

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

HealthSouth of Largo Limited Partnership/CON #9537
d/b/a HealthSouth Rehabilitation Hospital
One HealthSouth Parkway
Birmingham, Alabama 35243

Authorized Representative: Loree Skelton, Esq. & Thomas Panza, Esq.
(205) 967-7116

2. Service District/Subdistrict

District 5 (Pasco and Pinellas Counties)

B. PUBLIC HEARING

Although no public hearing was requested, the Agency received seven letters of support for the proposed project. Six of these letters are from medical doctors affiliated with Orthopedic Associates of West Florida, P.A., expressing essentially the same message of support for the project and attesting to the quality of care provided at the facility. The seventh letter is from the owner of KAST Orthotics and Prosthetics, also supporting need and confirming the quality care provided at the facility.

The applicant included another 28 letters of support in the application. Fourteen of these letters are from medical doctors, three are from case workers/social workers, one from the Mayor of the City of Largo and another from a city commissioner. The four remaining letters were from various advocacy groups. The consensus of these support letters was there is need for more beds and for the quality of care provided by the hospital. There were no letters from patients or former patients included in the application.

C. PROJECT SUMMARY

HealthSouth of Largo Limited Partnership (CON #9537) consists of the one percent general partner, HealthSouth Real Property Holding Corporation, a wholly-owned subsidiary of HealthSouth Corporation (HRC), and the 99 percent limited partner, HRC. The partnership operates HealthSouth Rehabilitation Hospital, a 70-bed Class III specialty rehabilitation hospital, located at 901 N. Clearwater/Largo Road in Largo, Pinellas County, Florida. The applicant currently provides inpatient and outpatient comprehensive medical rehabilitation (CMR) services. The applicant is proposing the addition of 20 CMR beds to its existing 70 CMR bed facility, resulting in a total of 90 CMR beds.

As a condition of the approval, the applicant proposes "Three percent Medicaid and charity care combined". Applicants typically agree to condition award of the CON upon providing a percentage of the patient days in a facility or in new beds to a particular population group. Year one pro-forma show five percent of the patient days in the 90 beds are expected to serve Medicaid patients.

There are two existing conditions at the facility pursuant to the approval of CON #s 2298 (40 CMR beds) and 6932 (20 CMR beds) that each carry a three percent Medicaid/charity condition, plus approval of CON #9006 for 10 CMR beds without a condition. When all outstanding certificates of need are blended with the proposed 20-bed project, the result is a new "blended " of 2.67 percent of total annual patient days to be provided to Medicaid/charity patients for the 90-bed facility.

The total project cost is estimated at \$2,505,687. Renovation/ construction costs are projected to be \$1,543,560 to renovate 10,252 GSF of existing space. No new space is indicated for the project.

D. REVIEW PROCEDURE

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

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

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

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

E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA

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

1. Fixed Need Pool

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

In Volume 28, Number 4, dated January 25, 2002 on page 375 of the Florida Administrative Weekly, a fixed need pool of zero beds was published for comprehensive medical rehabilitation beds in District 5 for the July 2007 planning horizon.

District 5 has 170 licensed and zero CON-approved comprehensive medical rehabilitation beds. The comprehensive medical rehabilitation beds in District 5 experienced an average occupancy rate of 66.17 percent during the period July 2000 through June 2001. The applicant is applying outside of the fixed need pool.

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

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

District 5 has 170 licensed comprehensive medical rehabilitation beds that experienced an average occupancy rate of 66.17 percent during the period July 2000 through June 2001:

District 5 CMR Occupancy Rates
July 2000 - June 2001

Facility	County	Number of CMR beds	Occupancy % (07/00 - 6/01)
North Bay Hospital	Pasco	20	67.49%
Bayfront Medical Center	Pinellas	60	40.37%
HealthSouth Rehab Hospital	Pinellas	70	95.31%
Sun Coast Hospital	Pinellas	20	43.53%
Total/Average		170	66.17%

Source: Florida Hospital Bed and Service Utilization by District - January 25,2002

