

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

East Pasco Medical Center, Inc./CON #9489
7050 Gall Boulevard
Zephyrhills, Florida 33541

Authorized Representative: Donald E. Welch, CFO
(813) 783-6100

2. Service District/Subdistrict

District 5 (Pasco and Pinellas Counties)

B. PUBLIC HEARING

Although no public hearing was requested, the applicant provided 23 letters of support for the proposed project. Eight of the letters are from physicians and/or group practices representing over 50 physicians in East Pasco County, three are from patients or their caregivers and one letter each from the Zephyrhills Chamber of Commerce, Zeagie Systems, Inc. and the Fire Chief of the Zephyrhills Fire Department. Additional letters of support are from the Sheriff of Pasco County, four Pasco County Commissioners, the Mayor of Zephyrhills, the City Manager of Zephyrhills and the Honorable Ken Littlefield, State Representative for District 61. The general consensus of these letters stressed convenience and efficiency in providing "the whole continuum of care offered at one site". None of the letters demonstrated a situation where rehabilitation patients could not access care to CMR services.

There is also a letter of support from Norm Stein, the CEO of University Community Health Systems that operates University Community Hospital in Tampa, where many East Pasco County residents needing CMR services now go. University Community Hospital is approximately 32 miles from East Pasco Medical Center, separated by about 48 minutes travel time by car. Mr. Stein does not believe the proposed CMR service at East Pasco Medical Center will have a substantial adverse impact on the operation or success of the rehabilitation program at University Community Hospital.

C. PROJECT SUMMARY

East Pasco Medical Center, Inc. is a not-for-profit tax-exempt company and a controlled affiliate of Adventist Health System/Sunbelt, Inc. The company operates East Pasco Medical Center, a 154-bed general acute care hospital in Zephyrhills, Pasco County. The 154 licensed beds consist of 139 acute beds and 15 adult psychiatric beds. The applicant is proposing to establish a 20-bed comprehensive medical rehabilitation unit (CMR) as an addition to the hospital's licensed bed capacity.

According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions as a condition of approval of the proposed project.

The total project cost is estimated at \$2,685,000. Renovation costs are projected at \$2,093,000 to renovate 13,609 gross square feet (GSF) of existing space.

D. REVIEW PROCEDURE

The evaluation process is structured by the certificate of need review criteria found in Section 408.035, Florida Statutes, rules of the State of Florida, Chapters 59C-1 and 59C-2, Florida Administrative Code, and local health plans. These criteria form the basis for the goals of the review process. The goals represent desirable outcomes to be attained by successful applicants who demonstrate an overall compliance with the criteria. Analysis of an applicant's capability to undertake the proposed project successfully is conducted by evaluating the responses and data provided in the application, and independent information gathered by the reviewer.

Applications are analyzed to identify strengths and weaknesses in each proposal. If more than one application is submitted for the same type of project in the same district (subdistrict), applications are comparatively reviewed to determine which applicant(s) best meets the review criteria.

Rule 59C-1.010(2) (b), Florida Administrative Code, prohibits any amendments once an application has been deemed complete. The burden of proof to entitlement of a certificate rests with the applicant. As such, the applicant is responsible for the representations in the application. This is attested to as part of the application in the Certification of the applicant.

As part of the fact-finding, the consultant, Ed Carter, analyzed the application with consultation from the financial analyst, Douglas Pierce, who reviewed the financial data and architect Joel Hill, who evaluated the architectural and the schematic drawings.

E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA

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

1. Fixed Need Pool

a. Does the project proposed respond to need as published by a fixed need pool? Chapter 59C-1.008 and rule 59C-1.039, Florida Administrative Code.

In Volume 27, Number 30, dated July 27, 2001 on page 3530 of the Florida Administrative Weekly, a fixed need pool of zero beds was published for comprehensive medical rehabilitation beds in District 5 for the January 2007 planning horizon.

District 5 has 170 licensed and zero CON approved comprehensive medical rehabilitation beds. The comprehensive medical rehabilitation beds in District 5 experienced an average occupancy rate of 65.50 percent during the period January 2000 through December 2000. The applicant is applying outside of the fixed need pool.

b. Chapter 59C-1.039, Florida Administrative Code contains specific special circumstances criteria under which applicants may apply.

- 1. According to 59C-1.039 (5)(d) of the Florida Administrative Code, a certificate of need for the establishment of new or expansion of existing comprehensive medical rehabilitation inpatient beds or services shall not normally be approved unless a bed need exists according to the numeric need methodology in paragraph (5)(c) of this rule. Regardless of whether bed need is shown under the need formula in paragraph (5)(c), no additional comprehensive medical rehabilitation inpatient beds shall normally be approved for a district unless the average annual occupancy rate of the licensed comprehensive medical rehabilitation inpatient beds in the district was at least 80 percent for the 12-month period ending six months prior to the beginning date of the quarter of the publication of the fixed bed need pool.**

District 5 has 170 licensed comprehensive medical rehabilitation beds that experienced an average occupancy rate of 65.50 percent during the period January 2000 through December 2000:

**Occupancy Rates
District 5**

Facility	County	Number of CMR beds	Occupancy % (01/00 - 12/00)
North Bay Hospital	Pasco	20	71.41%
Bayfront Medical Center	Pinellas	60	38.52%
HealthSouth Rehab Hospital	Pinellas	70	95.81%
Sun Coast Hospital	Pinellas	20	44.41%
Total/Average		170	65.50%

Source: Florida Hospital Bed and Service Utilization by District - July 2001

c. Chapter 59C-1.039(5)(e): Special Circumstances for Approval of Expanded Capacity at Hospitals with Licensed Comprehensive Medical Rehabilitation Inpatient Services.

