

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION:

1. Applicant/CON Action No.

Homestead Hospital, Inc./CON #9569

160 NW 13th Street
Homestead, Florida 33030

Authorized Representative: Albert L. Boulenger, CEO
(305) 248-3232

2. Service District/Subdistrict

District 11/Subdistrict 11-1 (Dade County)

B. PUBLIC HEARING:

Although no public hearing was requested, the applicant offered 11 letters of support for the project as follows:

Greater Homestead/Florida City Chamber of Commerce (Executive Director and Chairman); City of Homestead, Florida (City Manager and Mayor); Miami-Dade County, Florida (County Manager); City of Florida City (Mayor); Homestead Mennonite Church (Pastor); South Florida ENT Associates (Steven Fletcher, M.D.); Homestead Hospital (Laboratory Director); Vision Council (Chairman); and J. Rudolph Gossman, Jr., D.M.D. The submitted letters of support are all similar in content and discuss the invaluable health care services provided by the hospital to the community, and the current space constraints at the existing facility.

C. PROJECT SUMMARY

Homestead Hospital, Inc. (CON #9569) requests the establishment of a 120-bed acute care replacement hospital for Homestead Hospital in Miami-Dade County. Homestead Hospital is a 120-bed general acute care hospital (License #4245) that was originally opened in 1940 as the James Archer Smith Hospital. The facility has undergone several additions and was completely replaced in 1968.

Homestead Hospital offers services including: an outpatient surgery/endoscopy suite, a physical therapy center with speech and physical therapists, and outpatient testing such as cardiac stress testing, MRI and CT. The hospital's emergency department provides more than 32,000 visits annually and also offers a Children's Emergency Center in affiliation with Baptist Children's Hospital. The hospital is affiliated with Baptist Health Systems of South Florida (BHSSF). Other affiliates of BHSSF include Baptist Hospital of Miami, Baptist Children's Hospital, South Miami Hospital, Mariners Hospital, Miami Cardiac & Vascular Institute and Baptist Outpatient Services. BHSSF assumed financial responsibility for Homestead Hospital in 1995 as a part of the merger of Baptist Hospital and South Miami Health System.

The current hospital is comprised of 100,000 gross square feet, or less than 850 square feet per bed, significantly undersized by all current health care standards.

The applicant is requesting that the certificate of need be conditioned for the provision of a minimum of \$50 million of gross revenue per year to combined Medicaid/Medicaid HMO/charity/indigent patient.

Total costs for the Homestead's replacement hospital are estimated to be \$129,262,893. The new facility, comprised of 307,500 GSF, will be located on an as yet unselected 60-acre site in Homestead and anticipated construction costs total \$83,202,720.

D. REVIEW PROCEDURE

The evaluation process is structured by the certificate of need review criteria found in Section 408.035, Florida Statutes, rules of the State of Florida, Chapters 59C-1 and 59C-2, Florida Administrative Code, and local health plans. These criteria form the basis for the goals of the review process. The goals represent desirable outcomes to be attained by successful applicants who demonstrate an overall compliance with the criteria. Analysis of an applicant's capability to undertake the proposed project successfully is conducted by evaluating the responses and data provided in the application, and independent information gathered by the reviewer.

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

Rule 59C-1.010(2) (b), Florida Administrative Code, prohibits any amendments once an application has been deemed complete. The burden of proof to entitlement of a certificate rests with the applicant. As such, the applicant is responsible for the representations in the application. This is attested to as part of the application in the Certification of the Applicant(s).

As part of the fact-finding, the consultant, M. Riley Gibson, analyzed the application with consultation from the financial analyst, Doug Pierce, who reviewed the financial data and architect, Joel Hill, who evaluated the architectural and the schematic drawings.

E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA

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

1. Fixed Need Pool

- a. Does the project proposed respond to need as published by a fixed need pool? Ch. 59C-1.008 and Ch. 59C-1.038, Florida Administrative Code.**

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On January 25, 2002, AHCA published a fixed need pool (FNP) in Volume 25, Number 4, Florida Administrative Weekly (F.A.W.) of zero (0) for additional acute care hospital beds licensed under Chapter 395 Florida Statutes in District 11/Subdistrict 11-1 (Dade County).

District 11/Subdistrict 11-1 has a total of 7,588 licensed acute care beds which experienced an occupancy rate of 55.81 percent during the period July 2000 through June 2001 and -29 approved beds. Homestead Hospital experienced an average occupancy rate of 59.72 percent for the timeframe.

The proposed project involves the construction of a replacement facility and is not submitted in response to the fixed need pool. However, the project is subject to review in accordance with Chapter 59C-1.004(1)(b), which requires review of the new construction or establishment of additional health care facilities, including a replacement health care facility when the proposed project site is not located on the same site as the existing health care facility.

