

## STATE AGENCY ACTION REPORT

### CON APPLICATION FOR CERTIFICATE OF NEED

#### A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

**Martin Memorial Medical Center, Inc./CON #9810**

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 to establish an 80-bed acute care hospital in St. Lucie County. The applicant submitted what appear to be copies of the same letters of support that were submitted for CON #9772. There were 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 (28<sup>th</sup> District); State Representative Gayle B. Harrell (81<sup>st</sup> 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 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.

**Letters of Opposition:**

There were also two letters submitted in opposition to the project from St. Lucie Medical Center and Lawnwood Regional Medical Center. An October 18, 2004 letter from Gary Cantrell, CEO of St. Lucie Medical Center states that his letter was written in opposition to "CON 99557". The first nine appears to be a typographical error and this is very likely referencing an earlier application submitted in 2002 by Martin Memorial Medical Center, Inc. to establish an 80-bed acute care hospital in St. Lucie County. This October 18, 2004 letter refers to exhibits that were not attached. The letter 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. 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.

An October 19, 2004 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. Although Lawnwood Regional is not classified as a Disproportionate Share Hospital

for FY 2004-05, of the hospitals in the subdistrict, it does provide the highest percentage of indigent care, as is discussed later in this report. Mr. Pentz also 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. In addition, with the damaging impact of two hurricanes earlier this year (to the area and to the two-hospital Martin Memorial Hospital System), Mr. Pentz questions the practicality for the applicant to build a new facility.

**C. PROJECT SUMMARY**

**Martin Memorial Medical Center, Inc. (CON #9810)** proposes the establishment of a new 80-bed 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). Both of the applicant's existing hospitals are located in Martin County. Subdistrict 2 of District 9 consists of two counties, Martin and St. Lucie.

The total project cost is estimated at \$68,548,103. Construction costs are projected at \$33,920,000 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, Tina Mazanek, analyzed the application with consultation from the financial analyst, Ryan Fitch, 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.

**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 30, dated July 23, 2004, page 3077 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 August 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 64.12 percent for the reporting period January 1, 2003-December 31, 2003. There are presently no CON approved acute care beds in the subdistrict. Beginning July 1, 2004, except in low

growth counties<sup>1</sup>, the addition of acute care beds no longer requires CON review. An existing facility is however, required to notify the agency if it plans to add acute beds. As of this writing, the agency has not received a notification that an existing hospital would be adding beds in this subdistrict.

**District 9, Subdistrict 2  
Acute Care Bed Inventory and Utilization  
January 2003-December 2003**

<b>Hospital</b>	<b>County</b>	<b># of Acute Care Beds</b>	<b>Percent Occupancy</b>
St. Lucie Medical Center	St. Lucie	*194	76.71%
Lawnwood Regional Medical Ctr.	St. Lucie	273	59.24%
Martin Memorial Medical Ctr.	Martin	231	65.57%
Martin Memorial Hospital South	Martin	100	51.91%
<b>TOTALS</b>		<b>798</b>	<b>64.12%</b>

**Source: AHCA Hospital Bed and Service Utilization by District, Volume II, July 23, 2004.**

**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 (64.12 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. 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 2004 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. However, as discussed below, there is excess bed capacity currently in the subdistrict to accommodate growth and the applicant's need projections are based on population data that show higher percentage increases than those developed by the Governor's office and used in CON review. Given existing excess capacity and need projections that express population growth at a higher percentage than is generally accepted in CON review, concerns expressed by opponents to this project, which were presented earlier, appear valid.









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<sup>1</sup>Section 408.036(1)(g), Florida Statutes establishes CON review of an increase in the number of beds for acute care in a hospital that is located in a low-growth county and defines low-growth county under that subsection.









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 (PSA) for the proposed hospital, consisting of zip codes 34953, 34983, 34984, 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. However, as discussed in more detail below, when compared to population estimates developed by the Governor's office and used in CON need analysis and projections, the population projections used by the applicant are higher than those developed by the Governor's office and used in CON need development. The applicant expects that St. Lucie Medical Center will maintain an existing market presence in the PSA. 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 64.12 percent, this leaves 286 unused beds in the subdistrict, 156 of which are located in St. Lucie County.

