

STATE AGENCY ACTION REPORT
CON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

Martin Memorial Medical Center, Inc./CON #9772

P.O. Box 9010
Stuart, Florida 34995

Authorized Representatives	Richmond M. Harman or Christopher Coffey (772) 287-5200
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2. Service District/Subdistrict

District 9/Subdistrict 2 (Martin and St. Lucie County)

B. PUBLIC HEARING

A public hearing was not held regarding the proposed project. The applicant submitted approximately 492 letters of support with the majority (461 letters) from private citizens expressing support for the project. The remaining 31 letters of support were received from physicians, area officials, civic leaders, and developers. The letters from private citizens consisted of two separate form letters, both indicating rapid population growth and a need to improve access. One group of form letters addressed the geographic difficulty for people residing in the western portion of Port St. Lucie, separated by the St. Lucie River. The letters state that St. Lucie West, a separately planned community, which was annexed to Port St. Lucie in 1987, is becoming the site for infrastructure development to support the large and growing west Port St. Lucie population. In addition to the letters from private citizens, letters of support were submitted by the Honorable Senator Ken Pruitt (28th District); State Representative Gayle B. Harrell (81st District); Representative Joe Negron (District 82); Doug Coward (St. Lucie County Board of County Commissioners); Robert E. Minsky (Mayor, City of Port St. Lucie), Donald B. Cooper (City Manager, City of Port St. Lucie), St. Lucie County Fire Chief, and the Vice President of Florida Atlantic

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University at Port St. Lucie. The area physicians supporting the project were Drs. Robin M. Kass and Tracey E. Cerbone (Martin Memorial Neurology Associates); and Drs. Flanagan, Pineiro, Cohen, Fatima, Snedeker, Le, Simpson, Falkenberg, Jampol, Kriseman, and Bromberg (Martin Memorial Medical Group), and Drs. Sanguily, Sanguily, Jr., Sanguily III, Garrett (General Vascular, Laser, Breast & Laparoscopic surgery Group). The physician letters also address the growth in the area and comment on the non-availability of beds during the winter season. The physician letters also speak to emergency delays in stabilizing and transporting the patient to the nearest emergency room. The letters were not specific with regard to potential admissions or actual access problems experienced by the physicians.

There were also letters submitted in opposition to the project from St. Lucie Medical Center and Lawnwood Regional Medical Center. The letter from Gary Cantrell, CEO of St. Lucie Medical Center states that there is no geographic access problem for patients residing in the expected service area for the proposed facility. Mr. Cantrell states that the entire proposed service area is within a 10-mile radius of one or more of the existing hospitals in the area and that St. Lucie Medical Center has a 50 percent market share of the area, while Martin Memorial has a 19.9 percent share and Lawnwood Regional Medical Center captures 12 percent. According to Mr. Cantrell's submitted exhibit, an additional 8.6 percent market share is divided among other District 9 hospitals. The remaining 9.5 percent market share is assumed by Holy Cross Hospital in District 10 with 1.2 percent and other unnamed hospitals (8.4 percent). Mr. Cantrell suggests that the proposed project will redirect considerable market share and adversely impact other existing providers and especially St. Lucie Medical Center. He further suggests that a redirection of tertiary services, in particular open heart surgery for Martin Memorial, could have an even greater adverse impact on other providers. Mr. Cantrell also states that the proposed hospital will put a strain on already scarce physician specialists who provide emergency department coverage and make it more difficult for existing providers to retain required staff. The letter of opposition from Thomas R. Pentz, CEO of Lawnwood Regional Medical Center, states that there is no need for additional acute care beds, the proposed project will increase health care costs due to a duplication of services, and the project will result in a loss of services to Fort Pierce residents due to dilution of an appropriate payer

mix for Lawnwood which is a disproportionate share facility (*NOTE: Lawnwood Regional is not classified as a Disproportionate Share Hospital for FY 2003-04 as of March 31, 2004*). Mr. Pentz further states that the project will dilute the occupancy for all area hospitals and will not improve access to care since residents in the St. Lucie West area are less than 15 minutes drive time from Lawnwood.

C. PROJECT SUMMARY

Martin Memorial Medical Center, Inc. (CON #9772) proposes the establishment of a new acute care hospital to be located in the western portion of Port St. Lucie in St. Lucie County. The applicant is a private, not-for-profit corporation authorized to operate Martin Memorial Medical Center (236 beds) and Martin Memorial Hospital South (100 beds). The project if approved will increase the net bed inventory in District 9, Subdistrict 2 by 80 acute care beds.

The total project cost is estimated at \$66,871,365. Construction costs are projected at \$32,000,000 and the project will involve 128,000 GSF of new construction.