Subject to the provisions of paragraph (7)(b) of this rule and subparagraph 2. of this paragraph, need for additional comprehensive medical rehabilitation inpatient beds is demonstrated at a hospital with licensed comprehensive medical rehabilitation inpatient services in the absence of need shown under

the formula in paragraph (5)(c), and regardless of the most recent average annual district occupancy rate determined under paragraph (5)(d), if the occupancy rate of the hospital's licensed comprehensive medical rehabilitation inpatient beds was at least 90 percent for at least two consecutive calendar quarters during the 12-month period ending six months prior to the beginning date of the quarter of the publication of the fixed bed need pool; and at least one of the following conditions is also met:

- 1. The applicant submits evidence that it has a specialty inpatient rehabilitation service, accredited as a specialty by the Commission on Accreditation of Rehabilitation Facilities (CARF), that is not available elsewhere in the district, and the applicant's high occupancy occurred in the specialty rehabilitation service beds; or,**
- 2. The applicant is a disproportionate share hospital as determined consistent with the provisions of Section 409.911, Florida Statutes, and the applicant submits evidence that it has been providing both Medicaid and charity care days in its comprehensive medical rehabilitation inpatient beds.**
- 3. The maximum number of additional comprehensive medical rehabilitation inpatient beds, which may be approved at an applicant's facility under the provisions of subparagraph 1. shall not normally exceed the number determined in accordance with the following formula: $ADD = ((HPD/PD) \times PPD / (365 \times .85)) - HLB - HAB$.**

The applicant does not meet any of the special circumstances contained in the Comprehensive Medical Rehabilitation Inpatient Services Rule, 59C-1.039, Florida Administrative Code. East Pasco Medical Center is not currently licensed for CMR beds, therefore high utilization is not an issue. Because the facility has no CMR beds it is not eligible for CARF Accreditation. And finally, the facility is not a Medicaid Disproportionate Share Provider. These are the conditions necessary to qualify for CMR beds under the special circumstances provision of the rule. Another provision of the rule, which addresses general hospitals seeking new or expanded CMR beds, requires the applicant to convert acute care beds to CMR use. The applicant is requesting 20 additional beds to be added to the licensed capacity of the facility and not the conversion of acute care beds.

The access standard for CMR beds in the district is met, even though the applicant claims a "maldistribution of rehabilitation beds in District 5 restricts access." The applicant admits in the application that while travel time to a facility providing CMR services may exceed an hour, there is no evidence to demonstrate travel time in excess of two hours is required to reach a CMR provider facility.

The applicant notes that in the 12 months ended June 30, 2000, more than two-thirds of its service area patients (a total of 287 patients) with a discharge DRG of 462 chose to receive more limited physical therapy services in a skilled nursing unit at East Pasco Medical Center rather than traveling to a distant rehabilitation program. However, this appears to be the total number of discharges for that DRG and it is not clear that all of these patients were inappropriately treated in the hospital's, then open, skilled nursing unit. At the same time, the applicant admits that because of significant decreases in Medicare reimbursement for skilled nursing care, it closed its 12-bed skilled nursing unit in February 2001, converting these beds to use as acute care beds. If it is assumed that all 287 patients would have been appropriately placed in a CMR unit had one been available at the hospital, occupancy in a 20-bed unit would only have been 51.1 percent.

The applicant presented a need methodology that does not consider existing beds in the district. The Agency's bed need methodology shows a net bed need in District 5 of -37 beds.

The applicant failed to demonstrate need for additional comprehensive medical rehabilitation beds or special circumstances to support the establishment of a 20-bed comprehensive medical rehabilitation unit at East Pasco Medical Center.

2. Local Health Plan Preferences

Is need for the project proposed supported by the applicable district plan? ss. 408.035(1)(a), Florida Statutes and Ch. 59C-1.039, Florida Administrative Code.

The District 5 October 2000 CON Allocation Factors Report provides the following preferences in the review of applications pertaining to comprehensive medical rehabilitation beds:

- a. Certificate of Need applications that provide the AHCA with documentation that they provide, or propose to provide, the largest percentage of Medicaid and charity care patient days in relation to other hospitals in the district. The charity care definition shall be consistent with section 409.911, Florida Statutes.**

The following chart compares the percent of Medicaid and charity care provided among the licensed acute care hospitals in District 5, for Fiscal Year 1999.

