

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

SemperCare Hospital of Panama City, Inc. (CON #9529)
2745 North Dallas Parkway, Suite 300
Plano, Texas 75093

Authorized Representative: Robert A. Lefton, President
(972) 836-1300

HealthSouth LTAC of Bay County, Inc. (CON #9530)
One HealthSouth Parkway
Birmingham, Alabama 35243

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

2. Service District

District 2

B. PUBLIC HEARING

A public hearing was requested and held at 10:00 a.m., on May 2, 2002, at the Panama City Commission Meeting Room, City Hall, 9 Harrison Avenue, Panama City, Florida, with regard to Certificate of Need Application Numbers 9529 and 9530. The record of the public hearing consists of a letter of transmittal dated May 2, 2002, from R. Michael Hill, Executive Director, Big Bend Health Council, two cassette tapes of the proceeding (one for each CON), sign-in sheets and appearance request forms. Fifty-four individual names are included on the four sign in sheets and there are three appearance requests (Mr. Steve Johnson, Rev. Si Mathison, and Mr. Kevin Conn).

The public hearing was requested by John Warren, Administrator, St. Andrews Health and Rehabilitation Center, and Brett Barnett,

CON Action Numbers: 9529 & 9530

Administrator, GlenCove Nursing Pavilion. Mr. Warren and Mr. Barnett appeared at the public hearing and each stated that he requested the public hearing to receive additional information about the proposals, including the impact they would have on their respective facilities. Mr. Warren also stated the concern that if the occupancy of the proposed hospital is in the mid-80 percent range, then it will draw patients away from his rehabilitation units (physical therapy, occupational therapy, and speech therapy), or if high acuity patients are not available, it will pull in rehabilitation patients. As the quote below from an article titled “Long-Term Care Hospital under Medicare: Facility-Level Characteristics”¹ and published in the Winter 2001 addition of *Health Care Financing Review* indicates, Mr. Warren’s concerns may be warranted.

*Understanding the role of LTCHs (long-term care hospitals) in post-acute care is particularly important because the LTCH PPS (prospective payment system) is being developed in a changing landscape of payment systems for all post-acute providers. For example SNF (skilled nursing facility) PPS was implemented in July 1998 and the BBA (Balanced Budget Act of 1997) mandated that PPSs for rehabilitation hospitals and psychiatric hospitals be implemented in October 2001 and October 2002, respectively. In this dynamic environment, incentives created by each type of post-acute facilities’ new payment system will affect the behavior of the targeted provider type, and likely also of other types of providers. **Because there is some degree of patient overlap between LTCHs and other types of post-acute facilities, LTCHs will be affected not only by the LTCH PPS that is being developed but also by the PPS for other post-acute care providers.***
(bold added for emphasis)

Steve Johnson, President and Chief Executive Officer, Bay Medical Center, spoke in support of the application filed by SemperCare Hospital of Panama City, Inc. (CON #9529), to establish a 30-bed long-term care hospital at Bay Medical Center. Mr. Johnson stated that a long-term acute care hospital at Bay Medical Center (hospital-within-a-hospital) is an optimal location for physicians.

He stated that long-term care hospitals were developed to care for a specific type of patient, i.e. pulmonary, medically complex, wound care and rehabilitation. Mr. Johnson described the acuity levels of patients (2.0 or greater case mix index and 7.5 co-morbidities), specialized

¹ Korbin Liu, SC.D., et al “Long-Term Care Hospitals Under Medicare: Facility-Level Characteristics”, *Health Care Financing Review*, Volume 23, Number 2, Winter 2001, page 17. NOTE: The authors are with the Urban Institute and the research published in this article was funded by the Centers for Medicare and Medicaid Services (CMS) under Contract Number 500-95-0055/04.

CON Action Numbers: 9529 & 9530

services they require, duration of hospitalization (greater than 40 percent admitted directly from host hospital ICU), and degree of family involvement. According to Mr. Johnson, most (more than 85 percent) of the aforementioned patients are discharged to post-acute settings. Mr. Johnson states that the patients SemperCare proposes to serve are patients that remain in acute care hospitals. Mr. Johnson pointed out that the closest long-term care hospital is in Jacksonville, which is over 260 miles away, and cited transfer risks to patients. He also states that Bay Medical Center is the largest tertiary hospital within 100 miles. Mr. Johnson says Bay Medical Center is expected to generate the largest percentage of long-term care-appropriate patients. The proposed long-term care hospital will be located in an existing wing on the third floor of Bay Medical Center. Mr. Johnson states that the physical plant requirements are less than \$280,000 versus approximately \$12,000,000 for new construction. Other benefits of the proposal referenced by Mr. Johnson include the majority of patients not requiring physical transfer (it is noted that under this proposal patients will be discharged from one hospital and admitted to another, which does not involve physical transport, but does involve administrative transfer costs), it frees up space in Bay Medical Center's acute care beds, physicians will be able to continue to treat the patients, and by admitting patients that would otherwise remain in an acute care bed for the length of their illness, SemperCare will lower costs for third party payers, Bay Medical Center, and other hospitals in the community. However, it is unlikely that costs for third party payers will be lower, although the project will likely lower costs for the discharging acute care hospitals. Mr. Johnson closes by stating that approval of the project will allow patients to continue using the same doctor and allow families, friends, and churches to continue to support the patient in the time of need.

Victor M. Ortega, M.D., Senior Partner, Pulmonary Associates of Bay County, also spoke in support of the application submitted by SemperCare. Dr. Ortega states that he has privileges at Bay Medical Center, Gulf Coast Hospital, and HealthSouth Emerald Coast Rehabilitation Hospital. Dr. Ortega also states that there is a need in Panama City and District 2 for the proposal and it would significantly enhance the ability to treat patients more effectively, efficiently, and in an appropriate manner. Dr. Ortega says that the development of a hospital-within-a-hospital at Bay Medical Center will allow the local physicians to retain the relationship with their long stay patients (physician continuity) while those patients have access to a higher level of treatment and medical backup. Dr. Ortega states that the patients eligible for long-term acute care are not subacute patients in all instances and that SemperCare's proposed long-term acute care hospital will meet the unique needs of long stay acute care patients in the community. The focused and standardized care to be provided should

CON Action Numbers: 9529 & 9530

result in much improved outcomes, according to Dr. Ortega. He also states that it would be convenient to patients' families and physicians. Dr. Ortega referred to the physician letters of support included in the application, many of which were signed by doctors who also practice at HealthSouth Emerald Coast Rehabilitation Hospital. Dr. Ortega also explained that two of his partners wrote letters of support for the proposal submitted by HealthSouth (CON #9530), however, at the time he did not think that HealthSouth's proposal would be competitive with SemperCare's application. Dr. Ortega concluded by stating that SemperCare's proposed hospital-within-a-hospital model is progressive thinking and a new concept in health care delivery and brings services to the patients (instead of transferring patients).

Joe Hoban, Vice President of Development for SemperCare and a former nursing home administrator, stated that approval of the proposed SemperCare project will enhance the health care delivery system in Panama City and District 2. Mr. Hoban described SemperCare's business mission and existing facilities (four currently in operation with more to open in the next few months, all of which are located at tertiary care, not for profit hospitals). He explained that each SemperCare hospital has an on-site management team, including Chief Executive Officer and Director of Clinical Services. He stated that the medical staff is composed of area physicians who will head the medical staff and serve as directors of clinical programs. Mr. Hoban also described the patients contemplated by the proposed long-term care hospital: the patient receives nine nursing hours per patient day and 4-5 therapy hours per patient day, which includes respiratory therapy, speech therapy, occupational therapy, and physical therapy. Of SemperCare patients nationwide (more than 1,000 admissions), 44 percent of patients were discharged to home health care, 31 percent were discharged to skilled nursing facilities, and 12 percent were discharged to acute rehabilitation hospitals, according to Mr. Hoban. He also discussed the benefits of the hospital-within-a-hospital concept as related by previous speakers. He also reviewed exclusions from SemperCare's admissions criteria and listed the types of patients who would not be admitted to long-term acute care at Bay Medical Center, particularly, low acuity patients.

The Reverend Si Mathison also supports the proposed SemperCare long-term care hospital to be located at Bay Medical Center. Rev. Mathison stated that he has been a resident of Panama City for 35 years and noticed much progress and improvement at Bay Medical Center over the years. Rev. Mathison also stated that the proposed facility will allow Bay Medical Center to reach out more to the community.

