

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

Osceola Regional Hospital, Inc./CON #9762

d/b/a Osceola Regional Medical Center
P.O. Box 422589
Kissimmee, Florida 34742-2589

Authorized Representative: Randy W. Gross
(407) 518-3606

2. Service District/Subdistrict

District 7, Subdistrict 3, Osceola County

B. PUBLIC HEARING

A public hearing was not held or requested with regard to the proposed project. However, the applicant includes three letters of support in the application. Ms. Maria Grulich, Director of the Osceola County Economic Development Department, indicates that Osceola County's population grew an astounding 60 percent between 1990 and 2000 and Osceola is projected to grow by an additional 40 percent by the year 2008. There are 113,718 people currently living within five miles of Osceola Regional Medical Center and this number is expected to increase exponentially as time goes on, according to Ms. Grulich. She indicates that Osceola Regional Medical Center is centrally located in the highest growth area of Osceola County. Silvia C. Zapico, Ed. D., Provost of the Osceola Campus of Valencia Community College also cites the area's high growth rate and the need for additional acute care and ICU hospital beds. Lastly, the applicant includes a letter from Raymond Plummer, M.P.H., Administrator with the Osceola County Health Department who cites the Health Department's decades old arrangement with Osceola Regional to ensure obstetrical services for low income and Medicaid.

C. PROJECT SUMMARY

Osceola Regional Hospital, Inc. (CON #9762) operates Osceola Regional Medical Center, a 171-bed facility consisting of 165 acute care and six Level II neonatal intensive care unit (NICU) beds, located in Kissimmee, Florida. The applicant presently has approval to add 40 acute care beds via CON #9545. This applicant proposes to add another 20 acute beds with this project, which, if approved would create a 231-bed facility consisting of 225 CON approved and licensed acute care beds and six Level II NICU beds.

The applicant is not proposing to increase its existing commitment to the medically indigent with this request to add acute care beds. The existing 165 acute care beds are committed to the Medicaid and charity population under CON #9089 at 14.1 percent of the facility's total annual patient days and 1.26 percent respectively. When CON #9545 was approved to add 40 acute care beds, this commitment was reduce for the 205 acute bed to provide 11.9 percent of the total facility's patient days to Medicaid and 0.8 percent to charity care patients. If this project is approved and because the applicant is not proposing to increase its commitment to this population, the facility's commitment to the medically indigent will be to provide 10.84 percent of the 225 acute care bed days to Medicaid recipients and 0.73 percent to charity care patients. Therefore, the applicant continues to lower its commitment to the medically indigent. However, the applicant is a high volume Medicaid provider, providing a combined 16.4 percent of its patient days to Medicaid and charity patients in 2002. This is consistent with the district average of 15.9 percent. Osceola Regional is also the only hospital in the subdistrict conditioned through CON to care to Medicaid and charity patients.

The proposed project consists of 17,282 GSF of construction and construction costs of \$1,750,000. The project involves a total cost of \$2,804,220.

D. REVIEW PROCEDURE

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

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

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

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

E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA

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

1. Fixed Need Pool

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

On January 23, 2004, AHCA published a fixed need pool (FNP) in Volume 30, Number 4, of the Florida Administrative Weekly (F.A.W.) of zero (0) for additional hospital acute care beds in District 7, Subdistrict 3/Osceola County.

District 7, Subdistrict 3 had a total of 399 licensed beds that experienced an occupancy rate of 75.54 percent for the reporting period July 2002 though June 2003. As of January 23, 2004, Subdistrict 3 has 40 CON approved acute care beds for the applicant's facility via CON #9545. Florida Hospital Kissimmee has approval for the addition of 10 acute care beds through Exemption Number 0300018 issued on January 14, 2004, and the addition of 10 temporary acute care beds for the period of March 1, 2004 through May 28, 2004 via Exemption Number 0300028

obtained on March 5, 2004. Osceola Regional Medical Center’s licensed 165 acute care beds reported an average occupancy of 72.47 percent during the reporting period. Utilization in the subdistrict during the period of July 2002 – June 2003 at the four existing facilities follows:

**District 7 Subdistrict 2, Osceola County Acute Care Bed Utilization
July 2002 – June2003**

Hospital	# Beds	Occupancy
Osceola Regional Medical Center (ORMC)*	165	72.47%
Florida Hospital – Kissimmee*	50	110.03%
St. Cloud Hospital	85	55.00%
Florida Hospital – Celebration Health	60	83.85%
Total/Average	359	75.54%

Source: *Florida Hospital Bed and Service Utilization by District Vol II, January 2004 Batching Cycle*

*ORMC approved to add 40; Florida Hospital – Kissimmee approved to add 10

The proposed project is not submitted in response to the fixed need pool. The applicant indicates that the need for the project is based on special circumstances, which will be discussed in Section C below.

b. Approval Under Special Circumstances; Rule 59C-1.038(5):

Regardless of the subdistrict’s average annual occupancy rate, need for additional acute care beds at an existing hospital is demonstrated if the hospital’s average occupancy rate based on inpatient utilization of all licensed acute care beds is at or exceeds 80 percent. The determination of the average occupancy rate shall be made based on the average 12 months occupancy rate for the reporting period specified in section (4) above. Proposals for additional beds submitted by facilities qualifying under this subsection shall be reviewed in context with the applicable review criteria in Section 408.035, Florida Statutes.

As shown and discussed above, the proposal does not meet this rule requirement. Osceola Regional Medical Center’s licensed 165 acute care beds reported an average occupancy of 72.47 percent during the July 2002 through June 2003 reporting period. The applicant also has 40 acute care beds approved via CON #9545.

c. Other Special Circumstances:

Osceola Regional Medical Center indicates two major reasons create special circumstances for the proposed project. One is the rapid growth in Osceola County. The applicant provides the following table documenting this growth.

**Osceola County (Subdistrict 3) and District 7
Average Annual Compounded Growth Rate
CY 1999, 2004 and 2009**

Area	1999	2004	2009	Total Growth Rate	Average Annual Growth
Osceola County	160,187	195,837	225,102	14.94%	2.82%
District 7	1,825,450	2,095,982	2,305,574	10.00%	1.92%
State	15,486,906	17,113,669	18,500,197	8.10%	1.57%

Source: CON #9762 from AHCA Population Estimates, June 2003. Year totals are as of January 1st of given year. Table taken from pages 1-4 and 1-5.

The applicant contends that with the average annual growth rate of 2.82 percent, the rapid population growth exerts demand for health care services. While the district averages 1.92 percent, the state average annual growth rate is 1.57 percent.

The second major factor is the location of the hospital. The applicant indicates that Osceola Regional is located in an area of rapid growth that is in part encouraged by the hospital’s new physical plant and added services. However, AHCA utilization data, discussed in more detail below, show that its market share has decreased. The applicant discusses the number of actual available beds in the county, bed to population ratios, and what it considers high resident out migration in its argument that additional beds are needed.

However, the applicant’s 165 acute care beds highest period of utilization during CY 2000 to the present is 83.72 percent, which occurred in the 1st quarter of CY 2002. During the July 2002- June 2003 reporting period, the highest period of utilization was 3rd quarter 2002 at 76.81 percent. Therefore, from an historical view, acute care beds should have been available at the facility. Additionally, although a number of residents are out-migrating, these data suggest that even if 60 acute care beds (40 previously approved and the 20 requested via this proposal) were added to Osceola Regional, there is no reason to expect any change in out-migration numbers, or that the applicant will reverse the trend illustrated in the chart below.

The following chart shows the patient days for Osceola Regional during the previous three 12-month reporting periods ending June 30 of the appropriate year.

Osceola Regional Medical Center (ORMC) and District 7, Subdistrict 3/Osceola County Acute Care Patient Days 12-month reporting periods ending June 30			
Year	Acute Care Patient Days		ORMC Market Share
	ORMC	Subdistrict 3	
2001	40,727	81,357	50.06%
2002	45,132	92,250	48.92%
2003	43,643	100,188	43.57%

Source: Florida Hospital Bed & Service Utilization by District for the appropriate periods.

As noted earlier, Osceola Regional Medical Center’s provision of patient days compared to the total subdistrict acute care days has been decreasing for the past three years.

