that it will approve an additional 10 acute care beds at Florida Hospital Kissimmee with approval of the parties to the prior Florida Hospital Celebration (CON #8741) settlement. As of 6/5/02, the parties have signed an agreement, but a final order has not yet been issued.

**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.**

Not applicable.

**Osceola Regional Medical Center, Inc.’s (CON #9545)** licensed 165 acute care beds reported an average occupancy of 67.62 percent during the June 2000 through July 2001 reporting period.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON 9546):** Florida Hospital – Celebration Health’s licensed 60 acute care beds reported an average occupancy of 67.35 percent during the reporting period.

**c. Other Special Circumstances:**

**Osceola Regional Medical Center, Inc. (CON #9545)** indicates two major reasons to create special circumstances for the proposed project. One is the rapid growth in Osceola County. The applicant provides the following table documenting this growth.

**Osceola County (Subdistrict 3) and District 7  
Average Annual Compounded Growth Rate  
CY 1999, 2002, 2005 & 2006**

Area	1999	2002	2005	2006	Average Annual Growth
Osceola County	160,187	184,263	200,975	206,610	4.33%
District 7	1,825,450	2,010,207	2,115,265	2,150,996	2.77%
State	15,406,906	16,563,355	17,371,110	17,640,554	2.20%

Source: CON #9545 from AHCA Population Estimates, December 2001. Year totals are as of January 1<sup>st</sup> of given year.

**CON Numbers: 9545, 9546 & 9546P**

The applicant contends that with the average annual growth rate of 4.3 percent, the rapid population growth exerts demand for health care services. The growth rate is significantly higher than the district or the state growth rates of 2.8 percent and, 2.2 percent respectively.

The second major factor in the need for additional beds is the location of the hospital. The applicant indicates that Osceola Regional is located in an area of rapid growth that is in part encouraged by the hospital's new physical plant and added services.

The following chart shows Osceola County residents' use of acute care services by place of service.

**Osceola County (Subdistrict 3) Residents  
Cases & Patient Days and Place of Service  
July 1, 2000 to June 30, 2001**

	<b>Osceola Residents remaining in County for service</b>	<b>Osceola Residents who left the County, but served in the District</b>	<b>Osceola Residents who left County &amp; District for service</b>	<b>Total Osceola Residents who received acute care service</b>
<b>Cases</b>	15,476	5,402	447	21,325
<b>Patient Days</b>	58,114	27,806	3,978	89,898

Source: CON #9545 from AHCA Patient Discharge Data. The applicant indicates that if a quarter's data was missing, data from the hospital's prior year was substituted.

As the chart shows, almost 25 percent of the county's residents leave the subdistrict for acute care services. The applicant's project would serve to address and hopefully reduce the out-migration of Osceola County residents.

The applicant presents various contentions in its need discussion. These include occupancy rates varying considerably by months and across units that destroy the descriptive nature of averages, high use in four of the hospital's units; medical, telemetry, ICU and CVCICU and the demand for beds occurring quickly and without a precursor. Data showing these trends is presented. While there are trends in designated bed utilization, the applicant's 165 acute care beds highest period of utilization during CY 2000 to the present is 83.72 percent, which occurred in the 1<sup>st</sup> quarter of CY 2002. The previous high was 1<sup>st</sup> quarter 2001 at 74.74 percent. Therefore, from an historical view, acute care beds should have been available at the facility.

**CON Numbers: 9545, 9546 & 9546P**

The applicant presents its basis for determining the need for additional beds using two forecast models. One component is the increase in the number of days experienced at the hospital. During CY 1999, the hospital had 8,275 admits. Admits increased to 9,227 in CY 2000 and to 10,564 in CY 2001. This is an increase of approximately 15 percent per year. During CY 1999, inpatient days totaled 32,280, this increased to 37,206 in CY 2000 and 42,773 in CY 2001. This is annual increase in inpatient days of approximately 15 percent. Inpatient days for the district however, averaged only an annual increase of approximately 6.2 percent during the same period.

The following chart shows the applicant's projections based on the district's 6.2 percent annual increase using the patient days per 1,000 persons from CY 2001 applied to the projected populations for acute care subdistrict and the district.

**Projected Acute Care Patient Days  
for Osceola Regional Medical Center and Osceola County  
(Subdistrict 3)**

	<b>2002</b>	<b>2005</b>	<b>2006</b>	<b>Annual Growth Rate</b>
Osceola Regional	45,339	54,000	57,240	6.0%
Osceola County	88,295	96,303	99,003	2.9%
District 7	1,043,438	1,097,971	1,116,517	1.7%
Average Daily Census				
Osceola Regional	124	148	157	
Osceola County	242	264	271	
District 7	2,859	3,008	3,059	

Source: CON #9545, page 1-17 utilizing AHCA Population Estimates, December 2001.

The applicant contends that the ADC in the chart above is conservative as the average growth rate shown for the hospital of only six (6) percent is considerably below its actual growth rate experienced in recent years of 15 percent.

As a test of reasonableness for these projections, the applicant utilizes the state rate of 548.42 patient days per thousand population and provides the following chart. However, Osceola County averaged 479.18 patient days per thousand during CY 2001, which was up from 426.98 in CY 2000 and 399.04 in CY 1999. Therefore, the use of the state rate results in a higher rate than the subdistrict's actual performance. However, as this rate is based on Osceola hospital patient days, the subdistrict's 25 percent patient out-migration to other facilities depresses the county's use rate.

**Projected Acute Care Patient Days for Osceola County  
(Subdistrict 3) and District 7**

	2002	2005	2006
Each Area's 2001 Rate			
Osceola County	88,295	96,303	99,003
District 7	1,043,438	1,097,971	1,116,517
Use of State Rate			
Osceola County	101,054	110,219	113,309
District 7	1,102,438	1,160,054	1,179,649
Difference in Patient Days			
Osceola County	12,759	13,916	14,306
District 7	59,000	62,083	63,132
Average Daily Census (Net)			
Osceola County	35	38	39
District 7	162	170	173

Source: CON #9545, page 1-18.

Utilizing the additional census projections from the above table, the applicant indicates that by applying Osceola Regional's historical market share of 50 percent to the average daily census results in the following table.

**Projected Acute Care Patient Days  
for Osceola Regional Medical Center and Osceola County (Subdistrict 3)**

Osceola Regional Medical Center	2002	2005	2006
Low Estimate ADC	124	148	157
Market Share of the Net ADC	17	19	20
High Estimate for Osceola ADC	142	167	176
Beds needed to Maintain 75%			
Low Estimate Beds Needed	166	197	209
High Estimate Beds Needed	189	223	235
Net Increase from 165 Licensed beds			
Low Estimate Beds	1	32	44
High Estimate Beds	24	58	70

Source: CON #9545, page 1-19.

