

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

**A. PROJECT IDENTIFICATION**

1. Applicant/CON Action Number

**Collier H.M.A, Inc. (CON #9551)**

5811 Pelican Boulevard, Suite 500  
Naples, Florida 34108-2710

Authorized Representative: Gary C. Bell, Sr. Vice President-Acquisitions  
(941) 598-3176

**Cleveland Clinic Florida Hospital Naples (CON #9552)**

2950 Cleveland Clinic Boulevard  
Weston, Florida 33331

Authorized Representative: Melinda L. Estes, M.D., Chief Executive Officer  
(954) 659-6002

2. Service District/Subdistrict

District 8/Subdistrict 2 (Collier County)

**B. PUBLIC HEARING**

A public hearing was requested and held at 9:00 a.m. on May 3, 2002 at the Golden Gate Community Center, 4701 Golden Gate Parkway, in Naples, Florida. Mr. Ron Burris, Executive Director of the Health Planning Council of S.W. Florida, Inc., presided and called the meeting to order. Mr. Burris after stating the opening pronouncements, called HMA to present its case first.

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Mr. Michael Mastej, Vice President of Development for Health Management Associates presented HMA's reasons to put forth the CON. He stated HMA's corporate office has been located in Naples since 1984, and is familiar with the many issues in Collier County and the existing health care limitations. Mr. Mastej advised that HMA's hospital will be located in an area of need (East Naples/South Collier and South of I-75), provide access to hospital services regardless of ability to pay and the delivery of family centered obstetrical services. In reference to addressing the community needs, Mr. Mastej indicates that 63 percent of all commercial HMO patients and 48 percent of Medicaid HMO patients have to leave Collier to access care. He also indicates that HMA will assist NCH in the provision of care to medically needy patients. Mr. Mastej also cites the growth in population, employment growth, labor force and building permits from during the 1995 through 2000.

A total of 18 speakers spoke in support of the Collier HMA project<sup>1</sup>. Mr. Robert Murray, the area resident who requested the public hearing, and a member of the East Naples Civic Association, indicated that the project is important to South Collier and East Naples residents in that travel time to existing hospital emergency rooms (ERs) is always an issue, at least thirty minutes at best and much longer during peak season. He emphasized that the East Naples and Southern Collier County population is growing and much of the population growth is the age 65 and over population. Mr. Murray also addressed the huge public response in support of HMA's project. He also provided a petition with over 750 signatures in support of the project. Dr. Larry Farmer and Dr. Doug Morrow spoke about the quality services HMA provides and the integrity of their leadership. The majority of the speakers addressed the long waits for admissions to the local facilities and the benefits of competition.

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<sup>1</sup> Many speakers echoed information provided by the speakers mentioned in this report and so are not all individually noted.

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Gary Pickal, Vice President of Nichols and Associates, an Employee Benefits Agency, indicated that the area's employer insurance rates have risen an average of 20 percent annually over the last five years. He stated that Naples Community Hospital (NCH) can set the rates for managed care plans and Cleveland Clinic Florida Hospital (CCFH) has decided not to compete for these plans. He stated that the same health services that can be provided at \$1 in Lee County are a \$1.20 or \$1.25 in Collier County. Mr. Pickal concluded that many employers are considering not offering insurance because of the high cost and that competition is needed to reduce these high costs. Mr. Doug Devers, who is also an insurance agent in Collier County, essentially echoed Mr. Pickal's comments.

Mr. Ty Agustan, with the Tax Watch of Collier County, Inc. indicated that when Cleveland Clinic came into the area it was thought that there would be competition between the NCH and CCH. He indicates that is not the case and that NCH continues to monopolize services in Collier County.

Ms. Peggy Cella, health care planner with Gill Balsano Consulting indicated that her research revealed that 63 percent of all Collier County managed care patients leave the county for care. She also indicated that never in 30 years of experience has she seen such strong community support for a new hospital.

Dr. Zannos Grekos, an invasive Cardiologist with an office in Marco Island and privileges at Naples Community Hospital, indicated that while it used to be only during peak seasons when there were problems accessing hospital services, it has now reached the point that it is difficult to admit patients from September through June. He advised he didn't know if it was staffing or available beds but the problem is growing worse not better.

Dr. Mark Marzano, an invasive radiologist indicated that there is often a two to three-hour wait for services at NCH. He indicates that a new facility is needed to serve the East Naples population.

Approximately 1,500 additional written notes of support for the Collier HMA project were submitted at the public hearing.

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Three speakers spoke in support of Cleveland Clinic's project. Jeff Moebius, Cleveland Clinic Administrator; Richard Baehr, Consultant, Dr. William A. Hawk, the first CEO of Cleveland Clinic Florida and Ed Mansfield, a Collier resident. Mr. Moebius discussed ongoing Cleveland Clinic operations in Naples. He states that the Cleveland Clinic mission<sup>2</sup> is to provide better care for the sick, investigate their problems and to the further education of those it serves (also see Item 4. d. for education/research activities). He boasts that about 90 percent of CCFH's medical staff are from outside Collier County, which he states is good for the local economy. He notes CCFH's training of pharmacists from Ohio and goal to establish a residency program similar to the Weston facility. He spoke of Cleveland Clinic's use of a hospitalist<sup>3</sup>. According to Mr. Moebius, hospitalists are used rather than local doctors and when the patient is discharged, the local physician receives all relative documents. Mr. Moebius indicates that they will continue to negotiate with managed care programs until they get an economically efficient deal. He contends CCFH's growth supports need for the project. CCFH also had Richard Baehr, CCFH consultant from Chicago, provided ongoing census data concerning CCFH from opening to through March, 2002 and other supporting data (i.e. population growth, bringing new physicians, etc., as in the application). He emphasized that CCFH's project is cost-effective because CCFH will be using shell space to add the 40 beds. Dr. Hawk discussed the Cleveland Clinic history and mission which is to provide a place where medical professionals and researchers would work together to provide better care for the sick, investigate their problems and to further the education of those it serves. Mr. Mansfield related his experience as a former CEO of a competing health care facility in Ohio. He cited Cleveland Clinic's excellent performance record and international reputation.

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<sup>2</sup> According to pages 6-7 of CON 9552, Cleveland Clinic Naples mission is to: 1) Serve Collier County and surrounding communities with comprehensive inpatient and outpatient services; 2) Offer a different model of care in the community; and, 3) Provide a competitive alternative in a county dominated by a single hospital provider, thereby fostering improvements in the financing and delivery of services.

<sup>3</sup> A term coined in the *New England Journal of Medicine* in 1996 and used to describe a physician that does not have an outpatient practice.

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Two speakers spoke against the projects. Mr. Jim Cato, Vice President with NCH cited his company's ongoing commitment to Medicaid and charity care, history of quality care and new affiliation with Duke University for Cancer research. Mr. Chuck Mohlke, with Fraser & Mohlke, a consulting firm hired by Naples Community Hospital to provide an in depth study of the uncompensated care/medically indigent care NCH has provided from FY 1994 - FY 2000, spoke about NCH's history of care to Medicaid and indigent patients. Mr. Mohlke takes issue with the concept that NCH does not foster a program of care for these clients. NCH does have a history of treating these patients in its ER and inpatient services.

There being no additional speakers in either support of or opposition to these projects, Mr. Burris declared the hearing closed at 2:00 p.m.

**Collier H.M.A., Inc. (CON #9551)** had approximately 1,250 letters of support in Volumes II, III and IV of the application. This is in addition to the notes of support mentioned above and submitted during the public hearing in District 8. In addition, there were 182 letters received via the mail in support of the project. There were approximately 1,400 signatures on petitions supporting the proposed project submitted in the application. This is in addition to the 750 that Mr. Murray presented during the public hearing. Support for the project comes from local employers, physicians, nurses, other health care professionals, managed care organizations, representing almost half of the managed care business in the state, civic leaders, county commissioners, community leaders, HMA employees and residents of East Naples and Collier County. These letters generally cite the rapid population growth in the East Naples area, support for a hospital pays taxes and provides indigent care, and a need for competition. The peak season's high occupancy and ER waits at all times recently in the existing facilities are also cited as reasons additional beds are needed in the area. Many letters of support indicate that the establishment of a hospital by an entity not already serving the area will provide a choice for physicians and patients and improve the quality of medicine.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** had eight letters of support in the Attachment A of the application's Volume II. These generally cite the quality of care Cleveland Clinic provides, its research mission and the facility's 12-month utilization as reasons to support the bed addition.

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Naples Community Hospital, Inc. an existing non-profit provider, submitted a letter in opposition to the both projects. This letter contends that there are sufficient beds to meet the resident's needs and also cite Cleveland Clinic Florida Naples low Medicaid and charity care.