The applicant next presents its basis for determining the need for additional beds using two forecast models. One component is the increase in the number of days experienced at the hospital. During the 12 months ending September 31, 2000, the hospital had 35,698 patient days. Patient days increased to 49,431 during same 12-month period ending CY 2003. This is an increase of approximately 11.5 percent per year. Inpatient days for the district averaged an annual increase of approximately 14.9 percent during the same period.

The following chart shows the applicant’s projections for the total Osceola County/Subdistrict 3 acute care beds needed for CY 2003 projected to the project’s year two CY 2006. This projected average compound growth rate of 11.46 percent is based on the applicant’s analysis of facility’s patient days for the 12-month periods ending September 30, 2000 and 2003.

Projected Acute Care Patient Days for Osceola Regional Medical Center

	12 months ending September 2003	Year One 2005	Year Two 2006
Osceola Regional	49,431	61,423	68,474
Average Daily Census	135	168	188
Total Beds	171	231	231
Occupancy	79.20%	72.85%	81.21%

Source: CON #9762, page 1-25 utilizing patient days from AHCA Hospital Patient Discharge Data File, excluding normal newborns, DRG 390 & 391.

Note: The projected occupancy is based on the applicant’s total beds 165 acute care beds note total beds would be 82.07% for the 2003 period, 74.46% and 83.00% with 226 acute care beds (40 approved & CON #9762’s 20 beds) in CY 2005 and CY 2006.

The applicant contends that the average daily census (ADC) in the chart above is conservative in that it is based on the facility’s historical inpatient acute care day growth rate. Review of the AHCA Hospital Patient Discharge data for the 12 months ending June 30, 2003 shows the facility with 49,133 patient days excluding DRG 390 and 391, so the applicant’s patient days for that period appear reasonable. However, the

applicant reported 43,643 acute care patient days to the local health council and an acute care occupancy rate of 72.47 percent for the 12-month period ending June 30, 2003. The applicant's projections are stated to be based on the three year compound average growth rate; however, Osceola Regional's patient day growth actually decreased from 45,132 during the 12-month reporting period ending June 30, 2002, to 43,643 for the June 2003 reporting period. This decline and the decreasing market share trend discussed above are reasons to question any assumed steady increase in ADC in the need methodology presented above.

The second component to the need forecast is to use the current patient day rate per 1,000 per persons is used to project the facility's patient days, for all patients except Osceola residents. The applicant contends that with increased capacity, unbridled growth can occur for Osceola residents, decreasing the out migration of patients to neighboring counties. The applicant utilizes the most recent three-year compounded annual growth rate for Osceola patients. The applicant provides the following chart. However, as discussed above, beginning in 2001, there is evidence of decline in market share and the facility's ADC is beginning to show a decline as well. The growth projections presented below cannot be assumed in light of more recent data and a possible declining trend in utilization at a facility.

Projected Acute Care Patient Days for Osceola Regional Medical Center

	2003	Year One 2005	Year Two 2006
District 7 Total Population	2,076,990	2,193,216	2,236,885
Osceola County Population	193,069	204,091	209,870
District 7	1,043,438	1,097,971	1,116,517
Osceola Patient Days	37,850	47,327	52,921
In-migration patient days	11,581	11,964	12,174
Total ORMC Patient Days	49,431	59,291	65,095
Average Daily Census	135	162	178
Licensed Beds w/o project	171	211	211
Occupancy without project	79.20%	76.99%	84.52%
Occupancy with project	79.20%	70.32%	77.20%

Source: CON #9762, page 1-26.

The applicant indicates utilization will be 65,095 patient days in CY 2006, resulting in an occupancy rate of 77.20 percent with the 20-bed addition. However, the applicant's projections indicate that the facility will maintain its share of patient days and that the facility's overall patient days will increase. While the applicant appears to contend that additional beds will result in additional patient days, historically beds have been available at the facility. The facility will have 205 acute care

beds available with the addition of the 40 acute care beds approved via CON #9495 and these should be sufficient to meet the facility's needs. Need for 20 acute care beds beyond the 40 already approved, but not yet licensed, was not demonstrated.