The applicant indicates its utilization will be 45,339 patient days in CY 2002, resulting in an occupancy rate of 75.28 percent. With the 40 new acute care beds, utilization is projected to increase to 54,000 patient days and 72.17 percent during CY 2005 and 57,240 patient days for a 76.5 percent occupancy during CY 2006. It is noted that the occupancy benchmark for additional acute care hospital beds at an existing hospital is 80 percent.

If we assume the applicant can maintain its 50 percent market share and that more Osceola County residents will seek care in the subdistrict as opposed to out-migrating to other District 7 facilities, the applicant's projections and utilization appear to be reasonable.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546):** Florida Hospital – Celebration Health indicates that the following special circumstances support the need for additional beds. These include the rapid growth in volume at the hospital, the expectation that projected demand for its services will exceed capacity within the five year planning period, the growth in volume at other Osceola County and District 7 facilities, and the area's population growth. Each of these will be discussed below.

In reference to the growth in volume at Celebration Health, the applicant indicates that volume has more than doubled in three years. During the facility's first quarter of operation (July through September 1998), the facility had an average daily census of 12.1 patients. During the CY 2001, the hospital's ADC had increased to 41.6 patients. The applicant indicates that during the 1<sup>st</sup> quarter of 2002, the hospital's ADC was 55.4, which was over 14 percent higher than 1<sup>st</sup> quarter 2001's 48.5 ADC.

The applicant indicates that several factors contribute to the hospital's significant growth including the proximity to Walt Disney World and other Orlando tourist attractions, and states that approximately 32 percent of Celebration's inpatients are residents of states other than Florida and countries other than the United States. However, the AHCA discharge data for the 12-month period ending June 30, 2001, shows only 26.72 percent were residents of other states and countries. Regardless the facility's inpatient mix is atypical for Florida. It has a high amount of patients from outside the state primarily due to its "preferred" relationship with Disney World.

The applicant indicates that its approach to care attracts patients from a large geographic area and no single zip code accounts for more than six percent of the facility's total discharges. The top nine zip codes total only 37.0 percent of the facility's total discharges for the 12 months ending June 30, 2001, according to the applicant. The applicant states that Claritas population data indicates that the nine zip code area grew from 114,644 persons in 1990 to 208,198 in 2001. Claritas projects the nine zip code area will add another 37,000 people between 2001 and 2006.

The applicant next discusses its expanded programs, cardiac catheterization in 2001 and its new programs for CY 2002, which includes expansion of its Neuroscience Institute to include a Brain Attack Center and a weight loss surgery program in addition to investment in Neurosurgery. The applicant then discusses the letters of support from Dr. Max Medary and Dr. Robert Marema (see letters of support in Section B.). The applicant concludes that with the rapid population growth in its immediate service area, the success of Orlando as a tourist destination and FH Celebration's large share of patients from outside Florida, and the ongoing growth of Celebration Health's programs, it is reasonable to project continued volume growth and demand for services.

Adventist uses two approaches to project utilization at Florida Hospital Celebration Health. One the applicant indicates is a draw rate analysis incorporates hospital specific utilization data and service area population growth to project future volumes. The second method analyzes the historical growth in volume and projects future volumes assuming those growth patterns continue.

The first analysis is based on the number of patients Celebration draws from its local service area. This method uses the nine zip code area that had a population of 208,198 in 2001. As previously stated, Claritas projects the nine zip code area will add another 37,000 people between 2001 and 2006. The applicant indicates that in CY 2000, it captured 37 percent of the total discharges from this area and its draw increased by 6.2 percent in CY 2001.

**CON Numbers: 9545, 9546 & 9546P**

The applicant assumes that Celebration will continue to increase its draw rate by six percent annually and the hospital is projected to draw 12.3 patients for every 1,000 residents in its service area in CY 2007. Given an estimated 253,254 service area residents in 2007, Florida Hospital Celebration Health is projected to treat 3,125 inpatients from the nine zip code area in CY 2007. Assuming the service area residents account for 37 percent of the hospital's total discharges (same as in CY 2001), the applicant projects a total of 8,446 inpatients with an average length of stay of 3.07 days (AHCA data shows overall ALOS for all inpatients during 12 months ending June 30, 2001 was 2.72 days), then the total number of inpatients (8,446 X 3.07 days) will generate 25,929 days of care, representing an average daily census of 71 patients. The applicant concludes that at 75 percent occupancy, the facility would need 95 beds to accommodate this inpatient volume.

The applicant presents the following table to support the above projections.

**Projected Acute Care Bed Need Utilizing the "Draw Rate" Approach to Projecting Need at Florida Hospital Celebration Health**

Projected 2007 Service Area Population	253,254
Times Celebration Health's Draw Rate	12.34
Equals Service Area Patients at Celebration Health	3,125
Plus Patients from outside Service Area	5,321
Equals Total Celebration Inpatients	8,446
Times ALOS	3.07
Equals Projected Patient Days	25,929
Divided by 365 = Projected Average Daily Census	71.0
Divided by 0.75=Projected Bed Need	95

Source: CON #9546, page 16.

This assumes that the applicant will continue to increase its market share in the service area and have an ALOS of 3.07 days. However, the actual ALOS for the total facility during the 12-month reporting period ending June 30, 2001 was 2.72 days (including newborns). Taking the 2.72 ALOS for the 8,446 patients, results in 22,973 patient days. Dividing 22,973 by 365 results in a projected average daily census of 62.94. This results in a bed need of 84 beds with 75 percent occupancy and at 80 percent it shows need for 79 beds. Occupancy in 120 beds is only 52.45 percent using this method and only 63.93 percent in 100 beds (the partial request).

The applicant indicates its approach to projecting utilization documents a need for additional beds to meet demand by the year 2007, at 95, or approximately 40 to 60 more than the current 60 beds. However, the applicant's approach assumes a continuing increase in market share and uses an ALOS that is longer than the hospital's actual experience for the 12 months ended June 30, 2001.

The applicant also presented what it called a regression analysis, which shows need for 111 beds. However, this approach was based on a limited period of time, as the facility was initially licensed on June 10, 1998 and it did not contain enough values to create a valid formula, which considers seasonal fluctuations.

