

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

HealthSouth LTAC of Sarasota, Inc. (CON #9499)

One HealthSouth Parkway
Birmingham, Alabama 35243

Authorized Representative: Loree Skelton/Thomas Panza
(205)967-7116

Select Specialty Hospital-Sarasota, Inc. (CON #9500)

4718 Old Gettysburg Road
Mechanicsburg, Pennsylvania 17055

Authorized Representative: Greg Sassman, Vice President
(717)972-1108

2. Service District/Subdistrict

District 8

B. PUBLIC HEARING

A public hearing was not held or requested with regard to the establishment of a long-term care hospital in Sarasota County. However, the applications do contain letters of support for the project as follows:

HealthSouth LTAC of Sarasota, Inc. (CON #9499) submitted four letters of support for the project. Three of the letters are from area physicians attesting to the quality of care provided by HealthSouth and the need for additional long-term care beds to serve medically complex patients. A letter was also submitted and signed by the case management staff of Doctors Hospital, stating their support for the project.

Select Specialty Hospital-Sarasota, Inc. (CON #9500) submitted six letters of support, four of which are from representatives of Sarasota Memorial Healthcare System. The letters support Sarasota Memorial Health Care System's intent to collaborate with the applicant to establish a long-term care hospital, and the need to serve medically complex patients who now go to St. Petersburg for these services.

C. PROJECT SUMMARY

HealthSouth LTAC of Sarasota, Inc. (CON #9499) proposes the establishment of a new 40-bed freestanding long-term care hospital to be located in Sarasota County, in close vicinity of HealthSouth of Sarasota, a comprehensive medical rehabilitation center. The primary focus of the proposed services will be on the respiratory and rehabilitation (brain injury and coma management) patients. The medically complex patients and possibly some cardiovascular patients will comprise a small portion of the patient population.

The applicant is a wholly owned subsidiary of HealthSouth corporation, a publicly traded share corporation. HealthSouth is the largest provider of comprehensive sports medicine, outpatient surgery and rehabilitative healthcare services in the nation, with more than 2000 facilities in 50 states and operations in the United Kingdom, Australia and Puerto Rico.

The project involves a total of 40,000 GSF of new construction and construction costs of \$6,386,000. Total project cost is stated to be \$12,726,541.

The applicant agrees to condition the proposed project for three percent of care to a combination of Medicaid/charity care patients. Although not stated, it is assumed that the applicant intends to provide a percentage of total patient days to Medicaid/charity care patients.

CON Action Number: 9499 & 9500

Select Specialty Hospital-Sarasota, Inc. (CON #9500) proposes to develop a new 40-bed long-term care hospital to be located within Sarasota Memorial Hospital. However, the applicant did not submit any written agreements, letters of commitment, or any other evidence other than generic letters of support from the owners of Sarasota Memorial Hospital addressing how it can provide care for its long-term care patients within Sarasota Memorial in the case of an emergency or should the hospital be sold. The applicant states that Select Medical Corporation, parent of the applicant, has licensed and initiated this service at more than 15 hospitals within hospitals in various states across the nation in the last three years.

The cost to implement the project is \$1,476,877 with funding provided by the parent company, Select Medical Corporation a publicly held entity. The project consists of 17,274 GSF of new construction and \$800,000 in construction costs.

The applicant is requesting that the project be conditioned for the provision of 3.2 percent of care to Medicaid and uncompensated care. Although not specified, it is assumed that the applicant requests that the percentage of care to these payor groups be related to patient days rather than revenue.

D. REVIEW PROCEDURE

The evaluation process is structured by the certificate of need review criteria found in Section 408.035, Florida Statutes. 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 assessing the responses 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 best meet the review criteria.

Section 59C-1.010(2) (b), Florida Administrative Code, allows no application amendment information subsequent to the application being 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, Riley Gibson, analyzed the application in its entirety with consultation from the Financial Analyst, Doug Pierce, who evaluated the financial data, and the Architect, Joel Hill, who evaluated the architectural and the schematic drawings as part of the application.

E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA

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

1. Fixed Need Pool

a. Does the project proposed respond to need as published by a fixed need pool? Chapters 59C-1.008 and 59C-1.036, Florida Administrative Code.

Need is not published by the Agency for long-term care hospital beds. It is the applicant's responsibility to demonstrate need, pursuant to Chapter 59C-1.008(e), Florida Administrative Code.

Chapter 59C-1.002(44) of the Florida Administrative Code defines a long-term care hospital as a facility licensed under Chapter 395, which seeks exclusion from the Medicare prospective payment system for inpatient health. LTCHs typically serve patients with complex medical, nursing and therapeutic requirements that are beyond the capabilities of nursing homes and/or home care and outside of the services provided by rehabilitation hospitals. This type of care may be applied to the treatment of a wide variety of medical conditions.

b. If no agency policy exists, the applicant will be 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:

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

b.1. Population Demographics and Dynamics:

**Population Estimates for District 8 Counties and Percent Change by County
For Total Population, 65 and over, and 75 and Over Population**

County	Total July 2001	Total July 2006	Percent Change	65+ Percent Change	75+ Percent Change
Charlotte	144,059	159,213	10.5%	7.5%	9.4%
Collier	235,895	271,723	15.2%	17.4%	22.9%
Desoto	29,800	32,227	8.1%	7.0%	12.0%
Glades	10,600	11,165	5.3%	8.3%	13.1%
Hendry	31,882	33,921	6.4%	8.0%	9.4%
Lee	437,571	482,217	10.2%	9.5%	12.1%
Sarasota	331,925	355,019	7.0%	6.6%	7.8%
Total District	1,221,732	1,345,495	10.1%	9.6%	12.0%

Source: AHCA Pop. Projections, 9/2000

As shown above, the population in District 8 is expected to increase by 10 percent during the next five years, with the 65 and over age cohort approximating 10 percent. As expected, the 75 and over population is expected to increase at a higher rate (12.0 percent). This latter age group is likely to use the services of a long-term care hospital and stay longer than other age groups.

b.2. Availability, utilization and quality of like services in the district, subdistrict, or both:

There are no defined planning areas for long term care hospitals. Historically in Florida, existing long-term care hospitals have served areas larger than Agency defined districts. At the present time there are eight long-term care hospitals with 643 beds licensed to operate in the State of Florida. These facilities are concentrated in five of the 11 health planning areas: District 4 (Jacksonville and Clay County), District 5 (St. Petersburg), District 6 (Tampa) District 10 (Ft. Lauderdale and Hollywood) and District 11 (Miami).

