

STATE AGENCY ACTION REPORT
CON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number:

Holmes Regional Medical Center, Inc./CON #9881
6450 US Highway 1
Rockledge, Florida 32955

Authorized Representative: Jerry Senne, SVP
(321) 434-5601

2. Service District/Subdistrict

District 7/Subdistrict 1 (Brevard County)

B. PUBLIC HEARING

No public hearing was requested.

The applicant submitted approximately 195 letters of support, 60 emails of support and six CD-Rs burned with the applicant's previous submission of 15,000 form letters of support. Additionally, the Agency received two letters of support via U.S. mail. These letters were received from residents, community leaders and members of the medical community, and presented variations on the following arguments: the Viera community and Brevard County are experiencing high population growth rates and increasing demands for emergency care; the proposed site will improve accessibility to health care for residents of this new community; traffic increases have exceeded road way capacities inhibiting access to care at existing facilities; the aging demographics of the area require increased available services; current driving times of 20-30 minutes to existing hospitals are unacceptable; the proposed facility would be farther inland to withstand hurricanes; there is a shortage of beds in Brevard County; seasonal populations push area occupancy rates beyond capacity. An additional letter was submitted from Jerry Senne, SVP of Business Development and Chief Strategy Officer for Health First, Inc., the parent company of the applicant. The contents of

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this letter are incorporated within the application, and consist of a pointed rebuttal of the Agency's previous findings in response to CON #9836. Discussion of the points raised in this letter and incorporated within the application is found below.

Sixty-four letters of opposition were received by the omissions submission deadline, with the majority (62) submitted by area physicians arguing the following: no need exists for the proposed project; no accessibility problems exist in the area; the proposed facility would hurt private practices; physicians cannot add another hospital to their on-call status; staffing shortages would either prevent the applicant from appropriately staffing Viera Medical Center (VMC), or VMC would take staff from existing facilities; Health First is dominating the area health care market. In verifying the practice location of these physicians, it is noted that 32 of the 62 physicians practice at Wuesthoff, 11 practice at Holmes Regional or Palm Bay, three practice at more than one of these three facilities and 15 practice at neither Wuesthoff, Holmes Regional or Palm Bay.

One of these letters of opposition was submitted by the vice president of finance and strategic planning for Wuesthoff Health System, making many of the same points as those listed above. In addition to the above, this letter argues the following: Current expansion at Holmes should alleviate some of its overcrowding, as well as providing the applicant sufficient ability to expand in the future; beds added at Wuesthoff further cancel need for an additional facility; 25 percent of the patients admitted at Holmes are patients from Palm Bay Community Hospital who have undergone a "triage and transfer" unnecessarily; VMC would likely also be a "triage and transfer" facility; less than 10 percent of Holmes admissions come from Viera/Suntree; Holmes could decompress at the underutilized Palm Bay Community Hospital, since its occupancy has hovered around 50 percent since its inception and sits on 50 acres of largely undeveloped land; VMC would not bring any new programs or services to the area; all current and future residents of Viera are within 15 minutes of at least one hospital; VMC would not improve financial access for residents without insurance, leaving the burden of indigent care to Wuesthoff; VMC could be financially devastating to Wuesthoff; VMC would reduce competition in the area and drive up health care costs.

C. PROJECT SUMMARY

Holmes Regional Medical Center, Inc. (CON #9881) is applying for a certificate of need (CON) to establish Viera Medical Center (VMC), an 84 private bed acute care satellite hospital with a full-service emergency department in Viera, District 7, Subdistrict 1 in Brevard County. The applicant operates Holmes Regional Medical Center, a Class 1 not-for-profit hospital currently licensed for 504 acute care beds and 10 Level II NICU beds, as well as Palm Bay Community Hospital with 60 acute care beds¹. Health First, Inc., the parent company of the applicant, also operates the 150-bed Cape Canaveral Hospital in Cocoa Beach, Brevard County. The proposed VMC would be located west of Interstate 95 at the intersection of Lake Andrew Drive and Wickham Road on 50 acres purchased by Health First, Inc., with 20 acres allocated for the facility. The proposed VMC would be phase II of a multi-phase health care development planned for the site.

The applicant proposes the following conditions:

- The applicant's parent company will provide a minimum of 19.5 percent of all inpatient admissions and births across the entire Health First system for Medicaid, Medicaid HMO, self-pay, uninsured, KidCare and charity patients, for a period of no less than five years.
- The applicant's parent company will continue to provide a majority of local support for the Brevard Health Alliance.
- The applicant's parent company will provide support in the form of cash, goods and services not less than \$100,000 annually for the next ten years to social service organizations in the community, including the Brevard Alzheimer's Association, the South Brevard Sharing Center, the East Central Florida Memory Disorder Clinic and the Yellow Umbrella.
- The applicant's parent company commits to providing its special needs plan for low income seniors for no less than four years. This plan is CMS-approved and is administered by Health First Health Plans.
- The applicant commits to continuing to operate the region's only Level II Trauma Center and air ambulance through at least 2015.
- The applicant commits to providing half of the instructional costs associated with the expansion of the nursing program at Brevard Community College. The applicant will provide \$2 million by 2014.
- The applicant agrees not to seek to expand the number of licensed acute care beds at the proposed facility for its first five years of

¹ The applicant anticipates adding 40 beds to Palm Bay Community Hospital, creating a 100-bed facility.

operation, unless the average occupancy rate of the proposed facility exceeds 80 percent for at least a 12-month period, as based on inpatient utilization of all licensed acute care beds.

- The proposed facility will be located on 20 acres of a larger parcel at the southwest corner of Lake Andrew Drive and Wickham Road in Viera.

The reported total project cost is \$104,875,753. Total construction costs are reported at \$50,113,752 and the project will involve 213,334 GSF of new construction.

D. REVIEW PROCEDURE

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.

As part of the fact-finding, the consultant Karen Weaver analyzed the application with consultation from the financial analyst Ryan Fitch who reviewed the financial data and architect James Gregory 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? Or does the project proposed seek beds or services in excess of the fixed need pool? Ch. 59C-1.008(2), Florida Administrative Code.

The Chapter 59C-1.038 acute care bed need rule was repealed April 21, 2005; therefore, numeric need for additional acute care beds was not published for this batching cycle, and thus this project is not submitted in response to published numeric need but is predicated upon arguments of special circumstance as detailed below.

District 7, Subdistrict 1 had a total of 1,257 licensed acute care beds with an occupancy rate of 67.92 percent for the calendar year (CY) 2004 reporting period, and Holmes RMC saw a 79.19 percent occupancy during this same time. This subdistrict occupancy level includes 50 beds which were added to Wuesthoff Medical Center – Melbourne during the latter part of the fourth quarter of 2004 (December 13, 2004). While almost doubling its bed capacity, Wuesthoff Medical Center – Melbourne went from a third quarter occupancy of 77.07 percent to a 74.77 percent reflecting little decrease in occupancy and reflecting use of the added beds. During the same quarter, Holmes Regional reported a 79.14 percent occupancy; Palm Bay reported a 75.53 percent occupancy and Wuesthoff – Rockledge a 71.08 percent utilization. Since 2004, Wuesthoff Medical Center – Rockledge has added 22 beds (January 18, 2005), bringing the current acute care bed count for the subdistrict to 1,279. First quarter 2005 occupancy for the subdistrict is reported at 75.72 percent after the increase in beds to the Wuesthoff Rockledge and Wuesthoff Melbourne facilities. Occupancies for Holmes Regional (89.80 percent), Palm Bay (83.80 percent), Wuesthoff – Rockledge (76.46 percent) and Wuesthoff – Melbourne (62.21 percent) reflect an increase in patient days over the same 2004 quarter (86,865 total subdistrict acute care patient days in the first quarter of 2005 versus 80,712 during the same quarter of calendar year 2004. The applicant states its intention to expand Palm Bay Community Hospital by 40 beds.

