

STATE AGENCY ACTION REPORT

CON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

Tri-County Hospital, LLC/CON #9750

1114 17th Avenue South, Suite #205
Nashville, Tennessee 37212-2215

Authorized Representative: C.J. Herring
(615) 327-4440

Service District/Sub-district

District 3, Subdistrict 2, Levy County

B. PUBLIC HEARING

A public hearing was held in Trenton, Florida on Monday, May 3, 2004 for the purpose of soliciting comments relative to the proposed Tri-County Hospital proposal. The public hearing was requested by Nature Coast Regional Hospital (Nature Coast) located in Williston, Florida (Levy County). There were approximately 167 attendees with 24 requesting to speak.

Mr. Alan Bird, representing Nature Coast spoke in opposition to the project, stating that the proposed project will have a negative impact on that facility resulting in a loss of acute care inpatients; a reduction in swing bed inpatients, a decrease in the use of ancillary services, a decrease in the number of patients seen at its rural health clinic, a dilution of funds for indigent care; an adverse impact on future growth plans; and a potential loss of employees. Nature Coast further contends that the proposed project could also dramatically affect its ability to remain solvent.

Mr. Frank Shupp, representing Ameris Health Systems spoke in favor of the project, stating that the project should not impact Nature Coast in view of the different service area proposed. Mr. Shupp further stated that the population within a 25-mile radius of Chiefland is increasing and that a hospital is justified.

There were several individuals in attendance at the public hearing to speak either in favor or in opposition to the project. Mr. Will Earnest (North Florida Regional Medical Center) spoke in opposition, citing the low census in rural hospitals, the difficulty in keeping physicians, and the non-feasibility of having another hospital in the same county. Mr. Earnest stated that a four-lane highway would improve accessibility and improve the provision of health care more than a new hospital. Mr. Patrick Bizup (Surgical Group of Gainesville) expressed concern with the quality of care that patients will be given as well as the economic feasibility of developing a new hospital. John Quinliven (North Florida Regional Medical Center) also emphasized the struggle in maintaining adequate staffing and that NFRMC has 10 percent fewer nurses every day than they would like to. Mr. David McCormack (Seven River Community Hospital) stated that the utilization of the existing hospital in Levy County is below the acceptable occupancy that would allow the development of another hospital. Mr. McCormack also expressed concern with the applicant's ability to have the necessary resources to retain physicians and nurses, etc. and that the operating cost as shown in the CON application is too low. Mr. McCormack also stated further Medicaid reductions would hurt rural hospitals.

Ms. Trudy Heckard (Cross City Rehab) spoke in favor of the project, citing accessibility problems. Ms. Heckard stated that she has visited the applicant's recently developed hospital in Valdosta, Georgia, observing that money was invested in quality equipment and not frills. Ms. Wilda Pawlak (citizen of Fanning Springs) related her personal experience and the accessibility problem she encountered in transport to a hospital 20 minutes away. Mr. Ralph McTyre spoke in favor, stating the need to attract quality doctors and that the distance from the Horseshoe Beach area is 55 miles to NFRMC, whereas it is only 15 miles to Chiefland. Ms. Marie Wells (Levy County EMS) supports the new hospital in view of the 55-minute transport time to Gainesville. Ms. Lilly Rooks (Chair of the Levy County Commission) supports the hospital in view of the long distance to transport patients from the Fanning springs and Cedar Key areas. Janet Oehmig (representative from Senator Argenziano's office) stated that Senator Argenziano supports the hospital and that it will benefit citizens of the region. Ms. Barbara Brown (retired RN, Dixie County) stated that Williston uses nursing agencies that cost more than hiring full-time nurses. Dr. Rayanne Giddis (Central Florida Community College) provided a statement to be read, stating that the

new hospital would act as a catalyst for development of college programs and serve both the educational and workforce demands of the community. There were several other attendees that spoke in favor of the project, primarily citing accessibility problems ranging from 45 miles up the 70 miles.

There being no further testimony given, the public hearing was concluded.

In addition to the comments received at the public hearing, the applicant submitted approximately 293 letters of support, primarily from residents and students in the tri-county area. There were also several letters from local county and city officials, civic organizations, and local businesses. There appears to be limited support from area physicians with three chiropractors and two general practice physicians offering support. The majority of the letters address improved access to acute care hospital services and the potential economic impact the facility would have in the area. There were two separate letters of support submitted by Shands HealthCare. One of the Shands letters alludes to a potential affiliation including continuing medical education for physicians, radiology support, subspecialty referrals, and coordination of patients needing transfer to higher levels of inpatient care. A letter from the Levy County emergency medical services states that the proposed hospital in Chiefland would allow EMS to obtain a quicker transport time for the citizens in the northwest section of Levy County and all EMS to be available for other emergencies in the area without delays.

There were also three letters submitted in opposition to the project from Seven Rivers Regional Medical Center (Crystal River/Citrus County), North Florida Regional Medical Center (Gainesville/Alachua County), and Surgical Group of Gainesville. The Seven Rivers letter states that its service area includes the tri-county area and it currently has unused bed capacity. The letter further questions the logic in constructing a small hospital with inherent limitations, including maintaining high quality of care and the cost-effectiveness of operating a smaller facility. The letter also questions the availability of sufficient nursing staff, clinical personnel and physicians in the area to support the facility, especially with regard to specialists and sub-specialists. The letter from North Florida Regional Medical Center states that it is the closest major hospital to Levy County providing inpatient care to more than 3,800 people from the tri-county area in 2003. The letter addresses the long-standing struggle that Nature Coast Hospital (Levy County) has experienced in maintaining a medical staff and patient census. The letter contends that emergency care is available within reasonable transport times for residents of the area either through Nature Coast or North Florida Regional. The letter also indicates that North Florida

completed a \$72 million expansion in 2003, in part to allow the hospital to continue meeting the needs of citizens of the tri-county region. The hospital is also in the process of adding 44 additional acute care beds, sufficient to meet the needs of western Alachua County and the tri-county area. The letter from Surgical Group of Gainesville contends that the proposed hospital will dilute the quality of care currently provided at nearby hospitals and that access is not an issue.