The following is a summary of the key issues in support of replacing the current hospital:

- ▶ The majority of Homestead Hospital's physical plant is more than 20 years old; with all the associated code compliance, utility infrastructure and operational efficiency issues associated with an older facility.
- ▶ Homestead Hospital is operating in less than half the space required to meet current standards (required minimum of 216,000 GSF for 120 beds).
- ▶ Homestead Hospital provides 833 GSF per acute care bed whereas current standards indicate the need to dedicate a minimum of 1,800 to 2,500 GSF per acute care bed to meet patient and community needs.
- ▶ Clinical and support spaces are severely constrained in terms of size and adjacencies.
- ▶ Although there are three operating rooms in the surgical department, due to the physical limitations of the rooms, the hospital is effectively reduced to a single operating room.
- ▶ Laboratory currently operates in an area undersized for the volume of laboratory tests conducted causing the department to be cited by the College of American Pathologists for lacking overall counter space and storage facilities.
- ▶ Other first floor departments such as respiratory therapy, pharmacy, radiology, dietary and others suffer from an overall lack of work and storage space.

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- ▶ The emergency department is operating in approximately one-third of the space required by today's standards.
- ▶ Vertical growth of the physical plant is not possible, and therefore, severely limits facility options on the current site.
- ▶ The current site has limited options for horizontal expansion, due to the fact that much of the property surrounding the hospital is single-family residences.
- ▶ The current site lacks visibility, parking, patient access and access to public transportation. The site also has numerous deficiencies with respect to the Americans with Disabilities Act (ADA) that cannot be reasonably addressed given the various existing limitations of the site.
- ▶ Despite ongoing renovations, due to the age of the facility, the hospital is non-compliant with some aspects of the updated building codes and newer laws such as ADA. Although not required to meet these requirements because of its "grandfather" status, the project will allow the hospital to become fully compliant with all current facility guidelines and standards and will allow it to expand space and services necessary to provide state-of-the-art, cost-effective patient care.

According to the applicant's description, the current physical plant is sized to support a 50-60-bed hospital under current planning guidelines and not the existing 120-bed capacity. The proposed replacement will have 307,500 square feet of space, with all 120 beds in a private room configuration. The inpatient beds are divided into six different functional units, which include: 16 post-partum beds, 16 pediatric beds, 10 critical care, 10 intermediate care, and 68 general medical/surgical beds. In addition, the applicant is planning on having four observation beds incorporated into the medical surgical units. Finally, the new facility will have five operating rooms (including a dedicated C-Section room) and a full array of surgical support spaces.

A comparison of the existing versus proposed square footage by major functional area is shown below.

**Homestead Hospital
Existing and Proposed Square Footage by Major Functional Area**

Functional Area	Existing Hospital	Proposed Replacement Hospital
Critical Care Beds	2,682 DGSF 298 DGSF/bed (9 bed ward)	7,358 DGSF 736 DGSF/bed (individual patient rooms)
Acute Care Beds	276 DGSF/bed	663 DGSF/bed (all private)
Emergency Department	5,891 DGSF/32,000+ annual visits provided in space designated for 20,000 visits	24,DGSF/50,000 annual visit capacity
Surgical Services	4,188 DGSF, with only one of three operating rooms functional. Ors range in size from 250 to 300 Sq. Ft.	16,225 DGSF with 4 operating rooms, plus a dedicated C-Section rm. Ors range in size from 500 to 700 sq. ft. and annual capacity of 1,000
Obstetrics	8,486 DGSF./1,400 annual births 4 Labor/Delivery/Recovery Rooms	23,051 DGSF/2,000 approximate annual birth capacity 7 Labor/Delivery/Recovery Rooms

Source: CON application, page 11. NOTE: DGSF=Departmental Gross Square Footage

The applicant states that in order to clearly and accurately evaluate the operational and facility alternatives available, a formal facilities assessment of the existing hospital was performed. The assessment was conducted by representatives from MGE Architects', Pistorino & Alam, Smith, Seckman & Reid and Land Mark Elevators. The applicant only provided what appears to be part of the actual assessment that was conducted. The applicant states that the facility assessment team concluded that renovating and expanding Homestead Hospital with the limitations and restrictions of the site and physical plant will result in a much higher average construction cost than would be expected for similar renovation projects without Homestead Hospital's existing limitations and restrictions. However, this conclusion could not be verified in view of the incomplete information provided.

Patient Volume Trends

The applicant provided the following table to show the inpatient volume trends from 1998 to 2001 at Homestead Hospital:

**Homestead Hospital
1998 - 2001 Inpatient Volume Trends**

Year	Inpatient Days	ADC	% Growth Over Prior Year	GAGR 1998- 2001	Emer. Rm. Visits	% Growth Over Prior Year	CAGR 1998 - 2001
1998	25,062	69	N/A	N/A	26,891	N/A	N/A
1999	25,709	70	3%	N/A	29,841	11%	N/A
2000	26,225	72	2%	N/A	30,801	3%	N/A
2001	26,567	73	1%	2.0%	32,759	6%	6.8%

The applicant contends that the low Compound Average Growth Rate (CAGR) for total inpatient days experienced by Homestead Hospital is an expected result of the physical plant constraints that prevents Homestead Hospital from fully utilizing its licensed bed capacity. However, the applicant points out that the hospital consistently has higher occupancy rates than either the District 11 or state averages. The hospital's average occupancy rate for the July 2000-June 2001 reporting timeframe was 59.72 percent, whereas the District 11 (Subdistrict 1) average was 55.81 percent and the state average was 55.80 percent.