Kevin Conn, Regional Vice President for HealthSouth, spoke in support of the application submitted by HealthSouth LTAC of Bay County, Inc., to

CON Action Numbers: 9529 & 9530

establish a 40-bed long-term care hospital (CON #9530). Mr. Conn stated that patients are underserved by long-term acute care services in Florida. Mr. Conn notes that eight of the nine existing long-term care hospitals in Florida are freestanding. Mr. Conn also states that HealthSouth's application was modeled on its recently-approved District 8 facility and the need for long-term acute care hospital services was based on demographics and the prevalence of patient discharges from acute care hospitals throughout District 2. Mr. Conn points out that there is no existing long-term acute care hospital services in District 2. He also states that a long-term acute care hospital is the missing piece to the continuum of services in Panama City and District 2 which currently includes: acute care hospitals, HealthSouth Emerald Coast Rehabilitation Hospital, skilled nursing facilities, outpatient services, and home health services. Mr. Conn says that the proposal will be a compliment to the medical community by accepting patients that are not routinely treated or accepted due to high acuity level and high cost. He also says that HealthSouth will work to avoid overlap and duplication of services currently provided by nursing homes and the rehabilitation hospital. Mr. Conn states that the occupancy at HealthSouth Emerald Coast Rehabilitation Hospital is 90 percent and the occupancy of skilled nursing facilities in District 2 exceeds 90 percent, with St. Andrews and GlenCove at 98-100 percent occupancy. Mr. Conn says HealthSouth's proposal will be geared toward those patients who are high acuity and medically complex, many of who have respiratory ailments. The payer classes to be treated in the proposed hospital differ from those for skilled nursing facilities, according to Mr. Conn. He states that the majority of skilled nursing patients are paid for by Medicaid whereas the majority of long-term acute care hospital patients are reimbursed by Medicare, thus, there is no true overlap in payer classes and reflects the different types of patients treated in long-term acute care hospitals versus skilled nursing facilities. However, as noted above, according to research funded by the Centers for Medicare and Medicaid Services (CMS), there is overlap between LTCH service and skilled nursing facilities services. Mr. Conn also remarked that the proposed project increases employment in the area (100 employees), and cited the 220 jobs created at HealthSouth Emerald Coast Rehabilitation Hospital. He also stated that project construction will also help the local economy. Mr. Conn further stated that he received 30 letters of support from physicians in the Panama City community. HealthSouth meets all federal and state accreditation requirements and can provide high quality services, according to Mr. Conn. Also, Mr. Conn says HealthSouth is an existing provider in the area, will not unnecessarily duplicate services in the area, has financial management and resources available for the project, and the expertise of the management team and health professionals aligned with HealthSouth are unmatched. Mr. Conn states that a freestanding hospital will benefit Panama City and District 2 and should be more

CON Action Numbers: 9529 & 9530

accessible to all providers. He says patient characteristics are different, such as high acuity, high cost, higher requirement for nursing services and more multi-specialty physicians, length-of-stays of at least 25 days or longer, and diagnostic requirements significantly higher than nursing homes, all of which will complement rather than compete with nursing home providers in the community. Mr. Conn concluded with the observation that the proposal by HealthSouth will benefit Panama City by bringing patients into the Panama City health care network from outlying communities.

There being no further discussion, the public hearing was concluded.

The applications also contain letters of support for each project, as follows:

SemperCare Hospital of Panama City, Inc. (CON #9529) submitted 19 letters of support for the project. The Honorable Gerry Clemons, Mayor of Panama City, wrote in support of the application and cited the lack of long-term acute care services in the continuum of care in Panama City, the hardship created by travel distance to the closest long-term care hospital, the reduced cost of caring for long stay patients at an appropriate level of care instead of in the ICU, and avoiding unnecessary emergency transfers. The Bay Medical Center Resource Management and Case Management teams also support the proposal by letter. In addition to the referenced items in the mayor's letter, the signatories recognized the need for the long-term care hospital to better accommodate the number of high acuity, long stay patients currently in ICUs and reduce the gridlock that occurs in the specialty units. The project would also facilitate ongoing continuity with the attending physician as well as avoid disruption and hardship for families and patients. Steve Johnson, President and CEO of Bay Medical Center, wrote a letter of support, which includes the issues he raised in the public hearing (see above). Dr. Timothy Moriarty of Emerald Isle Pulmonary and Sleep Medicine wrote in support of the application and states that the project is needed due to patients' increasing lengths-of-stay because of numerous complications, more nursing care, rehabilitation therapy, and respiratory therapy is needed for those patients as compared to that provided in nursing homes, and it would help focus appropriate levels of care to the chronic care patient. Dr. Moriarty also states that costs for long-term patients would be reduced and nurse utilization will be enhanced. However, neither of these contentions were supported in the application. Victor Ortega, M.D., wrote a letter of support and spoke at the public hearing. His comments are noted above. William Bone, M.D., who is board-certified in internal medicine and infectious disease and is an infectious disease consultant at all three Bay County hospitals, wrote that the optimal care facility for

CON Action Numbers: 9529 & 9530

high acuity, long stay patients would be the hospital-within-a-hospital model proposed by SemperCare. Stephen Toner, M.D., Chief of Staff for Bay Medical Center, Amin Abdelghany, M.D., Jesus Ramirez, M.D., of Pulmonary Associates of Bay County (letter dated April 8, 2002), J.L. Trantham, M.D., Vicky Harrell, M.D., Chad Mitchell, M.D., Mark Shaieb, M.D., Michael Noble, M.D., Richard Walker, Jr., M.D., Douglas Stringer, M.D., and Merle Stringer, M.D., each wrote in support of the proposal by SemperCare. Also, Cory Gaiser, D.O., by letter dated April 10, 2002, wrote in support of the SemperCare application over that of HealthSouth's, which he supported before he was aware of SemperCare's proposal locating at Bay Medical Center. Judith Schiros, Chief Executive Officer of Northwest Florida Community Hospital in Washington County, also wrote in support of the SemperCare application.

HealthSouth LTAC of Bay County, Inc. (CON #9530) submitted 35 letters of support for the project. Todd Gallati, President and CEO of Gulf Coast Medical Center, Riyadh Albibi, M.D., Maher Ayoubi, M.D., John Billingsley, M.D., Brent Decker, Ph.D., Thomas Derbes, M.D., David Dietrich, M.D., John England, M.D., Robert Finlaw, M.D., John Fredrick, C.P., B.O.C.O., Cory Gaiser, D.O. (letter dated April 1, 2002), Steven Goodwiller, M.D., Michael Hennigan, M.D., medical director of HealthSouth Emerald Coast Rehabilitation Hospital, Larry Hodson, DPM, Shayne Jensen, DPM, Robert Joseph, M.D., Palep Rao, M.D., Sudhakar Reddy, M.D., Michael Reed, M.D., Myra Reed, M.D., Jesus Ramirez, M.D. (letter dated April 3, 2002), Jack Shumate, M.D., Jalal Sidani, DPM, Mark Williams, M.D., Keith Zwingler, M.D., Nathaniel Hampson, BS, CPO, Karin Maddox, M.D., Kamel Elzawahry, M.D., Mutaz Tabbaa, M.D., Hulon Crayton, M.D., Hashem Mubarak, M.D., Ann Syfrett, R.N., M.N., Chair, Health Sciences Division, Gulf Coast Community College, Donald Cvitkovich, M.D., and E.N. Coulliette, Executive Director, Bay County Council on Aging, wrote in support of the HealthSouth application and cited the need for the proposed long-term acute care hospital, as well as the high quality of care and excellent outcomes experienced at HealthSouth Emerald Coast Rehabilitation Hospital. In addition to the foregoing, the letter of support from Michael McCormick, M.D., also referenced HealthSouth's expertise in delivering therapy services in a wide array of programs and disciplines.

C. PROJECT SUMMARY

SemperCare Hospital of Panama City, Inc. (CON #9529) proposes the establishment of a new 30-bed long-term care hospital to be located on the third of Bay Medical Center, a 353-bed acute care hospital in Bay County, AHCA District 2. The facility will consist of approximately 18,479 square feet of space currently occupied by a pulmonary unit, a

CON Action Numbers: 9529 & 9530

skilled nursing unit, and a cardio-pulmonary and sleep lab. The applicant states that simultaneous to the opening of the proposed hospital, Bay Medical Center will delicense 22 psychiatric beds, which are not being used. The applicant also states that Bay Medical Center will file an exemption request to convert its 18 skilled nursing unit (SNU) beds to general acute care beds and then delicense eight of those beds. The applicant provided a letter from Bay Medical Center indicating that it agrees to delicense its 22 psychiatric beds if this project is approved. The conversion of Bay Medical's 18 SNU beds to acute and subsequent delicensure of eight acute beds are not discussed in that letter.

The applicant agrees to condition award of the certificate of need on the following: a minimum of two percent of total annual patients days will be provided to Medicaid patients and a minimum of one percent of total annual patient days will be provided to indigent/charity care patients.

The proposed project cost is \$811,338 and will involve 18,479 GSF (6,000 GSF of renovation and \$225,000 in renovation cost).

HealthSouth LTAC of Bay County, Inc. (CON #9530) proposes the establishment of a new 40-bed long-term care hospital to be located in Bay County, AHCA District 2, near to the existing HealthSouth Emerald Coast Rehabilitation Hospital.

The applicant agrees to condition award of the certificate of need on the following: a minimum of 4.5 percent of total annual patient days will be provided to charity care patients and a minimum of 2.5 percent of total annual patient days will be provided to Medicaid patients.

The proposed project cost is \$12,309,506 and will involve 40,000 GSF of new construction and \$6,386,000 in construction costs.

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.

Chapter 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, Richard Patterson, analyzed the application in its entirety with consultation from the Financial Analyst, Roger Bell, 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? Ch. 59C-1.008, 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 Ch. 59C-1.008(2)(e), Florida Administrative Code.