**C. PROJECT SUMMARY**

**Collier H.M.A., Inc. (CON #9551)** proposes to construct a 100-bed acute care hospital, which will be named Collier Regional Medical Center. HMA (Health Management Associates, Inc.) operates 42 hospitals in 14 states. Thirteen of HMA's facility's are located in Florida. HMA's corporate headquarters have been located in Naples Florida for almost 20 years, actually since 1984 according to Mr. Mastej's statement in the public hearing.

The applicant proposes on its *Conditions* page, to condition the project upon locating the new facility in the East Naples – South Collier County area, south of I-75, to accept all Medicaid and indigent patients that are clinically appropriate for services offered at Collier Regional Medical Center and provide an obstetrical service at the facility. The indigent care condition was not quantified on Schedule C of the application. However, although this amount was not quantified on Schedule C, pro formas submitted by the applicant indicate that 10.1 percent of its patient days in the 100-bed facility are expected to be provided to Medicaid patients. Additionally, it is likely that some portion of the 4.4 percent the applicant estimates will be provided to self-pay patients will actually be charity care. The applicant indicates that two percent of this projection is expected to be provided to charity care patients.

The proposed project consists of new construction of 200,178 GSF at a construction cost of \$40,137,711. The project involves a total cost of \$75,124,854.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** proposes to add 40 beds to Cleveland Clinic Florida Hospital Naples, which opened on April 2, 2001. The existing facility consists of 70 acute care beds, which averaged 35.41 percent occupancy during the 2<sup>nd</sup> quarter of 2001. This project, if approved, will create a 110-bed hospital.

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The applicant on its *Conditions* page proposes to condition the project upon providing 1.3 percent of its total patient days in the 40-bed addition to Medicaid patients and 0.5 percent to charity care. The applicant is presently conditioned to provide 9.5 percent of its patient days to Medicaid patients and 4.5 percent charity care in the 70 beds. Therefore, the applicant proposes to reduce its conditions on the 110 acute care beds to 6.5 Medicaid and 3.0 percent charity care. The applicant indicates the proposed 40-bed conditions are consistent with CCFH Naples' historical (13 months) provision of care to these subgroups and its efforts in community outreach to ensure that these patient populations are served.

The proposed project consists of new construction of 19,252 GSF and 8,624 GSF of renovation at a construction cost of \$3,620,000. The project involves a total cost of \$10,131,000.

### **D. REVIEW PROCEDURE**

The evaluation process is structured by the certificate of need review criteria found in Section 408.035, Florida Statutes. These criteria form the basis for the goals of the review process. The goals represent desirable outcomes to be attained by successful applicants who demonstrate an overall compliance with the criteria. Analysis of an applicant's capability to undertake the proposed project successfully is conducted by assessing the responses provided in the application, and independent information gathered by the reviewer.

Applications are analyzed to identify strengths and weaknesses in each proposal. If more than one application is submitted for the same type of project in the same district (subdistrict), applications are comparatively reviewed to determine which applicant best meets the review criteria.

Section 59C-1.010(2) (b), Florida Administrative Code, allows no application amendment information subsequent to the application being deemed complete. The burden of proof to entitlement of a certificate rests with the applicant. As such, the applicant is responsible for the representations in the application. This is attested to as part of the application in the Certification of the applicant.

As part of the fact-finding, the consultant, James B. McLemore analyzed the application in its entirety with consultation from the Financial Analyst, John Williamson who evaluated the financial data, and the Architect, Joel Hill who evaluated the architectural and the schematic drawings as part of the application.

**E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA**

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

**1. Fixed Need Pool**

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

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 8, Subdistrict 2 for the January 2002 review cycle.

District 8, Subdistrict 2 had a total of 481 licensed beds that experienced an occupancy rate of 78.20 percent for the reporting period July 2000 through June 2001. As previously stated, Cleveland Clinic Naples 70-bed facility was licensed April 2, 2001, and obtained an average occupancy rate of 35.41 percent for the second quarter of 2001. During CY 2001, preliminary AHCA data shows the subdistrict averaged 79.88 percent utilization. This data also shows the subdistrict's 481 beds' 1<sup>st</sup> quarter 2002 utilization was 89.85 percent. As of January 25, 2002, there are no additional acute care beds approved but not yet operational in Subdistrict 2.

The applicants' projects are not submitted in response to the fixed need pool, but rather, what the applicants consider to be special circumstances.

- b. **Approval Under Special Circumstances.** Regardless of the subdistrict's average annual occupancy rate, need for additional acute care beds at an existing hospital is demonstrated if the hospital's average occupancy rate based on inpatient utilization of all licensed acute care beds is at or exceeds 80 percent. The determination of the average occupancy rate shall be made based on the average 12 months occupancy rate for the reporting period specified in section (4). Proposals for additional beds submitted by facilities qualifying under this subsection shall be reviewed in context with the applicable review criteria in Section 408.035, Florida Statutes. (Chapter 59C-1.038(5), Florida Administrative Code).

**Collier H.M.A., Inc. (CON #9551)** does not have a licensed facility in the subdistrict and therefore this criterion does not apply.

**Cleveland Clinic Florida Hospital Naples (CON #9552):** For the appropriate period as specified by rule, July 2000 through June 2001, Cleveland Clinic Florida Hospital Naples, averaged 35.41 percent occupancy. As previously stated, the 70-bed facility opened on April 2, 2001.

Both applicants indicate that special circumstances support the need for their projects. However, as previously stated, both applicants contend that the special circumstances support need for their projects.

- c. **Other Special Circumstances:**

Both applicants describe the increasing area population as one of the reasons additional beds are needed. In the chart below, AHCA population data for Collier County with growth rates for the 65 and older population compared to the state as a whole are provided:

<b>Collier County Total and 65+ Population Compared to the State And Percentage Increase Between July 2002 and 2007</b>					
Year - Area	65+ Pop.	Total Pop.	% 65+ to Total Pop.	% increase 65+	% increase total
2002-Collier	68,998	277,682	24.8%	XXXXXXXXXX	XXXXXXXXXX
2007-Collier	83,227	318,718	26.1%	20.6%	14.8%
2002-State	2,927,931	16,706,027	17.5%	XXXXXXXXXX	XXXXXXXXXX
2007-State	3,259,131	18,062,679	18.0%	11.3%	8.1%

Source: AHCA Population Estimates published December 2001.

The table illustrates that Collier County's total population and the population 65 and older is expected to grow at a faster rate than the state as a whole and also indicates the percentage increase expected for the total population and those age 65 and older between 2002 and 2007.

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**Collier H.M.A., Inc. (CON #9551)** contends that the following special circumstances support the need for its project:

- The applicant states that Collier County providers do not have sufficient capacity to meet the acute care needs of the area. HMA supports this by documenting that Collier County has the 2<sup>nd</sup> highest utilization of the State's subdistrict's, 78.2 percent, and contends that occupancy percentages actually understate the need. As noted above, Cleveland Clinic Florida Hospital became operational during the last quarter in which this occupancy rate was calculated. However, even with Cleveland Clinic's opening in April of 2001, occupancy in the subdistrict was 89.85 percent in January of 2002. The applicant bases this contention on increasing circumstances in which use of semi-private rooms is prohibited, medical specialties/specialized needs often limit bed use, surgical schedules that are typically not optimally distributed by day of the week and strong seasonality, such as tourism and part time residency. The applicant presents Collier ER visit data, up 21.9 percent from 91,524 in CY 1998 to 111,584 in CY 2001. The applicant also cites letters of support, which indicate there are long ER waits for care/admissions.
- The applicant next addresses obstetrical services in the subdistrict. North Collier Hospital is only provider of this service at present, which means that Marco Island residents have approximately 53 minutes and southernmost Collier County residents one hour and two minutes travel time to access this service. According to the applicant, travel time can take considerably longer during the peak season. The applicant also notes that while CCFH proposed to provide OB services in its initial application, it has yet to do so. The applicant's project would increase access and reduce travel time for OB patients in its proposed service area.
- Quality of care concerns at the NCH facilities are also a factor in the applicant's need presentation. The applicant's Attachment II-F provides an array of articles that address this issue. These concern a range of issues such as NCH's diversion of ambulance patients due to ER constraints, surgical sponge malpractice suit verdict that NCH is appealing, Naples area physician reputed misconduct issues, and Health Department issues with several cancer cases of NCH employees. The applicant speculates that many of what it describes as quality of care issues in the area could be due to the high occupancy rate that existing facilities. The applicant also cites the long waits for admissions and

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overcrowded ERs noted by residents in their letters of support. A review of AHCA compliant data, indicates that NCH hospitals have had one confirmed patient care complaint, which was also cited as neglect during the three previous years. Cleveland Clinic Florida Hospital Naples has no confirmed patient care complaints since beginning operation on April 2, 2001 to April 19, 2002.