The applicant has demonstrated that there are capacity restraints at the hospital and letters of support confirm this. Need for an additional 60 beds has not been demonstrated by the applicant. Assuming an increase in market share, primarily at the expense of the applicant's sister facility in Kissimmee, need for 40 beds has been demonstrated.

## **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.**

In October 2000, the Local Health Council of East Central Florida, Inc. adopted the following Certificate of Need Allocation Factor with three subparts for applicants seeking to add acute care beds in District 7:

- a. Preference shall be given to applications for the delicensure of/conversion from existing acute care beds, and/or the delicensure of/conversion from acute care beds through the relocation of an entire facility, if the applicant can provide substantial documentation of:**

- (1) **The impact of the proposed project on the parent facility including projected occupancy declines, market share, curtailing of service effect on operating costs, use of vacated space at the main campus and charge changes; and that the proposed service improves access by at least 25 minutes to at least 10 percent of the population of a minimum of at least 35,000 people. This should be substantiated by analysis of patient origin to existing providers, physician referral practices, and locations of physicians' offices.**
- (2) **Preference will be shown to applicants who delineate a proportionally higher number of acute care beds in relation to the facility's total number of acute care beds.**
- (3) **Commitment to provision of care to both no-pay and low-pay medically indigent patients and Medicaid patients at a minimum of no more than two percent below the most recent AHCA publication for the district of the charity/uncompensated care percentage of net revenues.**

This preference pertains to conversion of acute services to a different service, or the relocation of an entire facility and is not applicable to these projects. Osceola Regional Medical Center is a Medicaid Disproportionate Share Provider and proposes to condition its project to the provision of a substantial amount of Medicaid and charity care as discussed in the applicant's project summary and in Item 4. i. Adventist does not make a commitment to medically indigent and Medicaid patients.

**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.**

**Priority Considerations.**

- (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.**

**Osceola Regional Medical Center, Inc. (CON #9545)** is a Medicaid Disproportionate Share Provider and commits to provide services to medically indigent patients (see project summary and Item 4. i.). In addition, Osceola proposes to condition CON approval to its commitment while Adventist does not. Orlando Regional also projects a larger percentage of Medicaid (11.9 to 8.4 (8.3 for 40-bed partial project) total year two patient days) than Florida Hospital Adventist. While Adventist projects that 2.3 percent of its gross charges will be charity care with both projects, ORMC indicates that 0.8 percent of its patient days will be charity care and proposes to condition to this amount.

- (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.**

Both applicants propose the addition of new beds with no conversion of underutilized beds.

**4. Statutory Review Criteria**

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

The following table reflects the utilization of acute care facilities in the service area for the period of July 1, 2000 through June 30, 2001:

<b>District 7, Subdistrict 3 (Osceola County) 12 months ending June 30, 2001</b>		
<b>Facility</b>	<b>Acute Care Beds</b>	<b>Percent Occupancy</b>
Osceola Regional Medical Center	165	67.62%
Florida Hospital - Kissimmee*	40	84.75%
St. Cloud Hospital	84	44.05%
Florida Hospital - Celebration Health	60	67.35%
<b>Subdistrict Total</b>	<b>349</b>	<b>63.87%</b>
<b>District 7 Total</b>	<b>4,450</b>	<b>62.25%</b>

Source: Florida Hospital Bed and Service Utilization January 2002.

\*Approved to add 10 beds through a settlement agreement, Final Order pending as of June 5, 2002.

Note: Bed count is as of January 25, 2002.

District 7, Subdistrict 3, Osceola County has a total of 349 licensed acute care beds and there are 10 approved acute care beds at Florida Hospital Kissimmee. The subdistrict's 349 beds experienced an occupancy rate of 63.87 percent during the 12-month reporting period ending June 30, 2001. Although there are no geographic boundaries to prevent patient access to these beds, it is reasonable that patients are more likely to utilize acute care services that are geographically close to their residence and/or workplace.

Need for the projects are not evidenced by the availability, quality of care, efficiency, accessibility and extent of utilization of existing health care facilities and health services in the service area. This is largely because of the low volume experienced by St. Cloud Hospital, the hospital that serves the eastern portion of Osceola County.

However, both applicants present an analysis of the historical population growth in the area, increased hospital utilization and reasonable population projections. Should Osceola Regional maintain its 50 percent market share and more Osceola County residents seek care in the subdistrict as opposed to out-migrating to other District 7 facilities, the applicant's projections and utilization appear to be reasonable.

Celebration Health assumes an increasing market share and is increasing inpatient services via affiliations with specialized surgical providers and with the area's projected growth, the applicant's projections and utilization could be reasonable. Increasing market share is expected to occur primarily at the expense of the applicant's sister facility in Kissimmee.

- 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.**

**Osceola Regional Hospital, Inc. (CON #9545)** is JCAHO accredited and in good standing with the Medicaid and Medicare programs. The applicant provided a detailed discussion on its Performance Improvement Plan and quality improvement initiatives. The applicant has demonstrated that it is a quality of care provider.

A review of Agency licensure complaint investigations against Osceola Regional Hospital indicates that the hospital has no confirmed patient care complaints and no confirmed emergency access violations during the time period of November 4, 1999 to the present. There is one patient care complaint that is under investigation at this time.

**Adventist Health System Sunbelt, Inc. d/b/a Florida Hospital (CON #9546)** indicates Florida Hospital is JCAHO accredited. The applicant also provides a discussion of the facility's quality and utilization management program and performance improvement plan. The applicant participates in the Medicaid and Medicare programs and is in compliance with the conditions of participation for these programs. The applicant demonstrated that it has the ability to provide quality of care.

A review of Agency licensure complaint investigations against Florida Hospital indicates that the system has had seven confirmed patient care complaints from November 4, 1999 to the present. The first of the seven confirmed complaints was closed on January 4, 2000, the last on April 16, 2002. There are four more patient care complaints that are under investigation. Florida Hospital also had a confirmed emergency access violation that was closed on April 14, 2001.

- 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.**

Both applicants indicate that they do not propose special equipment or services, which are not reasonably and economically accessible in adjacent service areas.

**Osceola Regional Hospital, Inc. (CON #9545)** indicates its project is designed to stem the out-migration of Osceola County residents to other acute care providers. AHCA hospital discharge data for the 12-month reporting period ended June 30, 2001, indicates that 89.43 percent of Osceola Regional's patients were District 7 residents.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546)** indicates that only 28 percent of its patients are residents of the subdistrict. AHCA hospital discharge data for the 12-month reporting period ended June 30, 2001, indicates that only 54.49 percent of Celebration's total discharges were District 7 residents. Therefore, Celebration Hospital could be expected to provide a substantial portion of the new beds services to individuals not residing in District 7.

