

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION:

1. Applicant/CON Action No.:

Memorial Health Systems, Inc./CON #9802

d/b/a Florida Hospital Ormond Memorial
875 Sterthaus Avenue
Ormond Beach, Florida 32174

Authorized Representative: Michael V. Gentry, CEO
(386) 676-2002

2. Service District/Subdistrict

District 11/Subdistrict 4-4 (Volusia County)

B. PUBLIC HEARING:

Although no public hearing was requested, the applicant offered 13 letters of support and five petition-like signature pages for the project to construct a replacement hospital as follows:

The emergency physician team from the subject hospital attests to facility limitations, population expansion, the increase in emergency room visits and the growth in senior-aged citizens in this area. A patient writes in support of the replacement to benefit comprehensive care and patient privacy. The Chairman of the Memorial Health Systems Foundation praises Ormond Memorial and its parent organization. The coordinator of the Senior Friends Membership Club forwards five signature pages in support of replacement for the care-betterment benefit of those ages 50 and up. One letter is included from an unidentified patient as a testament to functional inefficiencies contributing to long wait times in the emergency room. The Chief of Staff, the Chief of Medicine, the Medical Director of Utilization Review and the Chairman of the Memorial Heart Institute of Ormond Memorial each have written identical letters stating that the current facility can no longer meet the needs of the population. The President of the Ormond Beach Chamber of Commerce expresses pleasure at this project's possible enhancement of

medical services for the community. A moral-support letter from the Executive Director of the Ormond Beach YMCA is included for unknown reasons. A Senior Citizen Advocate from the Seniors Today Newspaper in Ormond Beach contributes a letter similar to that of the Senior Friends Group mentioned above.

C. PROJECT SUMMARY

Memorial Health Systems, Inc. (CON #9802) requests a certificate of need (CON) to build a replacement hospital within three miles of the existing facility for Florida Hospital Ormond Memorial in District 4, Subdistrict 4 in Volusia County. The new facility will have 245 licensed beds, 205 of which are currently licensed and operational at the existing facility, and the remainder will be added upon approval of the proposed project. As is pursuant to §408.036(5)(c), Florida Statutes, notification was received by the Agency in August of 2004 of the applicant's intent to increase the bed count at Ormond Memorial¹.

The total construction will consist of 703,707 gross square feet with construction costs of \$132,175,621 and a total project cost of \$219,794,878. The applicant indicates that it has contracted to purchase the new site, which will be on 134.7 acres off Williamson Boulevard and I-95.

Florida Hospital Ormond Memorial and Florida Hospital Oceanside operate under the same license (License #4201, expires 6/30/2005); this application will affect only Ormond Memorial. Florida Hospital Ormond Memorial, Florida Hospital Oceanside and Florida Hospital Flagler make up Florida Hospital Memorial Division, which operates under the applicant Memorial Health Systems, Inc. Adventist Health System/Sunbelt, Inc. is the sole member of Memorial Health Systems, Inc. Services provided at Ormond Memorial are detailed in the applicant's response to E1, Fixed Need Pool.

The project, if approved, is projected to commence construction in June of 2006 with initiation of services expected in March of 2008.

The applicant is requesting that the CON be conditioned for the provision of a minimum of 6.0 percent of Florida Hospital Ormond Memorial's total discharges to Medicaid and charity patients.

D. REVIEW PROCEDURE

¹ See the Agency response in Attachment 1 of the submission.

The evaluation process is structured by the certificate of need review criteria found in Section 408.035, Florida Statutes and rules of the State of Florida, Chapters 59C-1 and 59C-2, Florida Administrative Code. 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(3) (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(s).

As part of the fact-finding, the consultant Karen Weaver analyzed the application with consultation from 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; and applicable rules of the State of Florida, Chapters 59C-1 and 59C-2, Florida Administrative Code.

1. Fixed Need Pool

a. Does the project proposed respond to need as published by a fixed need pool? ss. Ch. 59C-1.008 and Ch. 59C-1.038, Florida Administrative Code.

This application is not submitted in response to a fixed need pool. Two hundred five of the 245 beds are currently licensed and operational at the existing facility, and 40 beds will be added upon approval of this project. The applicant notified the Agency² of its intent to add these beds pursuant to §408.036(5)(c), Florida Statutes, wherein replacement facilities are required to give notification of intent to increase bed counts. The applicant maintains that these additional beds are needed and cannot be built at the existing location due to facility and site constraints. The argument for need of a replacement facility is based on obsolete/inefficient facility conditions, site constraints, high utilization rates, growing/aging demographics in the service area and anticipation of future expansion.

