

STATE AGENCY ACTION REPORT
CON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number:

Osceola Regional Hospital, Inc./CON #9918

700 West Oak Street
Kissimmee, Florida 34741

Authorized Representative: Mr. Randy Gross, Chief Operating Officer
(954) 831-2785

2. Service District/Subdistrict

District 7/Subdistrict 3 (Osceola County)

B. PUBLIC HEARING

A public hearing was held at 9:00 AM, on May 2, 2006 at the Heart of Florida United Way in Orlando regarding the establishment of a 60-bed acute care hospital to be called Poinciana Hospital Medical Center (PHMC) in Poinciana, Florida.

Poinciana is located in Osceola County and within the Agency for Health Care Administration (AHCA) District 7, Subdistrict 3. Ms. Karen van Caulil, Executive Director of the Local Health Council of East Central Florida, Inc., provided the ground rules and presided over the proceedings. The hearing attendees were asked to sign-in and indicate on the sign-in sheet if they wished to speak. The sign-in sheet was used to determine the order of speakers.

Three speakers presented facts for the applicant: Mr. Timothy Cook, CEO of Osceola Regional Medical Center, Ms. Jane Forsythe, resident of Solivita, and Mr. Dan Sullivan who represented the consulting firm engaged by Osceola Regional Medical Center (Osceola Regional) for the project¹.

¹ Several speakers had two opportunities to present issues to the attendees. The comments are addressed separately to maintain the flow of the facts and the second presentation is identified in the narrative.

Mr. Timothy Cook stated the project had endorsements from Osceola Fire and Rescue Service, Polk County Fire and Rescue Service, Osceola County Commission , Osceola County Chamber of Commerce, Poinciana Area Council, and many local residents. Mr. Cook, addressed access issues for emergent health care and population growth.

Ms. Jane Forsythe², explained that for this speaking opportunity at the hearing she would speak as a Solivita resident (a community in Osceola County near Poinciana), and cited access issues, and traffic congestion problems during the morning and evening hours.

Mr. Dan Sullivan discussed the population growth in Southeastern Osceola County from 2005 to 2010, especially for the 65 and older group, the increase in emergency and elective admissions to Osceola Regional from Poinciana area residents, and access to health care. In addition, Mr. Sullivan discussed the two available options, which were to add beds to Osceola Regional or build a new hospital. According to Mr. Sullivan, the applicant is projecting 70 percent occupancy by the third year of operation substantiating the hospital will be well utilized.

Mr. Tony Iorio , Vice President of Avatar Home Builders³, stated the area encompasses 47, 000 acres and has grown from 200 homes to over 2000 homes and a hospital is an integral part of the community.

Health Management Associates, the entity requesting the hearing and opposing the project on behalf of Health Management Associates, Inc., had three speakers: Mr. Geoffrey Smith, an attorney representing Health Management Associates (HMA), Ms. Patricia Greenberg a health care consultant engaged by HMA to review the project, and Ms. Ann Barnhart, CEO of Heart of Florida Regional Medical Center, an HMA owned facility located in Polk County.

Mr. Geoffrey Smith presented an overview of the CON approval process and stated decisions must be made on the basis of need and evaluation of existing providers located within reasonable driving distances from the proposed project. Mr. Smith explained the proposed hospital will not include an obstetrics department, pediatrics services, will not have

² Ms. Forsythe spoke twice, the second time representing ORMC and also submitted a letter of support.

³ Mr. Iorio addressed the attendees twice and also submitted a letter of support.

cardiac catheterization lab to serve cardiac emergencies, nor be able to treat patients with stroke. In addition, Mr. Smith also talked about the similarities of this proposal with the Administrative Law Judge's recent recommendation to deny a hospital (CON #9768) in North Port, District 8, based on the lack of demonstrated evidence of need.

Ms. Patricia Greenberg, a health care consultant with National Health Associates, addressed several aspects of the CON application including growth rates, health care access based on driving distances and condition of roadways, demographic characteristics, migration patterns, and occupancy in the county hospitals. Ms. Greenberg stated she was summarizing , the analysis conducted by National Health Care Associates (NHA), and submitted at the public hearing. In addition, Ms. Greenberg explained that a portion of the proposed service area is within Polk County, there are underutilized beds in Osceola County and hospitals are planning to add 173 beds. According to Ms. Greenberg, of the 44 physicians allegedly residing in the area only three are in Poinciana and of the 31 new doctors which the applicant alleges are moving into the area they are mostly pediatricians, obstetricians, and cardiologists, specialties which are not projected for PHMC. In addition to physician and nursing shortages, allied health services are also in short supply.

Ms. Ann Barnhart⁴, CEO of Heart of Florida Regional Medical Center, explained a new facility would dilute limited physician and professional staff resources and that there was insufficient demand in the area to reasonably support a new hospital⁵.

Mr. Mark Aanonson, CEO of St. Cloud Regional Medical Center, commented about Florida's shortage of nurses and physicians in specialty areas and how an additional facility would negatively impact other health care providers' ability in obtaining the scarce human resources (i.e. physicians and nurses) necessary to provide high quality care to the people of Osceola County especially for emergency services⁶.

Mr. Rick Ellis, an attorney representing Osceola Regional and HCA, the hospital chain that owns Osceola Regional, refuted the previously established similarities with the Northport CON⁷ because in that case Health Management Associates had acquired additional facilities in the area and there were hospitals within 15 minutes driving time. In addition, he stated HMA might not have a standing to oppose this project

⁴ As previously stated, Ms. Barnhart submitted a letter of opposition addressing the same concerns expressed at the public hearing.

⁵ Ms. Barnhart's letter of opposition addressed the same concerns expressed at the public hearing.

⁶ Mr. Aanonson's letter of opposition addressed the same concerns expressed at the public hearing.

⁷ In reference to Mr. Geoffrey Smith's earlier presentation.

because the corporation does not have a presence in Osceola County and the opposition is based on the negative impact on Heart of Florida hospital which is located in Polk County.

Mr. Neil Ross, Orlando's safety manager and a resident of Poinciana, stated the driving times from Poinciana to Celebration Hospital and Osceola Regional are 30-35 minutes and to Heart of Florida 40-45 minutes.

Mr. Timothy Cook readdressed the crowd discussed emergency access and expanded Ms. Patricia Greenberg's previously presented statistics.

Mr. Louis Caputo, Associate Administrator at Osceola Regional, stated he submitted several letters of support, and letters of intent from health care providers. In addition, he mentioned the rapid increase in home and hotel room construction as a factor for the need to build the new hospital.

Ms. Jeanette Coughenour, Manager of the Association of Poinciana Villages, discussed growth, traffic problems, and restated population numbers.

Ms. Rita Talbo, a nurse at Osceola Regional, stated the nursing shortage could be solved by traveling nurses, and people of Poinciana deserve the hospital.

Fifteen additional speakers, residents of Solivita and Poinciana, presented personal medical stories as reasons to support the hospital including:

- Difficulty accessing to care during emergencies;
- Ambulance response time;
- Travel time;
- Waiting time at local emergency rooms;
- Quality of care.

Mr. Tony Iorio, readdressed the attendees and discussed growth and economic development in the Poinciana community.

Ms. Lili Patrick, Poinciana Area Council of the Osceola County Chamber of Commerce, expressed general support given that the project will enhance the community.

Terry Uhan, Florida Hospital, said the currently operational hospitals appear to provide sufficient capacity for care.

Dr. Zatchel Soto, Medical Director, Osceola Regional, stated outcomes are dependent on how fast a person can access care and treatment and the new hospital will improve outcomes by decreasing access times.

Jeff Garringer, Osceola County Fire Rescue, presented the following facts related to the Poinciana community:

- 2,000 Emergency Medical Services (EMS) calls;
- 1,500 patients transported to hospitals;
- 87 percent of the transfers went to Osceola Regional;
- Average transport time with lights flashing is 30 minutes
- Frequent requests by Osceola Regional to go on drive-by.

Ms. Jane Forsythe readdressed the attendees as a representative of Osceola Regional stating the hospital has a partnership with the local colleges to address the nursing shortages.

Ms. Rosa Alvarez, Senior Legislative Assistant to State Representative John Quiñones⁸, discussed congested roads, population growth, lack of a hospital within 10 miles, and offered the elected official's assistance in support of their cause.

Mr. Mark Aanonson⁹, CEO of St. Cloud Regional Medical Center, stated that given Florida's shortage of nurses and physicians in specialty areas, an additional facility would negatively impact other health care providers' ability to acquire the human resources (i.e. physicians and nurses) necessary to provide high quality care to the residents of Osceola County.

During the course of the public hearing, 145 letters of support for the proposed project were submitted from various health care providers, local area citizens, and from individuals who may or may not reside within the district. The majority of the letters (134 letters) were exactly the same (form letters, apparently prepared for an individual's signature by the applicant), had no letterhead, and a large number of them (46 letters) did not identify where the people submitting them lived. In addition, two of the form letters were not signed. The major theme of the letters was concern over the continuing population growth in the area. In addition to letters of support, Ms. Mary Melikian, a Solivita resident, presented a petition in support of the project, which was signed by 9,249 petitioners.