The applicant is requesting that the project be conditioned for the provision of 1.5 percent of the project's gross revenues for charity care and four percent of admissions for Medicaid/Medicaid HMO patients.

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 with consultation from the financial analyst, John Williamson, who reviewed the financial data and architect Joel Hill who evaluated the architectural and the schematic drawings.

E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA

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

1. Fixed Need Pool

a. Does the project proposed respond to need as published by a fixed need pool? Or does the project proposed seek beds or services in excess of the fixed need pool? Ch. 59C-1.008(2), 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 9, Subdistrict 2 (St. Lucie and Martin Counties) 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 Ch. 59C-2.100, Florida Administrative Code, unless the average occupancy rate for all existing acute care hospital beds is at or exceeds 75 percent in the respective subdistrict, or the provisions in Ch. 59C-1.038(5) are met.

District 9, Subdistrict 2 had a total of 798 licensed beds that experienced an occupancy rate of 64.01 percent for the reporting period July 1, 2002 through June 30, 2003. There are presently no CON approved acute care beds in the subdistrict.

**District 9, Subdistrict 2
Acute Care Bed Inventory and Utilization
July 2002-June 2003**

Hospital	County	# of Acute Care Beds	Percent Occupancy
St. Lucie Medical Center	St. Lucie	*194	78.10%
Lawnwood Regional Medical Ctr.	St. Lucie	273	58.57%
Martin Memorial Medical Ctr.	Martin	231	65.30%
Martin Memorial Hospital South	Martin	100	51.91%
TOTALS		774	64.01%

Source: *AHCA Hospital Bed and Service Utilization by District, January 2003 Batching Cycle.*

Note: *St. Lucie Medical Center converted 24 SNU beds to 24 acute care beds on September 24, 2003, thus increasing total acute care beds from 170 to 194 beds.

As shown above, the Subdistrict 2 average occupancy rate for acute care beds (64.01 percent) is less than the rule occupancy threshold of 75 percent for all existing acute care hospitals.

The applicant's proposed project is not submitted in response to the fixed need pool, but rather, involves purported "other special circumstances" as discussed 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.

This criterion does not apply because Martin Memorial Medical Center, Inc. is not requesting to add beds to either of its two existing facilities, but rather proposes to establish a new freestanding 80-bed acute care hospital.

c. Other Special Circumstances:

The proposed project is intended to allow Martin Memorial to expand its current continuum of care to residents of western Port St. Lucie (St. Lucie County). With a 2003 population of over 111,000 and the recent annexation of more than 18 square miles, Port St. Lucie is now the most populous city in District 9. The applicant states that approximately 95 percent of the growth in the area is occurring in the western portion of

Port St. Lucie that is west of the North Fork of the St. Lucie River. This area will constitute the primary service area for the proposed hospital, consisting of zip codes 34953, 34983, 34984, 34985, 34986, and 34987. The North Fork of the St. Lucie River is a natural barrier between service area residents. The applicant contends that an acute care hospital on the west side of the North Fork will significantly enhance access for service area residents and will also improve access to emergency services. The applicant maintains that neither St. Lucie Medical Center nor Lawnwood Regional is likely to suffer significant adverse impact as a result of the proposed hospital. However, both of those hospitals oppose the project in view of the expected adverse impact it will have on their respective facilities. St. Lucie Medical Center states that while Martin Memorial has the second highest market share in the service area (19.9 percent), the market share is not sufficient to justify a new hospital without capturing patients through redirection from existing providers. St. Lucie Medical Center maintains that the proposed hospital will need to capture a total market share of 34.1 percent from the market area and 20 percent in-migration from outside the area to project a reasonable utilization level. The hospital further contends that the applicant can only achieve this level of market share at the expense of other hospitals. As discussed below, the applicant does expect to derive approximately 80 percent of its admissions from the defined zip code areas of the PSA with the remaining 20 percent coming from outside the PSA. However, the applicant is assuming a gradual transition of inpatient activity from the Martin County facilities (north and south campuses) to the satellite hospital, and believes population increases will account for its market increase. The applicant expects that St. Lucie Medical Center will maintain an existing market presence in the PSA exceeding 50 percent. In addition, occupancy levels in the subdistrict indicate excess capacity to serve the projected level of growth. With the current bed occupancy level in the subdistrict at 64.01 percent, this leaves 279 unused beds in the subdistrict, with approximately 160 of those beds going unused in the Port St. Lucie area.

The applicant is relying on future growth in the western portion of Port St. Lucie to support the proposed satellite hospital. According to the applicant, the population of the west Port St. Lucie area has grown from 18,022 in 1980 to 41,934 in 1990 and an estimated (Claritas) 77,359 in 2003. Based on Claritas projections, the population is expected to increase by 19,002 residents (24.6 percent) between 2003 and 2010. The service area is projected to grow at a more rapid rate than the rest of St. Lucie County, 24.6 percent for the PSA compared to a 12.5 percent growth rate for the rest of St. Lucie County between 2003 and 2010. The proposed service area (PSA) is projected to account for 53.9 percent of the total growth in St. Lucie County between 2003 and 2010.