Obsolete and inefficient facility conditions are themes throughout the CON application. Deficiencies in the existing facility are detailed in a study developed by MGE Architects included in Attachment 3 of the CON application. This study is presented in slide presentation form, and appears to be a product of MGE Architects and the subject hospital. The applicant has already contracted to purchase the new site once the necessary wetlands mitigation has been achieved, and several advantages of the new location are detailed:

- All rooms will be private and will increase in size to accommodate patients, visitors and equipment.
- Operating rooms will increase in size and additional ORs will be added.
- Emergency department will increase by 18 treatment rooms and 19,950 square feet.
- Space will increase for lab, imaging, diagnostic and ancillary services.
- Improved way finding and dedicated staff/service corridors and patient corridors.
- Improved configuration of inpatient units, surgical units, and lab/diagnostic/imaging and ancillary services.
- Improved adjacencies among inpatient/outpatient/surgical units and ancillary and support services.

² Notification #N0400018

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- Decentralized nursing chart areas next to patient rooms to facilitate patient/nurse interaction.
- Efficiency improvements in design, shortening employee travel distances enabling on-site supply warehousing.
- Improved visibility from I-95 and surrounding roads.
- Increased space for future development.
- 1,479 additional parking spaces.
- Room for a helipad and a dedicated ambulance entrance.

The applicant provides reasons to dismiss the renovation alternative:

- Renovation is determined to be unfeasible since the applicant has been unable to obtain land adjacent to the existing site, which would assumedly be necessary to enlarge and to maintain the current level of operations during construction.
- Renovation is further determined to be unfeasible, given the high cost and reduction in beds (due to meeting code requirements for larger room sizes). Given the applicant's average occupancy (discussed below) and its inability to enlarge the facility, a reduction in available beds would present a problem.
- The reported costs of developing another site while maintaining the existing facility are comparable to constructing a replacement hospital.

Existing utilization patterns in the subdistrict for calendar year 2003 are lower than the 75 percent occupancy standard for acute care beds at 52.52 percent. Ormond Memorial, however, averaged 76.24 percent occupancy for the calendar year with a high of 85.16 for the first quarter of the year. Ormond Memorial's utilization for the year was the highest in the subdistrict, as seen below:

**District 4/Subdistrict 4, Flagler and Volusia County Utilization
Calendar Year (CY) 2003**

Hospital	County	# Acute Care Beds	Percent Occupancy
Florida Hospital Flagler	Flagler	81	60.04%
Bert Fish Medical Center	Volusia	116	51.81%
Halifax Medical Center	Volusia	633	50.52%
Memorial Hospital – Ormond Beach (subject facility)	Volusia	205	76.24%
Memorial Hospital – Ormond/Peninsula	Volusia	79	0.32%
TOTAL		1,114	52.52%

Source: *Florida Hospital Bed and Service Utilization by District, July 2004 Batching Cycle*

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The service area population of the proposed project includes 21 zip codes in Volusia and Flagler Counties, and the applicant provides overall and subgroup statistics of population growth. Growing and aging demographics in this area are shown in the following tables:

Service Area, District IV and Florida Population Estimates by Age Cohort for July 1, 2004

Area	Age 0-64	Age 65+	Total	% Age 65+
Primary Service Area	178,447	53,319	231,766	23.0%
Secondary Service Area	119,441	40,431	159,872	25.3%
Service Area Total	297,888	93,750	391,638	23.9%
District IV	1,502,512	265,053	1,767,565	15.0%
Florida	14,266,916	3,093,117	17,360,033	17.8%

Source: CON application page 33

Service Area, District IV and Florida Population Estimates by Age Cohort for July 1, 2009

Area	Age 0-64	Age 65+	Total	% Age 65+
Primary Service Area	188,367	58,051	246,418	23.6%
Secondary Service Area	130,532	44,986	175,518	25.6%
Service Area Total	318,899	103,037	421,936	24.4%
District IV	1,604,537	294,989	1,899,526	15.5%
Florida	15,336,916	3,400,640	18,737,105	18.1%

Source: CON application page 33

Service Area, District IV and Florida Projected 2004-2009 Growth by Age Cohort

Area	Age 0-64	Age 65+	Total
Primary Service Area	5.6%	8.9%	6.3%
Secondary Service Area	9.3%	11.3%	9.8%
Service Area Total	7.1%	9.9%	7.7%
District IV	6.8%	11.3%	7.5%
Florida	7.5%	9.9%	7.9%

Source: CON application page 33

The applicant demonstrates a total projected growth rate of 7.7 percent for all age cohorts, and a 9.9 percent growth in the over 65 age group for the service area from 2004-2009. An increase in the population, especially the over 65 population, indicates a growing need for available services, as is discussed in section 3.a below.