There being no further testimony, the public hearing was closed.

⁸ Representative John Quiñones also submitted a letter of support.

⁹ Mr. Aanonson also submitted a letter of opposition addressing the same concerns expressed at the public hearing.

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Three letters of opposition were submitted as part of the public hearing. These letters were from Richard Morrison, Vice President of Florida Hospital; Mark Aanonson, CEO of St. Cloud Regional Medical Center; and Ann Barnhart, CEO of Heart of Florida Regional Medical Center.

Mr. Aanonson expressed that "...due to Florida's shortage of nurses and physicians in specialty areas, an additional facility would negatively impact other health care providers' ability in obtaining the resources (i.e. physicians and nurses) necessary to continue providing high quality care to the people of Osceola County".

Ms. Barnhart claims that construction of a new facility would dilute limited physician and professional staff resources, and stated in her letter that there was insufficient demand in the area to reasonably support a new hospital. In essence, "...the small demand cannot justify the enormous costs, expenses, and operational hurdles of building a new hospital".

Mr. Morrison's letter questioned the need for a new hospital to serve the Poinciana area at this time and stated that the hospitals currently serving the community appear to have sufficient capacity to meet the needs of the community. In addition, he stated there does not appear to be sufficient population in the immediate area of the proposed hospital to warrant the new capital or operating expenses contemplated. Furthermore, he does not feel that there is a sufficient supply of physicians in the area to support another facility.

In addition to the letters of opposition, an in-depth analysis conducted by National Health Care Associates (NHA), which examined the need for the proposed project, was submitted at the public hearing. The analysis included letters of opposition, driving distance maps, population statistics, utilization trends, effect on existing providers, discharge use rates, average length of stay, and average daily census. NHA concludes there is no need for a new hospital in Poinciana.

After the public comment was completed, the applicant and the public hearing requester summarized the previously presented facts. The hearing was closed.

Eight similar letters of support were included with the application. State Representative John Quiñones¹⁰ wrote stating the community of Poinciana is growing quickly, and the provision of critical medical services is an important component in the county's comprehensive efforts¹¹. Osceola County Board of County Commissioners' members wrote three identical letters signed by Ms. Maria Grulich, Director, Osceola County Economic Development Department, Dr. Dagan P. Dalton, Medical Director, Department of Emergency Services, and one letter with the signature of all five county commissioners: Mr. Paul Owen, Mr. Atlee E. Mercer, Mr. Bill Lane, Mr. Ken Shipley, and Mr. Kenneth Smith. The other four letters were signed by: Mr. Jonathan Fels, President of Avatar¹², Ms. Lili Patrick, Poinciana Area Council of the Osceola County Chamber of Commerce, Mr. John Gonzalez, Chairman of the Hispanic Business Council, and Dr. Mary Janarius, a pediatrician.

Three unduplicated letters of support were received by the omissions deadline at the Agency for Health Care Administration (AHCA). A letter from Mr. Raymond Chatlos, Director of Polk County Emergency Medical Services states the hospital will improve access and availability of high quality health care services for the residents of the region. Two identical letters stating the hospital will address the provision of critical medical services for residents in the region were written in Osceola County Board of County Commissioners' letterhead and signed by Mr. Edwin J. Hunzenker, County Manager, and Mr. T. E. Stone, Assistant County Manager.

C. PROJECT SUMMARY

Osceola Regional Hospital, Inc., d/b/a as Osceola Regional Medical Center is applying for a certificate of need to establish a 60-bed acute care hospital in the Poinciana, Osceola County, District 7, Subdistrict 3.

Osceola Regional Medical Center (Osceola Regional) operates a 235-bed acute care hospital in Osceola County. Osceola Regional is wholly owned and operated by Hospital Corporation of America (HCA) which operates 42 hospitals and 29 surgery centers in Florida with facilities located in each district¹³.

¹⁰ All letters included in the application were almost identical

¹¹ Two additional identical letters were received at AHCA

¹² Avatar is the Solivita Developer whose offices are located in Miami-Dade County.

¹³ <http://www.hcahealthcare.com/>

The proposed project, Poinciana Hospital Medical Center (PHMC) will be located in Southeastern Osceola County¹⁴ north of the intersection of Marigold Avenue and Cypress Parkway.

The construction cost is estimated at 49,401,100 and will involve 141,146 GSF of new construction. Total project costs are \$112,596,428.

The applicant conditions the approval of the application on providing 10 percent of total patient days to a combination of Medicaid, Medicaid HMO, and charity care patients.

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 Ana Garcia-Quevedo 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

¹⁴ CON #9918 application, page 5. However, using the Marigold and Cypress Parkway locators, it appears the proposed project will be located in Western Osceola County.

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.

Chapter 59C-1.038, acute care bed need methodology rule, was repealed April 21, 2005. Recent changes in the CON regulations allow for the unlimited addition of beds upon notification to Agency for Health Care Administration (AHCA)¹⁵ in counties not defined as “low-growth” in section 408.036(1), Florida Statutes. As a result, AHCA does not publish need for acute care beds.

b. If no Agency policy exists, the applicant is responsible for demonstrating need through a needs assessment methodology which must include, at a minimum, consideration of the following topics, except where they are inconsistent with the applicable statutory or rule criteria:

- **Population demographics and dynamics;**
- **Availability, utilization and quality of like services in the district, subdistrict or both;**
- **Medical treatment trends; and**
- **Market conditions¹⁶.**

The existence of unmet need is not determined solely on the absence of a health service, health care facility, or beds in the district, subdistrict, region or proposed service area. Current and likely future levels of utilization are better indicators of need than bed-to-population ratios, and, as such, the following table illustrates bed utilization levels in District 7, Subdistrict 3 for fiscal year ended 2005.

¹⁵ 408.036(5)(c)

¹⁶ 59C-1.008 (2)(a)

Osceola County Acute Care Hospitals Utilization July 2004 – June 2005		
Hospital	Beds	Utilization
Florida Hospital - Celebration Health	100	70.18%
Florida Hospital – Kissimmee	60	90.35%
Orlando Regional St. Cloud Hospital	84	63.33%
Osceola Regional Medical Center	235	60.40%
Subdistrict 3	479	66.70%

Source: Florida Hospital Bed and Service Utilization by District, published 1/27/06

As of January 27, 2006, District 7, Subdistrict 3 had total 479 licensed acute care beds with an occupancy rate of 66.70 percent for the July 2004 through June 2005 reporting period.

Utilization levels during the five-year period from July 1, 2001 – June 30, 2005 are shown below. District 7, Subdistrict 3, Osceola County facilities experienced utilization rates ranging from a low of 60.41 percent at Osceola Regional Medical Center to a high of 90.35 percent at Florida Hospital-Kissimmee from July 1, 2004 through June 30, 2005. The applicant's average occupancy is the lowest in the subdistrict.

Osceola County Acute Care Hospitals Utilization 2001 to year ended June 2005					
	2002	2003	2004	2005	2006
Osceola Regional Medical Center	67.62%	74.94%	72.47%	72.82%	60.41%
Florida Hospital Kissimmee	84.75%	109.03%	110.03%	99.95%	90.35%
Orlando Regional St. Cloud	44.05%	47.80%	55.00%	54.39%	63.33%
Florida Hospital Celebration	67.35%	75.55%	83.85%	59.22%	70.18%
Subdistrict 3	63.87%	72.42%	75.54%	69.19%	66.70%

Source: AHCA Florida Hospital Bed Need and Utilization by District published from January 2002 through January 2006.

It should be noted that Florida Hospital Kissimmee’s average utilization rates for 2003 and 2004 are above 100 percent and that the facility added 10 beds in December of 2004. The other three of the hospitals in the subdistrict had average utilization rates during the most recent reporting period of July 2004 though June 2005 of between 60.41 percent at Osceola Regional to 70.18 percent at Florida Hospital Celebration. The applicant owned facility has the lowest occupancy in the subdistrict. OSCEOLA REGIONAL added 60 beds in August fo 2004.

The population estimates for Osceola County, District 7, and the state show continued growth from 2005 through 2011.