- c. **Chapter 59C-1.039(5)(e): Special Circumstances for Approval of Expanded Capacity at Hospitals with Licensed Comprehensive Medical Rehabilitation Inpatient Services.**
1. **Subject to the provisions of paragraph (7)(b) of this rule and subparagraph 2. of this paragraph, need for additional comprehensive medical rehabilitation inpatient beds is demonstrated at a hospital with licensed comprehensive medical rehabilitation inpatient services in the absence of need shown under the formula in paragraph (5)(c), and regardless of the most recent average annual district occupancy rate determined under paragraph (5)(d), if the occupancy rate of the hospital's licensed comprehensive medical rehabilitation inpatient beds was at least 90 percent for at least two consecutive calendar quarters during the 12-month period ending six months prior to the beginning date of the quarter of the publication of the fixed bed need pool; and at least one of the following conditions is also met:**
 - a. **The applicant submits evidence that it has a specialty inpatient rehabilitation service that is not available elsewhere in the district, and the applicant's high occupancy occurred in the specialty rehabilitation service beds; or,**
 - b. **The applicant is a disproportionate share hospital as determined consistent with the provisions of Section 409.911, Florida Statutes, and the applicant submits evidence that it has been providing both Medicaid and charity care days in its comprehensive medical rehabilitation inpatient beds.**

The applicant demonstrates that HealthSouth Rehabilitation Hospital in Largo is accredited by CARF for Comprehensive Integrated Inpatient Rehabilitation Programs, Hospital (Adult). The applicant did not demonstrate that CMR services it provides are not available elsewhere in the district. The applicant elected not to apply for redesignation

as a spinal cord injury program sanctioned through the Department of Health, therefore the Department of Health does not endorse the addition of beds at HealthSouth Rehabilitation Hospital in Largo Bayfront Medical Center is a State designated Spinal Cord Injury facility located within the same service area as the applicant.

HealthSouth Rehabilitation Hospital in Largo is not a disproportionate share provider and according to the applicant, "nor can it be based on its specialty designation".

- c. **The maximum number of additional comprehensive medical rehabilitation inpatient beds, which may be approved at an applicant's facility under the provisions of subparagraph 1. shall not normally exceed the number determined in accordance with the following formula: $ADD = ((HPD/PD) \times PPD / (365 \times .85)) - HLB - HAB$.**

HealthSouth Rehabilitation Hospital experienced utilization in excess of 90 percent for all four quarters of the target window period to qualify for additional beds pursuant to the special circumstances provision of the CMR Rule.

**HealthSouth Rehabilitation Hospital
Target Window Utilization
July 2000 - June 2001**

Quarter	Licensed Beds	Bed Days	Patient Days	Occupancy Percent
3/2000	64	5,888	5,663	96.18%
4/2000	70	6,182	5,782	93.53%
1/2001	70	6,300	5,850	92.86%
2/2001	70	6,370	6,284	98.65%
Total/Average		24,740	23,579	95.31%

Source: AHCA Publication; Florida Hospital Bed and Service Utilization by District, Volume II, 01/25/02

The applicant applied the formula contained in the CMR Rule to determine the number of additional CMR beds it may be approved for under this provision. Based on the calculation of the ADD formula, the applicant determined it is eligible for 11 additional CMR beds. However the reason for requesting 20 new CMR beds (nine more than the formula) is based on high occupancy at the facility, the closing of a skilled nursing unit at an area HCA facility and deferred or delayed admissions based on high occupancy. According to the January 25, 2002 publication by the AHCA, *Florida Hospital Bed Need Projections by District, Volume I*, there have been 58 hospital-based skilled nursing beds

converted to acute care use during this reporting period. Referring to the closing of the HCA skilled nursing unit, the applicant specifically states that; "With an average daily census exceeding 10 patients, physicians report these patients are going without and need an appropriate venue for discharge and comprehensive rehabilitation services." It should be noted that none of the hospitals, which converted HBSNU beds to acute care use, offered CMR services. Furthermore if the high utilization, experienced at HealthSouth Rehabilitation Hospital were taken out of the mix of CMR beds in the district, the remaining 100 CMR beds in acute care hospitals would have an average annual occupancy of 46.43 percent utilization, based on patient days reported in July 2000 - June 2001. If utilization were to remain at the same level as this reporting period, the addition of 11 beds at HealthSouth Rehabilitation Hospital would drop the utilization to 79.75 percent. The addition of 20 beds to the existing 70 beds would drop utilization at HealthSouth Rehabilitation Hospital to 71.78 percent. The applicant did not propose a partial/alternate project to its request to add 20 new CMR beds to the existing 70-bed facility.