The new site will be within three miles of the existing facility, on 134.7 acres off Williamson Boulevard and I-95 in a highly visible and accessible area of Ormond Beach. Per the primary service area map provided on page 36 of the CON application, the new site will be further than the existing site from Florida Hospital Oceanside yet maintaining approximately the same distance from its next nearest neighbor Halifax Medical Center. This three-mile move will place the proposed new Ormond Memorial facility directly adjacent to the highest growth zip codes of the service area. However, the applicant expects that the move should not impact competition with other facilities or change the patient base.

The new site will not be located on a public transportation route, but the applicant feels it is probable that routes will change based on other new construction in that same vicinity. The applicant intends to request a bus stop when the new facility opens, and states that this has full support from local government officials.

The existing site, should this project be approved and completed, will be used to house outpatient cancer services, support functions and other services such as home health and hospice.

Adequate need is demonstrated for a replacement facility.

2. Agency Rule Criteria

Priority Considerations for Acute Care Services. Chapter 59C-1.038 (6)(a), Florida Administrative Code.

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 states that during 2003, Florida Hospital Ormond Memorial provided inpatient care to 725 Medicaid recipients and nearly \$2.1 million in charity care, while the applicant agency itself, Memorial Health Systems, Inc., provided care to more than 2,300 Medicaid recipients (8.4 percent of total discharges) and nearly \$11.5 million in charity care (1.6 percent of gross patient revenues) in 2003. The applicant maintains that the Ormond Memorial's record of charity care is similar to that of the county's safety-net hospital (Halifax) once adjusted for the tax proceeds received by that hospital for medically indigent patients. However, as discussed below that cannot be verified. The applicant pledges a commitment to non-discriminatory policies and requests to have the proposed CON conditioned for a minimum of 6.0 percent of the hospital's total discharges for Medicaid and charity patients.

The Agency's 2003 hospital financial data indicate that Florida Hospital Ormond Memorial provided 0.5 percent of total patient days to charity care in Fiscal Year (FY) 2003, far less than the overall District 4 average of 2.9 percent. In fact, Ormond Memorial had the lowest percentage of charity service in the district for FY 2003, and this percentage is a sum of the charity service provided at the subject hospital and at Florida Hospital Oceanside³. The charity service range for the district peaks with

³ Florida Hospital Ormond Memorial and Florida Hospital Oceanside operate under the same license (License #4201, expires 6/30/2005); Charity service provisions of the two facilities are combined into one figure on the financial submissions available for 2003.

Shands Jacksonville at 8.7 percent and scales down to Ormond Memorial and two others with less than one percent⁴. It should be noted that the second lowest percentage of charity care in the district (second to the subject hospital) was provided by the affiliate Florida Hospital Flagler, also under the Florida Hospital Memorial Division. In comparison, Halifax Medical Center, referenced by the applicant as the “safety-net hospital” for the district, had 3.0 percent charity service for their FY 2003. Considering charity service in dollar amounts, Ormond Memorial provided \$2,044,104 to Halifax’s \$23,002,102; however, Halifax received \$17,022,043 in tax revenue from local government, and assuming that all of it is applied to charity care, this would offset all but \$5,980,059. This might be what the applicant is referencing when it states that the Ormond Memorial record of charity care service is similar to that of Halifax; however, this would put Ormond Memorial’s charity service at only 34.18 percent of that of Halifax. Of course, these dollar amounts relate to the charges of the services provided and may not give an accurate representation of the actual costs incurred by each facility.

In any case, if FY 2003 is an indication of the level of charity care services provided at Ormond Memorial, Medicaid percentages would have to average close to 6.0 percent annually to realistically meet the condition requested on this proposed CON. Actual Medicaid services provided by Ormond Memorial for FY 2003 were 4.0 percent of total patient days. This percentage is much lower than the district average of 10.7, with the range of percentages scaling from 2.8 percent at both St. Luke’s Hospital in Jacksonville and Florida Hospital Flagler (also operated by the applicant) up to 33.3 percent at Ed Fraser Memorial. The referenced Halifax provided 14.2 percent Medicaid services. Refer to E.3.g. for further discussion.