C. PROJECT SUMMARY

Tri-County Hospital, LLC (CON #9750) proposes the development of a 30-bed general acute care hospital to be located in Chiefland, Florida (Levy County). The applicant intends to primarily serve the tri-county area comprised of Levy, Gilchrist, and Dixie Counties. The hospital will be designed to provide an emergency department, outpatient surgery, inpatient surgery, radiology, obstetrics, lab services, pharmacy, physical therapy, and required support services. The bed count will consist of two LDRP rooms/beds and 28 medical/surgical rooms/beds.

The project will consist of 63,000 GSF of new construction and construction costs of \$10,206,000. The total project cost is estimated to be \$19,879,000.

The applicant proposes to condition award of the certificate of need on the provision of 14.7 percent of patient days to Medicaid, 80.9 percent to Medicare and 5.2 percent to self-pay/charity. The applicant is also requesting that the proposed site for the hospital be conditioned. The site is identified as CR320, NW 23rd Avenue, Chiefland, Florida.

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, M. Riley Gibson, analyzed the application in its entirety with consultation from the Financial Analyst, John Williamson, who evaluated the financial data, and the Architect, Joel Hill, who evaluated the architectural and the schematic drawings.

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? Or does the project proposed seek beds or services in excess of the fixed need pool? Ch. 59C-1.008 and 59C-1.038, Florida Administrative Code.

In Volume 30, Number 4, dated January 23, 2004, of the Florida Administrative Weekly, a fixed need pool of zero beds was published for acute care beds in District 3, Subdistrict 2, for the January 2004 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 Chapter 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 provisions in Chapter 59C-1.038(5) are met.

The proposed hospital is to be located in District 3/Subdistrict 2 and specifically in Levy County. Subdistrict 2 is comprised of Alachua, Bradford, Dixie, Gilchrist, Lafayette, Union and Levy Counties. At the

present time, acute care hospital beds are located in Alachua, Bradford, Levy and Union Counties. For the reporting period July 2002 through June 2003, the 1,230 licensed acute care beds in Subdistrict 2 experienced an average occupancy rate of 68.03 percent.

**District 3, Subdistrict 2 Acute Care Bed
Bed Inventory and Occupancy Rates
July 2002-June 2003**

Hospitals	County	Licensed Beds	Avg. Occupancy
Shands at Alachua Gen. Hosp.	Alachua	328	56.72%
North Fl. Regional Med. Center	Alachua	278	79.14%
Shands Hospital at the U of F	Alachua	508	80.36%
Shands at Starke	Bradford	49	21.87%
Nature Coast Medical Center	Levy	40	24.97%
Lake Butler Hospital	Union	27	5.49%
Totals		1,230	68.03%

Source: Florida Hospital Bed and Service Utilization by District, Vols. One and Two

As shown above, Nature Coast Medical Center, the only acute care hospital in Levy County as well as the tri-county area (Levy, Gilchrist and Dixie Counties), purported to be the applicant's primary service area, experienced an average occupancy rate of 24.97 percent. This approximates an average daily census of 10 patients. As the utilization of licensed acute care beds in Subdistrict 2 is below the utilization threshold of 75 percent contained in rule, the need to establish a new acute care hospital must be demonstrated under special circumstances.

b. Special Circumstances:

The applicant contends that special circumstances exist to approve the 30-bed proposal as follows:

- (1) Acute care beds within the subdistrict should be distributed to reflect changing population centers and growth patterns;
- (2) An access problem exists for residents in Levy, Gilchrist, and Dixie Counties; and
- (3) There is a need to ensure adequate and uniform availability of health care services to all populations.

The applicant suggests that the above factors support the project and references a demographic and socioeconomic profile of the tri-counties as prepared by the North Central Florida Health Planning Council and included in the council's Local Health Plan. Several of the summaries of "key findings" from this profile identify the tri-county area as rural in nature but with an increasing population. The document does not purport a need for the establishment of a new acute care hospital in Levy County or suggest that this area is underserved. The identification of an

area as rural with increasing population cannot be construed as an endorsement of the project by the health planning council.

The applicant contends that by locating the hospital in Chiefland (Levy County), residents within a five, 15, and 25-mile radius will have better access to both inpatient and outpatient services and emergency medical services (EMS) will have shorter distances to transport patients. The applicant further contends that within the three-county area (Levy, Gilchrist and Dixie), there are no full service hospitals with full emergency and diagnostic capability. However, the 40-bed Nature Coast Hospital, located in Levy County (Williston, Florida), is licensed as a Class 1 Rural Hospital providing general medical and surgical services including emergency services and diagnostic services. As shown in the table above, Nature Coast had an average occupancy rate of 24.97 percent for its 40 licensed beds for the reporting period July 2002 through June 2003. This low utilization leaves approximately 30 unused acute care beds at Nature Coast. As presented in the public hearing testimony previously discussed, Nature Coast representatives state that the introduction of a new hospital within the same county and service area will have a detrimental impact on the existing hospital. According to agency data for the period October 2002 through September 2003, Nature Coast had 873 admissions from the tri-county area. With a reported average length of stay at the hospital of 3.5 days, this computes to approximately 3,056 patient days. With the hospital reporting a total of 3,646 total patient days for the July 2002 through June 2003 reporting period, it is evident that Nature Coast's acute care admissions originate almost entirely from the tri-county area (98 percent). The loss of these patient days or even a large part of the patient days would certainly have a detrimental impact on the hospital's ability to operate in a viable manner.

