

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

**A. PROJECT IDENTIFICATION**

1. Applicant/CON Action Number

**Baptist Hospital, Inc./CON #9643 & 9643P**

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 L of the application included 158 letters of support for the project. Two of these letters were from Escambia County Commissioners, Marie Young, Commission Chairman and Janice Gilley, Commissioner District 5. Three of these letters were from J.D. Smith, John W. Nobles and Mike Wiggins, who are City of Pensacola Council Members. The County Commissioners and City 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 remaining 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.

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Letters in opposition to the project were received from West Florida Hospital, Sacred Heart Health System, and Santa Rosa Medical Center<sup>1</sup>. Issues raised in these letters are essentially as provided by these facilities in opposition the earlier Baptist CONs (CON Numbers 9595 and 9528). 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 35 percent occupancy, has substantial unused capacity, and provides all of 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 physician base, which it understands to be the reason for utilization decline. The hospital 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 as it attempts to rebuild.

**C. PROJECT SUMMARY**

**Baptist Hospital, Inc. (CON #9643)** 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

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<sup>1</sup> Baptist Hospital, Sacred Heart and Santa Rosa Medicaid Center were classified as disproportionate share providers in state fiscal years 2000-2001 and 2001-2002, but are not eligible to be Disproportionate Share Providers for fiscal year 2002-2003. This is due to an amendment to Section 409.911, Florida Statutes (see Item 4. i.).

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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 applicant was not clear on the status of the existing single story ambulatory surgery center with this application, although in CON #9595 Baptist had indicated that it would 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 (or 64 beds for the partial application, see below) at the existing downtown campus to be moved to the proposed satellite location. The applicant also proposes to condition to the downtown location's remaining 272 (or 304 with the partial application, see below) acute care beds provision of at least 18.7 percent of annual 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 \$86,330,540. Total construction cost is projected at \$52,503,125 and involves 240,976 GSF of new construction.

**Baptist Hospital, Inc. (CON #9643P)** proposes to construct a 64-bed hospital through the transfer of 64 beds from the main facility. The applicant proposes conditioning approval to the location, to delicensing 64 beds from the main facility and conditioning the main facility's remaining 304 acute care beds as stated above. The 64-bed facility complement would consist of 32 medical/surgical beds, 18 critical care beds and 14 intermediate care beds.

As noted above, the applicant has agreed to condition award of CON #9643P on serving the same percentage of Medicaid/charity care patient days in the 304 remaining beds at the main campus.

The partial project involves a total cost of \$79,540,889. Total construction cost is projected at \$47,718,385 and involves 217,833 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, 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 59C-1.038, Florida Administrative Code.**

In Volume 29, Number 4, dated January 24, 2003, 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 January 2003 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 1,369 licensed beds that experienced an occupancy rate of 51.18 percent for the reporting period July 2001 through June 2002.

Baptist Hospital's licensed 367 acute care beds reported an average occupancy of 49.26 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 and does not involve the addition of acute care beds in the service area. Rather it involves the relocation of 96 or 64 of Baptist Hospital's existing acute care beds to establish a 96 or 64-bed satellite hospital. The 96-bed satellite hospital application is summarized below under CON #9643.

The 64-bed satellite hospital application is summarized below under CON #9643P. The applicant indicates that the need for the project is based on special circumstances, discussed in Section E. 1. b. below.

**b. 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 special 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. Appendix G included a summary of issues affecting the existing facility dated March 28, 2003 from Perkins & Will of Atlanta indicates that the estimated costs associated with renovating the existing hospital are \$78 million. The required project would comprise at least 147,000 GSF of new construction and 56,000 GSF of renovation based on the existing bed complement of 367 acute care beds. The average age for the physical plant is stated to be 14.3 years but the industry standard is cited at 8.9 years. The construction and renovation project would add 96 replacement inpatient beds in an all-private room configuration, replacement of surgical services, the imaging department and the emergency department. A physical plant addition would also be needed.

However, the applicant's renovation plans do not appear to consider the fact that while Baptist Hospital has 367 acute care beds, approximately half of which are unused. CY 2002's occupancy of 50.46 percent is the highest since CY 1993's 52.36 percent<sup>2</sup>. Therefore, there are about 183 beds that are consistently not utilized for inpatient services. It is therefore not clear why the hospital renovation study considers costs that are based on the need to add 96 private rooms.

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<sup>2</sup> Based on review of AHCA Hospital Bed Need Projections publications for the appropriate calendar years.

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The applicant also indicates that the project will allow it to expand its patient volume through both 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 the underserved population it traditionally serves access to health care. Although the applicant's financial situation may improve as a result of this project and its claim that the projected population growth in the new proposed PSA from CY 2002 through CY 2007, (8.1 percent) is somewhat higher than the overall subdistrict (6.9 percent) projected population growth for that same period is valid, it appears that the project would adversely affect the other two high volume Medicaid 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**

	<b>Baptist Downtown Adjacent Zip Codes 32501 32505</b>		<b>Remainder of Escambia County</b>	<b>Escambia &amp; Santa Rosa County</b>	<b>Florida</b>
Baptist Hospital Share January – March 2002	64.2%	46.0%	29.3%	33.1%	
Percent Households with Avg HH income below \$15,000	38.7%	30.2%	15.4%	16.6%	16.3%

**Source: Baptist Hospital, Inc./CON #9643 page 25. Market share data from AHCA discharge database. Zip population estimates and county economic data are from Claritas, 2002. Florida income data from U.S. Census.**

**NOTE: The applicant indicates that the ZIP Codes adjacent to the hospital are 32501 and 32505, but previously included zip codes 32503 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.