Chapter 59C-1.002(28), Florida Administrative Code, defines "long-term care hospital" as a hospital licensed under Chapter 395, Part 1, Florida Statutes, which meets the requirements of Part 412, subpart B, paragraph 412.23(e), Code of Federal Regulations (1994), and seeks exclusion from the Medicare prospective payment system for inpatient hospital services. 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. A recent historical study funded by CMS and referenced earlier (Heath Care Financing Review, Winter 2001, see Footnote 1), indicates that there are generally four types of LTCHs operating in the United States: multispecialty, respiratory, rehabilitation and mental.

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:

AHCA population estimates for December 2001 show the following:

CON Action Numbers: 9529 & 9530

**Population Estimates for District 2 Counties and Percent Change by County
For Total Population, 65 and over, and 75 and Over Population**

County	Total Jan. 2002	Total Jan. 2007	Percent Change	65+ Percent Change	75+ Percent Change
Bay	151,890	161,393	6.26%	11.29%	16.73%
Calhoun	13,123	13,855	5.58%	13.28%	13.20%
Franklin	11,301	12,278	8.65%	28.20%	19.95%
Gadsden	45,543	47,043	3.29%	8.55%	12.99%
Gulf*	15,616	13,390	-14.25%	-19.76%	-12.22 %
Holmes	18,838	19,859	5.42%	15.03%	8.15%
Jackson	47,857	48,882	2.14%	0.92%	3.27%
Jefferson	13,306	14,542	9.29%	14.54%	13.81%
Leon	247,357	262,633	6.18%	8.15%	2.70%
Liberty	7,231	7,744	7.09%	7.96%	11.26%
Madison	18,957	19,654	3.68%	3.51%	4.13%
Taylor	19,814	21,339	7.70%	12.25%	18.38%
Wakulla	24,459	28,632	17.06%	33.62%	43.90%
Washington	21,775	23,104	6.10%	13.84%	16.23%
Total District	657,067	694,348	5.67%	9.60%	10.25%

Source: AHCA Pop. Projections, December 2001; *The 2000 census originally reported inmates in Franklin County rather than Gulf County. Census numbers will be revised to reflect 1,228 additional Gulf County residents and the same number will be subtracted from the Franklin County figures.

As indicated above, the population in District 2 is expected to increase by 5.67 percent during the next five years, with the 65 and over age cohort approximating 9.6 percent. For Bay County, the increase is anticipated to be 11.29 percent for the 65 and over population during the next five years. As expected, the 75 and over population is expected to increase at a higher rate for the district and Bay County (10.25 and 16.73 percent, respectively). This latter age group is likely to use the services of a long-term care hospital and stay longer than other age groups.

SemperCare Hospital of Panama City, Inc. (CON #9529) presented a population-based need methodology to project the need for LTCH beds in District 2. Charts 1 and 2 of the application display the Bay County and District 2 population for 2000-2007 and the population growth rate for 2002-2007 for ages 0-64, 65+, and total population. The data indicates that Bay County has the same rate of growth as compared to District 2 overall and slightly higher in the 65+ cohort (11 percent vs. 10 percent), which represents the majority of patients typically requiring long-term care hospital services. The applicant states that as those age 65 and over constitute a larger portion of the total population, the demand for health care increases at a rate higher than the general population increase, because along with increasingly longer life spans, the length and severity of diseases is also increasing.

CON Action Numbers: 9529 & 9530

In developing the population-based need methodology, the applicant analyzed the utilization of the existing LTCHs in Florida and used the 65 and older per 1,000 population. Chart 3 of the application shows the LTCH use rate in Florida, as follows:

LTCH Use Rate in Florida

Area	Beds	65+ pop	Patient Days	LTCH Patient Days per 1000 Population 65+
District 4	167	240,241	40,146	167
District 5	60	299,751	21,073	70
District 6	175	311,863	46,070*	148**
District 10	188	260,725	51,865	199
District 11	53	314,900	16,502	52
Total	643	1,427,480	175,656**	124
Florida Use Rate for LTCH				123**

Source: CON Application 9544; *Florida Hospital Bed and Service Utilization by District, January 2002 Batching Cycle; **AHCA calculation.

Chart 3 of the application has an apparent typographical error for the District 6 patient days (48,070 vs. 46,070), which is corrected in the foregoing table. The Florida Use Rate for LTCH for July 2000-June 2001, using January 1, 2001, population estimates, is 123 per 1,000 population 65 and older. Applying the corrected use rate to the 2002 District 2 65 and older population results in a population-based need in District 2 for 107 beds, pursuant to the applicant's methodology (see Chart 4 of the application):

Projected LTCH Use in District 2

Area	2002 65+ Population	Average Use Rate for LTCH	Projected Patient Days	Average Daily Census	Bed Need At 80%
District 2	76,526	123*	9,413	26*	33

Source: AHCA Population Estimates; *AHCA calculation.

The 33-bed need calculated from the applicant's statewide use rate formula is slightly below the 34 in Chart 4 of the application. AHCA data shows that 9 patients from District 2 were admitted to LTCHs in Florida between July 1, 2000, and June 30, 2001. Of those patients, five were admitted to Jacksonville facilities, and four were to Tampa and St. Petersburg facilities. The applicant states that its length-of-stay (LOS) methodology is more conservative than the population-based need methodology discussed above but the population-based one is nevertheless valid and helpful in determining the need in an area. However, the applicant's use rate is based on existing patient days in existing Florida LTCHs and the applicant admits that it will not be serving the same patient population as served by all but one LTCH in Florida. (Refer to discussion below in this section). Therefore, any need methodology based on this use rate is not valid for this applicant.

CON Action Numbers: 9529 & 9530

Further, the applicant says that the existing LTCHs are freestanding and that no hospital-within-hospital LTCHs are yet operating in Florida. The applicant asserts that the hospital-within-a-hospital model proposed by SemperCare Hospital of Panama City typically serves a different population, that is, high acuity patients with case weights greater than 2.0, many of which are transferred directly from the host hospital's ICU, who often would not be transferred to a freestanding LTCH, particularly for a long distance, due to the risk involved in transferring the patients. Also, the applicant states that it projects to serve a patient population with a length-of-stay of approximately 28 days rather than the typical 30 to 58 day lengths-of-stay of the existing LTCHs in Florida, due to a more diverse case mix than freestanding LTCHs. In addition to ventilator patients, the applicant proposes to serve the following categories of patients: cardio-pulmonary conditions; medically complex conditions; stage III and IV wounds; and neurological and musculoskeletal disorders, which typically average shorter lengths-of-stay than ventilator patients. The applicant contends that it anticipates higher referral rates than those for freestanding LTCHs because operating a hospital-within-a-hospital model increases the integration of the LTCH services within the existing health care environment, specifically, physicians at the host hospital do not have to change their rounds to see their patients and families are comforted by knowing that the hospital services are immediately available.

The applicant also notes that the individual district use rates for LTCHs vary widely due to the few existing facilities and their uneven distribution throughout the state, and some LTCH providers exceed 90 percent utilization and do not have the space to accommodate more patients even if the need is present. The utilization of existing facilities is discussed below. As the applicant points out, there is fairly wide variance in use of LTCH beds between the districts. This is perhaps due to the variances in population demographics and dynamics, which the applicant fails to discuss. Because this approach to determining need, while population and utilization-based, fails to consider the particular dynamics of the District 2 health care system, it is of limited value.

HealthSouth LTAC of Bay County, Inc. (CON#9530) presented the AHCA Population Projections, December 2001, for January 2002 and January 2007, and noted that the 65 and over and 75 and over population growth rates for Bay County are significant. The applicant states that 75 percent of the long-term care hospitals' patient base is comprised of the 65 and over population. The applicant also states that the 65 and over population averages five to 18 percent longer lengths-of-stay than the younger population. The applicant compared the populations of Bay and Leon Counties and reports that while Bay County's total population is only 61 percent of Leon County's, its elderly

CON Action Numbers: 9529 & 9530

population is virtually identical. Further, the applicant states that Bay County's 75 and over population is greater than Leon County's for 2007. The applicant estimated need for the number of long-term acute care hospital beds for District 2 and Bay County using five methods:

- Use Rate Analysis
- Patient Day to Population Ratio
- DRG Discharge Referral Experience
- National DRG Incidence Model
- Extended Length-of-stay Analysis.

The applicant's use rate analysis methodology calculates the need for long-term care hospital beds by determining the district use rates of LTCH patients by age and applying these use rates to the projected population for District 2 and Bay County. The applicant questioned the propriety of using the use rates for the LTCH's in Districts 5 and 11. However, according to the applicant, the use rate for all LTCHs in Florida, applied to the projected population of District 2 and using a 75 percent occupancy factor, indicates a need for between 48 and 63 beds in District 2. The statewide use rate applied to the projected Bay County population shows a need for 14 beds in Bay County. No explanation was provided for the use of the 75 percent occupancy factor. As noted above, it is not clear that the statewide use rate is an appropriate method for determining need because the patient population for the majority of LTCHs in Florida is expected to be different from the patient population proposed to be served by this applicant. As with SemperCare above, HealthSouth is not proposing to serve primarily ventilator or pulmonary patients, as do all but one of the existing LTCHs in Florida.