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 grew almost 60 percent in the 1990's reaching 89,000 in 2000. Although this population increase could not be verified, data from the US Census Bureau on-line

provides the following information, which shows total St. Lucie County population increase between 1990 and 2000 at 28.3 percent, compared to the total Florida population increase of 23.5 percent was higher than the state as a whole by 4.8 percent.

US Census Data Comparison - St. Lucie County and State 1990 and 2000			
		<b>St. Lucie County</b>	<b>Florida</b>
	Population, 2003 estimate	213,447	17,019,068
	Population, percent change, April 1, 2000 to July 1, 2003	10.8%	6.5%
	Population, 2000	192,695	15,982,378
	<b>Population, percent change, 1990 to 2000</b>	<b>28.3%</b>	<b>23.5%</b>
	Persons under 5 years old, percent, 2000	5.6%	5.9%
	Persons under 18 years old, percent, 2000	22.6%	22.8%
	Persons 65 years old and over, percent, 2000	22.7%	17.6%
	Female persons, percent, 2000	51.2%	51.2%
Source: <a href="http://quickfacts.census.gov/qfd/states/12/12111.html">http://quickfacts.census.gov/qfd/states/12/12111.html</a>			

The percentage growth in Martin County is also higher than the state as a whole, but the difference is less than St. Lucie County at 2.1 percent.

US Census Data Comparison - Martin County and State 1990 and 2000			
		<b>Martin County</b>	<b>Florida</b>
	Population, 2003 estimate	135,122	17,019,068
	Population, percent change, April 1, 2000 to July 1, 2003	6.6%	6.5%
	Population, 2000	126,731	15,982,378
	<b>Population, percent change, 1990 to 2000</b>	<b>25.6%</b>	<b>23.5%</b>
	Persons under 5 years old, percent, 2000	4.4%	5.9%
	Persons under 18 years old, percent, 2000	18.6%	22.8%
	Persons 65 years old and over, percent, 2000	28.2%	17.6%
	Female persons, percent, 2000	50.9%	51.2%
Source: <a href="http://quickfacts.census.gov/qfd/states/12/12085.html">http://quickfacts.census.gov/qfd/states/12/12085.html</a>			

According to the applicant, in the first six months of 2004, St. Lucie grew by approximately 6,835 people, from 111,266 to 118,101 (6.14 percent for the period, annualized at 12.28 percent). The applicant used population data developed at the University of Florida by Dr. Stanley K. Smith, the Director of Economics and Business Research. Based on projections by Dr. Smith, the population in the primary service area is expected to increase by 26,115 residents (28.2 percent) between 2004 and 2009 and 57.6 percent by 2014. However, as discussed below, Dr. Smith's projections appear higher than the agency's

The applicant provided the following table to illustrate population growth from 2004 to 2014 for the primary service area.

**Primary Service Area Population Estimates by Age Cohort  
2004-2014**

<b>Age Cohort</b>	<b>2004</b>	<b>2009</b>	<b>2014</b>	<b>% Change 2004-09</b>	<b>% Change 2004-14</b>
0-14	18,129	21,099	24,777	16.4%	36.7%
15-44	33,923	40,214	47,714	18.5%	40.7%
45-65	24,802	36,483	44,090	47.1%	77.8%
65+	15,831	21,004	29,511	32.7%	86.4%
PSA Total	92,685	118,800	146,092	28.2%	57.6%
Females 15-44	17,009	19,982	23,513	17.5%	38.2%

**Source: Con Application #9810, page 27. Dr. Stanley K. Smith, Director of Economics and Business Research (BEER), University of Florida. Primary Service Area consists of the following zip codes: 34953, 34983, 34984, 34986, 34987.**

According to the table above, the applicant projects that the population for the primary service area will grow 57.6 percent from 2004 to 2014 and 28.2 percent in five years, from 2004 to 2009. The most significant increase projected is for the 65 and older age cohort at 32.7 percent with females age 15-44 next at 17.5 percent between 2004 and 2009.

The applicant presented the following table comparing the growth estimates for the projected service area and St. Lucie County.