- Managed care is the next issue addressed by the applicant. Calendar Year (CY) 2000 AHCA resident patient data obtained by the applicant indicates that of the 1,492 Collier County resident HMO discharges, 43 percent left Collier County to be served. This compares to only 14 percent of non-managed care residents leaving the county for inpatient services. According to the Florida Hospital Association, FHA Eye on the Market, HMO Market Share Report, dated September 2001, HMO penetration in the Naples MSA, was the second lowest in the state at 2.5 percent compared to the HMO statewide average MSA market penetration of 30.3 percent. The applicant also provides an analysis of NCH discharges during CY 2000, which indicates that less than one percent of NCH's discharges were commercial managed care patients. AHCA Discharge Patient data obtained by the CON reviewer, for the 12 months ending June 30, 2001, indicates that only 0.9 percent of NCH's total discharges were commercial HMO. Managed care discharges increase to 4.7 percent when including Medicare and Medicaid HMO discharges. Cleveland Clinic Florida Hospital Naples provided only 0.5 percent of its total discharges to managed care patients during 2<sup>nd</sup> quarter 2001, according to the applicant. The applicant's managed care levels are projected at 17.8 percent, compared to CCFH Naples (CON #9552) projected 6.5 percent and Naples Community Hospitals 4.6 percent actual performance during the 12 months ending June 30, 2001. In addition, the applicant presents documentation of five major managed care companies support for its project. These companies accounted for 43 percent of the total HMO volume in the state per the Florida Hospital Association's FHA Eye on the Market issue of October 2001. There appears to be an access issue for managed care patients and Collier HMA's project could increase access for managed care patients.

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- The applicant indicates that competition is limited in the present market. According to the applicant, the present situation limits managed care and medical staff development. In reference to medical staff, the applicant notes that CCFH will not let its medical staff serve on any other hospital staff, NCH also has controls on what a physician must do in order to have staff privileges at its facilities.
- Next, the applicant discusses projected Collier County population growth, and indicates that AHCA population estimates project the county to grow from 278,000 residents in 2002 to 319,000 in 2007 or by approximately 15 percent. Also, persons age 65+ account for approximately 25 percent of the Collier County population compared to the state average of 17.5 percent. The age 65 and over population is projected to increase to 26.1 percent of the total population by 2007. The following chart, also provided above, documents this.

<b>Collier County 65+ Population as Percent of Total Population Calendar Years 2002 and 2007</b>				
Year	65+ Pop.	Total Pop.	% 65+ to Total Pop.	Statewide % 65 pop. to total
2002	68,998	277,682	24.8%	17.5%
2007	83,227	318,718	26.1%	18.0%

Source: CON #9551 from "AHCA Population Estimates" published December 2001 for July of each year.

The applicant indicates that CMRC will serve the East Naples – South Collier area consisting of zip codes, 34112, 34113, 34114, 34117, 34137, 34138, 34139, 34140, 34141, 34145 and 34146. Claritas, Inc. demographic data, presented by the applicant, indicates that the CY 2001 population in these zip was 75,573, which is projected to grow by 14 percent over the next five years to 86,044. Approximately 29 percent of the Collier County population resides in these 11 zip codes. However, as of CY 2001, 20,779 or 35 percent of the population aged 65 and over live in these zip codes. Older patients represent higher utilization of health care facilities and longer length of stay overall. The applicant concludes that the combined impact of population growth and market development requires additional beds to be approved.

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- The applicant states that the combined population growth and the market development in the area require additional beds. Building permits, a 64 percent increase from 1995 to 2000, employment growth fourth largest in nation from 1997 to 2002, and Collier County's growth of labor force, 37 percent from 1990-2000, compared to the state 16 percent and nation 12 percent is also detailed by the applicant. The applicant provides the following assumptions as the basis for its market projections. Collier County resident discharge rates for populations under 65, age 65 and older, and OB (females 15-44) population were reviewed for CY 1998 - 2000. The 100.2 per 1,000 population overall use rate for CY 2000, is projected to increase by 0.2 per year, based on the aging of the population. This results in 103.7 per 1,000-use rate for CY 2007. The in-migration, which was 22 percent of the Collier hospital's CY 1998 - 2000 total resident discharges, remains constant. Out migration declines from 16 percent in 1000 to 11 percent in 2001 to reflect the opening of Cleveland Clinic (based on quarter two of the 2001 AHCA patient database). AHCA population projections published December 2001 were utilized in projecting use rates. The applicant also indicates that with the addition of CRMC and expansion of managed care in Collier County, the ALOS (4.4 for Collier hospitals in CY 2000) will decline to 4.2 days. The applicant indicates the 4.2 ALOS will remain constant in its projections.

However, the applicant's market share is projected to be 13 percent of the county's total discharges in CY 2006, 15.25 percent in 2007 and 16.5 in 2008. The applicant indicates that market share and utilization projections were based on the services offered, the market size, the current capacity of existing facilities, and the geographic location of services (south of I-75). Projections assume a bed complement of 86 medical/surgical beds and 14 obstetrical beds. The growth in market share is based on geographic proximity, relevant population, the range of service provided and other competitive factors. It is noted that according to co-batched applicant, Cleveland Clinic, CCFH's current market share is eight percent and it anticipates that increasing to 19 percent by 2007 assuming this bed addition is approved.

The applicant's projected occupancy for CY 2006, 2007 and 2008 is contained in the chart below. The applicant projects the hospital to being operation on July 1, 2005.

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### Collier Regional Medical Center Projected Patient Days

	2006	2007	2008
Collier Hospital Provider Discharges	39,914	38,538	40,272
CRMC Projected Market Share	13.0%	15.25%	16.5%
CRMC Discharges	4,799	5,877	6,645
ALOS	4.2	4.2	4.2
HMA Collier Total Patient Days	20,614	24,695	27,922
Occupancy @ 100 beds	55.2%	67.7%	76.5%

Source: CON #9551, page 68.

Note: The applicant's table has a math error in that 4,799 x 4.2 computes to 20,155 not 20,614.

The applicant contends that the projected population growth and increasing use rate due to aging in Collier County is so sizeable that a new provider can achieve an efficient level of occupancy without adversely affecting the existing providers. However, this appears to be based on the market share of existing hospitals remaining about the same. As noted below in Cleveland Clinic's application its current market share, after being open for approximately 13 months at the time of this writing, is eight percent. The applicant contends that the subdistrict will achieve an average utilization of 72.1 percent in 2006, 75.3 percent in 2007 and 78.7 in 2008. The area's population growth and aging of the population does provide some support to the applicant's contention.

In summary, approval of this project would allow another competitor to enter this market, which currently has a very low managed care penetration rate and problems with the provision of services to the Medicaid and medically indigent population. The local AHCA Medicaid office, indicates that the Medicaid population accounts for seven percent of Collier County's population and that Collier County has a need for a facility to demonstrate responsiveness and commitment to the Medicaid and medically indigent population by providing a continuum of care that includes primary and acute care. At present, most adult Medicaid recipients residing in the Naples area, according to AHCA's Medicaid office, are having difficulty accessing care. In addition, there would be more beds and an additional ER available during the peak season. Access for residents of the East Naples South Collier population would be increased and there would be another provider of inpatient obstetrical services. The project should improve the subdistrict's overall delivery of health care services.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** contends that the following special circumstances support the need for its project:

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- First, are the increasing population and utilization rates during CY 1998 through 2000. While the subdistrict has added 118 new beds during this time, the applicant notes that Collier County facilities overall occupancy has remained at 75 percent. The applicant also discusses the 82,070 seasonal population's impact on the 2001 population of 255,673 resulting in a 337,143 total. The applicant contends the seasonal impact might have been higher if not for the events of September 11, 2001. An analysis of the subdistricts in the State revealed that Collier has the state's highest level of first quarter occupancy rates during CY 2001. The applicant indicates that during January 2002, the subdistrict's facilities averaged 91.1 percent utilization, with CCFH at 66.8 percent. However, AHCA preliminary utilization data indicates that the subdistrict's facilities averaged 89.85 percent utilization and CCFH averaged 68.62 percent during 1<sup>st</sup> quarter 2002. However, the applicant's page 29 indicates that CCFH averaged 68.3 percent utilization (4,323/6,328) during the 1<sup>st</sup> quarter of 2002. Local Health Council (LHC) data show it was actually 68.62 percent (4,323/6300). CCFH further indicates that four of the facility's beds are not staffed as they are OB beds that are remote from the medical/surgical units. The applicant indicates that the average daily census for these beds would have only been two based on its experience, so utilizing these beds would be costly and inefficient. CCFH argues that patients in need of OB services are currently well served by existing hospitals in the area. Therefore, although the applicant designated four beds as OB, it appears to have determined that not to be an efficient use of the beds and an apparent poor facility design. However, corrections to design or redesignation of OB beds to medical/surgical beds are options available to the applicant that do not require CON review and are not really applicable to this project. The daily capacity constraints especially at peak season, the impact of the time of day on census and capacity constraints that are particular to the small size of the hospital are discussed. The applicant contends that these factors make it difficult for CCFH to meet the 80 percent threshold for a 12-month period.
- The applicant next discusses its patient origin mix during the 12 months ending March 2002, which show that 72 percent of its discharges are Collier residents, 18.6 percent are other District 8 residents, 2.7 percent are other Florida and 6.5 percent are from out of state. A discussion of Cleveland Clinic's uniqueness with its "foundation model" patient care structure, which allows a patient with complex medical conditions to see physicians in one location with a single medical record as opposed to being shifted from one

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specialty group to another. The applicant contends this affords greater continuity of care. The applicant also discusses CCFHs relationship to the Cleveland Clinic Foundation, which provides opportunities for education and research. The applicant concludes that through CCFH Naples, residents of SW Florida enjoy immediate access to new treatments, improved patient care techniques, and innovative procedures that are developed by the Cleveland Clinic Foundation hospitals.

- CCFH discusses projected Collier County population growth, and indicates that AHCA population estimates projects the county to grow from 272,952 residents in July 2002 to 313,968 in July 2007 or by approximately 15 percent. Also, the population age 65+ is projected to increase from 67,524 in July 2002 to 81,550 in July 2007 or by 20.77 percent. The age 65 and older population accounts for approximately 25 percent of the Collier County population compared to the state average of 17.5 percent. The age 65 and over population is projected to increase to 20.77 percent of the total population by 2007. While the applicant indicates these figures are for July 2002 and 2007, they are actually January 2002 and 2007, per the "AHCA population projections published December 2001". As shown above, the 65 and older population in Collier County is expected to increase by 20.6 percent between July of 2002 and July of 2007. The total Collier County population is expected to grow at a rate of almost 15 percent. This is higher than the state's anticipated growth. (Refer to the chart above). Additionally, the 65 and older population is anticipated to increase by 20.6 percent in Collier County between those same years compared to the state at 11.3 percent. The total population is expected to increase by 14.8 percent compared to the state at 8.1 percent. CCFH indicates that its PSA consists of a 19 zip code area, which includes three southern Lee County zip codes. This area is projected to growth from 315,404 residents in 2002 to 359,069 in CY 2007 or by 13.8 percent. Claritas figures presented by the applicant, also indicate that the elderly population of these zip codes will grow from 75,692 residents in 2002 to 86,624 in 2007 or by approximately 14.4 percent. The applicant also indicates that it needs for beds for its projected physician recruitment. CCFH contends that growth in physicians it has on staff will foster increases in utilization volumes. CCFH also indicates it will gain market share. Its present market share is eight percent in the PSA, which it predicts will grow to 19 percent by CY 2007. In CON #8609, CCFH stated its first year market share would be 8.1 percent of the total Collier County discharges projected for CY 2000.

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This was projected to increase to 9.3 percent in CY 2001 and 9.8 percent in CY 2002. In terms of patient days, CCFH captured 5.58 percent of Collier County facilities total CY 2001 patient days. However, taking into account the fact that CCFH was not in operation for the 1<sup>st</sup> quarter of 2001, CCFH had 7.66 percent (7,502/97,941) of the patient days during the 3<sup>rd</sup> quarter of CY 2001 when all facilities were in operation.

The applicant's projected occupancy as a result of the project for FY 2005 and 2006 is contained in the chart below.

### Cleveland Clinic Florida Hospital - Naples Acute Care Bed Need in 2007

Acute Care Use Rate per 1,000 pop.	107.72
Service Area Population	359,069
<b>SA Discharges</b>	<b>38,679</b>
CCH Market Share	19.0%
Estimated CCH Discharges	7,349
In-migration	20.8%
Total CCH Discharges 2007	9,279
ALOS (Jan - March 2002)	3.7
CCH patient days 2007	34,332
Est. ADC	94.06
Beds needed at 75 percent occupancy	125
CCFH Licensed and Approved Beds	70
Beds Needed	55

Source: CON #9552, page 66.

The applicant indicates that CCFH Naples will have 30,370 patient days in July 05 - June 06 or 75.6 percent occupancy and 31,568 patient days in July 06 - June 07 for a total occupancy of 77.9 percent. As previously stated, CCFH was not in operation for the 1<sup>st</sup> quarter of 2001 and had 7.66 percent (7,502/97,941) of the total patient days during the 3<sup>rd</sup> quarter of CY 2001 when all three facilities were in operation. CCH originally projected it would capture 8.1 percent of CY 2000 (year one in CON #8609) total patient days, 9.3 percent in 2001 and 9.8 in CY 2002.

The applicant indicates that the project will relieve capacity constraints by 1st quarter of CY 2004, improve the accessibility of its services, enhance the facility's efficiency, reduce ER congestion, alleviate delays in admission, allow for continued growth in utilization and provide sufficient flexibility in each of the hospital's units to ensure an appropriate patient mix within each unit can be maintained.

The applicant appears to contend that by virtue of its being a Cleveland Clinic affiliate and by adding physicians, it will increase its market share from eight percent to 19 percent. However, based on the hospital's actual growth rate in total patient days, this could be optimistic.

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In summary, Cleveland Clinic Florida Hospital is a small hospital that does have some capacity constraints especially at peak season. Adding beds to this relatively small facility should improve efficiency. However, it is also noted that comments made by the applicant indicate some redesign of the existing facility might easily resolve at least some of its efficiency issues. Renovations at existing facilities do not require CON review and inefficiencies alone do not constitute special circumstances. As noted above under co-batched applicant Collier HMA, area Medicaid adult residents are experiencing difficulty accessing care according to the AHCA District 8 Medicaid Office. Although the applicant has an existing Medicaid condition on the 70 acute beds, it did not meet its Medicaid occupancy for CY 2001. The applicant itself admits in response to other criterion, that it has not met its existing condition. Additionally, as noted above, the applicant is requesting, with this bed addition proposal, to reduce that existing commitment.

In reference to the seasonal occupancy, the facility's January - March quarter generally experiences high occupancy as discussed below. However, utilization is based on an annual basis and Rule 59C-1.005 (6) (f) 1. Florida Administrative Code criteria allow for an exemption to CCFH Naples for up to 10 beds as a result of a three period of peak season utilization. In addition, after 12-month utilization at 80 percent ending one month prior to an exemption request, the applicant could qualify for an addition of up to 10 beds per Rule 59C-1.005 (6) (e), Florida Administrative Code. The applicant has the ability to utilize administrative rule criteria to answer immediate bed needs.

## 2. **Local Health Plan Preferences**

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

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

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

**Collier H.M.A., Inc. (CON #9551)** proposes as a condition to the CON, that it will accept all Medicaid and charity care patients that are clinically appropriate for services offered at Collier Regional

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Medical Center. Schedule 7A shows the applicant projects Medicaid to account for 10.1 percent of the project's total patient days in year two and notes to this schedule indicate charity care is calculated at 2.0 percent of gross revenues.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** proposes to condition this project to Medicaid accounting for 1.3 percent and charity care 0.5 percent of the 40 beds total patient days. However, the applicant is presently conditioned to provide 9.5 percent Medicaid and 4.5 percent charity care in the 70 beds. Therefore, the applicant proposes to reduce its conditions on the 110 acute care beds to 6.5 Medicaid and 3.0 percent charity care. The AHCA's Medicaid office, as noted above, indicates that CCFH Naples has not been very receptive to Medicaid patients. The hospital is not a disproportionate share Medicaid provider. Schedule 7A shows the applicant projects Medicaid to account for 6.5 percent of the 110 bed facility's total patient days in year two and notes to this schedule indicate charity care is calculated at 3.0 percent of gross patient revenues.

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

**Collier H.M.A., Inc. (CON #9551)** indicates that it will develop transfer arrangements with area hospitals for services it will not be offering. However, this project does not involve shared services or transfer agreements to mutually increase existing resource efficiency.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** indicates that the proposed project does not involve shared services or transfer arrangements.

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

Neither project involves the transfer of beds within the subdistrict.

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

Neither project involves the transfer of beds within the subdistrict.