CON Action Number: 9499 & 9500

State of Florida Long Term Care Hospital Inventory

AHCA District	Long Term Acute Care Hospital	Number of beds	Occupancy Rate CY 2000	Occupancy Rate 7/2000-6/2001
4	Kindred, North Florida	60	86.8%	88.39%
4	Specialty/Jacksonville	107	52.3%	53.23%
5	Kindred, Bay Area	60	98.2%	96.22%
6	Kindred, Cent. Tampa	102	83.1%	78.33%
6	Kindred, Bay Area	73	66.0%	63.45%
10	Kindred, Hollywood	124	66.7%	67.98%
10	Kindred, Ft. Lauderdale	64	91.3%	84.99%
11	Kindred, Coral Gables	53	88.3%	78.94%
Total/average	8 Existing LTAC hospitals in State	643	76.6%	73.25%
11	Mercy Medical Dev. Inc. Approved CON #9462	29	CON approved	CON approved

Source: AHCA LTAC Hospital Inventory for CY 2000 and preliminary utilization data for July 2000-June 2001.

The average occupancy for the state long-term care facilities for CY 2000 was 76.57 percent, with 12-month average occupancy levels ranging from 52.3 percent (Jacksonville) to 98.2 percent (St. Petersburg). However, the preliminary data for the most current reporting period (July 2000-June 2001) indicates average occupancy was 74.84 percent. The most recent utilization data is slightly less than the 75 percent occupancy rate normally considered efficient in an acute care hospital.

HealthSouth LTAC of Sarasota, Inc. (CON #9499) states that the nearest hospital to District 8 is the District 5 facility located in St. Petersburg. However, this facility is highly utilized with average occupancy rates of 98 percent for CY 2000, down slightly to 96 percent for the most recent 12 months (preliminary data). The applicant further states that the District 10 and 11 facilities have an estimated travel time of nearly four hours from Sarasota, while District 6 facilities are up to 1 1/2 hours away and District 4 facilities are nearly five hours from Sarasota.

CON Action Number: 9499 & 9500

The applicant states that Kindred Hospitals (formerly Vencor) primarily focus on respiratory/pulmonary disorders, whereas other long-term care hospitals tend to provide a wider range of services to medically complex patients. The applicant appears to be referring to long-term care hospitals in states other than Florida. Kindred currently owns seven of the eight existing long-term care hospitals in the state. The only non-Kindred owned facility, Specialty Hospital Jacksonville, is located in District 4 and had the lowest occupancy of any LTCH in the state in CY 2000. The applicant presented AHCA discharge data for the 12 months ending September 30, 2000 to show the proportion of pulmonary cases for each hospital in the state concluding that the Kindred facilities (with the exception of Kindred-Central Tampa and Kindred-Hollywood) provide between 54 percent and 70 percent of total patient days to pulmonary patients. Overall, statewide, pulmonary patients represent 47 percent of cases and 52 percent of patient days. As previously noted, the applicant intends to focus primarily on respiratory and rehabilitation (brain injury and coma management) patients and not pulmonary patients.

The applicant provided several DRGs it considers typically seen in long-term care hospitals including DRG 79, respirator infection, DRG 87, pulmonary, DRG 127, heart failure, DRG 416, septicemia, DRG 462, rehabilitation, DRG 463, signs and symptoms for chronic fatigue syndrome, other malaise and fatigue, etc., DRG 475, respirator. Agency discharge data for District 8 residents for those DRGs indicates that there were 469 discharges with an ALOS that was at least double the geometric mean length of stay for that DRG. Of these 469 discharges, 304 were kept in District 8 acute care hospitals. Although this is no clear indicator that these patients would be better served in a long-term care hospital, in the case of some of the DRG's such as respirator, this may be an indicator that patients could have been more appropriately discharged to a long-term care hospital. However, 210 of these discharges were for DRG 463 and it is not at all clear that these patients might have been more appropriately placed in a long-term care hospital. Therefore, with these 210 patients removed, there may have been as many as 94 patients who could have been admitted to a long-term care hospital. Agency data indicate that 91 District 8 residents were discharged from a long-term care hospital in Florida during the period July 1, 1999 through June 30, 2000.

With regard to access to Medicaid/charity care patients, the applicant requests that the project be conditioned for the combined provision of three percent of patient days to Medicaid/charity care.

Select Specialty Hospital-Sarasota, Inc. (CON 9500) also acknowledges the high utilization rate at the Kindred-St. Petersburg facility that opened in 1997. The applicant notes that in the original application for the St. Petersburg long-term care hospital project, the applicant projected that the hospital would reach 81.2 percent occupancy by the fourth year of operation when in actuality, this projected rate was exceeded in its second year of operation. The applicant contends that this high level of utilization reflects the level of need for such a service prior to its opening. The applicant contends that there are many similar areas in Florida, particularly in areas with high concentrations of elderly people, including Sarasota County.

Since there are no long-term care hospitals in District 8, the applicant discusses the travel times for residents requiring these services. The applicant states that round trip travel times can take two to four hours or even more in some instances, thus, placing a burden on patients and families from the perspective of quality health care considerations for this medically complex population as well as emotional and financial strain. The closest long-term care hospitals to Sarasota County residents are the long-term care hospitals in Hillsborough and Pinellas Counties. The applicant did not address any travel issues for Lee County residents within District 8. The applicant contends that many patients who would benefit from long-term care hospital services refuse to travel the 50 to 60 miles to these facilities. As a result, the applicant states that only 91 District 8 residents were discharged from Florida long-term care hospitals during the 12-month period ending June 2000. Data reported to the Agency by state long-term care hospitals verifies that 91 District 8 residents were seen at these facilities during this time period. The applicant also states that the length of stay for these patients is considerably higher than the average stay in Florida's long-term care hospitals. The applicant states an average length of stay (ALOS) among all the long-term care hospitals of just over 39 days, compared to 60.6 days for District 8 residents. However, discharge data reported to the Agency from long-term care hospitals show average lengths of stay that exceed 39 days. The average length of stay for example at Kindred's North Florida facility for the same time period was approximately 43 days. Discharge data for the diagnostic groups typically seen in long-term care hospitals was used to look at District 8 resident average lengths of stay and many do, for the most part, exceed the ALOS for all discharges at any single long-term care hospital. Discharge data for these same DRGs for Sarasota Memorial hospital was also reviewed. It appears, that the District 8 residents who utilize a long-term care hospital, represent the most seriously ill or injured patients.

CON Action Number: 9499 & 9500

The applicant expects that a majority of the patients who will be referred to the long-term care hospital beds will be from Sarasota Memorial. The applicant also indicates that the three other acute care hospitals in Sarasota County (Doctors of Sarasota, Bon Secours-Venice and Englewood) will also have access to the long-term care hospital services. However, Sarasota Memorial only discharged three patients with an ALOS that exceeded the geometric mean length of stay for that DRG by twice the time, which could indicate that the patient might have been more appropriately placed in a long-term care hospital than kept in the acute care bed at Sarasota Memorial. Although the applicant does not discuss possible admissions from hospitals in Lee, Hendry, Collier, DeSoto or Charlotte Counties, it is reasonable to expect that these hospitals would also transfer patients needing long-term care hospital services to this proposed hospital, if the project is approved.