- 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.**

**Osceola Regional Hospital, Inc. (CON #9545)** provides a list of in-service education courses it provided during CY 2001 and states that it is committed to ensuring that all employees receive training and education, and that clinical needs of employees are met. Physician and medical education courses and public forums are also provided. The applicant also presents an overview of research projects that are ongoing at the hospital.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546)** indicates that it provides education and participates in research programs. A description of the hospital's ongoing training programs and research programs is provided.

Neither applicant's projects are designed to impact on the clinical needs of health professional training programs in the service area. Neither applicant hospital is a statutorily defined teaching hospital or are they research hospitals.

- 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.**

**Osceola Regional Hospital, Inc. (CON #9545)** includes a brief bibliography of key management personnel in its response and includes their resumes in Exhibit 8-10. A detailed description of its recruitment and retention policies is also provided. The applicant indicates that its RN vacancy rate is 5.4 percent compared to the statewide rate of 15.6 and national rate of 11 percent. Osceola Regional contends that given the hospital's lower than average vacancy rate for nurses, and the rapidity with which the area is growing, recruitment of the required employees does not pose unanticipated difficulties or concerns. The project is projected to add 142.3 FTE positions (117.5 nursing) by the end of year two (CY 2006).

**CON Numbers: 9545, 9546 & 9546P**

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

	12/31/2000	12/31/1999
Current Assets	\$ 18,793,244	\$ 14,311,758
Cash and Current Investment	\$ 0	\$ 0
Assets Restricted for Capital Projects	\$ 0	\$ 0
Total Assets	\$ 71,882,874	\$ 69,383,702
Current Liabilities	\$ 7,116,216	\$ 7,094,933
Total Liabilities	\$ 60,526,619	\$ 53,533,208
Total Equity	\$ 11,356,255	\$ 15,850,494
Net Operating Revenues	\$ 84,288,690	\$ 72,205,853
Interest Expense	\$ 4,583,839	\$ 3,952,043
Net Profit - Operations	\$ 3,436,545	\$ 3,452,624
Net Income	\$ 1,961,037	\$ 1,148,539
Cash Flow from Operations	\$ 2,303,511	\$ 8,599,760
Working Capital	\$ 11,677,028	\$ 7,216,825
Current Ratio (CA/CL)	2.6	2.0
Cash Flow to Current Liabilities (CFO/CL)	0.3	1.2
Long-Term Debt to Equity (TL-CL/TE)	4.7	2.9
Times Interest Earned (NPO+Int/Int)	1.7	1.9
Equity to Total Assets (TE/TA)	15.8%	22.8%
Operating Margin (NPO/NOR)	4.1%	4.8%
Total Margin (NI/NOR)	2.3%	1.6%
Return on Assets (NI/TA)	4.8%	1.7%
Operating Cash Flow to Assets (CFO/TA)	3.2%	12.4%

**Short-term position:**

The applicant's current ratio of 2.6 indicates current assets are over two and one half times that of short-term liabilities, an adequate position. The working capital (current assets less current liabilities) of \$11.7 million is adequate. The ratio of cash flow to current liabilities of 0.3 is below average. The applicant has a satisfactory short-term position.

**Long-term position:**

The long-term debt to equity of 4.7 is very high, indicating substantial debt. This debt consists primarily of intercompany balances. The cash flow to assets of 3.2 percent reflects a low level of cash flows. The most recent year had an operating profit of \$3.4 million, which resulted in a margin of 4.1 percent, a good level. The total equity of \$11.4 million with the equity to assets of 15.8 percent is weak. With only a mediocre equity to asset ratio of 22.8 percent in 1999 the parent transferred \$4.8 million out of the applicant to increase the intercompany balances, the result was to reduce the level of equity by this amount and further erode the equity position. The average level of profit is the only decent indicator, with the low level of equity and high debt, the applicant's long-term position is only mediocre.

**Capital requirements:**

Schedule 2 indicates the applicant had \$82.8 million in capital projects planned or underway. With no long-term debt (intercompany debt) payment scheduled this amount is the total capital needed.

**Available capital:**

Schedule 2 indicates funding for these projects will come almost exclusively from the parent HCA. A letter from HCA indicates it will provide funding for 100 percent of the cost of the additional beds for this project as well as all other capital projects as needed. A copy of HCA's financial statements provided in the 10K report support its ability to provide this funding.

**Conclusion:**

When we consider the strength and commitment from the parent, the applicant should be able to fund all capital requirements as needed.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546)** provides a detailed description of its recruitment and retention policies. The applicant does not address its RN turnover and vacancy rates. However, the applicant indicates that given its reputation, depth of resources, commitment of the Celebration market, it does not anticipate any significant difficulties in recruiting staff for this project. This appears to be in direct contradiction to the a statement in the Orlando Sentinel's April 16, 2002, issue attributed to Mr. Richard Morrison, Florida Hospital, Vice-President in which he noted that Florida Hospital has 375 (nursing) vacancies and "I think we're fairly desperate" for nursing personnel. The applicant indicates that the new facility will have access to management resources already available within the Florida Hospital network. Florida Hospital does not provide bibliographies of key management staff or personnel.

The 60-bed project is projected to have 125.3 FTE positions (36.5 RNs, 3.3 LPNs, 3.5 nurses aides, four nursing "other") by the end of year two (ending September 30, 2005).

The 40-bed project is projected to have 90.7 FTE positions (24.4 RNs, 4.6 LPNs, 1.5 nurses aides, four nursing "other") by the end of year two (ending September 30, 2005).