⁴ St. Luke’s Hospital in Jacksonville provided 0.8%; Florida Hospital Flagler provided 0.6%

3. 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(1),(2),(5) and (7), Florida Statutes.**

Here the applicant restates that need for the replacement facility is based on facility and site conditions, current utilization, demographic trends, projected market growth and the applicant's commitment to the community. More thorough discussion is found in the applicant's response to E.1.

Planning area utilization for the most recent reporting period is shown below:

**District 4/Subdistrict 4, Flagler and Volusia County Utilization
Calendar Year (CY) 2003**

Iospital	County	# Acute Care Beds	Percent Occupancy
Florida Hospital Flagler	Flagler	81	60.04%
Bert Fish Medical Center	Volusia	116	51.81%
Halifax Medical Center	Volusia	633	50.52%
Memorial Hospital – Ormond Beach (subject facility)	Volusia	205	76.24%
Memorial Hospital – Ormond/Peninsula	Volusia	79	0.32%
TOTAL		1,114	52.52%

Source: Florida Hospital Bed and Service Utilization by District, July 2004 Batching Cycle

In calendar year 2003, Ormond Memorial maintained the highest level of occupancy in Subdistrict 4, above the 75 percent occupancy standard for acute care beds. Occupancy at the subject hospital fluctuated up to 85.16 percent for the first quarter of the year and down to 71.2 for the final quarter of the year, and continuously remained above the occupancy averages for Subdistrict 4 and District 4 throughout the year. The applicant anticipates that utilization will increase with the new facility, with population increases previously discussed and since multiple renovations to the existing structure have resulted in physical inefficiencies, which would compromise patient privacy and quality of care if beds were not left unused at times. As discussed, the applicant cannot acquire additional land on which to build out at its present location.

As stated above in section E. 2, the applicant is pledging 6.0 percent of total discharges to Medicaid and charity care patients; should this project be approved, usage would increase for Medicaid and charity care patients by 1.5 percent at Ormond Memorial over the most recent fiscal year. This implies that an approval of this project would increase accessibility to healthcare for Medicaid and indigent patients.

The applicant argues that the conditions and size of the existing facility are affecting the hospital's ability to deliver quality patient care. The applicant's complaints about the existing facility are as follows:

- Small, congested, loud, poor way finding, mixed patient/service/visitor traffic, lack of privacy for patients and employees.
- Two-thirds of the patient rooms are semi-private and are too small to accommodate the patient, visitors and modern medical equipment.
- Nursing floor configurations do not promote interaction between the patient and nursing staff and lead to inefficient staffing patterns.
- Inadequate number and size of operating rooms; also, operating rooms are not centralized and are not near other necessary areas (e.g. anesthesia, critical care, etc.).
- Laboratory, imaging, diagnostic services and ancillary services are neither sufficiently sized nor optimally located; supplies for these are currently stored off-site due to space constraints.

The architectural plans for this proposal show that all patient rooms will be private in the new facility, and all except the labor, delivery, recovery and postpartum (LDRP) rooms will have showers. Quality of care and patient comfort are typically improved with single patient rooms and wheelchair accessible showers, as are proposed with this replacement project.

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

The applicant lists three examples of its acknowledgement for providing quality of care: the HealthGrades Distinguished Hospital Award – Clinical Excellence (2004), recognition as a Solucient 100 Top Hospital and its JCAHO accreditation.

The applicant features its HealthGrades Award and Solucient 100 Top Hospitals recognition, which reportedly suggest lower mortality rates, lower complication rates and are generally given to large hospitals or hospitals with higher profits. The HealthGrades award for Clinical Excellence can be confirmed on that agency's website. The Solucient recognition cannot be confirmed without payment. It should be noted that both companies are for-profit advisory/informational agencies.

The applicant states that not only does Florida Hospital Memorial Division have JCAHO accreditation, but has met all 11 national patient safety goals set by JCAHO and its performance exceeds hospitals both statewide and nationwide for quality measures related to heart attack care and pneumonia care. The JCAHO Summary Quality Report available online shows that Florida Hospital Memorial Division currently enjoys full accreditation has additionally received recognition for participation in the National Voluntary Hospital Reporting Initiative in 2004.