The applicant did not demonstrate a need for 20 new CMR beds in District 5, based on rule criteria.

2. Local Health Plan Preferences

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

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

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

The following chart compares the percent of Medicaid and charity care provided among the licensed acute care hospitals in District 5, for fiscal year 2000.

CMR Inpatient Services in District 5 Hospitals

District 5 Hospitals	No. Beds	Medicaid %	Charity %
Pasco County			
North Bay Hospital	20	5.8%	0.9%
Pinellas County			
Bayfront Medical Center	60	13.5%	4.8%
HealthSouth Rehabilitation Hospital	70	4.3%	0.0%
Sun Coast Hospital	20	7.4%	0.9%
District Average		9.9%	2.4%

Source: Agency Financial Reporting Records.

As a condition of the approval, the applicant proposes to condition the project for "Three percent Medicaid and charity care combined". The applicant is not a Medicaid disproportionate share provider.

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

The applicant contends that it has historically provided care to all persons who meet medical guidelines for admission. The applicant further states that to the extent any such infected persons are referred for admission, it will admit the individual as long as she/he meets admission requirements. The applicant does not define "admission requirements". The applicant did not indicate how many HIV infected persons it has treated in the past. District 5 has 4.6 percent of the total reported cases HIV/AIDS cases in the state since reporting began, through December 2000. The applicant did not agree to be conditioned for the provision of care to HIV/AIDS patients.

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

The Agency determined that there was no need for additional CMR beds in the district, however the applicant applied for 20 CMR beds through the special circumstances provision of the rule.

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

The applicant is a specialty CMR hospital and is operating in excess of 90 percent occupancy therefore there are no beds available for conversion.

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

The applicant states that it has "transfer and admitting relationships" with 18 area hospitals and 19 area nursing homes, however no transfer agreements were provided in the application.

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

The applicant states that it has historically provided care to all persons who meet medical guidelines for admission, including hard-to-place patients. As previously noted the applicant does not reveal its admission requirements.

3. Agency Rule Criteria

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

(3) General Provisions:

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

HealthSouth of Largo is an existing 70-bed specialty hospital.

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

HealthSouth of Largo is an existing 70-bed CMR specialty hospital. The applicant seeks to expand the facility by 20 comprehensive medical rehabilitation beds for a total licensed capacity of 90 CMR beds.

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

The applicant is currently licensed for 70 CMR beds.

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

Also see response to E.1.a. above and E.4.a., below.

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

HealthSouth of Largo is a participating provider in the Medicare and Medicaid programs and intends to maintain this status for the proposed 20 new CMR beds.

(4) Required Staffing and Services.

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

The hospital's medical director is Richard A. Liles, M.D., a psychiatrist who is board-certified by the American Board of Physical Medicine and Rehabilitation. Dr. Liles has been the medical director/psychiatrist at the hospital since 1989.

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

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

HealthSouth of Largo is an existing provider of CMR services and provides a range of services that exceed the minimum requirements and intends to increase staffing to continue this level of care in the proposed new beds.

(5) Criteria for Determination of Need:

- (a) Bed Need. A favorable need determination for proposed new or expanded comprehensive medical rehabilitation inpatient services shall not normally be made unless a bed need exists according to the numeric need methodology in paragraph (5)(c) of this rule.**

See response to E.1. Fixed Need Pool, above.

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

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

- (7) **Quality of Care:**

- (a) **Compliance with Agency Standards. CMR inpatient services shall comply with the agency standards for program licensure described in section 59A-3, Florida Administrative Code. Applicants who submit an application that is consistent with the agency licensure standards are deemed to be in compliance with this provision.**

The applicant states that it is compliance with agency standards for program licensure and is JCAHO and CARF accredited.

- (8) **Service Description. An applicant for CMR inpatient services shall provide a detailed program description in its certificate of need application including:**

- (a) **Age groups to be served.**

An analysis of the age groups served by the applicant indicates the average age of its patients is 72.8 with the majority of patients being in the 65 and older age cohorts. The applicant does not anticipate a change in the age group served as a result of adding 20 CMR beds.