AHCA Population Estimates							
	2005	2006	2007	2008	2009	2010	2011
County	233,712	243,741	254,228	264,698	275,054	285,344	295,299
District	2,207,419	2,263,557	2,321,462	2,378,999	2,435,291	2,490,979	2,545,373
State	17,788,350	18,141,311	18,506,533	18,868,663	19,220,973	19,568,627	19,909,119

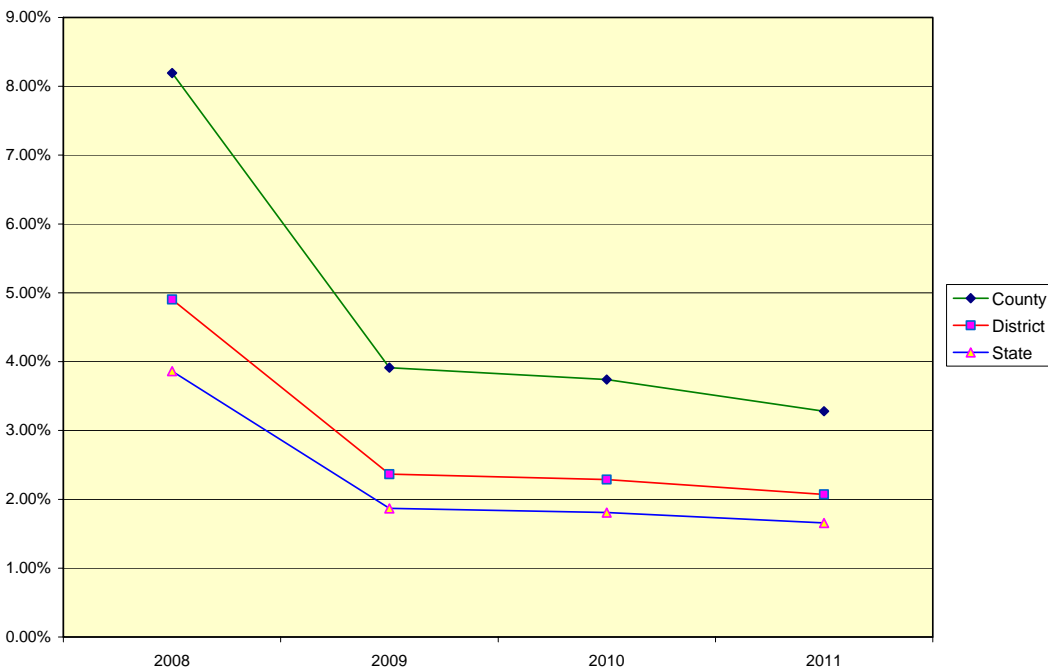
Source: AHCA Population Estimates, published April 2006

However, the growth rate decreases during the 2008-2009 period and remains stable until 2011. The growth rate percentages are shown in the table and chart below.

Population Growth Rates						
	2006	2007	2008	2009	2010	2011
County	4.29%	4.30%	8.19%	3.91%	3.74%	3.28%
District	2.54%	2.56%	4.90%	2.37%	2.29%	2.07%
State	1.98%	2.01%	3.86%	1.87%	1.81%	1.66%

Source: AHCA Population Estimates, published April 2006

Population Growth



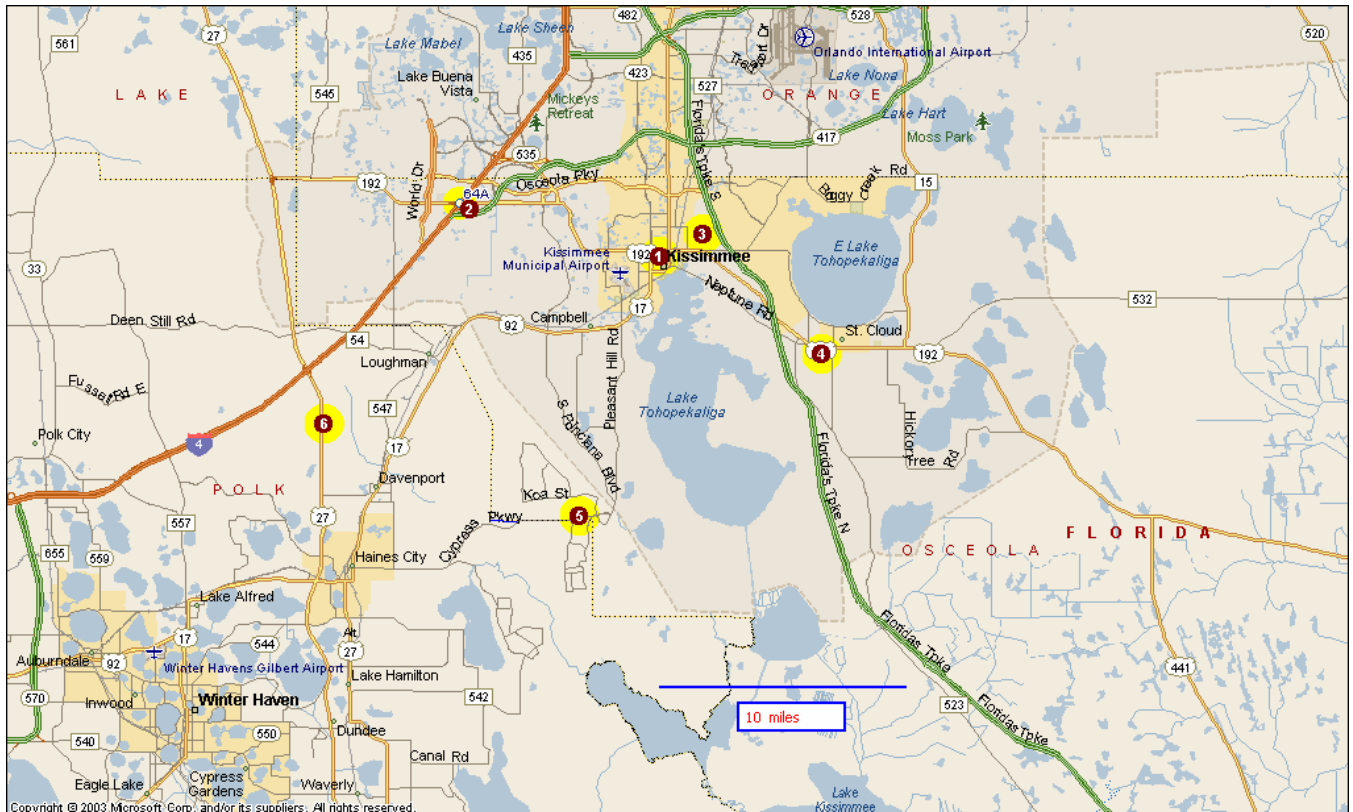
Source: AHCA Population Estimates, published April 2006

The applicant's population growth figures for the proposed service area show a 34 percent growth from 2005 to 2010. AHCA is not able to verify population figures based on zip code regions, however the applicant's estimated growth rate for the district, and state are similar to AHCA's published estimates, while the state's estimate for Osceola County is lower. The comparison is seen in the table below.

Population Growth Rates Comparison						
	Applicant's Projections			State Published Projections		
	2005	2010	Growth	2005	2010	Growth
County	225,633	281,978	25%	233,712	285,344	22.09%
District	2,155,809	2,417,422	12.1%	2,207,419	2,490,979	12.85%
State	17,510,550	19,144,113	9.3%	17,788,350	19,568,627	10.1%

Source: AHCA Population Estimates, published April 2006, CON Application # 9918, page 21

The proposed project site is Marigold Avenue just north of the intersection with Cypress Parkway. Appendix D contains a copy of the purchase and sale agreement signed April 13, 2006. The following map illustrates the currently operational hospitals in Osceola County, the proposed site for Poinciana Hospital Medical Center, and Heart of Florida Medical Center in Polk County¹⁷