With regard to access to Medicaid/charity care patients, the applicant requests that the project be conditioned for the combined provision of 3.2 percent of patient days to Medicaid and uncompensated care.

b.3 Medical treatment trends:

A long-term care hospital serves a unique type of patient population. The patients most likely to benefit from long-term hospital services include: post-surgical and trauma patients, wound care patients, head injury and spinal cord injury patients, patients with diseases such as muscular dystrophy, Guillain Barre syndrome and Myasthenia Gravis, respiratory/ventilator dependent patients or other medically complex patients who require extensive physiological monitoring, intravenous therapies, dialysis or post-operative care.

HealthSouth LTAC of Sarasota, Inc. (CON #9499) intends to develop and implement inpatient programs that will include, but not be limited to, the following:

- Respiratory: pulmonary disorders, chronic respiratory disorders, respiratory infections and inflammations and ventilator patients.
- Rehabilitation: brain injury, coma management, amputation, stroke and general neuro disorder patients.
- Medically Complex: post surgical, general medical, oncology, infections, major multiple trauma and wound care patients.

CON Action Number: 9499 & 9500

The applicant states that the medically complex patients and possibly some cardiovascular patients will comprise only a small portion of the long-term care hospital patient population. The primary focus of the services will be on the respiratory and rehabilitation (brain injury and coma management) patients.

Select Specialty Hospital-Sarasota, Inc. (CON #9500) states that it provides care for the acute patient who has experienced catastrophic illness or surgery with an average length of stay projected to be 26 to 32 days. The applicant further states that because of the types of patients served, medical program directors have been appointed for pulmonary and medical complex/infectious disease. Specific types of patients served include, but are not limited to head and spinal cord injury, stroke, wound and skin care needs, oncology patients, pain management, mechanical ventilation, complicated vascular patients, other neurological impaired patients, acute/chronic renal failure requiring hemodialysis, extensive post surgery or recovery needs, and patients requiring aggressive rehabilitation and nursing care.

Because the proposed long-term care hospital will be located within an acute care facility, it is expected that the majority of patients will originate from Sarasota Memorial's patient base. These patients can be easily transferred to the long-term beds with minimal disruption in their continuity of care.

b.4. Market conditions:

Long-term care hospitals in Florida have historically served areas larger than AHCA districts, covering a number of counties. Although both applicants addressed the need for long-term care hospital beds in District 8, with the main focus on the Sarasota County market, it is likely that their actual market or service area will be larger than the district and certainly larger than the county.

Numeric Need Analysis

Both applicants are proposing to establish 40-bed hospitals and discuss need for that number of beds.

HealthSouth LTAC of Sarasota, Inc. (CON #9499) attempts to quantify the number of long-term care hospital beds that can be supported by the District 8 population by using several methods as follows:

CON Action Number: 9499 & 9500

- Method 1: Use Rate Analysis, which employs statewide use rates applied to District 8 and Sarasota population.
- Method 2: Patient Day to Population Ratio
- Method 3: DRG Discharge Referral Experience
- Method 4: National DRG Incidence Model
- Method 5: Extended Length of Stay Analysis

None of these methodologies are supported with documentation, such as physician's letters indicating that a specific number of patients had to be kept in the acute care hospital when long-term care was more appropriate, which show there is an access problem to long-term care in the area. Bed need determined by these methodologies show need for over 100 beds. The applicant's fifth methodology was analyzed using data reported to the Agency. As discussed earlier under b.2. of this section under availability and utilization, 91 District 8 residents were seen in long-term care hospitals in Florida. Eighty of the 91 were seen in long-term care hospitals in the Tampa/St. Petersburg area. Occupancy in these three hospitals for calendar year 2000 was as follows:

Tampa/St. Petersburg Area Long-Term Care Hospital Calendar Year 2000 Utilization		
<i>Hospital</i>	<i># Beds</i>	<i>Occupancy</i>
Kindred – Bay Area	60	98.15%*
Kindred – Central Tampa	102	83.11%
Kindred – Hillsborough	73	65.96%

Source: *Florida Hospital Bed and Service Utilization by District, Volume II, July 2001 Batching Cycle*

*Kindred - Bay Area has a pending CON application to add 22 long-term care hospital beds in this batching cycle.

Although Kindred's Bay Area hospital is experiencing high occupancy, the other two area long-term care hospitals are not. However, as the applicant contends, data suggest that area residents may be choosing to remain in acute care hospitals rather than be transferred to a long-term care hospital. As noted above under b.2., as many as 94 District 8 patients may have been more appropriately placed in a long-term care hospital, but were kept in acute care hospitals within District 8. Given the ALOS of long-term care hospitals in Florida of about 40 days, the number of patient days this number of patients might have generated is approximately 3,760. Bed days in a 40-bed hospital equals 15,800. Therefore, occupancy would be approximately 24 percent. If the 91 District 8 residents are included, occupancy would still be below 50 percent. As indicated earlier, all of these figures are highly speculative. There is some concern that area residents needing long-term care services are not receiving them.

Select Specialty Hospital-Sarasota, Inc. (CON #9500) presented two alternative methods similar to those presented by co-batched applicant HealthSouth, to forecast demand for long-term care hospital beds. The first utilizes statewide age-specific long-term care hospital use rates applied to population projections for the first five years of operation. The second method evaluates the statewide long-term care hospital bed-to-population ratio, applied to the Sarasota County projected populations. However, the applicant also failed to demonstrate that access to long-term care hospital services is being denied to area residents.

Both SMH and the applicant conducted an internal assessment of the hospital's patient population on October 8, 2001, in an effort to determine the number eligible for transfer to the long-term care hospital. It was determined that 26 of the 259 patients residing in SMH on that day (10 percent) were considered eligible for transfer to a long-term care hospital bed. The applicant did not indicate whether these patients were retained in an acute care bed, transferred to an area nursing home, placed in a rehabilitation facility or sent home for home care. According to the applicant a review of area patient data from the year ending September 2000 indicated that more than 400 patients would have benefited from a long-term care hospital. Based on the applicant's national assessment of their top DRGs, the applicant assumes that 258 of the 400 identified patients are appropriate for long-term care hospital services. The applicant stated that the national ALOS for long-term care hospitals is 29.4 days. As noted earlier, Florida's average is higher at approximately 40 days. However, one hospital in Florida, Specialty Hospital in Jacksonville, has historically had a lower ALOS (approximately 28 days) than that the other Florida long-term care hospitals, because of the patient population its serves. It appears that the applicant is proposing to serve a similar patient population as Specialty in Jacksonville. Using the 29.4 day ALOS for 258 patients results in occupancy in a 40-bed long-term care hospital of approximately 52 percent. As noted above under co-batched applicant, HealthSouth, there is concern that area residents are not receiving needed long-term care.