**Comparative Population Growth  
PSA and St. Lucie County  
2003-2009**

<b>Area</b>	<b>2004</b>	<b>2009</b>	<b>Number Increase</b>	<b>Percent Increase</b>
PSA	92,685	118,800	26,115	28.2%
Non-PSA	133,531	137,732	4,201	3.1%
Total St. Lucie County	226,216	256,532	30,316	13.4%

**Source: CON Application, page 27/Dr. Stanley K. Smith, Director of the Bureau of Economics and Business Research (BEER), University of Florida. The PSA consists of ZIP codes 34953, 34983, 34984, 34986, and 34987.**

**NOTE: March 2004 AHCA Population projections indicate St. Lucie County population of 214,856 in January 2004 and 229,362 in January 2009 with a 6.7 rather than a 13.4 percentage increase.**

According to the table above, the projected service area is expected to grow by 28.2 percent as compared with St. Lucie County at 13.4 percent. As noted above, Dr. Smith's projections are higher than those projected by the Governor's office and used by the Agency in CON reviews. AHCA data show the percentage increase in St. Lucie County from 2004 to 2009 to be 6.7 percent, the applicant's projections exactly double those published by the Governor's office and used by the agency. If this same percentage increase holds true for the PSA and non-PSA increase, then the five-year projected PSA increase would be 14.1 percent and the non-PSA increase would be 1.5 percent. Unfortunately, the Governor's office does not provide zip code level population increase projections so that a comparison could not be made.

The following provides a comparison of the PSA population data from the University of Florida with the population projections for District 9, Subdistrict 2 (St. Lucie and Martin Counties), and the State of Florida using AHCA population projections for 2004 through 2009.

**Comparative Population Projections  
PSA, Subdistrict, District, State  
2004-2009**

<b>Area</b>	<b>2004</b>	<b>2009</b>	<b>Number Increase</b>	<b>Percent Increase</b>
PSA	92,685	118,800	26,115	28.2%
Subdistrict 2 *	351,144	376,357	25,213	7.2%
District 9 *	1,739,584	1,893,562	153,978	8.9%
Florida *	17,260,899	18,574,139	13,13,240	7.6%

**Source: CON Application, page 27/Dr. Stanley K. Smith, Director of the Bureau of Economics and Business Research (BEER), University of Florida. The PSA consists of ZIP codes 34953, 34983, 34984, 34986, and 34987.**

**\*AHCA Population Estimates, March 2004.**

As noted above, Dr. Smith's estimates are higher than those used by the agency. That should be considered when making any comparison that involves mixing the two data sets. As noted earlier, if the same percentage increase holds true for all of Dr. Smith's projections, then the PSA increase is likely 14.1 percent or twice that of the subdistrict as a whole rather than around four times as shown above.

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 71.6 percent of those areas built out as of June 30, 2004. In contrast, 50.4 percent of the area west of the North Fork has been developed. The applicant notes that in a previous filing in 2002, the percent build-out for the western area was 38.7 percent compared to 50.4 percent now, a nearly 12-percentage point increase in two and a half years, or an average annual rate of 11.1 percent. At this rate, the applicant contends that the western area will be built out in nine years.

The applicant discussed numerous factors that support the continued 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 a report issued in February 1-6, 2004 by the Urban Land Institute to provide another view of the development needs in the western area of the city. This report addresses specific additional infrastructure needs, such as schools, police and fire station facilities, and concludes on page 18 that there is a need for a hospital in the western part of the area. The 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.

The table below describes the mileage from the existing acute care providers in Subdistrict 2 to the proposed site at Martin Memorial St. Lucie West.

**Mileage from Existing Acute Care Providers to Proposed Site  
Subdistrict 2 in District 8**

Martin Memorial Medical Center	16.4 miles
Martin Memorial South	23.9 miles
Lawnwood Regional Medical Center	11.2 miles
St. Lucie Medical Center	9.3 miles

**Source: [www.Expdiemap.com](http://www.Expdiemap.com). Using the address of the proposed building site at Martin Memorial St. Lucie West.**

As shown in the above table, the closest facility to the proposed site is St. Lucie Medical Center at 9.3 miles and the furthest facility is Martin Memorial South at 23.9 miles. Travel distances to existing facilities are reasonable and the applicant has provided no special circumstances that indicate this is a problem for area residents.

It is apparent from the population projections and development studies provided by the applicant 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 as evidenced by utilization at existing facilities as shown below.

