

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

Baptist Hospital, Inc./CON #9595

1000 West Moreno Street
Pensacola, Florida 32522-7500

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

2. Service District/Subdistrict

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

B. PUBLIC HEARING

A public hearing was not held or requested. However, Appendix G of the application included 219 letters of support for the project. Four of these letters were from J.D. Smith, Marie K. Young, John W. Nobles and Mike Wiggins, who are City of Pensacola Council Members. The council members indicate their support for the project based on Baptist Hospital's history of service to the medically needy, high quality health care and their understanding that the project would relocate beds to a fast growth area. The rest of the support letters were from health care professionals, community leaders and residents of Azalea Trace, a Baptist affiliated continuing care retirement center. These letters cite the applicant's history of service to the medically needy population, quality of care and indicate that the proposed new location will increase competition in the area as well as improve Baptist Hospital's financial base.

Letters in opposition to the project were received from West Florida Hospital, Sacred Heart Health System, and Santa Rosa Medical Center. The opponents basically state that the population proposed to be served by the applicant's new hospital currently experiences excellent access and that there is no need for an additional hospital as existing providers have adequate capacity to serve present and projected future demand.

They also contend that to be viable, the proposed hospital must take significant market share from existing providers, which would adversely affect these facilities.

Sacred Heart Hospital also indicates that the project will have a substantial adverse financial impact on it and the other disproportionate share providers because Baptist will have further market dominance and a shift in payer groups will actually reduce Baptist's share of Medicaid and charity care.

Santa Rosa Medical Center also states that it is currently operating at 32 percent occupancy, has substantial unused capacity, and provides all the services proposed by Baptist.

West Florida Hospital also indicates that it is presently operating at 35 percent occupancy and provided approximately 11 percent of its total CY 2001 patient days to Medicaid and charity care patients. The facility is in the process of rebuilding its utilization, which declined as a result of various factors during the 90's and has recently hired a full-time recruiter and has recruited approximately 20 new physicians, in addition to recent facility improvement projects totaling \$83 million. West Florida Hospital indicates that as the closest hospital to Baptist's proposed site, it is understandably concerned about the potential adverse impact of Baptist's project if approved.

C. PROJECT SUMMARY

Baptist Hospital, Inc. (CON #9595) is a not-for-profit health care provider that operates two hospitals, an ambulatory surgery center, an outpatient clinic, a skilled nursing facility and a home health agency in northwest Florida. The applicant proposes to establish a new satellite hospital via the relocation of 96 acute care beds from the existing 367 acute care beds at Baptist Hospital, located at 1000 West Moreno Street in Pensacola, Florida. The proposed satellite hospital will be located adjacent to an existing outpatient and medical office complex at Baptist Medical Park, 9400 University Parkway, Pensacola, Florida. The existing single story ambulatory surgery center will be essentially closed as a patient care facility and almost all of the hospital type functions will be relocated to the new hospital building with the resulting space utilized for non-clinical administrative spaces and office spaces. Presently, Baptist Hospital has 367 acute care beds, 42 adult inpatient psychiatric beds, 26 child/adolescent inpatient psychiatric and 57 skilled nursing beds for a total bed complement of 492 beds.

The satellite hospital will provide ancillary and support diagnostic and treatment services including, emergency, surgical services, cardiac diagnostic services, imaging services, pharmacy and laboratory services. The bed complement would consist of 64 medical/surgical beds, 18 critical care beds and 14 intermediate care beds. The applicant does not provide the acute bed configuration of the downtown facility after the new project comes on line.

Baptist Hospital, Inc. proposes to condition CON approval upon delicensing 96 beds at the existing downtown campus and that the downtown location's remaining 272 acute care beds will provide at least 18.7 percent of acute care days to Medicaid/charity care patients. The applicant currently has no conditions on its existing acute care beds. However, the applicant indicates the proposed Medicaid/charity care condition is based on its FY 2001 performance when Baptist provided 17.3 percent of its total acute care patient days to Medicaid patients and 1.4 percent of gross revenue to charity care patients.

The proposed project involves a total cost of \$94,482,379. Total construction cost is projected at \$52,690,603 and involves 240,976 GSF of new construction.

D. REVIEW PROCEDURE

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

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

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

application. This is attested to as part of the application in the Certification of the Applicant.

As part of the fact-finding, the consultant, James B. McLemore, analyzed the application with consultation from the financial analyst, Roger L. Bell, 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 59C-1.038, Florida Administrative Code.

In Volume 28, Number 30, dated July 26, 2002, of the Florida Administrative Weekly, a fixed need pool of zero beds was published for acute care beds in District 1, Subdistrict 1, for the July 2002 batching cycle. The agency shall not normally approve applications for new or additional acute care hospital beds in any acute care subdistrict as specified in Ch. 59C-2.100, Florida Administrative Code, unless the average occupancy rate for all existing acute care hospital beds is at or exceeds 75 percent in the respective subdistrict, or the following provisions in Ch. 59C-1.038(5) are met.

District 1, Subdistrict 1 had a total of 1,329 licensed beds that experienced an occupancy rate of 51.82 percent for the reporting period January through December 2001.

Sacred Heart Hospital's approved CON #8803 to convert five acute care beds to hospital-based skilled nursing beds was voided March 26, 2002. West Florida Hospital, formerly West Florida Hospital added 40 acute care beds by conversion of a 40-bed HBSNU via exemption (#0100011) on April 22, 2002. Therefore, the revised licensed acute bed inventory for the subdistrict is 1,369. Baptist Hospital's licensed 367 acute care beds reported an average occupancy of 49.72 percent during the reporting period. The applicant's acute care bed utilization is the third highest

reported utilization of the six hospitals in Subdistrict 1 and the fifth highest utilization of the 10 acute care hospitals in District 1.

The proposed project is not submitted in response to the fixed need pool, but rather, involves the relocation of 96 of Baptist Hospital's existing acute care beds to establish a 96-bed satellite hospital. The applicant indicates that the need for the project is based on special circumstances, discussed in Section E. 1. c. below.

- b. Approval Under Special Circumstances; Ch. 59C-1.038(5), F.A.C. 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.**

Baptist Hospital's licensed 367 acute care beds reported an average occupancy of 49.72 percent during the January through December 2001 reporting period and therefore does not meet the special circumstances rule criterion.

- c. Other Special Circumstances:**

Applicants may also apply under other facility specific circumstances if they can demonstrate that demographic and market factors and/or other factors justify the addition of more beds.