In conclusion, both applicants contend that residents of the southwest region of Florida, specifically District 8 are underserved with respect to long-term acute care services. Although neither applicant reasonably demonstrated that District 8 residents needing long-term care hospital services were unable to access those services, the projected number of discharges from District 8 for patients with lengths of stay at least doubling the average, as well as consideration of an expected population increase, particularly among the elderly in the district, appears to support the need for long-term care hospital beds in District 8.

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-1.030, Florida Administrative Code.

There are no local health plan preferences for long-term care hospitals.

3. Agency Rule Preferences

Please indicate how each applicable preference for the type of service proposed is met. Ch. 59C-1.031-044, Florida Administrative Code.

There are no agency rule criteria for long-term care hospitals.

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.**

HealthSouth LTAC of Sarasota, Inc. (CON #9499) states that availability and accessibility will be improved as a result of the project since there are currently no long-term care hospitals in District 8 and short-term acute care hospitals are inappropriate locations for long-term acute care patients. The applicant contends that with the closest long-term care hospital fully occupied, facilities within the state are on average in excess of three hours from the proposed location and area residents. Thus, the proposed project will provide access to services that are currently non-existent in the district and not currently accessible within a reasonable travel time.

CON Action Number: 9499 & 9500

The hospital is a quality provider as discussed below under E.4. b. While the applicant does not have any long-term care hospitals in Florida, it contends that its experience, knowledge and accreditation principals will clearly benefit the proposed facility. The applicant intends to seek accreditation and implement appropriate protocols to maintain quality of care.

Select Specialty Hospital-Sarasota, Inc. (CON #9500) responds that with no long-term care hospital beds available in the area, the accessibility of long-term care hospital beds to this service area population is seriously limited. Hospital administration and physicians have identified more than 400 patients of Sarasota Memorial that were appropriate for long-term acute hospital placement during the past year and a one-day survey of the hospital's patient population found that 26 of 259 inpatients met identified criteria for long-term care hospital placement. However, as noted earlier this is not fully supported. The applicant contends that once located in the long-term care hospital, the patient can receive the appropriate level of treatment with an uninterrupted continuum of care and the hospital can be adequately reimbursed for the services, and the area's acute care delivery system can operate more efficiently. The applicant further contends that the project will increase access and availability to long-term care hospital beds for area residents, ensuring appropriate care for high acuity, medically complex patients.

The hospital is a quality provider as discussed below under E.4. b. The applicant states that all facilities owned and operated by the parent (Select Medical Corporation) have a current JCAHO accreditation, except those that have recently opened and are awaiting survey.

- b. Does the applicant have a history of providing quality of care? Has the applicant demonstrated the ability to provide quality care? ss. 408.035(3) 408.035(12), Florida Statutes.**

HealthSouth LTAC of Sarasota, Inc. (CON #9499) states that its performance improvement programs will be interdisciplinary in nature. It is the intent of the applicant to use the performance improvement plans instituted at other HealthSouth hospital locations. The quality management department will implement the performance improvement plan to measure, assess and improve patient care on an ongoing basis.

Based on the applicant's response, it can be assumed that the applicant will have programs in place to ensure that quality care is delivered to all patients.

Select Specialty Hospital-Sarasota, Inc. (CON #9500) states that all facilities owned and operated by the parent of the applicant have a current JCAHO accreditation, except those that have recently opened and are awaiting survey. This accreditation attests to the quality of care delivered to the facilities.

The applicant states that its parent, Select Medical Corporation, is an experienced provider of long-term care hospital services, and has developed systems and methods for delivering quality care. These systems and methods will be instituted at the proposed facility.

The applicant provided a reasonable description of its "Select Performance Improvement Plan" which sets forth the authority and governing structure for performance monitoring and for effecting change when appropriate. The plan goes on to establish specific methods and techniques for monitoring and improving care delivery, and further defines and identifies component parts of the process.

Based on the applicant's response, it can be assumed that the applicant has programs in place to ensure that quality care is delivered to all patients.

- 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. 408.03593, 408.035(12), Florida Statutes.**

The proposed projects will not provide special health care services for its respective service area that are not reasonably and economically accessible in adjacent service areas. Long-term care hospitals in Florida have historically served areas larger than 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.**

The respective projects will not be located in a teaching hospital, nor are the respective project's primary purpose research or physician education. Health professional training and development programs will not be a significant feature of either project.

- 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(1)(h), Florida Statutes.**

HealthSouth of Sarasota LTAC, Inc. (CON #9499) is a for-profit healthcare corporation, which is a controlled entity of HealthSouth Corporation, (the Parent). The company was formed to develop and operate a 40-bed long-term acute care hospital in Sarasota, Florida (Sarasota County). Initial project cost is \$12,726,541 with initial operating costs being \$7,241,887 in year one and \$7,854,171 in year two.

The audited financial statements for the periods were reviewed to assess the financial position as of the balance sheet date and the financial strength of its operations for the period presented. HealthSouth of Sarasota LTAC, Inc. is a development stage enterprise, incorporated for the purpose of developing and operating a long-term acute care hospital. The applicant presented financial statements that consisted of a balance sheet with \$10 in assets and \$10 in equity. The financial statements reflect limited transactions normally associated with organizational activities, but contain no results from operations

Capital requirements:

Schedule 2 shows \$12.8 million in construction projects approved or underway and routine capitalization, for a total capital budget of \$12.8 million. This project will be funded in its entirety by the parent. The cost of the project includes \$9,160,200 for land acquisition and site preparation and construction costs, \$2,509,000 for equipment, and \$1,057,341 in other costs.

Available capital:

Sources of cash are reported at \$13 million related company financing. The financing arrangements do not appear on the applicant's audited balance sheet and cannot be verified. The existence of sufficient funds to support the capital budget as reported cannot be discerned. However, the applicant has presented a commitment letter from the parent (HEALTHSOUTH Corporation), to fund the entire project and provide working capital for the start-up period. Based on audited financial statements contained in their annual 10-K report, the parent showed net income of \$46.5 million, \$76.5 million, and \$278.5 million in 1998, 1999, and 2000 respectively. Although the applicant appears to be undercapitalized, the parent's financial condition seems to be vigorous, with total assets of \$7.4 billion and stockholder equity of \$3.5 billion. With the active participation of the parent the project appears to be financially feasible.