**District 9, Subdistrict 2  
Acute Care Bed Inventory and Utilization  
January 2003-December 2003**

<b>Hospital</b>	<b>County</b>	<b># of Acute Care Beds</b>	<b>Percent Occupancy</b>
St. Lucie Medical Center	St. Lucie	*194	76.71%
Lawnwood Regional Medical Ctr.	St. Lucie	273	59.24%
Martin Memorial Medical Ctr.	Martin	231	65.57%
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<b>TOTALS</b>		<b>798</b>	<b>64.12%</b>

**Source: AHCA Hospital Bed and Service Utilization by District, Volume II, July 23, 2004.**

**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 previously discussed, there are underutilized beds in the subdistrict and beds can be added in most areas of the state without CON review.

The applicant gave a brief discussion of the damage done to Martin Memorial as a result of being hit by two hurricanes this year and the need to close rooms and divert patients to Martin Memorial South.

According to the applicant, MMH South has been at full capacity since the storms. However, once the damage to Martin Memorial Hospital has been addressed and it is able to resume taking patients at full capacity, the occupancy for MMH South should decrease. It is again noted that beds may be added to both facilities without CON review.

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

**Projected Utilization of Satellite Hospital**

	Year Ending March 31		
	2008	2009	2010
Medical/Surgical Discharges	2,460	3,434	4,261
OB Discharges	558	698	828
<b>Total Discharges</b>	3,018	4,131	5,089
Medical/Surgical Days	10,796	15,131	19,013
OB Days	1,338	1,674	1,986
<b>Total Days</b>	12,134	16,805	20,999
Medical/Surgical Avg. Daily Census	29.6	41.5	52.1
OB Avg. Daily Census	3.7	4.6	5.4
<b>Total Avg. Daily Census</b>	33.2	46.0	57.5
Medical/Surgical Occupancy	41.1%	57.6%	72.3%
OB Occupancy	45.8%	57.3%	68.0%
<b>Total Occupancy Level</b>	41.6%	57.6%	71.9%

Source: CON Application #9810, page 64.

The applicant is projecting occupancy to increase at around 15 – 16 percent a year. Population increases are expected at between five and six percent a year from 2004 to 2009. It is not clear that the applicant’s need projections are reasonable. For example, there is no historical evidence that would suggest the applicant can reasonably project a 15-16 percent increase in occupancy each year. The table below illustrates the utilization rates for Subdistrict 2 in District 9 over the past five years, including the number of used and unused beds.

<b>District 9, Subdistrict 2 Utilization Rates Including Used and Unused Bed Count</b>					
<b>Time Frame</b>	<b>Utilization Rate</b>	<b>% Diff. from Previous Year</b>	<b>Total Beds</b>	<b>Used Beds</b>	<b>Unused Beds</b>
1/03-12/03	64.12%	-0.24%	798	512	286
1/02-12/02	64.36%	-4.9%	774	499	275
1/01-12/01	69.26%	+0.50%	717	497	220
1/00-12/00	69.76%	+2.42%	717	501	216
1/99-12/99	67.34%		717	483	234

Source: AHCA utilization books from 1999 to 2003.

Historical utilization in the area shows a range of +2.42 to -0.24 percentage change over the past five years for Subdistrict 2 in District 9.

Although population increases will account for some of the hospital's anticipated market share, in looking at historic data, it is likely that the proposed hospital will divert current market shares from area hospitals and in particular, St. Lucie Medical Center which is located the closest to the proposed site, approximately nine miles away. 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.

Need for a new hospital in the subdistrict to serve the western portion of Port St. Lucie in St. Lucie County was not demonstrated.

**2. 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.**

Refer to Item E.3.g.

- 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. It is noted that recent changes to the Florida Statutes no longer require most acute care bed additions to receive CON approval. Agency CON rules are in the process of being amended to reflect 2004 statutory changes.

**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(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.1 b. above, need for a new acute care hospital to serve residents of 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. In St. Lucie Medical Center's letter of opposition it states 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 show in an earlier table the distances from the proposed construction site to the existing acute care hospitals in Subdistrict 2 range from 9.3 miles (St. Lucie Medical Center) to 26.5 miles (Martin Memorial South), not extreme distances to obtain services. The applicant's need projections utilize projected increases patient days not support by historical data.