Internal quality checks are discussed: The applicant briefly mentions its performance improvement plan, which is intended to motivate all levels of employees and ultimately improve the quality of care provided. The applicant references its affiliation with Adventist and its participation in the system-wide Corporate Clinical Accountabilities process, wherein Adventist hospitals submit data on initiatives related to clinical pathways, patient safety and medication safety.

Also in this section the applicant provides patient testimony (excerpted from an attached letter of support), and directs the reader to Attachment 2 where other letters attest to Ormond Memorial's quality of care.

Because Florida Hospital Ormond Memorial and Florida Hospital Oceanside operate under the same license number and provider number, the most recent EMTALA reports provided by the Office of Health Quality Assurance-Hospital Unit have fused the confirmed complaint reports into one. For these two facilities (both operated by the applicant), there were 12 confirmed patient complaints: two regarding patient care, one regarding infection control, one regarding medicine problems/errors, one regarding COBRA/emergency access, one regarding the physical plant and six regarding billing/refunds. Three complaints were confirmed without deficiency: one for patient care, one for inappropriate discharge and one for billing/refunds. The other allegations were either not confirmed or not investigated.

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

The audited financial statements of the applicant for the periods ending December 31, 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. The following is a list of accounts and ratios used in the analysis:

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Memorial Health Systems, Inc.		
	12/31/2003	12/31/2002
Current Assets	\$ 168,106,254	\$ 103,479,746
Cash and Current Investment	\$ 111,084,363	\$ 45,924,789
Assets Restricted for Capital Projects	\$ 14,079,597	\$ 27,493,785
Total Assets	\$ 427,520,039	\$ 375,739,688
Current Liabilities	\$ 40,078,758	\$ 25,747,073
Total Liabilities	\$ 235,216,127	\$ 211,609,537
Net Assets	\$ 192,303,912	\$ 164,130,151
Total Revenues	\$ 324,710,749	\$ 281,152,919
Interest Expense	\$ 10,722,507	\$ 7,737,593
Excess of Revenues over Expenses	\$ 30,376,020	\$ 17,146,514
Cash Flow from Operations	\$ 56,670,500	\$ 19,489,694
Working Capital	\$ 128,027,496	\$ 77,732,673
Current Ratio (CA/CL)	4.2	4.0
Cash Flow to Current Liabilities (CFO/CL)	1.4	0.8
Long-Term Debt to Net Assets (TL-CL/NA)	1.0	1.1
Times Interest Earned (NPO+Int/Int)	3.8	3.2
Net Assets to Total Assets (TE/TA)	45.0%	43.7%
Total Margin (ER/TR)	9.4%	6.1%
Return on Assets (ER/TA)	7.1%	4.6%
Operating Cash Flow to Assets (CFO/TA)	13.3%	5.2%

Florida Hospital Ormond Memorial and Florida Hospital Oceanside operate as divisions of Memorial Health Systems, Inc. The applicant is a controlled affiliate of Adventist Health Systems Sunbelt Healthcare Corporation, d/b/a Adventist Health System (parent). The applicant submitted the parent's audited annual report for the period ending December 31, 2003. The annual report showed cash and equivalents of \$373.9 million, total assets of \$3.8 billion and net assets of \$1.3 billion. The parent reported an excess of revenues over expenses of \$152.7 million on net revenues of \$3.1 billion. Cash flows from operations totaled \$368 million.

Short-term position:

The applicant's current ratio of 4.2 indicates current assets are more than four times greater than current liabilities. This ratio is above average for Florida hospitals and a strong position. The ratio of cash flow to current liabilities of 1.4 indicates the applicant has sufficient cash flow to cover current obligations. The working capital (current assets less current liabilities) of \$128 million is a measure of excess liquidity that could be used to fund capital projects. Overall, the applicant has a good short-term position.

Long-term position:

The ratio of long-term debt to net assets of 1.0 indicates the applicant debt is equal to, an acceptable position. The ratio of cash flow to assets of 13.3 percent is above average, and a good position. The most recent year had a gain of \$30.4 million, which resulted in a total margin of 9.4 percent. Overall, the applicant has a good long-term position.

Capital requirements:

Schedule 2 indicates the applicant has \$474 million in capital projects and expenditures, including repayment of long-term debt. We note that the amount listed for principal payment on long-term debt was greater than the amount shown in the audited financial statements of the applicant.

Available capital:

Schedule 2 indicates funding for these projects and expenditures will come from cash on hand and a non-related company loan. The applicant provided a commitment letter from the parent to fund all applicant projects listed in Schedule 2 of the application.