Despite space constraints the applicant points out that at the unit level, occupancy rates are consistently higher, especially in obstetrics, the intensive care unit and the medical/surgical telemetry unit. An even higher utilization of the hospital's beds occurs during the "peak" winter months of January through March (62 percent, 66 percent and 64 percent respectively). The applicant also states that observation patients have also impacted bed capacity since these patients generally originate from the emergency department. On average, the hospital has three to four observation patients per day. The applicant recognizes that observation beds may be added without CON approval but contends that capacity constraints make adding them not an option. Although these different situations do not reflect a full capacity situation, the applicant contends that the hospital is reaching a level that must be controlled and managed especially with the facility constraints that at or above 60 percent occupancy basically create a full capacity situation.

The applicant provided two different volume forecast approaches in support of the project, assuming that a new facility no longer constrained by the existing facility will experience a growth rate. The first approach assumes a five (5) percent yearly growth (as opposed to two (2) percent now) and the second assumes a two percent growth per year but reversal of current out-migration from the primary service area to other hospitals, especially Baptist and South Miami Hospitals. Both of these forecasts show the facility operating at a range between 70 percent and 74 percent in forecasted year one and increasing to a range of 73 percent to 78 percent in forecasted year two. With regard to out-migration, the applicant references Agency discharge data to show that less than 50 percent of total patient care for primary service area residents is provided within the local area and that specific to Homestead Hospital, its market share capture levels range from 40 to 65 percent. The lowest level of market share capture is observed in the adult surgical area where only 35 percent of local residents stay within the local area to receive care. The applicant states that this high level of surgical out-migration is not unexpected, as the hospital's most critically undersized and underdeveloped service is its surgical service. Using what it considers a conservative approach, the applicant projects that 12 percent of current

total out-migration will be reversed in the first year of operation of the new hospital, increasing to 18 percent in year two.

In further support of the project, the applicant also references the expected population growth in District 11, which is expected to further drive additional volume expansion. The district population forecasts show an expected growth of 6.9 percent between 2001 and 2006. According to the applicant, this growth is expected to be even stronger within the sub-county zip codes that comprise the primary and secondary service areas of the hospital. This appears to be especially true in the area east of the existing hospital along the Florida Turnpike corridor, the general area where the applicant intends to relocate the facility. As expected, the hospital's primary service area is comprised of the zip codes for Homestead (zip codes 33030, 33032, 33033, 33034 and 33035). The secondary service area is comprised of zip codes contiguous to Homestead, primarily in the south Miami area.

The applicant also states that the demographic profile of the service area is also significant in terms of the uninsured population residing in the Homestead area. According to the applicant overall, the State of Florida's population under the age of 65 has an uninsured rate of 16.78 percent and Miami-Dade County had an uninsured rate of 25.23 percent, making it the County with the 6th highest uninsured rate in the state. Homestead Hospital's primary service area shows even higher levels of uninsured population, surpassing both the county and state levels, with the zip in which Homestead Hospital is located (33030) showing 30.15 percent and an overall service area uninsured rate of 28.49 percent (*Source: University of Florida, BEBR Population Estimates*). Since Homestead Hospital has the only emergency department for 18 miles, the hospital represents the only option for 24-hour emergency care for the uninsured population in the area. According to the Agency Financial Data Guide for Hospitals (FY 2000), Homestead Hospital provided 16.2 percent of total patient days to Medicaid recipients and six percent to charity care patients. The hospital is not a Medicaid Disproportionate Share Provider for Fiscal year 2001-2002.

The applicant contends that since the proposed project involves no new services, addresses existing licensed beds only and will be used for the treatment of the hospital's existing and projected patient base, the project is expected to have only minimal, if any, impact on existing providers of acute care services in the area. In view of the lack of any information regarding the proposed location of the replacement facility, the hospital's projected patient base and impact on other providers in the area cannot be determined. However, as previously shown, for the 12 months ending June, 2001, Homestead Hospital's overall market share in its primary service area was 48.1 percent. Combined with the market shares of Baptist and South Miami Hospitals, BHSSF captured nearly 70 percent of Homestead Hospital's primary service area's inpatient discharges with the remaining 30 percent of the market share going to 25 other hospitals.

In view of the information presented above, and assuming that the replacement hospital will be in close proximity to the existing facility, it appears reasonably evident that the proposed Homestead Hospital relocation and replacement project represents a viable use of the applicant's resources and will enhance the provision of acute care services in the Homestead/South Miami area.

2. Local Health Plan Preferences

Is need for the project supported by the applicable district plan? ss. 408.035(1) and 408.037(1), Florida Statutes, and Ch. 59C-1.030(2)(c), Florida Administrative Code.

The District 11 Health Council of South Florida has divided its preference statements for applicants of acute care services into three levels with the preferences identified in level one receiving highest consideration. It is noted that the preferences are not ranked according to any priority level within each level.