District 5 Hospitals	No. Beds	Medicaid %	Charity %
Pasco County			
Community Hospital of New Port Richey	414	5.7%	1.1%
East Pasco Medical Center	*139	7.6%	1.0%
North Bay Hospital	122	10.5%	1.3%
Pasco Regional Medical Center	120	8.6%	0.3%
Regional Medical Center Bayonet Point	290	4.2%	0.7%
Pinellas County			
All Children's Hospital	216	46.4%	1.3%
Bayfront Medical Center	502	14.0%	3.7%
Edward White Hospital	167	4.0%	0.2%
Helen Ellis Memorial Hospital	168	4.5%	0.8%
Largo Medical Center	256	3.8%	0.2%
Mease Hospital - Dunedin/Countryside	**234	4.2%	1.0%
Morton Plant Hospital	687	5.6%	0.8%
Northside Hospital	288	7.0%	1.7%
Palms of Pasadena Hospital	307	2.5%	0.8%
Saint Anthony's Hospital	405	9.9%	2.7%
Saint Petersburg General Hospital	219	8.9%	1.1%
Sun Coast Hospital	300	8.2%	1.1%
District Average		12.4%	1.4%

* East Pasco Medical Center currently licensed for 154 beds

** Mease Hospital - Dunedin and Mease Hospital - Countryside, combined

Source: Agency Financial Reporting Records.

As previously noted, the applicant did not agree to be conditioned for the provision of Medicaid or charity care as a condition of approval of the proposed project. The applicant is not a Medicaid disproportionate share provider.

b. Certificate of Need applications that demonstrate intent to serve HIV infected persons.

The applicant provided care to 32 patients (104 patient days) who were either HIV-positive or had a diagnosis of AIDS in 2000 and 29 patients (115 patient days) in the first nine months of 2001. Pasco County has 0.6 percent of the total reported cases HIV/AIDS cases in the state since reporting began, through December 2000. When Pinellas County is included in the count, the percentage of cases increases to 4.6 percent of the state total for District 5 (Pasco and Pinellas Counties). The applicant did not agree to be conditioned for the provision of care to HIV/AIDS patients.

c. Certificate of Need applications from an existing provider if the net bed need is 20 beds or less.

East Pasco Medical Center is not an existing provider of CMR services and the Agency determined that there was no need for additional CMR beds in the district.

d. Certificate of Need applications that propose to convert licensed unused beds.

The applicant states that its current complement of 127 acute care beds will be operating at 75.2 percent occupancy in 2007, with an occupancy of over 100 percent in the January-March quarter of 2007. "Therefore, it is not feasible to convert acute care beds for the purpose of establishing the proposed comprehensive medical rehabilitation inpatient service". As previously stated, the applicant intends to add 20 CMR beds through this application and not convert existing licensed beds to CMR use.

e. Certificate of Need applications that document in the CON proposal the existence of written agreements with a broad range of area hospitals, nursing homes, home health agencies, rehabilitation specialists, and/or other appropriate service providers that promote the continuity of care.

The applicant has established written transfer agreements with area hospitals, nursing homes, home health agencies, and appropriate rehabilitation providers. A list of 18 of such agreements and providers is listed in Attachment 3 of the application.

- f. **Certificate of Need applications that include a commitment to serve hard-to-place patients, including persons with unique medical conditions and/or persons with inadequate or non-existent third-party coverage.**

The applicant states that it is committed to serve all patients without regard to payment source and to provide medical care to all patients within the human and program resources available at East Pasco Medical Center, including hard-to-place patients and persons with unique medical conditions. As previously stated, the applicant did not agree to any conditions pursuant to approval of this application.

3. **Agency Rule Criteria**

Please indicate how each applicable preference for the type of service proposed is met. Refer to Chapter 59C-1.039, Florida Administrative Code, for applicable preferences.

- a. **Section 59C-1.039(3) & (4), Florida Administrative Code: General Provisions and Required Staffing and Services**

General Provisions:

1. **Service Location. The CMR inpatient services regulated under this rule may be provided in a hospital licensed as a general hospital or licensed as a specialty hospital.**

The applicant proposed to establish a 20-bed CMR within East Pasco Medical Center, a general acute care hospital in Pasco County.

2. **Separately Organized Units. CMR inpatient services shall be provided in one or more separately organized units within a general hospital or specialty hospital.**

The applicant proposes to provide CMR services in a separately organized unit within the hospital.

3. **Minimum Number of Beds.** A general hospital providing comprehensive medical rehabilitation inpatient services should normally have a minimum of 20 comprehensive medical rehabilitation inpatient beds. A specialty hospital providing CMR inpatient services shall have a minimum of 60 CMR inpatient beds.

The applicant proposes to establish a 20-bed CMR unit within a general acute care hospital.

4. **Conformance with Criteria for Approval.** A CON for the establishment of new CMR inpatient services, the construction or addition of new CMR inpatient beds, or the conversion of licensed hospital acute care beds to CMR inpatient beds shall not normally be approved unless the applicant meets the applicable review criteria in Section 408.035, Florida Statutes, and the standards of need determination criteria set forth in this rule.