The second method used by the applicant to project need is the calculation of a patient day to population ratio. The applicant applied each district's patient days to the 15 and over and total district population to determine the use rate for each. Then the applicant applied the average statewide use rates for each population (24.8 and 19.9 per 1,000, respectively) to the District 2 population to calculate a range of projected patient days (13,818-14,146). The applicant also applied the combined use rates for only Districts 4, 5, 6, and 10 to each population, which resulted in a range of projected patient days of 17,081-17,397. The ranges of needed beds for District 2 at 75 percent occupancy is 51.7-63.6 (based on 15 and over population) and 50.5-62.4 (total population), according to the applicant. However, bed to population ratios are not good indicators of need because they do not consider factors like utilization.

The third method employed by the applicant to assess need in District 2 is the DRG Discharge Referral Experience Model, which determines the

CON Action Numbers: 9529 & 9530

long-term acute care discharges for Districts 4, 5, 6, and 10, as compared with short-term acute care discharges for those districts, using the data contained behind Tabs 5 and 6 of the application. The average proportion of long-term patients to short-term patients by DRG (0.4 percent) is then applied to the discharges from District 2 acute care hospitals and, again applying a 75 percent occupancy factor, results in a projected need of 46 beds. Again, the applicant is proposing to serve a different patient population than that served in all but one existing LTCH.

The applicant's next methodology, National DRG Incidence Model, considers DRG incidences grouped by program (respiratory, coma management, and medically complex), and applied to District 2 short-term acute care discharges, using the data contained behind Tab 16 of the application. The applicant concluded that there is a need for 110 beds in District 2, based on this analysis. It is very likely that if there were actually need for this number of LTCH beds in District 2, the applicant would have been able to secure hospital records showing the inability to place medically complex patients needing post-acute. None were presented.

Method 5 (Extended Length-of-stay Analysis) is discussed below.

The applicant presented a Needs Assessment Summary, which displays the range of LTCH beds needed in District 2:

District 2 Needs Assessment Summary

Need Methodology	Low Bed Range	High Bed Range
Use Rate Analysis	48	63
Patient Day to Population-State	50	52
Patient Day to Population-Adjusted	62	64
DRG Discharge Referral Experience	46	46
National DRG Incidence Model	110	110
Average of Above	63	67

Source: CON Application 9530.

The applicant also determined that a penetration rate “of 50 or so percent” is reasonable and achievable based on the fifth methodology (discussed below) and the foregoing calculations.

CON Action Numbers: 9529 & 9530

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. Any first hand documentation from area providers with regard to delays in care would have been supportive and beneficial in showing an access problem to long-term care in the area.

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

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). There are two CON approved LTCHs: Mercy Medical Development, Inc. (29 beds) in District 11, and HealthSouth LTAC of Sarasota, Inc. (40 beds) in District 8 and 22 approved beds at Kindred Hospital in St. Petersburg.

The utilization for the state LTCHs for July 2000-June 2001 is as follows:

Florida LTCH Utilization July 2000-June 2001

Area	Hospital	LTCH Beds	Occupancy
District 4	Kindred Hospital-North Florida	60	88.39%
District 4	Specialty Hospital Jacksonville	107	53.23%
District 5	Kindred Hospital-Bay Area-St. Petersburg	60	96.22%*
District 6	Kindred Hospital-Central Tampa	102	78.33%
District 6	Kindred Hospital-Bay Area-Tampa	73	63.45%
District 10	Kindred Hospital-South Florida-Hollywood	124	70.15%
District 10	Kindred Hospital-South Florida-Ft. Lauderdale	64	86.11%
District 11	Kindred Hospital South Florida Coral Gables	53	85.30%
Total		643	74.84%

Source: Florida Hospital Bed and Service Utilization by District, January 2002 Batching Cycle

*As discussed above, this facility received CON #9488 to add 22 LTCH beds to its existing 60 beds. The CON was issued in 2001 and beds are expected to be on-line December 31, 2002.

As indicated, there are no licensed or approved LTCHs in District 2.

SemperCare Hospital of Panama City, Inc. (CON #9529) included a map (Graphic 4), which shows the locations of the existing LTCHs and their approximate distances from Panama City. The closest licensed LTCHs to Panama City are in Jacksonville (approximately 300 miles). According to the applicant, it is not reasonable to assume that the patients the applicant is proposing to serve have access to similar services in adjacent districts or the more distant existing LTCHs. The reasons given were summarized in the public hearing and letters of support (Section B above), and include disruption of continuity of care, hardship to patients and their families, and unnecessary transfer risks.

CON Action Numbers: 9529 & 9530

At the public hearing, the CEO of Bay Medical Center indicates that candidates for this LTCH are currently being treated in acute care beds. Comments from at least one physician at the public hearing suggest that he views patients currently being transferred to area nursing homes as candidates for this LTCH. As noted earlier, studies have found that there is some overlap between LTCHs and other post-acute providers.

Although letters of support suggest that patients may not be receiving the most appropriate care, none quantify the number of patients. The applicant has not shown that access to needed care is denied in District 2 nor discussed the types of programs or venues of care that might provide extended care to patients it proposes to serve, such as cardio-pulmonary or adult open heart surgery patients, to show why those programs are inappropriate for the patients it proposes to serve.

HealthSouth LTAC of Bay County, Inc. (CON#9530) included a map of Florida, which shows the 11 health planning districts, Panama City, and the existing long-term acute care hospitals. As stated above, there are no LTCHs in District 2, and the closest facilities to Panama City are in Jacksonville. Maps and driving distances from Panama City to existing LTCHs are behind Tab 15 of the application. The applicant also presented a chart indicating the number of beds, patient days, occupancy rate, and ADC for each LTCH in Florida. The applicant states that the overall occupancy and census represents an ADC of 60 patients per facility, far greater than that projected for the proposed project, which is expected to stabilize at an ADC of 34. The applicant also states that none of the existing LTCHs in Florida are accessible or available to residents of Panama City, Bay County, or District 2. The applicant further 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. Kindred currently owns seven of the eight existing long-term care hospitals in the state. The only non-Kindred owned facility, Specialty Hospital of Jacksonville, is located in District 4 and had the lowest occupancy of any LTCH in the state for the latest reporting period. The applicant presented AHCA discharge data for the 12 months ending March 31, 2001, to show the proportion of pulmonary cases for each hospital in the state and concluded that the Kindred facilities (with the exception of Kindred-Central Tampa and Kindred-Hollywood) provide between 52 and 70 percent of total patient days to pulmonary patients. Overall, statewide, pulmonary patients represent 47 percent of cases and 51 percent of patient days, according to the applicant. The applicant stated its intention to provide a wide range of services to meet the needs of all District 2 residents rather than focus on pulmonary patients.

As noted about with co-batched applicant, SemperCare, the applicant has not shown that access to needed care is denied in District 2 nor discussed the types of programs or venues of care that might provide extended care to patients it proposes to serve to show why those programs are inappropriate for the patients it proposes to serve.

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.

SemperCare Hospital of Panama City, Inc. (CON #9529) states that hospital-within-a-hospital LTCHs have resulted from the need to treat acutely ill patients, often presenting with multiple symptoms, in a specialized environment. Many patients are admitted to general hospitals that have multiple diagnoses requiring complex and multi-specialty intervention. These patients require a significantly longer than average length-of-stay before discharge to home or a post-acute setting, such as home health, skilled nursing, or rehabilitation, and they often remain in ICUs because they are too acutely ill to be sent to a general medical unit. The patients may have multiple body system complications and failures that require daily physician visits and significant ancillary and nursing services (which are not specified in the application). They may also have respiratory problems and be ventilator-dependent. Although stable enough to receive restorative rehabilitative therapies that would expedite their recovery, these therapies cannot be as effectively or efficiently provided in the ICU setting. Therefore, the applicant contends that these patients are best served by LTCHs. Unfortunately, information provided by the applicant does not clearly show that the patients identified as potential candidates for this LTCH present multiple symptoms and therefore need a specialized environment.

HealthSouth LTAC of Bay County, Inc. (CON#9530) intends to develop and implement inpatient programs that will include, but not be limited to, the following:

CON Action Numbers: 9529 & 9530

- 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.

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. The applicant also describes the disease management programs it has identified which include, but are not limited to, infectious diseases/antibiotic therapy program, wound care management program, complex medical care program, stroke program, and pulmonary program.

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 2, with the main focus on the Bay County market, it is likely that their actual market or service area will be larger than the district and certainly larger than the county.