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

The local AHCA Medicaid office, indicates that the Medicaid population accounts for seven percent of Collier County's population and that Collier County has a need for a facility to demonstrate responsiveness and commitment to the Medicaid and medically indigent population by providing a continuum of care that includes primary and acute care.

During FY 2000, Naples Community Hospital's two facilities were the only acute care providers in the subdistrict. Naples Community includes both facilities in reporting its financial data to AHCA. FY 2000, AHCA Hospital Financial Data indicates NCH provided 7.5 percent of its 424 beds total patient days to Medicaid and 4.0 to charity care during FY 2000. District 8 facilities provided 7.3 percent of their total patient days to Medicaid and 1.9 percent to charity care patients during FY 2000.

**Collier H.M.A., Inc. (CON #9551)** indicates that it will serve Medicaid and charity care patients. Although the amount of this commitment was not quantified on Schedule C, pro formas submitted by the applicant indicate that 10.1 percent of its patient days in the 100-bed facility are expected to be provided to Medicaid patients. Assumptions to pro formas state that two percent of the patient days will be provided to charity care.

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**Cleveland Clinic Florida Hospital Naples (CON #9552)** states that in spite of its best efforts, it did not comply with the Medicaid and charity care conditions on its existing 70 beds during CY 2001. The applicant indicates that CCFH provided 1.3 percent of total patient days to Medicaid and 0.9 percent to charity care. The applicant provides a discussion of its reasons for not meeting the condition, mainly lack of obstetrical services, and type of non-inpatient Medicaid and charity care it does provide. While the applicant restates its commitment to Medicaid and charity care patients, this project's proposed conditions lower the commitment to charity care and Medicaid patients.

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

**Collier H.M.A., Inc. (CON #9551)** indicates this criterion is not applicable to its project as it proposes to build a new facility.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** cites the lower cost associated with adding beds to its existing facility compared to building a new one. The applicant indicates that all of the facility's ancillary and support departments were initially constructed to support a larger number of beds and can easily accommodate continued growth in patient volume.

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

**Collier H.M.A., Inc. (CON #9551)** does not have an existing facility and therefore, this criterion is not applicable.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** states that its January - March 2002 occupancy did not exceed 90 percent.

**3. Agency Rule Criteria**

**Does the project respond to preferences stated in agency rules? Indicate how each applicable criteria for the type of service proposed is met. Ch. 59C-1.038(6) (a) & (b), Florida Administrative Code.**

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

**Collier H.M.A., Inc. (CON #9551)** does not have an operational history but does provide the history of the HMA affiliated hospitals in Florida. The applicant also restates its commitment to these patients. It is again noted that although its commitment to the medically indigent was not quantified on Schedule C, pro formas submitted by the applicant indicate that 10.1 percent of its patient days in the 100-bed facility are expected to be provided to Medicaid patients and two percent to charity care.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** cites its 12-month history of provision of care to Medicaid and charity care patients and indicates that it will continue to do so. For a discussion on the comparison of the applicant's Medicaid and charity care provision, see 2.e. above.

- b. When there are competing applications within a subdistrict, priority consideration shall be given to the applications, which meet the need for additional acute care beds in a particular service through the conversion of existing underutilized beds.**

While there are competing applications for additional acute care beds in District 8, Subdistrict 2; the applicants are not proposing the transfer 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.**

**Collier H.M.A, Inc. (CON #9551):** In reference to availability and accessibility of acute care beds in the area, the applicant talks about how

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the new hospital, CRMC, will ease capacity constraints at existing Collier facilities and the facility will in a more accessible location for the East Naples and South Collier County population.

Managed care levels are projected at 17.8 percent, which is a major improvement on the level of managed care being provided by the existing facilities and is expected to improve access and availability of acute care beds in the area to managed care patients. The applicant presents documentation of five major managed care companies support for its project.

While the applicant questions quality of care provided in the subdistrict, AHCA complaint records indicate that NCH hospitals have had one confirmed patient care complaint, which was also cited as neglect during the three previous years. Cleveland Clinic Florida Hospital Naples has no confirmed patient care complaints since beginning operation on April 2, 2001 through April 19, 2002.

As previously stated, the Medicaid population accounts for seven percent of Collier County's population and Collier County has a need for a facility to demonstrate responsiveness and commitment to the Medicaid and medically indigent population by providing a continuum of care that includes primary and acute care, according to the Agency's District 8 Medicaid Office. Because of its commitment to this population, approval of this application should result in improved access to Collier County's medically indigent population.

**Cleveland Clinic Florida Hospital Naples (CON #9552):** In reference to availability and accessibility to acute care beds, the applicant talks about the hospital's location being within a 30-minute travel time for its service area population. The applicant indicates that the facility's small size and high volume compromises its ability to continue to maintain adequate bed availability, which results in admission delays, congested emergency rooms and the sub-optimal use of patient units. CCFHs special mission and closed physician model is again discussed.

CCFH also indicates that operational inefficiencies will ultimately prevent patients, including indigent patients, from receiving proper care in the most appropriate setting possible. However, the applicant indicates that CCFH provided 1.3 percent of total patient days to Medicaid and 0.9 percent to charity care. CCFH also states that one of the reasons for the low provision of overall care to these patients was that it does not provide obstetrical services. However, North Collier Hospital, the one facility in Collier County that does provide OB Services, reported 2,769 live births during the 12 months ending June 30, 2001. CCFH has four OB beds

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that it contends it can't utilize because it projects low utilization. This is incongruent with the area's population growth and reported births. With seven percent of the Collier population having Medicaid coverage and the facility's 1.3 percent overall Medicaid utilization, it appears that CCFH is also reluctant to provide care to these patients.

The applicant does not question the quality of care of the subdistrict's other facilities. See item 4.c. for a discussion of the applicant's quality of care. Cleveland Clinic Florida Hospital Naples has no confirmed patient care complaints since beginning operation on April 2, 2001 through April 19, 2002. The project should have a positive impact on the quality of care. However, the project is deemed to be a costly and financially inefficient use of health care resources to increasing the supply of available beds in the subdistrict.

District 8, Subdistrict 2 is comprised of three acute care hospitals in one county with a total of 481 beds. The average occupancy in the acute care beds in District 8, Subdistrict 2 was 78.20 percent during the July 2000 through June 2001 reporting period.

The following table shows the number of acute care beds and occupancy rates for District 8, Subdistrict 2.

<b>District 8 Subdistrict 2 Occupancy Rates July 2000 through June 2001</b>		
<b>Hospital</b>	<b># of Acute Care Beds</b>	<b>Percent Occupancy</b>
Naples Community Hospital	313	79.88%
North Collier Hospital	98	80.70%
Cleveland Clinic FL Hosp Naples	70	34.41%
<b>TOTALS</b>	<b>481</b>	<b>78.20%</b>

Source: Florida Hospital Bed and Service Utilization by District, Vol. II, January 2002.

Notes: North Collier Hospital added 10 beds 1/23/01 and Cleveland Clinic FL Hospital Naples opened 4/2/01.

Need for the projects is not evidenced by the utilization of like and existing services in the service area.

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

**Collier H.M.A., Inc. (CON #9551)**, as a newly established entity, does not have a history of providing quality care. However, the applicant provides a description of the HMA performance improvement, awards and quality management programs. The applicant demonstrates the ability to provide quality care.

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**Cleveland Clinic Florida Hospital Naples (CON #9552)** has had no confirmed patient care complaints since beginning operation on April 2, 2001 through April 19, 2002. The project should have a positive impact on the quality of care. CCFH provides a description of the Cleveland Clinic research mission and its performance improvement program. Volume II's Attachment I contained the hospital's performance improvement plan. CCHF Naples demonstrates the ability to provide quality care.

- 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.**

**Collier H.M.A., Inc. (CON #9551)** indicates that managed care access is not economically accessible within the service area and these patients often must seek care outside the district. The applicant indicates its project will improve access to managed care providers serving the population of Collier County.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** indicates that it is a community-based provider and in most instances it is not reasonable or economical for residents to seek basic hospital services outside of their community.

The proposed projects do not involve special equipment or services, which are not accessible in adjacent districts.

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

**Collier H.M.A., Inc. (CON #9551)** indicates that while this project will not be located in a teaching hospital, CRMC will work with area schools offering clinical training for health care professionals.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** emphasizes that part of the "Cleveland Clinic" mission is research. The applicant provides a detailed description of its educational efforts. Attachment O includes a listing of research protocols the hospital participates in and Attachment P in Volume II of the application includes medical articles written by CCFH Naples physicians. Attachment N included a letter from Dr. Anthony M. Vernava, III, CCFH Naples' Director of Research and Education, which describes CCFH's graduate medical education, continuing medical education, patient education and ongoing clinical research programs, 10 of which are active studies with the principle

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researcher located at CCFH Naples. However, the proposed project will not be located in a teaching hospital, nor is the project's primary purpose research or physician education.