**Comparative Population Growth
PSA and St. Lucie County
2003-2010**

Area	2003	2010	Increase	Percent Increase
PSA	77,359	96,361	19,002	24.6%
Non-PSA	130,029	146,290	16,261	12.5%
Total St. Lucie County	207,388	242,651	35,263	17.0%

Source: CON Application, page 24/Claritas projections. The PSA consists of ZIP codes 34953, 34983, 34984, 34985, 34986, and 34987.

NOTE: AHCA Population projections indicate St. Lucie County population of 207,885 in 2003 and 235,742 in 2010.

The applicant states that the above growth figures may actually be conservative when compared to a study by the St. Lucie City Manager's Office that would indicate a growth rate approximately twice as high (33 percent over five years). The application of the Claritas annual growth rate of 5.9 percent to the city manager's study that indicates 91,000 current residents, yields a projection of 121,205 for 2008 and 135,929 for 2010.

The following provides a comparison of the PSA (Claritas projections) with the population projections for District 9, Subdistrict 2 (St. Lucie and Martin Counties), and the State of Florida using AHCA population projections for 2003 through 2008.

**Comparative Population Projections
PSA, Subdistrict, District, State
2003-2008**

Area	2003	2008	Increase	Percent of Increase
PSA	77,359	90,437	13,078	16.9%
Subdistrict	342,126	373,793	31,667	9.3%
District 9	1,707,211	1,872,580	165,369	9.7%
Florida	16,983,033	18,352,121	1,369,088	8.1%

Source: Claritas Projections for PSA and AHCA Projections for Subdistrict, District and State

The applicant also provided a copy of the report from the City of Port St. Lucie Planning and Zoning Department showing the number of certificates of occupancy, platted lots, and population by each of the 11 planning areas (PA's) that comprise the city. As expected, historical residential development has occurred in the planning areas east of the North Fork, with 70.4 percent of those areas built out as of December 31, 2003. In contrast, 46.7 percent of the area west of the North Fork has been developed. The applicant notes that in a previous CON filing in 2002, the percent build-out for the western area was 38.7 percent compared to 46.7 percent now, an eight percentage point increase in two years, or an average annual rate of 9.85 percent. At this rate, the applicant contends that the western area will be built out in eight to nine more years.

The applicant discussed numerous factors that support the continued, and apparently accelerating growth in the area. These factors include

economic growth along the Treasure Coast region that has spurred demand for affordable housing in areas such as western Port St. Lucie where ample and affordable land remains for development. The applicant also discussed the draft version of a report issued in March 2004 by the Urban Land Institute to provide another view of the development needs in the western area of the city. Although this report, which is not in final form, addresses specific additional infrastructure needs, such as schools, police and fire station facilities, it does conclude a need for a hospital in the western part of the area. The draft report states that in addition to the growing number of residents in the area, there are approximately 900,000 visitors to Port St. Lucie each year, adding to the increasing traffic congestion in the area. It is apparent from the population projections and development studies for the area that growth is occurring in Port St. Lucie and specifically in the western portion of the city. However, it was not demonstrated that this growth is creating accessibility problems for residents requiring acute care services. In its opposition to the project, St. Lucie Medical Center presented a map of the area to demonstrate that the entire proposed service area for the proposed project is within a 10-mile radius of one or more of the existing hospitals in the area.

The applicant provided the following table to show the projected utilization of the satellite hospital. The applicant's projections are based on a general methodology that incorporates estimated market share/discharges and population projections in the PSA.

Projected Utilization of Satellite Hospital

	Year Ending September 30		
	2008	2009	2010
Medical/Surgical Discharges	2,001	2,955	3,855
OB Discharges	480	643	811
Total Discharges	2,418	3,598	4,666
Medical/Surgical Days	9,737	14,383	18,772
OB Days	1,253	1,678	2,117
Total Days	10,990	16,061	20,889
Medical/Surgical Avg. Daily Census	26.7	39.4	51.4
OB Avg. Daily Census	3.4	4.6	5.8
Total Avg. Daily Census	30.1	44.0	57.2
Medical/Surgical Occupancy	37.1%	54.7%	71.4%
OB Occupancy	42.9	57.5	72.5
Total Occupancy Level	37.6	55.0	71.5

Source: CON application/page56

Although population increases will account for some of the hospital's anticipated market share, it is likely that the proposed hospital will divert current market shares from area hospitals and in particular, St. Lucie

Medical Center. In addition to having an apparent adverse impact on existing hospitals, the applicant failed to sufficiently demonstrate that access to area hospitals is prohibitive and outside of a reasonable travel time for area residents.