The applicant's audited financial statements for the periods ending December 31, 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 Numbers: 9545, 9546 & 9546P**

**Adventist Health System/Sunbelt, Inc.  
Financial Indicators and Ratios**

	<u>12/31/2001</u>	<u>12/31/2000</u>
Current Assets	\$ 1,082,290,000	\$ 918,795,000
Cash and Current Investment Assets Restricted for Capital Projects	\$ 763,426,000	\$ 568,518,000
Total Assets	\$ 143,418,000	\$ 99,298,000
Current Liabilities	\$ 2,968,371,000	\$ 2,842,967,000
Total Liabilities	\$ 371,971,000	\$ 370,727,000
Total Equity	\$ 1,937,731,000	\$ 1,880,829,000
Net Operating Revenues	\$ 1,030,640,000	\$ 962,138,000
Interest Expense	\$ 2,416,562,000	\$ 1,971,827,000
Net Profit - Operations	\$ 85,832,000	\$ 86,385,000
Net Income	\$ 112,325,000	\$ 58,365,000
Cash Flow from Operations	\$ 112,325,000	\$ 58,365,000
Working Capital	\$ 321,111,000	\$ 166,244,000
Current Ratio (CA/CL)	2.9	2.5
Cash Flow to Current Liabilities (CFO/CL)	0.9	0.4
Long-Term Debt to Equity (TL-CL/TE)	1.5	1.6
Times Interest Earned (NPO+Int/Int)	2.3	1.7
Equity to Total Assets (TE/TA)	34.7%	33.8%
Operating Margin (NPO/NOR)	4.6%	3.0%
Total Margin (NI/NOR)	4.6%	3.0%
Return on Assets (NI/TA)	3.8%	2.1%
Operating Cash Flow to Assets (CFO/TA)	10.8%	5.8%

**Short-term position:**

The applicant's current ratio of 2.9 indicates current assets are almost three times that of short-term liabilities, a good position. The working capital (current assets less current liabilities) of \$710 million is a very large amount. The ratio of cash flow to current liabilities of 0.9 is good. The applicant has a strong short-term position.

**Long-term position:**

The long-term debt to equity of 1.5 is only fair, indicating a significant amount of debt when compared to total equity. The cash flow to assets of 10.8 percent is considered good for Florida hospitals. The most recent year had an operating profit of \$112 million, which resulted in a margin of 4.6 percent, a satisfactory level. The total equity of \$1 billion with the equity to assets of 34.7 percent is strong. Although the indicators are somewhat mixed, the significant amount of total equity and good earnings and cash flows overshadows the others resulting in a good long-term position.

**Capital requirements:**

The applicant did not provide a Schedule 2. A narrative titled Schedule 2 indicated the applicant has a total capital budget of \$421 million. The notes indicate this amount includes maturities of long-term debt in the amount of \$31.75 million. This long-term debt maturity was only for 2002. This review feels the debt maturities through 2004 would be more appropriate to cover the construction period of this project. The total long-term debt maturities through 2004 would be \$97.8 million and when added to other capital projects would result in a total requirement of \$487 million. The normal detail for funding these projects was not provided, only a statement that funding is coming from cash reserves, cash from operations, proceeds from prior bond issues, and other financing methods commonly used in the industry such as tax exempt bonds.

**Available capital:**

The audited balance sheet shows \$763 million cash and investments, \$710 million working capital, \$143 million assets limited to use for capital projects, and \$321 million annual cash flows.

**Conclusion:**

Based on the financial position, cash on hand, designated assets, and cash flows of the applicant, a reasonable probability exists that funding all capital projects will be available as needed.

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

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

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.

**Osceola Regional Hospital, Inc. (CON #9545):** Comparative data were derived from hospitals in peer groups that reported data in 2000; 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. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

**CON Numbers: 9545, 9546 & 9546P**

**COMPARATIVE TABLE**

<b>CON # 9545</b>					
<b>Osceola Regional 2000 DATA Peer Group 4</b>	2006	YEAR 2	<u>INFLATION ADJ. VALUES</u>		
	YEAR 2	ACTIVITY	Highest	Median	Lowest
	ACTIVITY	PER DAY			
ROUTINE SERVICES	381,917,346	4,465	1,075	555	346
INPATIENT AMBULATORY		0	104	56	29
INPATIENT ANCILLARY SERVICES	0	0	4,132	2,153	1,450
OUTPATIENT SERVICES	153,415,209	1,793	2,351	1,660	928
OTHER OPERATING REVENUE	1,104,111	13	210	8	1
TOTAL REVENUE	536,436,666	6,271	7,122	4,080	2,895
DEDUCTIONS FROM REVENUE	397,173,416	4,643	1,730	1,461	1,177
NET REVENUES	139,263,250	1,628	1,730	1,461	1,171
EXPENSES					
ROUTINE	27,889,645	326	310	225	162
ANCILLARY	43,074,547	504	600	473	366
AMBULATORY	4,196,697				
OVERHEAD	51,093,249	597	832	627	419
OTHER	0	0			
TOTAL EXPENSES	126,254,138	1,476	1,672	1,369	1,047
OPERATING INCOME	13,009,112	152	261	38	-120
		9.3%			
PATIENT DAYS	57,845		NOT INFLATION ADJUSTED		
ADJUSTED PATIENT DAYS	85,544				
TOTAL BED DAYS AVAILABLE	77,015				
ADJ. FACTOR	0.6762				
TOTAL NUMBER OF BEDS	211				
PERCENT OCCUPANCY	75.1%		90.2%	49.4%	26.8%
<u>PAYER TYPE</u>	<u>PATIENT</u>	<u>% TOTAL</u>			
	<u>DAYS</u>				
MEDICARE	19,420	33.6%	77.9%	50.3%	28.7%
COMMERCIAL	0	0.0%			
MEDICAID	6,893	11.9%	12.5%	4.7%	1.3%
PRIVATE	2,916	5.0%			
HMO/PPO	27,907	48.2%	53.7%	35.4%	10.1%
OTHER	709	1.2%			
TOTAL	57,845	100.0%			

**CON Numbers: 9545, 9546 & 9546P**

Net revenue per adjusted patient day (NRAPD) of \$1,655 in year one and \$1,628 in year two is between the control group median and highest values of \$1,418 and \$1,680 in year one and \$1,461 and \$1,730 in year two. The highest level is generally viewed as the practical upper limit on economies of operation. With net revenues falling between the median and highest level, the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table). The 2000 actual NRAPD for this hospital was \$1,345, which was also between the median and highest in that year.

Projected cost per adjusted patient day of \$1,514 in year one and \$1,476 in year two is between the group median and highest values of \$1,329 and \$1,623 in year one and \$1,369 and \$1,672 in year two. This application is considered cost efficient when compared to the control group. (See Comparative Table). The 2000 actual CAPD for this hospital was \$1,284, which was between the median and highest in that year.