Level One – Highest Priorities

- 1. Propose to initiate new services through conversion, acquisition and/or capital expenditures at facilities that meet the following general criteria:**
 - a. Applicants who had an average occupancy rate for licensed beds over the last two years of 80 percent.**
 - b. Applicants who provided the highest proportion of charity care and Medicaid days during the past fiscal**

year for which reimbursement was received through Florida's "Disproportionate Share Program" of the Public Medical Assistance Trust Fund. "Charity care" is that care provided to persons below 150 percent of the federal poverty level and for which there was no compensation exclusive of adjustment allowances.

- c. Applicants who demonstrate the highest ongoing commitment to serving Medicaid and indigent patients as well as those from diverse minority backgrounds; applicants who provide onsite interpreters for Creole. "Medically indigent" refers to persons below 150 percent of the poverty level, uninsured and/or underinsured, as defined by the Health Council of South Florida.**

The above sub-preferences are not applicable since the proposed project does not include the initiation of any new services but rather, the relocation and replacement of the existing 120-bed hospital.

- 2. Implement payment procedures consistent with the patient's ability to pay, such as time payments, sliding fee scales, and other such mechanisms.**

The applicant states that as an affiliate of BHSSF, the hospital complies with all federal and state laws, regulations and guidelines regarding the provision and recording of charity care. The applicant further states that in addition, the state and federally qualified charity care, BHSSF and Homestead Hospital offer Special Needs Financial Assistance and the Financial Hardship Programs. The Special Needs Financial Assistance is designed to assist a patient who does not meet the income ceiling established by state or federal guidelines by a minimal amount, but still needs financial assistance. The applicant states that the Financial Hardship Program does not preclude BHSSF from extending financial assistance to patients who do not meet the state or federal eligibility and/or documentation requirements and is administered on a case-by-case basis.

3. Have a recognized cost efficient experience based on hospital financial cost reports submitted to AHCA.

Although the applicant states that Homestead Hospital has the lowest cost structure of all the hospitals in the county, on a per admission basis adjusted for acuity, this could not be verified. According to the financial analysis of the project (reference Item 4-f), the applicant's net revenue per adjusted patient day as well as projected cost per adjusted patient day is between the control group 3 median and the highest values. The applicant is considered marginally cost-efficient when compared to the control group values.

4. Document that they are accredited or are in the process of becoming accredited by an appropriate national accreditation organization.

Homestead Hospital is currently accredited by the Joint Commission for the Accreditation of Health Care Organizations (JCAHO) as well as several other accreditations.

5. Propose conversion of under-utilized beds for the development of needed inpatient services in Monroe County.

The proposed project does not involve inpatient services in Monroe County.

6. Give preference to services that provide transportation, which is not otherwise available.

Although the applicant has not determined a specific site for the proposed replacement hospital, it does state a commitment to work with the City of Homestead to provide for public transportation access to the replacement hospital.

Level Two – Lower Priorities

1. Propose projects, which incorporate the integration of over-utilized facilities with under-utilized facilities through acquisition or joint venture or shared projects.

The proposed project does not involve acquisition, joint venture or shared projects.

- 2. Propose projects in which the facility commits to the delicensing of beds that are not in service.**

The proposed project does not involve the delicensure of beds.

- 3. Propose a new services project based on a valid marketing research effort and placed in the context of a long range plan. "Valid" refers to the utilization of a recognized methodology for determination of an unmet need for the proposed program in the designated service area.**

The proposed project does not involve any new services. However, the applicant does state that it has performed extensive facility and community need long-range planning in support of the proposed project.

- 4. Demonstrate a commitment to quality of care as evidenced by the existence of a mechanism to assess and publicly report on quality.**

The applicant states that it currently reports all data required at both the state and local levels. In addition, through its affiliation with BHSSF, a performance improvement plan is used to improve the quality of Homestead's health care delivery system. Compliance is also monitored with standards of the JCAHO, and other regulatory bodies and hospital policies.

- 5. Demonstrate that a proposed transfer of beds will not adversely impact the Medicare and private pay markets of area hospitals providing a disproportionate share of charity care and Medicaid patient days.**

The proposed project does not involve the transfer of beds. The relocation of the hospital is not expected to adversely impact area hospitals, including those providing a disproportionate share of charity and Medicaid patient days. In fact, the applicant contends that the project should enhance services for these groups. It is anticipated that the patient day growth associated with the replacement hospital will come first from existing BHSSF patients who will be able to be served at Homestead Hospital, rather than traveling to either Baptist or South Miami Hospitals. Neither Baptist nor South Miami Hospitals are Medicaid Disproportionate Share providers for fiscal year 2001-2002.

- 6. Improve the physical plant of an existing facility as a result of a proposed bed transfer.**

The project does not involve a transfer of beds. The applicant refers to an assessment of the current facility to demonstrate that the current facility cannot be reasonably renovated on site to provide the services and the service capacity required to support the current and future population in the hospital's service area. However, the assessment provided with the application appears to be incomplete and does not provide any comparative information with regard to relocating versus renovating on site. The proposed project should resolve what the applicant considers to be a myriad of issues that exist within the current physical plant, including issues relating to: ADA, Florida licensure, life safety, building codes, structural, roof covering, mechanical, electrical and plumbing, asbestos, elevators, etc.