- (b) **Specialty inpatient rehabilitation services to be provided.**

The applicant states that it is devoted exclusively to providing CMR services and offers the broadest range of specialty rehabilitation services in the district. Programs and services currently provided by the applicant include: brain injury program; spinal cord injury rehabilitation program; pulmonary rehabilitation program; lymphedema management program; cardiac rehabilitation program; cardiac telemetry services; neurological rehabilitation program; aquatic therapy program; arthritis program; wound care program; laminectomy program; orthopedic rehabilitation program; stroke rehabilitation program; hand rehabilitation program; balance and vestibular program; and the chronic pain management program.

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

The hospital's medical director is Richard Liles, M.D., a board-certified psychiatrist. His resume is provided in the application (Volume 3., Tab 18). The applicant provided the names and a brief profile of key administrative and programmatic personnel. Resumes of professional staff are provided in Volume 4., Tab 26, of the application. The applicant reports that the hospital is currently fully staffed with trained, qualified professionals. Schedule 6 of the application lists 231.95 FTEs for the 70 licensed beds and 31.8 FTEs for the proposed 20-bed addition. The staffing ratio for the new beds (1.59 FTEs) is less than half of the ratio for the existing 70 beds (3.31 FTEs). Assuming the 20-bed addition is approved and the proposed staffing is implemented, the overall staffing ratio will drop to 2.93 FTEs for the 90-bed facility.

- (d) **A plan for recruiting staff, showing sources of staff.**

In addition to its existing recruitment and retention plan, which includes such things as job fairs, open houses, career days, referral bonuses, and advertising in local newspapers, the applicant is acutely aware of the need to put forth special efforts to attract staff required for the various rehabilitation programs and has initiated a number of innovative approaches which are listed on page 46 of the application (Volume 1).

HealthSouth Corporation, the parent, has national affiliation agreements with more than 750 universities and colleges that include health professional education programs involving medical schools, schools of nursing, local vocational/technical schools and graduate programs for psychologists, physical therapy, occupational therapy, speech therapy and therapeutic recreation, all available to the applicant's facility. The applicant provided a list of some of the educational affiliations on page 47 of the application (Volume 1).

(e) Expected sources of patient referrals.

The applicant states that it currently receives referrals from 18 area hospitals, 19 area nursing homes (see page 48 of application for facility names) and numerous of its outpatient facilities throughout the district. The referral base is not expected to change as a result of the proposed 20 CMR bed addition.

(f) Projected number of CMR inpatient services patient days by payer type, including Medicare, Medicaid, private insurance, self-pay and charity care patient days for the first two years of operation after completion of the proposed project.

Based on projected patient days the applicant anticipates a patient mix with 80 percent Medicare, five percent Medicaid, and 15 percent managed care, insurance and self-pay.

(g) Admission policies of the facility with regard to charity care patients.

The applicant intends to condition the project on the provision of services to three percent combined Medicaid/charity care patients. The applicant states that it does not discriminate against any person and treats all patients regardless of their ability to pay should they meet clinical admission requirements. A definition of clinical admission requirements was not provided.

(9) Applications from Licensed Providers of Comprehensive Medical Rehabilitation Inpatients Services. A facility providing licensed CMR inpatient services seeking CON approval for additional CMR beds shall provide the following information in its CON application in addition to the information required by subsection (8):

(a) Number of CMR inpatient service admissions and patient days for the 12-month period ending six months prior to the beginning date of the quarter of the publication of the fixed bed need pool.

The applicant experienced 1,484 admissions and 23,457 patient days during the target time period July 1, 2000 - June 30, 2001.