2. Local Health Plan Preferences

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

In July 2003, the Local Health Council of East Central Florida, Inc. adopted the following Certificate of Need Allocation Factors for applicants seeking to add acute care beds in District 7:

- a. Preference shall be given to applicants who propose to convert licensed unused beds or use existing space rather than new construction, including space created by previous voluntary delicensure of unused beds.**

The applicant's project does not involve conversion of beds or space but new construction in tandem with the facility's current hospital expansion and previously approved 40 acute care bed addition.

- b. Preference shall be given to applicants who demonstrate that they will provide a full array of acute care services including medical/surgical, intensive care, pediatric and obstetrical services within the market area for which they are applying.**

The applicant indicates that it already provides these services and the beds will be used to expand its obstetrical services.

- c. Preference shall be given to applicants who propose to acquire or consolidate facilities where it can be demonstrated that services will be improved and cost to the public will be reduced.**

The applicant's project does not involve acquiring or consolidating a facility but is new construction in tandem with the facility's current hospital expansion and previously approved 40 acute care bed addition.

- d. **Preference shall be given to applicants who demonstrate that the transfer of beds is necessary to maintain or improve access to care.**

Not applicable. The applicant's project does not involve transfer of beds.

- e. **Preference shall be given to applicants for the transfer of beds, if the applicant can demonstrate that the transfer of beds is more cost-efficient than the renovation and expansion of the existing facility.**

Not applicable. The applicant's project does not involve transfer of beds.

- f. **Preference shall be given to existing facilities when the number of beds to be awarded is 50 beds or less, unless a new provider can clearly demonstrate that the facility can provide cost-effective care.**

The applicant's project is for the addition of 20 acute care beds. However, the financial reviewer indicated the project was not considered cost-efficient.

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.

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.**

Osceola Regional Medical Center has a history of service to the Medicaid and charity care patient but does not propose to condition this CON to provide services to medically indigent patients (see project summary and Item 4. i.). Osceola Regional has met the Medicaid and charity care conditions on its previous CONs. Schedule 7A shows that the applicant projects 11.7 percent of this project's total annual patient days will be provided to Medicaid patients, charity care is shown to be 2.35 percent of the project's total patient revenues. The project, if approved, would

result in a lowering of the applicant’s current conditions to the provision of 10.84 percent of the 225 acute care beds annual total patient days to Medicaid patients and 0.73 percent to charity care patients.

- (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.**

The project does not involve the conversion of existing beds and there is no competing application.

4. Statutory Review Criteria

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

The applicant restates its contentions that its project will help stem Osceola resident out-migration and improve access and refers the reviewer to its need discussion. As discussed above, no evidence was presented to support the applicant’s contention that if additional beds are available at the facility, area out-migration will improve. The applicant’s need projections are questionable as they assume a constant increase in average daily census or use. Osceola Regional Hospital, Inc. also discusses its provision of high quality of care. The applicant does not question the quality of care of the existing providers.

The following table reflects the utilization of facilities with acute care beds in the service area for the period of July 1, 2002 through June 30, 2003:

District 7, Subdistrict 3 (Osceola County) 12 months ending June 30, 2003		
Facility	Acute Care Beds	Percent Occupancy
Osceola Regional Medical Center	165	72.47%
Florida Hospital – Kissimmee	50	110.03%
St. Cloud Hospital	84	55.00%
Florida Hospital – Celebration Health	100	83.85%
Subdistrict Total	399	75.54%
District 7 Total	4,650	69.09%

Source: Florida Hospital Bed and Service Utilization January 2004.

Note: Bed count is as of January 23, 2004.

District 7, Subdistrict 3, Osceola County has a total of 399 licensed acute care beds and there are 40 CON approved acute care beds yet to be licensed as of January 23, 2004. Florida Hospital Kissimmee has approval for the addition of 10 acute care beds through Exemption Number 0300018 issued on January 14, 2004 and the addition of 10 temporary acute care beds for the period of March 1, 2004 through May 28, 2004 via Exemption Number 0300028 obtained on March 5, 2004. The subdistrict's 399 beds experienced an occupancy rate of 75.54 percent during the 12-month reporting period ending June 30, 2003.