The applicant selected a nine zip code area around the Viera community as the primary service area (PSA): 32904, 32912, 32934, 32935, 32936, 32940, 32941, 32955 and 32956. Two facilities currently exist within these five zip codes, Wuesthoff Medical Center – Rockledge and Wuesthoff Medical Center – Melbourne. The applicant does not define a secondary service area. Four other facilities exist in the subdistrict, three of which are Health First facilities².

Of the existing subdistrict facilities, Holmes RMC maintained the highest occupancy level for the most recently reported 12-month period:

**Utilization of Licensed Acute Care Beds in District 7- Subdistrict 1
Calendar Year (CY) 2004**

Facility	Occupancy
Cape Canaveral Hospital	51.89%
Holmes Regional Medical Center	79.19%
Palm Bay Community Hospital	63.94%
*Parrish Medical Center	47.33%
Wuesthoff Medical Center – Rockledge	71.88%
Wuesthoff Medical Center – Melbourne	74.19%
Subdistrict 1	67.92%
District 7	68.49%

*Disproportionate Share Provider

Source: Florida Hospital Bed and Service Utilization by District, July 2005 Batching Cycle

Occupancy levels in the subdistrict range from a high at the applicant’s flagship facility, Holmes RMC, down to Parrish Medical Center, the subdistrict’s Disproportionate Share Provider³. Three facilities achieved occupancy levels greater than the subdistrict average during this time, those being Holmes RMC and the two Wuesthoff facilities. The other two Health First facilities in this subdistrict, Cape Canaveral Hospital and Palm Bay Community Hospital, experienced levels below that of the district and subdistrict, at 51.89 percent and 63.94 percent respectively. Both of these hospitals are affiliates of the applicant. Occupancy levels indicate possible need for decompression at Holmes RMC.

The applicant contends that need for the proposed project exists based on two primary factors:

1. A growing and aging population in the PSA.
2. Area facilities either are or will be at capacity.

The applicant explores three alternatives to the proposed project:

1. Fully utilize existing beds.
2. Add beds at existing hospitals.

² Cape Canaveral Hospital, Holmes Regional Medical Center and Palm Bay Community Hospital

³ As designated for State Fiscal Year 2005-2006 (Current).

3. Relocate existing Health First facilities.

The applicant states that the first alternative is not feasible because the existing beds are insufficient to meet the growing demand, and the average occupancy in Subdistrict 1 will increase to 77.5 percent by 2012 without any additional expansion. Holmes RMC's occupancy is projected by the applicant to increase to 86 percent by the year 2012 without any expansion in the subdistrict. The applicant states that considering seasonal fluctuations, this demonstrates access will be hindered during peak periods.

During the fourth quarter of calendar year 2004, Holmes Regional, Palm Bay and the two Wuesthoff facilities experienced occupancy in excess of 71 percent despite the addition of 50 beds to Wuesthoff Medical Center – Melbourne.

Given the overall high seasonal utilization of Holmes Regional in the winter quarters, occupancy levels between 79 percent and 89 percent evidence that access to the availability of beds at the facility may already be hindered.

The applicant states that the second alternative is not feasible because of the lack of private rooms at Holmes, undersized support functions, limitations on parking and water retention areas, lack of available contiguous land, obstacles to vertical expansion, obstacles to expansion within street boundaries and obstacles to expansion across the street. Short-term solutions undertaken by the applicant are named to include the following: the transferal of non-clinical support services to buildings separate from the hospital; the recent addition of 46 beds⁴ made possible by this support service transferal; the creation of an 18-bed unit and a stress lab adjacent to the emergency department (ED); the construction of a 10-bed "Faster Care Unit" in the ED; the development of a five-bed "testing and treatment area"; the addition of five infusion chairs to move infusion patients from the emergency area; the creation of an eight-bed unit within the endoscopy area for use after hours to accommodate overflow emergency patients; utilization of vacated space within the former radiation oncology area; the expansion of the case management function to 24 hours per day/seven days per week service; and the use of five pediatric ICU beds for critical care adults. The applicant states its intention to transfer lower acuity patients from Holmes RMC to the

⁴ The applicant makes this statement regarding recently added beds on page 50 of the application; however, the most recent change in bed count for Holmes according to Agency records took place on July 1, 2003, when the total capacity increased from 569 to 574, and the acute care bed count increased from 509 to 514. Possibly, the applicant is alluding to the conversion of semi-private rooms into private rooms, which in CON #9836 was stated to be a forthcoming benefit of construction in-progress, but this is not made clear.

proposed facility, which would allow Holmes to focus on its role as a tertiary care hospital. It is recognized that Holmes is the only Level II trauma center between Daytona Beach (Halifax Medical Center) and Palm Beach (St. Mary's Hospital) on the Florida east coast. According to the Department of Health's July 2005 Florida's Trauma Care System 2004 Annual Report, Holmes Regional provided care to 1,194 trauma patients during calendar year 2004.

Continuing the applicant's response to the second alternative outlined above, the applicant counters the Agency's previous suggestion in the State Agency Action Report #9836 that decompression of Holmes RMC take place at Palm Bay Community Hospital by stating that the shift of patients to Palm Bay would not accommodate the growing population of the Viera area. The utilization of Palm Bay Community Hospital has increased recently due to the growth of the population in that area. It is noted that the most recently published annual utilization rate for Palm Bay Community Hospital was 63.94 percent. The applicant states that once the planned 40-bed addition at Palm Bay Community Hospital takes place, the occupancy at that facility will increase to 80 percent, and therefore concludes that decompression of Holmes at Palm Bay is not a viable solution.

Additionally, the applicant indicates that Cape Canaveral Hospital cannot serve to decompress Holmes RMC because of its distance from the Viera area and its distinct market that does not materially overlap with that of Holmes. The Cape Canaveral facility is stated to be leased from the Cape Canaveral Hospital Tax District and therefore cannot be moved to an inland location where it could better serve its existing area, much less serve the targeted Viera area.

The third alternative explored by the applicant, relocation of existing Health First facilities, is deemed unfeasible by the applicant because it would entail removing "existing and well-utilized beds from their current service area, and thus, do nothing to improve geographic access." This option is also ruled out because "the current sites all have capital development projects planned and underway to upgrade facilities and equipment," and that abandonment of these sunk costs "would not be fiscally prudent."

The subdistrict average occupancy for CY 2004 was 67.92 percent with an overall occupancy level of 73.48 percent and 67.81 percent during the winter quarters; and overall utilization of the three area hospitals now serving the Viera area in excess of 71 percent for the fourth quarter when 50 beds were added to Wuesthoff Medical Center – Melbourne on December 13, 2004. As previously noted, the overall occupancy level for the subdistrict in the first quarter of CY 2005 reflected an increase of

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6,153 patient days over the same quarter in CY 2004; and an overall average occupancy of 75.72 percent (1st quarter CY 2005) versus a 73.48 percent occupancy (1st quarter 2004) when 52 less acute care beds were licensed. The following table illustrates the percentage of acute care discharges of patients originating from the nine PSA zip codes over the past five years at Subdistrict 1 facilities:

Historical Discharges of Patients Originating from PSA Zip Codes – As a Percentage of Total Discharges of Patients Originating from PSA Zip Codes