The applicant alleges patient out-migration to Gainesville Hospitals from six zip codes that represent the three-county area. However, as noted above, the Gainesville area is within Subdistrict 2 in Alachua County, therefore patients cannot be considered to have out-migrated. The admissions identified by the applicant total 1,889. However, the admissions by zip code are not identified by DRGs and the source and time period is not provided. Based on agency data, there were actually a

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total of 7,978 acute care patients within the tri-county area that were seen outside of this area for the period October 2002 through September 2003 to hospitals statewide. The primary receiving hospitals are listed below with total admissions that both include and exclude admissions from Nature Coast.

**Patient Discharges for Levy, Dixie and Gilchrist Counties
October 2002 through September 2003**

Facility	District/ Subdistrict	Admissions
North Florida Regional Medical Center	D3/S2	3,893
Shands Hospital at University of Florida	D3/S2	1,727
Shands at Alachua General Hospital	D3/S2	943
Nature Coast Hospital	D3/S2	873
Seven Rivers Community Hospital	D3/S2	382
Monroe Regional Medical Center	D3/S4	325
Shands at Vista Pavilion	D3/S2	146
Ocala Regional Medical Center	D3/S4	125
Citrus Memorial Hospital	D3/S5	43
West Marion Community Hospital	D3/S4	27
Lake City Medical Center	D3/S1	21
Other Hospitals Statewide		346
Total		8,851
Total (minus Nature Coast)		7,978

Source: AHCA Discharge Data 5/04

As shown above, approximately 90 percent of the patients in the tri-county area were discharged from hospitals within the planning area during the 12-month period ending September 2003. Therefore, approximately 10 percent out-migrated, went to hospitals outside of the planning area for any type of hospital care. This is a relatively small percentage. Additionally, the discharges represented above include all hospital admissions and the applicant is not proposing to serve tertiary care patients such as Level III neonates or adult or pediatric transplant patients. The chart above shows that, North Florida Regional received the largest number of patients from the tri-county area, followed in order of admissions by Shands at University of Florida, Shands at Alachua, Nature Coast Hospital, and Seven Rivers Community Hospital (Citrus County). The exclusion of tertiary care services reduces the above total to somewhere in the range of 6,000 to 7,000 patients admitted to hospitals within the subdistrict but outside of the tri-county area for non-tertiary care services. With an average acute care occupancy rate of 68.03 percent for the 1,228 licensed acute care beds within the six hospitals in Subdistrict 2, at any given time there are approximately 393 available unused beds.

In addition to opposition to the project by Nature Coast Hospital, North Florida Regional and Seven Rivers Community Hospital also submitted letters of opposition expressing concern with the impact of a new hospital on the financial viability of their respective facility.

The applicant failed to demonstrate that access to acute care services is prohibitive for residents in Subdistrict 2 and specifically for residents in the tri-county area of Levy, Gilchrist and Dixie Counties.

2. Local Health Plan Preferences

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

The 2003 District 3 CON Allocation Factors Report lists the following acute care preferences and generic preferences relevant to CON applications for acute care bed additions:

Preferences for Acute Care Hospital Services:

- (1) Preference shall be given to an applicant who provides a full range of services, including obstetric, pediatric and 24-hour physician staffing of emergency care (where there is a need for these services).**

The applicant states its intention to provide the following services: obstetric, pediatric, orthopedic, general surgery, medical, 24-hour emergency room services, laboratory, x-ray, ultrasound, CT, MRI, non-invasive cardiac catheterization, physical therapy, and pharmacy services. There is no indication given that the applicant will provide any tertiary care services.

- (2) Preference shall be given to an applicant who proposes to develop service in medically underserved areas or communities.**

The applicant did not demonstrate that the proposed service area (Levy, Gilchrist and Dixie Counties) constitutes a medically underserved area. It was not shown that access to acute care hospital services is being denied to residents in the tri-county area or that inappropriate care is being rendered.

- (3) Preference shall be given to an applicant who documents, using AHCA data and definitions, a history of providing Medicaid and charity care, as defined by AHCA, in an amount equivalent to at least the district average percent of admissions for these payer groups; or establish a commitment within the application to serve Medicaid and indigent patients in an amount equivalent to at least the district average percent of admissions for these payer groups.**

The applicant states its intent to provide the following payer mix:

Commercial	20%-30%
Medicare	35%-50%
Medicaid	15%-18%
Self-pay/charity	5%-8%
All Other	3%

According to Financial Schedule 7A, the applicant is projecting to provide 14.45 percent of total patient days to Medicaid and 5.00 percent of total patient days to self-pay in both the first and second years of operation.

According to the 2002 Hospital Financial Data State Summary, proprietary (for profit) general acute care hospitals in the state provided 11.9 percent of total patient days to Medicaid (13.5 percent for all hospitals). Charity care is generally included in the self-pay category that comprised 4.2 percent of total patient days in 2002 (5.0 percent for all hospitals). Based on a percentage of gross patient service revenues, proprietary hospitals provided 9.4 percent (10.3 percent for all hospitals) with self-pay representing 4.9 percent for proprietary hospitals and 6.0 percent for all hospitals. According to the applicant's intended payer mix, it will exceed the state average for Medicaid and meet the state average for self-pay which includes charity care. The applicant will also exceed the District 3 average for Medicaid of 12.4 percent. However, it cannot be determined if the applicant will meet the weighted District 3 charity care average of 2.2 percent in view of charity care being included in the self-pay category.