The applicant claims that other circumstances exist in the area that demonstrate need for this project. The special circumstances presented by the applicant include the need to renovate portions of the existing campus in order to provide state-of-the-art care. Baptist contends that due to the cost and operational difficulty associated with this renovation, constructing a new hospital is a more cost-effective and operationally efficient alternative than renovating the existing hospital. However, estimated costs associated with renovating the existing hospital were not provided. Therefore, this contention cannot be verified. The applicant also indicates that the project will allow it to expand its patient volume through area population growth and by increasing its market share, improve its payer mix and thus its overall financial position, as the new hospital will be in area with more projected population growth than the

hospital's present service area. According to the applicant, the positive financial impact created by the new facility will allow Baptist to continue to assure access to health care by the underserved population it traditionally serves. However, while the applicant's financial situation may improve, the projected population growth in the new proposed PSA for the year ending June 2006, (7.0 percent) is not much higher than the overall subdistrict (6.8 percent) projected population growth for that same period and it appears that the project would adversely affect the other two Medicaid disproportionate share providers in the subdistrict.

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

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

**Baptist Hospital Downtown Campus
Comparative Profile**

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

Source: Baptist Hospital, Inc./CON #9595 page 26. Zip population estimates and forecasts and 2001 Florida economic data are from Claritas, 2002. Florida & County population estimate and forecast are from AHCA, 12/01 and 1999 uninsured data is from University of Florida, BEBR.

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

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

Baptist Hospital, Inc. indicates that it provided 45.5 percent of all inpatient care to the residents of the four zip code area. However, Baptist Hospital was not the largest provider of inpatient care to these

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residents. The following table provides a breakdown of the patients from these zip codes during the July 2000 – June 2001 reporting period.

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

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

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

The applicant does not present a complete population projection for its existing service area, which could offer more insight and aid in validating its claim that its service area is not growing. However, as the chart above shows, Baptist Hospital is the largest inpatient provider in only one of the four zip codes that it shows as losing population. Sacred Heart Hospital, at 44.5 percent of the total area discharges, actually provided more inpatient care to residents in these zip codes than Baptist Hospital did at 40.5 percent. Therefore, based on these figures, it would seem that Sacred Heart, also a primary provider of care to the medically indigent in that zip code area, could face similar financial difficulties if it too does not capture more of the market or relocate in growing population areas. The applicant also indicates that it provided 47.2 percent of all Medicaid care and 61 percent of all self-pay care to the downtown population. Data reported to AHCA show that during FY 2000, Sacred Heart provided 25.3 percent of its total patient days to Medicaid and Medicaid HMO patients and 2.2 percent to charity care compared to Baptist's 15.6 percent Medicaid and Medicaid HMO and 1.4 percent charity care. Both facilities are Medicaid disproportionate share providers.

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

The applicant defines the service area as an 11 zip code area, which includes zip codes 32514, 32526, 32530, 32533, 32534, 32560, 32570, 32571, 32572, 32577, and 32583. Baptist Hospital projects an increase in population in these zip codes from 179,815 in 2001 to 192,477 in

2006. This is an overall seven percent growth rate. Two of the applicant's zip codes (32530 and 32560) are post office box zip codes according to the United States Postal Service website at <http://www.usps.com> and these zip codes are not included in the U.S. Census Bureau total population for Census 2000 (see <http://factfinder.census.gov> website). Therefore, it is more likely than not that persons included in these zip codes are residents of geographic zip codes already included in the applicant's analysis. The subdistrict population is projected to grow by 6.8 percent during the same time period (July 1, 2001 – July 1, 2006) per AHCA population data. Therefore, the projected service area growth at seven percent, which may include some double counting of residents, is consistent with the subdistrict's projected growth rate of 6.8 percent.

In reference to the projected market size for the mix of inpatient services to be provided at the proposed facility, the applicant reviewed AHCA discharge data excluding pediatric, obstetric/neonatal/behavioral health and tertiary care services for CY 2001. The applicant determined that 71,220 patient days were generated by residents in its proposed 11¹ zip code service area during CY 2001. The applicant indicates that it applies age specific use rates with projected population growth by age cohort and concludes that 80,696 patient days will be generated in CY 2006 and 82,737 patient days will be generated in CY 2007. The applicant's projections indicate a 16.17 percent increase in five years. An examination of historic subdistrict utilization suggests that this projection may be optimistic. The subdistrict facilities provided 251,352 patient days during CY 2001, and the same facilities provided 226,724 in CY 1997, or a total increase in patient days of 10.86 percent over five years. The subdistrict's population increased from 392,619 in July 1997 to 425,600 in July 2002, or by 8.4 percent.

In reference to the market expected to be captured by the proposed facility, the applicant indicates that Baptist Hospital's current market share in the 11 zip code area is 20 percent and it will use 20 percent as the year one target and 30 percent for year two. This results in 16,139 (80,696 x 20 percent) patient days forecast for CY 2006 and 24,821 (82,737 x 30 percent) for CY 2007. The applicant then increases these projections by 10 percent to include patients from outside of its target area. This computes to a total of 17,932 patient days for 2006 and 27,579 for CY 2007. As noted above, this appears to be based on optimistic patient day projections for the 11 zip code area.

¹ As noted above two of the applicant's 11 zip codes are post office box zip codes according to the United States Postal Service website at <http://www.usps.com> and these zip codes are not included in the U.S. Census Bureau total population for Census 2000 per the U.S. Census Bureau's website at <http://factfinder.census.gov>.

The applicant next translates this analysis into a forecast of future inpatient days at the new facility by determining a 2007 average daily census of 75.5 (27,579/365). Baptist indicates that converting this average daily census results in a bed need for 108 for CY 2007 with the use of the 70 percent target rate. However, the applicant states that in order to be conservative in its forecasts and capital investment, the decision was made to stay at the lower 96-bed level, with the ability to expand the facility in the future should actual experience support expansion. Regardless, the projected utilization pro formas (Schedule 5) submitted by the applicant show these 96 beds are not expected to achieve an average annual occupancy of 70 percent in 2007. It is only in the first quarter of 2007 that Baptist projects reaching 70 percent occupancy, but it does not anticipate sustaining that occupancy. Following is a chart from page 99 of the application that projects patient days and expected utilization:

Applicant's Utilization Pro Formas (Schedule 5) in 96 Acute Care Beds Second Year of Operation, 2007		
<i>Dates</i>	<i>Patient Days</i>	<i>% Utilization</i>
1/1/07 - 3/31/07	6,331	73%
4/1/07-6/30/07	6,045	69%
7/1/07-9/30/07	5,926	67%
10/1/07-12/31/07	5,498	62%
CY 2007 Total	23,800	68%

Source: CON #9595, Schedule 5, page 99.