Facility	CY 2000	CY 2001	CY 2002	CY 2003	CY 2004
Cape Canaveral Hospital	5.43%	4.71%	4.62%	4.11%	3.73%
Holmes Regional Medical Center	58.35%	58.53%	58.11%	48.23%	47.64%
Palm Bay Community Hospital	1.04%	1.60%	1.41%	0.72%	0.89%
Parrish Medical Center	0.40%	0.41%	0.41%	0.40%	0.39%
Wuesthoff Medical Center - Rockledge	22.54%	23.57%	22.89%	22.75%	21.02%
Wuesthoff Medical Center - Melbourne	-	-	0.37%	12.96%	15.41%
Total Served Within Subdistrict 1	87.76%	88.82%	87.82%	89.17%	89.08%
Total Served by Health First Facilities	64.82%	64.84%	64.14%	53.05%	52.26%
Total Served by Wuesthoff Facilities	22.54%	23.57%	23.26%	35.71%	36.43%

Source: State Center for Health Statistics

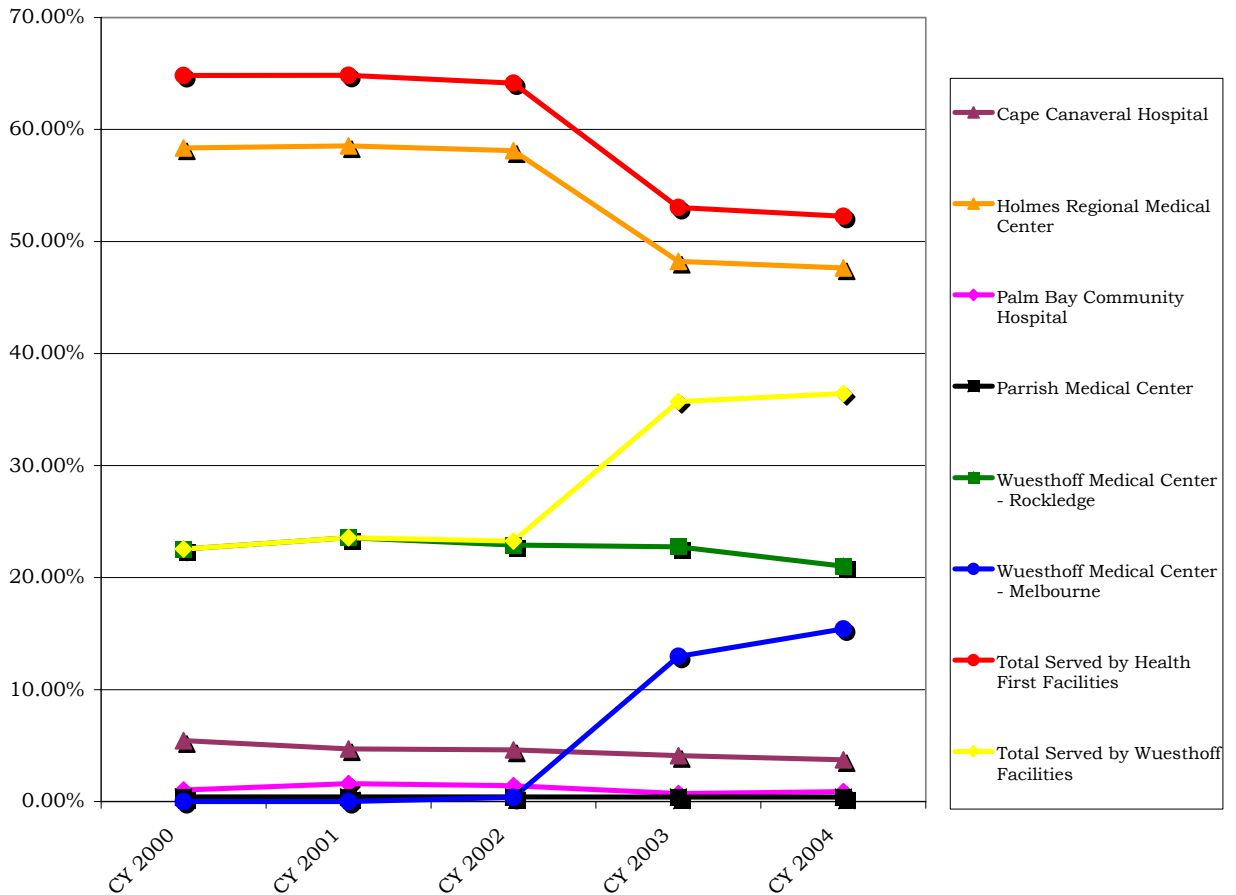
Historical Discharges Originating from PSA Zip Codes

Facility	CY 2000 Patient Days	CY 2001 Patient Days	CY 2002 Patient Days	CY 2003 Patient Days	CY 2004 Patient Days
Cape Canaveral Hospital	60	68	73	78	76
Holmes Regional Medical Center	8,650	9,642	10,324	9,424	9,343
Palm Bay Community Hospital	3,341	3,882	4,067	4,446	4,122
Parrish Medical Center	805	776	820	803	732
Wuesthoff Medical Center – Rockledge	154	263	251	140	174
Wuesthoff Medical Center – Melbourne	-	-	66	2,533	3,022
Total Served Within Subdistrict 1	13,010	14,631	15,601	17,424	17,469
Total Served Within PSA Zip Codes	14,825	16,473	17,765	19,541	19,610
Total Served by Health First Facilities	9,609	10,681	11,395	10,367	10,249
Total Served by Wuesthoff Facilities	3,341	3,882	4,133	6,979	7,144

Source: State Center for Health Statistics

This trend in market share of the PSA is illustrated in the following graph:

Historical Discharges of Patients Originating from PSA Zip Codes – As a Percentage of Total Discharges of Patients Originating from PSA Zip Codes