The year two operating profit for the hospital of \$13 million computes to an operating margin per adjusted patient day of \$152 which is between the peer group median of \$38 and highest of \$261. The 2000 financial data submitted to the agency shows the hospital with an operating margin per adjusted patient day of \$61. Although the projected margin falls in a reasonable range when compared to the group, it is significantly above the hospital's historical profit. It is likely the margin will be lower than projected.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546 & 9546P):** Comparative data were derived from hospitals in peer groups that reported data in 2000; the applicant will be compared to the hospitals in group 9. Per diem rates are projected to increase by an average of 3.3 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

**CON Numbers: 9545, 9546 & 9546P**

**COMPARATIVE TABLE**

CON # 9546 <b>Florida Hospital 2000 DATA Peer Group 9</b>	60-beds		40-beds		INFLATION ADJ. VALUES		
	2005	YEAR 2	2005	YEAR 2	Highest	Median	Lowest
	YEAR 2 ACTIVITY ACTIVITY PER DAY		YEAR 2 ACTIVITY ACTIVITY PER DAY				
ROUTINE SERVICES	668,357,196	894	652,144,914	879	996	753	421
INPATIENT AMBULATORY INPATIENT ANCILLARY SERVICES	0	0	0	0	126	76	38
OUTPATIENT SERVICES	1,836,971,211	2,458	1,823,901,119	2,460	2,869	2,178	1,845
OTHER OPERATING REVENUE	1,192,452,708	1,595	1,173,016,256	1,582	2,347	1,421	1,179
TOTAL REVENUE	71,838,925	96	71,702,728	97	72	18	10
DEDUCTIONS FROM REVENUE	3,769,620,040	5,044	3,720,765,017	5,018	6,308	4,627	3,719
NET REVENUES	2,535,078,858	3,392	2,499,020,676	3,370	*	*	*
EXPENSES	1,234,541,182	1,652	1,221,744,341	1,648	1,861	1,706	1,411
ROUTINE	193,931,060	259	192,569,263	260	286	254	177
ANCILLARY	453,908,421	607	448,047,072	604	691	521	406
AMBULATORY	57,992,380		57,830,116				
OVERHEAD	447,804,236	599	443,309,547	598	902	715	647
OTHER	0	0	0	0			
TOTAL EXPENSES	1,153,636,097	1,544	1,141,755,998	1,540	1,973	1,536	1,410
OPERATING INCOME	80,905,085	108	79,988,343	108	278	35	-146
		6.6%		6.5%			
PATIENT DAYS	505,398		501,414		NOT INFLATION ADJUSTED		
ADJUSTED PATIENT DAYS	747,409		741,517				
TOTAL BED DAYS AVAILABLE	672,695		665,395				
ADJ. FACTOR	0.6762		0.6762				
TOTAL NUMBER OF BEDS	1,843		1,823				
PERCENT OCCUPANCY	75.1%		75.4%		66.0%	55.9%	38.6%
<u>PAYER TYPE</u>	PATIENT DAYS % TOTAL		PATIENT DAYS % TOTAL				
MEDICARE	238,718	47.2%	237,365	47.3%	43.5%	35.1%	25.9%
COMMERCIAL	17,502	3.5%	17,273	3.4%			
MEDICAID	42,175	8.3%	41,922	8.4%	19.7%	12.7%	5.0%
PRIVATE	23,306	4.6%	23,104	4.6%			
HMO/PPO	163,038	32.3%	161,238	32.2%	47.2%	42.3%	36.9%
OTHER	20,659	4.1%	20,515	4.1%			
TOTAL	505,398	100.0%	501,417	100.0%			

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546) - The 60-bed addition:** Net revenue per adjusted patient day (NRAPD) of \$1,626 in year one and \$1,652 in year two is just below the control group median values of \$1,656 in year one and \$1,706 in year two. With net revenues falling close to the median, the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table). The 2000 actual NRAPD for this hospital was \$1,558, which was the highest in that year.

Projected cost per adjusted patient day of \$1,518 in year one and \$1,544 in year two is just above the group median values of \$1,491 in year one and \$1,536 in year two. This application is considered cost-efficient when compared to the control group. (See Comparative Table). The 2000 actual CAPD for this hospital was \$1,468, which was the highest in the group.

The year two operating profit for the hospital of \$80.9 million computes to an operating margin per adjusted patient day of \$108 which falls between the peer group median and highest of \$35 and \$278. The operating margin computes to 6.6 percent, which is a little above average for Florida hospitals. The 2000 financial data submitted to the agency shows the hospital with an operating margin per adjusted patient day of \$90, which is slightly below the projected margin. This project makes a net contribution of \$2,746,255 to the margin. The projected margins appear to be reasonable and the project taken as a whole is financially feasible.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546P) - The 40-bed addition:** Net revenue per adjusted patient day (NRAPD) of \$1,625 in year one and \$1,648 in year two is similar to the control group median values of \$1,656 in year one and \$1,706 in year two. With net revenues falling close to the median, the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table). The 2000 actual NRAPD for this hospital was \$1,558, which was the highest in that year.

Projected cost per adjusted patient day of \$1,517 in year one and \$1,540 in year two is just above the group median values of \$1,491 in year one and \$1,536 in year two. This application is considered cost efficient when compared to the control group. (See Comparative Table). The 2000 actual CAPD for this hospital was \$1,468, which was the highest in the group.

**CON Numbers: 9545, 9546 & 9546P**

The year two operating profit for the hospital of \$80.0 million computes to an operating margin per adjusted patient day of \$108 which falls between the peer group median and highest of \$35 and \$278. The operating margin computes to 6.5 percent, which is a little above average for Florida hospitals. The 2000 financial data submitted to the agency shows the hospital with an operating margin per adjusted patient day of \$90, which is slightly below the projected margin. This project makes a net contribution of \$673,976 to the margin. The projected margins appear to be reasonable and the project taken as a whole is financially feasible.

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

**Osceola Regional Hospital, Inc. (CON #9545)** projects managed care to represent 48.2 percent of its patient days. This is between the control group median and highest levels of 35.4 percent and 53.7 percent and is similar to the hospital's own 2000 managed care level of 46.1 percent. The applicant's level of managed care will have a positive impact on competition to promote quality assurance and cost-effectiveness; however, this impact will be minimized by the high level of pricing as indicated by the hospital's ranking of net revenue per day within the control group.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546)** projects managed care to represent 32.3 percent of total patient days in year two for the 60-bed addition and 32.2 percent for the 40-bed addition. These are both below the control group highest level of 36.9 percent and is significantly below the hospital's own 2000 managed care level of 41.1 percent. The applicant's level of managed care will have no discernible impact on competition, to promote quality assurance and cost-effectiveness.

**Comparisons between applicants**

	Net Rev. per day	Total Cost per day	Oper. Profit per day	Charity percent	Managed Care percent	Medicaid percent
Osceola	1,628	1,476	152	0.8	48.2	11.9
Celebration 60	1,652	1,544	108	2.3	32.3	8.3
Celebration 40	1,648	1,540	108	2.3	32.2	8.4

- 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.**

**Osceola Regional Hospital, Inc. (CON #9545)** proposes to add 40 new acute care beds to the Osceola Regional Medical Center. The applicant goes into great detail regarding other construction at the facility. The new beds are to be located on the second and third floors above a first floor that may or may not be under construction. In any project where there are additions, there are bound to be some compromises, but in this case, there was vertical expansion planned in a previous project. Architecturally, the issue is whether the schematic plans of the added beds meet code requirements and are located in a way that is functional.