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Baptist Hospital, Inc. indicates that it provided the largest percentage of inpatient care to the residents of the two zip code area. These two zip codes accounted for approximately 22 percent of total Baptist Hospital discharges during the 12 months ending June 30, 2002. However, data also show that Sacred Heart discharged 1,963 patients from zip code 32505 compared to Baptist Hospital's 1,878 during the 12 months ending June 30, 2002. Baptist Hospital was the largest provider for zip code 32501 residents with 1,576 compared to the next highest provider, Sacred Heart with 758. The following table provides a breakdown of the patients from these zip codes during the July 2001 – June 2002 reporting period.

**Acute Care Discharges  
Residents of Zip Codes 32501 and 32505  
Applicant's Existing Service Area**

<b>Zip code</b>	<b>Baptist</b>	<b>Sacred Heart</b>	<b>West FL. Reg</b>	<b>Gulf Breeze</b>	<b>Other</b>	<b>Total</b>
32501	1,576	758	208	37	39	2,618
32505	1,878	1,963	475	26	52	4,394
Total	3,454	2,721	683	63	91	7,012
% of total pts from zips	49.3%	38.8%	9.7%	0.9%	1.3%	100%

**Source: AHCA Hospital Discharge Data July 2001 - June 2002.**

**As previously noted the applicant not included zip codes 32503 and 32507 in previous analysis**

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 two zip codes. Sacred Heart Hospital, at 38.8 percent of the total area discharges, 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 is the leading provider of uncompensated care in the market. However, the applicant includes bad debt and amount not reimbursed by Medicaid to reach this conclusion. Data reported to AHCA show that during FY 2001, Sacred Heart provided 28.6 percent of its total patient days to Medicaid and Medicaid HMO patients and 2.4 percent to charity care compared to Baptist's 17.3 percent Medicaid and Medicaid HMO and 1.4 percent charity care. Both facilities are high volume Medicaid providers. While the classification system changed, Sacred Heart Hospital retains a high ratio of uncompensated indigent care. During fiscal year 2001, Sacred Heart's low income utilization rate ranked 24<sup>th</sup>, compared to Baptist Hospital's 88<sup>th</sup> among Florida's 209 Hospitals, excluding psychiatric and state hospitals.

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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 for the proposed satellite hospital as an eight zip code area, which includes zip codes 32514, 32526, 32533, 32534, 32570, 32571, 32577, and 32583. Baptist Hospital projects an increase in population in these zip codes from 179,560 in 2002 to 194,157 in 2007 or by a total of 14,597. The applicant indicates that this is an 8.1 percent growth rate. AHCA population projections show the subdistrict (Escambia and Santa Rosa Counties) projected to have a 6.9 percent growth rate from January 1, 2002 to January 1, 2007. The applicant further contends that the population in its projected primary service area accounts for more than half of the subdistrict's growth during that period. However, reviewer calculation shows it at 49.7 percent (14,597/29,363).

As stated above, the subdistrict population is projected to grow by 6.9 percent during the same time period (January 1, 2002 – January 1, 2007) per AHCA population data. Therefore, the projected service area growth at 8.1 percent is higher than the subdistrict's projected growth rate of 6.9 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 eight 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 80,580 patient days will be generated in CY 2007 and 82,256 patient days will be generated in CY 2008. The applicant's projections indicate a 15.5 percent increase in seven 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. The subdistrict facilities

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provided 256,312 patient days during CY 2002<sup>3</sup> compared to 224,903 during CY 1998 or 13.9 percent. Population increased from 395,486 in January 1998 to 428,513 in January 2003 or 8.35 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 eight 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 16,116 (80,580 x 20 percent) patient days forecast for CY 2007 and 24,677 (82,256 x 30 percent) for CY 2008. The applicant then increases these projections by 10 percent to include patients from outside of its target area. This computes to a total of 17,907 patient days for 2007 and 27,419 for CY 2008. As noted above, this appears to be based on optimistic patient day projections for the eight zip code area.

The applicant contends that the patient day projections above will come from patients who presently obtain care in the Baptist system. Baptist indicates that the facility will capture 82 percent or 14,611 patient days in CY 2007 and 87 percent or 23,812 patient days in CY 2008. Baptist indicates 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.

However, given that the proposed location for the new hospital is approximately one mile from an existing acute care hospital, the overall patient day projections appear to be optimistic as the applicant not only intends to keep its current percentage of the market, it expects to capture an additional percentage of this market and as noted above, projections appear inflated and not based on historic usage. As discussed below, the applicant currently serves 30.1 percent of this market.

As noted earlier in CY 2002, the hospital utilized about half of its acute care beds, approximately 183 of its 367 licensed acute beds. West Florida Regional Medical Center is located just over a mile from the proposed new hospital and is currently experiencing significant under utilization. West Florida Regional Medical Center, reported an acute and intensive care occupancy rate of 33.06 percent during CY 2002, which means that, on the average day, approximately 133 of the 400 acute care beds at West Florida Regional were occupied<sup>4</sup>. With approximately 267

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<sup>3</sup> Based on preliminary AHCA utilization data for the July 2003 batching cycle.

<sup>4</sup> West Florida Regional started CY 2002 with 367 acute care beds but converted a 40 bed skilled nursing beds to acute care beds on April 22, 2002.

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beds currently unoccupied, it is difficult to see where population growth in this eight zip code area will generate a sufficient number of new patients for the 96 acute beds proposed to be transferred (**CON #9643**), or the 64 acute beds proposed to be transferred (**CON #9643P**) from an underutilized hospital that currently serves approximately 30.1 percent of this patient population, without impacting the existing West Florida Hospital facility and creating an underused satellite facility for Baptist.