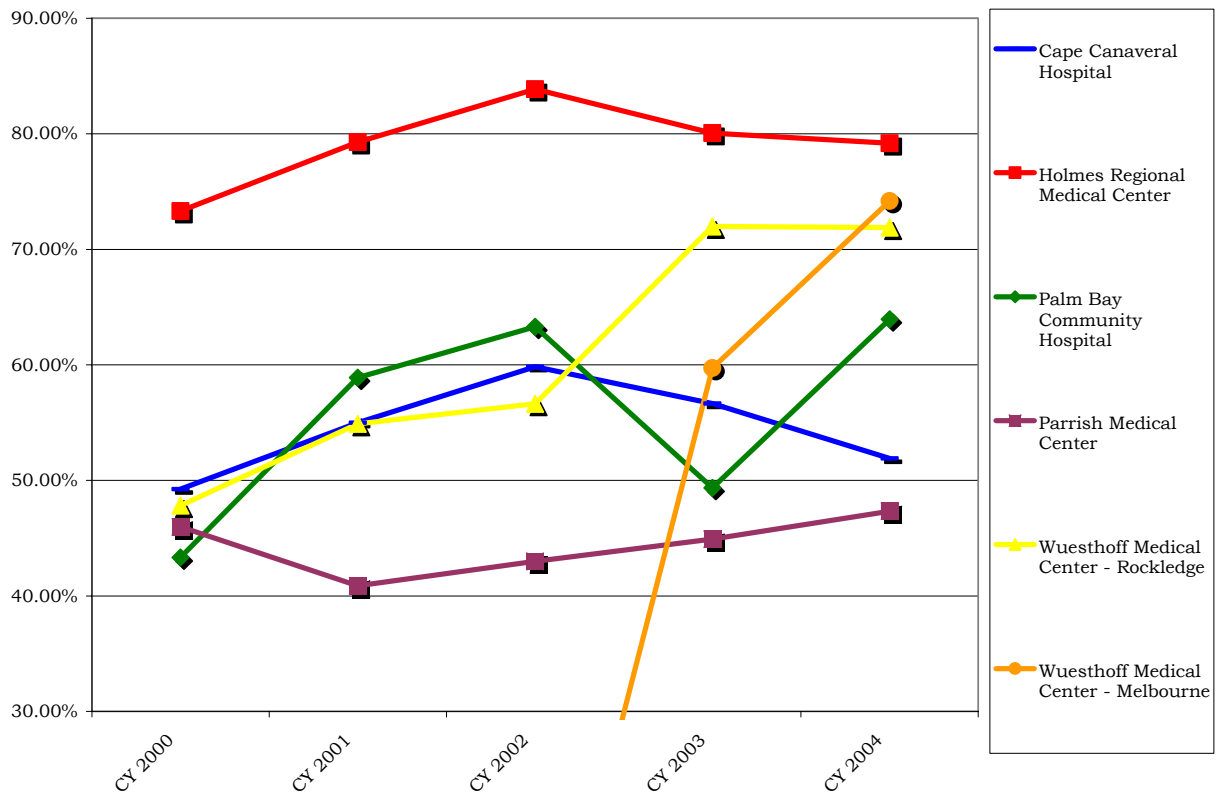


Source: State Center for Health Statistics

Most of the PSA residents are seeking acute care services within Subdistrict 1 (89.08 percent). Within Subdistrict 1, Holmes RMC provides the greatest percentage of these discharges, but that percentage or “share” appears to be decreasing at a similar rate to that which is being gained by Wuesthoff facilities, particularly the Melbourne location. With respect to patient days, Holmes Regional captured 44,227 during CY 2004 for the PSA zip codes, Wuesthoff – Rockledge captured 18,864 patient days and Wuesthoff – Melbourne captured 10,360 patient days. As noted in the table, Palm Bay captured less than one percent of the total patient days from the PSA, Cape Canaveral captured approximately four percent and Parrish Medical Center less than one-half of a percent, indicating that these hospitals are in no significant way serving residents of the Viera location.

The five-year historical utilization for Subdistrict 1 is illustrated in the following graph:

District 7 – Subdistrict 1 Utilization – Calendar Years 2000 - 2004



Source: Florida Hospital Bed and Service Utilization by District, appropriate batching cycles.

The above utilization trends resulted in the following averages for the subdistrict during this same period:

**District 7/Subdistrict 1 Utilization & Patient Days
Calendar Years 2000 – 2004**

Average Occupancy Subdistrict 1	CY 2000	CY 2001	CY 2002	CY 2003	CY 2004
	57.19%	61.97%	65.80%	66.87%	67.92%
Increase Over Previous Year		8.36%	6.18%	1.63%	1.57%
Total Patient Days Subdistrict 1	CY 2000	CY 2001	CY 2002	CY 2003	CY 2004
	233,606	254,460	274,596	292,111	300,562
Increase Over Previous Year		20,854	20,136	17,515	8,451

Source: Florida Hospital Bed and Service Utilization by District, appropriate batching cycles.

Occupancy in the subdistrict has increased over the past five years as have patient days. Patient days at Subdistrict 1 facilities for the past five years is presented below:

Total Patient Days at D7/S1 Facilities – CY 2000-2004

Hospital	CY 2000	CY 2001	CY 2002	CY 2003	CY 2004
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Cape Canaveral	27,035	30,102	32,759	31,017	28,487
Holmes Regional Medical Center	114,817	126,429	140,205	144,724	146,073
Palm Bay Community Hospital	9,516	12,899	13,863	10,810	14,041
Parrish Medical Center	35,341	31,324	32,944	34,433	36,378
Wuesthoff Medical Center - Rockledge	46,897	53,706	54,825	57,263	57,355
Wuesthoff Medical Center - Melbourne	0	0	0	13,864	18,318
Total	233,606	254,460	274,596	292,111	300,652

Source: Florida Hospital Bed and Service Utilization by District, appropriate batching cycles.

This trend is similar to that of population growth for the area. Estimates published by the Agency illustrate growth patterns for the county and district:

**Population Growth Rates for Brevard County and District 7
01/2000 - 01/2010**

Date	Total County Population	Growth %	Total District 7 Population	Growth %
1-Jul-00	478,458		1,926,422	
1-Jul-01	487,225	1.83%	1,987,213	3.16%
1-Jul-02	497,319	2.07%	2,047,054	3.01%
1-Jul-03	510,622	2.67%	2,111,241	3.14%
1-Jul-04	519,972	1.83%	2,166,578	2.62%
1-Jul-05	527,680	1.48%	2,217,947	2.37%
1-Jul-06	536,317	1.64%	2,270,955	2.39%
1-Jul-07	544,869	1.59%	2,323,454	2.31%
1-Jul-08	553,331	1.55%	2,375,506	2.24%
1-Jul-09	561,732	1.52%	2,427,211	2.18%
1-Jul-10	570,098	1.49%	2,478,695	2.12%

Source: Population Estimates, as published by the AHCA Certificate of Need Office, October 2005

As seen above, county and district populations grew from 2000-2005 and are projected to continue growing from 2006 through 2010. While it is reasonable that the Viera area would be growing at rates equal to or exceeding that of the county, it should be noted that an area embarking on development would typically see higher growth percentages than that of an established area because each small addition makes a larger percentage difference to that smaller area than would those same small additions make to a larger area. The applicant provides evidence of growth with several examples of road widenings, housing starts and increased retail establishments, and quotes numerous articles from the *Florida Today* publication commenting on projected continued growth.

Because the applicant contends that both the growth and aging of the population contribute to need for the proposed facility, the following table provides the growth projections for the county and district over-65 population:

**Elderly Population Growth Rates for
Brevard County**

Subdistrict 1- 01/2000 - 01/2010

Date	Elderly County Population	Growth %
1-Jul-00	94,961	
1-Jul-01	96,186	1.29%
1-Jul-02	98,441	2.34%
1-Jul-03	101,004	2.60%
1-Jul-04	102,536	1.52%
1-Jul-05	103,710	1.14%
1-Jul-06	105,335	1.57%
1-Jul-07	107,128	1.70%
1-Jul-08	109,112	1.85%
1-Jul-09	111,316	2.02%
1-Jul-10	113,812	2.24%

Source: Population Estimates, as published by the AHCA Certificate of Need Office, October 2005

As seen above, elderly growth rates in the county are expected to increase with growth at nearly 10 percent from 2005 to 2010.

The following table illustrates Medicaid and charity care provisions within the subdistrict:

District 7-Subdistrict 1 Medicaid and Charity Care Provision Percentages for Fiscal Year (FY) 2004

Facility	Medicaid	Charity Care	Total
Cape Canaveral Hospital	5.80%	1.80%	7.60%
Holmes Regional Medical Center/Palm Bay Community Hospital reporting together	7.70%	2.90%	10.60%
Parrish Medical Center*	9.70%	2.40%	12.10%
Wuesthoff Medical Center - Rockledge	10.70%	2.60%	13.30%
Wuesthoff Medical Center - Melbourne	9.00%	2.70%	11.70%
Subdistrict 1	8.58%	2.48%	11.06%
District 7	14.80%	3.70%	18.50%

*Disproportionate Share Hospital

Source: 2004 Hospital Financial Data, provided by the AHCA Financial Analysis Unit

During FY 2004, on a percentage basis Wuesthoff facilities provided Medicaid and charity care at levels similar to Parrish Medical Center, the subdistrict's Disproportionate Share Hospital. With respect to actual patient days, as shown in the chart below Wuesthoff provided a total of 3,317 charity patient days at its Rockledge and Melbourne facilities, the Holmes system including Holmes Regional, Cape Coral and Palm Bay provided more than twice the number of charity patients days at 7,804 patient and Parrish Medical Center provided 2,008 charity patient days in 2004. The difference in Medicaid days is not as great, but the Holmes system combined at 13,817 Medicaid patient days provided significantly more patient days than did the Wuesthoff system at 8,430 combined Medicaid patient days.