As previously discussed, the average occupancy for acute care beds in District 9, Subdistrict 2, was 64.12 percent for the time period of January 2003 through December 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 E.3.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 in attachment 19 of the application. .

According to the most recent complaint summary report provided by the Office of Quality Assurance-Hospital Section and dated September 15, 2004, Martin Memorial Medical Center (including Martin Memorial South) had 13 confirmed complaints in the past three years, 11 with deficiencies. The number of confirmed complaints for each category was as follows: billing/refund violations (seven) and EMTALA/emergency access violation (three), patient care (one). The two allegations that were confirmed without deficiencies involved one each for the categories of restraints and patient care.

- c. **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.**

**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 March 31, 2009), the applicant anticipates having a total of 122.1 FTE's, increasing to 164.7 FTE's in year two and 220.8 FTE's in year three. Nursing staff will comprise 43.6 FTE positions in year one and 71.9 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.

The audited financial statements of the applicant, 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.

**MARTIN MEMORIAL MEDICAL CENTER, INC.**

	<u>12/31/2003</u>	<u>12/31/2002</u>
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%

**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 average and is a moderately weak but acceptable position. The working capital (current assets less current liabilities) of \$70.8 is a measure of 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 of 1.5 indicates long-term debt is greater than equity. This is well above average and a weak position. The ratio of cash flow to assets of 11.0 percent is above average and a good position. The most recent year had \$6.4 million of income from operations, which resulted in an operating margin of 3.1 percent. Overall, the applicant has an adequate long-term position.

**Capital Requirements:**

Schedule 2 indicates the applicant has capital projects and maturities of long-term debt through 2007 totaling \$167.9 million. This amount includes estimated costs to repair recent hurricane damage.

**Available Capital:**

Funding for this project will come from cash on hand and non-related company financing. The applicant already owns the land on which the satellite hospital will be constructed and has valued that land at \$3.1 million (amount included in construction cost). The applicant provided a letter dated October 12, 2004, from Ziegler Capital Markets Group (Ziegler). The letter indicates Ziegler's commitment to underwrite \$55.7 million of a tax-exempt bond issue for this project. As of December 31, 2003, the applicant had cash and current investments of \$65 million, working capital of \$70.8 million, and cash flow from operations of \$23 million. The applicant is also affiliated with the Martin Memorial Foundation, Inc. (Foundation). The Foundation is another source of potential funding with \$7.8 million in net assets (\$3.0 million unrestricted).

**Conclusion:**

With this project, the applicant will continue to be highly leveraged. The applicant submitted a letter from Ziegler indicating that incurring additional debt for this project is financially viable. With the resources of the applicant and commitment from Ziegler, funding for this project and all capital projects should 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.

The applicant has stated that the new hospital will serve the patient population in the following zip codes: 34953, 34983, 34984, 34986, and 34987. We tested the case mix data, using the 10,598 patients discharged from the indicated zip codes during 2003, excluding DRG's for services not provided. The computed case mix index for these cases was 1.1728. Therefore, based on the range of services offered, number of beds and estimated patient days, as well as the computed case mix index; the applicant will be compared to the hospitals in Group 4. Per diem rates are projected to increase by an average of 3.6 percent per year. Inflation adjustments were based on the new CMS Market Basket, 2<sup>nd</sup> Quarter, 2004.

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.

Projected net revenue per adjusted patient day (NRAPD) of \$1,789 in year one and \$1,833 in year two is between the control group median and highest values of \$1,592 and \$2,549 in year one and \$1,643 and \$2,631 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 (CAPD) of \$1,974 in year one and \$1,785 in year two is between the group median and highest values of \$1,503 and \$2,296 in year one and \$1,551 and \$2,370 in year two. This level of expense is considered feasible with projected cost falling between the control group median and highest values. (See Comparative Table). The applicant is projecting a decrease in CAPD between year one and year two of approximately 10 percent. It should be noted that this application is for a new acute care hospital. The first year of operation has a below average occupancy rate. The low occupancy rate decreases economies of scale and as the occupancy rate increases, CAPD would be expected to decrease.