The application did not include a site plan or a first floor plan, but had plans of the second and third floors. No plans showing just the existing conditions were included, so trying to evaluate the logic of what is proposed and the adjacencies of various spaces is somewhat difficult.

The plans show 20 intensive care unit beds on the second floor and 20 medical/surgical beds on the third floor. Each floor has the required ancillary spaces associated with the type beds to be added. Each new unit has the typical “racetrack” configuration with the ancillary spaces making up a central core with a surrounding corridor and patient rooms located on the outside walls. Room sizes are adequate and exit requirements have been met with the design.

There is a list of applicable codes that appear to be correct as of the submission date of the application.

**CON Numbers: 9545, 9546 & 9546P**

The costs and the schedule appear reasonable for this scope of renovation although several assumptions have to be made due to lack of information about the other projects at the hospital.

The applicant states that the square footage on each of the floors is 29,000 sq. ft. However, there is more new space shown on the second floor plan than is shown on the third floor plan. The assumption is that this additional second floor space may be part of a “previous exempt project” referred to on Schedule 10. It is unlikely that the ER Project (also referred to on Schedule 10) would be located on the second floor. The application specifically indicates some sort of relationship between this proposal and previous projects, which are apparently not complete or may not have commenced. It is difficult to review this proposal without knowing what interdependency there might be with the other projects mentioned in the application.

No space is listed as renovated in this proposal although some areas on the plans are obviously renovation and must be related to the previous projects referenced above.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546)** proposes to add 60 new beds with an alternative for only 40 new beds. All patient rooms will be built to the Adventist universal room concept. Both schemes add 20 beds to the second floor. The 40-bed scheme adds 20 more beds to the fourth floor and the 60-bed scheme adds 40 to the fourth floor. All the work will be in existing shell space, so there is no construction beyond the existing building footprint. Considerable work is required for the infrastructure involving chases, electrical distribution, HVAC equipment, ductwork, etc.

It appears that the intention is to fill out the shell space from the bottom up since both schemes show the second floor build-out being completed. Any logistical advantage of restricting new construction to only one floor (the fourth) must seem to be outweighed by starting the build-out on the second floor.

The existing type of construction of the hospital is acceptable. All patient rooms are private with private toilet/shower rooms. Apparently having a “universal room” does not necessarily mean that the showers are accessible. A few of the proposed patient rooms have accessible showers and some of these are large enough to accommodate a wheelchair. The applicant or his architect should determine that they have the required number of accessible rooms if the application is granted. Without plans of the entire facility, this cannot be determined. Each room places the lavatory in the bedroom itself and not in the toilet/shower room. There is a drawing error on Sheet A121 in which the toilet room for patient room 6 is not shown but is noted to be there. All the patient rooms are adequately sized and are well arranged. There is probably another drawing error on the same sheet which shows a “holding nursery” located in the corridor next to the communication center.

The available space on the second floor and the two similar spaces on the fourth floor are more-or-less triangular with a triangular core containing the required ancillary spaces. The corridor goes around the core and each patient room opens onto it and has a corridor window as well as the room door. Because of this triangular geometry, the nurse station does not have sightlines to all the rooms, but depending on staffing, this probably does not present a problem. Since other floors are similarly shaped, this arrangement must have been found to function for the hospital.

All costs and the schedule appear reasonable for this scope of renovation and the cost per bed is almost the same for both the 60-bed and the 40-bed scheme. This is to be expected with renovation of this extent. There would not be any real cost saving in the long-run by postponing the full build-out of 60 beds. Contractor’s mobilization for 60 beds would not be much more than for 40 beds.

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

The following chart compares the applicants with the district averages for Medicaid and charity care patients based on FY 2000 financial data.

<b>CON #9545 &amp; 9546 Medicaid &amp; Charity Care FY 2000</b>		
<b>Hospital</b>	<b>Percent Medicaid of total patient days</b>	<b>Percent Charity care of total patient days</b>
<b>Osceola Regional Medical Center</b>	11.9%	1.2%
<b>Florida Hospital</b>	10.3%	2.1%
<b>District 7 Average</b>	<b>9.4%</b>	<b>2.6%</b>

Source: AHCA Financial Data FY 2000.

Note: Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital files its fiscal year financial data by combining six campuses including the subdistrict's Florida Hospital Celebration Health and Florida Hospital Kissimmee. The subdistrict's other provider, St. Cloud Hospital is part of the Orlando Regional Healthcare System, Inc., which reports on all its facilities on a combined basis also. Therefore, an actual subdistrict financial comparison of the four facilities is not possible.

As reflected in the table, both applicants exceed the district's average Medicaid provision. Both applicants are below the district's average charity care.

**Osceola Regional Hospital, Inc. (CON #9545):** According to AHCA Medicaid information, Osceola Regional Medical Center is a general Medicaid Disproportionate Share Provider. The applicant proposes to condition the total facility to 11.9 percent of total annual patient days being provided to Medicaid patients and 0.8 percent of the total patient days to charity care patients.

Pro formas show that the 211-bed hospital is expected to provide 11.9 percent of its total patient days to Medicaid and 2.1 percent to Medicaid HMO recipients in years one and two (CY 2005 and 2006), respectively. The applicant indicates that 0.8 percent of total patient days are projected for charity care during years one and two of the project.

Data reported to the Agency indicate that in FY 2000, the applicant provided 11.9 percent of its total patient days to Medicaid recipients. This was the second highest percentage of Medicaid patient days provided by a hospital in the District 7, with the district average at 9.4 percent. Charity care amounted to 1.2 percent of total patient days during the reporting period. This was the ninth highest percentage of charity care reported in the district. The District 7 average was 2.6 percent.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546):** Florida Hospital is a general Medicaid Disproportionate Share Provider. However, the applicant does not propose to condition the projects to a percentage of total annual patient days being provided to Medicaid patients or charity care patients.

Pro formas show that the hospital's 60 beds are expected to provide 6.2 percent of total patient days to Medicaid and Medicaid HMO recipients in 2004 and 2005. The applicant indicates that charity is projected at 2.3 percent of gross revenue for both years. The facility's proposed patient days to charity care are not shown.