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 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.**

Osceola Regional Hospital, Inc. (CON #9762): Osceola Regional Medical Center is JCAHO accredited. The applicant provided a copy of its 2003-2004 performance improvement plan in Exhibit 5-2. The applicant has demonstrated that is a quality of care provider.

A review of complaints against Osceola Regional Hospital indicates that the hospital has had four confirmed patient care complaints and no confirmed emergency access violations during the previous three years.

- 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 does not propose special equipment or services, which are not reasonably and economically accessible in adjacent service areas.

AHCA hospital discharge data for the 12-month reporting period ended June 30, 2003, indicates that 88.96 percent of Osceola Regional's patients were District 7 residents.

- 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.**

Osceola Regional Hospital, Inc. (CON #9762) provides a list of in-service education courses for CY 2004 in Exhibit 7-2 and states that it is committed to ensuring that all employees receive training and education, and that clinical needs of employees are met. Physician and medical education courses are also provided. The applicant also presents a copy of the minutes from a research project that is ongoing at the hospital.

However, the applicant does not demonstrate that this project will broaden research and educational opportunities for hospital staff and other area professionals.

The applicant's project is not designed to impact on the clinical needs of health professional training programs in the service area.

- 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.**

Osceola Regional Hospital, Inc. (CON #9762) includes a brief bibliography of key management personnel in its response and includes their resumes in Exhibit 8-10. A detailed description of its recruitment and retention policies is also provided. The applicant provides a chart which indicates that its RN vacancy rate is approximately 8.8 percent compared to the statewide rate of 9.9 and national rate of 10.25 percent. Osceola Regional contends that given the hospital's lower than average vacancy rate for nurses, and the rapidity with which the area is growing, recruitment of the required employees does not pose unanticipated difficulties or concerns. The project is projected to add 14.0 FTE positions (6.0 RNs, 4.0 LPNs, one physical therapist, 1.0 dietician and 2.0 housekeeper FTEs) by the end of year two (CY 2006).

Osceola Regional Hospital, Inc.'s audited financial statements for the periods ending December 31, 2002 and 2001 were analyzed for the purpose of evaluating the applicant's ability to provide the capital and operational funding necessary to implement the project. The following is a list of accounts and ratios used in the analysis:

Osceola Regional Hospital, Inc.
FINANCIAL INDICATORS AND RATIOS

	<u>12/31/2002</u>	<u>12/31/2001</u>
Current Assets	\$ 20,369,287	\$ 17,996,206
Cash and Current Investment	\$ 0	\$ 22,156
Assets Restricted for Capital Funding	\$ 0	\$ 0
Total Assets	\$ 71,015,824	\$ 68,032,231
Current Liabilities	\$ 9,360,299	\$ 9,064,296
Total Liabilities	\$ 54,632,906	\$ 54,949,693
Total Equity	\$ 16,382,918	\$ 13,082,538
Net Operating Revenues	\$ 130,736,648	\$ 107,726,518
Interest Expense	\$ 4,218,027	\$ 4,474,284
Net Profit – Operations	\$ 5,859,087	\$ 3,208,532
Net Income	\$ 3,300,380	\$ 1,726,283
Cash Flow Provided by Operating Activities	\$ 6,386,206	\$ 9,082,904
Working Capital	\$ 11,008,988	\$ 8,931,910
Current Ratio (CA/CL)	2.2	2.0
Long-Term Debt to Equity (TL-CL/TE)	2.8	3.5
Cash Flow to Current Liabilities (CFO/CL)	0.7	1.0
Equity to Total Assets (TE/TA)	23.1%	19.2%
Operating Margin (NPO/NOR)	4.5%	3.0%
Total Margin (NI/NOR)	2.5%	1.6%
Return on Assets (NI/TA)	4.6%	2.5%
Operating Cash Flow to Assets (CFO/TA)	9.0%	13.4%

Short-term position:

The applicant’s current ratio of 2.2 indicates current assets are slightly over two times that of short-term liabilities, an adequate position. The working capital (current assets less current liabilities) of \$11.0 million is adequate. The ratio of cash flow to current liabilities of 0.7 is just below the average of Florida acute care hospitals. The applicant has a satisfactory short-term position.