The year two projected operating income is \$1.1 million, which computes to an operating margin per adjusted patient day of \$48. This is between the control group median and lowest value of \$81 and a negative \$158. The group 4 data is derived from mature hospitals. As discussed above, this application is for a new acute care hospital and economies of scale will be realized as the projected occupancy rate increases. The applicant is projecting an occupancy rate in year three of 71.9 percent with projected operating income of \$2.7 million.

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

**COMPARATIVE TABLE**

**MARTIN MEMORIAL MEDICAL CENTER, INC.**

<b>CON # 9810</b> <b>2003 Data Peer Group 4</b>	March 2010	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	<u>ACTIVITY</u>	<u>PER DAY</u>	<u>Highest</u>	<u>Median</u>	<u>Lowest</u>
ROUTINE SERVICES	112,652,000	4,862	1,202	681	375
INPATIENT AMBULATORY		0	314	118	30
INPATIENT SURGERY		0	0	0	0
INPATIENT ANCILLARY SERVICES		0	5,435	2,723	1,544
OUTPATIENT SERVICES	42,185,000	1,821	3,207	2,113	1,375
<b>TOTAL PATIENT SERVICES REV.</b>	<b>154,837,000</b>	<b>6,683</b>	<b>8,578</b>	<b>6,032</b>	<b>4,077</b>
OTHER OPERATING REVENUE	468,000	20	33	8	1
<b>TOTAL REVENUE</b>	<b>155,305,000</b>	<b>6,703</b>	<b>8,580</b>	<b>6,038</b>	<b>4,094</b>
DEDUCTIONS FROM REVENUE	112,836,000	4,870	0	0	0
<b>NET REVENUES</b>	<b>42,469,000</b>	<b>1,833</b>	<b>2,631</b>	<b>1,643</b>	<b>1,192</b>
<b>EXPENSES</b>					
ROUTINE	12,625,000	545	365	251	161
ANCILLARY	9,425,000	407	767	514	398
AMBULATORY	2,546,000	110	0	0	0
<b>TOTAL PATIENT CARE COST</b>	<b>24,596,000</b>	<b>1,062</b>	<b>0</b>	<b>0</b>	<b>0</b>
ADMIN. AND OVERHEAD	7,852,000	339	0	0	0
PROPERTY	8,898,000	384	0	0	0
<b>TOTAL OVERHEAD EXPENSE</b>	<b>16,750,000</b>	<b>723</b>	<b>1,354</b>	<b>676</b>	<b>522</b>
OTHER OPERATING EXPENSE	0	0	0	0	0
<b>TOTAL EXPENSES</b>	<b>41,346,000</b>	<b>1,785</b>	<b>2,370</b>	<b>1,551</b>	<b>1,208</b>
OPERATING INCOME	1,123,000	48	256	81	-158
		2.6%			
PATIENT DAYS	16,805				
ADJUSTED PATIENT DAYS	23,168				
TOTAL BED DAYS AVAILABLE	29,200		VALUES NOT ADJUSTED		
ADJ. FACTOR	0.7254		FOR INFLATION		
TOTAL NUMBER OF BEDS	80		<u>Highest</u>	<u>Median</u>	<u>Lowest</u>
PERCENT OCCUPANCY	57.55%		83.8%	57.7%	25.2%
PAYER TYPE	<u>PATIENT DAYS</u>	<u>% TOTAL</u>			
SELF PAY	762	4.5%			
MEDICAID	1,634	9.7%	30.1%	7.0%	1.3%
MEDICAID HMO	90	0.5%			
MEDICARE	7,926	47.2%	72.9%	46.3%	17.1%
MEDICARE HMO	408	2.4%			
INSURANCE	633	3.8%			
HMO/PPO	5,019	29.9%	56.1%	34.3%	8.5%
OTHER	333	2.0%			
<b>TOTAL</b>	<b>16,805</b>	<b>100%</b>			

**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 32.8 percent, which is between control group median and highest level of 34.3 and 56.1 percent. With the projected managed care level between the median and highest values in the control group, these levels if realized are likely to have a marginally positive impact on competition.

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

The applicant proposes to build an 80-bed satellite hospital in St. Lucie County.

The application included a plan of a possible site where there is an existing ambulatory surgery center and space for a future medical office building. The applicant will continue to investigate alternate sites. The final site must conform to the criteria for disaster preparedness in the Florida Building Code. The narrative indicates that the applicant is aware of these provisions of the code.