The applicant proposes to add 20 CMR beds to the licensed capacity of the hospital and not to convert existing acute care beds to CMR use. Even though the applicant contends that it meets applicable review criteria in Section 408.035, Florida Statutes, it does not meet rule criteria as previously discussed.

5. **Medicare and Medicaid Participation.** An applicant proposing to increase the number of licensed CMR inpatient beds at its facility shall participate in the Medicare and Medicaid programs.

The applicant currently participates in the Medicare and Medicaid programs and will continue to do so in the future. According to Schedule 7B, the applicant is projecting 5,124 patient days for the specialty CMR unit by the end of the second year (December 31, 2004), which equates to 14 beds. Of this number, the applicant projects three percent of patient days to Medicaid patients and 55.0 percent to Medicare patients.

b. Required Staffing and Services.

- 1. Director of Rehabilitation. CMR inpatient services must be provided under the medical director of rehabilitation who is a board-certified or board-eligible psychiatrist and has had at least two years of experience in the medical management of inpatients requiring rehabilitation services.**

The applicant provided the curriculum vitae of Dr. Suhas Kulkarni, a board-certified psychiatrist, who will serve as the psychiatrist for the proposed CMR service. The applicant states that East Pasco Medical Center will utilize an interim psychiatrist from Florida Hospital while Dr. Kulkarni obtains the required two years experience in the medical management of inpatients requiring rehabilitation services. The applicant did not identify the psychiatrist from Florida Hospital.

- 2. Other Required Services. In addition to the physician services, CMR inpatient services shall include at least the following services provided by qualified personnel:**

- 1. Rehabilitation nursing**
- 2. Physical therapy**
- 3. Occupational therapy**
- 4. Speech therapy**
- 5. Social services**
- 6. Psychological services**
- 7. Orthotic and prosthetic services**

Schedule 6A provides a listing of the 25.6 FTEs to be added to the existing staff of the hospital to accommodate the CMR program. Not included in the proposed staffing is the Ph.D. psychologist who will remain an independent contractor and bill directly for services rendered. Also the applicant contracts with vendors to assist patients in designing and fitting adaptive braces and artificial limbs.

- c. Section 59C-1.039(5)(g), Florida Administrative Code, states that priority considerations for CMR inpatient services will be given to applicants who: (1) are a disproportionate share hospital; (2) are proposing to service Medicaid-eligible persons; and, (3) are a designated trauma center.**

The applicant is not a disproportionate share hospital, nor is it a designated trauma center. The applicant does propose to serve Medicaid-eligible persons.

- d. **59C-1.039(6), Florida Administrative Code, Access Standard: Comprehensive medical rehabilitation inpatient services should be available within a maximum ground travel time of two hours under average travel conditions for at least 90 percent of the district's total population.**

Inpatient CMR services in the district are available within a two hours drive time for at least 90 percent of the district's total population.

- e. **59C-1.039(7), Florida Administrative Code, Quality of Care: CMR inpatient services shall comply with agency standards for program licensure described in Chapter 59A-3, Florida Administrative Code. Applicants who submit an application that is consistent with the agency licensure standards are deemed to be in compliance with this provision. Applicants proposing to add beds to a licensed CMR inpatient service have received full Medicare certification as a rehabilitation hospital.**

The applicant states that it will comply with Agency standards for program licensure, as described in Section 59A-3, Florida Administrative Code.

- f. **59C-1.039(8), Florida Administrative Code, Services Description: An applicant for comprehensive medical rehabilitation inpatient service shall provide a detailed program description in its certificate of need application including:**

1. **Age groups to be served.**

The applicant intends to serve patients that are 18 years old and older in the proposed CMR unit.

2. **Specialty inpatient rehabilitation services to be provided, if any (e.g. spinal cord injury; brain injury).**

The applicant does not intend to provide specialty inpatient rehabilitation services in the CMR unit.

- 3. Proposed staffing, including qualifications of the medical director, a description of staffing appropriate for any specialty program, and a discussion of the training and experience requirements of all staff who will provide comprehensive medical rehabilitation inpatient services.**

The applicant states that it will staff the proposed service with trained, qualified professionals. It will be assisted in training and education by Florida Hospital, a sister hospital and operator of a 49-bed CMR inpatient unit and several outpatient rehabilitation facilities in District 7.

- 4. A plan for recruiting staff, showing expected sources of staff.**

The applicant states that it utilizes a wide variety of approaches to recruit and retain qualified staff, including: in-house job pos; advertising in local newspapers; advertising in trade journals and at trade association meetings; job fairs at local colleges and universities; recruiting at the Florida Hospital College of Health Sciences in Orlando; recruiting at local schools that offer health care programs (such as nursing, physical therapy, and occupational therapy); and the use of professional recruitment firms. The applicant is an equal opportunity employer and states that it offers competitive and fair salaries, fringe benefits and a positive working environment.

- 5. Expected sources of patient referrals.**

The applicant expects referrals for the proposed CMR unit to come from the medical staff members at East Pasco Medical Center, Pasco Regional Medical Center, and other area hospitals and health care providers.