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 75 percent in 2007, the benchmark for acute care utilization. It is only in the third quarter of 2008 operation that Baptist projects reaching that percentage. Following is a chart from page 108 of the application that projects patient days and expected utilization:

<b>Applicant's Utilization Pro Formas (Schedule 5) 96 Acute Care Beds Second Year of Operation, 12 months ending September 30, 2008</b>		
<i>Dates</i>	<i>Patient Days</i>	<i>% Utilization</i>
10/1/07 – 12/31/07	5,000	58%
1/1/08-3/31/08	5,800	66%
4/1/08-6/30/08	6,200	70%
7/1/08-9/30/08	6,812	77%
FY 2008 Total	23,812	68%

**Source: CON #9643, Schedule 5, page 108.**

As shown above, Baptist only anticipates an average annual occupancy of 68 percent in its second year of operation with 23,812 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 the 12-month periods ending September 30, 2007 and 2008. While the chart above shows the facility's utilization at 68 percent in year two, pro formas show 56.17 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 19,679 patient days in year two (ending September 30, 2008). This results in an actual occupancy rate in the 96-bed facility of 56.17 percent with a total of 19,679 patient days. The applicant indicates that there will be a 4,766 patient day reduction at the main hospital but an addition of 633 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.

**CON #9643P:** With the 64-bed project, Baptist projects the same patient days as above but indicates that the 2008 patient day forecast results in a need for 107 beds (27,419/365). The applicant caps the available potential patient days at 75 percent and indicates that 14,611 days will be provided in year one ending September 30, 2007 and 17,520 in year two. Schedule 5 shows the 64-bed facility will average 75 percent throughout year two ending September 30, 2008. However, the financial schedules indicate the facility will average 62.3 percent. The applicant indicates that there will be a 3,609 patient day reduction at the main hospital but an addition of 633 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 for both projects compared to the 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. (Refer to chart above for percentages of existing market).

The applicant projects the following impact on existing facilities as a result its project:

*Sacred Heart Hospital:* Baptist Hospital, Inc. indicates that Sacred Heart Hospital, an Ascension national health care systems hospital, is projected to lose approximately three percent or 3,911 forecast days (3,911/125,458) in CY 2008. The applicant indicates that Sacred Heart had \$16.9 million net income reported for 2001 and the loss of 10 patients a day would not have a material impact on Sacred Heart. Baptist also contends that the 3,911 patient days in 2008 is the equivalent of 16/100ths of one percent of the Ascension Health's total patient days.

**CON #9643P:** The applicant indicates that Sacred Heart would lose 1,454 patient days or 4.0 patients per day or one percent of its total volume. This is 6/100ths of one percent of Ascension's total acute care days.

*West Florida Hospital:* Baptist Hospital, Inc. indicates that West Florida Hospital, an HCA: The Healthcare Company facility, is projected to lose approximately 2,605 forecast days or 7.1 patients per day. The applicant indicates that in FY 2001, West Florida had a net loss of \$6.15 million before taxes. This is a result of a down turn in admissions, patient days

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and revenues between 2000 and 2002, due in large measure to dramatic changes in the organizational structure of the Medical Center Clinic. Baptist contends that competition had little to do with losses and West Florida is now clearly in the process of reversing the temporary downturn. Baptist also contends that the 2,605 patient days in 2008 is the equivalent of 3/100ths of one percent of the HCA's total patient days.

**CON #9643P:** The applicant indicates that West Florida would lose 969 patient days or 2.7 patients per day or one percent of its total volume. This is 1/100ths of one percent of HCA's total acute care days.

*Santa Rosa Medical Center:* Baptist Hospital, Inc. indicates that Santa Rosa Medical Center, a Health Management Associates facility, is projected to lose approximately 1,402 forecast days or 3.8 patients per day. The applicant does not provide budget information for Santa Rosa, but provides a discussion of the parent corporation indicating that HMA had \$405.6 million in income before taxes during FY 2002. AHCA budget data indicates that for FYE December 31, 2001, Santa Rosa Medical Center had \$1.2 million (total margin) before taxes income. Baptist indicates that the 1,402 patient days in 2008 is the equivalent of 17/100ths of one percent of the HMA's total patient days.

**CON #9643P:** The applicant indicates that Santa Rosa Medical Center would lose 522 patient days or 1.4 patients per day or one percent of its total volume. This is 6/100ths of one percent of HMA's total acute care days.

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. West Florida's acute care beds dropped to 33.06 percent utilization in calendar year 2002 per preliminary AHCA utilization data.

AHCA hospital discharge data for Escambia and Santa Rosa County residents for the 12 months ending June 30, 2002, indicate that 4,925 of the facility's total discharges were residents of these eight zip codes. West Florida Hospital served 8,162 Escambia and Santa Rosa County residents during the reporting period. Therefore, 60.34 percent of West Florida's service to area residents were residents of the eight zip code area. Santa Rosa Medical Center served 3,025 residents from this zip code area and 3,578 total Escambia and Santa Rosa County residents.

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Residents of the eight zip code area account for 84.5 percent of Santa Rosa Medical Center's service to residents of the two county areas. Santa Rosa Medical Center averaged 31.82 percent utilization in its 119 acute care beds during calendar year 2002. The data also show that Sacred Heart served 8,950 residents of its 19,730 subdistrict resident total and Baptist served 3,996 of its total of 13,294 subdistrict resident total discharges during the reporting period. The eight zip code area accounted for only 30.06 percent of Baptist Hospital's total subdistrict discharges and 45.37 percent of Sacred Heart's.

<b>Area Hospital's Percentage of Total Subdistrict Patients Served From Applicant's Proposed Primary Service Area (32514, 32526, 32533, 32534, 32570, 32571, 32577, 32583)</b>	
<b>Subdistrict 1 Hospital</b>	<b>% Served</b>
Santa Rosa Medical Center	84.5%
West Florida Hospital	60.3%
Sacred Heart Hospital	45.4%
Baptist Hospital	30.1%

**Source: AHCA Hospital Discharge data from July 1, 2001 through June 30, 2002.**

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 33.06 and 31.82 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 high volume Medicaid 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 affect three existing providers, two of whom, Sacred Heart Hospital and Santa Rosa Medical Center are high volume Medicaid providers. West Florida Hospital and Santa Rosa Medical Center, will likely be the most negatively impacted should this project be approved.