As shown above, Baptist only anticipates an average annual occupancy of 68 percent in its second year of operation with 23,800 patient days in the 96 acute care beds.

However, the applicant's financial projections in Schedule 7 and 8 specific to the 96-bed facility, show the project in terms of the net effect at the satellite hospital for CY 2006 and CY 2007. While the chart above shows the facility's utilization at 68 percent in year two, pro formas show 55.8 percent utilization. The applicant explains the discrepancy in notes to Schedule 7, which indicate that the total Baptist Hospital system will have an overall gain of 19,541 patient days in year two (ending December 31, 2007). This results in an actual occupancy rate in the 96-bed facility of 55.8 percent with a total of 19,541 patient days. The applicant indicates that there will be a 4,760 patient day reduction at the main hospital but an addition of 501 tertiary care patient days at the downtown Baptist Hospital. Schedule 7 would have projected a more accurate financial projection for the new facility if the applicant had used the actual patient days shown in the charts and not subtracted the main hospital days from the new facility total.

As discussed above, the applicant's projections in Schedule 5 compared to Schedules 7 and 8 differ; however, both projections appear to be generally optimistic and do not account for area patients currently being served by other area hospitals.

West Florida Hospital, located approximately a mile from the proposed satellite location, is a 531-bed Class I general hospital with 400 acute care beds, 73 adult mental health beds and 58 rehabilitation beds. West Florida Hospital's 360 acute care beds during calendar year 2001 operated at 37.19 percent utilization.

AHCA hospital discharge data for Escambia and Santa Rosa County residents for the 12 months ending June 30, 2001, indicate that 5,334 of the facility's total discharges were residents of these zip codes. West Florida Hospital served 8,936 Escambia and Santa Rosa County residents during the reporting period. Therefore, 59.7 percent of West Florida's service to area residents were residents of the 11 zip code area. Santa Rosa Medical Center served 3,553 residents from this zip code area and 3,712 total Escambia and Santa Rosa County residents. Residents of the 11 zip code area account for 95.7 percent of Santa Rosa Medical Center's service to residents of the two county areas. Santa Rosa Medical Center averaged 31.69 percent utilization in its 119 acute care beds during the reporting period ending June 30, 2001. The data also show that Sacred Heart served 8,377 residents of its 19,256 subdistrict resident total and Baptist served 3,717 of its total of 12,820 subdistrict resident total discharges during the reporting period. The 11 zip code area accounted for only 28.9 percent of Baptist Hospital's total subdistrict discharges and 43.5 percent of Sacred Heart's.

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

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

Clearly a move into this zip code area, which is currently served by three other area hospitals more so than Baptist, will offer Baptist Hospital a opportunity to expand its market. It is also clear that this project will impact these three other area hospitals. With occupancy rates of 37.19 and 31.09 percent at West Florida Hospital and Santa Rosa Medical Center, respectively, and the percentage of patient days both hospitals

reported from this zip code area, the impact is likely to be negative. As noted earlier, Santa Rosa Medical Center, is a Medicaid disproportionate share provider. Sacred Heart Hospital will also be impacted should this project be approved, albeit to a lesser extent.

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

2. Local Health Plan Preferences

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

The October 2002 District 1 CON Allocation Factors Report lists the following preferences relevant to all CON applicants:

- (a) Priority should be given to a CON applicant who commits to promote a healthy workforce and develop work site wellness programs, such as smoking cessation, stress management, and/or physical activity programs.**

Baptist Hospital indicates that it has a strong corporate commitment to attract and maintain a healthy workforce and to this end provides a wide range of on-site intervention and education programs for its employees. Examples of these include weight management, smoking cessation, conflict resolution and stress management programs and activities. According to the applicant, these programs are not confined to just the organization but are maximized throughout the community to effect the maximum health care gain possible.

- (b) **Priority should be given to a CON applicant who will commit to implement preventive health care practices by providing counseling (or educational material) regarding modifiable risk factors, such as inactivity, tobacco use, poor nutrition, overweight, high blood pressure, elevated cholesterol, screening procedures, and timely utilization of health care services.**

The applicant indicates that in partnership with the Escambia County School District, over 4,000 of the district's employees have received annual health screens in 10 key health status categories, including nutrition, cancer risk and weight management, with health counseling provided to employees demonstrating increased risks. The applicant provided a chart that indicated the risk factor program also includes improving fitness, managing cholesterol, high blood pressure, stress, better back care, smoking cessation and alcohol management. This chart showed varying degrees of success in each of the above categories over an approximate four-year period, year four data were indicated to be partial results of 12/1/00 – 5/24/01.

The October 2002 District 1 CON Allocation Factors Report lists the following preferences relevant to CON applications for acute care beds:

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

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

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

The project does not involve a joint venture and shared services.

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

The applicant states its commitment to the preference. See Item 4.i. for discussion regarding the applicant's history of providing services to Medicaid patients and the medically indigent and the applicant's intent with regard to these groups. As previously stated, the applicant indicates that based on Baptist Hospital's FY 2001 performance, it proposes to condition the remaining acute care beds at the downtown location to provide 18.7 percent of their total annual patient days to Medicaid and charity care patients on a combined basis.

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

It is noted that the applicant has proposed to condition the parent hospital to at least 18.7 percent of the its total annual patient days being provided to Medicaid/charity care and indicated its intent is to improve its parent hospital, a Medicaid disproportionate share provider's ability to serve the medically indigent population by improving its financial position through the implementation of this project. The applicant does not propose a Medicaid/charity care condition at the new facility.

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

The applicant's project is the transfer of 96 beds from its existing hospital to the Parkway location and not the expansion of an existing facility.

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

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

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

- (g) Preference shall be given to CON applications to convert bed types with low utilization to bed types of higher utilization within the facility. Examples are skilled nursing care beds, psychiatric beds, substance abuse beds, intensive residential service beds, and burn unit beds.**

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

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

The proposed project will relocate beds from the applicant's existing location to construct a new hospital.

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

The applicant projects an increase in net profit and believes the project will improve its ability to provide quality care to the indigent population as well as increase the amount of care provide to this population. Although in its pro formas, Baptist indicates that its hospital system² will experience an increase in Medicaid patient days (by 1,855 days) should this project be approved, it is reasonable to assume that these patients would have otherwise gone to Santa Rosa Hospital, Sacred Heart Hospital or West Florida Hospital. Both Sacred Heart Hospital and Santa Rosa oppose the project and both are Medicaid Disproportionate Share providers. While not a disproportionate share provider, West Florida Hospital provided 8.4 percent of its total FY 2000 patient days to Medicaid

² Pro formas indicate that three hospitals are included: Baptist's main campus, Gulf Breeze and this proposal. The 1,855 patient day increase includes the total conventional and Medicaid HMO days.

and Medicaid HMO patients and 1.2 percent to charity care patients. West Florida Hospital also opposes the project.