Select Specialty Hospital-Sarasota, Inc. (CON #9500) is a for-profit healthcare corporation, which is a controlled entity of Select Medical Corporation, (the Parent) and is a Delaware Corporation formed on August 6, 2001. The company was formed to develop and operate a 40-bed long-term acute care hospital in Sarasota, Florida (Sarasota County). The applicant is requesting to establish and operate the previously described hospital in leased premises within the Sarasota Memorial Hospital. Initial project cost is \$1,476,877 with initial operating costs being \$5,464,547 in year one and \$7,436,669 in year two.

The audited financial statements for the periods were reviewed to assess the financial position as of the balance sheet date and the financial strength of its operations for the period presented. Select Specialty Hospital-Sarasota, Inc., is a development stage enterprise, incorporated for the purpose of developing and operating a long-term acute care hospital. The applicant presented financial statements that consisted of a Balance Sheet with \$10 in assets and \$10 in equity. The financial statements reflect limited transactions normally associated with organizational activities, but contain no results from operations

Capital requirements:

Schedule 2 shows \$1.5 million in construction and renovation projects approved or underway, for a total capital budget of \$1.5 million. This project will be funded from inter-company loans from the parent. The cost of the project includes \$920,000 for construction costs, \$285,000 for equipment, and \$271,877 in other costs.

Available capital:

Sources of cash are reported at \$1.5 million inter-company loans. The financing arrangements do not appear on the applicant's audited balance sheet and cannot be verified. The existence of sufficient funds to support the capital budget as reported cannot be discerned. However, the applicant has presented a commitment letter from the parent (Select Medical Corporation), to fund the entire project and provide working capital for the start-up period. It should be pointed out, that in 1998 and 1999 Select Medical Corporation sustained substantial losses, which might call their ability to fund the project into question. Based on documentation contained in their initial public offering filing, the parent showed a significant improvement in net revenues and returned to profitability in 2000. However, without further evidence of sustained profitability; the parent's ability to completely fund this project, as well as other capital projects, cannot be determined.

f. What is the immediate and long-term financial feasibility of the proposal? ss. 408.037(8), Florida Statutes.

A comparison of both 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, go either beyond what the market will tolerate, or may decrease to levels where activities are no longer sustainable.

CON Action Number: 9499 & 9500

Comparative data for overall acute care services were derived from hospitals in peer groups that reported data in 1999. The hospital's projected data will be compared to hospitals in peer group 12 (LONG-TERM SPECIALTY). Per diem, rates are expected 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 HealthSouth (CON #9499) did not report the dates for first and second years of operation on Schedule 7, the inception of service date of November 2003 was derived from construction Schedule 10.

With the publication by the Centers for Medicare and Medicaid Services (CMS) of the final rule for a long term care prospective payment system in August 2001; the applicant hospitals will be reimbursed on a fully prospective basis for its services to Medicare patients. The final rule incorporates industry comments and contracted studies that were not contained in the preliminary rule published in November 2000. The final rule has adjusted payment rates significantly upward and eliminates the majority of industry objections to the system proposed in the preliminary rule. Several independent studies have shown that the prospective payment system is essentially revenue neutral for hospitals transitioning from the cost based system. As the group values have been factored for inflation to the operational years of the applicant and considering the revenue neutrality of the system that renders reimbursement variance issues moot, comparison with the group is appropriate.

HealthSouth of Sarasota LTAC, Inc. (CON #9499): Since all existing HEALTHSOUTH hospitals, as well as the parent corporation itself, operate on a calendar year basis, we have set the first operational year as 2004 and the second as 2005 to use for a basis of comparison.

Gross revenues, net revenues, and costs were obtained from Schedules 7 and 8. These were compared to the control group as a calculated amount per adjusted patient day. The adjustment is made to factor outpatient revenues into the patient day computation. However, since the applicant reported no outpatient revenue, only a minor adjustment for other operating revenue was made.

CON Action Number: 9499 & 9500

Net revenue per adjusted patient day of \$653 in year one and \$691 year two is between the control group median and the lowest level of \$866, and \$570 in year one; and \$890, and \$585 in year two. The median is generally viewed as the ideal or the balance between economy and feasibility, while the highest level is the limit on both economy of operation and financial feasibility. 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 slightly lesser proportion to the services provided. However, based on what seems to be optimistic occupancy projections of 84.3 percent in the first year and 87.6 percent in the second, the revenue estimates appear to be overstated.

Projected cost per patient day of \$587 in year one and \$613 in year two fall below the lowest values of \$741 in year one and of \$761 year two. The projections are not considered to be cost-efficient when compared to the control group, as they project efficiencies that no other providers have realized. Reduction of costs to this level may well jeopardize patient care. Expenses are underestimated. (Refer to the Comparison Table below).

The year two operating profit of \$1,003,327 produces an operating margin of \$78 per patient day. This falls between the median of \$-42 and the highest level of \$114 in year two. This operating margin computes to an 11.3 percent that is significantly above the 50th percentile for all hospitals of 2.6 percent. The underestimation of expenses is, in part, responsible for the excessive margin. Actual profits are not likely to be as high as projected.

The parent corporation apparently has adequate financial resources, to fund the project and it appears to be feasible. The projected level of occupancy in the both years seems to be somewhat optimistic and it follows from this assumption, that revenue may also have been overstated. If the optimistic revenue projections are not achieved, the projected profit in the second year will disappear. However, occupancy rates for the specialty hospital group range from a low of 55.5 percent to a high of 97.3 percent. The average occupancy rate for this group is 79.0 percent.