Baptist Hospital, Inc., also indicates that should the project not be approved, it will have to reevaluate the facility's low-margin service lines, such as obstetrics, skilled nursing and Level II trauma services. It is noted that hospitals state wide have been recently reevaluating the provision of obstetrics and Level II trauma services as a result of the insurance crisis in Florida. According to AHCA utilization data, Baptist

Hospital's 57 skilled nursing beds averaged 51.18 percent utilization during CY 2002 with no Medicaid days provided. Many Florida hospitals have closed skilled nursing units in recent years due to the change in Medicare reimbursement.

**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

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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 or 64 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 system<sup>5</sup> will experience an increase in Medicaid patient days (by 1,394 days at 96 beds or 1,033 with 64 beds) 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 high volume Medicaid providers. While never a disproportionate share provider, West Florida Hospital provided 8.8 percent of its total FY 2001 patient days to Medicaid and Medicaid HMO patients and 1.4 percent to charity care patients. West Florida Hospital also opposes the project.

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<sup>5</sup> Pro formas indicate that three hospitals are included: Baptist's main campus, Gulf Breeze and this proposal. The patient day increase includes the total conventional and Medicaid HMO days.

- (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 completed on February 20, 2003, found problems with missing ceiling tiles, sprinkler heads to two areas, fire canister mounting, egress and storage. The facility's report confirmed corrections for these deficiencies were completed on April 18, 2003. 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 hospitals<sup>6</sup> Sacred Heart Hospital, West Florida Medical Center and Santa Rosa Medical Center. All three non-Baptist affiliated hospitals sent letters in opposition to the applicant's proposed project. Sacred Heart Hospital, a high volume Medicaid provider in the subdistrict, contends the project will have an adverse impact on its financial ability to provide care to charity and Medicaid patients. Santa Rosa Medical Center, another of the

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<sup>6</sup> The Baptist affiliates are located in Santa Rosa County and are Jay Hospital consisting of 55 acute care beds and Gulf Breeze Hospital, consisting of 60 acute care beds.

subdistrict's high volume Medicaid providers, also opposes the project. See item 1.b.

- (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 high volume Medicaid 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 2001 Hospital Financial Data, Baptist Hospital provided 17.3 percent of its total patient days to Medicaid patients and 1.4 percent to charity care patients. The applicant's Medicaid percentage is the same as the District 1 average of 17.3 percent but less than the Subdistrict 1 average of 19.8 percent. The applicant's charity care is less than the District 1 and Subdistrict 1 averages of 1.4 and 1.7 percent respectively. Baptist Hospital was a Medicaid disproportionate share provider for state fiscal year 2001-2002, but is no longer eligible for these payments.

According to Financial Schedule 7A year two (ending September 30, 2008) projections for the hospital system, the applicant expects to provide 16 percent of its patient days to Medicaid patients if either project is approved and 17 percent if both are denied. 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 7.1 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. As noted earlier, although in its pro formas, Baptist indicates that its hospital system<sup>7</sup> will experience an increase in Medicaid patient days (by 1,394 days<sup>8</sup>) should the 96-bed or 1,033 at 64-bed) 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 high volume Medicaid provider's ability to serve the medically indigent population by improving its financial position through the implementation of this project.

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

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

#### **4. Statutory Review Criteria**

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

As previously noted, acute care utilization averaged 51.18 percent among the six hospitals in Subdistrict 1 during the 12-month reporting period ending June 30, 2002. 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 beds approximately 8.6 miles from the existing downtown location.

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<sup>7</sup> Pro formas indicate that three hospitals are included: Baptist's main campus, Gulf Breeze and with and without this proposal.

<sup>8</sup> The pro forma for this project only and subtracting the difference of the Baptist Hospital system pro formas with and without the difference yields 1,394 (96 beds) or 1,033 (64 beds) new Medicaid patient days in the Baptist system as a result of this project.

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 percent<sup>9</sup> in the second year of operation (ending September 30, 2008), 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 this is not fully supported by financial pro formas and there are four competing hospitals currently serving the area.

The financial review shows that the projected level of managed care at 8.9 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). The applicant's year two Schedule 7A for the total Baptist Hospital (three facilities) with the project shows overall managed care days of approximately 10 percent (including Medicare HMO). 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

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<sup>9</sup> As previously stated, the applicant uses 56.17 percent utilization in its pro formas for year two ending 9/30/08 at the satellite facility based on 4,766 projected patient days that would normally be provided at the main facility or lost at the main hospital and 633 tertiary care days gained at the main hospital. The applicant projects 75 percent occupancy for the 64-bed project with 3,609 deducted at the main facility and 633 (same for both) tertiary care days gained in year two of the project.

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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 502 or three percent of the total patient days at the new facility (both projects) is slightly high. The 2,805 (96-bed addition) or 2,624 (64-bed partial) or two percent of the total patient days for the three hospital system appears to be consistent with the 1.98<sup>10</sup> experienced during the 12-month period ending June 30, 2002.

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 high volume Medicaid 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 high volume Medicaid 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 line. The applicant indicates that the new facility will provide state-of-the-art services and concludes that its existing campus is "built out".

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<sup>10</sup> Per AHCA discharge data for the period of 7/1/01 – 6/30/02 obtained 3/19/03.