SemperCare Hospital of Panama City, Inc. (CON #9529) described the market conditions established by CMS's exemption from the Prospective Payment System (PPS). When Medicare PPS was introduced in 1983, HCFA (now CMS) realized that the DRG-based PPS did not adequately address the patient care delivery anomalies associated with specialized patient populations including those of long-term care. Most of the long-term acute patients remain hospitalized well beyond the Medicare geometric mean length-of-stay (GMLOS). Medicare cost-based exemption for LTCHs was a tool used by CMS to address the specialized needs of patients and providers until a more equitable system could be implemented. The applicant also notes that the Balanced Budget Act of 1997 included many substantial changes in the Medicare cost-based reimbursement methodology for LTCHs and required CMS to develop a PPS for LTCHs, proposed rules for which were published in the Federal Register on March 22, 2002. CMS established the PPS exemption because of the need for the specialized level of care of LTCHs. Under these conditions, the hospital-within-a-hospital LTCH model has proven successful in providing patient care, managing costs, and freeing

CON Action Numbers: 9529 & 9530

necessary acute care space in hospitals without unnecessarily duplicating services. It is noted that CMS has funded research to study LTCHs on several occasions both prior to and after the Balance Budget Act of 1997, to better understand the growth being experienced in this type of care. That growth has been both in number of facilities and in Medicare expenditures. According to a recent study, the rate of growth has been “rapid in recent years”².

The applicant states that approval of the proposed project will not increase competition because there are no LTCH providers in District 2, but it will increase competition statewide, especially since one provider, Kindred Hospitals, operates seven of the eight LTCHs in Florida. The applicant concludes that introducing another provider into the state, particularly one that utilizes the hospital-within-a-hospital LTCH model, will provide the citizens of Florida increased access to progressive, convenient, and high quality clinical services.

HealthSouth LTAC of Bay County, Inc. (CON#9530) states that federal reimbursement policies have continually recognized the importance of long-term care hospital services by granting qualifying facilities exemption from the reimbursement caps imposed by the PPS. To qualify for Medicare reimbursement as a long-term care hospital, facilities must serve a patient population whose average length-of-stay exceeds 25 days. The Centers for Medicare and Medicaid Services (CMS) published a proposed prospective payment system (PPS) rule in March 2002 for long-term care hospitals (LTCH). Under the proposed PPS for LTCH a payment for a Medicare patient will be made at a predetermined, per discharge amount for each LTC-DRG.

SemperCare Hospital of Panama City, Inc. (CON #9529):

Length-of Stay-Methodology:

The applicant states that it examined the patient base at Bay Medical Center and determined that a significant need for a LTCH exists within Bay Medical Center. Bay Medical Center is a major tertiary care provider for residents of District 2. In the length-of-stay methodology presented in the application, the applicant used fiscal year 2001 utilization data for Bay Medical Center and states that the methodology uses the geometric mean length-of-stay (GMLOS) for each DRG provided as a part of the Medicare Prospective Payment System and applies the GMLOS to all potential discharges from the host hospital regardless of payer source. After deleting all patients with lengths-of-stay less than 15 days, the applicant states that it removed all patients from the individual patient

² Korbin Liu, SC.D., et al “Long-Term Care Hospitals Under Medicare: Facility-Level Characteristics,” *Health Care Financing Review*, Volume 23, Number 2, Winter 2001, page 1.

CON Action Numbers: 9529 & 9530

utilization data with DRGs identified by the applicant as “clinically inappropriate” for LTCH services, which are listed behind Tab 5 of the application. No other explanation was given for the inclusion of the 236 patients reflected in the DRG information behind Tab 4 of the application. The applicant then removed individual discharges for patients whose length-of-stay was less than the GMLOS for the specific DRG plus 15 days. The remaining patient data was adjusted to reflect days assumed to be spent in the host hospital by subtracting the GMLOS for each patient from the total length-of-stay to determine each patient’s LTCH length-of-stay. The days assumed to be spent in the host hospital for each patient were summed and resulted in 6,469 LTCH-appropriate patient days.

The applicant made a further adjustment to projected patient days for the number of patients from outside Bay Medical Center. The applicant states that according to MedPar data for fiscal year 2000, Gulf Coast Medical Center generated 2,216 long-term acute care hospital-appropriate patient days for Medicare patients. The applicant assumed that these Medicare patient days represent 61 percent of total long-term acute care patient days and therefore, Gulf Coast Medical Center generated approximately 3,633 total long-term acute care hospital-appropriate patient days in fiscal year 2001 ($2,216 \div .61$). The applicant also assumes that it will capture at least 35 percent of the total long-term acute care patient days for Gulf Coast Medical Center based on the physical location of the long-term acute care hospital outside Gulf Coast Medical Center, the fact that so many physicians will share privileges among the three hospitals (Bay Medical Center, Gulf Coast Medical Center, and SemperCare), the minimal distance between facilities, discussions with and letters of support from key local physicians who practice at multiple hospitals and who have indicated an interest and intent to refer patients from other hospitals to the long-term acute care facility, and the company’s experience operating hospitals in other markets. The applicant calculates 7,740 long-term acute care hospital-appropriate patient days from Bay Medical Center and 35 percent from Gulf Coast Medical Center. A further adjustment was made by the applicant based on 88 percent of referrals coming from the referring hospitals and physicians and 12 percent from nursing homes and home health agencies, based on SemperCare’s experience. The foregoing factors are displayed in Table 6 of the application and yield projected total long-term acute care patient days of 8,795 ($7,740 \div .88$).

The final two steps of the length-of-stay methodology in the application are determining the average daily census and projecting need based upon a defined planning occupancy rate. The applicant determined the average daily census to be 24.1 ($8,795 \div 365$), and used an 80 percent target occupancy to project a bed need of 30 ($24 \div 0.8$), as shown in

CON Action Numbers: 9529 & 9530

Table 7 of the application. As stated by the applicant, this projection of need is based on discharges from Bay Medical Center, Gulf Coast Medical Center, nursing homes, and home health agencies, and an 80 percent occupancy rate.

AHCA reviewed detailed patient discharge data for all LTCHs in Florida for the period July 2000-June 2001. While not every DRG referenced behind Tab 4 of the application appeared in the AHCA data for LTCHs, it is significant that zero discharges for DRGs 104-110, 112, and 115-118 were reported in LTCHs statewide. However, these DRGs are not listed among those deemed clinically inappropriate for LTCHs behind Tab 5 of the application but are not described in the proposed clinical programs section of the application. Removal of DRGs 104-110, 112, and 115-118 from the individual patient utilization data for Bay Medical Center (408 patient days for 14 patients), and for Gulf Coast Medical Center, nursing home, and home health agency (other facilities) referrals by the same percentage ($408 \div 6,469 = .063$), and then applying the applicant's length-of-stay methodology, results in a projected bed need below the number of beds requested in the application:

Patient Days – Bay Medical Center:	$(6,469 - 408) = 6,061$
Patient Days - Other Facilities:	$(2,326 - 146) = 2,180$
Total Patient Days:	$6,061 + 2,180 = 8,241$
Average Daily Census:	$8,241 \div 365 = 22.6$
Beds Needed at 80 Percent Occupancy:	$22.6 \div 0.8 = 28$

The average length-of-stay for admissions from Bay Medical Center associated with the foregoing revision is 27.3 days ($(6,469 - 408) \div (236 - 14)$).

It is again noted that the applicant failed to discuss the District 2 population demographics and dynamics as they relate to the availability, utilization and quality of like services in the district to clearly demonstrate that patients are either unable to access needed services or are being cared for in an inappropriate setting. Based on the number of days patients remained in acute care beds, it is likely that some portion of those patients identified by the applicant would have benefited from LTCH services. However, the applicant did not demonstrate that more than nine District 2 patients needed LTCH services during the period July 1, 2000 through June 30, 2001. These patients were treated in LTCHs outside of the district.

HealthSouth LTAC of Bay County, Inc. (CON#9530):

Extended Length-of-stay Methodology:

The applicant states that LTCHs can be highly specialized or have several programs and, based on its DRG Discharge Referral Experience Model, the development of a LTCH in District 2 should have several programs and not be restricted to ventilator/pulmonary patients. The applicant selected the 20 aggregated LTCH DRGs with the greatest number of discharges and the number of District 2 hospital discharges with an ALOS greater than 24 days for the selected DRGs to compute the potential number of long-term acute care patients and beds required. The applicant states that the 20 DRGs represent 75 percent of LTCH discharges and that the ALOS for Florida LTCHs is 42.6, and the occupancy factor is 75 percent. The calculations are as follows:

$$\begin{aligned}(306 \div .75) \times 42.6 &= 17,381 \text{ patient days;} \\ 17,381 \div 365 &= 47.6 \text{ ADC; and} \\ 47.6 \div .75 &= 63.46\end{aligned}$$

As noted above under co-batched applicant's SemperCare, based on the number of days patients that remained in acute care beds, it is likely that some portion of those patients identified by the applicant would have benefited from LTCH services. However, the applicant did not demonstrate that more than nine District 2 patients needed LTCH services during the period July 1, 2000 through June 30, 2001. These patients were treated in LTCHs outside of the district.

2. Local Health Plan Preferences

Is need for the project evidenced by the applicable district health plan? ss. 408.035(1) and 408.037(1), Florida Statutes, and Ch. 59C-1.030(2)(c), 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) and 408.035(7), Florida Statutes.**

SemperCare Hospital of Panama City, Inc. (CON #9529) states that long-term acute care services are currently missing from the continuum of care at Bay Medical Center and within District 2. The proposed LTCH will benefit long-stay acute care patients by providing a higher number of nursing hours per patient day than a general nursing unit, combined with a number of therapy hours per day that significantly exceeds what is typically provided in an intensive care setting. As distinguished from skilled nursing facility care, the LTCH will provide a high level of nursing care for high acuity patients suffering from multiple conditions.