2. Local Health Plan Preferences

Is need for the project proposed supported by the applicable district plan? ss. 408.035(1); 408037(1), Florida Statutes.

The Treasure Coast Health Council, Inc adopted the following acute care preferences within the 2003 CON Allocations Factors Report

- 1. Priority shall be given to hospitals which show a proven commitment to, or an historical record of service to Medicaid/indigent, handicapped and underserved population groups within the service area.**

The applicant states that it has a history of providing services to medically indigent patients, citing that the Martin Memorial System and its affiliates provided a total of \$15.8 million in community benefits in fiscal year 2003, with Martin Memorial providing total charity care of \$13.6 million in FY 2003. According to the most currently published 2002 Hospital Financial Data (AHCA document), Martin Memorial Medical Center provided 5,134 Medicaid patient days and 2,733 adjusted charity days. These patient days represent 6.7 percent Medicaid days and 2.2 percent charity care days out of total patient days provided (76,948). The hospital's provision of charity care is higher than the District 9 average of 1.7 percent but its percent of Medicaid patient days (6.7 percent) is less than the district average of 10.4 percent.

The applicant is requesting the proposed project be conditioned for the provision of 1.5 percent of the project's gross revenues for charity care and four percent of admissions for Medicaid/Medicaid HMO patients. The applicant is currently conditioned to provide two percent of its patient days to Medicaid and 0.77 percent to charity care in the 100-bed acute care Martin Memorial South

facility. There is no indigent/charity care condition on the acute care beds at Martin Memorial's main campus. Martin Memorial Medical Center, Inc. did not qualify as a Medicaid disproportionate share provider for state fiscal year 2003-2004, as of March 31, 2004.

2. Preference shall be given to an applicant who is able to demonstrate cost containment practices such as sharing services with other hospitals to enhance efficient resource utilization and assist in avoiding duplication.

The applicant states that it is a member of Voluntary Hospitals of America, a hospital alliance comprised of over 900 members. The applicant's membership allows opportunities for cost savings, such as collective purchasing agreements, which reduce supply costs. The applicant also cites its use of a centralized laboratory, which processes specimens from its hospitals and affiliated service sites. The proposed hospital will be located adjacent to an existing outpatient center, which will allow for the use of the existing MRI and outpatient rehabilitation service. Certain management and supervisory personnel will be assigned to positions at more than one of its hospitals, where appropriate. The applicant also notes that it has already centralized financial services, human resources, information systems, purchasing, and materials management, which enable it to achieve economies of scale.

3. Preference shall be given to an applicant who proposes to use existing space rather than new construction, including space created by previous voluntary delicensure of underutilized or unused beds and/or through transfer of beds within the service area subdistrict.

The applicant is proposing to construct a new 80-bed acute care hospital. The applicant states that it considered and dismissed the alternative of transferring beds from either Martin Memorial Medical Center or Martin Memorial South to the proposed satellite facility. The applicant maintains that this alternative was not selected since there is insufficient capacity at either facility to transfer beds without compromising the availability of care at the existing facilities.

According to reported utilization for the period July 2002 through June 2003, Martin Memorial Medical Center had an average bed occupancy of 65.30 percent (231 beds) and Martin Memorial-South had an average occupancy of 51.91 percent (100 beds).

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-01.038(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's historical and projected provision of care to Medicaid and charity care was previously discussed in Item 2.a. above in response to local health plan preferences. Reference is also made to Item 4.i.

- 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.**

This criterion is not applicable. The applicant is not in a competitive review for acute care beds within the subdistrict.

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.**

In response to this criterion, the applicant discussed its current involvement in providing health care services for Port St. Lucie residents including those residents in the western portion of the city. The applicant again cites the growth of the west Port St. Lucie area and discusses the purported accessibility issues for residents in this area.

The applicant contends that the proposed location of the satellite hospital will enhance access to emergency services and improve geographic accessibility. However, as previously discussed in E.1c. above, need for additional beds in the subdistrict was not demonstrated and it was further not demonstrated that residents in the PSA are experiencing difficulty in accessing acute care services in the subdistrict. The proposed project will likely redirect patients from area hospitals, thus having an adverse impact on existing providers, with the greatest impact on St. Lucie Medical Center. St. Lucie Medical Center currently has over 50 percent of the current market share in the proposed PSA, while Martin Memorial's presence accounts for approximately 14 percent of the market share. St. Lucie Medical Center provided an exhibit with its letter of opposition to the project showing the proposed service area in relation to the existing providers in the area. This exhibit shows that the PSA for the proposed project is within a 10-mile radius of one or more of the existing hospitals, demonstrating that acute care services are available within a reasonable travel time for area residents.