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

**Collier H.M.A., Inc. (CON #9551)** indicates that it does not anticipate any significant problems in staffing the proposed facility. The applicant presents a description of its retention and recruitment procedures. While not addressing the nursing shortage, the applicant emphasizes that in order to attract quality personnel, it strives to develop relationships with local education programs in the areas of nursing, radiology, laboratory and other health care related fields. Compensation plans, including benefits are stated to be evaluated and maintained at a competitive level.

Schedule 6 indicates that 325.8 FTEs will be on board by the end of year two (June 30, 2007). These include 65.9 FTE RNs, 21.6 LPNs, 26.0 Nurses Aides and 11.9 "other" nursing FTEs. The applicant indicates that the proposed staffing pattern for CRMC has been developed based on Health Management Associates, Inc.'s experience at other similar sized hospitals it operates in Florida.

The audited financial statements of Collier HMA, Inc., for the period ending March 15, 2002 was analyzed for the purpose of evaluating the applicant's ability to provide the capital and operational funding necessary to implement the project.

The applicant is a development stage enterprise and a wholly owned subsidiary of Health Management Associates, Inc. The audited financial statements indicated the company had no assets or operating revenues as of the balance sheet date.

The audited financial statements of Health Management Associates, Inc., for the period ended September 30, 2001 disclosed \$70.3 million in cash on hand, \$565.2 million in current assets and \$1.9 billion in total assets. The company had \$1.9 billion in revenues, \$195.0 million net income and \$290.0 million in cash flows.

### **Capital requirements:**

Schedule 2 indicates the applicant has capital projects totaling \$75.1 million.

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**Available capital:**

Funding for this project will come exclusively from the parent, Health Management Associates, Inc., which provided a commitment letter for funding the project.

**Conclusion:**

Health Management Associates, Inc. has the financial resources to fund this project.

**Cleveland Clinic Florida Hospital Naples (CON #9552):** Schedule 6A indicates that 156.3 FTEs will be added by the end of year two (June 30, 2006). These include 65.4 FTE RNs, 5.9 LPNs, 6.1 Nurses Aides and 31.4 “other” nursing FTEs. While the applicant does not address the nursing shortage, CCFH Naples indicates that it does not anticipate any problems recruiting and retaining high quality staff as Cleveland Clinic’s reputation for quality patient care and its commitment to research and education enhances the hospital’s recruiting efforts. The applicant indicates that it also uses traditional recruitment methods such as ads in the local paper, professional journals, and on-line and at job fairs and college career days. The applicant does not discuss employee benefits and retention.

The audited financial statements of Cleveland Clinic Florida Hospital Naples for the period ended December 31, 2001 were analyzed for the purpose of evaluating the applicant’s ability to provide the capital and operational funding necessary to implement the project. The applicant began operations in April 2001; the financial statements are for the first nine months of operation. The following is a list of accounts and ratios used in the analysis:

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		12/31/2001
Current Assets		10,834,000
Cash and Current Investment	\$	1,208,000
Assets Restricted for Capital Projects	\$	0
Total Assets	\$	86,901,000
Current Liabilities	\$	5,771,000
Total Liabilities	\$	93,224,000
Total Equity	\$	(6,323,000)
Net Operating Revenues	\$	28,326,000
Interest Expense	\$	928,000
Net Profit - Operations	\$	(5,953,000)
Net Income	\$	(5,953,000)
Cash Flow from Operations	\$	(12,753,000)
Working Capital	\$	5,063,000
Current Ratio (CA/CL)		1.9
Cash Flow to Current Liabilities (CFO/CL)		-2.2
Long-Term Debt to Equity (TL-CL/TE)		-13.8
Times Interest Earned (NPO+Int/Int)		-5.4
Equity to Total Assets (TE/TA)		-7.3%
Operating Margin (NPO/NOR)		-21.0%
Total Margin (NI/NOR)		-21.0%
Return on Assets (NI/TA)		-6.9%
Operating Cash Flow to Assets (CFO/TA)		-14.7%

### **Short-term position:**

The applicant's current ratio of 1.9 is just below the 50<sup>th</sup> percentile for all Florida hospitals of 2.0, an adequate position. The working capital (current assets less current liabilities) of \$5.0 million is adequate. The ratio of cash flow to current liabilities of -2.2 is weak. This weakness can be explained in part by the applicant beginning operations in April 2001, resulting in a low average census for the period and revenues lagging costs.

### **Long-term position:**

The ratio of long-term debt to equity of -13.8 is very high, indicating substantial debt with large negative equity. The ratio of cash flow to assets of -14.7 percent reflects large cash outflows during the first nine months of operations with a loss from operations of \$6.0 million. The total equity of -\$6.3 million with the equity to assets of -7.3 percent is very weak. After only 9 months of operations it is not possible to determine if revenues will be sufficient to support the large debt. This project is forecast to add \$11.6 million to this debt.

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The hospital is a wholly owned subsidiary of Cleveland Clinic Health System, whose most recent Audited Financial Statements for the period ended December 31, 2000 disclosed \$14.0 million in cash on hand, \$675.3 million in current assets and \$3.7 billion in total assets. The company had \$2.8 billion in revenues, \$91.2 million net income and \$199.9 million in operating cash flows.

### **Capital requirements:**

Schedule 2 indicates the applicant has capital projects totaling \$11.6 million.

### **Available capital:**

Schedule 2 indicates funding will come from \$10.1 million in hand and \$1.5 million in cash flows. The applicant had cash out flows as noted above; any cash provided by the applicant in support of the project is speculation. Schedule 3 indicates funding for this project will come from the parent, Cleveland Clinic Health System, which provided a commitment letter. Funding would be provided in the form of loan bearing interest at 5.0 percent with a 25-year amortization period, increasing the applicant's already considerable debt.

### **Conclusion:**

Cleveland Clinic has the financial resources to fund this project.

**f. What is the immediate and long-term financial feasibility of the proposal? ss. 408.035(8), Florida Statutes.**

A comparison of the applicant's estimates to the control group values provides for an objective evaluation of financial feasibility, (the likelihood that the services can be provided under the parameters and conditions contained in Schedules 7 and 8), and efficiency, (the degree of economies achievable through the management proficiency 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.

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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.

**Collier H.M.A., Inc. (CON #9551):** Comparative data were derived from hospitals in peer groups that reported data in 2000; the applicant will be compared to the hospitals in peer 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.

Projected net revenue per adjusted patient day (NRAPD) of \$1,532 in year one and \$1,585 in year two is between the control group median and highest values of \$1,368 and \$1,621 in year one and \$1,409 and \$1,669 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).

Projected cost per adjusted patient day of \$1,455 in year one and \$1,364 in year two is between the group median and highest values of \$1,282 and \$1,566 in year one and \$1,320 and \$1,613 in year two. Compared to the control group these costs are efficient. (See Comparative Table).

The year two operating profit for the hospital of \$8.09 million computes to an operating margin per adjusted patient day of \$220 which is between the control group median and highest of \$38 and \$261. The computed operating margin ratio is 13.9 percent.

This application appears to be financially feasible.