7. Demonstrate that a proposed transfer of beds is more cost-efficient than the renovation and expansion of the existing facility.

The applicant appears to have examined several options before deciding that the replacement of the hospital on a new site represents the most reasonable and cost effective solution. It appears that the current site is the major limiting factor for the hospital's on-site renovation or expansion. Although the actual facility assessment was not provided to verify the need to relocate, the applicant does provide a summary of each planning option, three of which involve renovation or expansion of the current site. At the end of the evaluation of planning options, the applicant arrived at the conclusion that the replacement and relocation of Homestead Hospital represented the best course of action. The applicant contents that this option will allow Homestead Hospital to resolve all current facility and site limitations.

Level Three – Lowest Priorities

- 1. Provide documentation of transfer agreements with other facilities for services not available within the applicant facility. For example, existing facilities as well as applicants for new or expanded services should demonstrate a willingness to enter into cooperative planning efforts directed at establishing a system whereby duplication of specialized services is avoided.**

As an existing community hospital, Homestead Hospital has a number of transfer agreements in place to facilitate the transfer of patients in need of specialized services not available at the hospital. However, the applicant only provided copies of the transfer agreements with Baptist Hospital of Miami and South Miami Hospital.

- 2. Demonstrate the feasibility of conversion of beds currently on line, but not in use, within the prescribed period of time.**

The applicant does not propose the conversion of beds. However, the applicant does state that the driving force behind the project is the desire to be able to utilize the full licensed complement of 120 acute care beds at Homestead Hospital.

- 3. Commit to timely completion of CON projects that are approved.**

The applicant states its commitment to complete the project within the time frames specified. While Homestead Hospital has not had any recent projects of this magnitude, BHSSF has undertaken a number of similar complex facility projects and has completed the development of these projects in a timely manner.

3. **Agency Rule Criteria**

Indicate how each applicable preference for the type of service proposed is met. Refer to Chapter 59C-1.038 (6) (a)(b) Florida Administrative Code.

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

The applicant states that 20 percent of Homestead Hospital's patients have no insurance of any type, and another 25 percent have Medicaid/Medicaid HMO coverage. In FY 2002, the hospital is expecting to provide \$26.7 million in unreimbursed care, up from \$24.2 million the previous year. The applicant further states that patients meeting the strict charity care guidelines defined by AHCA will consume \$9.6 million in care, which is \$1.5 million greater than the prior year. Additional uncompensated care will total \$17.1 million.

The applicant is requesting that the CON be conditioned such that at least \$50 million per year of gross revenue at the proposed replacement hospital be provided to Medicaid/Medicaid HMO/charity/indigent patients.

According to the FY 2000 Hospital Financial Guide, Homestead Hospital provided 6.0 percent of total patient days to charity care, less than the overall District 11 average of 8.0 percent. However, the charity care amount is skewed by the inclusion of Jackson Memorial's charity care (27.3 percent), the preeminent provider of charity care in the district.

- 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.**

The applicant does not propose additional acute care beds through the conversion of existing underutilized beds and there are no competing applications.

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) and 408.035(7), Florida Statutes.**

The applicant contends that the need for the project is evidenced by the facility limitations at the current campus and buildings and the extent of the utilization at Homestead.

In response to availability, the applicant states that as the only hospital in Homestead and the only hospital with an emergency department, for 18 miles, it is critical that Homestead Hospital be available from a geographic access standpoint. The applicant further states that the hospital is important as a provider of services to the poor/uninsured/migrant residents of the area. The applicant acknowledges the hospital's poor financial state but contends that the proposed project will resolve the space and location constraints that prevent the hospital from becoming less financially dependent on its parent organization to meet operational losses. However, this will only be true if they continue to serve the same geographic area. Although the applicant states that the hospital will be relocated and replaced in Homestead, the exact location of the proposed facility was not divulged.

With regard to accessibility and efficiency, the applicant cites the numerous ADA deficiencies that impact accessibility for disabled individuals and the various space constraints that impact efficiency and the delivery of quality care. Due to the existing facility limitations, the applicant contends that hospital staff cannot work at maximum efficiency or effectiveness.

In response to the impact of the project on the utilization of like and existing services, the applicant expects the project to have minimal, if any, impact on existing providers of acute care services.

The applicant reasonably demonstrated need for the proposed project.

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

In order to demonstrate its history of providing quality care, the applicant cited its accreditation by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) as well as numerous other accreditations and approvals. In addition, the hospital has been the recipient of several awards, including: The "Excellence in Healthcare Award" for Community Outreach from the South Florida Business Journal (November, 2000); being in the top one percent of 400 hospitals nationwide in patient satisfaction (Press Ganey Associates); named a finalist in the South Florida Business Journal Excellence in Healthcare Award. The applicant also cites the most recent Annual Employee Survey, conducted by the Gallup Organization. According to this survey, Homestead Hospital's scores were among the best when compared to other health care organizations and consistently scored significantly higher in most areas. The applicant also cites various awards received by the hospital's parent organization, Baptist Health Systems of South Florida.

According to the most recent EMTALA reports provided by the Office of Quality Assurance-Hospital Section, the hospital has had only three confirmed violations including one billing/refund violation and two COBRA/Emergency Access violations since 1997. The other allegations were either not confirmed or not investigated.