As previously discussed, the average occupancy for acute care beds in District 9, Subdistrict 2, was 64.01 percent for the time period of July 2002-June 2003. The current average bed occupancy in the subdistrict would indicate that there are unused beds in the subdistrict.

In response to quality and efficiency, the applicant discussed its commitment to quality and recognition by national organizations. The applicant's ability to provide quality care is further discussed in Item 4.b. However, St. Lucie Medical Center points out in its opposition to the project that a new hospital in St. Lucie County will put a strain on already scarce physician specialists who provide emergency department coverage and impact existing provider's ability to retain hospital staff, including nursing personnel.

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 subdistrict.

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.

The applicant is a private, not-for-profit corporation authorized to operate two acute care hospitals in Martin County. Martin Memorial holds license number 4102, which is effective through June 30, 2005 and authorizes Martin Memorial to operate 336 class I general hospital beds at two locations in Martin County (Martin Memorial Medical Center with 236 beds in Stuart and Martin Memorial Hospital South with 100 beds). Martin Memorial Medical Center is accredited by the Joint

Commission on Accreditation of Health Care Organizations (JCAHO), and has received awards and recognition including being listed as one of the 100 Top Hospitals and Top 20 Large Community Hospitals (1998, 1999, 2001, and 2002), and recognition in U.S. News and World Report as one of America's Best Hospitals (2000). According to an attachment provided as a supplement to the CON application, the applicant also provided an article from Modern Healthcare that ranks Martin Memorial as number 99 out of a listing of 100 hospitals nationwide for 2004 that excel clinically and financially. This ranking is based on research conducted by Verispan, a Chicago-based research firm. The applicant provided a copy of its Quality Assessment and Improvement Plan for 2004-2006.

According to the most recent Complaint Summary Report provided by the Office of Quality Assurance-Hospital Section and dated March 31, 2004, Martin Memorial Medical Center (including Martin Memorial South) has had 10 confirmed violations involving nine billing/refund violations and one EMTALA/emergency access violation from January 23, 2001 through January 29, 2004. There were also six allegations confirmed without deficiencies involving patient rights, patient care, medical problems/errors, medical services, dietary and restraint violations.

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

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

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

Martin Memorial Medical Center is not a statutorily defined teaching hospital, nor is the hospital's primary purpose research or physician education. The applicant does discuss its clinical training programs as well as a variety of in-service training opportunities for employees.

The applicant states that the proposed satellite hospital site is approximately one-mile from the campuses of both Florida Atlantic University and Indian River Community College. The applicant anticipates that this close proximity will enhance educational opportunities for nursing and allied health students at these schools.

- 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.

The financial impact of Martin Memorial Medical Center, Inc.'s proposed project will include the project cost of \$66,871,365 and year two operating costs of \$39,391,000.

The audited financial statements of Martin Memorial Medical Center, Inc., for the periods ending September 30, 2003 and 2002 were analyzed for the purpose of evaluating the applicant's ability to provide the capital and operational funding necessary to implement the project.

Financial Ratios Table

Martin Memorial Medical Center, Inc.		
	09/30/2003	09/30/2002
Current Assets	\$ 103,976,000	\$ 76,858,000
Cash and Current Investment	\$ 64,974,000	\$ 36,359,000
Assets Restricted for Capital Projects	\$ -	\$ 9,822,000
Total Assets	\$ 215,910,000	\$ 189,090,000
Current Liabilities	\$ 33,134,000	\$ 27,947,000
Total Liabilities	\$ 143,089,000	\$ 121,064,000
Net Assets	\$ 72,778,000	\$ 67,983,000
Total Revenues	\$ 210,081,000	\$ 199,786,000
Interest Expense	\$ 5,053,000	\$ 4,937,000
Income from Operations	\$ 6,439,000	\$ 10,467,000
Cash Flow from Operations	\$ 23,779,000	\$ 17,640,000
Working Capital	\$ 70,842,000	\$ 48,911,000
Current Ratio (CA/CL)	3.1	2.8
Cash Flow to Current Liabilities (CFO/CL)	0.7	0.6
Long-Term Debt to Net Assets (TL-CL/NA)	1.5	1.4
Times Interest Earned (NPO+Int/Int)	2.3	3.1
Net Assets to Total Assets (TE/TA)	33.7%	36.0%
Operating Margin (ER/TR)	3.1%	5.2%
Return on Assets (ER/TA)	3.0%	5.5%
Operating Cash Flow to Assets (CFO/TA)	11.0%	9.3%

The applicant, Martin Memorial Medical Center, Inc. (d/b/a Martin Memorial Medical Center), is a not-for-profit health care provider that operates two hospitals in Martin County, an outpatient clinic in Port St. Lucie, and a home health agency in Martin and St. Lucie Counties.