- 6. Projected number of comprehensive medical rehabilitation inpatient services patient days by payer type, including Medicare, Medicaid, private insurance, self-pay and charity care patient days for the first two years of operation after completion of the proposed project.**

The applicant expects the following payer types to provide revenue to the hospital for services provided CMR patients the first two years of operations. Total patient days in year one is estimated to be 3,649 and year two is 5,124:

Percent of Projected Patient Days by Payer

Pay Source	1st 2003	2nd 2004
Self Pay	1.5%	3.0%
Medicaid	1.5%	3.0%
Medicare	55.0%	55.0%
Medicare HMO	13.5%	17.0%
Managed Care	16.5%	12.0%
Other payers	12.0%	10.0%
Total	100.0%	100.0%

7. Admission policies of the facility with regard to charity care patients.

The applicant intends to provide health care services to all patients based on need and regardless of ability to pay. As previously stated, the applicant did not agree to be conditioned pursuant to approval of this application.

g. 59C-1.039(10), Florida Administrative Code, Utilization Reports

The applicant agrees to submit utilization reports as required by this standard.

h. 59C-1.039(5)(f)2., Florida Administrative Code, Criteria for Determination of Need. Applications from general hospitals for new or expanded comprehensive medical rehabilitation inpatient beds shall not normally be approved unless the applicant converts a number of acute care beds, as defined in Rule 59C-1.038, Florida Administrative Code, excluding specialty beds, which is equal to the number of comprehensive medical rehabilitation inpatient beds, unless the applicant can reasonably project an annual occupancy rate of 75 percent for the applicant planning horizon, based on historical utilization patterns, for all acute care beds, excluding specialty beds. If conversion of the number of acute care beds which equals the number of proposed comprehensive medical rehabilitation inpatient beds would result in an annual acute care occupancy exceeding 75 percent for the applicable planning horizon, the applicant shall only be required to convert the number of beds necessary to achieve a projected annual 75 percent acute care occupancy for the applicable planning horizon, excluding specialty beds.

The applicant projects 75.1 percent utilization for the horizon year 2007, based on 139 acute care beds producing 38,080 patient days of care(see Table 13, page 22 of application).

4. Statutory Review Criteria

- a. Is need for the project evidenced by the availability, quality of care, efficiency, accessibility and extent of utilization of existing health care facilities and health services in the applicant's service area? ss. 408.035(2), 408.035(7), Florida Statutes.**

In reference to availability and extent of utilization, there are a total of 170 CMR beds in the district divided among four hospitals, including one specialty rehabilitation hospital. The only hospital in the district that demonstrated high utilization was the specialty CMR hospital, HealthSouth Rehab Hospital, with 95.81 percent utilization for the reporting period, January through December 2000. The district's average occupancy rate was 65.50 percent during this period. The applicant did not demonstrate special circumstances to establish a 20-bed CMR unit in a general acute care hospital. While accessibility of services for some CMR patients may be improved within the immediate service area of the applicant's facility, the applicant did not demonstrate services are not accessible to district residents. With average utilization of existing CMR beds at 65.50 percent, the addition of more CMR beds in the district will only exacerbate efficiency for CMR providers in the district. Refer to E. 4. b. below for further discussion on quality of care.

- b. Does the applicant have a history of providing quality of care? Has the applicant demonstrated the ability to provide quality care? Please discuss your licensure history within and outside of Florida, and discuss any accreditation(s) held. ss. 408.035(3), 408.035(12), Florida Statutes.**

The applicant claims a long history of providing quality health care. East Pasco Medical Center is fully accredited by the Joint Commission on Accreditation of Health Care Organizations through May 2003.

Since February 18, 1999 East Pasco Medical Center has received five complaints regarding care. A summary of these complaints, according to Agency records, indicates that all of the complaints have been closed and no significant health care issue was found.

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

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

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

East Pasco Medical Center is not a statutory teaching hospital nor is the proposed project's primary purpose research or physician education. However, according to the applicant it participates in training and education programs with several area colleges and technical schools. The applicant intends to work with health training programs in the proposed CMR unit. On page 35 of the application, the applicant lists 10 educational institutions that East Pasco Medical Center participates in programs for physical and occupational therapists.

- e. **What resources, including health manpower, management personnel, and funds for capital and operating expenditures, are available for project accomplishment and operation? ss. 408.035(6), Florida Statutes. *Please include the following in your response:***
- o a detailed listing of the needed capital expenditures (Schedule 1);**
 - o a complete listing of all capital projects (Schedule 2);**
 - o source of funds (Schedule 3);**
 - o a detailed financial projection, including a statement of the projected revenue and expenses for the first two years of operation; and a statement of the assumptions made (Schedules 7,7A; or 7B; and 8 or 8A); and**
 - o an audited financial statement of the applicant.**

The audited financial statements for East Pasco Medical Center, Inc. for the periods indicated below were reviewed to assess the financial position as of the balance sheet date and the financial strength of its operations for the period presented. Key financial account balances along with specific ratios are presented for this analysis. Due to a corporate restructuring that changed the legal entity of the applicant, only one year's financial statements are presented.