The facility is planned to have two stories initially with provisions for additional beds and facility expansion both horizontally and vertically. All suites and functions are well thought-out which is to be expected since the design professionals have considerable health care experience.

The hospital will have 64 medical/surgical beds, eight ICU beds and eight LDRP rooms. The medical/surgical beds will be in two 32-bed wings on the 2<sup>nd</sup> floor. All patient rooms will be private.

There were 1/16" = 1'-0" overall plans of the hospital and large-scale plans of two typical patient rooms. The typical handicapped accessible patient rooms do not have a hand washing station inside the room and this must be provided.

The isolation and handicapped accessible patient rooms are placed close to the nurse stations where the staff can more easily observe them. All the plans are single line schematic drawings and this is all that must be submitted.

The emergency department is quite large and has many spaces for patients. There is a decontamination space which is required by The Guidelines, 7.9.D.25.

The surgical suite has three operating rooms and an endoscopy procedure room on the first floor. The ORs must have a minimum of 400 square feet and it appears that they are large enough to meet code requirements.

The surgery suite does not appear to have the preferred path for the staff to take through the toilet/shower/lounge rooms before entering the semi-restricted area. There is one group of rooms with these functions that has the correct traffic flow, but the other similar cluster of rooms does not have a door leading into the semi-restricted corridor. Most hospitals have separate locker/toilet/shower rooms for physicians and staff of both sexes, making a total of four such spaces, but only separate ones for males and females are required.

There must be a morgue with an exterior door as required by The Guidelines, Paragraph 7.16.

There were several lists of applicable codes, some were correct and some quite outdated. The information from Schedule 10 indicates that sufficient time has been allowed for construction. The projected cost appears to be reasonable for this type of facility and the extent of the construction.

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 table below illustrates the percentage of Medicaid days and charity care days for the acute care facilities in Subdistrict 2 of District 9.

**Percentage of Medicaid & Charity Care Days  
District 9, Subdistrict 2  
Calendar Year 2003**

	<b>% Medicaid Days</b>	<b>% Charity Care Days</b>
Martin Memorial Medical Center*	7.1%	2.2%
Lawnwood Regional Medical Center	22.2%	2.7%
Saint Lucie Medial Center	7.0%	1.3%
Sudistrict 2 Total	12.1%	2.1%
District 8 Total	12.8%	2.0%

**Source: AHCA Financial Data CY 2003. \*Martin Memorial Medical Center includes Martin Memorial South as they are reported together under one license.**

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 2003 Hospital Financial Data (AHCA document), Martin Memorial Medical Center provided 5,092 Medicaid patient days and 2,815 adjusted charity days. These patient days represent 7.1 percent Medicaid days and 2.2 percent charity care days out of total patient days provided (74,702). The hospital's provision of charity care is higher than the District 9 weighted average of 2.0 percent but the hospital's percent of Medicaid patient days (7.1 percent) is less than the district average of 12.8 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 2004-2005.

**F. SUMMARY**

**Martin Memorial Medical Center, Inc. (CON #9810)** proposes the establishment of a new 80-bed 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 \$68,548,103. Construction costs are projected at \$33,920,000 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.

**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 a new facility as there are facilities within a reasonable distance of the proposed new facility with occupancies of 65.57 percent (Martin Memorial Medical Center) and 51.91 percent (Martin Memorial South) during the most recent reporting period.

**Quality of Care:**

- The applicant reasonably demonstrated 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 applicant has an adequate short and long term position. Funding for the project and all capital projects should 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 appears likely.

- The applicant's forecasted managed care levels fall between the median and highest level of the control group and if realized, will have a marginally 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 2004-2005 as of November 23, 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 applicant proposes to establish an 80-bed satellite hospital in St. Lucie County. All patient rooms will be private and all suites and functions are well thought out, with provisions for additional beds and facility expansion. The handicapped accessible rooms do not have a hand washing station as required. The surgical suite does not appear to have the preferred path for staff before entering the semi-restricted area. There must be a morgue with an exterior door. A list of applicable codes was provided; some were correct and some quite outdated.
- The schedule for project completion and costs appear reasonable.

**G. RECOMMENDATION**

Deny CON #9810.

**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**