Short-term position:

The applicant's current ratio of 3.1 is above average indicating current assets are more than three times current liabilities, a good position. The ratio of cash flows to current liabilities of 0.7 is below the median and is a moderately weak but acceptable position. The working capital (current assets less current liabilities) of \$70.8 million indicates that current assets are sufficient to cover current liabilities and to provide some excess liquidity that could be used to fund capital projects. Overall, the applicant has an adequate short-term position.

Long-term position:

The ratio of long-term debt to net assets is 1.5 indicates long-term debt is greater than equity. This is well above the median and a weak position. The ratio of cash flow to assets of 11.0 percent is above the median and a good position. The most recent year had \$13.4 million of revenues in excess of expenses, which resulted in a total margin of 4.1 percent. Overall, the applicant has a good long-term position.

Capital requirements:

Schedule 2 indicates the applicant has capital projects and maturities of long-term debt through 2007 totaling \$165.5 million.

Available capital:

Funding for this project will come from \$8.6 million in cash on hand, \$55.2 million tax-exempt bonds and \$3.1 million in converted assets. The applicant submitted a letter from Ziegler Capital indicating that incurring additional debt for this project is financially viable. However, this is already a highly leveraged hospital and incurring this additional debt will add significantly to their financial burden.

Staffing:

The applicant provided a listing of full time equivalent (FTE) staff added by this project for the first three years of operation. In year one (year ending September 30, 2004), the applicant anticipates having a total of 158.3 FTE's, increasing to 211 FTE's in year two and 249.2 FTE's in year three. Nursing staff will comprise 64.4 FTE positions in year one and 98.8 positions in year two. The applicant anticipates that some of the required staff will transfer from the applicant's existing campuses as a result of less utilization at those facilities due to the new facility. For incremental additional staff the applicant intends to employ numerous recruitment strategies including classified advertising, targeted journal advertising, job fairs, etc. The applicant also anticipates that its affiliation with area schools will produce required staffing. As previously discussed, St. Lucie Medical Center maintains that the proposed project will put a strain on already scarce physician specialists who provide emergency department coverage, as well as on other required hospital staff, including nursing personnel. The applicant did not describe any

staff retention incentives currently in place as well as proposed for the new hospital.

Conclusion:

Funding for this project and all capital projects is likely to be available 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 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 western Port St. Lucie. DRG data was extracted for the zip codes provided and the data used to estimate a case mix for the proposed hospital. Using the 10,727 patients discharged during 2003, excluding all DRG's for services not to be offered, the calculated case mix index was 1.0822. 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 3. 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.

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Financial Comparison Table

CON # 9772 Martin Memorial Medical Center, Inc 2002 DATA Peer Group 3	2009	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	101,951,000	4,390	2,507	736	385
INPATIENT AMBULATORY	0	0	265	82	8
INPATIENT ANCILLARY SERVICES	0	0	4,567	2,654	1,085
OUTPATIENT SERVICES	45,020,000	1,938	3,680	1,937	388
OTHER OPERATING REVENUE	456,000	20	186	7	1
TOTAL REVENUE	147,427,000	6,348	8,004	5,666	2,417
DEDUCTIONS FROM REVENUE	108,074,000	4,653	*	*	*
NET REVENUES	39,353,000	1,694	2,810	1,546	1,047
EXPENSES					
ROUTINE	11,532,000	497	364	255	147
ANCILLARY	9,118,000	393	740	451	199
AMBULATORY	2,294,000				
OVERHEAD	16,447,000	708	1,226	627	479
OTHER	0	0			
TOTAL EXPENSES	39,391,000	1,696	2,310	1,398	993
OPERATING INCOME	-38,000	-2	396	43	-213
		-0.1%			
PATIENT DAYS	16,061		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	23,225		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	29,200				
ADJ. FACTOR	0.6915				
TOTAL NUMBER OF BEDS	80				
PERCENT OCCUPANCY	55.0%		94.5%	52.5%	24.9%
PAYER TYPE	PATIENT DAYS	% TOTAL			
MEDICARE	7,896	49.2%	64.0%	39.7%	11.5%
COMMERCIAL	581	3.6%			
MEDICAID	1,544	9.6%	37.1%	10.9%	3.6%
PRIVATE	604	3.8%			
HMO/PPO	5,280	32.9%	64.9%	37.7%	6.4%
OTHER	156	1.0%			
TOTAL	16,061	100.0%			

Projected net revenue per adjusted patient day (NRAPD) of \$1,643 in year one and \$1,694 in year two is between the control group median and highest values of \$1,497 and \$2,720 in year one and \$1,546 and \$2,810 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 \$1,969 in year one and \$1,696 in year two is between the group median and highest values of \$1,354 and \$2,236 in year one and \$1,398 and \$2,310 in year two. Compared to the control group these costs are efficient. (See Comparative Table).