**CMR Patient Days
July 1, 2000 - June 30, 2001**

Period	Occupancy	Patient Days
Third Quarter 2000	96.2%	5,663
Fourth Quarter 2000	94.0%	5,782
First Quarter 2001	92.9%	5,850
Second Quarter 2001	98.7%	6,284

Source: AHCA publication: Florida Hospital Bed and Service Utilization by District, Volume II, 01/25/02

- (b) **Number of comprehensive medical rehabilitation inpatient services patients days by payer type, including Medicare, Medicaid, private insurance, self-pay and charity care patient days, for the 12-month period ending six months prior to the beginning date of the quarter of the publication of the fixed bed need pool.**

**CMR Patient Days by Payor
July 1, 2000 - June 30, 2001**

Payor	Admissions	Patient Days
Medicare	1,190	18,739
Medicaid	38	717
Insurance/HMO/PPO	252	3,948
Charity	16	446
Other	6	52
Total	1,486	23,456

Source: Hospital records

- (c) **Gross revenue by payor source for the 12-month period ending six months prior to the beginning date of the quarter of the publication of the fixed bed need pool.**

**CMR Gross Revenue by Payor
July 1, 2000 - June 30, 2001**

Payor	Gross Revenue
Medicare	\$20,563,401
Medicaid	716,595
Insurance/HMO/PPO	4,336,640
Other	30,521
Total	\$25,647,157

Source: Hospital records

(d) Current Staffing.

The hospital's medical director is Richard Liles, M.D., a board-certified psychiatrist. The applicant provided the names and a brief profile of key administrative and programmatic personnel. Schedule 6 of the application lists 231.95 FTEs for the 70 licensed beds and 31.8 FTEs for the proposed 20-bed addition. The staffing ratio for the new beds (1.59 FTEs) is less than half of the ratio for the existing 70 beds (3.31 FTEs). Assuming the 20-bed addition is approved and the proposed staffing is implemented, the overall staffing ratio will drop to 2.93 FTEs for the 90-bed facility.

(e) Current specialty inpatient CMR services.

Programs and services currently provided by the applicant include: brain injury program; spinal cord injury rehabilitation program; pulmonary rehabilitation program; lymphedema management program; cardiac rehabilitation program; cardiac telemetry services; neurological rehabilitation program; aquatic therapy program; arthritis program; wound care program; laminectomy program; orthopedic rehabilitation program; stroke rehabilitation program; hand rehabilitation program; balance and vestibular program; and the chronic pain management program.

(10) Utilization Reports. Facilities providing licensed CMR inpatient services shall provide utilization reports to the agency or its designee.

The applicant currently participates in the data collection activities of AHCA and the local health council and also participates in the data collection activities in accordance with Chapter 408 of the Florida Statutes. The applicant commits to provide sufficient data to demonstrate compliance to the program condition associated with the proposed 20-bed addition.

4. Statutory Review Criteria

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

In reference to availability and extent of utilization, there are a total of 170 CMR beds in the district divided among four hospitals, including one specialty rehabilitation hospital. The only hospital in the district that demonstrated high utilization was the specialty CMR hospital, HealthSouth Rehabilitation Hospital, with 95.31 percent utilization for the reporting period, July 2000 through June 2001. The district's average occupancy rate was 66.17 percent during this period. The applicant did not demonstrate special circumstances to add 20-bed CMR beds. While accessibility of services for some CMR patients may be improved within the immediate service area of the applicant's facility, the applicant did not demonstrate services are not accessible to district residents. With average utilization of existing CMR beds at 66.17 percent, the addition of more CMR beds in the district will only exacerbate efficiency for CMR providers in the district. Refer to E. 4. b. below for further discussion on quality of care.

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

HealthSouth of Largo operates a 70-bed Class III specialty rehabilitation hospital in Largo, Pinellas County, District 5. The applicant provided copies of accreditation letters that show accreditation by the Joint Commission on Accreditation of Health Care Organizations (JCAHO) and by the Commission on the Accreditation of Rehabilitation Facilities (CARF).

According to the applicant, the hospital applies quality management and leadership principles to foster continued employee development, contributing to a higher level of quality care within the hospital.

Since December 1998 there have been four complaints filed with the Agency regarding the applicant's facility. All of the complaints have been closed and two were confirmed. One of the confirmed cases involved overcapacity, where the complainant states that the hospital occasionally exceeds its licensed capacity of 60 beds. The applicant has a history of providing quality care and has a high patient satisfaction response to its patient satisfaction surveys distributed to all discharged patients.

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

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

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

HealthSouth of Largo is not a statutory teaching hospital nor is the proposed project's primary purpose research or physician education. However, through its affiliation with HealthSouth Corporation, the applicant has access to one of the largest clinical training and development resources in the nation with more than 750 colleges and universities who conduct on-site clinical training at HealthSouth facilities.