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

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

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

The applicant is not a teaching hospital nor is the project's primary purpose research or physician education.

However, the proposed replacement hospital will enhance the training opportunities of all clinical and ancillary personnel and students involved in training programs offered in the area. The hospital currently serves as the clinical training site for Miami-Dade Community College's nursing, radiologic technologist and phlebotomy programs

- e. What resources, including health manpower, management personnel, and funds for capital and operating expenditures, are available for project accomplishment and operation? ss. 408.035(6), Florida Statutes.**

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

FINANCIAL INDICATORS AND RATIOS

	09/30/2001	09/30/2000
Current Assets	\$ 3,938,696	\$ 3,927,239
Cash and Current Investment	\$ 701	\$ 701
Assets Restricted for Capital Funding	\$ 0	\$ 0
Total Assets	\$ 15,039,456	\$ 15,045,196
Current Liabilities	\$ 9,484,893	\$ 4,936,656
Total Liabilities	\$ 24,944,392	\$ 22,246,932
Total Equity	\$ (9,904,936)	\$ (7,201,736)
Net Operating Revenues	\$ 62,173,733	\$ 55,375,001
Interest Expense	\$ 480,484	\$ 487,743
Net Profit - Operations	\$ (3,108,577)	\$ (4,374,488)
Net Income	\$ (3,139,640)	\$ (4,371,897)
Cash Flow Provided by Operating Activities	\$ 1,998,750	\$ 903,128
Working Capital	\$ (5,546,197)	\$ (1,009,417)
Current Ratio (CA/CL)	0.4	0.8
Long-Term Debt to Equity (TL-CL/TE)	-1.6	-2.4
Operating Cash Flow (CFO/CL)	0.2	0.2
Equity to Total Assets (TE/TA)	-65.9%	-47.9%
Operating Margin (NPO/NOR)	-5.0%	-7.9%
Total Margin (NI/NOR)	-5.0%	-7.9%
Return on Assets (NI/TA)	-20.9%	-29.1%
Operating Cash Flow to Assets (CFO/TA)	13.3%	6.0%

The applicant, Homestead Hospital, Inc., is a not-for-profit health care provider that operates a hospital in Homestead, Florida. The applicant is requesting to construct a 120-bed acute care replacement hospital in Homestead, Florida (Miami-Dade County). The initial cost of this project is expected to be \$129,262,893, with initial operating costs projected to be \$91,217,000 in the first year and \$100,530,000 in the second year.

Short-Term Position:

The applicant's current ratio of 0.4 indicates current assets are providing only 40 cents for each dollar in short-term liabilities, a very weak position. The applicant shows a negative working capital (current assets less current liabilities) of \$5.5 million, which indicates virtually no cash-on-hand to sustain current operations. The applicant has a very weak short-term position.

Long-Term Position:

The long-term debt to equity ratio of -1.6 indicates that net assets (equity) are negative. The applicant is showing no long-term debt. Net income totaled a negative \$3,139,640 in 2001 or negative 5.0 percent, which is significantly less than the 50th percentile for Florida acute care hospitals of 4.5 percent. Net assets total negative \$9,904,936 million. The long-term position is very weak.

Capital Requirements:

Schedule 2 indicates capital projects total \$138.7 million. Currently, there are no maturities on long-term debt. The total capital requirement is \$138.7 million.

Available Capital:

The applicant, on its own, does not have the financial resources to undertake this project. The applicant presented a letter for the CEO of Baptist Health Systems of South Florida, Inc. (The Parent), stating that the parent will commit the resources “to ensure both the long and short-term viability of the project.” A cursory examination of the parent’s financial statements indicates that Baptist Health Systems of South Florida, Inc. has the debt capacity and capital reserves to fund and operate this project.

Conclusion:

Based on the commitment of Baptist Health Systems of South Florida, Inc., funding is likely to be available for this project as well as the entire capital budget.

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

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

Comparative data were derived from hospitals in peer groups that reported data in 2000. The applicant has stated that the new hospital will serve the same patient population as the existing hospital. Therefore based on the range of services offered, and the projected number of admissions and patient days; the applicant will be compared to the hospitals in Group 3. Per Diem rates are projected to increase by an average of 3.3 percent per year through 2007. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

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

Net revenue per adjusted patient day (NRAPD) of \$1,661 in year one and \$1,789 in year two is between the control group median and highest values of \$1,228 and \$2,153 in year one and \$1,265 and \$ 2,217 in year two. The median is generally viewed as the best balance between financial feasibility and economies of operation. With net revenues per adjusted patient day falling between the median and the highest level, the hospital is expected to consume health care resources in a somewhat greater proportion to the services provided. (Comparison Table). In their 2000 actual report, the hospital reported \$945 NRAPD.

Projected cost per adjusted patient day of \$1,867 in year one and \$1,933 in year two is also between the group median and highest values of \$1,292 and \$1,891 in year one and 1,331 and \$1,948 in year two. This applicant is considered marginally cost efficient when compared to the control group. (Comparison Table). Actual CAPD was \$1,055 in 2000.