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

Baptist Hospital, Inc. indicates that while it has the ability to bring all of its licensed beds on line as required by AHCA regulations, the development of the proposed satellite facility will allow for more appropriate spaces and support areas that meet all current licensure and community standards. The applicant indicates that its existing 492 licensed bed facility is constrained in its ability to operate its full-bed complement and rather than attempt an unreasonably costly and operationally difficult renovation to correct these restraints, it contends this project is a more effective and operationally efficient alternative. As previously stated, Baptist Hospital, Inc. does not provide sufficient information for this review to assess the scope and costs of renovation at the existing facility in order to compare them to the project's costs. AHCA hospital licensure records show Baptist Hospital's life safety inspection conducted on January 16 and 17, 2002, found problems with lights, egress and storage. The facility's plan of correction for these deficiencies was approved on April 17, 2002. Therefore, there do not appear to be any licensure concerns with the existing facility.

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

The applicant contends that the impact of the new facility would be diluted because there are six providers presently serving the new hospital's projected service area. These include three Baptist Health Care affiliated hospitals³ Sacred Heart Hospital, West Florida Medical Center and Santa Rosa Medical Center. All three non-Baptist affiliated hospitals sent letters in opposition to the

³ AHCA Discharge Patient Data for the 12 months ending June 30, 2001, show the Baptist affiliates, Jay Hospital with 143 discharges or 0.67 percent (143/21,390) and Gulf Breeze Hospital with 221 resident discharges or 1.03 percent of the total from the satellite's proposed zip code area. Resident discharges accounted for 11.47 percent (143/1,247) of Jay Hospital's total discharges during the reporting period and 8.04 percent (221/2,750) of Gulf Breeze Hospital's total discharges during the reporting period.

applicant's proposed project. Sacred Heart Hospital, a disproportionate share Medicaid provider in the subdistrict, contends the project will have an adverse financial impact on its financial ability to provide care to charity and Medicaid patients. Santa Rosa Medical Center, another of the subdistrict's disproportionate share Medicaid providers, also opposes the project. See item 1.c.

- (l) Preference shall be given to an applicant who will be able to improve the physical plant of an existing facility as a result of the bed transfer from one licensed hospital to another licensed hospital (e.g., improve square feet per bed to meet standards adhered to by newer facilities, expand necessary ancillary services, improve outpatient service departments).**

The applicant states that existing campus is "built out", with little flexibility to "add additional facilities to the campus in an efficient or cost-effective manner, the ability to create new space to establish state-of-the-art facilities". However, it does not address how the space in the existing hospital will be renovated or used after the construction and licensure of the new satellite hospital.

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

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

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

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

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

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

3. Agency Rule 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-1.031-.044, Florida Administrative Code.

Priority Considerations.

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

According to AHCA FY 2000 Hospital Financial Data, Baptist Hospital provided 15.2 percent of its total patient days to Medicaid patients, 0.4 percent to Medicaid HMO patients, and 1.4 percent to charity care patients. The applicant's conventional Medicaid percentage is greater than the District 1 average of 13.6 percent and the Subdistrict 1 average of 14.9 percent. The applicant's charity care is less than the District 1 and Subdistrict 1 averages of 1.5 percent.

According to Financial Schedule 7A year two (2007) projections for the hospital system, the applicant expects to provide 14 percent of its patient days to Medicaid patients and two percent to Medicaid

HMO patients. The applicant indicates in the assumptions to Schedule 7A that 1.4 percent of the total Baptist system patient days will be charity care. As indicated above, the applicant has agreed to condition award of the CON upon providing 18.7 percent of its total annual patient days to Medicaid and charity patients in the remaining 272 acute care beds at its downtown facility. Baptist indicates that the proposed condition is based on its actual FY 2001 performance. Approximately nine percent of the total patient days to be provided in the satellite facility will be Medicaid sponsored and the equivalent of about 1.4 percent of total patient days will be provided to indigent patients. The applicant does not wish to accept a condition regarding the provision of Medicaid and/or charity care services at the new facility. Baptist Hospital, Inc. is a Medicaid disproportionate share provider for state fiscal year 2001-2002. As noted earlier, although in its pro formas, Baptist indicates that its hospital system⁴ will experience an increase in Medicaid patient days (by 1,855 days⁵) should this project be approved, it is reasonable to assume that these patients would have otherwise gone to the under utilized West Florida Hospital, Santa Rosa Hospital or Sacred Heart Hospital.

It is again noted that the applicant has indicated its intent is to improve its downtown hospital, a Medicaid disproportionate share provider's ability to serve the medically indigent population by improving its financial position through the implementation of this project. Baptist Hospital proposes to condition award of the CON upon the downtown facility providing 18.7 percent of its patient days to Medicaid and charity care patients combined.

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

There are no competing applications within the subdistrict. There is no need for additional beds in the subdistrict and the project does not involve the addition of acute care beds.

⁴ Pro formas indicate that three hospitals are included: Baptist's main campus, Gulf Breeze and with and without this proposal.

⁵ The pro forma for this project only and subtracting the difference of the Baptist Hospital system pro formas with and without the difference yields 1,855 new Medicaid patient days in the Baptist system as a result of this project.

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.**

As previously noted, acute care utilization averaged 51.82 percent among the six hospitals in Subdistrict 1 during the 12-month reporting period ending December 2001. However, the project is not in response to published need and this project will not increase the number of beds in the subdistrict. The applicant is planning to relocate these beds approximately 8.6 miles from the existing downtown location.