Data reported to the Agency indicate that in CY 2000, the applicant provided 10.3 percent of its total patient days to Medicaid recipients. This was the third highest percentage of Medicaid patient days provided by a hospital in the District 7, with the district average being 9.4 percent. Charity care reported during that same time period was 2.1 percent. This was the sixth highest percentage of charity care reported in the district.

**F. SUMMARY**

**Osceola Regional Hospital, Inc. (CON #9545)** is an HCA affiliated hospital consisting of 171 beds, 165 acute care and six Level II NICU beds. The applicant proposes to construct a 40-bed addition to the existing hospital located at 700 West Oak Street in Kissimmee, Florida.

**CON Numbers: 9545, 9546 & 9546P**

The project consists of 29,000 GSF of new construction with construction costs of \$5,230,200. The project involves a total cost of \$8,057,465.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546)** operates seven acute care hospitals and one behavioral health facility in District 7. The applicant proposes to add 60 beds to Florida Hospital Celebration Health, one of applicant's two facilities located in Subdistrict 3. The applicant also proposes a partial project to add 40 beds to the facility.

The 60-bed proposed project consists of 39,147 GSF of renovation at a construction cost of \$5,170,500. The project involves a total cost of \$10,394,263.

**Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546P)** consists of 28,639 GSF of renovation at a construction cost of \$3,447,000. The project involves a total cost of \$6,904,615.

*After weighing and balancing all applicable review criteria, the following relevant factors are listed with regard to the hospital projects in District 7, Subdistrict 3, Osceola County by Osceola Regional Hospital, Inc. and Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital.*

**Need/Other Special Circumstances**

- Both applicants present two approaches to documenting need. Both include an analysis of the historical population growth in the area, increased hospital utilization and reasonable population projections.
- **Osceola Regional Hospital, Inc. (CON #9545):** If it is assumed that the applicant can maintain its 50 percent market share and more Osceola County residents will seek care in the subdistrict as opposed to out-migrating to other District 7 facilities, the applicant's projections and utilization appear to be reasonable.

- **Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546):** Assuming an increasing Celebration market share coupled with the area's projected growth, the applicant's projections substantiate the need for 40 additional beds. However, the applicant's projections do not demonstrate need for 60 additional beds.

### **Quality of Care**

- Both applicants demonstrate the ability to provide quality of care.
- **Osceola Regional Hospital, Inc. (CON #9545)** has no confirmed emergency access or patient care confirmed complaints from November 4, 1999 to the present. The applicant has one patient care compliant investigation that has not been completed at this time.
- **Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546)** (the eight hospital system) had one confirmed emergency access violation confirmed on April 14, 2001, and nine confirmed patient care complaints from January 2000 to the present. Presently, four patient care complaint investigations are not complete at this time.

### **Cost/Financial Analysis**

- Both applicants appear to have the resources and funds for capital and operating expenditures.
- Both projects are considered to be financially feasible.

### **Medicaid/Indigent Care**

- Both applicants are Medicaid disproportionate share providers with a long history of service to the medically indigent.

**CON Numbers: 9545, 9546 & 9546P**

- **Osceola Regional Hospital, Inc. (CON #9545)** proposes to condition the total facility to 11.9 percent of total annual patient days being provided to Medicaid patients and 0.8 percent of the total patient days to charity care patients. Pro formas show that the 211-bed hospital is expected to provide 11.9 percent of its total patient days to Medicaid and 2.1 percent to Medicaid HMO recipients in years one and two (CY 2005 and 2006), respectively. The applicant indicates that 0.8 percent of total patient days are projected for charity care during years one and two of the project.
- **Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital (CON #9546)** does not propose to condition either project to a percentage of total annual patient days being provided to Medicaid patients and or to charity care patients. Pro formas show that the hospital's 60 or 40 beds are expected to provide 6.2 percent of total patient days to Medicaid and Medicaid HMO recipients in year one ending September 30, 2004 and year two ending September 30, 2005. Charity care is projected at 2.3 percent of gross revenue for both years respectively.
- Because Adventist has not agreed to condition award of the CON upon a providing care to the medically indigent, Osceola Regional's proposal is the only co-batched project where it is known that access will be assured to this population if approved. However, there is no evidence that the medically indigent are unable to access care.

### Architectural Analysis

- **Osceola Regional Hospital, Inc.'s (CON #9545)** project involves new construction on the second and third floors of the existing facility. Each floor has the required ancillary spaces associated with the type beds to be added. Each new unit has the typical “racetrack” configuration with the ancillary spaces making up a central core with a surrounding corridor and patient rooms located on the outside walls. Room sizes are adequate and exit requirements have been met with the design. The project’s costs and schedules appear reasonable. The project involves 29,000 GSF of new construction, which includes space for 20 intensive care beds on the second floor and 20 universal purpose beds on the third floor. Total construction cost is \$5,230,200. Total building cost per bed is \$140,561.
- **Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital’s (CON #9546)** projects include renovation of the second and fourth floors of the existing facility. Considerable work will be required for the infrastructure involving chases, electrical distribution, HVAC equipment, ductwork, etc. The number of handicapped assessable rooms could be an issue and the plans contained some minor drawing errors. Both projects costs and schedules appear reasonable. The 60-bed project involves 39,147 GSF of renovation, which includes space for 20 beds on the second floor and 40 beds on the fourth floor. Total construction cost is \$5,170,500. Total building cost per bed is \$128,508. The 40-bed project involves 28,639 GSF of renovation which includes space for 20 beds the second floor and 20 beds on the fourth floor. Total construction cost is \$3,447,000. Total building cost per bed is \$127,350.

**G. RECOMMENDATION**

Approve CON #9545 to add 40 acute care beds to Osceola Regional Medical Center. The project involves 29,000 GSF of construction and \$5,230,200 in construction costs. Project costs total \$8,057,465.

**CONDITIONS:**

- (1) A minimum of 11.9 percent of the 205-bed facility's total annual patient days shall be provided to Medicaid patients.
- (2) A minimum of 0.8 percent of the 205-beds facility's total annual patient days shall be provided to charity patients.

Deny CON #9546

Approve CON #9546P to add 40 acute care beds to Celebration Health. The project involves 28,639 GSF of renovation and construction costs of \$3,447,000. Project costs total \$6,904,615.

**CONDITIONS:**

- (1) A minimum of 8.4 percent of the total annual patient days in the 100-bed facility shall be provided to Medicaid patients
- (2) A minimum of 2.3 percent of the total annual patient days in the 100-bed facility shall be provided to charity care.

**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**