Source: Microsoft MapPoint

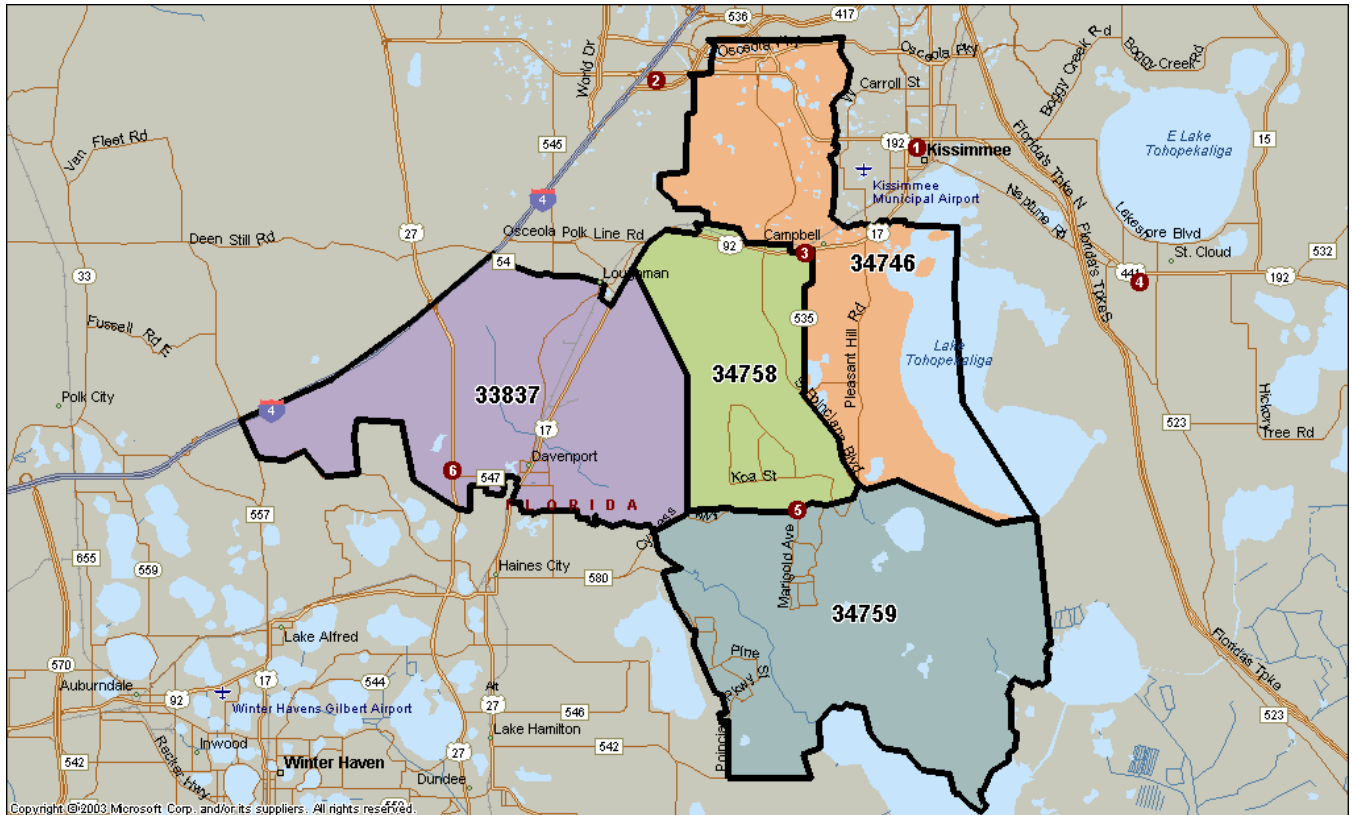
1. Osceola Regional Medical Center
2. Florida Hospital Celebration Health
3. Florida Hospital Kissimmee
4. Orlando Regional- St. Cloud Medical Center
5. Poinciana Hospital Medical Center (Proposed Site)
6. Heart of Florida Medical Center

The applicant has proposed a service area to include a four zip code area: 34746, 34758, 34759, and 33837¹⁸. The following map shows the

¹⁷ Heart of Florida is indicated in this map because it is within the applicant's proposed service area.

¹⁸ The applicant alleges its service area within the 33837 zip code will be the portion within Osceola County.

applicant’s proposed service area divided by zip code regions with the applicant’s proposed site, currently operational hospitals in Osceola County, and Heart of Florida Medical Center in Polk County. A significant portion of zip code 33837 is located in Polk County. The applicant asserts its service area within the 33837 zip code will be the portion within close proximity to the proposed facility.



Source: Microsoft MapPoint

- 1. Osceola Regional Medical Center**
- 2. Florida Hospital Celebration Health**
- 3. Florida Hospital Kissimmee**
- 4. Orlando Regional- St. Cloud Medical Center**
- 5. Poinciana Hospital Medical Center (Proposed Site)**
- 6. Heart of Florida Medical Center**

As the map shows, there are two hospitals within the proposed service area, Florida Hospital- Kissimmee and Heart of Florida. As previously discussed, occupancy rates during the last reporting period for the Osceola County hospitals, with the exception of Florida Hospital – Kissimmee, were low on average. Occupancy at Heart of Florida which is located in an area in Polk County that serves zip code 33837 is included in the chart below and reflects relatively high occupancy at nearly 80 percent.

Acute Care Hospitals Utilization June 2004 – July 2005	

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Osceola Regional Medical Center	60.41%
Florida Hospital Kissimmee	90.35%
Orlando Regional St. Cloud	63.33%
Florida Hospital Celebration	70.18%
Heart of Florida	79.75%

Source: AHCA Florida Hospital Bed Need and Utilization by District published January 2006.

The driving distance chart indicates that both Osceola Regional Medical Center and Heart of Florida are equidistant from the proposed site for the Poinciana Hospital and the three other facilities within the county are less than 15 miles away from the proposed site.

Driving Distances						
	Florida Hospital Celebration Health	Florida Hospital-Kissimmee	Osceola Regional Medical Center	Orlando Regional St. Cloud Medical Center	Proposed Site Poinciana	Heart of Florida
Florida Hosp. Celebration Health		9.6	8.0	15.4	13.5	10.6
Florida Hospital- Kissimmee	9.6		2.3	7.2	12.6	17.2
Osceola Regional Medical Center	8.0	2.3		7.9	11.1	15.1
Orlando Reg. St. Cloud Med. Ctr.	15.4	7.2	7.9		12.1	20.8
Proposed Site Poinciana	13.5	12.6	11.1	12.1		11
Heart of Florida	10.6	17.2	15.1	20.8	11.1	

Source: Microsoft MapPoint

The applicant alleges that population growth, driving distances, and crowded roadways are making it increasingly difficult for the Poinciana residents to access health care services. In addition, Osceola Regional states it is experiencing a growing occupancy, expanding the facility would disrupt operations, its ancillary and support departments are operating at full capacity, and it lacks space to enlarge. According to the applicant, these reasons would make it inefficient to add beds to Osceola Regional instead of building a new facility. However, the applicant also states that it has just completed a new patient tower that apparently did not disrupt operations, to which 20 acute care beds can be added and that it also has available land to build a new patient wing. The applicant claims that ancillary and support services would still be constrained and believes that even though it can build-out, the establishment of a new hospital in the Poinciana area is the better option and indicates expanding Osceola Regional would be a temporary fix given tremendous population growth expected in the Poinciana area.

The applicant states it will provide a full-range of general inpatient and outpatient medical and surgical services, including an intensive care unit, an emergency services department, diagnostic services and rehabilitation services. It does not propose to offer tertiary services, obstetrics, or pediatrics.

The applicant claims the residents of Poinciana are underserved as a result of natural barriers and limited highway accessibility. Road construction and expansion are not keeping pace with the population growth contributing to the traffic congestion.

The applicant concluded from need analysis the following factors:

- The proposed service area has a need for an acute care hospital due to population growth and demand for acute care services;
- Residents of Poinciana have barriers to access;
- Osceola Regional is the best applicant to meet the needs of the service area; Population demographics and dynamics;
- Availability, utilization and quality of like services in the district, subdistrict or both;
- Medical treatment trends; and
- Market conditions.

Population growth and demand

Osceola Regional states the population in the service area will increase from 64,216 in 2005 to 86,184 in 2010¹⁹ a difference of 21,968 representing a 34.2 percent increase. Using AHCA published data, for the same time frame, the population in Osceola County will increase by 51,632 residents. The applicant's projections indicate that it expects significant population growth in its proposed service area. Osceola Regional states this population growth in five years can readily support a 60-bed hospital. However, utilization rates are better indicators of need than bed-to-population ratios. Occupancy as shown earlier has not increased despite population growth. Utilization at the applicant's facility and St. Cloud Hospital indicate that growth can be accommodated in existing beds. Additionally, as noted above, two hospitals have added beds and beds may now be added to existing facilities in the subdistrict outside of CON review. The applicant did not demonstrate need based on population growth.

The applicant expects demand for services to be 51.4 patients per average each day in the proposed 60-bed facility by 2013 and submits the projected utilization at PHMC as follows:

¹⁹ CON Application #9918, page 10

PHMC Projected Utilization

	2009	2010	2011	2012	2013
Projected Non-Tertiary Discharges	7,041	7,518	8,031	8,583	9,175
Projected PHMC Market Share	27.0%	36.0%	37.0%	38.0%	38.0%
PHMC Discharges	1,901	2,707	2,972	3,261	3,487
In-migration%	10%	10%	10%	10%	10%
Total PHMC Projected Discharges	2,112	3,007	3,302	3,624	3,874
PHMC Projected ALOS	4.82	4.83	4.83	4.84	4.84
Total PHMC Projected Patient Days	10,189	14,521	15,958	17,531	18,759
Total PHMC Projected ADC	27.9	39.8	43.7	48.0	51.4
PHMC Projected Occupancy Rate (60 beds)	46.5%	66.3%	72.9%	80.0%	85.7%

Source: CON # 9918, page 39

As discussed earlier (see charts on pages 11 and 12), population growth is expected to decline in 2008 and the applicant’s existing facility, which currently serves 32.4 percent of this market, has experienced a decline in occupancy over the past five years. The applicant has not provided any evidence that it can obtain these projected occupancies and therefore these projections cannot be considered reasonable. However, should the applicant obtain this percentage of occupancy in its 5th year, it appears to be through expansion of its market share, which would impact competitors and its own existing underutilized facility. It is noted that projections beyond a 5-year period become increasingly speculative due to changes and advances in health care delivery and the health care industry.

Residents of Poinciana have barriers to access

According to the applicant, the limited number of roadways from the service area to Osceola Regional (the closest provider) and the influx of “seasonal visitors year-round”, result in travel times of more than half an hour during an emergency. However, as seen in the service area zip code map above, the proposed location will also encounter a limited number of roadways into Poinciana. In addition, Heart of Florida appears to be equidistant to the proposed site as Osceola Regional.