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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 completed on February 20, 2003, found problems with missing ceiling tiles, sprinkler heads to two areas, fire canister mounting, egress and storage. The facility's report confirmed corrections for these deficiencies were completed on April 18, 2003. 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 (and offered the same condition should the partial application be approved) in its downtown facility to Medicaid and charity patients should this project be approved, thereby ensuring continued care to this population, the negative impact either project, full or partial, is expected to have on other high medically indigent care providers tends to negate weight that might otherwise be given for this guarantee to access to this population via a 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 high medically indigent 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 Fifteen Places to Work by Fortune Magazine in 2001 and 2002 and has been 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 three consecutive 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 involving patient fall), during the last three years. The two other confirmed complaints concerned discharge planning and patient rights.

AHCA hospital licensure records show Baptist Hospital's life safety inspection completed on February 20, 2003, found problems with missing ceiling tiles, sprinkler heads to two areas, fire canister mounting, egress and storage. The inspection report confirmed that all corrections for these deficiencies were completed by April 18, 2003.

- 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).

Baptist Hospital, Inc. indicates it will be supporting and providing clinical practice experience for Florida State University Medical School students and medical residents. 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.**

Baptist Hospital, Inc. is a not-for-profit health care provider that operates two hospitals, an outpatient clinic, a skilled nursing facility and a home health agency in northwest Florida. Baptist, the applicant, proposes two projects and unless otherwise noted the comments below apply to both.

**CON #9643** is to construct a 96-bed acute care hospital at their Medical Park location in northeastern Pensacola, Florida (Escambia County). The initial cost of this project is expected to be **\$86,330,540**, with operating costs estimated to be **\$32,285,738** in the first year and **\$52,367,307** in the second year.

**CON #9643P** is to construct a 64-bed acute care hospital at their Medical Park location in northeastern Pensacola, Florida (Escambia County). The initial cost of this project is expected to be \$79,540,889, with operating costs estimated to be \$32,682,048 in the first year and \$41,797,098 in the second year.

Baptist Hospital Inc's audited financial statements for the periods ending September 30, 2001 and September 30, 2002, 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.

**CON Action Number: 9643 & 9643P****Baptist Hospital, Inc.(PENSACOLA): CON #9643****FINANCIAL INDICATORS AND RATIOS**

	09/30/2001	09/30/2002
Current Assets	\$ 68,351,000	\$ 69,246,000
Cash and Current Investment	\$ 26,990,000	\$ 28,056,000
Assets Restricted for Capital Funding	\$ 8,788,000	\$ 8,589,000
Total Assets	\$ 199,477,000	\$ 207,742,000
Current Liabilities	\$ 24,800,000	\$ 25,228,000
Total Liabilities	\$ 129,212,000	\$ 134,408,000
Total Equity	\$ 70,265,000	\$ 73,334,000
Net Operating Revenues	\$ 214,955,000	\$ 219,847,000
Interest Expense	\$ 5,486,000	\$ 5,546,000
Net Profit – Operations	\$ 7,702,000	\$ 5,904,000
Net Income	\$ 8,544,000	\$ 7,237,000
Cash Flow Provided by Operating Activities	\$ 17,794,000	\$ 20,416,000
Working Capital	\$ 43,551,000	\$ 44,018,000
Current Ratio (CA/CL)	2.8	2.7
Long-Term Debt to Equity (TL-CL/TE)	1.5	1.5
Operating Cash Flow (CFO/CL)	0.7	0.8
Equity to Total Assets (TE/TA)	35.2%	35.3%
Operating Margin (NPO/NOR)	3.6%	2.7%
Total Margin (NI/NOR)	4.0%	3.3%
Return on Assets (NI/TA)	4.3%	3.5%
Operating Cash Flow to Assets (CFO/TA)	8.9%	9.8%

**Short-term position:**

The applicant's current ratio of 2.7 indicates current assets are over two times that of short-term liabilities, a strong position. The working capital (current assets less current liabilities) of \$44.0 million indicates somewhat robust short-term liquidity. The applicant has a strong short-term position.

**Long-term position:**

The long-term debt to equity ratio of 1.5 is above than the 80<sup>th</sup> percentile statewide. Long-term debt of \$94.7 million is moderately significant. Net income totaled \$7.2 million in 2001 or 3.3 percent, which is slightly below the 50<sup>th</sup> percentile for all Florida acute care hospitals of 4.2 percent. Net assets total \$73.3 million. The long-term position is adequate.

**Capital requirements (CON #9643):**

Schedule 2 indicates capital projects total \$116.1 million. Maturities on long-term debt through 2006 total \$16.7 million. The total capital requirement is estimated at \$132.8 million.

**Capital requirements (CON #9643P)**

Schedule 2 indicates capital projects total \$109.3 million. Maturities on long-term debt through 2006 total \$16.7 million. The total capital requirement is estimated at \$126.0 million.

**Available capital:**

The applicant has set aside \$8.6 million in Board designated assets for capital improvements. The applicant also has \$28.1 million in short term investments that could be used to fund this project. Operating cash flows totaled \$20.4 million in 2002. In the assumptions for schedule 2 the applicant states that it will generate all funding for the project, using a combination of both debt and equity financing. The applicant also states that they have access to the substantial resources of Baptist Health Care Corporation (The Parent), if needed.

**Conclusion:**

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

**Health Manpower**

The applicant provides a discussion of the support services already in place within the Baptist Healthcare System and indicates that the proposed projects will take full advantage of the existing and available infrastructure and resources of Baptist Hospital and Baptist Health Care.

**CON 9643:** Schedule 6 indicates that the new 96-bed hospital will have 402.1 total FTE staff by the end of year two (September 30, 2008). 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 239.1 FTEs, and the remaining three FTEs are one each for dietary supervisor, social service director and maintenance supervisor. The applicant's assumptions to Schedule 6A states that "the middle section {the 402.1} FTE staff added by this project, reflects the incremental difference in staffing requirements between the CON being approved and the CON not being approved".