- (4) Preference shall be given to an applicant who documents that the proposed new or expanded service will not negatively affect existing services of the same type by showing that the applicant service-specific occupancy standard during the most recent 12-month period was achieved for facilities within 30 minutes or 25 miles of the proposed new service, and that the percent of Medicaid and charity care will not be less than the average percent of facilities in the same communities.**

In response to this preference, the applicant does not acknowledge Nature Coast Regional Hospital located in Williston, Florida (Levy County) as a full-service hospital. However, Nature Coast is licensed as a Class 1 Rural Hospital offering general acute care services, including emergency and diagnostic services, primarily to the tri-county area of Levy, Gilchrist and Dixie Counties. Nature Coast reported an average occupancy rate of 24.97 percent for the July 2002 through June 2003 reporting period. This is considerably less than the District 3 average of 61.28 percent and the Subdistrict 2 average of 70.74 percent. Nature Coast Medical Center is located approximately 26 miles from U.S. 19 in Chiefland.

The Agency shall not normally approve applications for new or additional acute care hospital beds in any acute care subdistrict as specified in Chapter 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 provisions in Chapter 59C-1.038(5) are met.

In a request for a public hearing regarding the proposed project, Nature Coast states that the project will result in a loss of acute care patients, a redistribution of funds for indigent care and a loss in staff. Nature Coast maintains that the proposed project will dramatically affect its ability to remain solvent and impact any future hospital growth. There were also letters of opposition to the project from North Florida Regional Medical Center (Alachua County) and Seven Rivers Regional Medical Center (Citrus County), both outside of the travel distance/time specified in the preference, but also major referral sources for residents in the tri-county area. Both of these hospitals cite an adverse impact on its respective facility.

(5) Preference shall be given to an applicant who demonstrates community awareness and support of their project.

As previously discussed in response to the public hearing section of the SAAR, the applicant submitted approximately 293 letters of support for the project with the CON application and generated additional support at the public hearing held on May 3, 2004. The majority of the letters were received from area residents and address improved access to acute care hospital services and the potential positive economic impact the facility would have in the area. There was limited support provided by area health providers including physicians. The letters of support as well as public testimony was basically general in nature and do not demonstrate that patients are being denied access to acute care services in within Levy County or adjacent areas, or that patients are receiving inappropriate care at existing facilities.

The opposition expressed concerns with the project including: the existence of unused bed capacity, inherent limitations in constructing a small hospital, quality of care and cost-efficiency issues, availability of sufficient staff, adverse impact on the Nature Coast facility and other area hospitals, and the lack of any emergency care issues.

(6) Preference shall be given to an applicant who proposes an expansion or conversion of beds utilizing a planning horizon of no more than five years from the date of the submission of the application.

The proposed project does not involve an expansion or conversion of beds but rather, the development of a new freestanding 30-bed acute care hospital.

(7) Preference shall be given to an applicant who shows the cost-effectiveness of acute care services in their existing facilities for proposals to add beds.

The proposal is for a new facility and does not involve the addition of beds to an existing acute care hospital.

- (8) **Preference shall be given to an applicant who proposes to locate new facilities in areas of appropriate population concentration that will generate service-appropriate travel distances and times and sufficient utilization as measured by discharge days.**

The applicant states that the location of the proposed hospital in Chiefland in Levy County will be accessible within a 30-minute travel time (25 miles) for residents of Dixie County (Steinhatchee, Iena, Shamrock, Cross City, Old Town), Levy County (Fanning Springs, Chiefland, Cedar Key, Bronson, Fowler Bluff, Williston, Ellrey, Otter Creek, Rosewood, Gulf Hammond, and Ellzey).

The following table shows the population estimates and percent change for the three counties purported to be the primary service area for the proposed project.

**Total Population Estimates and Percent Change for
Levy, Gilchrist and Dixie Counties
2004-2009**

County	Total Population July 1, 2004	Total Population July 1, 2009	Percent Change
Levy	37,550	41,462	10.42%
Gilchrist	16,054	18,132	12.94%
Dixie	15,242	16,954	11.23%

Source: AHCA Population Estimates 03/04

Levy County is the largest of the three counties in both total population and geographical size. However, the total population of both Gilchrist and Dixie Counties is expected to increase at a greater percentage than Levy County over the next five years. The population density of Levy, Gilchrist and Dixie Counties is 33, 40, and 20 persons per square mile, respectively. According to the demographic and socioeconomic characteristics of the area as compiled by the North Central Florida Health Planning Council, Inc., the rapid westward growth of Alachua County (Gainesville), likely contributed to the rapid population growth in Gilchrist County, which borders Alachua County immediately to the west. Since 1990, the population growth in all three counties has been primarily attributed to in-migration.

The applicant contends that the location of the proposed hospital in Chiefland will enhance access to surrounding communities within a 30-minute drive time/25-mile travel distance. However, the applicant did not demonstrate that access to acute care services is currently a problem for area residents in accessing services at the currently under utilized hospital in Williston (Levy County) or at hospitals in other areas within the subdistrict, predominantly in Alachua County.