**DISTRICT 7 SUBDISTRICT 1 (BREVARD COUNTY)
ACUTE CARE HOSPITALS 2004 DATA**

Hospital	ADJUSTED Charity Patient Days	% Charity	Medicaid	Medicaid HMO	% Medicaid
HOLMES REGIONAL MEDICAL CENTER, INC.	6,585	2.9%	9,854	2,306	7.7%
PARRISH MEDICAL CENTER	2,008	2.4%	3,321	20	9.7%
CAPE CANAVERAL HOSPITAL	1,219	1.8%	1,430	227	5.8%
WUESTHOFF MEDICAL CENTER - MELBOURNE	761	2.7%	932	639	9.0%
WUESTHOFF MEDICAL CENTER - ROCKLEDGE	2,556	2.6%	3,908	2,951	10.7%

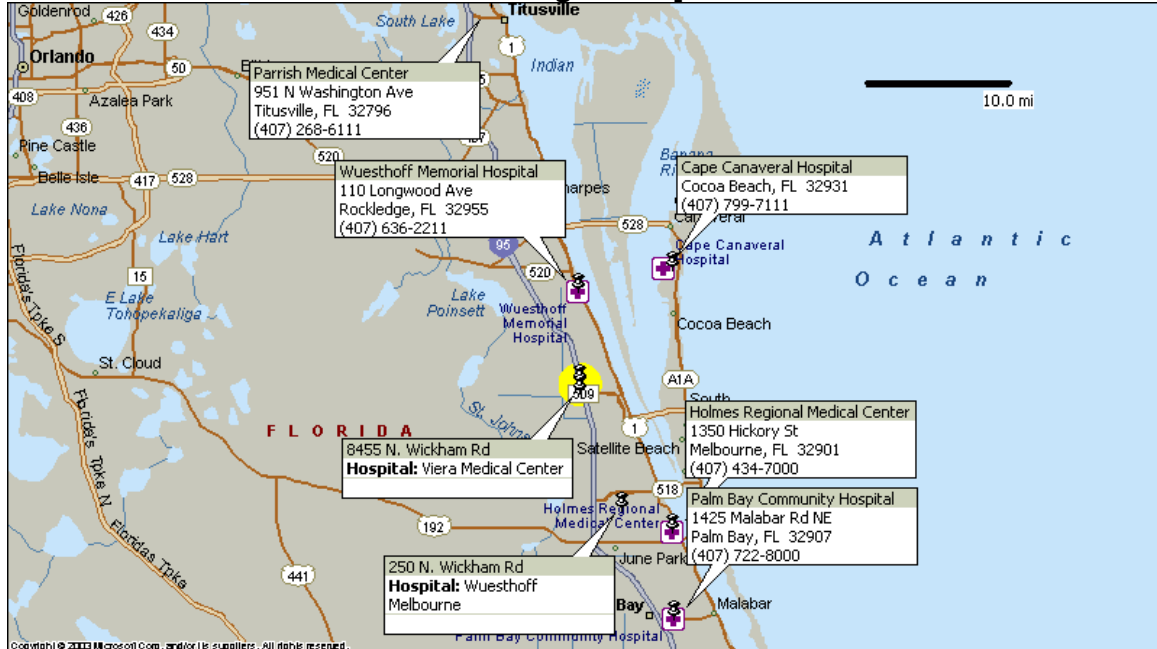
Source: AHCA Hospital Actual Budget Data FYE 9/30/04 for all facilities.

Note: Holmes Regional Medical Center, Inc. includes Palm Bay Community Hospital fiscal data.

The applicant propose a condition of its provision of a minimum of 19.5 percent of all inpatient admissions and births throughout the Health First system Medicaid, Medicaid HMO, self-pay, uninsured, KidCare and charity patients for a period of no less than five years.

The applicant maintains that after recent hurricanes, the community requires a hospital further inland to accept patient transfers from evacuated hospitals during coastal disasters. While the 84 beds proposed would not be able to serve as an emergency placement location for all beds on the immediate coastline, they would assist in allowing for some emergency location to occur within the county itself.

Subdistrict 1 Existing and Proposed Facilities



Source: Microsoft MapPoint 2004

2. Agency Rule Criteria

The Agency does not currently have adopted preferences or rule criteria relating to acute care beds. The acute care rule was repealed as a result of statutory changes made on July 1, 2004. The rule repeal was effective April 21, 2005.

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.**

Availability, Accessibility and Utilization

The average utilization percentage for the subdistrict was 67.92 percent for calendar year (CY) 2004. The applicant's Holmes RMC facility led the subdistrict for average annual utilization during this period with 79.19 percent.

**Utilization of Licensed Acute Care Beds in District 7- Subdistrict 1
Calendar Year (CY) 2004**

Facility	Occupancy
Cape Canaveral Hospital	51.89%
Holmes Regional Medical Center	79.19%
Palm Bay Community Hospital	63.94%
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Wuesthoff Medical Center - Rockledge	71.88%
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Subdistrict 1	67.92%
District 7	68.49%

*Disproportionate Share Provider

Source: Florida Hospital Bed and Service Utilization by District, July 2005 Batching Cycle

Holmes RMC not only led the subdistrict in utilization during this time, but also reached a peak season utilization of 83.46 percent, also more than any other facility during this time. Seasonal utilization for CY 2004 is illustrated in the table below:

Seasonal Utilization of Licensed Acute Care Beds in District 7-1 CY 2004

Facility	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Annual
Cape Canaveral Hospital	61.36%	52.01%	44.49%	49.80%	51.89%
Holmes Regional Medical Center	83.46%	77.22%	76.96%	79.14%	79.19%
Palm Bay Community Hospital	60.42%	54.38%	65.29%	75.53%	63.94%
*Parrish Medical Center	52.27%	46.19%	45.51%	45.40%	47.33%
Wuesthoff Medical Center - Rockledge	81.94%	70.43%	64.19%	71.08%	71.88%
Wuesthoff Medical Center - Melbourne	76.33%	68.47%	77.07%	74.77%	74.19%
Subdistrict 1	73.48%	65.85%	64.57%	67.81%	67.92%
District 7	72.06%	67.50%	66.64%	67.81%	68.49%

*Disproportionate Share Provider

Source: Florida Hospital Bed and Service Utilization by District, July 2005 Batching Cycle

As previously noted, Wuesthoff Medical Center – Melbourne added 50 beds on December 13, 2004, nearly doubling its capacity. Even with this addition, occupancy at the facility at 74.77 percent was nearly that experienced in the prior quarter, indicating an immediate use of the added beds. It is also noted that the Wuesthoff Rockledge facility added 22 beds in January of 2005.

Quality of Care

Approximately 38 of the letters of opposition to this project are from area physicians expressing their inability to add another facility their rounds. As noted earlier, a total of 62 letters of opposition were submitted from area physicians, of those, more than one half practice at Wuesthoff facilities (32), 11 at Holmes/Palm Bay and only three indicated that they currently practice at more than one of these facilities. A letter from medical group, Melbourne Internal Medicine Associates, represents that its 100 physicians would support the new facility. The applicant expresses confidence in its ability to provide adequate physician coverage

at the proposed VMC, and states that more than 100 physicians with staff privileges at a Health First facility reside in the PSA, with the greatest number residing in the “home” zip code of the proposed facility. Emergency room specialty physicians could be a point of concern for this project, and the applicant’s ability to staff its proposed facility with physicians is an important issue with this application. In response to this observation, the applicant states that “since these physicians live closer to VMC than other hospitals, taking ED call at VMC during the night and on weekends would presumably be less burdensome than taking call at other, more distant hospitals.”

The applicant details its internal processes for quality assurance, including patient surveys, market research and various awards and accreditations that Health First facilities have received. There is no evidence to indicate quality of care is not present at the applicant's facilities.