FINANCIAL INDICATORS AND RATIOS

	12/31/2000	12/31/1999
Current Assets	\$ 34,564,828	\$ 0
Cash and Current Investment	\$ 16,479,202	\$ 0
Assets Restricted for Capital Funding	\$ 0	\$ 0
Total Assets	\$ 96,393,881	\$ 0
Current Liabilities	\$ 8,613,738	\$ 0
Total Liabilities	\$ 64,977,057	\$ 0
Total Equity	\$ 31,416,824	\$ 0
Net Operating Revenues	\$ 65,760,844	\$ 0
Interest Expense	\$ 3,609,290	\$ 0
Net Profit - Operations	\$ 2,315,028	\$ 0
Net Income	\$ 3,477,965	\$ 0
Cash Flow Provided by Operating Activities	\$ 7,748,951	\$ 0
Working Capital	\$ 25,951,090	\$ 0
Current Ratio (CA/CL)	4.0	0.0
Long-Term Debt to Equity (TL-CL/TE)	1.8	0.0
Operating Cash Flow (CFO/CL)	0.9	0.0
Equity to Total Assets (TE/TA)	32.6%	0.0%
Operating Margin (NPO/NOR)	3.5%	0.0%
Total Margin (NI/NOR)	5.3%	0.0%
Return on Assets (NI/TA)	1.6%	0.0%
Operating Cash Flow to Assets (CFO/TA)	8.0%	0.0%

The applicant is a not-for-profit health care provider that operates the hospital, an ambulatory surgery center, a skilled nursing facility, and a home health agency in the Zephyrhills area of Florida. In May of 2000, East Pasco Medical Center, Inc changed from being a corporate division with no separate legal status to being a controlled affiliate of Adventist Health System/Sunbelt, Inc. (Corporation). The applicant is requesting to establish a 20-bed comprehensive medical rehabilitation unit at the hospital in Zephyrhills, Florida. The initial cost of this project is expected to be \$2,685,000, with incremental operating costs projected to be \$2,597,248 in the first year and \$3,256,518 in the second year.

Short-term position:

The applicant's current ratio of 4.0 indicates current assets are four times that of short-term liabilities, a very strong position. The working capital (current assets less current liabilities) of \$25.9 million indicates robust short-term liquidity. The applicant has a very strong short-term position.

Long-term position:

The long-term debt to equity ratio of 1.8 is at the 80th percentile statewide. Long-term debt of \$56.4 is not considered to be excessive. Net income totaled \$3.5 million in 2000 or 5.3 percent, which is above than the statewide 50th percentile of 3.8 percent. Net assets total \$31.4 million. The long-term position is adequate.

Capital requirements:

Schedule 2 indicates capital projects total \$22.2 million. Maturities on long-term debt through 2002 total \$3.4 million. The total capital requirement is estimated at \$25.6 million.

Available capital:

The applicant has set aside \$5.6 million in Board designated assets primarily for debt service. Operating cash flows totaled \$7.7 million in 2000.

Conclusion:

The applicant states that they have \$14.7 million on hand and have assurances of an additional \$7.5 million. With the active participation of the parent corporation, funding is likely to be available for this project as well as the entire capital budget.

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

A comparison of the applicant's estimates to the control group values provides for an objective evaluation of financial feasibility, (the likelihood that the services can be provided under the parameters and conditions contained in Schedules 7 and 8), and efficiency, (the degree of economies achievable through the skill and management of the applicant). In general, projections that approximate the median are the most desirable, and balance the opposing forces of feasibility and efficiency. In other words, as estimates approach the highest in the group, it is more likely that the project is feasible, because fewer economies must be realized to achieve the desired outcome. Conversely, as estimates approach the lowest in the group, it is less likely that the project is feasible, because a much higher level of economies must be realized to achieve the desired outcome. These relationships hold true for a constant intensity of service through the relevant range of outcomes. As these relationships go beyond the relevant range of outcomes, revenues and expenses may, either go beyond what the market will tolerate, or may decrease to levels where activities are no longer sustainable.

Comparative data were derived from hospitals in peer groups that reported data in 1999. Based on the number of beds, the range of services offered, and the projected number of admissions and patient days; the applicant will be compared to the hospitals in group 4. Per Diem rates are projected to increase by an average of 3.5 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

Since the applicant failed to prepare schedule seven for the entire hospital, including the project, we were unable to obtain gross revenues. Net revenues and costs were acquired from Schedule 8 in the financial portion of the application. These were compared to the control group as a calculated amount per adjusted patient day. The adjustment is made to factor out the outpatient revenues in the per patient day computation. As the applicant did not project gross revenues for in and outpatient services, the adjustment factor from the hospital's 1999 actual report was used. Also, projected patient days were only reported in the aggregate on schedule five; therefore the distribution of patient days was based on the hospital's 1999 actual report.

Net revenue per adjusted patient day (NRAPD) of \$1,113 in year one and \$1,119 in year two is between the control group median and lowest values of \$1,282 and \$1,045 in year one and \$1,316 and \$1,073 in year two. The median is generally viewed as the best balance between financial feasibility and economies of operation. With net revenues per adjusted patient day falling between the median and the lowest level, the hospital is expected to consume health care resources in lesser proportion to the services provided. Actual NRAPD was \$1,149 in 1999, which was between the group median and the lowest level for that year. (Comparison Table below).