According to the applicant, its proposed location at the junction of Marigold Avenue and Cypress Parkway ensures accessibility throughout the service area. However, Osceola Regional did not explain why these same roads do not afford access to the currently established facilities.

PHMC has not demonstrated the proposed site will improve access within its proposed service area.

Osceola Regional is the best applicant to meet the needs of the service area

The applicant states it has the largest market share of discharges from the proposed services and as a result it would encounter the greatest impact with the opening of the new hospital. It is not clear why this impact would mean Osceola Regional is the best applicant to meet the needs of the service area. It is noted that no other applicant has applied and that the applicant claims there are special circumstances in the area that demonstrate need for a new hospital. The fact that it has the largest market share is not a demonstration of need.

Population demographics and dynamics

The applicant states its demographic need analysis was based on the number of discharges originating from the service area, zip codes with a significant population base, no accessible existing acute care facilities, historic utilization, utilization trends and market share.

As stated at the beginning of this section of the review, Agency rule clearly states that the existence of unmet need is not determined solely on the absence of a health service, health care facility, or beds in the district, subdistrict, region or proposed service area. Therefore, unless the applicant demonstrates some other circumstance, approval cannot be granted because there is not a hospital with the 4-zip code area the applicant has defined as its primary service area.

The applicant has calculated a 34.2 percent population increase in the service area. As previously stated, AHCA is not able to verify population figures based on zip code regions so a comparison was made for county, district and state. AHCA's published estimates for the district, and state are similar to the applicant's data, however the population growth estimate for Osceola County is lower. The population growth rate in Osceola County and District 7 decreases during the 2008-2009 period and remains stable until 2011.

The stable population growth rates after 2009 within Osceola County will not be sufficient to justify a new hospital. Utilization and utilization trends as previously shown and discussed in more detail below, do not demonstrate need. Market share is discussed below.

Availability, utilization and quality of like services in the district, subdistrict or both

As stated above, recent changes in the CON regulations allow for the unlimited addition of beds upon notification to Agency for Health Care Administration (AHCA)²⁰. According to the applicant, this change has resulted in making traditional bed need analysis focusing on net need is no longer meaningful and proposes a need determination based on other factors discussed below.

The application included the following table based on discharges sorted by patient’s residential zip code.

Non-tertiary Non OB Discharges sorted by Zip Codes						
	33837*	34746	34758	34759	Total	Market Share
Osceola Regional Medical Center	48	836	734	533	2,151	32.4%
Florida Hospital- Kissimmee	11	256	174	115	556	8.4%
Florida Hospital Celebration Health	127	344	148	124	743	11.2%
Orlando Reg. St. Cloud Med. Center	2	42	19	18	81	1.2%
Heart of Florida	1,411	10	22	76	1,519	22.9%
Winter Haven Hospital	136	1	5	20	162	2.4%

Source: CON Application #9918, page 28

*** Zip code is located in both Polk and Osceola Counties**

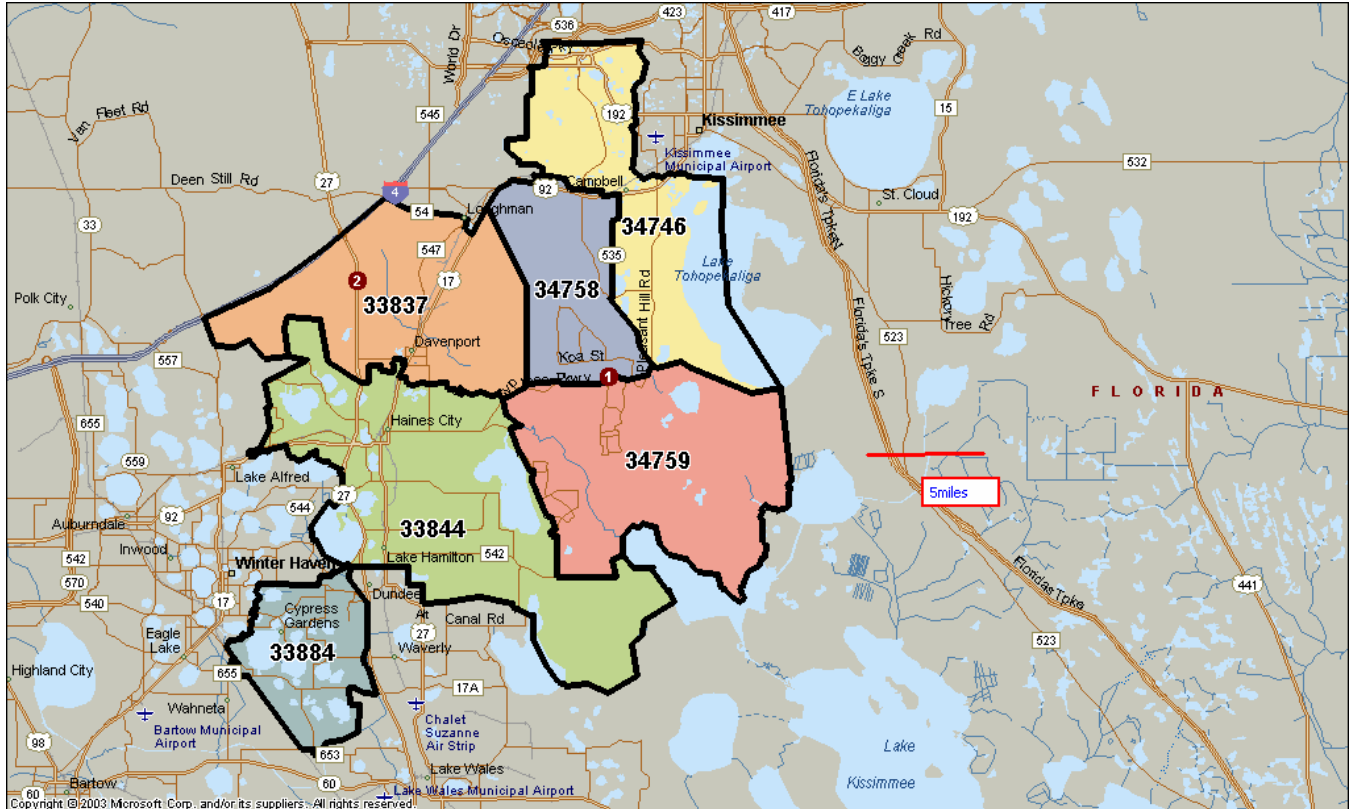
AHCA’s data for discharges sorted by DRG groups, obtained from the State Center for Health Statistics, yielded similar information.

Osceola Regional states the utilization in the proposed service area is increasing at an annual rate of 7.9 percent and discharge data shows it has the largest market share and would incur the greatest impact.

During calendar year 2005, 45 percent of Heart of Florida discharges originated from two zip code areas 33837 and 33844. There were 1,895 discharges for patients residing within zip code 33837 and 3,327 discharges for patients residing within zip code 33844. As seen in the map below, certain areas within the 33844 zip code are closer to the proposed location for this project than to the Heart of Florida Hospital. Therefore, while the applicant has not stated it expects to serve patients in zip code 33844, its proposed physical location is near both of Heart of Florida’s primary service area zip codes. In addition, the applicant’s table of discharges by zip code shows that 81 percent of the discharges for residents of zip code 33837 were for patients admitted to Heart of Florida. The applicant’s analysis appears to underestimate the negative impact on existing providers particularly Heart of Florida. It is acknowledged that Heart of Florida is not in Osceola County, however the proposed service area includes a zip code region shared by both

²⁰ 408.036(5)(c)

Osceola and Polk County and discharge data shows a 22 percent of the 2005 discharges for residents of within the proposed service area are attributed to Heart of Florida. The applicant states it expects to serve Polk County residents who reside close to the proposed location.



Source: Microsoft MapPoint

1. Proposed Poinciana Hospital site
2. Heart of Florida

The applicant analyzed utilization trends by looking at total admissions at Osceola Regional from 2000 to 2005. The data submitted by the applicant shows:

Admissions at Osceola Regional					
2000	2001	2002	2003	2004	2005
9,227	10,564	10,742	10,201	10,407	11,471

Source: CON Application#9918, page 29

However, the number of admissions alone is not a clear indicator of utilization since it does not consider length of stay so that occupancy rates can be calculated. Osceola Regional utilization rates for the same period, shown previously, indicate a decline in occupancy rates since 2002. Beds were added to the facility in 2004.

In addition, Osceola Regional alleges that the increase in outpatient visits to its emergency room from 36,593 in 2000 to 61,833 in 2005, indicate that additional capacity is needed. Increased outpatient visits to the

emergency department at Osceola Regional may be the result of multiple factors including lack of access to primary care resources not due to the absence of a hospital within a specific area and are not indicators of need for an additional hospital in the area. The data did not identify how many of these visits were from residents of the proposed service area.

The applicant states its utilization will continue to increase as a result of the population growth and has estimated the projected bed need at its existing facility using the data for the proposed service area.