As noted in the Project Summary, the applicant has provided evidence that if this project is approved, Bay Medical Center will delicense 22 underutilized psychiatric beds, the reclassification of this space within the hospital should result in some efficiencies to Bay Medical.

Schedule A of the lease agreement contained in Exhibit 1 of the application requires Bay Medical Center to provide dietary services to SemperCare's patients.

CON Action Numbers: 9529 & 9530

Please refer to Section E.1.b.2. above for further discussion.

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

HealthSouth LTAC of Bay County, Inc. (CON#9530) states that there are no like and existing facilities in District 2 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 hospitals approximately 300 miles away, facilities within the state are too distant from the proposed location and area residents. Moreover, the applicant says that the closest facility is fully occupied. 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. It is again noted that while it appears some portion of the District 2 patient population could benefit from LTCH services, the applicant has not clearly demonstrated need for a 40-bed facility.

Please refer to Section E.1.b.2. above for further discussion.

In contrast to SemperCare, HealthSouth proposes to establish a freestanding facility with a kitchen. Therefore, there are no concerns about how it will feed patients.

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

- 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), Florida Statutes.**

SemperCare Hospital of Panama City, Inc. (CON #9529) does not have an operational history of providing quality of care. The applicant states that its parent, SemperCare, Inc., has a variety of mechanisms that have been used to ensure and maintain quality care in its other facilities, which will be implemented by the applicant. These mechanisms include a comprehensive performance improvement system called QualMax™, constant maintenance of regulatory compliance and readiness, outcomes measurement systems, utilization and risk management programs, credentialing and privileging systems, a corporate compliance program, and a customer satisfaction system. The applicant included the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) survey results for the four currently operational SemperCare facilities. The applicant points out that it will be separately licensed and included

CON Action Numbers: 9529 & 9530

copies of its Certificate of Incorporation and authorization to operate in Florida as Exhibit 8 of the application. Copies of Bay Medical Center's licenses are included in Exhibit 9 of the application.

HealthSouth LTAC of Bay County, Inc. (CON#9530) does not have any long-term care hospitals in Florida. The applicant states 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 a superior quality of care. The applicant further 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 Florida locations. The quality management department will implement the performance improvement plan to measure, assess, and improve patient care on an ongoing basis.

- 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.**

Currently, there are no LTCH providers in District 2, nor are there any LTCHs in adjacent Districts 1 and 3, and, as discussed above, the applicant contends that those available in Jacksonville (District 4) are not reasonably accessible due to distance considerations. Assuming that the patients being served are elderly multi-complex patients this is likely the case, at least to some extent. However, the applicant has not clearly demonstrated this and LTCHs in Florida have historically served large areas.

- 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.**

Neither of the proposed projects are to be located in a statutorily defined teaching hospital nor will the primary purpose of either project involve research or physician education.

SemperCare Hospital of Panama City, Inc. (CON #9529) says that it is committed to supporting the clinical needs of health professionals and anticipates that some of the health professional training programs that currently use Bay Medical Center as a clinical training site will also use SemperCare Hospital once it is operational. The applicant also says that Bay Medical Center has several clinical training agreements, including those with high schools, universities, colleges, and specialized training programs throughout Florida as well as other states, which mostly involve physical and occupational therapy. Exhibit 10 of the application includes copies of 40 separate training agreements.

HealthSouth LTAC of Bay County, Inc. (CON#9530) states that HealthSouth Corporation is one of the largest clinical training and development resources in the nation and lists behind Tab 4 of the application the more than 750 colleges and universities who conduct on-site clinical training at HealthSouth facilities. The applicant also states that HealthSouth Corporation supports ongoing medical research and education through established partnerships with prestigious schools, that the proposed project will enhance research and positively impact the clinical training needs of health professionals in the region, and that the proposed project will enhance the clinical needs and employment opportunities available to health care professionals in District 2. According to the applicant, HealthSouth Corporation will establish agreements/affiliations with educational/training programs to use the proposed hospital for applicable clinical training and internships. Also, the applicant says it will be able to expand and develop new programs and services for patients and as such introduce new clinical areas for the education of future clinicians and support personnel, which will in turn enable educational opportunities, which do not exist locally.

- 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.**

SemperCare Hospital of Panama City, Inc. (CON #9529) is a start up company with \$100 in assets as of April 16, 2002. SemperCare, Inc., the parent, was formed in 1999 for the purpose of developing a network of facilities providing long-term acute care. The company had, as of June 30, 2001, \$3.8 million in cash on hand, \$6.6 million in current assets, and \$9.8 million in total assets. Capital has been raised through the issuance of stock. The company has a shareholders' deficit of \$8.3 million and a net loss of \$3.6 million. There was a net operating loss of \$3.6 million and negative cash flows from operations of \$3.9 million. However, the first LTAC hospital owned by SemperCare opened in April

CON Action Numbers: 9529 & 9530

2000 with four facilities operational as of the date of the balance sheet. The facilities are too new to judge the financial strength of the parent based on their revenue. The short-term financial position of the company depends on its continued ability to raise sufficient capital to support its operating losses. The long-term future of the company will depend on its being able to operate the facilities at a profit level that will support the company's debt. It is too early to determine the long-term financial strength of the parent.

Capital requirements:

SemperCare Hospital of Panama City, Inc., will lease the space required to operate the hospital from Bay Medical Center. The total capital costs for this project from Schedule 1 are \$811,338. Schedule 1 did not include the estimated loss during the initial six months of operation of \$-436,401, bringing the total project costs for the applicant to \$1,247,739. Schedule 2 indicates the parent has a total of \$4.9 million in capital projects.

Available capital:

Funding for the proposed project is coming from the parent, SemperCare, Inc. A letter was provided from the parent in support of its commitment to fund the project.

Conclusion:

The applicant, with the support of its parent, may be able to raise sufficient capital to fund the project under review; however, funding for this and all other capital projects is not fully assured.

HealthSouth LTAC of Bay County, Inc. (CON #9530): The audited financial statements of the applicant 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 LTAC of Bay County, Inc., is a for-profit company formed for the purpose of developing a freestanding long-term acute care hospital in Bay County. The applicant is a development stage enterprise with no assets, no equity and no revenues as of March 31, 2002.

The company is a wholly owned subsidiary of HealthSouth Corporation whose most recent 10K report for the period ended December 31, 2001, disclosed \$276.6 million in cash-on-hand, \$1.7 billion in current assets and \$7.6 billion in total assets. The company had \$4.4 billion in revenues, \$202.4 million net income and \$670.4 million in cash flows.

Capital requirements:

CON Action Numbers: 9529 & 9530

Schedule 2 indicates this is the only significant capital project of the applicant. The total funding needed is \$12.4 million.

Available capital:

HealthSouth Corporation provided a commitment letter for funding the project.

Conclusion:

Based on HealthSouth Corporation's 10K report, and their commitment to fund this project, funding for this project should be available as needed.

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

SemperCare Hospital of Panama City, Inc. (CON #9529): A comparison of the applicant's estimates to the control group values provides for an objective evaluation of financial feasibility (the likelihood that the services can be provided under the parameters and conditions contained in Schedules 7 and 8), and efficiency (the degree of economies achievable through the skill and management of the applicant). In general, projections that approximate the median are the most desirable, and balance the opposing forces of feasibility and efficiency. In other words, as estimates approach the highest in the group, it is more likely that the project is feasible, because fewer economies must be realized to achieve the desired outcome. Conversely, as estimates approach the lowest in the group, it is less likely that the project is feasible, because a much higher level of economies must be realized to achieve the desired outcome. These relationships hold true for a constant intensity of service through the relevant range of outcomes. As these relationships go beyond the relevant range of outcomes, revenues and expenses may either go beyond what the market will tolerate or may decrease to levels where activities are no longer sustainable.

The Centers for Medicare and Medicaid Services (CMS) published a proposed prospective payment system (PPS) rule in March 2002 for long-term acute care hospitals (LTCH). Under the proposed PPS for LTCH a payment for a Medicare patient will be made at a predetermined, per discharge amount for each LTC-DRG. The estimated revenues submitted by the applicant for the project were developed based on the existing reasonable cost-based reimbursement system.

The law requires that the LTCH PPS be budget neutral, which means that total payments must equal the amount that would have been paid if the PPS had not been implemented. Therefore, a comparison of the applicant's estimates to the control group values, even though those estimates are based on the reasonable cost-based reimbursement

CON Action Numbers: 9529 & 9530

system, should provide a reasonable basis for evaluating estimated revenues.

The estimated revenues submitted by the applicant for the project were developed based on the existing reasonable cost-based reimbursement system. In order to qualify for an exemption under CFR Part 412.23 for reimbursement under the existing prospective payment system, a long-term acute care facility, operating as a hospital within a hospital, must, according to CMS's State Operations Manual interpretive guidelines, not exceed more than 15 percent of its total inpatient operating costs in services obtained under contract with the host hospital *or* at least 75 percent of the hospital's inpatient population must be referred from a source other than the host facility. The applicant states that they anticipate more than 25 percent of their patients to be referred from Bay Medical Center; they will meet the requirements by having less than 15 percent of their inpatient operating costs in services purchased from Bay Medical Center.