Projected cost per adjusted patient day of \$1,076 in year one and \$1,050 in year two is between the group median and lowest values of \$1,251 and \$967 in year one and \$1,284 and \$993 in year two. Actual CAPD was \$1,127 in 1999, which approximates the median for that year. This applicant is considered cost-efficient when compared to the control group. (Comparison Table below).

The year two operating profit for the hospital is estimated at \$4,290,231 which computes to an operating margin per adjusted patient day of \$68 and it exceeds the \$22 per adjusted patient day reported in 1999. This falls between the peer group median and highest values of \$36 and \$312.

CON Action Number: 9489

The operating margin computes to 6.1 percent, which is above the 50th percentile for Florida hospitals. The rehabilitation unit is projected to contribute \$964,231 to the hospital's operating margin in year two. The project is financially feasible.

PEER GROUP 4

	2004 YEAR 2 ACTIVITY	YEAR 2 ACTIVITY PER DAY	INFLATION ADJ. VALUES		
			Highest	Median	Lowest
ROUTINE SERVICES	0	0	N/A	N/A	N/A
INPATIENT AMBULATORY	0	0	N/A	N/A	N/A
INPATIENT SURGERY	0	0	N/A	N/A	N/A
INPATIENT ANCILLARY SERVICES	0	0	N/A	N/A	N/A
OUTPATIENT SERVICES	0	0	N/A	N/A	N/A
TOTAL PATIENT SERVICES REV.	0	0	N/A	N/A	N/A
OTHER OPERATING REVENUE	0	0	N/A	N/A	N/A
TOTAL REVENUE	0	0	N/A	N/A	N/A
DEDUCTIONS FROM REVENUE	0	0	*	*	*
NET REVENUES	70,167,790	1,119	1,690	1,316	1,073
EXPENSES					
ROUTINE	13,274,251	212	365	193	137
ANCILLARY	18,939,240	302	556	436	316
AMBULATORY	3,387,044	54	0	0	0
TOTAL PATIENT CARE COST	35,600,535	568	921	629	453
ADMINISTRATIVE & OVERHEAD	20,870,229	333	872	585	386
PROPERTY	9,406,795	150	*	*	*
TOTAL HOSPITAL EXPENSE	65,877,559	1,050	1,608	1,284	993
OTHER OPERATING EXPENSE	0	0	0	0	0
TOTAL EXPENSE	65,877,559	1,050	1,608	1,284	993
OPERATING INCOME (MARGIN)	4,290,231	68	312	36	-338
PERCENT OPERATING MARGIN	6.1%				

PERCENTAGES NOT INFLATION
ADJUSTED

PATIENT DAYS	42,244			
ADJUSTED PATIENT DAYS	62,714			
TOTAL BED DAYS AVAILABLE	63,510			
ADJ. FACTOR	0.6736			
TOTAL NUMBER OF BEDS	174			
PERCENT OCCUPANCY	66.5%	80.5%	51.1%	13.0%

PAYER CLASS

	PATIENT DAYS	PERCENT OF TOTAL			
SELF-PAY	1,565	3.7%	4.9%	1.1%	0.1%
MEDICAID	3,225	7.6%	17.1%	5.6%	0.7%
MEDICAID HMO	535	1.3%			
MEDICARE	20,921	49.5%	78.5%	56.5%	25.8%
MEDICARE HMO	8,894	21.1%			
INSURANCE	0	0.0%			
HMO/PPO	3,480	8.2%	61.5%	27.2%	5.1%
TOTAL	42,244	100.0%			

- g. Will the proposed project foster competition to promote quality and cost-effectiveness? ss. 408.035(9), Florida Statutes. Please discuss the effect of the proposed project on any of the following:**
- o applicant facility (if a hospital);**
 - o current patient care costs and charges (if an existing facility);**
 - o reduction in charges to patients; and**
 - o improvement in quality of services provided.**

Based on the patient day distribution in hospital's 1999 actual report, managed care patient days, including Medicare and Medicaid days, are estimated at 30.5 percent of total patient days contained in the application. This falls slightly above the control group median of 27.2 percent. Managed care days at this level are not likely to have a significant positive impact on competition, to promote quality assurance and cost-effectiveness.

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

The applicant proposes to add 20 new rehabilitation care beds to the existing 154-bed facility in Zephyrhills. Part of the area where the project is to be located is currently a Wellness Center. Additionally, an existing adjacent physical and occupational therapy area will be renovated to be part of the new rehabilitation unit. Plans of the proposed renovation were attached as well as large-scale plans of typical patient rooms. The new unit will have 10 semi-private rooms as well as dining, activity, waiting areas and ancillary spaces. There were no demolition plans nor any plans showing the wing as it exists, so it is not possible to tell exactly how much renovation is taking place.