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**Comparative Table**

CON # 9551 Collier HMA, Inc. 2000 DATA Peer Group 4	2007	YEAR 2	VALUES ADJUSTED		
	YEAR 2 ACTIVITY	ACTIVITY PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	27,641,537	754	1,037	535	333
INPATIENT AMBULATORY	0	0	100	54	28
INPATIENT ANCILLARY SERVICES	111,183,676	3,031	3,985	2,077	1,399
OUTPATIENT SERVICES	67,147,844	1,831	2,268	1,601	895
OTHER OPERATING REVENUE	226,199	6	203	6	1
TOTAL REVENUE	206,199,256	5,622	6,870	3,936	2,793
DEDUCTIONS FROM REVENUE	148,077,269	4,037	*	*	*
NET REVENUES	58,121,987	1,585	1,669	1,409	1,135
EXPENSES					
ROUTINE	8,153,363	222	299	217	156
ANCILLARY	14,520,615	396	579	456	353
AMBULATORY	1,794,829				
OVERHEAD	25,566,338	697	802	605	404
OTHER	0	0			
TOTAL EXPENSES	50,035,145	1,364	1,613	1,320	1,009
OPERATING INCOME	8,086,842	220	261	38	-120
		13.9%			
PATIENT DAYS	24,695		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	36,680		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	36,500				
ADJ. FACTOR	0.6733				
TOTAL NUMBER OF BEDS	100				
PERCENT OCCUPANCY	67.7%		90.2%	49.4%	26.8%
PAYER TYPE	PATIENT DAYS	% TOTAL			
MEDICARE	15,822	64.1%	77.9%	56.3%	28.7%
COMMERCIAL	231	0.9%			
MEDICAID	2,484	10.1%	12.4%	4.7%	1.3%
PRIVATE	1,096	4.4%			
HMO/PPO	4,386	17.8%	53.7%	35.4%	10.1%
OTHER	674	2.7%			
TOTAL	24,693	100.0%			

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<b>Comparative Table for Acute Care Beds in District 8 January 2002 Hospital Cycle</b>			
CON #	Project Cost	Net Revenues Per Day	Total Hospital Operating Cost/Day
9551	\$75,124,854	\$1,585	\$1,364
9552	\$10,131,000	\$1,889	\$1,628

**Cleveland Clinic Florida Hospital Naples (CON #9552):** Comparative data were derived from hospitals in peer groups that reported data in 2000; the applicant will be compared to the hospitals in peer 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. Estimates were based on the hospital's projected case mix score of 1.3760. An analysis of the hospital's primary service area generated a case mix score of 1.2560. The applicant may have overstated the expected case-intensity for their financial projections.

Projected net revenue per adjusted patient day (NRAPD) of \$1,900 in year one and \$1,889 in year two is above the control group highest value of \$1,792 in year one and \$1,846 in year two. The highest level is generally viewed as the practical upper limit on economies of operation. With net revenues per adjusted patient day exceeding the control group highest value, the applicant is expected to consume health care resources in excessive proportion for the services provided when compared to the control group. (See Comparative Table).

Projected cost per adjusted patient day of \$1,652 in year one and \$1,628 in year two is between the group median and highest values of \$1,418 and \$1,731 in year one and \$1,460 and \$1,783 in year two. The highest value is considered the upper limit of cost efficiency. This application is considered cost efficient when compared to the control group. (See Comparative Table).

The year two operating profit for the hospital of \$14.34 million computes to an operating margin per adjusted patient day of \$260 which approximates the control group highest value \$261. The computed operating margin ratio is 13.8 percent.

While the applicant's ability to operate the hospital is not in question, the project represents a very costly and financially inefficient solution to increasing the supply of available beds to the local market.

This application appears to be financially feasible.

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**Comparative Table**

CON # 9552 Cleveland Clinic Florida Hosp. Naples 2000 DATA Peer Group 4	2005	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	51,429,268	934	1,147	592	369
INPATIENT AMBULATORY	0	0	111	60	31
INPATIENT ANCILLARY SERVICES	111,684,616	2,028	4,407	2,297	1,547
OUTPATIENT SERVICES	132,784,794	2,411	2,507	1,771	989
OTHER OPERATING REVENUE	0	0	224	9	1
TOTAL REVENUE	295,898,678	5,374	7,597	4,352	3,088
DEDUCTIONS FROM REVENUE	191,899,886	3,485	*	*	*
NET REVENUES	103,998,792	1,889	1,846	1,558	1,256
EXPENSES					
ROUTINE	20,871,636	379	331	240	173
ANCILLARY	31,913,898	580	640	504	390
AMBULATORY	0				
OVERHEAD	36,869,806	670	887	669	447
OTHER	0	0			
TOTAL EXPENSES	89,655,340	1,628	1,783	1,460	1,116
OPERATING INCOME	14,343,452	260	261	38	-120
		13.8%			
PATIENT DAYS	30,355		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	55,066		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	40,150				
ADJ. FACTOR	0.5512				
TOTAL NUMBER OF BEDS	110				
PERCENT OCCUPANCY	75.6%		90.2%	49.4%	26.8%
PAYER TYPE	PATIENT DAYS	% TOTAL			
MEDICARE	21,563	71.0%	77.9%	56.3%	28.7%
COMMERCIAL	4,100	13.5%			
MEDICAID	1,974	6.5%	12.4%	4.7%	1.3%
PRIVATE	911	3.0%			
HMO/PPO	1,807	6.0%	53.7%	35.4%	10.1%
OTHER	0	0.0%			
TOTAL	30,355	100.0%			

**CON Action Numbers: 9551 & 9552**

<b>Comparative Table for Acute Care Beds in District 8 January 2002 Hospital Cycle</b>			
CON #	Project Cost	Net Revenues Per Day	Total Hospital Operating Cost/Day
9551	\$75,124,854	\$1,585	\$1,364
9552	\$10,131,000	\$1,889	\$1,628

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

**Collier H.M.A., Inc. (CON #9551)** forecasts managed care levels at 17.8 percent, between the lowest and the median level of the control group of 10.1 and 35.4 percent. This level, if realized, will have little positive impact on competition to promote quality assurance and cost-effectiveness.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** forecasts managed care levels at 6.5 percent, between the lowest and the median level of the control group of 10.1 and 35.4 percent. This level, if realized, will have little positive impact on competition to promote quality assurance and cost-effectiveness. Excessive revenues coupled with high profits indicate that competitive forces are not active in the local market.

- 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.**

**Collier H.M.A., Inc. (CON #9551)** proposes to construct a three-story building with the First Floor being larger than the upper floors, which is typical. The upper two floors are devoted to patient rooms. In addition to the hospital proper, there is also a single-story Women's Center connected to the hospital by a pair of corridors.

The Women's Center includes four LDRs, two LDRP beds and 12 post-partum beds for a total of 14 beds. At the scale of the Plans submitted, it is not possible to determine if the required clearances have been met, but it can be assumed at this stage of the project's development that the spaces meet the codes. It is assumed that the classroom will be used to satisfy the requirement for breast feeding demonstration and counseling. The design professional should pay particular attention to the required clearances between bassinets in the nurseries and the hand washing requirements throughout the building.

## **CON Action Numbers: 9551 & 9552**

The site had not been selected at the time the CON application was submitted. There is no information in the application regarding the site relating to the requirements for disaster preparedness in the Florida Building Code. Information in Section 419.4.56 pertaining to the 100-year flood plain and Category 3 Hurricane Surge Inundation Elevations will need to be supplied if this application is granted and the new hospital becomes a project reviewed by the AHCA Office of Plans and Construction. If these code requirements have not been addressed in the current design, and the site elevation is too low, this could be a major issue. There is no reason to think that these requirements have not been taken into account by the design professionals, but it is critical that the site and design of the hospital meet these code provisions.

The emergency department (ED) and ambulance entrances are near each other on one side of the building. It might be preferable for the shower adjacent to the emergency department, (presumably for decontamination), to have a door leading directly into the ED rather than just the door that opens to the exterior. Direct access to the ED is not required, but this is the way more facilities are designed. If the owner prefers the plan as drawn and has a good reason for it to be this way, this will not be an issue.

The front of the hospital has the visitor drop-off, the patient drop-off and the public ER entry on what appears to be the same traffic loop. There seems to be a canopy over these two entries. Depending on the direction of traffic (which is not indicated), it is possible that there might be some congestion with these two functions so close to each other, particularly since cars will be stopping at both points to let passengers out. Although both are labeled "drop-off", it can be assumed that they are pick-up points also. This would increase the possibility of congestion. The designers may have some explanation as to how this adjacency is workable, but it appears that the area would benefit from further study.

More information about the body holding room would have been helpful. If autopsies are performed in the hospital, then this space will need to be expanded to include the required ancillary spaces.

The arrangement of the first floor provides a good circulation flow that limits the amount of cross-traffic between staff, patients and the general public. Overall, the proposed project, as submitted, is well designed and is functional and efficient. The construction cost appears reasonable

The applicant provided a list of common applicable codes but it is not accurate and will have to be revised if this project should proceed.

## CON Action Numbers: 9551 & 9552

**Cleveland Clinic Florida Hospital Naples (CON #9552)** proposes to add 40 new acute care beds to the hospital. Thirty-eight of the beds will be general acute care beds and two will be ICU beds. All renovation will take place in existing occupied space and all new construction will occur in the existing shell space. There are no demolition plans, so it is not possible to determine just how much of the existing building will be changed through renovation. The total extent of existing shell space that will be converted is implied by the darker lines on the plans. The first floor plan indicates that there will be a small amount of shell space remaining after this project is complete.

Several existing private patient rooms will be converted to semi-private. Two rooms currently being used as offices will be “reclaimed” as patient bed spaces. Evidently these were patient rooms at some point. A second floor nurse station will be reconfigured and when this happens, several existing spaces will be relocated to shell space on the first floor. A CT scan unit will also be built on the first floor.