CON Action Number: 9499 & 9500

PEER GROUP 12

	2005	YEAR 2	INFLATION ADJ. VALUES		
	YEAR 2	ACTIVITY	Highest	Median	Lowest
	ACTIVITY	PER DAY			
ROUTINE SERVICES	6,385,695	498	873	661	414
INPATIENT AMBULATORY	0	0	9	0	0
INPATIENT SURGERY	0	0	0	0	0
INPATIENT ANCILLARY SERVICES	11,491,391	896	3,321	2,559	1,877
OUTPATIENT SERVICES	0	0	131	6	1
TOTAL PATIENT SERVICES REV.	17,877,086	1,394	4,334	3,226	2,292
OTHER OPERATING REVENUE	36,000	3	6	2	0
TOTAL REVENUE	17,913,086	1,397	4,328	3,232	2,299
DEDUCTIONS FROM REVENUE	9,055,588	706	*	*	*
NET REVENUES	8,857,498	691	1,383	890	585
EXPENSES					
ROUTINE	2,039,907	159	365	198	170
ANCILLARY	1,752,403	137	337	219	198
AMBULATORY	0	0	0	0	0
TOTAL PATIENT CARE COST	3,792,310	296	702	417	368
ADMINISTRATIVE & OVERHEAD	2,053,598	317	829	398	363
PROPERTY	2,008,263	*	*	*	*
TOTAL HOSPITAL EXPENSE	7,854,171	613	1,448	811	761
OTHER OPERATING EXPENSE	0	0	0	0	0
TOTAL EXPENSE	7,854,171	613	1,448	811	761
OPERATING INCOME (MARGIN)	1,003,327	78	114	-42	-249
PERCENT OPERATING MARGIN	11.3%				
PATIENT DAYS	12,795		PERCENTAGES NOT INFLATION ADJUSTED		
ADJUSTED PATIENT DAYS	12,821				
TOTAL BED DAYS AVAILABLE	14,600				
ADJ. FACTOR	0.9980				
TOTAL NUMBER OF BEDS	40				
PERCENT OCCUPANCY	87.6%		97.3%	83.7%	55.5%
<u>PAYER CLASS</u>	<u>PATIENT</u>	<u>PERCENT OF</u>			
	<u>DAYS</u>	<u>TOTAL</u>			
SELF-PAY	172	1.3%	4.4%	1.4%	0.3%
MEDICAID	611	4.8%	23.5%	0.5%	0.0%
MEDICAID HMO	0				
MEDICARE	9,623	75.2%	96.4%	75.0%	60.3%
MEDICARE HMO	0				
INSURANCE	1,612	12.6%			
HMO/PPO	561	4.4%	16.2%	12.4%	0.0%
OTHER	216	1.7%			
TOTAL	12,795	100.0%			

CON Action Number: 9499 & 9500

Select Specialty Hospital-Sarasota, Inc. (CON #9500): Comparative data for overall acute care services were derived from hospitals in peer groups that reported data in 1999. The hospital's projected data will be compared to hospitals in peer group 12 (LONG-TERM SPECIALTY). Per diem, rates are expected to increase by an average of 3.5 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

Gross revenues, net revenues, and costs were obtained from Schedules 7 and 8. These were compared to the control group as a calculated amount per adjusted patient day. The adjustment is made to factor outpatient revenues into the patient day computation. However, since the applicant reported no outpatient revenue, no adjustment was made.

Net revenue per adjusted patient day of \$753 in year one and \$828 year two is between the control group median and the lowest level of \$843, and \$555 in year one; and \$866, and \$570 in year two. The median is generally viewed as the ideal or the balance between economy and feasibility, while the highest level is the limit on both economy of operation and financial feasibility. 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 slightly lesser proportion to the services provided.

Projected cost per patient day of \$920 in year one and \$793 in year two are between the group median and highest values of \$769 and \$1,372 in year one and \$790 and \$1,410 in year two. Costs per patient day are projected to decline in year two because projected costs rose by 36.1 percent, while the patient day projections rose by 57.8 percent. Fixed operating costs are absorbed over a greater number of patient days causing a drop in the per day rate. This applicant is considered cost efficient when compared to the control group. (Refer to the Comparison Table below).

The year two operating profit of \$326,198 produces a operating margin of \$35 per patient day. This falls between the median of \$-42 and the highest level of \$114 in year two. This operating margin computes to a 4.2 percent that is above the 50th percentile for all hospitals of 2.6 percent.

With the parent corporation having somewhat questionable financial resources, the project appears to be open to question. The projected level of occupancy in the second year seems overly optimistic and it follows from this assumption, that revenue may also have been overstated. If the optimistic revenue projections are not achieved, the projected profit

CON Action Number: 9499 & 9500

in the second year will disappear. However, occupancy rates for the specialty hospital group range from a low of 55.5 percent to a high of 97.3 percent. The average occupancy rate for this group is 79.0 percent.

PEER GROUP 12

	2004 YEAR 2 ACTIVITY	YEAR 2 ACTIVITY PER DAY	INFLATION ADJ. VALUES		
			Highest	Median	Lowest
ROUTINE SERVICES	16,616,100	1,773	850	643	403
INPATIENT AMBULATORY	0	0	8	0	0
INPATIENT SURGERY	0	0	0	0	0
INPATIENT ANCILLARY SERVICES	0	0	3,234	2,491	1,827
OUTPATIENT SERVICES	0	0	128	6	1
TOTAL PATIENT SERVICES REV.	16,616,100	1,773	4,220	3,140	2,231
OTHER OPERATING REVENUE	0	0	6	2	0
TOTAL REVENUE	16,616,100	1,773	4,214	3,168	2,238
DEDUCTIONS FROM REVENUE	8,853,233	945	*	*	*
NET REVENUES	7,762,867	828	1,347	866	570
EXPENSES					
ROUTINE	1,045,578	112	356	193	165
ANCILLARY	2,353,052	251	328	214	193
AMBULATORY	0	0	0	0	0
TOTAL PATIENT CARE COST	3,398,630	363	693	412	363
ADMINISTRATIVE & OVERHEAD	2,612,552	431	807	388	354
PROPERTY	1,425,487	*	*	*	*
TOTAL HOSPITAL EXPENSE	7,436,669	793	1,410	790	741
OTHER OPERATING EXPENSE	0	0	0	0	0
TOTAL EXPENSE	7,436,669	793	1,410	790	741
OPERATING INCOME (MARGIN)	326,198	35	114	-42	-249
PERCENT OPERATING MARGIN	4.2%				
PATIENT DAYS	9,373		PERCENTAGES NOT INFLATION ADJUSTED		
ADJUSTED PATIENT DAYS	9,373				
TOTAL BED DAYS AVAILABLE	14,600				
ADJ. FACTOR	1.0000				
TOTAL NUMBER OF BEDS	40				
PERCENT OCCUPANCY	64.2%		97.3%	83.7%	55.5%
PAYER CLASS	PATIENT DAYS	PERCENT OF TOTAL			
SELF-PAY	150	1.6%	4.4%	1.4%	0.3%
MEDICAID	150	1.6%	23.5%	5.0%	0.0%
MEDICAID HMO	0				
MEDICARE	6,561	70.0%	96.4%	75.0%	60.3%
MEDICARE HMO	0				
INSURANCE	2,512	26.8%			
HMO/PPO	0	0.0%	16.2%	12.4%	0.0%
OTHER	0	0.0%			
TOTAL	9,373	100.0%			

- g. Will the proposed foster competition to promote quality assurance and cost-effectiveness? ss. 408.035(1)(l), Florida Statutes.**

HealthSouth LTAC of Sarasota, Inc. (CON #9499) projects only 4.4 percent of total patient days for managed care days in both operational years. This project will have no positive impact on competition based quality assurance and cost-effectiveness.