- (9) Preference shall be given to an application that, when established occupancy standards are not met in the subdistrict, the new facility will consist of currently licensed and underutilized acute care beds relocated within the subdistrict, or the facility will substantially improve the access to hospital services by locating the facility within a previously underserved area.**

The proposed project does not involve the relocation of any currently licensed and/or underutilized acute care beds. As previously shown, the licensed Nature Coast Hospital in Williston (Levy County) reported an average occupancy rate of only 24.97 percent for the most recent 12-month reporting period. The low utilization of existing acute care beds in Levy County, and the lack of any demonstrated access problem for area residents does not support the applicant's contention that the tri-county area is underserved with regard to acute care.

- (10) Preference shall be given to an applicant who proposes to convert licensed unused beds or existing space rather than new construction, including space created by previous voluntary delicensure of unused beds.**

The project does not involve the conversion of licensed unused beds or existing space but rather new construction of a 30-bed facility.

- (11) Preference shall be given to an applicant who proposes to acquire or consolidate facilities where it can be demonstrated that services will be improved and cost to the public will be reduced.**

The proposed project does not involve the acquisition or consolidation of existing facilities.

- (12) Preference shall be given to an applicant for a transfer who demonstrates that the transfer of beds is necessary to maintain or improve the care.**

The proposed project does not involve the transfer of beds.

- (13) Preference shall be given to an applicant for a transfer who demonstrates that the transfer of beds is more cost-efficient than the renovation and expansion of the existing facility.**

The proposed project does not involve the transfer of beds.

- (14) Preference shall be given to an applicant for a transfer who proposes to locate transferred beds to an area that will improve access to Medicaid and indigent patients.**

The proposed project does not involve the transfer of beds.

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

The proposed project does not involve the transfer of beds.

- (16) Preference shall be given to an applicant who documents that the facility provides a comprehensive array of inpatient services and has not closed an inpatient service within the last 12 months.**

As previously shown, the applicant intends to provide the following services: obstetric, pediatric, orthopedic, general surgery, medical, 24-hour in-house physician staffing of emergency room, laboratory, x-ray, ultrasound, CT, MRI, non-invasive cardiac catheterization, physical therapy and various support services.

The applicant is a new development corporation with no history of owning and operating acute care hospitals in Florida. There is no indication that the parent corporation has been involved in the closing of an inpatient service within the last 12 months.

- (17) **Preference shall be given to an applicant who utilizes relevant and legitimate data sources, cited and sourced accordingly, where applicable, in order to substantiate any projections, claims, or estimations. Examples of commonly utilized data sources include, but are not limited to AHCA hospital discharge data, DOA vital statistics, Medicaid, Medicare, AHCA hospital financial data, AHCA CON annual report and various United States Census data.**

The applicant basically relied on data prepared by the North Central Florida Health Planning Council, Inc. addressing the demographic and socioeconomic characteristics, and the health status of Dixie, Gilchrist, and Levy County residents. The data presented is for the 2002 reporting year and does not address more current data available. There is no indication that the applicant analyzed this information or other data to demonstrate need and the CON application was absent of any methodological approaches. The health council data alone is not a supporting factor for the proposed project and presenting the 2003 North Central Florida Health Planning Council's Health Plan cannot be construed health council support. That plan does not discuss need for a new acute care hospital in Levy County.

Generic Preferences: The applicant did not address the generic preferences developed by the local health planning council. These preferences are similar to the criteria found in Section 408.035, Florida Statutes and reflected in the SAAR. The applicant's response to those criteria will not be duplicated here.

3. Agency Rule Preferences

Does the project respond to preferences stated in agency rules? Indicate how each applicable criteria for the type of service proposed is met. Ch. 59C-1.031-.044, Florida Administrative Code.

The following criteria and standards found in Chapter 59C-1.038(6) of the Florida Administrative Code are applicable to a request for additional acute care beds:

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

The applicant is a development stage entity and its parent has no history in Florida of providing care to the medically indigent. The applicant's proposed provision of care to Medicaid and charity is discussed in Sections E.2.a. and E.2.h. above and E.4.i. below.

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

There are no competing applications for additional acute care beds in District 3, Subdistrict 2.

4. **Statutory Review Criteria**

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

The applicant provided a limited discussion of the purported need for the proposed project in the fixed need pool section of the application. Refer to Section E.1.c, above. The applicant failed to demonstrate that access to acute care services is prohibitive for residents in Subdistrict 2 and specifically for residents in Levy, Gilchrist and Dixie Counties. The applicant also failed to show that the proposed project will not have an adverse impact on Nature Coast Hospital located in Levy County or on other major referral centers in adjacent counties that receive admissions from the three county service area.

Utilization for hospitals within Subdistrict 2 is shown in the following table.

**District 3, Subdistrict 2, Acute Care Utilization
July 2002 through June 2003**

Hospital	Acute Care Beds	Total Bed Days	Total Patient Days	Avg. Occ.
Shands at AGH	328	119,720	67,910	56.72%
North Florida Reg Med Ctr	278	98,686	78,096	79.14%
Shands Hospital @ U of F	508	185,252	148,861	80.36%
Shands at Starke	49	17,885	3,912	21.87%
Nature Coast Medical Center	40	14,600	3,646	24.97%
Lake Butler Hospital	27	9,125	501	5.49%
Total/Average	1,230	445,268	302,926	68.03%

Source: AHCA Hospital Bed Projections, January 2004.

As previously discussed, North Florida Regional Medical Center had the largest number of admissions from the tri county area of Subdistrict 2. The majority of Nature Coast Medical Center's admissions were from this area. It is clear that if this proposed hospital is developed, Nature Coast Medical Center will be seriously negatively impacted. It was not demonstrated by the applicant that access to North Florida Regional, Nature Coast or other hospitals within Subdistrict 2 is prohibitive or that patients are being inappropriately cared for.

The need for the project is not 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.