The applicant contends that the project is needed to ensure the availability of and accessibility to un-/under-funded care is maintained in the downtown Pensacola area and to allow Baptist to better use its existing facility resources at both the downtown and the Baptist Medical Park campuses. Baptist also contends the proposed project will enhance availability and accessibility to quality care for its affiliated non-acute care services currently located in the north Pensacola area. These include Baptist Medical Park, University of West Florida's Student Health Center, Azalea Trace and the Baptist Manor. The applicant concludes that in addition to Baptist-specific gains, the local market will benefit from new competition as other local providers can naturally be expected to re-evaluate their current operations and services offered, to increase emphasis on patient/client service and to enhance existing facility access and amenities. However, as discussed in the "special circumstances" section of E. 1. above, the applicant's projections show expected occupancy in the 96 beds to only reach an average of 68 percent⁶ in the second year of operation (2007), and has not shown that overall access or bed availability will improve. Further, while the applicant claims that the local market will benefit from new competition is not fully supported by financial pro formas. The financial review shows that the projected level of managed care at 31.5 percent is likely to have little impact on competition to promote quality assurance and cost-effectiveness because the applicant's projections are below the median control group average and the applicant's pricing appears normal for a facility this size (Refer to E. 4. i. below). Baptist's proposed 31.5 percent of managed care at the new facility is below Sacred Heart's FY 2000 commercial and Medicaid HMO total of 34.7 per AHCA financial data.⁷ The applicant's Schedule

⁶ As previously stated, the applicant uses 55.8 percent utilization in its pro formas for CY 2007 at the satellite facility based on 4,760 projected patient days that would normally be provided at the main facility or lost at the main hospital and 501 tertiary care days gained at the main hospital.

⁷ AHCA financial data indicate Sacred Heart provided 32.9 percent of FY 2000 patient days to Commercial HMOs and 1.8 percent to Medicaid HMOs compared to Baptist's proposed 31.5 for this project and its FY 2000 provision of 26.7 percent of

7A for the total Baptist Hospital (three facilities) with the project shows overall managed care days of 28.27 percent (including Medicare HMO) which is consistent with Baptist Hospital's FY 2000 managed care level of 27.10 percent (Medicare HMO days not included). The Florida Hospital Association's September 2002 "Eye on the Market" HMO Market Share Report as of June 30, 2002, indicates that Escambia County has a total managed care penetration rate of 20.3 percent compared to Santa Rosa County's 19.5 percent. The FHA Eye on the Market also indicates that there are only three Medicare (zero penetration rate) HMO enrollees in Escambia County and 874 enrollees or 1.9 percent penetration rate in Santa Rosa County. In view of the area's low Medicare HMO enrollment and recent problems securing Medicare HMO providers, the applicant's projected Medicare HMO days at 1,172 or six percent of the total patient days at the new facility and 5,915 or five percent of the total patient days for the three hospital system may be optimistic.

As noted earlier, this project does not appear to improve access to the medically indigent population in Subdistrict 1 because these patients would probably be treated at existing hospitals if this project is not approved and there is concern that approval of this project will adversely impact two of the three Medicaid disproportionate share provider hospitals in the subdistrict: Santa Rosa Medical Center and Sacred Heart Hospital. The project is also expected to adversely impact West Florida Hospital, which is physically located approximately one mile from the proposed site of this new 96-bed satellite hospital. West Florida Hospital also opposes the project and while not a disproportionate share provider, West Florida provided 8.4 percent of its total FY 2000 patient days to Medicaid and Medicaid HMO patients and 1.2 percent to charity care patients.

The applicant indicates that the existing facility was originally built as a Hill Burton hospital in the 1950s and the build-out of the campus was constructed in a series of major and minor expansion and renovation projects. In addition, the hospital's Specialty Care Center, home to 120 licensed skilled nursing beds, was initially designed and built in the 1960's as a nursing home with all the limitations of a retrofitted facility designed and built more than three decades ago. The applicant contends that the downtown campus cannot be retrofitted to current standards and usages without significant time and dollars being invested into the building, if at all. However, the applicant does not provide the actual bed configuration of the downtown facility after the new project comes on

total patient days to Commercial HMOs and 0.4 to Medicaid HMO patients. West Florida Hospital provided 26.0 percent of its total patient days to Commercial HMO patients and 1.0 percent to Medicaid HMO patients during CY 2000, while Santa Rosa Medical Center provided 17.5 percent of its total patient days to Commercial HMO patients and zero percent to Medicaid HMO patients.

line. The applicant indicates that the new facility will provide state-of-the-art services and concludes that its existing campus is “built out”. However, there is no evidence that quality of care is adversely affected at the main facility. AHCA hospital licensure records show Baptist Hospital’s life safety inspection conducted on January 16 and 17, 2002, found minor problems with exit lights, egress and storage. The facility’s plan of correction for these deficiencies was approved on April 17, 2002. Therefore, there do not appear to be any licensure concerns with the existing facility.

The applicant did not reasonably demonstrate that population growth in the proposed service area shows a need for additional beds. Although the applicant has agreed to condition award of the CON upon providing 18.7 percent of the patient days in the 272 beds remaining in its downtown facility to Medicaid and charity patients should this project be approved, thereby ensuring continued care to this population, the impact on other existing Medicaid disproportionate share providers negates any suggestion of improved access to this population via CON condition. Therefore, despite its agreement to condition award to serving the medically indigent, it was also not demonstrated that care or access to the medically indigent would be improved and, as stated above, it appears that existing Medicaid disproportionate share providers will be negatively impacted if this project is approved. Need for the project is not evidenced by the availability, quality of care, efficiency, accessibility and extent of utilization of existing health care facilities in this area.

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

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

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

According to AHCA data, the applicant had three confirmed complaints (one without deficiency), during the last three years. The confirmed complaints concerned discharge planning and patient rights.

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

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

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

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

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

ambulatory surgical center, Baptist Hospital is a fully accredited hospital and the applicant is currently able to provide this training.

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

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

**Baptist Hospital, Inc.(CON 9595)
Financial Indicators and Ratios**

	09/30/2001	09/30/2000
Current Assets	\$ 68,351,000	\$ 63,463,000
Cash and Current Investment	\$ 26,990,000	\$ 25,462,000
Assets Restricted for Capital Funding	\$ 8,788,000	\$ 9,601,000
Total Assets	\$ 199,477,000	\$ 193,255,000
Current Liabilities	\$ 25,951,000	\$ 26,122,000
Total Liabilities	\$ 129,212,000	\$ 127,580,000
Total Equity	\$ 70,265,000	\$ 65,675,000
Net Operating Revenues	\$ 214,955,000	\$ 189,629,000
Interest Expense	\$ 5,486,000	\$ 5,322,000
Net Profit – Operations	\$ 7,702,000	\$ 310,000
Net Income	\$ 8,544,000	\$ 2,576,000
Cash Flow from Operations	\$ 16,266,000	\$ 11,201,000
Working Capital	\$ 42,400,000	\$ 37,341,000
Current Ratio (CA/CL)	2.6	2.4
Long-Term Debt to Equity (TL-CL/TE)	1.5	1.5
Operating Cash Flow (CFO/CL)	0.6	0.4
Times Interest Earned (NPO+Int/Int)P	2.4	1.1
Equity to Total Assets (TE/TA)	35.2%	34.0%
Operating Margin (NPO/NOR)	3.6%	0.2%
Total Margin (NI/NOR)	4.0%	1.4%
Return on Assets (NI/TA)	4.3%	1.2%
Operating Cash Flow to Assets (CFO/TA)	8.2%	5.8%

Short-term position:

The applicant's current ratio of 2.6 indicates current assets are over two times that of short-term liabilities, a good position. The working capital (current assets less current liabilities) of \$42 million is also good considering the entity's size. The ratio of cash flow to current liabilities of 0.6 is sound. The applicant's short-term position is satisfactory.