Long-term position:

The long-term debt to equity ratio of 2.8 is moderately high, indicating a fair amount of long-term debt. This, however, debt consists primarily of inter-company balances. In 2002 intercompany debt was \$44.8 million. The cash flow to assets of 9.0 percent reflects a reasonable level of cash flows. The most recent year had an operating profit of \$5.9 million, which resulted in a margin of 4.5 percent, a good level. The total equity of \$16.4 million with the equity to assets ratio of 23.1 percent is mediocre. With the low level of equity and high debt, the applicant’s long-term position is marginal.

Capital requirements:

Schedule 2 indicates the applicant had \$63.6 million in capital projects planned or underway. With no long-term debt (intercompany debt) payment scheduled this amount is the total capital needed.

Available capital:

Schedule 2 indicates funding for these projects will come almost exclusively from the parent HCA. A letter from HCA indicates it will provide funding for 100 percent of the cost of the additional beds for this project as well as all other capital projects as needed. A copy of HCA's financial statements provided in their annual report support its ability to provide this funding.

Conclusion:

When the strength and commitment from the parent is considered, the applicant should be able to fund all capital requirements as needed.

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 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 2002; the applicant will be compared to the hospitals in group 5. 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.

Since the data contained in Schedule 7A was not provided for the entire hospital including this project, the financial portion of this project will be evaluated on the basis of the financial data provided in the pro-forma financial statements of the applicant.

Gross revenues, net revenues, and costs were obtained from Schedule 8 and the pro-forma financial statements 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.

Net revenue per adjusted patient day (NRAPD) of \$2,004 in year one and \$2,087 in year two is between the control group median and highest values of \$1,483 and \$2,160 in year one and of \$1,532 and \$2,231 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 Financial Analysis Table). The 2002 actual NRAPD for this hospital was \$1,493, which was between the median and highest in that year. NRAPD is projected to increase by 9.9 percent annually over 2002 or more than twice the market basket rate of increase. This rate of increase may be difficult to attain in the current business environment.

Projected cost per adjusted patient day of \$1,897 in year one and \$1,924 in year two is above the highest value of \$1,872 in year one and between the control group median and highest values of \$1,492 and \$1,933 in year two. This application is not considered cost efficient when compared to the control group. (See Financial Analysis Table). The 2002 actual CAPD for this hospital was \$1,413, which was between the median and highest in that year. CAPD is projected to increase by 9.0 percent annually, which is more than twice the market basket rate of increase.

The year two operating profit for the hospital of \$15,773,535 computes to an operating margin per adjusted patient day of \$164 which is between the peer group median of \$64 and highest of \$400. The 2002 financial data submitted to the agency shows the hospital with an operating margin per adjusted patient day of \$80. Although the projected unit margin falls in a reasonable range when compared to the group, it is significantly above the hospital's historical profit. Compared to historical data, it is likely the hospital's margin will be lower than projected.

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

Osceola Regional Hospital, Inc. (CON #9762) projects managed care to represent 32.9 percent of its patient days. This is between the control group median and highest levels of 34.6 percent and 58.2 percent and is similar to the hospital's own 2002 managed care level of 36.4 percent. The applicant's level of managed care should 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.**

Osceola Regional Hospital, Inc. proposes to add 20 new acute care beds to expand the obstetrical department on the 2nd floor of to the Osceola Regional Medical Center. The project is stated to include 17,282 GSF of new construction at a construction cost of \$1,750,000. The area to house the new beds is currently a 14-bed CV step-down nursing unit and a six-bed cath lab recovery area. These spaces are in two separate wings but are open to each other and the entire floor is used for women and children services including a delivery suite, a NICU and an LDRP nursing unit.

The application included several plans of the site and several floors of the hospital presented mostly on 8 ½ x 11 sheets. There was much discussion in the narrative about an addition that is under construction and information as to where beds, existing, granted and proposed will be constructed, relocated and placed.