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

Tri-County Hospital, LLC does not currently own and/or operate acute care hospitals in Florida. However, the parent corporation, Ameris Health Systems, LLC has been an active participant in the development and operation of for-profit hospitals outside of Florida.

The applicant briefly states that with its existing facilities, quality of care is monitored in several ways including periodic patient and staff surveys to evaluate performance, accreditation from JCAHO and participation in statewide quality forums. The applicant did not provide a copy of any current performance evaluation documents utilized by the parent company or describe in any detail specific quality improvement measures it intends to implement at the proposed facility.

The challenges associated with operating a small 30-bed hospital, including the unlikely financial feasibility of the project, impacts the applicant's ability to provide acceptable of quality care. (Refer to E. 4.f. below). This is especially true regarding the availability and retention of trained staff.

- 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 applicant is not proposing special health care services for its service area that are not reasonably and economically accessible in adjacent service areas.

- 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.**

The proposed project will not be located in a teaching hospital, nor is the project's primary purpose research or physician education.

The applicant does state its intention to affiliate with health care training programs in the district, but provides no specifics with regard to schools and other institutions.

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

This review is for Tri-County Hospital, LLC, Inc., applying to establish a 30-bed acute care hospital in District 3, Levy County, Florida. The financial impact of the project will include the project cost of \$19,879,000 and year two operating costs of \$16,487,000.

The audited financial statements of Tri-County Hospital, LLC, for the period ending April 12, 2004 were analyzed for the purpose of evaluating the applicant's ability to provide the capital and operational funding necessary to implement the project.

The applicant is a development stage enterprise and a wholly owned subsidiary of Ameris Health Systems LLC (Ameris). The audited financial statements indicated the company had assets of \$22,001, negative net worth of -\$799 and no operating revenues.

Ameris derives all of its revenues from fees for managing several small hospitals in the Southeast. Their audited financial statements for the period ended December 31, 2002 disclosed that the partnership had \$96,810 cash on hand, \$707,705 in current assets, \$1.8 million in total assets, \$3.4 million in revenues, \$458,381 net income and \$851,849 in cash flows from operations. Also submitted were an unaudited balance sheet and income statement for the period ended December 31, 2003

that disclosed \$168,595 cash on hand, \$915,889 in current assets, \$2.7 million in total assets, \$3.3 million in revenues and a net loss of \$114,032.

The applicant submitted audited financial statements for Smith of Georgia, LLC, which is a hospital that Ameris provides management services for under contract, but in which it has no financial interest and Russell County Community Hospital, a new 70-bed acute care hospital project in Phenix City, Alabama which Ameris is developing. As of August 15, 2003 no financing had been secured for the project.

Capital requirements:

Schedule 2 indicates the applicant has capital projects totaling \$19.9 million.

Available capital:

Funding for this project will come entirely from debt financing. The applicant submitted a letter of interest from Capital Source, which stated that they would consider funding the project. Ameris has very limited internal financial resources available to fund this project and, in addition, they are already committed to a hospital project in Alabama.

Staffing:

The applicant provided two separate staffing patterns for the hospital, both for the year ending 2005 and both with different staffing totals. One of the schedules anticipates a need for 135 FTE staff while the other schedule anticipates 142 FTE staff for the same time period. However, nursing staff is shown to be 57 FTE staff on both submitted Schedule 6 forms. There is no indication provided as to the availability of adequate staffing, especially with regard to physician and nursing staff, and no discussion of staff recruitment and retention was provided. In view of apparent staffing problems at Nature Coast Hospital and concern expressed in the letters of opposition to the project with regard to staffing, the availability of adequate trained staffing for the proposed hospital appears to represent a major concern, especially with regard to the provision of quality of care.

Conclusion:

Funding for this project is open to question.

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

A comparison of the applicant's estimates to the control group values provides for an objective evaluation of financial feasibility, (the likelihood that the services can be provided under the parameters and conditions contained in Schedules 7 and 8), and efficiency, (the degree of economies achievable through the management skills 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 2002. The applicant has stated that the new hospital will serve Levy, Gilchrist and Dixie Counties. We extracted DRG data for the zip codes in those counties and used the data to estimate a case mix for the proposed hospital. Using the 8,849 patients discharged during 2003, excluding all DRGs for services not to be offered, the calculated case mix index was 0.8913. Based on the range of services to be offered, the number of beds and estimated patient days and the computed case mix index the applicant will be compared to the hospitals in Group 1. Per Diem rates are projected to increase by an average of 3.7 percent per year. Inflation adjustments were based on the 2003 4th Quarter Health Care Cost Review, New CMS Hospital Market Basket Index.

Comparative Table

CON # 9750 Tri-County Hospital, LLC 2002 DATA Peer Group 1	2007	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	15,928,000	1,231	573	282	17
INPATIENT AMBULATORY	1,474,000	114	72	35	1
INPATIENT ANCILLARY SERVICES	-	0	2,108	806	73
OUTPATIENT SERVICES	11,590,000	896	2,614	1,338	796
OTHER OPERATING REVENUE	0	0	401	8	1
TOTAL REVENUE	28,992,000	2,241	4,623	2,497	1,740
DEDUCTIONS FROM REVENUE	12,595,000	974	*	*	*
NET REVENUES	16,397,000	1,267	2,116	1,072	827
EXPENSES					
ROUTINE	4,148,755	321	317	159	70
ANCILLARY	5,313,240	411	484	307	217
AMBULATORY	1,074,455				
OVERHEAD	5,950,550	460	904	490	328
OTHER		0			
TOTAL EXPENSES	16,487,000	1,274	1,647	1,122	794
OPERATING INCOME	-90,000	-7	319	32	-439
		-0.5%			
PATIENT DAYS	7,765		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	12,937		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	10,950				
ADJ. FACTOR	0.6002				
TOTAL NUMBER OF BEDS	30				
PERCENT OCCUPANCY	70.9%		59.6%	37.1%	2.3%
PAYER TYPE	PATIENT DAYS	% TOTAL			
MEDICARE	4,314	55.6%	89.2%	64.3%	40.4%
COMMERCIAL	1,941	25.0%			
MEDICAID	1,122	14.4%	23.4%	11.3%	3.6%
SELF-PAY	388	5.0%			
HMO/PPO	0	0.0%	31.4%	9.0%	0.0%
OTHER	0	0.0%			
TOTAL	7,765	100.0%			