Conclusion:

Based on the information provided, the applicant, with the assistance of its parent, will have access to capital as needed to complete this project with funding for all capital projects likely.

d. What is the immediate and long-term financial feasibility of the proposal? ss. 408.035(8), Florida Statutes.

A comparison of the applicant's estimates to the control group values provides for an objective evaluation of financial feasibility, (the likelihood that the services can be provided under the parameters and conditions contained in Schedules 7 and 8), and efficiency (the degree of economies achievable through the skill and management of the applicant). In general, projections that approximate the median are the most desirable, and balance the opposing forces of feasibility and efficiency. In other words, as estimates approach the highest in the group, it is more likely

that the project is feasible, because fewer economies must be realized to achieve the desired outcome. Conversely, as estimates approach the lowest in the group, it is less likely that the project is feasible, because a much higher level of economies must be realized to achieve the desired outcome. These relationships hold true for a constant intensity of service through the relevant range of outcomes. As these relationships go beyond the relevant range of outcomes, revenues and expenses may, either go beyond what the market will tolerate, or may decrease to levels where activities are no longer sustainable.

Comparative data were derived from hospitals in peer groups that reported data in 2003; the applicant will be compared to the hospitals in peer group 2. Per diem rates are projected to increase by an average of 3.4 percent per year. Inflation adjustments were based on the New CMS Hospital Market Basket Index for the 2nd Quarter of 2004 as published in the Health Care Cost Review.

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

Net revenue per adjusted patient day (NRAPD) of \$1,674 in year one and \$1,732 in year two are between the control group highest and median values of \$2,243 and \$1,436 in year one and \$2,315 and \$1,482 in year two. The highest level is generally viewed as the practical upper limit on economies of operation. (See Comparative Table). The applicant's actual NRAPD in 2003 was reported as \$1,415 at the existing facility. The difference in actual NRAPD reported for 2003 and the projected NRAPD calculates to an average annual increase of approximately 3.7 percent. This level of increase is slightly higher than CMS Market Basket, 2nd Quarter 2004 rate of 3.4 percent.

Projected cost per adjusted patient day (CAPD) of \$1,657 in year one and \$1,695 in year two are between the group highest and median values of \$2,108 and \$1,391 in year one and \$2,175 and \$1,436 in year two. (See Comparative Table). The applicant's actual CAPD reported for 2003 for the existing facility was \$1,287. The difference in the CAPD reported in 2003 and the projected CAPD calculates to an average annual increase of approximately 5.3 percent. This level of increase is well in excess of the CMS market basket index. However, the projected CAPD includes a \$5.5 million increase in interest expense associated with financing the new hospital. When this increase is taken into consideration, the historic CAPD is consistent with the projected CAPD.

The year two operating profit for the hospital of \$4.2 million computes to an operating margin per adjusted patient day of \$37 which is between

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the peer group median and lowest of \$82 and -455. The projected operating margin is 2.2 percent, which indicates net revenues are proportional to costs. The projected operating margin is less than the applicant's operating margin reported for 2003 of 9.0 percent.

Based on the above, financial feasibility of this project appears likely.

CON # 9802 Florida Hospital Ormond Memorial 2003 DATA Peer Group 2	2010	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	372,977,032	5,023	1,371	490	253
INPATIENT AMBULATORY	-	0	164	96	0
INPATIENT ANCILLARY SERVICES	-	0	4,667	2,343	1,055
OUTPATIENT SERVICES	189,754,783	2,556	4,449	2,060	1,104
OTHER OPERATING REVENUE	818,104	11	36	7	1
TOTAL REVENUE	563,549,919	7,590	8,807	4,855	3,396
DEDUCTIONS FROM REVENUE	369,236,756	4,973	*	*	*
NET REVENUES	194,313,163	2,617	2,315	1,482	1,148
EXPENSES					
ROUTINE	26,349,309	355	286	216	135
ANCILLARY	64,341,734	867	679	459	323
AMBULATORY					
OVERHEAD	93,772,584	1,263	1,235	692	473
OTHER		0			
TOTAL EXPENSES	190,112,244	2,561	2,175	1,436	1,063
OPERATING INCOME	4,200,919	57	272	82	-455
		2.2%			
PATIENT DAYS	74,247		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	112,184		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	132,860				
ADJ. FACTOR	0.7				
TOTAL NUMBER OF BEDS	364				
PERCENT OCCUPANCY	56%		83%	53%	18%
PAYER TYPE		PATIENT			
		DAYS			
		% TOTAL			
MEDICARE	45,704	77.4%	82.7%	57.7%	32.1%
COMMERCIAL	7,531	14.8%			
MEDICAID	2,939	2.0%	27.1%	9.3%	1.5%
SELF-PAY	2,140	0.8%			
HMO/PPO	12,415	4.9%	45.7%	21.4%	0.0%
OTHER	3,518	0.0%			
TOTAL	74,247	100.0%			