The year two operating loss for the hospital of \$38,000 computes to an operating margin per adjusted patient day of -\$2 which is between the control group median and lowest values of \$43 and -\$213. The computed operating margin ratio is -0.1 percent.

The applicant estimated occupancy during the second year of operation at 55.0 percent; the median level reported in the control group for 2002 was 52.5 percent.

The applicant included Schedules 7 and 8 for a third year of operation, which were not used in this analysis. However, during that year the hospital is projected to be at 71.5 percent occupancy and have a net profit of \$4.8 million.

The financial feasibility of this project is likely.

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 32.9 percent, between the lowest and median level of the control group of 6.4 and 37.7 percent. This level, if realized, will have little 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 architectural plan for the proposed project is almost identical to a previous project submitted by the applicant in May of 2002 (CON #9557). The proposed new hospital will have two stories and will most likely be located adjacent to an existing outpatient facility. The first floor will consist of approximately 94,000 square feet with the second floor having 34,000 square feet. There are areas for future expansion shown on the first floor.

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There were several architectural concerns with the building design when it was reviewed in 2002. The square footage issue was resolved for this application, but, many others were not. Additionally, there have been major building code changes since 2002 and although the design professional has extensive experience with health care facilities, many problems noted in the previous review were not resolved and a number of code requirements have been ignored. For example, there are no hand washing stations in the patient toilet rooms as required by the guidelines, Section 7.2.A4. Reference to the standard building code in the narrative is out-of-date and does not agree with the code list on the drawings.

There was no reference in the architectural portion of the application regarding the site and the requirements for disaster preparedness in the Florida Building Code. Information pertaining to the 100-year flood plain and Category 3 hurricane surge inundation elevations will need to be supplied if this application is granted and the new hospital becomes a project reviewed by the AHCA Office of Plans and Construction. If these code requirements have not been addressed in the current design, and the site elevation is too low, this could be a major issue. It is likely that these requirements have not been taken into account by the design professionals, but the applicant should be aware that this could present a serious impediment to the project depending on the site elevation. There is mention of an alternate site if the one shown is not chosen.

All patient bedrooms will be private. The 80-bed facility will have eight LDRP, eight ICU/CCU beds and 64 medical/surgical beds located in two pods with a nurse station at the juncture of the two wings in each pod. There are good sightlines from the nurse stations. All beds except the eight ICU/CCU beds are on the second floor. It cannot be determined whether the ICU rooms have the requisite 13' width for the headwall as required in the guidelines, Section 7.3.A3 but it is quite possible that there is not enough width to meet this requirement.

The plans show a generous number of toilets for staff and visitors as well as numerous janitors' closets/housekeeping rooms. However, there is not one dedicated to the kitchen/dietary area as required in the guidelines, Section 7.18.B14. It is possible that one is planned but not actually shown for this area.

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Entrances for the various departments and for visitors are located where they do not appear to cause any congestion. There are separate entrances for ambulances, emergency patients as well as a main visitor's entrance and a loading dock. The reason for having two classrooms with doors from the emergency waiting room doesn't seem particularly appropriate unless the hospital is involved in some sort of training that has a relationship to ER medicine. The two classroom doors could easily cause problems with the seating layout of the waiting room. No seating plan is shown, but this area could benefit from further architectural development.

The rad/flouro room on the first floor has a toilet nearby, but it must have direct access from the fluoroscopy room as required by the guidelines, Section 7.10.G4. It is not clear if the patient toilet rooms in the LDRP area are accessible. The facility needs at least one more accessible patient toilet/shower to have the required 10 percent of its rooms accessible.

The east stair does not have a proper exit passageway to reach the exterior of the building, or the corridor is not noted as such. There is an architectural concern with having the ICU/CCU family waiting and the two toilet rooms opening onto the portion of the corridor that is an exit passageway. These public spaces are not normally or continuously occupied, so they need to be relocated so that they do not open off the exit passageway. Since there are no maximum travel distances to the closest exit from any spaces shown, NFPA 101, 2000 Edition and other codes need to be reviewed by the design professional to insure that all requirements are met.

The convenience stair does not open to the exterior on the first floor as preferable. This design is not preferable but may be due to security issues. There is no explanation provided.

The rationale regarding the two areas on the first floor where the staff and physician's lockers, lounges and toilet functions are duplicated is not clear. The separation between the sterile and non-sterile corridors is not adequately solved. The degree of sterility of each of these corridors needs to be made clear. It appears that the smaller staff/physician's locker area exits onto the same corridor that other staff must use to reach similar spaces in preparation to enter the sterile corridor leading to the operating

rooms. The location of the pair of cross-corridors at LDRP 8 needs to be revised to reflect the degree of sterility of the different areas. The functionality of how personnel go through certain spaces before entering a sterile or semi-sterile corridor needs to be revised or an explanation given as to how the design would actually work to insure patient safety and health.