Select Specialty Hospital-Sarasota, Inc.(CON #9500) projects no managed care days for either operational year. This project will have no positive impact on competition based quality assurance and cost-effectiveness.

- h. Are the proposed costs and methods of construction reasonable? ss. 408.035(1)(m), Florida Statutes.**

HealthSouth of Sarasota LTAC, Inc. (CON #9499): The proposal is to construct a new 40-bed long-term care hospital.

The application proposes a 40,000 square foot facility with 36 semi-private and four private patient rooms. All rooms have their own toilet and they appear to be accessible, although the typical 5'-0" diameter circle is not shown. Each toilet/bath room has an accessible shower that can accommodate a wheelchair. From the enlarged patient room plans submitted, all the private rooms are quite spacious and the semi-private rooms meet spatial requirements.

Overall the project is straightforward and the layout shows that the required ancillary spaces are provided and are located where they are easily accessible to the patients and staff. The nurse station has a clear view of the entire patient wing and has its supporting spaces adjacent to it. Although the proposed facility is not a rehabilitation hospital, a ADL area containing a bedroom, kitchen and bath are included. There is also an assisted bathing area as well as a therapy room. One nourishment space is across from the nurse station and there is another at the end of the patient wing. There is also an isolation room adjacent to the nurse station. Clean and soiled rooms and spaces are adequately sized and well located.

CON Action Number: 9499 & 9500

There is a list of applicable codes included, but this will need to be revised when the project reaches design development. The adopted editions of all codes will have to be adhered to, especially the new Florida Building Code, which is expected to be in force in January 2002. No reference is made to the Disaster Preparedness Section of Chapter 59A-3 of the Florida Administrative Code, and in the Florida Building Code. An architectural firm capable of preparing drawings such as the ones submitted should be well aware of these relatively recent requirements and hopefully will they might assist the applicant in site selection if it has not been chosen. No site information was provided.

Schedule 10 indicates that the architect/engineer contracts are expected to be signed by December, 2001 (which might be somewhat premature) and the projected completion date is September, 2003. The schedule appears to allow sufficient time for design, AHCA review and construction.

There is no indication as to who prepared the schematic plans submitted. The new facility is well designed and probably was done by a design professional who has healthcare experience. The floor plan appears to be almost identical to one reviewed for another CON application.

Cost information appears to be reasonable, if slightly conservative for a new facility of this size in this part of the state.

Select Specialty Hospital-Sarasota, Inc.(CON #9500): The application includes a life safety plan of the first level and several plans of the fourth level where the project will be located. Essentially this project proposes a hospital within a hospital – The northwest and northeast wing on the fourth level of the existing Sarasota Memorial Hospital will become the new long-term care hospital. There will be nine private beds, 30 semi-private and one isolation room. All private rooms have a private bathroom. Each semi-private room has a single bathroom. The bathroom situation is varied, with some having all fixtures in the designated room, and some that have the lavatory in the patient bedroom. All configurations are acceptable.

Two semi-private rooms have what appears to be a tub in the bathroom. No other bathing facilities are located in or off the patient rooms, but there are three shower rooms off the main corridor. One of these is wheelchair-accessible. The number of fully accessible patient rooms have been provided.

CON Action Number: 9499 & 9500

A partial list of building codes was included, and any construction will have to be in conformance with applicable codes and rules when design development takes place. The new Florida Building Code will be in force before the project is finalized.

The contracts with the design professionals are expected to be signed in December 2001 and the projected completion date of the project is November 2002. The time frame appears reasonable for a project of this size and scope considering that the design professionals that prepared the schematic drawings have extensive healthcare experience. It is probable that this same firm will be engaged for the design of the building.

There is some confusion regarding how the project will be viewed relative to the applicable codes. The plans indicate that work will be considered “new” according to the applicable chapter of the NFPA 101, life safety code, but the area in question is in an existing building. The project area will be fully sprinklered and walls will be upgraded to the required fire-resistance rating as required.

Agreements have been or will be made with the existing facility to share services such as parking, dietary areas, laboratory spaces, radiology and other necessities. Mechanical plumbing, electrical and fire protection are existing and will be upgraded as required for the project. The new hospital will be served by an existing emergency generator. There is no mention as to how services in the new hospital will be maintained in the event of an emergency. It could be assumed that services such as emergency power are sized to accommodate the new hospital since the space is existing. Further explanation regarding the agreement between Specialty and Sarasota Memorial would have been helpful to ensure that the new facility within a facility will have continuous service regardless of what transpires at Sarasota Memorial. The only indication of an arrangement or agreement with Sarasota Memorial was in the form of three non-specific letters of commitment from the hospital CEO/President, hospital board and medical director.

Project costs seem to be in the acceptable range for the scope of the project.

- 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.**

HealthSouth LTAC of Sarasota, Inc. (CON #9499) is not an existing provider of LTAC services and, thus, does not have a history of providing health services to Medicaid and charity care patients. However, the applicant provided an analysis of discharges by payor source for each of the long-term acute care hospitals in Florida for the year ending September 30, 2000. According to this analysis, the eight long-term care hospitals in the state averaged one percent of total cases for Medicaid with ranges from zero (Specialty Hospital of Jacksonville) to 1.7 percent (Kindred Hospital, Central Florida). The provision of charity care is minimal at all of the existing hospitals.

The applicant is requesting that the proposed project be conditioned for the combined provision of three percent of total patient days to Medicaid and charity care in year one and year two. According to Financial Schedule 7A, the applicant is projecting that Medicaid will comprise 4.77 percent of total patient days in year one and 4.78 percent in year two. Although the applicant indicates that charity care will represent three percent of total patient days, this was not specified on Schedule 7A.

The applicant did not address HealthSouth Corporation's (parent) history of providing Medicaid and charity care services. The applicant does not have a history of providing health services to Medicaid patients and the medically indigent and is proposing only a minimal amount of services to these payor groups. There is no indication given that the project will improve access to LTAC services for Medicaid and charity care patients.

Select Specialty Hospital-Sarasota, Inc. (CON #9500) is a new development stage company with no operating history. However, the applicant does propose to serve a small number of Medicaid and indigent patients. The applicant has requested that the project be conditioned to provide 3.2 percent Medicaid and indigent patient days combined. According to Financial Schedule 7A, the applicant intends to provide 1.6 percent of total patient days to Medicaid patients. Charity care is not specifically listed in the financial schedule. However, based on the applicant's requested condition, it is assumed that 1.6 percent of total patient days will be provided for charity care cases.

The applicant does not have a history of providing health services to Medicaid patients and the medically indigent and is proposing only a minimal amount of services to these payor groups. There is no indication given that the project will improve access to long-term acute care services for Medicaid and charity care patients.