Efficiency

The applicant suggests the efficiency of services within the Health First network would be unaffected with this project. Viera Medical Center would make use of centralized support functions such as human resources, risk management, quality management and the Health First “comprehensive information technology strategy,” thereby promoting economy of scale. Integrated clinical information support would be implemented with this project, further facilitating clinical decisions, physician order entry and access to patient information.

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

Holmes Regional Medical Center is accredited by the Joint Commission on Accreditation of Health Care Organizations (JCAHO), and other accreditations, affiliations, certifications and memberships shared by Holmes RMC and other Health First facilities are listed for review on pages 100-101 of the CON application. The applicant describes some key points of its “evidence-based clinical practice” on pages 99-100, including: the implementation of an electronic health record with computerized physician order entry; the development of evidence-based

care processes; development of a hospitalist program; development of the VitalWatch (eICU) system-wide and others. The hospital is also a designated Level II trauma center meeting standards set by the Department of Health.

There were seven closed confirmed complaints for Holmes Regional Medical Center and Palm Bay Community Hospital for the last three years ending October 7, 2005: two complaints for patient care, one for nursing service, one for infection control, one for administrative, one for lack of assessment and one complaint for EMTALA (verified by CMS). Cape Canaveral Hospital is affiliated with the applicant under the common parent of Health First. For the three-year period ending October 7, 2005, Cape Canaveral Hospital had two confirmed complaints: one for restraints and one for inappropriate discharge.

Overall the applicant has demonstrated its ability to provide quality 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.

This review is for Holmes Regional Medical Center, Inc., applying to establish an 84-bed acute care hospital in District 7, Subdistrict 1, Brevard County. The financial impact of the project will include the project cost of \$104,875,753 and incremental operating costs in year two of \$50,404,000.

The audited financial statements of Holmes Regional Medical Center, Inc. for the periods ending September 30, 2003 and 2004 were analyzed for the purpose of evaluating the applicant's ability to provide the capital and operational funding necessary to implement the project.

HOLMES REGIONAL MEDICAL CENTER, INC.

	<u>9/30/2004</u>	<u>9/30/2003</u>
Current Assets	\$ 220,893,000	\$ 219,167,000
Cash and Current Investment	\$ 154,199,000	\$ 159,342,000
Assets Restricted for Capital Projects	\$ -	\$ -
Total Assets	\$ 401,676,000	\$ 386,462,000
Current Liabilities	\$ 95,844,000	\$ 84,307,000
Total Liabilities	\$ 208,617,000	\$ 198,237,000
Net Assets	\$ 193,059,000	\$ 188,225,000
Total Revenues	\$ 443,370,000	\$ 400,036,000
Interest Expense	\$ 6,305,000	\$ 6,640,000
Excess of Revenues Over Expenses	\$ 16,489,000	\$ 14,427,000
Cash Flow from Operations	\$ 36,289,000	\$ 24,565,000
Working Capital	\$ 125,049,000	\$ 134,860,000
Current Ratio (CA/CL)	2.3	2.6
Cash Flow to Current Liabilities (CFO/CL)	0.4	0.3
Long-Term Debt to Net Assets (TL-CL/NA)	0.6	0.6
Times Interest Earned (NPO+Int/Int)	3.6	3.2
Net Assets to Total Assets (TE/TA)	48.1%	48.7%
Operating Margin (ER/TR)	3.7%	3.6%
Return on Assets (ER/TA)	4.1%	3.7%
Operating Cash Flow to Assets (CFO/TA)	9.0%	6.4%

Short-Term Position:

The applicant's current ratio of 2.3 indicates current assets are over two times current liabilities, a good position. The ratio of cash flow to current liabilities of 0.4 is well below average and indicates the applicant does not have sufficient cash flow to cover current obligations, a weak position. The working capital (current assets less current liabilities) of \$125 million 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 long-term debt to equity ratio of 0.6 is average and indicates long-term debt is less than equity, an adequate position. The cash flow to assets ratio of nine percent is slightly below average, a moderate position. The most recent year had excess revenues over expenses of \$16.5 million, which resulted in an operating margin of 3.7 percent.

According to the audit, the applicant is required to make annual contributions to the parent company of the greater of 50 percent of excess revenues over expenses plus extraordinary items or six percent of unrestricted net assets. Overall, the applicant has an adequate long-term position.

Capital Requirements:

Schedule 2 indicates the applicant has \$351.9 million in capital projects and maturities of long-term debt due through 2009. In addition, the applicant is projecting a year one operating loss of \$1.1 million for this project. The applicant would have to fund this operating loss in addition to the capital projects and maturities of long-term debt listed on Schedule 2.

Available Capital:

Funding for this project will come from cash on hand. Operating cash flows for the most recent year were \$36.3 million and the balance of cash and current investments was \$154.2 million. As discussed above working capital is \$125 million. The applicant provided a letter from Health First, Inc. (Parent) which indicated Health First's support and commitment to provide the necessary resources to the applicant to ensure the long-term and short-term financial viability of the project and other capital projects listed on Schedule 2. The September 30, 2004, audited financial statements of the parent show a cash and current investment balance of \$261 million and \$213 million in working capital with a current ratio of 2.5. The audit also indicated that the parent's operating cash flow was \$88.3 million and had operating income of \$32.2 million with a margin of 4.4 percent. In addition, the applicant provided a letter of interest from UBS Financial Services, Inc. outlining the issuance of \$175 million tax-exempt bonds for capital projects to be owned or operated by Health First, Inc. or its affiliates.

Staffing:

As mentioned previously, the applicant's ability to adequately staff its emergency department without depleting the resources of existing facilities may be a crucial issue with this proposal. Letters of support from area physicians indicate staffing should be available for this project.

The applicant participates in recruitment and retention plans geared to limit the effects of the statewide nursing shortage, and the applicant expects few problems staffing Viera Medical Center, similarly to the few problems that it indicates Wuesthoff experienced staffing its Melbourne satellite. It also proposes to condition the project's approval on the provision of half of the instructional costs associated with the expansion of the nursing program at Brevard Community College.

Conclusion:

Assuming the parent company will be able to obtain the debt financing discussed above, funding for this project and all capital projects should be available as needed.

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.

The applicant has stated that the new hospital will serve the patients age 18 and above and patient population in the following zip codes: 32904, 32934, 32935, 32940, and 32955 with four embedded P.O. Boxes: 32912, 32936, 32941 and 32956. We tested the case mix data, using the 17,425 patients discharged from short-term acute care hospitals age 18 and above in the indicated zip codes during 2004, excluding DRGs for services not provided and outlier DRGs for a facility with between nine and 12 ICU beds. The computed case mix index for these cases was 1.2659. 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 5. Per diem rates are projected to increase by an average of 4.2 percent per year. Inflation adjustments were based on the new CMS Market Basket, 3rd Quarter, 2005.

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 \$1,785 in year one and \$1,838 in year two is between the control group median and highest values of \$1,690 and \$2,326 in year one and \$1,751 and \$2,410 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).

Anticipated costs per adjusted patient day (CAPD) of \$1,831 in year one is between the control group median and highest values of \$1,641 and \$2,057. The highest level is generally viewed as the practical upper limit on efficiency. Anticipated CAPD of \$1,654 in year two is between the control group median and lowest values of \$1,701 and \$1,469. With projected cost approximating the median value in the control group, the year two cost appear reasonable. (See Comparative Table). The applicant is projecting a decrease in CAPD between year one and year two of approximately 9.7 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 profit for the hospital of \$5.6 million computes to an operating margin per adjusted patient day of \$184 which is between the control group median and highest values of \$26 and \$354. Only six of the 29 hospitals in peer group 5 reported operating margins greater than the applicant's projected operating margin of 10.0 percent. This level of profit appears to be ambitious when compared to the control group and may be overstated.