Long-term position:

The long-term debt to equity ratio of 1.5 is a mediocre level. The cash flow to assets of 8.2 percent reflects a satisfactory amount of cash flows. The most recent year had an operating profit of \$7.7 million, which resulted in a margin of 3.6 percent, a fair level of earnings. The total equity of \$70 million with the equity to assets ratio of 35 percent is about average for Florida hospitals. The applicant has an adequate long-term position.

Capital requirements:

Schedule 2 indicates capital projects total \$129 million. Maturities on long-term debt through 2005 total \$15 million; therefore, the total capital funding needed is \$144 million.

Available capital:

Schedule 2 indicates funding for these assets will come from cash on hand of \$30 million and the balance from the parent company, Baptist Health Care Corporation. The applicant's own cash, short-term investments, and assets limited for expansion total about \$35 million. In addition, the applicant's cash flows of \$16 million for the most recent year could generate \$64 million by the time this project is complete. Audited financial statements of the parent corporation show cash, short-term investments, and assets limited for expansion of \$71 million. A letter from RBC Dain Rauscher, underwriters, states they believe Baptist Health Care Corporation will be able to raise debt capital for the planned asset additions.

Conclusion:

When we consider the applicant's financial strength and the strength of the parent corporation, all capital requirements should be available as needed.

Health Manpower:

Schedule 6 indicates that the new hospital will have 414.0 total FTE staff by the end of year two (December 31, 2007). One hundred thirty-six of these personnel will be RNs, 12 will be LPNs and 8.0 will be nurses' aides. "Other" nursing positions include four FTEs, other ancillary positions include 251 FTEs, and the remaining three FTEs are one each for dietary supervisor, social service director and maintenance supervisor. The applicant indicates that the proposed project will take full advantage of the existing and available infrastructure and resources of Baptist Hospital and Baptist Health Care. The applicant's assumptions to Schedule 6A states that "the middle section {the 414.0} FTE staff added by this project, reflects the incremental difference in

staffing requirements between the CON being approved and the CON not being approved”.

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. We tested the case mix data, using patient discharges from the indicated zip codes during 2001, excluding all DRG’s set forth in the application. The computed case mix index for these cases was 1.2330. Therefore based on the range of services offered, number of beds and estimated patient days, as well as the computed case mix index; the applicant will be compared to the hospitals in Group 4. Per diem rates are projected to increase by an average of 3.4 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

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

Net revenue per adjusted patient day (NRAPD) of \$1,456 in year one and \$1,456 in year two is between the control group median and highest values of \$1,300 and \$1,541 in year one and \$1,339 and \$1,587 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 levels, the facility is expected to consume health care resources in proportion to the services provided. (See Financial Analysis Table).

Projected cost per adjusted patient day of \$1,622 in year one is significantly above the group highest value of \$1,488. The year two CAPD of \$1,438 is between the group median and highest values of \$1,255 and \$1,533. The first year occupancy of this facility is projected to be 34.6 percent and the second year is expected to fill to 55.8 percent. It is normal for a new facility to have declining costs per adjusted patient day because the increasing patient days cover the same fixed expenses. Year two is therefore felt to be the better year to judge cost-efficiency. Based on year two CAPD and the trend that is being set, this application is considered cost-efficient when compared to the control group. (See Financial Analysis Table).

The year two operating profit for the hospital of \$593,485 computes to an operating margin per adjusted patient day of \$18 which is between the peer group lowest of \$-120 and median of \$38. By using year two to form our conclusion, the projections for this new hospital are financially feasible.

Baptist Hospital, Inc./CON #9595

Financial Analysis Table
PEER GROUP 4

	2007	YEAR 2	INFLATION ADJ. VALUES		
	YEAR 2	ACTIVITY	Highest	Median	Lowest
	ACTIVITY	PER DAY			
ROUTINE SERVICES	13,100,339	394	986	509	317
INPATIENT AMBULATORY	13,125,494	394	95	51	26
INPATIENT ANCILLARY SERVICES	57,551,232	1,729	3,789	1,975	1,330
OUTPATIENT SERVICES	58,831,000	1,768	2,156	1,522	851
OTHER OPERATING REVENUE	68,000	2	193	8	1
TOTAL REVENUE	142,676,065	4,287	6,532	3,742	2,655
DEDUCTIONS FROM REVENUE	94,221,464	2,831	*	*	*
NET REVENUES	48,454,601	1,456	1,587	1,339	1,080
EXPENSES					
ROUTINE	4,707,645	141	284	206	149
ANCILLARY	16,325,900	491	551	434	336
AMBULATORY	0				
OVERHEAD	20,518,307	617	763	575	384
OTHER	6,309,264	190			
TOTAL EXPENSES	47,861,116	1,438	1,533	1,255	960
OPERATING INCOME	593,485	18	261	38	-120
PERCENT OPERATING MARGIN	1.2%				
PATIENT DAYS					
PATIENT DAYS	19,541		NOT INFLATION ADJUSTED		
ADJUSTED PATIENT DAYS	33,279				
TOTAL BED DAYS AVAILABLE	35,040				
ADJ. FACTOR	0.5872				
TOTAL NUMBER OF BEDS	96				
PERCENT OCCUPANCY	55.8%		90.2%	49.4%	26.8%
PAYER TYPE					
	PATIENT	%			
	DAYS	TOTAL			
MEDICARE	10,066	51.5%	77.9%	50.3%	28.7%
COMMERCIAL	195	1.0%			
MEDICAID	1,759	9.0%	12.5%	4.7%	1.3%
PRIVATE	782	4.0%			
HMO/PPO	6,153	31.5%			
OTHER	586	3.0%	53.7%	35.4%	10.1%
TOTAL	19,541	100.0%			

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

The applicant expects managed care to represent 31.5 percent of total patient days in year two. This is just below the control group median value of 35.4 percent. The level of negotiated pricing appears normal for this size facility.

h. Are the proposed costs and methods of construction reasonable? Do they comply with statutory and rule requirements? ss. 408.035(10), Florida Statutes; Ch. 59A-3 or 59A-4, Florida Administrative Code.