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

Managed care levels were reported at 28.8 percent for 2003 for the existing facility. The applicant forecasts managed care levels at 16.7 percent, which is between control group median and lowest level of 21.4 and 0.0 percent. The projected levels, if realized, will have little positive impact on competition to promote quality assurance and cost-effectiveness.

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

The applicant proposes to build a 12-story replacement facility with an attached medical office building and a central energy plant. The hospital will be designed for future vertical and horizontal expansion.

The application package included plans of all the floors and elevations of the building and there was also a sheet with large-scale plans of nine typical patient rooms. All rooms are private and all except the LDRP rooms have a shower, some large enough to accommodate a patient in a wheelchair. All the rooms exceed the minimum size requirements.

The plans are particularly well thought-out and appear to provide all the required spaces and functions. There are several large areas on some of the lower floors that will be built as shell space for future expansion and they are all appropriately fire-rated. The 10th floor has only observation beds and the 11th and 12th floors have only fire-rated shell space. The patient tower is the part of the facility that is most likely to be expanded vertically if all the shell spaces are built out.

The code references are essentially correct and the time schedule appears to be reasonable for a project of this size. However, the information on Schedule 9 includes square footage and costs for the medical office building, so there can be no direct comparison of the estimated costs for this project with one that proposes to build just a hospital. Also, even though the square footage of the hospital is roughly 81 percent of the total project space, this percentage cannot be applied to all the other figures on Schedule 9 since some of them clearly only apply to the hospital.

Since the two buildings are intended to be built at the same time, both should have somewhat lower than average costs per square foot. The projected costs may take into account this savings. Additionally, since a significant portion of the hospital will be shell space, the estimated costs for it are not really comparable to any other projects that are for an entire build-out.

The applicable codes are expected to change by the time the project is submitted to the AHCA Office of Plans and Construction. Since the design professionals have extensive healthcare experience, they are likely to be aware of the projected changes, but will need to keep them in mind throughout the design process.

There are also several references in the narrative to the requirements for disaster preparedness, which is to be expected from the design professionals for the project. They all have extensive healthcare experience and are used to working with this department.

The narrative has very detailed outline specifications and facility program information.

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.

g. 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.

Here the applicant relates its overall (meaning all of Memorial Health Systems, Inc.) prior year (calendar year 2003) Medicaid and indigent services provision, which is presented as 2,300 Medicaid recipients and over \$11.5 million in charity care. Again the applicant states that Ormond Memorial's level of charity care is comparable to that of Halifax Medical Center, the county's safety net hospital. As determined in section E.2., if all of the tax revenues that Halifax receives from the local government were applied directly to charity care expenses, there is still an almost \$3.94 million difference in the amount of charity care services provided between the two hospitals. Ormond Memorial and Florida

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Hospital Oceanside combine their charity care percentages for reporting purposes (same license number), and these two facilities together provided 0.5 percent for 2003. Halifax, by contrast, provided 3.0 percent during this same time. According to the excerpt from Halifax’s financial statements provided with this CON application, the local government tax revenues would offset Halifax’s charity care percentage provision to 0.8 percent, which would be more comparable to the combined Ormond Memorial – Oceanside percentage of 0.5 percent, but stills shows a single facility providing more charity care than two facilities combined. The applicant indeed has experience in providing care to these types of patients, but it is not clear that the level of charity care at the subject hospital is comparable to that of the “safety-net” Halifax. Below is a comparative chart indicating the percentage of charity care and Medicaid patient days at hospitals in the planning area during Fiscal Year (FY) 2003:

District and Subdistrict Medicaid and Charity Comparison for FY 2003

Facility	Charity Service	Medicaid
Florida Hospital Flagler	0.6%	2.8%
Bert Fish Medical Center	5.2%	3.4%
Halifax Medical Center	3.0%	14.2%
Florida Hospital Ormond Memorial	0.5%	4.0%
Subdistrict 4 Average	2.33%	6.1%
District 4 Average	2.9%	10.7%

Source: AHCA Hospital Financial Data 2003

As shown above, the applicant’s provision of indigent care is below both the district and subdistrict average.