Utilization Projections at Osceola Regional without the Approval of CON # 9918									
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total discharges	11,929	12,547	13,201	13,891	14,620	15,391	16,206	17,068	17,979
Total Osceola Regional days	55,115	58,206	61,481	64,951	68,629	72,528	76,662	81,045	85,692
ALOS	4.62	4.64	4.66	4.68	4.69	4.71	4.73	4.75	4.77
ADC	151	159.47	168.44	177.95	188.03	198.71	210.03	222.04	234.77
Percent Occupancy	64.3%	67.9%	71.7%	75.7%	80.0%	84.6%	89.4%	94.5%	99.9%

Source: CON Application # 9918 page 35

It should be noted that AHCA's data shows 48,274 bed days and a 60.41 percent occupancy for the July 2004 through June 2005 period. The applicant states its projections for its existing facility are for the zip codes in its proposed service area²¹ and based only on population growth. As previously mentioned, the population growth rate in Osceola County is projected to decline starting in 2008. Since beds have been added, occupancy has not increased. No reasonable explanation was provided for this projected growth. The table above also shows a consistent increase in average length of stay (ALOS) without any explanation. The projected utilization rates are not justified based on historic occupancy data and population growth trends.

The applicant has not demonstrated need based on population growth, or utilization at existing facilities.

²¹ CON Application #9918, page 34

Medical treatment trends

The applicant states at the beginning of its need discussion that future utilization has been based on utilization trends of non-tertiary hospital services and that is what it considers medical treatment trends to consist of in this application. As discussed, utilization trends are based on population projections and existing or historic facility utilization. These trends, as discussed, do not support need for a new facility.

Market conditions

According to Osceola Regional no other provider has enough market shares to support a new hospital without significantly impacting Osceola Regional and other providers. The applicant is the largest hospital in Osceola County and has the lowest utilization for the subdistrict during the last reporting period. Population is projected to decline and need for a new hospital in this area, as discussed above, has not been demonstrated.

Additionally, as shown above Osceola Regional would not be the only existing facility that may be impacted if the proposed project is approved. Residents of zip codes 33837 and 33844, which currently provide the majority of discharges for Heart of Florida Hospital will have an additional choice for inpatient hospital services. The applicant's analysis appears to underestimate the negative impact on existing providers particularly Heart of Florida.

Market conditions have not been demonstrated to support the project.

The applicant has indicated that it believes growth in an area primarily currently served by itself and Heart of Florida will outpace its ability to add beds to its existing facility. However, the applicant's need projections were not demonstrated to be reasonable. Need has not been demonstrated.

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 which became 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(2), 408.035(7), Florida Statutes.**

There is no acute care facility physically located within the proposed service area and according to Osceola Regional the proposed project will allow it to expand the continuum of care to the Poinciana residents by appropriately positioning services to maximize access. Osceola Regional repeatedly mentions access for medical treatment is impeded due to the limited number of roadways from the service area to Osceola Regional resulting in travel times of more than half an hour during an emergency. However, the applicant has not shown how this will be improved by this project. Also, the applicant will not offer adult heart catheterization and will not be a designated trauma center which are two emergency conditions recognized to need treatment within an hour.

Osceola Regional also states the demand for its services will exceed the capacity and expanding the licensed bed capacity will not be efficient considering the expected area growth. However, as of 2008 the population growth rate in Osceola County will decline. The applicant's projected utilization assumes population growth, and incorporates a constantly increasing ALOS without providing a reason for this increase in ALOS. The population will increase but the growth rate shows a sharp decline starting in 2008, one year prior to the proposed project start date, the applicant's occupancy projections were not demonstrated to be reasonable.

Osceola County's average occupancy rates are not high except for Florida Hospital Kissimmee and access to acute care beds within the planning area is available. The applicant states its facility will improve geographic access to the residents of the proposed service area. However, as previously shown, the proposed location will also encounter a limited number of roadways into Poinciana.

The applicant states it will seek JCAHO accreditation and maintain quality standards of its parent, Hospital Corporation of America by sharing its quality and performance standards. Refer to E.3.b. below.

Need is not evidenced by the availability, quality of care, efficiency, accessibility and extent of utilization of existing health care facilities and health care services in the applicant's service area.

- 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.**

Osceola Regional is JCAHO accredited through 2006. The applicant included a copy of its performance improvement, patient safety, and risk management plans.

A review of Osceola Regional Medical Center complaint history as of April 7, 2006 indicates a combined listing of seven confirmed complaints for the past three years. The seven confirmed allegations involve: medicine/problems/errors (one), pressure sores (one), toileting (one), patient care (two), medical records (one), and Emergency Medical Treatment and Active Labor Act, EMTALA (one).

- 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 Osceola Regional Hospital d/b/a Osceola Regional Medical Center (Osceola Regional), applying under CON #9918 to establish a 60-bed Class I acute care hospital in District 7, Subdistrict 3, Osceola County, Florida. The financial impact of the project will include the project cost of \$112,596,428 and year two incremental operating costs of \$57,767,182.

The audited financial Statements of Osceola Regional Hospital for the periods ending December 31, 2003 and 2004 were analyzed for the purpose of evaluating the applicant's ability to provide the operational funding and the development and start-up costs necessary to implement the project as proposed. (See Table below).

The applicant operates a 235-bed hospital in Kissimmee, Florida and is wholly owned by Hospital Corporation of America (HCA). Cash collected by the applicant is transferred daily to HCA's central cash management account, thus limited cash is carried on the books of the applicant.

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CON 9918		
Osceola Regional Hospital, Inc.		
	12/31/2004	12/31/2003
Cash and Current Investment	\$ 0	\$ 225,654
Current Assets	\$ 30,394,264	\$ 23,545,835
Assets Restricted for Capital Projects	\$ 0	\$ 0
Total Assets	\$ 113,258,934	\$ 70,360,958
Current Liabilities	\$ 11,340,474	\$ 11,443,068
Total Liabilities	\$ 90,718,950	\$ 50,274,270
Total Equity	\$ 22,539,984	\$ 20,086,688
Operating Revenues	\$ 166,684,344	\$ 140,999,128
Interest Expense	\$ 5,025,918	\$ 3,917,704
Income before non-operating losses & income taxes	\$ 5,015,696	\$ 6,877,236
Net Income	\$ 2,669,584	\$ 3,703,770
Cash Flow from Operations	\$ 4,000,103	\$ 8,684,307
Working Capital	\$ 19,053,790	\$ 12,102,767
Current Ratio (CA/CL)	2.7	2.1
Cash Flow to Current Liabilities (CFO/CL)	0.4	0.8
Long-Term Debt to Equity (TL-CL/TE)	3.5	1.9
Times Interest Earned (NPO+Int/Int)	2.0	2.8
Equity to Total Assets (TE/TA)	19.9%	28.5%
Operating Margin (NPO/NOR)	3.0%	4.9%
Total Margin (NI/NOR)	1.6%	2.6%
Return on Assets (NI/TA)	4.4%	5.3%
Operating Cash Flow to Assets (CFO/TA)	3.5%	12.3%

Short-Term Position:

The applicant's short term position is affected by cash being swept into the central cash management account. Even though no cash was carried on the books, their current ratio of 2.7 indicates current assets are 270 percent of current liabilities, a better than average position. The ratio of cash flow to current liabilities of .04 (40 percent) is below average but an acceptable position. The working capital (current assets less current liabilities) of \$19.0 million is a measure of excess liquidity that could be used to fund capital projects. Overall, the applicant has a good short-term position.

Long-Term Position:

The ratio of long-term debt to net equity of 3.5 indicates long-term debt is three and one-half times greater than equity. Long-term debt consists largely of amounts due to an HCA affiliate, which represents the net excess of funds transferred to or paid on behalf of the applicant. These amounts are paid down as earned. The ratio of cash flow to assets of 3.5 percent is below average, but an acceptable position. The most recent year had net income of \$2.7 million, which results in an operating margin of 3.0 percent. Overall, the applicant has an acceptable long-term position.

Capital Requirements:

Schedule 2 indicates the applicant has capital projects totaling \$126.0 million.

Available Capital:

Funding for the project will come entirely from the applicant's parent, HCA. The applicant provided a copy of HCA's Form 10-K for the period ended December 31, 2005. HCA, Inc. had on December 31, 2005 \$22.2 billion in assets, \$4.9 billion in equity, with \$3.2 billion in cash flows.

Staffing:

Schedule 6A shows 285.8 FTEs for the hospital project by the end of year two (12/31/2010). In year two, the proposed hospital is projected to employ 73.51 FTEs of RNs, 24.69 FTEs of LPNs and 5.41 FTEs of nurses' aides.

The applicant states some managerial and ancillary resources for the proposed facility would be shared with the applicant facility which will increase efficiency.

The application contained a copy of PHMC proposed physician recruitment and retention plan²² which included using physician recruiting firms, establish a relationship with the proposed medical school in Orange County, market the community to convey a positive view of the area, malpractice coverage, relocation expenses, and a signing bonus. Critical and managerial positions may be offered additional incentives such as continuing education reimbursement and certification differentials.