F. SUMMARY

HealthSouth LTAC of Sarasota, Inc. (CON #9499) proposes the establishment of a new 40-bed freestanding long-term care hospital to be located in Sarasota County, in close vicinity of HealthSouth of Sarasota, a comprehensive medical rehabilitation center. The primary focus of the proposed services will be on the respiratory and rehabilitation (brain injury and coma management) patients. The medically complex patients and possibly some cardiovascular patients will comprise a small portion of the patient population.

The project involves a total of 40,000 GSF of new construction and construction costs of \$6,386,000. Total project cost are stated to be \$12,726,541.

The applicant agrees to condition the proposed project for three percent of care to a combination of Medicaid/charity care patients. Although not stated, it is assumed that the applicant intends to provide a percentage of total patient days to Medicaid/charity care patients.

After weighing and balancing all applicable review criteria, the following relevant factors are summarized below:

Need/Other Considerations

- Need is not published by the agency for long-term care hospital beds. It is the applicant's responsibility to demonstrate need, pursuant to Chapter 59C-1.008(e), Florida Administrative Code
- The applicant did not reasonably demonstrate that District 8 residents are being denied access to LTCH beds within a reasonable travel time. However, discharge data does suggest that area residents needing long-term care hospital services are not receiving them. In addition, an expected population increase, particularly among the elderly, appears to support the need for LTCH beds in the area.

Quality of Care

- The applicant does not currently own or operate long-term care hospitals in the State of Florida. However, the applicant reasonably demonstrated the potential to provide quality of care based on its experience and existing policies in place at other HealthSouth facilities in Florida.

Cost/Financial Analysis

- The applicant is a development stage corporation with limited assets and equity. The project will be funded in its entirety by the parent, HealthSouth Corporation. Although financing arrangements and the availability of sufficient funds to support the capital budget cannot be determined, with the active participation of the parent the project appears to be financially feasible.
- With projected net revenues per adjusted patient day falling between the median and the lowest level, the hospital is expected to consume health care resources in slightly less proportion to the services provided. However, based on what appears to be optimistic occupancy projections in the first two years of operation, the revenue estimates appear to be overstated, while expenses appear to be understated. If the optimistic revenue projections are not achieved, the projected profit in the second year of operation will not occur. However, the average occupancy rate for the Specialty Hospital group (79.0 percent) in the country does provide a reasonable comfort level with regard to the applicant's proposed projections.
- The applicant indicates only limited managed care participation (4.4 percent of total patient days). Therefore, the project is not expected to have a positive impact on competition based quality assurance and cost-effectiveness.

Architectural Analysis

- The architectural analysis reveals an acceptable plan that is spacious and easily accessible to both patients and staff. There appear to be no architectural concerns with the project.

Select Specialty Hospital-Sarasota, Inc. (CON #9500) proposes to develop a new 40-bed long-term care hospital to be located at Sarasota Memorial Hospital, as a hospital in a hospital concept. However, the applicant did not submit any written agreements, letters of commitment, or any other evidence other than generic letters of support from the owners of Sarasota Memorial Hospital addressing how it can provide care for its long-term care patients within Sarasota Memorial in the case of an emergency or should the hospital be sold.

The cost to implement the project is \$1,476,877 with funding provided by the parent company, Select Medical Corporation, a publicly held entity. The project consists of 17,274 GSF of new construction and \$800,000 in construction costs.

The applicant is requesting that the project be conditioned for the provision of 3.2 percent of care to Medicaid and uncompensated care. Although not specified, it is assumed that the applicant requests that the percentage of care to these payor groups be related to patient days rather than revenue.

After weighing and balancing all applicable review criteria, the following relevant factors are summarized below:

Need/Other Considerations

- Need is not published by the agency for long-term care hospital beds. It is the applicant's responsibility to demonstrate need, pursuant to Chapter 59C-1.008(e), Florida Administrative Code. The applicant intends to provide limited access to Medicaid and charity care recipients.
- The applicant did not reasonably demonstrate that District 8 residents are being denied access to long-term care hospital beds within a reasonable travel time. However, discharge data does suggest that area residents needing long-term care hospital services are not receiving them. In addition, an expected population increase, particularly among the elderly, appears to support the need for long-term care hospital beds in the area

CON Action Number: 9499 & 9500

- With 469 referrals from District 8 with an excessive ALOS, 304 of these discharges were patients that were kept in hospitals in District 8. The majority of these patients were kept at Bon Secours-Venice Hospital (206 discharges), whereas, Sarasota Memorial had only three discharges with excessive lengths of stay. The proposed project is being presented as a long-term care hospital physically located in Sarasota Memorial.

Quality of Care

- The applicant is a new development stage company and does not currently own or operate long-term care hospitals in the State of Florida. However, the applicant reasonably demonstrated the potential to provide quality of care based on the history of the parent company, Select Medical Corporation, an existing provider of long-term care hospital services nationwide.

Cost/Financial Analysis

- The applicant is a development stage enterprise with limited assets and equity. The total capital budget including the proposed project will be funded from inter-company loans from the parent (Select Medical Corporation). However, the financing arrangements are not shown and cannot be verified and the existence of sufficient funds to support the capital budget cannot be determined. The parent company experienced substantial losses in 1998 and 1999 but significant improvement in 2000. However, without further evidence of sustained profitability, the parent's ability to fund the proposed project, as well as other capital projects, cannot be determined.
- 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 slightly lesser proportion to the services provided.
- The financial analyst concluded that the projected level of occupancy in year two may be optimistic and that projected revenue may be overstated. If the optimistic revenue projections are not achieved, the projected profit in the second year of operation will not occur. However, the reasonably high average of utilization of long-term care hospital beds in the state, does provide a comfort level with regard to applicant's proposed projections.

CON Action Number: 9499 & 9500

- The applicant projects no managed care days for either operational year. Therefore, the proposed project is not expected to have a positive impact on competition-based quality assurance and cost-effectiveness.

Architectural Analysis

- The project consists of a hospital in a hospital concept. Although the submitted plans appear acceptable with regard to distribution of beds, space requirements, upgrading of equipment, etc., there is no mention of how services in the new hospital will be maintained in the event of an emergency, or whether there is intent for the new hospital and Sarasota Memorial to share support services. The applicant did not provide any specific agreements with the hospital regarding service arrangements.

G. RECOMMENDATION

Approve CON #9499 to establish a 40-bed long-term care hospital. Total project costs are \$12,726,541. Construction costs total \$6,386,000 and involve 40,000 GSF.

CONDITION: A minimum of three percent of the 40-bed facility's total annual patient days shall be provided to Medicaid/charity patients on a combined basis.

Deny CON #9500.

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