The year two operating profit for the hospital is estimated at negative \$7,494,000, which computes to a negative operating margin per adjusted patient day of \$144. This falls between the peer group median and lowest values of \$15 and negative \$198. The operating margin computes to a negative 8.1 percent, which approximates the 20th percentile for Florida acute care hospitals of negative 8.8 percent.

Contingent on financial commitment and support of Baptist Health Systems of South Florida, Inc., the project should be economically feasible.

**Hospital comparison with Other
Peer Group 3 Hospitals**

	2008	YEAR 2	INFLATION ADJ. VALUES		
	YEAR 2	ACTIVITY	Highest	Median	Lowest
	ACTIVITY	PER DAY			
ROUTINE SERVICES	40,919,000	787	851	571	310
INPATIENT AMBULATORY	0	0	144	55	24
INPATIENT SURGERY	0	0	0	0	0
INPATIENT ANCILLARY SERVICES	147,818,000	2,842	3,182	1,961	1,099
OUTPATIENT SERVICES	109,445,000	2,105	2,471	1,549	409
TOTAL PATIENT SERVICES REV.	298,182,000	5,734	6,648	4,136	1,842
OTHER OPERATING REVENUE	600,000	12	169	7	3
TOTAL REVENUE	298,782,000	5,745	5,629	4,282	2,233
DEDUCTIONS FROM REVENUE	205,746,000	3,956	*	*	*
NET REVENUES	93,036,000	1,789	2,217	1,265	996
EXPENSES					
ROUTINE	11,610,914	223	300	210	121
ANCILLARY	33,688,004	648	586	389	232
AMBULATORY	0	0	0	0	0
TOTAL PATIENT CARE COST	45,298,918	871	886	599	353
ADMINISTRATIVE & OVERHEAD	36,468,082	1,062	1,086	637	430
PROPERTY	18,763,000	*	*	*	*
TOTAL HOSPITAL EXPENSE	100,530,000	1,933	1,948	1,331	908
OTHER OPERATING EXPENSE	0	0	0	0	0
TOTAL EXPENSE	100,530,000	1,933	1,948	1,331	908
OPERATING INCOME (MARGIN)	(7,494,000)	-144	399	15	-198
PERCENT OPERATING MARGIN	-8.1%				
			PERCENTAGES NOT INFLATION ADJUSTED		
PATIENT DAYS	32,850				
ADJUSTED PATIENT DAYS	52,004				
TOTAL BED DAYS AVAILABLE	43,800				
ADJ. FACTOR	0.6317				
TOTAL NUMBER OF BEDS	120				
PERCENT OCCUPANCY	75.0%		90.1%	49.8%	26.4%
<u>PAYER CLASS</u>					
	<u>PATIENT</u>	<u>PERCENT</u>			
	<u>DAYS</u>	<u>OF</u>			
		<u>TOTAL</u>			
SELF-PAY	3,052	9.3%	6.0%	1.3%	0.0%
MEDICAID	7,344	22.4%	28.2%	12.3%	3.3%
MEDICAID HMO	1,025	3.1%			
MEDICARE	13,319	40.5%	65.1%	37.8%	13.0%
MEDICARE HMO	0	0.0%			
INSURANCE	333	1.0%			
HMO/PPO	6,217	18.9%	64.5%	37.1%	0.0%
TOTAL	32,850	100.0%			

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

In year two, managed care patient days, including Medicare and Medicaid managed care days, are estimated at 22.1 percent of total patient days. The control group median value is 37.1 percent. This level of managed care, in the volatile south Florida health care market, is likely to have little significant positive impact on competition, or to promote quality assurance and cost-effectiveness.

It should be pointed out that the applicant is projecting its charity care commitment to be 9.3 percent of patient days. The Homestead Hospital currently provides 6.0 percent of gross revenues as charity service, which is the highest of all group 3 hospitals. Based on current economic conditions in the area, this increase in charity care is likely to be appropriate.

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.

Homestead Hospital proposes to build a replacement facility for its 120-bed hospital. No additional programs are planned to be instituted with this relocation. There will be a freestanding 7,000 square foot central energy plant on the campus as well as a medical office building. The first floor of the MOB houses some hospital administrative functions, so the required separations will have to be maintained. The MOB is physically connected to the hospital only on the first floor.

The site had not been selected at the time the CON Application was submitted. Because of this, it cannot be determined if the location will meet the requirements of the Florida Building Code, Section 419.4.56 regarding the flood plain elevation and the Category 3 Surge Inundation. It is critical that the site and design of the hospital meet these code requirements.

The location of the morgue across from the food preparation area on an inside corridor might need to be re-thought. A location at the rear of the building and nearer the loading dock might work better and be more appropriate. At least the door should be moved 90° to the other corridor adjacent to the morgue.

The location of two large second floor mechanical rooms at the extreme ends of two wings of the building might present problems with long duct runs etc., but the HVAC system may be designed to accommodate this or there may be plans for future expansion that are not addressed in the application.

All the typical programmatic hospital spaces appear to have been provided in the new plan and it can be assumed that the owner and staff have had input in many of the decisions as to locations of key elements. There is nothing in the proposed plans that is in error or does not seem to meet applicable codes.