Comparative data were derived from hospitals in peer groups that reported data in 2000; the applicant will be compared to the hospitals in peer group 12. Per diem rates are projected to increase by an average of 3.3 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

Projected net revenue per adjusted patient day (NRAPD) of \$829 in year one and \$842 in year two is similar to the control group median values of \$829 in year one and \$853 in year two. With net revenues per adjusted patient day close to the median the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table).

Projected cost per adjusted patient day of \$765 in year one and \$779 in year two is a little above the control group median values of \$719 in year one \$741 in year two. (See Comparative Table). Compared to the control group these projected expenses are cost-efficient.

The year two operating profit for the hospital of \$551,473 computes to an operating margin per adjusted patient day of \$63, which falls between the peer group median and highest values of \$4 and \$219 respectively. The operating margin of 7.5 percent indicates that net revenues are proportional to costs.

CON Action Numbers: 9529 & 9530

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

The Centers for Medicare and Medicaid Services (CMS) published a proposed prospective payment system (PPS) rule in March 2002 for long-term acute care hospitals (LTCH). Under the proposed PPS for LTCH a payment for a Medicare patient will be made at a predetermined, per discharge amount for each LTC-DRG. The estimated revenues submitted by the applicant for the project were developed based on historical experience of HealthSouth. The law requires that the LTCH PPS be budget neutral, which means that total payments must equal the amount that would have been paid if the PPS had not been implemented. Therefore, a comparison of the applicant's estimates to the control group values, even though those estimates are based on the reasonable cost-based reimbursement system, should provide a reasonable basis for evaluating estimated revenues.

Comparative data were derived from hospitals in peer groups that reported data in 2000; the applicant will be compared to the hospitals in peer group 12. Per diem rates are projected to increase by an average of 3.3 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

Neither Schedule 5 nor Schedule 7 gave the dates for year one and year two. The project completion forecast indicated initiation of services will be in May 2004; therefore the end of year one and year two for this review is April 30, 2005 and 2006.

CON Action Numbers: 9529 & 9530

Projected net revenue per adjusted patient day (NRAPD) of \$603 in year one is below the lowest level of the control group of \$651. NRAPD of \$725 in year two is between the control group lowest and median values of \$671 and \$864. With net revenues per adjusted patient day for year two falling between the lowest and median the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table).

Projected cost per adjusted patient day of \$588 in year one and \$548 in year two are both below the control group lowest values of \$674 in year one and \$694 in year two. (See Comparative Table). The lowest cost is considered the lower limit of cost efficiency. Costs below this threshold would describe efficiencies that no other facility has been able to achieve. Compared to the control group these costs are too low to be efficient, raising doubt that the facility is spending enough on services to provide adequate care.

The year two operating profit for the hospital of \$1.8 million computes to an operating margin per adjusted patient day of \$178, which is not far below the peer group highest value of \$219. The operating margin of 24.5 percent indicates that spending is not in proportion to revenues. In an industry where a 10 percent profit margin is considered high this 25 percent margin could indicate that costs are significantly underestimated and this project, as presented, may not be financially feasible.

- g. Will the proposal foster competition to promote quality and cost-effectiveness? ss. 408.035(9), Florida Statutes.**

SemperCare Hospital of Panama City, Inc. (CON #9529) projects managed care to represent 12.7 percent of its patient days. This is below the control group median level of activity of 14.2 percent. The projected levels, if realized, will have no significant impact on competition to promote quality assurance and cost-effectiveness. Also, although the proposed project may lower costs for the discharging acute care hospitals, the proposed project is unlikely to lower costs for third party payers.

HealthSouth LTAC of Bay County, Inc. (CON #9530) projects managed care to represent 2.0 percent of its patient days. This is between the control group lowest and median levels of zero and 14.2 percent. The projected levels, if realized, will have no impact on competition to promote quality assurance and cost-effectiveness. Also, although the proposed project may lower costs for the discharging acute care hospitals, the proposed project is unlikely to lower costs for third party payers.

Comparisons between applicants' projections:

		Net Rev.	Total Cost	Oper Profit	Projected Charity	Managed Care	Medicaid
	Beds	per day	per day	per day	percent	percent	percent
Sempercare	30	842	779	63	1.0	12.7	2.0
HealthSouth	40	725	548	178	4.5	2.0	2.5

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

SemperCare Hospital of Panama City, Inc. (CON #9529) proposes to establish a 30-bed long-term acute care hospital (LTACH) within a hospital. SemperCare proposes to lease space on the third floor of Bay Medical Center (BMC) to establish a long-term care facility. The application narrative indicates that only part of the floor will be leased to the new hospital, and the space is currently partly occupied by several functions of Bay Medical Center including a skilled nursing unit.

CON Action Numbers: 9529 & 9530

Three elevators and one stairwell are proposed for the long-term hospital space. Two of the elevators will have to be shared by BMC and the SemperCare facility since they are within the proposed leased space. Also, patients in other parts of the floor might have to exit through the LTAC Hospital and the LTACH patients might have to exit through Bay Medical Center in case of an emergency. This is not ideal, but is actually no different from the existing situation, assuming that there are no new barriers being constructed.

There will be seven semi-private rooms and 15 private rooms and the obvious support spaces. Several of the patient rooms have wheelchair-accessible showers. There are two nurse stations, which have at least the minimum ancillary spaces. There will be a family waiting and a rehabilitation therapy space added as well as several more ancillary spaces. Part of the construction budget will be utilized to build fire-rated walls separating the SemperCare facility from BMC.

The lessee also plans to purchase a number of services from BMC, which are itemized on Pages 28 and 29 of Schedule B.

There is no demolition plan on the drawings, but the narrative explains fairly clearly what is to be accomplished to establish the long-term care hospital. The renovation appears reasonable and the cost per square foot is within the broad range of health care construction costs.

The fact that patients and staff of each hospital may have to exit through the other hospital is the only drawback to this proposal other than the fact that the Florida Building Code does not allow a hospital within a hospital as noted in the opening paragraph.

The applicant provided two lists of most common applicable codes, but they are inaccurate and will have to be revised if this project should proceed.

HealthSouth LTAC of Bay County, Inc. (CON #9530) proposes establish up to 40 beds in a new long-term care hospital.

The application proposes a 40,000 square foot facility with 18 semi-private and four private patient rooms. All rooms have their own toilet and they all are most likely accessible, although the typical 5'-0" diameter turning circle is not shown in all cases. 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 exceed spatial requirements.

CON Action Numbers: 9529 & 9530

The list of applicable codes is inaccurate and will have to be revised when the project reaches design development. No reference is made to the disaster preparedness section of the Florida Building Code and Chapter 59A-3 of the Florida Administrative Code. The provisions regarding the site conditions and the construction requirements are crucial to the project. Since a site has evidently not been finally selected, it is imperative that the applicant be aware of these code issues before the beginning of the design development process and ideally before the selection of the site. No site information was provided.

The floor plan is virtually identical to several proposed facilities reviewed for other CON applications. It is obvious from the number of times that this floor plan has been submitted for review that the building was originally designed as a rehabilitation hospital. Some spaces are still labeled as if that were still the case. The applicant should verify how some of these obvious rehabilitation spaces will be used for a long-term care facility. There is a very large area for physical therapy central to the facility and it is not indicated what this space will be used for unless the new facility will have a strong rehabilitation program. In addition to the large therapy space, there are many other spaces that are tailored for a rehabilitation facility. For a long-term care hospital, it does not appear that many of these spaces are needed, unless the applicant is entertaining the idea that the facility might be converted to a rehabilitation hospital in the future.

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 nearby. An ADL area containing a bedroom, kitchen and bath are included. There is also an assisted bathing area. 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.

Schedule 10 indicates that the architect/engineer contracts are expected to be signed by June, 2002 (which is premature) and the projected completion date is March, 2004. This time frame is quite short, with only one year and two months estimated for actual construction after the AHCA Plans & Construction Office approval of the construction documents.

- 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.**

SemperCare Hospital of Bay County, Inc. (CON #9529) does not currently own or operate LTCHs in Florida. The applicant agrees to condition award of the certificate of need on the following: a minimum of two percent of total annual patients days will be provided to Medicaid patients and a minimum of one percent of total annual patient days will be provided to indigent/charity care patients. According to AHCA Fiscal Year 2000 data, LTCHs in Florida provided 2.5 percent Medicaid days and 2.3 percent charity days. Schedule 7A of the application does not indicate any percentage of projected patient days for indigent or charity patients.

HealthSouth LTAC of Bay County, Inc. (CON #9530) is not an existing provider, however, states that it will be a participating provider in the Medicaid program. The applicant states that the average provision of care to Medicaid patients in LTCHs in Florida is 0.9 percent for the year ending March 31, 2001, and the provision of charity care/self-pay at these facilities is minimal. As stated above, AHCA Fiscal Year 2000 data shows that LTCHs in Florida provided 2.5 percent Medicaid days and 2.3 percent charity days. The applicant agrees to condition award of the certificate of need on the following: a minimum of 4.5 percent of total annual patient days will be provided to charity care patients and a minimum of 2.5 percent of total annual patient days will be provided to Medicaid patients. Schedule 7A of the application does not indicate any percentage of projected patient days for indigent or charity patients.