PHMC nursing recruitment program includes the expectation of transferring some current Osceola Regional nursing staff to its new facility and recruiting new staff from local community colleges.

Conclusion: Funding for CON #9918 is likely to be available as needed.

²² CON Application 9918, Appendix F

Note: The architectural review disclosed no material items that would affect the cost of the project.

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 patients in the following zip codes: 34746, 34758, 34759, and 33837. AHCA tested the case mix data, using patients discharged from short-term acute care hospitals in the indicated zip codes during 2004, excluding DRG's for services not provided. The computed case mix index was 1.1976. 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 Peer Group 4. Per diem rates are projected to increase by an average of 3.9 percent per year. Inflation adjustments were based on the new CMS Market Basket, 1st Quarter, 2006.

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.

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Projected net revenue per adjusted patient day (NRAPD) of \$1,868 in year one and \$1,939 in year two are between the control group median and highest values of \$1,487 and \$2,666 in year one and \$1,535 and \$2,751 in year two. With net revenues falling between the control group median and highest values, the facility is expected to consume health care resources in proportion to the services provided. (See Table below).

Cost per adjusted patient day (CAPD) of \$2,318 in year one and \$2,009 in year two is between the control group median and highest values of \$1,461 and \$2,584 in year one and \$1,507 and \$2,665 in year two. The decrease in year two is not considered unusual as the occupancy level drives costs and it is estimated to be 46.5 percent during the first year of operation. Fixed costs must be absorbed by the revenue generated by relatively few patient days.

It is likely that there would be a further decline in CAPD as utilization increases. With projected cost in year two between the median and highest value in the control group, the costs appear feasible. (See Table below).

The year two projected operating loss is \$2.0 million, which computes to an operating margin per adjusted patient day of a negative \$69. This is between the lowest and median values of the control group of a negative \$170 and \$3.

Peer group data is derived from mature hospitals; this application is for a new acute care hospital and economies of scale will be realized as utilization increases. The applicant expects the proposed facility to operate at a profit of \$1.36 million in the third year of operation.

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CON # 9918 Osceola Regional Hospital 2004 Data Peer Group 4	2010	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	133,317,581	4,636	1,080	674	332
INPATIENT AMBULATORY	-	0	334	111	0
INPATIENT ANCILLARY SERVICES	-	0	5,717	2,745	1,457
OUTPATIENT SERVICES	130,576,315	4,540	4,459	2,118	939
OTHER OPERATING REVENUE	165,157	6	61	9	0
TOTAL REVENUE	264,059,053	9,182	9,519	6,078	3,925
DEDUCTIONS FROM REVENUE	208,292,348	7,243	*	*	*
NET REVENUES	55,766,705	1,939	2,751	1,535	1,204
EXPENSES					
ROUTINE	6,446,601	224	349	242	166
ANCILLARY	10,460,910	364	824	510	396
AMBULATORY		68			
OVERHEAD	38,918,296	1,353	1,505	684	485
OTHER		0			
TOTAL EXPENSES	57,767,182	2,009	2,665	1,507	1,244
OPERATING INCOME	(2,000,477)	-70	323	-3	-170
		-3.6%			
PATIENT DAYS	14,520		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	28,759		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	21,900				
ADJ. FACTOR	0.5				
TOTAL NUMBER OF BEDS	60				
PERCENT OCCUPANCY	66.3%		88.4%	52.3%	19.5%
PAYER TYPE	PATIENT DAYS	% TOTAL			
MEDICARE	6,596	45.4%	72.4%	50.3%	20.4%
COMMERCIAL	581	4.0%			
MEDICAID	1,404	9.7%	30.1%	7.2%	0.0%
SELF-PAY	865	6.0%			
HMO/PPO	4,758	32.8%	49.8%	31.3%	0.0%
OTHER	316	2.2%			
TOTAL	14,520	100.0%			

Given the financial strength of the applicant's parent, financial feasibility appears likely.

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

The extent to which any competition resulting from the proposed facility would promote quality and cost-effectiveness can be estimated based on an examination of the current market indicators that are discussed throughout this review. It should be noted that because all service areas are composed of varying demographics, assorted providers and unique

conditions, estimates of possible impact must be made based on empirical data, to include: Agency published data, industry accepted standards and statements of the applicant, as well as testaments presented in letters of support and opposition. To adequately evaluate all possible impact of the proposed project on existing providers, potential negative impact must also be weighed, as the dilution of available staff and/or patients could perhaps affect a facility's ability to provide quality, cost-effective care.

Competition to promote quality and cost-effectiveness is driven primarily by the best combination of (the perception of) high quality and acceptability of price of/to the paying party. Holding all other factors constant, such as staffing availability and a constant patient use rate, the positive effects of competition between an area's health care facilities could include increases in quality and a reduction in charges/costs, which would be initiated by the individual facilities to remain viable in the market. The impact of price-based competition on consumer choice is typically limited to third-party payers that negotiate the price of services, namely managed care organizations. Hospital services are not typically paid directly by the covered consumer, but are instead largely covered by the third-party payer. Little if any price negotiation is available to patients uncovered by a third-party payer. The applicant is projecting approximately 32.8 percent of its patient days to come from managed care organizations²³; therefore, the opportunity exists for price-based competition among approximately 33 percent of the applicant's projected patient days. If realized, price-based competition could have positive impact on quality and cost-effectiveness.

It is noted that the factors held constant in this model would not likely be held constant in the business plan of existing facilities or the applicant's proposed facility. The existence of clinical staffing shortages is widely accepted; therefore, any limitations in the availability of qualified clinical personnel must preclude the conclusion of a clear cause-effect relationship between competition and quality or between competition and cost-effectiveness. Should a facility seek to attract clinical personnel monetarily, corresponding decreases in other areas of the facility's budget might be initiated, areas that cannot be determined by empirical data but could potentially include areas that affect quality of care, such as technological innovations or the facility's ability to cover routine financial obligations. Conversely, should a facility not choose to attract clinical personnel monetarily in an effort to maintain cost-effectiveness, or be unable to compete for staff in this manner, that facility could potentially threaten its ability to maintain quality of care, as fewer nurses would be assigned to the constant level of patients,

²³ The highest level of managed care in the comparative group was 49.8 percent.

assuming patient use rates remain constant. Volatility of patient use rates has implicit results. Contributors to use rate volatility include factors not pertinent to this review, such as pharmaceutical engineering or establishment of specialty health care facilities other than acute care hospitals, which might draw a particular patient type from the service area. Therefore, to conclude absolutely that the proposed project would have positive impact on quality and cost-effectiveness is to assume that staffing levels and patient use rates would remain constant for all competitors in the market.

It has not been established, as discussed above, that the proposed facility would improve access to the proposed service area residents and population growth in subdistrict²⁴ does not support the applicant's occupancy projections, it can be concluded that the applicant intends to at a minimum compete with existing providers²⁵ for a group of patients who would not wholly base their choice of hospital on guidelines inherent in a managed care system and/or third-party payer. Additionally, insufficient information is presented by the applicant and obtainable by the reviewer to appropriately assess all payer sources in the service area, the percentage that all payer sources in the service area represent within service area residents, and any/all payer stipulations limiting the patient's choice of facility that are required by these payer sources. It is noted that Medicare patients are typically not limited in their choice of hospitals, and therefore discussion of this payer population is included with discussion of un/underinsured patients below.

If a patient in the proposed service area may freely choose a health care facility, one or more of the following factors would likely contribute to that patient's choice: geographic proximity, physician preference, a history/pattern of receiving care from (or loyalty to) a certain provider, availability and accessibility to care (waiting times in emergency rooms and/or waiting times for admission to acute care beds), as well as the perception of quality care. As stated previously, little if any price negotiation is available to patients uncovered by a third-party payer, and therefore cost would not likely factor in a patient's free choice of facility.

²⁴ As previously explained, AHCA cannot evaluate population growth based on zip code regions.

²⁵ The applicant alleges it will be the only provider impacted if CON #9918 is approved.

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As discussed previously, the applicant’s projected population growth levels could not be duplicated or explained using AHCA population estimates. Because of this, the evaluation of the geographic proximity of the proposed facility to existing facilities is comparable to the evaluation of geographic proximity to service area residents; in other words, if a proposed facility is within short geographic distance from an existing facility, it is not clear that the proposed facility would create additional access for the service area, assuming all other areas for comparison are held equal.