Projected net revenue per adjusted patient day (NRAPD) of \$1,232 in year one and \$1,267 in year two is between the control group median and highest values of \$1,038 and \$2,048 in year one and \$1,072 and \$2,116 in year two. The highest level is generally viewed as the practical upper limit on economies of operation. With net revenues falling between the median and highest level, the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table).

Projected cost per adjusted patient day of \$1,258 in year one and \$1,274 in year two is between the group median and highest values of \$1,086 and \$1,595 in year one and \$1,122 and \$1,647 in year two. Compared to the control group these costs are efficient. (See Comparative Table).

The year two operating loss for the hospital of \$90,000 computes to an operating margin per adjusted patient day of -\$7 which is between the control group median and lowest values of \$32 and -\$439. The computed operating margin ratio is -0.5 percent.

The applicant estimated occupancy during the second year of operation at 71.0 percent. The highest level reported in the control group for 2002 was 59.6 percent.

The financial challenges associated with operating a small rural hospital under the best of conditions are well documented. The hospital as presented is not configured to meet the basic criteria for designation as a critical access hospital. Under Medicare regulations the hospital would not receive the financial enhancements provided by the critical access designation that are necessary to successfully operate a rural facility of this size.

The financial feasibility of this project is unlikely.

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

The applicant forecasts managed care levels at 0.0 percent, equaling the lowest of the control group. This level, if realized, will not have a positive impact on competition 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.

The applicant has secured an option for the 30-bed 63,000+ square foot hospital on a 20-acre site in Chiefland. However, it cannot be determined if a building on this site will meet the disaster preparedness requirements of the Florida Building Code, Section 419.4.56 regarding the flood plain elevation and the Category 3 surge inundation. It is required that the site and the new facility meet these code requirements. This issue will have to be addressed if the project progresses.

The information provided by the applicant includes a floor plan of the single-story building and a larger scale plan of a patient room, which

appears to be fairly typical. Some of the patient rooms show clear square footages. Patient rooms 7 and 8 are set up to be handicapped accessible, but they appear somewhat smaller than the typical room. No square footage is given for these two spaces, so it is important that they meet size requirements.

It is not entirely clear from the floor plan how some items will move through the treatment systems of the facility. There is an exterior door into a sterilizer room and this in turn leads through the clean work Room to sterile storage. From this point, it appears that supplies are taken to the sub-sterile space between operating room 2 and the procedure room. The "Sub-Sterile" room cannot be accessed or stocked without going through either of the two restricted spaces. Therefore, the space must be sterile/restricted and is not sub-sterile. An entry to this space from the semi-restricted corridor would be preferable and is usually provided.

There is a similar situation with endo rooms 221 and 222. There are two spaces between these rooms and one is accessible from the corridor. One space is labeled clean scopes and the other is labeled scopes. The difference between these spaces is not clear. If the clean scopes are to be used in the endoscopy rooms, then the clean scopes room should be the space with direct access to the endo rooms instead of the scopes space. The scopes room may actually be used to clean the equipment. A clarification of this should be made if this project is approved and submitted to the AHCA Office of Plans and Construction for review.

A soiled workroom or holding room must be provided adjacent to the operating room area as required by the guidelines, Section 7.7. There is a space labeled bio-waste that has an exterior access. Possibly this is a body holding space which is required but is not shown on the plans.

The patient rooms appear to meet codes. Some 5' turning space circles for disabled patients are indicated on the plans. Most rooms have a combination toilet room/shower, which is not ideal, but is acceptable.

Overall the project is straightforward and the layout is good. The ancillary spaces all seem to be adequately sized and conveniently arranged for the functions that they support with the exceptions noted above. Patient room #13 is an infection control/seclusion room and patient room #15 is shown with negative pressure without an explanation as to its function. For a new facility, more details about the spaces would have been helpful to determine if all the required spaces are provided and their relationship to each other. One 16" floor plan and one 1/4" patient room plan are not enough to thoroughly evaluate the physical plant for a new facility.

In addition to the patient rooms and their ancillary support spaces, the new hospital will have:

- Two LDPR rooms and a nursery
- Two endoscopy rooms
- One operating room and one C-section/procedure room
- An emergency department
- One CT scan room and an MRI room
- X-ray and ultrasound spaces
- Other diagnostic/treatment units

There is a list of applicable codes on the drawings that is mostly correct. The information from Schedule 10 indicates that sufficient time has been allowed for construction.

It is required that schematic drawings be submitted as part of the CON application. The drawings for this proposal have been reviewed as schematics with the expectation that they will necessarily be revised and refined during the design development (preliminary) and contract document stages. The architectural review of the application shall not be construed as an in-depth effort to determine complete compliance with all applicable codes and standards. The final responsibility for facility compliance ultimately rests with the owner.

- 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 applicant is a new development corporation and does not have a history of providing health services to Medicaid patients and the medically indigent.