The new semi-private rooms each have a toilet/shower room as well as a second lavatory in each room. All showers are the 36" square accessible stand-up type and there are none that would allow a wheelchair to be placed within the shower. Although this is not required, most rehabilitative facilities provide several of the larger units. Possibly the facility does not anticipate the need for this type shower. The patient rooms are generously sized and function quite well.

The nurse station is centrally located at the juncture of two wings at a 90-degree angle allowing views down the corridors where the patient rooms are located. The nurse station area includes the required ancillary spaces such as nourishment and medical prep spaces as well as two clean utility rooms and two soiled utility rooms. There are several specific therapy spaces in the new unit and they are well placed relative to the patient rooms and staff functions.

Some building code information was included in the application, but any construction will have to be in conformance with applicable codes and rules when the building is in the planning stages. The new Florida Building Code will probably be in force before the project is finalized, according to the schedule.

Schedule 10 indicates that the architect/engineer contracts are expected to be signed in January 2002 and the projected completion date is October 2002. The schedule may not be quite sufficient for design, AHCA review and construction. The fact that this is renovation, and that an architect with healthcare experience prepared the drawings might allow the project to be completed on schedule.

It is evident that the applicant has worked out the use of existing spaces to be suitable for the needs of the facility. The resulting floor plan is quite well designed.

Project costs appear to be reasonable, depending on the degree of demolition and renovation required.

- i. Does the applicant have a history of providing health services to Medicaid patients and the medically indigent? Does the applicant propose to provide health services to Medicaid patients and the medically indigent? ss. 408.035(11), Florida Statutes.**

The following chart compares the percent of Medicaid and charity care provided among the licensed acute care hospitals in District 5, for Fiscal Year 1999.

District 5 Hospitals	No. Beds	Medicaid %	Charity %
Pasco County			
Community Hospital of New Port Richey	414	5.7%	1.1%
East Pasco Medical Center	*139	7.6%	1.0%
North Bay Hospital	122	10.5%	1.3%
Pasco Regional Medical Center	120	8.6%	0.3%
Regional Medical Center Bayonet Point	290	4.2%	0.7%
Pinellas County			
All Children's Hospital	216	46.4%	1.3%
Bayfront Medical Center	502	14.0%	3.7%
Edward White Hospital	167	4.0%	0.2%
Helen Ellis Memorial Hospital	168	4.5%	0.8%
Largo Medical Center	256	3.8%	0.2%
Mease Hospital - Dunedin/Countryside	**234	4.2%	1.0%
Morton Plant Hospital	687	5.6%	0.8%
Northside Hospital	288	7.0%	1.7%
Palms of Pasadena Hospital	307	2.5%	0.8%
Saint Anthony's Hospital	405	9.9%	2.7%
Saint Petersburg General Hospital	219	8.9%	1.1%
Sun Coast Hospital	300	8.2%	1.1%
District Average		12.4%	1.4%

* East Pasco Medical Center currently licensed for 154 beds

** Mease Hospital - Dunedin and Mease Hospital - Countryside, combined

Source: Agency Financial Reporting Records.

As previously stated, the applicant did not agree to be conditioned pursuant to approval of the proposed project and it is not a Medicaid disproportionate share provider.

F. SUMMARY

A fixed need pool was published in Volume 27, Number 30, in the Florida Administrative Weekly dated July 27, 2001, for zero comprehensive medical rehabilitation (CMR) beds in District 5. The applicant is requesting to establish a 20-bed CMR service, outside the fixed need pool under the special circumstances provision of the CMR Rule, 59C-1.039, Florida Administrative Code.

Need/Special Circumstances

The applicant alleges that there is a "severe maldistribution" of CMR beds in District 5 with only 20 of the district's 170 CMR beds located in Pasco County. The two-hour travel standard in Pasco County is met and the applicant did not demonstrate that CMR patients were being denied appropriate care. The applicant did not demonstrate special circumstances to warrant approval of the proposed 20-bed CMR project.

Quality of Care

The applicant is accredited by the Joint Commission on Accreditation of Health Care Organizations (JCAHO) through May 2003, and has demonstrated the capacity for quality care to patients.

Medicaid/Indigent Care

According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions as a condition of approval of the proposed project. The applicant did demonstrate a history of Medicaid and charity care, but is not a Medicaid disproportionate share provider.

Financial Feasibility

The financial review of the applicant indicates that with the active participation of the parent corporation, funding is likely to be available for this project as well as the entire capital budget. The applicant has a very strong short-term position. The long-term debt to equity ratio of 1.8 is adequate. The CMR unit is projected to contribute \$964,231 to the hospital's operating margin in year two. The project is financially feasible.

Architectural

The new unit will have 10 semi-private rooms as well as dining, activity, waiting areas and ancillary spaces. The new semi-private rooms each have a toilet/shower room as well as a second lavatory in each room. All showers are the 36" square accessible stand-up type and there are none that would allow a wheelchair to be placed within the shower. Although this is not required, most rehabilitation facilities provide several of the larger shower units. The patient rooms are generously sized and function quite well. Project costs appear to be reasonable, depending on the degree of demolition and renovation required. The completion date of October 2002 may be ambitious.

G. RECOMMENDATION

Deny CON #9489.

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