**CON 9643P:** Schedule 6 indicates that the new 64-bed hospital will have 295.0 total FTE staff by the end of year two (September 30, 2008). These FTEs include 101.9 RNs, 10.2 LPNs and 5.7 nurses' aides. "Other" nursing positions include 3.4 FTEs, other ancillary positions include 170.9 FTEs, and the remaining three FTEs are one each for dietary supervisor, social service director and maintenance supervisor. The applicant's assumptions to Schedule 6A states that "the middle section {the 295.0} 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 2001. The applicant has stated that the new hospital will serve the same patient population as the main campus, except for a marginal number of tertiary care patients who will continue to be admitted to Baptist Hospital-Pensacola. We tested the case mix data, using patient discharged 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 1.2259. 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 3.6 percent per year through 2008. Inflation adjustments were based on the 3<sup>rd</sup> Quarter New CMS Market Basket Index.

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

**CON #9643:** Net revenue per adjusted patient day (NRAPD) of \$1,504 in year one and \$1,475 in year two is between the control group median and highest values of \$1,380 and \$1,725 in year one and \$1,424 and \$1,781 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 proportion to the services provided. (See Financial Analysis Table).

Projected cost per adjusted patient day of \$1,652 in year one is between the group median and highest values of \$1,335 and \$2,125. In year two, Projected cost per adjusted patient day of \$1,360 is slightly below the median value of \$1,378. This applicant is considered cost efficient when compared to the control group. (See Financial Analysis Table).

The year two operating profit for the hospital is estimated at \$4,421,242 which computes to an operating margin per adjusted patient day of \$115. This falls between the peer group median and highest values of \$29 and \$476. The operating margin computes to 7.8 percent, which is well above the 50<sup>th</sup> percentile for Florida acute care hospitals of 2.8 percent. As stated above, the year two profit for the satellite hospital is projected to be almost \$4.5 million, which is an over 200 percent increase over the loss of \$3,410,343 in the first year of operation. Since the patient day projections are considered to be overly optimistic (see Item 4 g.), the likelihood of revenue estimates being accurate is questionable. Given the still uncertain condition of national economy and the possibility that the Pensacola area's overall general economy could be adversely impacted by federal budget cuts and possible further changes to Tricare (Formally CHAMPUS), the continued profitability of the applicant cannot be assured. However, with the financial support of Baptist Health Care (the Parent) the project is financially feasible.

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FINANCIAL ANALYSIS TABLE (CON  
#9643)  
PEER GROUP 4

	2008	YEAR 2	INFLATION ADJ. VALUES		
	YEAR 2	ACTIVITY	Highest	Median	Lowest
	ACTIVITY	PER DAY			
ROUTINE SERVICES	13,443,449	349	902	591	319
INPATIENT AMBULATORY	0	0	264	64	34
INPATIENT SURGERY	22,263,459	578	0	0	0
INPATIENT ANCILLARY SERVICES	49,273,513	1,279	4,144	2,261	1,095
OUTPATIENT SERVICES	81,199,462	2,108	2,633	1,644	980
TOTAL PATIENT SERVICES REV.	166,179,883	4,315	7,943	4,560	2,428
OTHER OPERATING REVENUE	127,708	3	224	8	0
TOTAL REVENUE	166,307,591	4,318	6,784	4,370	2,981

DEDUCTIONS FROM REVENUE	109,519,042	2,844	*	*	*
NET REVENUES	56,788,549	1,475	1,781	1,424	1,048

EXPENSES					
ROUTINE	5,182,838	135	381	225	140
ANCILLARY	25,272,925	656	748	465	356
AMBULATORY	0	0	0	0	0
TOTAL PATIENT CARE COST	30,455,763	791	1,129	690	496
ADMINISTRATIVE & OVERHEAD	12,593,293	569	1,136	621	465
PROPERTY	9,318,251	*	*	*	*
TOTAL HOSPITAL EXPENSE	52,367,307	1,360	1,594	1,305	998
OTHER OPERATING EXPENSE	0	0	0	0	0
TOTAL EXPENSE	52,367,307	1,360	2,193	1,378	1,122

OPERATING INCOME (MARGIN)	4,421,242	115	476	29	-376
PERCENT OPERATING MARGIN	7.8%				

PERCENTAGES NOT  
INFLATION ADJUSTED

PATIENT DAYS	19,679				
ADJUSTED PATIENT DAYS	38,512				
TOTAL BED DAYS AVAILABLE	35,040				
ADJ. FACTOR	0.5110				
TOTAL NUMBER OF BEDS	96				
PERCENT OCCUPANCY	56.2%		89.6%	55.6%	30.5%

PAYER CLASS

	PATIENT DAYS	PERCENT OF TOTAL			
SELF-PAY	1,041	5.3%	4.9%	1.1%	0.0%
MEDICAID	1,394	7.1%	12.7%	4.6%	0.8%
MEDICAID HMO	0	0.0%			
MEDICARE	11,397	57.9%	76.9%	56.4%	29.6%
MEDICARE HMO	683	3.5%			
INSURANCE	3,362	17.1%			
HMO/PPO	1,056	5.4%	34.7%	16.1%	0.4%
OTHER	746	3.8%			
TOTAL	19,679	100.0%			

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**CON #9643P:** Net revenue per adjusted patient day (NRAPD) of \$1,504 in year one and \$1,476 in year two is between the control group median and highest values of \$1,380 and \$1,725 in year one and \$1,424 and \$1,781 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 proportion to the services provided. (See Financial Analysis Table).

Projected cost per adjusted patient day of \$1,626 in year one and \$1,475 in year two is between the control group median and highest values of \$1,335 and \$2,125 in year one and \$1,378 and \$2,193 in year two. This applicant is considered cost efficient when compared to the control group. (See Financial Analysis Table).