The schedule appears to be reasonable unless there are site issues that would delay the project. Costs appear to be reasonable for a project of this size.

It is required that schematic drawings be submitted as part of the CON application. Although the drawings for this proposal may be more advanced than required, they 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 states that it has a history of providing services to medically indigent patients, citing that the Martin Memorial System and its affiliates provided \$15.8 million in community benefits in fiscal year 2003, with Martin Memorial Medical Center providing total charity care of \$13.6 million in FY 2003. According to the most currently published 2002 Hospital Financial Data (AHCA document), Martin Memorial Medical Center provided 5,134 Medicaid patient days and 2,733 adjusted charity days. These patient days represent 6.7 percent Medicaid days and 2.2 percent charity care days out of total patient days provided (76,948). The hospital's provision of charity care is higher than the District 9 weighted average of 1.7 percent but the hospital's percent of Medicaid patient days (6.7 percent) is less than the district average of 10.4 percent.

The applicant is requesting the proposed project be conditioned for the provision of 1.5 percent of the project's gross revenues for charity care and four percent of admissions for Medicaid/Medicaid HMO patients.

The applicant is currently conditioned to provide two percent of its patient days to Medicaid and 0.77 percent to charity care in the 100-bed acute care Martin Memorial South facility. There is no indigent/charity care condition on the acute care beds at Martin Memorial's main campus. Martin Memorial Medical Center, Inc. did not qualify as a Medicaid disproportionate share provider for state fiscal year 2003-2004, as of March 31, 2004.

F. SUMMARY

Martin Memorial Medical Center, Inc. (CON #9772) proposes the establishment of a new acute care hospital to be located in the western portion of Port St. Lucie in St. Lucie County.

The total project cost is estimated at \$66,871,365. Construction costs are projected at \$32,000,000 and the project will involve 128,000 GSF of new construction.

The applicant is requesting that the project be conditioned for the provision of 1.5 percent of the project's gross revenues for charity care and four percent of admissions for Medicaid/Medicaid HMO patients.

After weighing and balancing all relevant criteria, the following issues are presented with regard to Bethesda Healthcare System, Inc./CON #9659:

Need:

- The proposed project is not submitted in response to the fixed need pool that indicates zero need for additional acute care beds in District 9, Subdistrict 2.
- The applicant presents the proposed project based on special circumstances that it purports exist in the service area, including need to improve accessibility to acute care services for residents in the western portion of Port St. Lucie (west of the North Fork of the St. Lucie River); and response to increasing population growth in the proposed service area.
- The applicant did not reasonably demonstrate that population growth in the proposed service area supports need for additional beds as there are facilities within a reasonable drive time of the proposed new facility.

Quality of Care:

- The applicant reasonably demonstrates its ability to provide quality of care, an indication being the hospital's JCAHO accreditation and compliance with all licensure requirements of the State of Florida.

Cost/Financial Analysis:

- The incurrence of additional debt is likely to add significantly to the applicant's financial burden. However, funding for the project and all capital projects is likely to be available as needed.
- With net revenues falling between the median and the highest level, the facility is expected to consume health care resources in proportion to the services provided. The projected cost per adjusted patient day appears to be efficient in comparison to the control group. The financial analyst concludes that the financial feasibility of the project is likely.
- The applicant's forecasted managed care levels fall between the lowest and median level of the control group and if realized, will have little positive impact on competition to promote quality assurance and cost-effectiveness.

Medicaid/Indigent Charity Care Commitment:

- Martin Memorial's provision of charity care is higher than the District 9 weighted average but the hospital's percent of Medicaid patient days is less than the weighted district average. Martin Memorial is not certified as a Medicaid disproportionate share provider for state fiscal year 2003-2004 as of March 31, 2004.
- The applicant is requesting the proposed project be conditioned for the provision of 1.5 percent of the project's gross revenues for charity care and four percent of admissions for Medicaid/Medicaid HMO patients.

Architectural Analysis:

- The architectural review reveals that design concerns expressed with an identical project submitted by the applicant in 2002 have not been resolved with this proposal. In addition, there have been several major building code changes adopted since 2002 that have not been addressed with the new proposal. There is also no indication given that the project is consistent with the requirements for disaster preparedness in The Florida Building Code. Several of the design concerns involve toilet/hand washing/housekeeping areas.
- The development schedule appears to be reasonable unless there are site issues that would delay the project. The costs for the project appear to be reasonable for a project of this size.

G. RECOMMENDATION

Deny CON #9772.

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