Baptist Hospital proposes to relocate 96 general acute care beds from the existing Baptist Hospital to a new satellite hospital facility adjacent to the existing Baptist Office Park in the northern part of Pensacola. This site has an ambulatory surgery center (ASC) and medical offices. The project consists of 240,976 GSF of new construction at a construction cost of \$52,690,603.

The existing ASC will be essentially closed as a patient care building and almost all of the hospital-type functions will be relocated to the new hospital building. The resulting vacated space at the ASC will become non-clinical administrative spaces and office space.

Many administration and support functions will remain at the existing downtown Baptist Hospital and only those needed for the satellite hospital will be housed at the Medical Park site.

The main inpatient entry is described as a “mall” and is a rather long wide corridor stretching from the stairs down to the lower level dining room to the emergency department at the other end of the hospital. There is no door shown from the emergency department leading into this “mall”, but it seems likely that there would need to be access at this point. Perhaps this is a drafting error or is not clearly shown on the drawings. All patient rooms in the new facility will be private. There will be two 32-bed units for general medical/surgical patients, an 18-bed critical care unit and a 14-bed intermediate care unit. There will also be 20 non-licensed observation beds.

The patient rooms are all private and are quite spacious. Each has a private toilet/shower room. Some patient rooms show what must be a wheelchair-accessible shower although the turning circle is not shown. Patient rooms have been designed with a modular concept that allows for flexibility.

The entire six-floor facility has been designed for future expansion, both horizontally and vertically. Available space for a total of 256 beds is projected with the construction of a second patient tower. There are six operating rooms and one cystoscopy room. The waiting room of the emergency department appears to be somewhat smaller than might be expected, but depending of the level of staff and the type of patients that might come into this department at its location, it may be adequate. It

can be assumed that the hospital has approved the plans submitted with this application and has agreed with the room sizes and relationships.

Physical plant maintenance and food service areas are located on a lower floor than the main public entrance. It would probably be more convenient if the dining area were more centrally located within the facility rather than on a lower floor corner. However, it is located as closely as possible to the existing Baptist Medical Park, and it could be understood that the space might serve that building's occupants also. This lower floor is smaller than the main floor, indicating a grade change on the site.

Cost data and schedules submitted seem to be reasonable. The most common applicable building codes are listed on the drawing cover sheet and are current. Compliance with disaster preparedness is indicated.

The plans have been well thought-out and the layouts of each floor appear to be functional and convenient for both patients and staff.

- 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.**

The following table provides an indication of the applicant's commitment to charity and Medicaid, with comparison to the district, based on Fiscal Year (FY) 2000 Actual Data prepared by AHCA:

**Medicaid and Charity Care of the Applicant
Compared to the District for FY 2000**

Applicant	FY 00 Conventional Medicaid Days	FY 00 Gross Charity Percentage of Charges
Baptist Hospital	15.2%	1.4%
Subdistrict 1 Average	14.9%	1.5%
District 1 Average	13.6%	1.5%

Source: Fiscal Year 2000 Actual Data/AHCA

According to AHCA FY 2000 Hospital Financial Data, Baptist Hospital provided 15.2 percent of its total patient days to Medicaid patients and 1.4 percent to charity care patients. The applicant's Medicaid percentage is greater than the District 1 average of 13.6 percent and the Subdistrict 1 average of 14.9 percent. The applicant's charity care is less than the District 1 and Subdistrict 1 averages of 1.5 percent. Baptist Hospital is a Medicaid disproportionate share provider for state fiscal year 2001-2002.

Although the applicant states that it is a disproportionate share provider with a long history of providing service to charity and Medicaid patients,

and was classified as a disproportionate share provider in state fiscal years 2000-2001 and 2001-2002, it is not eligible to be a Disproportionate Share Provider for fiscal year 2002-2003. This is due to an amendment to Section 409.911, Florida Statutes. A note to that statute addresses the method used in calculating Medicaid disproportionate share providers in State Fiscal Year 2002-2003:

*"(1) Notwithstanding s. 409.911(3), Florida Statutes, for the state fiscal year 2002-2003 **only**, the agency shall distribute moneys under the regular disproportionate share program only to hospitals that meet the federal minimum requirements and to public hospitals. Public hospitals are defined as those hospitals identified as government owned or operated in the Financial Hospital Uniform Reporting System (FHURS) data available to the agency as of January 1, 2002. The following methodology shall be used to distribute disproportionate share dollars to hospitals that meet the federal minimum requirements and to the public hospitals:*

"(a) For hospitals that meet the federal minimum requirements and do not qualify as a public hospital, the following formula shall be used:

$$DSHP = (HMD/TMSD)*\$1 \text{ million}$$

DSHP = disproportionate share hospital payment.

HMD = hospital Medicaid days.

TSD = total state Medicaid days.

"(b) The following formulas shall be used to pay disproportionate share dollars to public hospitals:

"1. For state mental health hospitals:

$$DSHP = (HMD/TMDMH) * TAAMH$$

The total amount available for the state mental health hospitals shall be the difference between the federal cap for Institutions for Mental Diseases and the amounts paid under the mental health disproportionate share program.

"2. For non-state government owned or operated hospitals with 3,200 or more Medicaid days:

$$DSHP = [(.82*HCCD/TCCD) + (.18*HMD/TMD)] * TAAPH$$

$$TAAPH = TAA - TAAMH$$

"3. For non-state government owned or operated hospitals with less than 3,200 Medicaid days, a total of \$400,000 shall be distributed equally among these hospitals.

Where:

TAA = total available appropriation.

TAAPH = total amount available for public hospitals.

TAAMH = total amount available for mental health hospitals.

DSHP = disproportionate share hospital payments.

HMD = hospital Medicaid days.

TMDMH = total state Medicaid days for mental health days.

TMD = total state Medicaid days for public hospitals.

HCCD = hospital charity care dollars.

TCCD = total state charity care dollars for public non-state hospitals."

"In computing the above amounts for public hospitals and hospitals that qualify under the federal minimum requirements, the agency shall use the 1997 audited data. In the event there is no complete 1997 audited data for a hospital, the agency shall use the 1994 audited data."

"(5) In the event the Centers for Medicare and Medicaid Services does not approve Florida's inpatient hospital state plan amendment for the public disproportionate share program by November 1, 2002, the agency may make payments to hospitals under the regular disproportionate share program, regional perinatal intensive care centers disproportionate share program, the children's hospital disproportionate share program, and the primary care disproportionate share program using the same methodologies used in state fiscal year 2001-2002."