The year two operating profit for the hospital is estimated at \$28,759 which computes to an operating margin per adjusted patient day of \$1. This falls between the peer group median and lowest values of \$29 and \$-376. The operating margin computes to 0.1 percent, which is well below the 50<sup>th</sup> percentile for Florida acute care hospitals of 2.8 percent. Since the patient day projections are considered to be overly optimistic (see Item 4. g.), the likelihood of revenue estimates being accurate is questionable. Given the still uncertain condition of national economy and the possibility that the Pensacola area's overall general economy could be adversely impacted by federal budget cuts and possible further changes to Tricare (Formally CHAMPUS), the continued profitability of the applicant cannot be assured. However, with the economic support of Baptist Health Care (the Parent) the project is financially feasible.

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FINANCIAL ANALYSIS TABLE (CON #9643P)

PEER GROUP 4	2008	YEAR 2	INFLATION ADJ. VALUES		
	YEAR 2 ACTIVITY	ACTIVITY PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	9,933,991	351	902	591	319
INPATIENT AMBULATORY	0	0	264	64	34
INPATIENT SURGERY	16,180,206	571	0	0	0
INPATIENT ANCILLARY SERVICES	37,202,162	1,313	4,144	2,261	1,095
OUTPATIENT SERVICES	59,898,815	2,114	2,633	1,644	980
TOTAL PATIENT SERVICES REV.	123,215,174	4,350	7,943	4,560	2,428
OTHER OPERATING REVENUE	117,500	4	224	8	0
TOTAL REVENUE	123,332,674	4,354	6,784	4,370	2,981
DEDUCTIONS FROM REVENUE	81,506,817	2,877	*	*	*
NET REVENUES	41,825,857	1,476	1,781	1,424	1,048
EXPENSES					
ROUTINE	4,034,753	142	381	225	140
ANCILLARY	19,674,559	695	748	465	356
AMBULATORY	0	0	0	0	0
TOTAL PATIENT CARE COST	23,709,312	837	1,129	690	496
ADMINISTRATIVE & OVERHEAD	9,509,196	639	1,136	621	465
PROPERTY	8,578,590	*	*	*	*
TOTAL HOSPITAL EXPENSE	41,797,098	1,475	1,594	1,305	998
OTHER OPERATING EXPENSE	0	0	0	0	0
TOTAL EXPENSE	41,797,098	1,475	2,193	1,378	1,122
OPERATING INCOME (MARGIN)	28,759	1	476	29	-376
PERCENT OPERATING MARGIN	0.1%				
			PERCENTAGES NOT INFLATION ADJUSTED		
PATIENT DAYS	14,543				
ADJUSTED PATIENT DAYS	28,328				
TOTAL BED DAYS AVAILABLE	23,360				
ADJ. FACTOR	0.5134				
TOTAL NUMBER OF BEDS	64				
PERCENT OCCUPANCY	62.3%		89.6%	55.6%	30.5%
<u>PAYER CLASS</u>					
	<u>PATIENT DAYS</u>	<u>PERCENT OF TOTAL</u>			
SELF-PAY	769	5.3%	4.9%	1.1%	0.0%
MEDICAID	1,033	7.1%	12.7%	4.6%	0.8%
MEDICAID HMO	0	0.0%			
MEDICARE	8,419	57.9%	76.9%	56.4%	29.6%
MEDICARE HMO	502	3.5%			
INSURANCE	2,486	17.1%			
HMO/PPO	783	5.4%	34.7%	16.1%	0.4%
OTHER	551	3.8%			
TOTAL	14,543	100.0%			

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

The comments below apply to both projects except where otherwise indicated. In year two, managed care patient days, including Medicare and Medicaid managed care days, are estimated at 8.9 percent of total patient days. The control group median value is 28.0 percent. This level of managed care is likely to have little significant positive impact on competition, or to promote quality assurance and cost-effectiveness.

- 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 to be constructed adjacent to the existing Baptist Medical Park in the northern part of Pensacola. This site has an ambulatory surgery center and medical offices. The applicant also proposes a Partial Request for ~~only~~ 64 beds. Comments below are based on the 96-bed version and differences in the two schemes are also noted.

There were plans submitted for both the 96-bed building and the 64-bed version. The plans for the 96-bed request were essentially the same as those submitted with CON #9595, reviewed in November of 2002, and many of those comments are repeated below. Information on the current sets of plans is as follows:

Floors 1, 2, 3, and 4 are identical for both versions of the building.

Floor 5 of the main request is a patient room floor but is for observation beds in the partial request.

Floor 6 of the main request houses observation beds and is not planned to be constructed for the partial request.

The central energy plans appears identical in both versions.

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Many of the hospital-type functions in the existing ASC will be relocated to the new hospital building, but the CON application is unclear as to whether the ASC will retain its license as a surgery center. In a previous CON Application #9595, **all** hospital-type functions were to be relocated to the new hospital. If the ASC will remain as a licensed facility, a waiver to co-locate it with the new hospital on the same site will have to be requested.

Other than the plan differences noted above, the other primary dissimilarity in this CON request is the disposition of the space in the existing Medical Park noted in the previous paragraph.

Some of the vacated space at the existing 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 in-patient 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 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 on 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.

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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 if 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 and are current as of the date of this review. The design professionals are well aware of the upcoming changes to the building codes under which this project will be reviewed if either CON request is approved.

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

The total building costs for the 96-bed project is \$58,567,855 compared to \$53,396,031 for the 64-bed project. Building the 64-bed version of the building will be much less cost-effective than the proposed 96-bed version. All the site work will still have to be done, the structure and the infrastructure of the building and site will still need to be constructed to accommodate the future planned square footage. Cost data for the 96-bed proposal is almost exactly the same as it was for CON #9595. This may be reasonable due to the current financial situation, but normally, one would expect the costs to rise over time.