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

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 applicant states that 20 percent of Homestead Hospital's patients have no insurance of any type, and another 25 percent have Medicaid/Medicaid HMO coverage. In FY 2002, the hospital is expecting to provide \$26.7 million in unreimbursed care, up from \$24.2 million the previous year. The applicant further states that patients meeting the strict charity care guidelines defined by AHCA will consume \$9.6 million in care, which is \$1.5 million greater than the prior year. Additional uncompensated care will total \$17.1 million.

The applicant is requesting that the CON be conditioned such that at least \$50 million per year of gross revenue at the proposed replacement hospital be provided to Medicaid/Medicaid HMO/charity/indigent patients. The applicant states that this condition is consistent with the level of care provided to this patient pool in the current year.

According to the FY 2000 Hospital Financial Guide, Homestead Hospital provided 16.2 percent of total patient days to Medicaid patients and 6.0 percent of total patient days to charity care.

The applicant appears to have a reasonable history of providing services to Medicaid patients and the medically indigent.

F. SUMMARY

Homestead Hospital, Inc. (CON #9569) requests the establishment of a 120-bed acute care replacement hospital for Homestead Hospital in Miami-Dade County.

The current hospital is comprised of 100,000 gross square feet, or less than 850 square feet per bed, significantly undersized by all current health care standards.

Total costs for the Homestead's replacement hospital are estimated to be \$129,262,893. The new facility, comprised of 307,500 GSF, will be located on an as yet unselected 60-acre site in the Homestead area and has anticipated construction costs totaling \$83,202,720.

The applicant is requesting that the certificate of need be conditioned for the provision of a minimum of \$50 million of gross revenue per year to combined Medicaid/Medicaid HMO/charity/indigent patient.

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

Fixed Need Pool

- The proposed project is not submitted in response to the fixed need pool, as the applicant is not seeking to add beds to the hospital or the subdistrict. The project is subject to review in accordance with Chapter 59C-1.004(1)(b), that requires review of the new construction or establishment of additional health care facilities, including a replacement health care facility when the proposed project site is not located on the same site as the existing health care facility.
- The applicant's justification for the replacement hospital largely stems from the current hospital's space constraints and operational deficiencies that prevent the hospital from fully utilizing its licensed bed capacity and meeting future needs. The applicant references a professional assessment of the current hospital that concluded that renovating and expanding on site was cost prohibitive and not feasible. However, this assessment was not provided with the CON application.

- The proposed location of the replacement hospital was not specifically identified, but the applicant states that the hospital will be located in Homestead. The applicant expects to serve basically the same market share it currently serves.

Quality of Care

- The applicant reasonably demonstrates that it has a history of providing quality of care, an indication being the hospital's JCAHO accreditation and compliance with all licensure requirements of the State of Florida. The replacement of a substandard hospital will likely improve the overall quality of care in the service area.

Cost/Financial Analysis

- The applicant is a non-profit corporation and has both a weak short-term and weak long-term financial position.
- The applicant on its own, does not have the financial resources to undertake the proposed project. However, the applicant's parent corporation, Baptist Health Systems of South Florida, Inc. (BHSSF), does appear to have the debt capacity and capital reserves to fund and operate the project.
- With projected net revenues per adjusted patient day falling between the median and the highest level in the control group, the hospital is expected to consume health care resources in a somewhat greater proportion to the services provided. The applicant is considered marginally cost efficient when compared to the hospital control group. Contingent on financial commitment and support of BHSSF, the project should be economically feasible.
- The applicant's projected level of managed care is likely to have little significant positive impact on competition, or to promote quality assurance and cost-effectiveness.

Medicaid/Indigent Charity Care Commitment

- The applicant is requesting that the CON be conditioned for the provision of a minimum of \$50 million of gross revenue per year to the combined grouping of Medicaid/Medicaid HMO/charity/indigent patients.
- According to the FY 2000 Hospital Financial Data Guide, Homestead Hospital provided 16.2 percent of total patient days to Medicaid patients and 6.0 to charity care patients.

- Homestead Hospital, Inc. is not a Disproportionate Share Medicaid provider for the FY 2000-2001.

Architectural Analysis

- The facility site has not been selected. Therefore, it cannot be determined if the location will meet the requirements of the Florida Building Code regarding the flood plain elevation and the Category 3 Surge Inundation. is well planned providing a continuous flow of patients from one service to related services.
- The proposed location of the morgue and two mechanical rooms within the hospital may need to be relocated, although changes in these two areas do not appear to be crucial issues.
- All typical programmatic hospital spaces appear to have been provided. There appear to be no architectural concerns and the project is expected to meet all applicable codes.
- The project costs and construction schedule appear reasonable for this scope of construction.

G. RECOMMENDATION

Approve CON #9569 to establish a 120-bed replacement hospital in the Homestead area of Dade County. The project consists of 307,500 GSF construction costs of \$83,202,720. Total project costs are \$129,262,893.

CONDITIONS: A minimum of \$50 million of gross revenue per year shall be provided to Medicaid/Medicaid HMO/charity/indigent patients on a combined basis.

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