More than half of the renovation will take place on the second floor where, in addition to the nurse station changes, there will be 19 beds added in the shell space. Some other existing spaces will become new patient rooms. The work on the third floor is similar where 14 new beds will be added in the shell space and two existing private rooms will be converted to semi-private. Minor renovation will take place on the fourth floor to gain two patient bed spaces.

The large-scale plans of the private and semi-private rooms show that the space is generous and appears to be identical to the existing rooms in the facility. Almost all patient rooms have toilet rooms with wheelchair-accessible showers.

The costs and the schedule appear reasonable for this scope of renovation.

- 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.**

As previously stated, the Medicaid population accounts for seven percent of Collier County's population. However, Collier County has a need for a facility to demonstrate responsiveness and commitment to the Medicaid and medically indigent population by providing a continuum of care that includes primary and acute care. According to the Agency's District 8 Medicaid Office, at present, this is not happening for most adults residing in the Naples area.

**Collier H.M.A., Inc. (CON #9551)** does not have an operational history. However, the parent corporation's affiliated Florida hospitals do have a history of the provision of services to the medically indigent and Medicaid patients. The applicant proposes as a condition to CON approval to accept all Medicaid and indigent patients that are clinically appropriate for services offered at Collier Regional Medical Center. Although this commitment was not quantified on Schedule C, pro formas submitted by the applicant indicate that 10.1 percent of its patient days in the 100-bed facility are expected to be provided to Medicaid patients. No Medicaid HMO patient days are shown in this schedule. Notes to the schedule indicate that charity care will account for 2.0 percent of gross patient revenues based on the Collier market and HMA's experience in meeting the needs of the indigent population in other areas it serves.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** proposes to condition the project to Medicaid accounting for 1.3 percent and charity care 0.5 percent of the 40 beds total patient days, which it indicates is experience for the 12 months the facility has been in operation. However, the applicant is presently conditioned to provide 9.5 percent Medicaid and 4.5 percent charity care in the 70 beds. Therefore, the applicant is not meeting its current conditions and proposes to reduce its conditions on the 110 acute care beds to 6.5 Medicaid and 3.0 percent charity care.

**F. SUMMARY**

**Collier H.M.A., Inc. (CON #9551)** proposes to construct a new 100-bed acute care hospital in District 8, Subdistrict 2, to be located in the East Naples – South Collier County, south of I-75. The applicant proposes to condition the CON to the above location, to accept all Medicaid and indigent patients that are clinically appropriate for services offered by Collier Regional Medical Center and that it will provide an obstetrical service.

The proposed project consists of new construction of 200,178 GSF at a construction cost of \$40,137,711. The project involves a total cost of \$75,124,854.

**Cleveland Clinic Florida Hospital Naples (CON #9552)** proposes to add 40 acute care beds to its existing 70-bed hospital located at 6101 Pine Ridge Road in Naples. The applicant proposes to condition the CON to the provision of 1.3 percent of the 40 beds total patient days Medicaid patients and 0.5 percent to indigent patients.

The proposed project consists of new construction of 19,252 GSF and 8,624 GSF of renovation at a construction cost of \$3,620,000. The project involves a total cost of \$10,131,000.

*After weighing and balancing all applicable review criteria, the following relevant factors are listed with regard to the hospital projects in District 8, subdistrict 2, Collier H.M.A., Inc. and Cleveland Clinic Florida Hospital Naples.*

**Need/Other Special Circumstance:**

The Agency published no need for acute care beds in District 8, Subdistrict 2.

The applicants do not apply under the fixed need pool, but applies under special circumstances.

**Collier H.M.A., Inc. (CON #9551)** demonstrated that the new facility could benefit managed care service to subdistrict residents. The project should increase availability of ER and acute care services especially during the peak season. OB services, Medicaid and the medically indigent patient access could also be improved as a result of the new hospital.

**CON Action Numbers: 9551 & 9552**

**Cleveland Clinic Florida Hospital Naples (CON #9552)** does not demonstrate need for additional beds at the facility based on its high utilization projections. However, administrative rule criteria allow for the addition of beds should the applicant experience the occupancy levels it project.

The applicant's provision of care to the managed care patient, Medicaid patient and charity care patient does not promote access for these patients.

The project represents a very costly and financially inefficient solution to increasing the supply of available beds to the local market.

**Quality of Care:**

**Both** applicants demonstrate the ability to provide quality care.

**Both** projects should have minimal impact on the subdistrict's quality of care.

**Medicaid/charity care:**

The local AHCA Medicaid office indicates that Collier County has a need for a facility to demonstrate responsiveness and commitment to the Medicaid and medically indigent population by providing a continuum of care that includes primary and acute care. At present, this is not happening for most adults residing in the Naples area.

**Collier H.M.A., Inc. (CON #9551)** does not have an operational history. However, the parent corporation's affiliated Florida hospitals do have a history of the provision of services to the medically indigent and Medicaid patients. The applicant proposes as a condition to CON approval to accept all Medicaid and indigent patients that are clinically appropriate for services offered at Collier Regional Medical Center.

Schedule 7A indicates that traditional Medicaid will account for 10.1 percent of the new facility's total year two patient days. Schedule 7A notes indicate that charity care will account for 2.0 percent of gross patient revenues.

## CON Action Numbers: 9551 & 9552

**Cleveland Clinic Florida Hospital Naples (CON #9552)** proposes to condition the project to Medicaid accounting for 1.3 percent and charity care 0.5 percent of the 40 beds total patient days, which it indicates is experience for the 12 months the facility has been in operation. However, the applicant is presently conditioned to provide 9.5 percent Medicaid and 4.5 percent charity care in the 70 beds. Therefore, the applicant is not meeting its current conditions and proposes to reduce its conditions on the 110 acute care beds to 6.5 Medicaid and 3.0 percent charity care.

### **Financial Feasibility:**

**Collier H.M.A., Inc. (CON #9551):** The applicant's parent, Health Management Associates, Inc. provided a commitment letter and has the financial resources to fund this project.

Compared to the hospital group data, the project is expected to consume health care resources in proportion to the services provided.

The financial review of the applicant indicates that its project is financially feasible.

Managed care levels are projected at 17.8 percent, between the lowest and median control group level. However, the applicant presents documentation of five major managed care companies support for its project. AHCA Discharge Patient data for the 12 months ending June 30, 2001, indicates that only 0.9 percent of NCHs total discharges were commercial HMO. Managed care discharges increase to 4.7 percent when including Medicare and Medicaid HMO discharges. Cleveland Clinic Florida Hospital Naples provided only 0.5 percent of its total discharges to managed care patients during 2<sup>nd</sup> quarter 2001, according to the applicant. Therefore, the applicant's projected managed care would be a significant improvement over the subdistrict's current levels.

**Cleveland Clinic Florida Hospital Naples (CON #9552):** The applicant's parent, Cleveland Clinic Health System provided a commitment letter and has the financial resources to fund this and all of the applicant's capital projects.

Compared to the hospital group data, the applicant is expected to consume health care resources in excessive proportion to services provided.

The project represents a very costly and financially inefficient solution to increasing the subdistrict's bed supply.

## CON Action Numbers: 9551 & 9552

The financial review of the applicant indicates that its project is financially feasible.

Managed care levels are projected at 6.5 percent, between the lowest and median control group level.

### **Architectural Analysis:**

**Collier H.M.A., Inc. (CON #9551)** consists of 200,178 GSF of new construction at a construction cost of \$40,137,711.

The front of the hospital has the visitor drop-off, the patient drop-off and the public ER entry on what appears to be the same traffic loop. There are entrances labeled “drop-off”, which are most likely “pick-up” points also, which would increase the possibility of congestion. The designers may have some explanation as to how this is workable, but this area might benefit from further study.

Overall, the proposed project, as submitted, is well designed and is functional and efficient. The construction cost appears reasonable

**Cleveland Clinic Florida Hospital Naples (CON #9552):** The large-scale plans of the private and semi-private rooms show that the space is generous and appears to be identical to the existing rooms in the facility. Almost all patient rooms have toilet rooms with wheelchair-accessible showers.

The costs and the schedule appear reasonable for this scope of renovation.

### **G. RECOMMENDATION**

Approve CON #9551 to establish a 100-bed acute care hospital. The project involves 200,178 GSF of new construction and \$40,137,711 in construction costs. Project costs total \$75,124,854.

#### CONDITIONS:

- (1) A minimum of 10.1 percent of the total annual patient days in the 100-bed facility shall be provided to Medicaid patients.
- (2) A minimum of two percent of the total annual patient days in the 100-bed facility shall be provided to charity care.

Deny CON #9552.

**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**