The information needed for an architectural review was not included in the application. The overall floor plan of the two wings is at a scale that is too small to read and it is impossible to determine if the actual patient rooms have the required space, clearances and components. The narrative mentions a few features of the patient rooms such as the fact that there is a lavatory in the toilet room as well as in the room itself which is required. This indicates that at least some code requirements have been considered for the space.

The scant code references are somewhat out-of-date and without the required information related to the architecture no meaningful review can be made.

It is required that schematic drawings be submitted as part of the CON application and it does not meet the required submission criteria. The architectural review of the application cannot 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 and propose the provision of health services to Medicaid patients and the medically indigent? ss. 408.035(11), Florida Statutes.

The following chart compares the applicant with the district averages for Medicaid and charity care patients based on FY 2002 financial data.

CON #9762 Medicaid & Charity Care FY 2002		
Hospital	Percent Medicaid of total patient days	Percent Charity care of total patient days
Osceola Regional Medical Center	14.7%	1.7%
District 7 Average	13.3%	2.6%

Source: AHCA Financial Data FY 2002.

Note: Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital files its fiscal year financial data by combining six campuses including the subdistrict's Florida Hospital Celebration Health and Florida Hospital Kissimmee. The subdistrict's other provider, St. Cloud Hospital is part of the Orlando Regional Healthcare System, Inc., which reports on all its facilities on a combined basis also. Therefore, an actual subdistrict financial comparison of the four facilities is not possible.

As reflected in the table, Osceola Regional exceeds the district's average Medicaid provision, but is below the district's average charity care.

Pro formas show that 11.7 percent of the 20-bed project's total annual patient days will be provided to Medicaid patients. Charity care is shown to be 2.35 percent of the project's total patient revenues.

F. SUMMARY

Osceola Regional Hospital, Inc. (CON #9762) is an HCA, Inc. affiliated hospital consisting of 171 beds, 165 acute care and six Level II NICU beds. The applicant also has been approved for the addition of 40 acute care beds via CON #9545. This project is the construction of a 20-bed addition to the existing hospital located at 700 West Oak Street in Kissimmee, Florida.

The project consists of 17,282 GSF of new construction with construction costs of \$1,750,000. The project involves a total cost of \$2,804,220.

After weighing and balancing all applicable review criteria, the following relevant factors are listed with regard to the hospital project in District 7, Subdistrict 3, Osceola County by Osceola Regional Hospital, Inc.

Need/Other Special Circumstances

- The applicant presents two approaches to documenting need. Both include an analysis of the historical population growth in the area, increased hospital utilization and reasonable population projections.
- Osceola Regional Hospital, Inc.'s projections make assumptions based on data that appear to be changing, which have begun to show a decline in market share and possible decline in patient days at the facility. The applicant has assumed constant increase in utilization and there is reason, based on recent data, to question that assumption. Therefore, the applicant's need projections cannot be accepted. Need for beds beyond the 40 already approved at the facility, but not yet implemented, has not been demonstrated.

Quality of Care

- The applicant demonstrates the ability to provide quality of care.
- Osceola Regional Medical Center has no confirmed emergency access violations. The facility has had four confirmed patient care complaints during the previous three years.

Cost/Financial Analysis

- The applicant appears to have the resources and funds for capital and operating expenditures.
- The project is not considered to be cost-efficient.
- The project is considered to be financially feasible.

Medicaid/Indigent Care

- The applicant has a long history of service to the medically indigent.

- Osceola Regional Hospital, Inc. does not propose to condition the project. Pro formas show that the 20-bed project is expected to provide 11.7 percent of its total patient days to Medicaid and 2.35 percent of gross patient revenues to charity care. Approval of the project would result in lowering the facility's total Medicaid and charity care conditions to the provision of 10.84 percent of the 225 acute care beds annual total patient days to Medicaid patients and 0.73 percent to charity care patients.

Architectural Analysis

- The applicant did not include the information needed for an architectural review to determine whether or not the costs were reasonable. The overall floor plan of the two wings is at a scale that is too small to read and it is impossible to determine if the actual patient rooms have the required space, clearances and components.
- The scant code references are somewhat out of date and without the required information related to the architecture no meaningful review can be made.

G. RECOMMENDATION

Deny CON #9762.

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