Again, the applicant pledges to providing a minimum of 6.0 percent of Florida Hospital Ormond Memorial’s *total discharges* to Medicaid and charity patients. As mentioned above, Ormond Memorial provided 4.5 percent of *total patient days* to Medicaid and charity patients in FY 2003. The applicant does not address the difference in these computations.

The applicant pledges to continue to provide health services to Medicaid patients and the medically indigent.

F. SUMMARY

Memorial Health Systems, Inc. (CON #9802) requests a certificate of need to build a replacement hospital within three miles of the existing facility for Florida Hospital Ormond Memorial. This proposed facility would have an initial total licensed bed count of 245 beds: 205 which are currently licensed at the existing facility and 40 of which will be added upon an approval of this project. As is pursuant to §408.036(5)(c), the applicant notified the agency of its intent to add these beds, but has not yet done so due to the site constraints as detailed in the submission.

The proposed hospital will consist of 703,707 gross square feet of new construction with construction costs at \$132,175,621 and a total project cost of \$219,794,878.

The applicant has contracted to purchase a new site, which will be on 134.7 acres off Williamson Boulevard and I-95.

The applicant is requesting that the certificate of need be conditioned for the provision of a minimum of 6.0 percent of total discharges to Medicaid and charity care patients.

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

Fixed Need Pool

- This proposal is not in response to a fixed need pool.
- The applicant's justification for the replacement hospital largely stems from the current hospital's space constraints and operational deficiencies that prevent the hospital from fully utilizing its licensed bed capacity, its inability to build out, and meeting future needs.
- The proposed location of the replacement hospital is under a purchase contract and is a reported three miles from the existing facility. The applicant expects that the proposed project will not impact surrounding facilities, and explains that the proposed increases in utilization and Medicaid/charity care percentages will be due to relief from the physical constraints at the current location.
- According to the applicant, the planned site is the same distance from Halifax Medical Center, the area's largest provider of care to the medically indigent, as the existing facility.

Quality of Care

- The applicant reasonably demonstrates that it has a history of providing quality of care, as indicated by its JCAHO accreditation and compliance with licensure requirements of the State of Florida. The replacement of the hospital will likely improve the efficiency of care services and therefore overall quality of care in the service area. The new facility was designed to provide single patient rooms with showers, improving patient comfort and increasing the facility's ability to provide quality of care.
- Population increases in the service area and high utilization patterns at the subject hospital indicate that future expansion may be necessary to continue quality of care, and this expansion cannot occur at the existing site due to lot constraints and structural inefficiencies.
- Letters of support included from members of the medical community testify to the impact of the facility conditions on Ormond Memorial's ability to provide a higher quality of care.

Cost/Financial Analysis

- Overall, the applicant has good short-term and long-term positions.
- Schedule 2 indicates funding for these projects and expenditures will come from cash on hand and a non-related company loan. The applicant provided a commitment letter from the parent to fund all applicant projects listed in Schedule 2 of the application.
- With the assistance of its parent, the applicant will have access to capital as needed to complete this project with funding for all capital projects likely.
- The projected managed care levels, if realized, will have little positive impact on competition to promote quality assurance and cost-effectiveness.

Medicaid/Indigent Charity Care Commitment

- The applicant is requesting that the CON be conditioned for the provision of a minimum of 6.0 percent of total discharges to Medicaid and charity care patients.
- According to the FY 2003 Hospital Financial Data Guide, Florida Hospital Ormond Memorial provided 4.0 percent of total patient days

to Medicaid patients and 0.5 to charity care patients, making the likelihood of achieving the proposed condition somewhat questionable.

Architectural Analysis

- The listed code references are essentially correct and the costs and schedule appear to be reasonable for a project of this size.
- All the rooms exceed the minimum size requirements.
- The plans are particularly well thought-out and appear to include all the required spaces and functions.

G. RECOMMENDATION

Approve CON #9802 to relocate Florida Hospital Ormond Memorial Hospital to a location off Williamson Boulevard and I-95 approximately three miles from the existing facility. The project involves 703,707 GSF of new construction and construction costs of \$132,175,021. Total project cost is \$219,794,878.

CONDITION: A minimum of 6.0 percent of the total discharges at the facility (205 acute beds plus 40 new = 245 total beds) shall be provided to Medicaid and charity patients on a combined basis.

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