"(6) This section is repealed on July 1, 2003."

According to Financial Schedule 7A, approximately nine percent of the total patient days to be provided in the satellite facility will be Medicaid sponsored and the equivalent of about 1.4 percent of total patient days will be provided to charity care patients. The applicant does not wish to accept a condition regarding the provision of Medicaid and/or charity care services at the satellite facility. However, the applicant proposes to condition the main hospital to 18.7 percent of its total annual patient days to be provided to Medicaid and charity patients on a combined basis. It is again noted that the applicant has indicated its intent is to improve its parent hospital, a Medicaid disproportionate share provider's ability to serve the medically indigent population by improving its financial position through the implementation of this project.

It is noted that pro formas submitted by the applicant show that within the Baptist System (which includes the downtown campus, Gulf Breeze and the satellite), Medicaid patient days will increase by 1,855 days. However, since no current access problems were shown, it appears that either Santa Rosa or Sacred Heart is currently serving these patients. As noted earlier, both Medicaid disproportionate share providers oppose the project.

F. SUMMARY

Baptist Hospital, Inc. (CON #9595) proposes to establish a new satellite hospital via the relocation of 96 acute care beds from the existing 367 acute care beds at Baptist Hospital, located at 1000 West Moreno Street in Pensacola, Florida. The satellite hospital's licensed bed compliment will consist of 64 medical/surgical beds, 18 critical care beds and 14 intermediate care beds. The applicant indicates that the existing facility was originally built as a Hill Burton hospital in the 1950's and the build-out of the campus was constructed in a series of major and minor expansion and renovation projects. In addition, the hospital's Specialty Care Center, home to 120 licensed skilled nursing beds, was initially designed and built in the 1960's as a nursing home with all the limitations of a retrofitted facility designed and built more than three decades ago. The applicant contends that the downtown campus cannot be retrofitted to current standards and usages without significant time and dollars being invested into the building, if at all. However, the applicant does not provide the actual bed configuration of the downtown facility after the new project comes on line.

Baptist Hospital, Inc., proposes to condition CON approval to the project being located at 9400 University Parkway and that it will delicense 96 beds at the existing downtown campus.

The proposed project involves a total cost of \$94,482,379. Total construction cost is projected at \$52,690,603 and involves 240,976 GSF of new construction.

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

Need:

- The applicant contends that the project is needed to ensure the availability of and accessibility to un-/under-funded care is maintained in the downtown Pensacola area and to allow Baptist to better use its existing facility resources at both the downtown and the Baptist Medical Park campus. Baptist also contends the proposed project will enhance availability and accessibility to quality care for its affiliated non-acute care services currently located in the north Pensacola area. These include Baptist Medical Park, University of West Florida's Student Health Center, Azalea Trace and the Baptist Manor. The applicant concludes that in

addition to Baptist-specific gains, the local market will benefit from new competition as other local providers can naturally be expected to re-evaluate their current operations and service offerings, to increase emphasis on patient/client service and to enhance existing facility access and amenities. No evidence was presented which demonstrates that overall access or bed availability will improve. The applicant did not reasonably demonstrate that population growth in the proposed service area shows a need for additional beds. It was also not demonstrated that care or access to the medically indigent would be improved and it appears that existing Medicaid disproportionate share providers will be negatively impacted if this project is approved. Additionally, the applicant's claim that the local market will benefit from new competition is not fully supported by financial pro formas. The financial review shows that the projected level of managed care at 31.5 percent is likely to have little impact on competition to promote quality assurance and cost-effectiveness because the applicant's projections are below the control group median average of 35.4 percent and the applicant's pricing appears normal for this size facility.

Quality of Care:

- The applicant reasonably demonstrates that it has a history of providing quality of care, an indication being the hospital's JCAHO accreditation and compliance with all licensure requirements of the State of Florida. The applicant also reasonably describes its current performance improvement program.

Cost/Financial Analysis:

- The applicant's audited financial statements provide evidence of an adequate long-term financial position. Based on the applicant's financial position and the support of the parent company, funding for the proposed project and all other capital projects will likely be available.
- Based on the existing available beds that serve the proposed service area, the applicant's projected utilization appears to be optimistic. Patient day estimates not realized will produce less revenues and anticipated profit. However, with the overall support of Baptist Health Care, the project appears to be financially feasible.

- The project managed care level of 31.5 percent is likely to have little impact on competition to promote quality assurance and cost-effectiveness because the applicant's projections are below the control group median average of 35.4 percent and the applicant's pricing appears normal for this size facility.

Medicaid/Indigent Charity Care Commitment:

- According to AHCA FY 2000 Hospital Financial Data, Baptist Hospital provided 15.2 percent of its total patient days to Medicaid patients and 1.4 percent to charity care patients. The applicant's Medicaid percentage is greater than the District 1 average of 13.6 percent and the Subdistrict 1 average of 14.9 percent. The applicant's charity care is less than the District 1 and Subdistrict 1 averages of 1.5 percent.
- Baptist Hospital proposes to condition the remaining acute care beds at the downtown campus to provide at least 18.7 percent of their total patient days to Medicaid patients and charity care patients combined. The proposed condition is based on its FY 2001 experience, according to the applicant.
- The applicant projects that 9.0 percent of the total projected patient days will be provided to Medicaid patients and the equivalent of 1.4 percent of total patient days will be provided to indigent patients. The applicant does not wish to accept a condition regarding the provision of Medicaid and/or charity care services at the new satellite facility. The applicant's pro formas show that charity care will be 1.4 percent of gross revenues with or without the project. However, since no access problems were shown, it appears that these patients are currently being served by either Santa Rosa or Sacred Heart Hospital. Both facilities are Medicaid disproportionate share providers and oppose the project. West Florida Hospital while not a disproportionate share provider, also opposes the project and West Florida provided 8.4 percent of its total FY 2000 patient days to Medicaid and Medicaid HMO patients and 1.2 percent to charity care patients.

Architectural Analysis:

- The entire six-floor facility has been designed for future expansion, both horizontally and vertically. Available space for a total of 256 beds is projected with the construction of a second patient tower.
- Cost data and schedules submitted seem to be reasonable. The most common applicable building codes are listed on the drawing cover sheet and are current. Compliance with disaster preparedness is indicated.
- The plans have been well thought-out and the layouts of each floor appear to be functional and convenient for both patients and staff.

G. RECOMMENDATION

Deny CON #9595.

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