The projected payer mix was compared with the payer mix in the proposed zip codes for the services to be provided by the VMC. The projected payer mix is relatively consistent with the existing payer mix in the proposed service area.

As discussed above, the projected operating margin may be overstated; however, both the year two projected GRAPD and CAPD are within a reasonable range. Assuming VMC will be able to obtain the projected market share, financial feasibility of this project appears likely.

COMPARATIVE TABLE

HOLMES REGIONAL MEDICAL CENTER, INC.

CON #9836	40816	YEAR 2	VALUES ADJUSTED		
2004 DATA Peer Group 5	YEAR 2	ACTIVITY	FOR INFLATION		
	<u>ACTIVITY</u>	<u>PER DAY</u>	<u>Highest</u>	<u>Median</u>	<u>Lowest</u>
ROUTINE SERVICES	120,747,000	3,963	1,425	665	337
INPATIENT AMBULATORY	0	0	222	110	50
INPATIENT SURGERY	0	0	0	0	0
INPATIENT ANCILLARY SERVICES	0	0	6,276	2,862	1,304
OUTPATIENT SERVICES	63,458,000	2,082	3,469	2,389	1,351
TOTAL PATIENT SERVICES REV.	184,205,000	6,045	10,947	6,144	4,086
OTHER OPERATING REVENUE	1,223,000	40	169	11	-8
TOTAL REVENUE	185,428,000	6,085	10,955	6,176	4,100
DEDUCTIONS FROM REVENUE	129,425,000	4,247	0	0	0
NET REVENUES	56,003,000	1,838	2,410	1,751	1,491
EXPENSES					
ROUTINE	13,071,000	429	369	258	178
ANCILLARY	13,920,000	457	813	602	434
AMBULATORY	3,336,000	109	0	0	0
TOTAL PATIENT CARE COST	30,327,000	995	0	0	0
ADMIN. AND OVERHEAD	11,214,000	368	0	0	0
PROPERTY	8,863,000	291	0	0	0
TOTAL OVERHEAD EXPENSE	20,077,000	659	988	771	541
OTHER OPERATING EXPENSE	0	0	0	0	0
TOTAL EXPENSES	50,404,000	1,654	2,131	1,701	1,469
OPERATING INCOME	5,599,000	184 10.0%	354	26	-221
PATIENT DAYS	19,843				
ADJUSTED PATIENT DAYS	30,472				
TOTAL BED DAYS AVAILABLE	30,660				
ADJ. FACTOR	0.6512				
TOTAL NUMBER OF BEDS	84				
PERCENT OCCUPANCY	64.72%				
			VALUES NOT ADJUSTED FOR INFLATION		
			<u>Highest</u>	<u>Median</u>	<u>Lowest</u>
			89.5%	62.0%	33.2%
	<u>PATIENT</u>				
	<u>DAYS</u>	<u>% TOTAL</u>			
PAYER TYPE					
SELF PAY	898	4.5%			
MEDICAID	517	2.6%	22.5%	7.9%	1.0%
MEDICAID HMO	85	0.4%			
MEDICARE	11,116	56.0%	75.5%	59.9%	36.7%
MEDICARE HMO	3,163	15.9%			
INSURANCE	373	1.9%			
HMO/PPO	3,109	15.7%	36.8%	22.4%	4.1%
OTHER	582	2.9%			
TOTAL	19,843	100%			

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

Competition to promote quality and cost-effectiveness is driven primarily by the best combination of high quality and fair price. Competition forces hospitals to increase quality and reduce charges/cost in order to remain viable in the market.

The applicant already has 52.88 percent of the patient days in the projected primary service area for the services to be provided by VMC. This indicates the applicant already has a significant presence in the proposed market and therefore is not offering a new choice of provider or services.

The impact of the price of services on consumer choice is limited to the payer type. Most consumers do not pay directly for hospital services rather they are covered by a third-party payer. The impact of price competition would be limited to third-party payers that negotiate price for services, namely managed care organizations. Therefore, price competition is limited to the share of patient days that are under managed care plans. The applicant forecasts managed care levels at 32 percent. Health First Health Plans is an HMO provider in the service area. This HMO provider is affiliated with the applicant. Increased price competition will be limited to the extent that contracted prices are not negotiated at arms length between the applicant and affiliated HMO provider.

The applicant already has a majority share of this market and would need to increase its market to achieve projections.

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 a new 84-bed, 213,334 square foot hospital in Brevard County. This will be a satellite facility of Holmes Regional Medical Center.

A 20-acre site for the new facility has been chosen adjacent to a health park with several other healthcare-related facilities. From the information in the narrative, the owner is aware of the requirements for disaster preparedness in the Florida Building Code, Section 419.4. The new facility will be constructed of a concrete frame with masonry walls, and be fully sprinklered.

The application included a site plan, floor plans of the three-story building and larger scaled plans of typical patient rooms. All patient rooms will be private and all patient toilet rooms will be wheelchair-accessible. All the inpatient rooms and the typical handicapped accessible rooms are identical. All the patient rooms shown meet the code requirements for the area and for headwall widths. These also have a lavatory within the room as well as the one in the toilet room, which is required for new construction. Each room has a “family zone” so that a family member could sleep in the patient room.

The plan has a tripartite concept with two patient wings projecting from the main hospital area at the corner. Each patient wing is three stories high and the first two floors have 36 beds in each wing. The third floor has a 12-bed ICU and a 16-bed observation unit. Human Resources and the Chapel are on this floor as well as administration.

Because of the demographics of the area, the owner has elected not to provide obstetric or pediatric services. The narrative indicates that these might be added in the future. In spite of this, the new facility does not seem to be designed for future expansion, horizontally or vertically. It is possible that the third floor could be enlarged to have the same footprint as the larger floors below, but this was not brought out in the submission.

An emergency department is provided as well as a full-service imaging suite including cath labs, an MRI room and the surgical suite has four operating rooms. The surgical suite with the ORs and PACU are located on the second floor.

On all floors, the “concourses” (corridors) adjacent to the main public entry of the hospital are located on the exterior wall of the non-patient portions of the facility. This allows views to the outside along these corridors, allows natural light into the building, and works to harmonize the façade of the front of the building.

All the patient toilet rooms are on the exterior wall rather than on the corridor wall. This is supposed to make for better observation of the patients by the staff. This works well because there is a niche for charting in the corridor for every two patient rooms and there are view windows into both rooms from the niche. It is difficult to understand how these windows will not be of much use to the staff because there is a cubicle curtain located just inside the door that can be closed by the patient or family of the patient at anytime.

The overall design of the project is straightforward and the arrangement of spaces seems to work. The operating suite is located on the second

floor and has staff only vertical connection to the ICU which is located on the third floor. The public elevators are separated from the staff elevators. The dining is on the second floor which seems somewhat unusual however it would offer good views for the diners. The ancillary spaces seem to be adequately sized and conveniently arranged for the functions that they support.

There is a list of applicable codes on the drawings that is correct. The information from Schedule 10 indicates that sufficient time has been allowed for construction. In the case of this facility, it is difficult to analyze the costs for this project. Although the location in Brevard County would partially justify a higher cost, the budget does appear somewhat higher than the norm.