F. SUMMARY

SemperCare Hospital of Panama City, Inc. (CON #9529) proposes the establishment of a new 30-bed long-term care hospital to be located at Bay Medical Center in Bay County, AHCA District 2. The specific clinical programs that the applicant will implement include pulmonary, medically complex, wound care management, and rehabilitation.

CON Action Numbers: 9529 & 9530

The facility will consist of approximately 18,479 GSF of space currently occupied by a pulmonary unit, a skilled nursing unit, and a cardio-pulmonary and sleep lab on the third floor of Bay Medical Center, including 6,000 GSF of renovated space. The project involves a total project cost of \$811,339 with a renovation cost of \$225,000. The applicant states that simultaneous to the opening of the proposed hospital, Bay Medical Center will delicense 22 psychiatric beds, which are not being used. The applicant also states that Bay Medical Center will file an exemption request to convert its 18 skilled nursing unit beds to general acute care beds and then delicense eight of those beds.

The applicant has agreed to provide a minimum of two percent of total annual patient days to Medicaid patients and a minimum of one percent of total annual patient days to indigent/charity care patients.

HealthSouth LTAC of Bay County, Inc. (CON #9530) proposes the establishment of a new 40-bed freestanding long-term care hospital to be located in Bay County, AHCA District 2, near to the existing HealthSouth Emerald Coast Rehabilitation Hospital. 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. The total project cost is stated to be \$12,309,506.

The applicant has agreed to provide a minimum of 4.5 percent of total annual patient days to charity care patients and a minimum of 2.5 percent of total annual patient days to Medicaid patients.

Need:

SemperCare Hospital of Panama City, Inc. (CON #9529):

- 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 (2)(e), Florida Administrative Code.
- The applicant provided evidence suggesting that some portion of District 2 residents may have more appropriately been placed in a LTCH than being treated with an extended stay in an acute bed. The applicant's needs assessment methodologies do not take into consideration that the applicant will not be serving the same patient population served by all but one LTCH in Florida. An area nursing

CON Action Numbers: 9529 & 9530

home provider expressed, what appeared to be justified concern based on a recent research funded by CMS and comments from a Bay Medical Center physician, that the establishment of an LTCH might negatively impact his facility. Need was not demonstrated by the applicant.

HealthSouth LTAC of Bay County, Inc. (CON #9530):

- 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 (2)(e), Florida Administrative Code.
- The applicant provided evidence suggesting that some portion of District 2 residents may have more appropriately been placed in a LTCH than being treated with an extended stay in an acute bed. The applicant is proposing to serve a different patient population than that served in all but one existing LTCH. Need was not documented in the application. An area nursing home provider expressed, what appeared to be justified concern based on a recent research funded by CMS and comments from a Bay Medical Center physician, that the establishment of an LTCH might negatively impact his facility. Need was not demonstrated by the applicant.

Quality of Care:

SemperCare Hospital of Panama City, Inc. (CON #9529):

- 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 their experience and existing policies in place at other facilities. The applicant included the JCAHO survey results for the four currently operational SemperCare facilities. However, the applicant did not discuss how it would recruit or retain the staff proposed in the application.

HealthSouth LTAC of Bay County, Inc. (CON #9530):

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

Cost/Financial Analysis:

SemperCare Hospital of Panama City, Inc. (CON #9529):

CON Action Numbers: 9529 & 9530

- The applicant is a start-up company with \$100 in assets as of April 16, 2002. SemperCare, Inc., the parent, was formed in 1999 for the purpose of developing a network of facilities providing long-term acute care. The company had, at June 30, 2001, \$3.8 million in cash on hand, \$6.6 million in current assets, and \$9.8 million in total assets. The facilities are too new to judge the financial strength of the parent based on their revenue. The short-term financial position of the company depends on its continued ability to raise sufficient capital to support its operating losses. The long-term future of the company will depend on its being able to operate the facilities at a profit level that will support the company's debt. It is too early to determine the long-term financial strength of the parent. The applicant, with the support of its parent, may be able to raise sufficient capital to fund the project under review; however, funding for this and all other capital projects is not fully assured. The application appears to be financially feasible.
- The applicant projects managed care to represent 12.7 percent of its patient days. This is below the control group median level of activity of 14.2 percent. The projected levels, if realized, will have no significant impact on competition to promote quality assurance and cost-effectiveness.

HealthSouth LTAC of Bay County, Inc. (CON #9530):

- The applicant is a for-profit company formed for the purpose of developing a freestanding long-term acute care hospital in Bay County. The applicant is a development stage enterprise with no assets, no equity and no revenues as of March 31, 2002. The company is a wholly owned subsidiary of HealthSouth Corporation whose most recent 10K report for the period ended December 31, 2001, disclosed \$276.6 million in cash on hand, \$1.7 billion in current assets and \$7.6 billion in total assets. The company had \$4.4 billion in revenues, \$202.4 million net income and \$670.4 million in cash flows. HealthSouth Corporation provided a commitment letter for funding the project. Based on HealthSouth Corporation's 10K report, and their commitment to fund this project, funding for this project should be available as needed. Costs are significantly understated and the project may not be financially feasible.
- The applicant projects managed care to represent 2.0 percent of its patient days. This is between the control group lowest and median levels of zero and 14.2 percent. The projected levels, if realized, will have no impact on competition to promote quality assurance and cost-effectiveness.

Architectural Analysis:

SemperCare Hospital of Panama City, Inc. (CON #9529):

- The applicant proposes to lease space on the third floor of Bay Medical Center (BMC) to establish a long-term care facility. The application narrative indicates that only part of the floor will be leased to the new hospital, and the space is currently partly occupied by several functions of Bay Medical Center including a skilled nursing unit.
- There are three elevators and one stairwell within the area proposed for the long-term hospital space. Two of the elevators will have to be shared by BMC and the SemperCare facility since they are within the proposed leased space. Also, patients in other parts of the floor might have to exit through the LTAC Hospital and the LTACH patients might have to exit through Bay Medical Center in case of an emergency. This is not ideal, but is actually no different from the existing situation, assuming that there are no new barriers being constructed. There will be seven semi-private rooms and 15 private rooms and the obvious support spaces. Several of the patient rooms have wheelchair-accessible showers. There are two nurse stations, which have at least the minimum ancillary spaces. There will be a family waiting and a rehabilitation therapy space added as well as several more ancillary spaces. Part of the construction budget will be utilized to build fire-rated walls separating the SemperCare facility from BMC.
- The lessee also plans to purchase a number of services from BMC, which are itemized on Pages 28 and 29 of Schedule B.

CON Action Numbers: 9529 & 9530

- There is no demolition plan on the drawings, but the narrative explains fairly clearly what is to be accomplished to establish the long-term care hospital. The renovation appears reasonable and the cost per square foot is within the broad range of health care construction costs.
- The fact that patients and staff of each hospital may have to exit through the other hospital is the only drawback to this proposal.
- The applicant provided two lists of most common applicable codes, but they are inaccurate and will have to be revised if this project should proceed.

HealthSouth LTAC of Bay County, Inc. (CON #9530):

- The application proposes a 40,000 square foot facility with 18 semi-private and four private patient rooms. All rooms have their own toilet and they all are most likely accessible, although the typical 5'-0" diameter turning circle is not shown in all cases. 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 exceed spatial requirements.
- The list of applicable codes is inaccurate and will have to be revised when the project reaches design development. No reference is made to the disaster preparedness section of the Florida Building Code and Chapter 59A-3 of the Florida Administrative Code. The provisions regarding the site conditions and the construction requirements are crucial to the project. Since a site has evidently not been finally selected, it is imperative that the applicant be aware of these code issues before the beginning of the design development process and ideally before the selection of the site. No site information was provided.

CON Action Numbers: 9529 & 9530

- The floor plan is virtually identical to several proposed facilities reviewed for other CON applications. It is obvious from the number of times that this floor plan has been submitted for review that the building was originally designed as a rehabilitation hospital. Some spaces are still labeled as if that were still the case. The applicant should verify how some of these obvious rehabilitation spaces will be used for a long-term care facility. There is a very large area for physical therapy central to the facility and it is not indicated what this space will be used for unless the new facility will have a strong rehabilitation program. In addition to the large therapy space, there are many other spaces that are tailored for a rehabilitation facility. For a long-term care hospital, it does not appear that many of these spaces are needed, unless the applicant is entertaining the idea that the facility might be converted to a rehabilitation hospital in the future.
- 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 nearby. An ADL area containing a bedroom, kitchen and bath are included. There is also an assisted bathing area. 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.
- Schedule 10 indicates that the architect/engineer contracts are expected to be signed by June, 2002 (which is premature) and the projected completion date is March, 2004. This time frame is quite short, with only one year and two months estimated for actual construction after the AHCA Plans & Construction Office approval of the construction documents.

G. RECOMMENDATION

Deny CON #9529 and CON #9530.

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