The applicant is requesting that the proposal be conditioned for the following population subgroup percentages: Medicare 80.9 percent; Medicaid 14.7 percent; and self-pay/charity 5.2 percent.

According to Financial Schedule 7A, the applicant is projecting to provide 14.45 percent of total patient days to Medicaid and 5.00 percent of total patient days to self-pay in both the first and second years of operation. The provision of charity care is not specifically shown.

According to the 2002 Hospital Financial Data State Summary, proprietary (for profit) general acute care hospitals in the state provided 11.9 percent of total patient days to Medicaid (13.5 percent for all hospitals). Charity care is generally included in the self-pay category that comprised 4.2 percent of total patient days in 2002 (5.0 percent for all hospitals). Based on a percentage of gross patient service revenues, proprietary hospitals provided 9.4 percent (10.3 percent for all hospitals) with self-pay representing 4.9 percent for proprietary hospitals and 6.0 percent for all hospitals. According to the applicant's intended payer mix, it will exceed the state average for Medicaid and meet the state average for self-pay which includes charity care. The applicant will also exceed the District 3 average for Medicaid of 12.4 percent. However, it cannot be determined if the applicant will meet the weighted District 3 charity care average of 2.2 percent in view of charity care being included in the self-pay category.

F. SUMMARY

Tri-County Hospital, LLC (CON #9750) proposes the development of a 30-bed general acute care hospital to be located in Chiefland, Florida (Levy County). The applicant intends to primarily serve the tri-county area comprised of Levy, Gilchrist, and Dixie Counties.

The project will consist of 63,000 GSF of new construction and construction costs of \$10,206,000. The total project cost is estimated to be \$19,879,000.

The applicant proposes to condition award of the certificate of need on the provision of 14.7 percent of patient days to Medicaid, 80.9 percent to Medicare and 5.2 percent to self-pay/charity. The applicant is also requesting that the proposed site for the hospital be conditioned. The site is identified as CR320, NW 23rd Avenue, Chiefland, Florida.

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

Need/Special Circumstances:

- The AHCA published no need for acute care beds in District 3, Subdistrict 2.
- The applicant presented very limited analysis with regard to demonstrating a need for the proposed hospital. The supporting documentation consisted almost entirely of extracted demographic, socioeconomic, and health status data as prepared by the North Central Florida Health Planning Council. These "key findings" from the local health plan do not purport a need for the establishment of a new acute care hospital in Levy County and is not construed as an endorsement of the project by the health planning council.
- The applicant contends that access will be improved as a result of the project. However, it was not shown that patients from the tri-counties area of Levy, Gilchrist, and Dixie Counties are experiencing problems in accessing acute care services at hospitals within Subdistrict 2. The letters of support for the project purport improved access and positive economic impact. The letters of opposition purport unused bed capacity, limited availability of trained staff, quality of care issues associated with the operation of a small rural hospital, and the adverse financial impact on area hospitals.
- Existing subdistrict facilities will be impacted should this hospital be approved. Nature Coast Medical Center will be seriously negatively impacted should this hospital be established.

Quality of Care:

- The applicant does not have a history of providing quality care. Tri-County Hospital, LLC is a startup company and does not currently own and/or operate acute care hospitals in Florida. The applicant provided limited discussion with regard to its ability to establish quality of care measures.

- The challenges associated with operating a small 30-bed hospital, including the unlikely financial feasibility of the project, impacts the applicant's ability to provide acceptable of quality care. This is especially true regarding the availability and retention of trained staff.

Cost/Financial Analysis:

- The applicant is a development stage enterprise with a negative net worth and no operating revenues. In view of the limited financial resources of the parent company (Ameris Health Systems LLC), the funding for the proposed project is questionable.
- The financial challenges associated with operating a small rural hospital under the best of conditions are well documented. The hospital as presented is not configured to meet the basic criteria for designation as a critical access hospital. Under Medicare regulations the hospital would not receive the financial enhancements provided by the critical access designation that are necessary to successfully operate a rural facility of this size. The financial feasibility of the proposed project is unlikely.
- The forecasted managed care levels, if realized, will not have a positive impact on competition to promote quality assurance and cost-effectiveness.

Medicaid/Indigent Charity Care Commitment:

- The applicant does not have a history of providing health services to Medicaid patients and the medically indigent. The applicant is requesting the proposal be conditioned for the following population subgroup percentages: Medicare 80.9 percent; Medicaid 14.7 percent and self-pay/charity 5.2 percent. According to the applicant's intended payer mix, it will exceed the state average for Medicaid and meet the state average for self-pay which includes charity care. The applicant will also exceed the District 3 average for Medicaid of 12.4 percent. However, it cannot be determined if the applicant will meet the weighted District 3 charity care average of 2.2 percent in view of charity care being included in the self-pay category.

Architectural Analysis:

- It cannot be determined if the proposed hospital/site will meet the disaster preparedness requirements of the Florida Building Code, Section 419.4.56 regarding the flood plain elevation and the Category 3 surge inundation.
- The square footage of all patient rooms is not clearly shown and the movement of items (supplies, etc) through the treatment systems of the facility is not clearly explained. A similar accessibility problem appears to exist within the endoscopy rooms. In addition, a soiled workroom/holding room is not shown on the plans. With these noted exceptions, the ancillary spaces appear to be adequately sized and conveniently arranged for the functions they support. Additional details regarding spaces within the facility would have been helpful in determining if all the required spaces are provided and their relationship to each other.
- The list of applicable codes appear to be mostly correct and the construction timetable appears sufficient.

G. RECOMMENDATION

Deny CON #9750.

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