- 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) 2001 Actual Data prepared by AHCA:

**Medicaid and Charity Care of the Applicant  
Compared to the District's Acute Care Facilities for FY 2001**

<b>Applicant</b>	<b>FY 01 Medicaid &amp; Medicaid HMO Days</b>	<b>FY 01 Gross Charity Percentage of Charges</b>
Baptist Hospital	17.3%	1.4%
Subdistrict 1 Average	19.8%	1.8%
District 1 Average	17.3%	1.7%

**Source: Fiscal Year 2001 Actual Data/AHCA**

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According to AHCA FY 2001 Hospital Financial Data, Baptist Hospital provided 17.3 percent of its total patient days to Medicaid patients and 1.4 percent to charity care patients. The applicant's Medicaid percentage is the same as the District 1 average of 17.3 percent but less than the Subdistrict 1 average of 19.8 percent. The applicant's charity care is less than the District 1 and Subdistrict 1 averages of 1.4 and 1.7 percent respectively. Baptist Hospital was a Medicaid disproportionate share provider for state fiscal year 2001-2002.

The applicant states that it is a major provider of care to the indigent population with a long history of providing service to charity and Medicaid patients. Baptist Hospital, Sacred Heart Hospital and Santa Rosa Medical Center were all previously classified as "regular" disproportionate share providers in state fiscal years 2000-2001 and 2001-2002, but are no longer eligible to be classified as "regular" Disproportionate Share Providers 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:*

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

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*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."*

However, while the classification system changed, Sacred Heart Hospital retains a high ratio of uncompensated indigent care. During fiscal year 2001, Sacred Heart's low income utilization rate ranked 24<sup>th</sup>, Baptist Hospital 88<sup>th</sup>, Santa Rosa Medical Center 113<sup>th</sup> and West Florida Regional Medical Center 121<sup>st</sup> among Florida's 209 Hospitals, excluding psychiatric and state hospitals.

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According to Financial Schedule 7A, approximately 7.1 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'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 1,394 days (96-bed project) or 1,033 (64-bed project). 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, these two other major Medicaid providers oppose the project.

**F. SUMMARY**

**Baptist Hospital, Inc. (CON #9643)** 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.

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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 \$86,330,540. Total construction cost is projected at \$52,503,125 and involves 240,976 GSF of new construction.

**Baptist Hospital, Inc. (CON #9643P)** proposes to establish a new satellite hospital via the relocation of 64 acute care beds from the existing 367 acute care beds at Baptist Hospital. The satellite hospital's licensed bed compliment will consist of 32 medical/surgical beds, 18 critical care beds and 14 intermediate care beds. The applicant proposes to condition CON approval to the project being located at 9400 University Parkway and that it will delicense 64 beds at the existing downtown campus.

The proposed project involves a total cost of \$79,540,889. Total construction cost is projected at \$47,718,385 and involves 217,833 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 high providers to the medically indigent population 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 8.9 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 28 percent.

**Quality of Care:**

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

**Cost/Financial Analysis:**

- The applicant's audited financial statements provide evidence of an adequate long-term financial position. Based on the applicant's financial position and the support of the parent company, funding for the proposed project and all other capital projects will likely be available.
- Based on the existing available beds that serve the proposed service area, the applicant's projected utilization appears to be optimistic. Patient day estimates not realized will produce less revenues and anticipated profit. However, with the overall support of Baptist Health Care, the project appears to be financially feasible.
- The project's managed care level of 8.9 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 28 percent.

**Medicaid/Indigent Charity Care Commitment:**

- According to AHCA FY 2001 Hospital Financial Data, Baptist Hospital provided 17.3 percent of its total patient days to Medicaid patients and 1.4 percent to charity care patients. The applicant's Medicaid percentage is identical to the District 1 average of 17.3 percent but less the Subdistrict 1 average of 19.8 percent. The applicant's charity care is less than the District 1 average of 1.7 percent and Subdistrict 1 average of 1.8 percent.
- Baptist Hospital proposes to condition the remaining acute care beds (with the approval of either project) 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.
- Baptist Hospital projects for both the 96 and 64-bed projects, that 7.1 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 existing providers.

**Architectural Analysis:**

- Information on the current sets of plans for the 96 and 64-bed projects are as follows: Floors 1, 2, 3, and 4 are identical for both versions of the building. Floor 5 of the main request is a patient room floor but is for observation beds in the partial request. Floor 6 of the main request houses observation beds and is not planned to be constructed for the partial request. The central energy plans appears identical in both versions.
- 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.

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- 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.
- Many of the hospital-type functions in the existing ambulatory surgical center will be relocated to the new hospital building, but the CON application is unclear as to whether the ASC will retain its license as a surgery center. Although in a previous CON #9595, all hospital-type functions were to be relocated to the new hospital.
- The plans have been well thought-out and the layouts of each floor appear to be functional and convenient for both patients and staff.
- The 96-bed project's total building costs are \$58,567,855 compared to \$53,396,031 for the 64-bed project. Building the 64-bed version of the building will be much less cost-effective than the proposed 96-bed version.
- The applicant indicates that the estimated costs associated with renovating the existing hospital are \$78 million with at least 147,000 GSF of new construction and 56,000 GSF of renovation. The average age for the physical plant is stated to be 14.3 years but the industry standard is cited at 8.9 years.
- The construction and renovation project would add 96 replacement inpatient beds in an all-private room configuration; replace surgical services, the imaging department and the emergency department. A physical plant addition would also be needed.
- However, the applicant's renovation plans do not appear to consider the fact that while Baptist Hospital has 367 acute care beds, they chronically average 50 percent or less utilization. Therefore, there are about 183 beds that are never utilized for inpatient services and a realistic renovation should not be as costly as "the addition of 96 replacement inpatient beds" (page 47).

**G. RECOMMENDATION**

Deny CON #9643 and #9643P.

**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**