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

- g. 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 following chart illustrates the levels of Medicaid and charity care in Subdistrict 1:

DISTRICT 7 SUBDISTRICT 1 (BREVARD COUNTY) ACUTE CARE HOSPITALS 2004 DATA

Hospital	ADJUSTED Charity Patient Days	% Charity	Medicaid	Medicaid HMO	% Medicaid
HOLMES REGIONAL MEDICAL CENTER, INC.	6,585	2.9%	9,854	2,306	7.7%
PARRISH MEDICAL CENTER	2,008	2.4%	3,321	20	9.7%
CAPE CANAVERAL HOSPITAL	1,219	1.8%	1,430	227	5.8%
WUESTHOFF MEDICAL CENTER - MELBOURNE	761	2.7%	932	639	9.0%
WUESTHOFF MEDICAL CENTER - ROCKLEDGE	2,556	2.6%	3,908	2,951	10.7%

Source: AHCA Hospital Actual Budget Data FYE 9/30/04 for all facilities.

Note: Holmes Regional Medical Center, Inc. includes Palm Bay Community Hospital fiscal data.

During FY 2004, on a percentage basis Wuesthoff facilities provided Medicaid and charity care at levels similar to Parrish Medical Center, the subdistrict's Disproportionate Share Hospital. With respect to actual patient days, as shown in the chart below Wuesthoff provided a total of 3,317 charity patient days at its Rockledge and Melbourne facilities, the Holmes system including Holmes Regional, Cape Coral and Palm Bay provided more than twice the number of charity patients days at 7,804 patient and Parrish Medical Center provided 2,008 charity patient days in 2004. The difference in Medicaid days is not as great, but the Holmes system combined at 13,817 Medicaid patient days provided significantly more patient days than did the Wuesthoff system at 8,430 combined Medicaid patient days.

The applicant proposes to continue its provision of services to Medicaid patients and the medically indigent, proposing a five-year minimum commitment to provide a minimum of 19.5 percent of all Health First system inpatient admissions and births for Medicaid, Medicaid HMO, self-pay, uninsured, KidCare and charity patients.

F. SUMMARY

Holmes Regional Medical Center, Inc. (CON #9881) is applying for a certificate of need (CON) to establish Viera Medical Center (VMC), an 84 private bed acute care satellite hospital with a full-service emergency department in Viera, District 7, Subdistrict 1 in Brevard County. The applicant operates Holmes Regional Medical Center, a Class 1 not-for-profit hospital currently licensed for 504 acute care beds and 10 Level II NICU beds, as well as Palm Bay Community Hospital with 60 acute care beds. Health First, Inc., the parent company of the applicant, also

operates the 150-bed Cape Canaveral Hospital in Cocoa Beach, Brevard County. The proposed VMC would be located west of Interstate 95 at the intersection of Lake Andrew Drive and Wickham Road on 50 acres purchased by Health First, Inc., with 20 acres allocated for the facility. The proposed VMC would be phase II of a multi-phase health care development planned for the site.

The reported total project cost is \$104,875,753. Total construction costs are reported at \$50,113,752 and the project will involve 213,334 GSF of new construction.

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

Need/Special Circumstances:

- The applicant contends that area circumstances warrant an approval based on growth and aging of the population in the Viera area.
- County and district populations grew from 2000-2005 and are projected to continue growing through 2010.
- The Subdistrict 1 average utilization percentage was 67.92 percent for the calendar year (CY) 2004 reporting period, and Holmes RMC saw a 79.19 percent occupancy during this same time, the highest in the subdistrict. This overall occupancy included a fourth quarter addition of 50 beds to Wuesthoff Medical Center – Melbourne on December 13, 2004. Despite nearly doubling its capacity, the facility’s quarterly occupancy was 74.77 percent indicating an immediate use of the added beds. Holmes Regional, Palm Bay and Wuesthoff – Rockledge all also experienced occupancies in excess of 71 percent during the same quarter (79.14 percent, 75.53 percent and 71.08 percent respectively). Since this percentage was calculated, Wuesthoff Medical Center – Rockledge added 22 beds, bringing the current acute care bed county for the subdistrict to 1,279.
- Historic discharges of patients originating from the applicant’s PSA zip codes indicate that only Holmes Regional, Wuesthoff – Rockledge and Wuesthoff – Melbourne are significant providers to residents of this area. The other three subdistrict hospitals served less than four percent. In 2004, Cape Canaveral served less than four percent, Palm Bay less than one percent and Parrish Medical Center provided less than 0.5 percent of services to Viera area residents.

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- Holmes anticipates the impact of establishing this new hospital to be fully felt at its main facility, which is at capacity at times, and not at any other subdistrict provider. The applicant currently has the largest market share for this area. With anticipated area growth in the proposed PSA and the subdistrict, and little room for expansion at its main facility.

Quality of Care:

- Holmes Regional Medical Center is accredited by the Joint Commission on Accreditation of Health Care Organizations and holds other accreditation. It is also the only Level II trauma center between Daytona Beach and West Palm Beach.
- There were seven closed confirmed complaints for Holmes Regional Medical Center and Palm Bay Community Hospital for the last three years ending October 7, 2005: two complaints for patient care, one for nursing service, one for infection control, one for administrative, one for lack of assessment and one complaint for EMTALA (verified by CMS).

Medicaid/charity care:

- For FY 2004, Holmes RMC and Palm Bay (reporting together) provided 7.7 percent Medicaid services compared to 10.6 percent for Subdistrict 1 and provided charity care at 2.9 percent compared to 2.48 percent for the subdistrict. However, with respect to actual patient days, the Holmes system (including Holmes Regional, Palm Bay and Cape Canaveral) provided more than twice the number of charity patient days (7,804) as did the Wuesthoff system (3,317) and significantly more Medicaid patient days: 13,817 Medicaid patient days at Holmes operated facilities compared to 8,430 Medicaid patient days at Wuesthoff operated facilities.
- The applicant requests a condition for the provision of a minimum of 19.5 percent of all inpatient admissions and births across the entire Health First system for Medicaid, Medicaid HMO, self-pay, uninsured, KidCare and charity patients, for a period of no less than five years.

Financial Feasibility:

- Assuming the applicant will be able to obtain the debt financing discussed in the financial review of this report, funding for this project and all capital projects should be available as needed.
- Assuming that VMC will be able to obtain the market share needed to meet the projected year two occupancy, financial feasibility of this project appears likely.

Architectural Analysis:

- The overall design of the project is straightforward and the arrangement of spaces seems to work. Time schedules are reasonable and costs appear somewhat high.

G. RECOMMENDATION

Approve CON #9881 to establish an 84-bed hospital with a full-service emergency department in Viera. The project involves \$50,113,752 in construction costs and 213,334 GSF of new construction. Project costs total \$104,875,753.

CONDITIONS:

- The applicant's parent company will provide a minimum of 19.5 percent of all inpatient admissions and births across the entire Health First system for Medicaid, Medicaid HMO, self-pay, uninsured, KidCare and charity patients, for a period of no less than five years.
- The applicant's parent company will continue to provide a majority of local support for the Brevard Health Alliance.
- The applicant's parent company will provide support in the form of cash, goods and services not less than \$100,000 annually for the next ten years to social service organizations in the community, including the Brevard Alzheimer's Association, the South Brevard Sharing Center, the East Central Florida Memory Disorder Clinic and the Yellow Umbrella.

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- The applicant's parent company commits to providing its special needs plan for low income seniors for no less than four years. This plan is CMS-approved and is administered by Health First Health Plans.
- The applicant commits to continuing to operate the region's only Level II Trauma Center and air ambulance through at least 2015.
- The applicant commits to providing half of the instructional costs associated with the expansion of the nursing program at Brevard Community College. The applicant will provide \$2 million by 2014.
- The applicant agrees not to seek to expand the number of licensed acute care beds at the proposed facility for its first five years of operation, unless the average occupancy rate of the proposed facility exceeds 80 percent for at least a 12-month period, as based on inpatient utilization of all licensed acute care beds.
- The proposed facility will be located on 20 acres of a larger parcel at the southwest corner of Lake Andrew Drive and Wickham Road in Viera.

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