The following table illustrates the distance in miles from the proposed facility to existing facilities in the Subdistrict and Heart of Florida in Polk County:

Driving Distances						
	Florida Hospital Celebration Health	Florida Hospital-Kissimmee	Osceola Regional Medical Center	Orlando Regional St. Cloud Medical Center	Proposed Site Poinciana	Heart of Florida
Florida Hospital Celebration Health		9.6	8.0	15.4	13.5	10.6
Florida Hospital- Kissimmee	9.6		2.3	7.2	12.6	17.2
Osceola Regional Medical Center	8.0	2.3		7.9	11.1	15.1
Orlando Reg. St. Cloud Med. Ctr.	15.4	7.2	7.9		12.1	20.8
Proposed Site Poinciana	13.5	12.6	11.1	12.1		11
Heart of Florida	10.6	17.2	15.1	20.8	11.1	

Source: Microsoft MapPoint

The driving distance chart indicates that both Osceola Regional Medical Center and Heart of Florida are equidistant from the proposed site for the Poinciana Hospital and the three other facilities within the county are less than 15 miles away from the proposed site.

The tendency of a service area population to receive care at a particular facility can be evaluated by comparison of the discharging facilities of service area residents. A service area’s tendency toward or against a particular facility could be due to innumerable factors, among which could include the factors listed above, the service area’s general perception of quality care or could be simply coincidence. The following table illustrates the majority of facilities from which service area residents were discharged during calendar year 2004 and each facility’s share of total service area resident discharges:

**PSA Market Share Percentages by Discharges
District 7 and Heart of Florida
CY 2004**

Facility	% PSA Discharges
Osceola Regional Medical Center	34.4%
Heart Of Florida Regional Medical Center	18.6%
Florida Hospital-Celebration Health	11.9%
Florida Hospital	7.4%
Florida Hospital-Kissimmee	5.9%
Arnold Palmer Hospital	5.0%
Orlando Regional Medical Center	3.9%
All Others	12.9%
Total	100%

Source: Financial Analysis Unit, Calendar Year 2004

As seen in the table above, Osceola Regional Medical Center discharged the greatest percentage of service area residents during calendar year 2004. Heart of Florida, who is located equidistantly from the proposed location as Osceola Regional Medical Center had almost 19 percent of the discharges and therefore potentially subject to impact from the proposed project. Should patient redirection occur due to the establishment of the proposed facility, it appears that Heart of Florida has the most potential to be impacted, followed by Florida Hospital Celebration Health.

The ability of existing facilities to sustain potential impact can be estimated partially by the facilities' occupancy rates. Thorough evaluation would require information not provided by the applicant or available to the reviewer. The following table illustrates the occupancy rates of subdistrict facilities during the year ending June of 2005:

Acute Care Hospitals Utilization June 2004 - July 2005	
Osceola Regional Medical Center	60.41%
Florida Hospital Kissimmee	90.35%
Orlando Regional St. Cloud	63.33%
Florida Hospital Celebration	70.18%
Subdistrict	66.70%

Source: AHCA Florida Hospital Bed Need and Utilization by District published January 2006.

Should negative impact occur on existing facilities, the resulting effect on the Medicaid and charity populations must be evaluated. The following table illustrates the Medicaid and charity care provision percentages for fiscal year 2004:

District 7 Subdistrict 3 Medicaid and Charity Care Provision 2004			
Facility	Medicaid	Charity Care	Total
Osceola Regional Medical Center	16.6	1.3	17.9
Orlando Regional Healthcare System	20.8	4.4	25.2
Florida Hospital ²⁶	14.6	4.4	19
District 7 Average	11.7	2.8	14.5

District 7 Medicaid and Charity Care Provision Percentages FY 2004

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

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

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

The applicant proposes to construct a new 60-bed acute care hospital consisting of 141,146 GSF situated on a 40-acre parcel of land. The proposed location is on the west side of Marigold Avenue, north of Cypress Parkway in Osceola County. There will be parking on grade for 225 vehicles, a three-story main hospital building and a central energy plant planned as a separate building to serve the hospital.

The room complement will be made up of all private rooms and have a bed configuration of 48 medical/surgical beds and eight ICU beds and four step-down beds. There will be no pediatric or obstetric services provided at this location. The ICU rooms appear to be generously sized to meet the minimum 200 square feet of clear floor space requirement. The requirement to provide at least 10 percent of the bedrooms to be handicapped accessible has not been indicated on the plans, but because all of the rooms are over the minimum square footage required, this can easily be incorporated into the plan without any increase in construction cost.

The functions of the proposed hospital are to be located in a three-story facility of non-combustible construction that will be fully sprinklered and are defined as follows:

- First floor – Emergency department with one trauma room, main entry/lobby, administration, chapel, gift shop, dietary, diagnostic/imaging, MRI, CT, fluoroscopy, mammography, X-ray, spaces for surgery/recovery, and a materials management area, kitchen and dining areas, medical records, and other required support spaces such as loading dock, materials management and central sterile supply.
- There is a separate central energy plant.
- Second Floor – Twenty-four medical/surgical beds and eight critical care beds with four step-down beds.

²⁶ Medicaid and charity care figures for Florida Hospitals include all the hospitals in District 7.

- Third Floor – Twenty-four medical/surgical beds with area for future expansion.

The arrangement of the first floor provides a good circulation flow that limits the amount of cross-traffic between staff, patients and the general public. There are service elevators to the rear of the building and the material management, kitchen and other functional support spaces are separated from the public spaces. The emergency department has a separate ambulance and walk-in entrance that is easily recognizable. The emergency department does not appear to have benefited from an abundance of design time and consideration. As presently designed it has very little waiting area available, and seems to be an accumulation of disjointed programmatic requirements. However, it is reasonable to expect these problems can be solved during design development without adversely affecting the overall plan of the building.

The second floor contains the 24 medical/surgical beds and the ICU and step-down beds all arranged in a clear and functional design.

The third floor contains the remaining 24 medical/surgical beds and is served by two separate nurse stations that have good visual control of a majority of unit. All rooms are single patient rooms with showers and toilets. All the required service and support functions are adjacent to the nurse station for staff efficiency.

Overall, the proposed project, as submitted is well designed to be functional and efficient. It has also incorporated several patient safety design considerations such as locating the toilet rooms on the headwall of the bed and providing additional sub nursing stations.

The applicant states the construction will conform to all current applicable building codes, including the National Fire Protection Association codes and the requirements of the Florida Building Code. The application asserts the site is not within the 100-year flood plain or the category 3 surge inundation areas.

The construction cost and schedule for the construction of the project appear to be appropriate.

The plans submitted with this application were very schematic in detail 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 table illustrates the applicant's most recent provisions of Medicaid and charity care:

District 7 Subdistrict 3 Medicaid and Charity Care Provision 2004			
Facility	Medicaid	Charity Care	Total
Osceola Regional Medical Center	16.6	1.3	17.9
Orlando Regional Healthcare System	20.8	4.4	25.2
Florida Hospital ²⁷	14.6	4.4	19
District 7 Average	11.7	2.8	14.5

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

The applicant's existing acute care facility provided higher level of Medicaid and a lower level of charity care than the average for District 7 in fiscal year (FY) 2004. Orlando Regional Healthcare System hospitals provided a higher level of Medicaid and charity than the applicant.

The applicant requests a condition on the proposed project for the provision of 10 percent of total combined revenues to charity care and Medicaid and Medicaid HMO patient days.

F. SUMMARY

Osceola Regional Hospital, Inc. d/b/a as Osceola Regional Medical Center is applying for a certificate of need to establish a 60-bed acute care hospital in the Poinciana, Osceola County, District 7, Subdistrict 3. The proposed project will be located in southeastern Osceola County²⁸ north of the intersection of Marigold Avenue and Cypress Parkway.

Construction cost is estimated at 49,401,100 and will involve 141,146 GSF of new construction. Total project costs are \$112,596,428.

²⁷ Medicaid and charity care figures for Florida Hospitals include all the hospitals in District 7.

²⁸ CON #9918 application, page 5. However, using the Marigold and Cypress Parkway locators, it appears the proposed project will be located in Western Osceola County.

Need:

District 7, Subdistrict 3 experienced an occupancy rate of 66.70 percent during the most recent 12-month period ended June 2005. Overall occupancy rates in the subdistrict have fluctuated with the applicant showing the lowest average utilization rate during this period.

Osceola County population, in general, is expected to increase; however the growth rate shows a declining trend starting in 2008 and stable growth rates until 2010.

The applicant has indicated that it believes growth in an area primarily currently served by itself and Heart of Florida will outpace its ability to add beds to its existing facility. However, population estimates and historic utilization do not support this belief. The applicant did not demonstrate that its need projections were reasonable. Need has not been demonstrated.

The applicant states the driving times, lack of roadways, and traffic congestion result in access problems for the residents of Poinciana. However, this was not demonstrated and it is further unclear how this proposal will offer a better solution for the subdistrict.

Quality of Care:

The applicant states it will seek JACHO accreditation and submitted a detailed description of its quality improvement protocols. During the last three years, Osceola Regional had seven confirmed complaints.

Medicaid/charity care:

The applicant requests a condition on the proposed project for the provision of 10 percent of total patient days for Medicaid/Medicaid HMO and charity patient days.

Financial Feasibility:

Given the financial strength of the applicant's parent, financial feasibility appears likely.

Architectural Analysis:

The construction cost and schedule for the construction of the project appear to be appropriate.

G. RECOMMENDATION:

Deny CON #9918.

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