- 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.**

The audited financial statements for HealthSouth of Largo Limited Partnership for the periods ending December 31, 2000 and 1999 were analyzed for the purpose of evaluating the applicant's ability to provide the capital and operational funding necessary to implement the project. The following is a list of accounts and ratios used in the analysis:

CON Action Number: 9537

	12/31/2000	12/31/1999
Current Assets	\$ 3,345,956	\$ 3,050,629
Cash and Current Investment	\$ 664	\$ 67,962
Assets Restricted for Capital Projects	\$ 0	\$ 0
Total Assets	\$ 17,816,166	\$ 17,346,626
Current Liabilities	\$ 402,777	\$ 499,576
Total Liabilities	\$ 11,202,777	\$ 11,299,576
Total Equity	\$ 6,613,389	\$ 6,046,050
Net Operating Revenues	\$ 16,201,013	\$ 15,725,804
Interest Expense	\$ 760,946	\$ 647,549
Net Profit - Operations	\$ 567,339	\$ 254,814
Net Income	\$ 567,339	\$ 254,814
Cash Flow from Operations	\$ 795,169	\$ 1,080,689
Working Capital	\$ 2,943,179	\$ 2,551,053
Current Ratio (CA/CL)	8.3	6.1
Cash Flow to Current Liabilities (CFO/CL)	2.0	2.2
Long-Term Debt to Equity (TL-CL/TE)	1.6	1.8
Times Interest Earned (NPO+Int/Int)	1.7	1.4
Equity to Total Assets (TE/TA)	37.1%	34.9%
Operating Margin (NPO/NOR)	3.5%	1.6%
Total Margin (NI/NOR)	3.5%	1.6%
Return on Assets (NI/TA)	3.2%	1.5%
Operating Cash Flow to Assets (CFO/TA)	4.5%	6.2%

Short-term position:

HealthSouth of Largo's current ratio of 8.3 and the ratio of cash flow to current liabilities of 2.0 are both in the upper 20th percentile of Florida hospitals, a strong position. The working capital (current assets less current liabilities) of \$2.9 million is acceptable in relation to the entity's size. The applicant has a strong short-term position.

Long-term position:

The ratio of long-term debt to equity of 1.6 is above the average, while the ratio of cash flows to assets of 4.5 percent is below average compared to other Florida hospitals. The most recent year had an operating profit of \$567.3 thousand, resulting in an operating margin of 3.5 percent, an above average position. Total equity is \$6.6 million with the ratio of equity to assets 37.1 percent, below average, but an acceptable position. Overall, the long-term position of this hospital is acceptable.

Capital requirements:

Schedule 2 indicates capital projects of \$6.8 million. This did not include future minimum payments under non-cancelable operating leases of \$414.6 thousand through year one of the project, which would increase the funded need to \$7.2 million.

Available capital:

Funding for these projects will come from \$4.33 million from operating cash flows and \$2.5 million from funds assured but not in hand. The audited financial statements show \$654 in cash on hand, and \$795 thousand in annual cash flows, or \$2.4 million through year one of the project.

HealthSouth of Largo Limited Partnership is a wholly owned subsidiary of HealthSouth Corporation, which provided a commitment letter for funding the project. The letter stated HealthSouth Corporation has \$1 billion available under a line of credit. HealthSouth Corporation's 10K report disclosed \$180.43 million in cash and \$7.4 billion in assets as of December 31, 2000, and net income for that year of \$278.5 million.

Conclusion:

Based on the audited financial statements of the applicant, cash flows would be insufficient to fund all projects as proposed. Funding for this project, with the support of the parent, should be available as needed.

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

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

Comparative data were derived from hospitals in peer groups that reported data in 2000; the applicant will be compared to the hospitals in peer group 18. 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 \$597 in year one and \$629 in year two is near the control group median value of \$594 in year one and \$612 in year two. The highest level is generally viewed as the practical upper limit on economies of operation. With net revenues falling near the median, the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table). The 2000 actual NRAPD for this hospital was \$541, between the group lowest and median values of \$522 and \$562 in that year.

Projected cost per adjusted patient day of \$477 in year one and \$493 in year two is between the group lowest and median values of \$404 and \$616 in year one and \$416 and \$635 in year two. (See Comparative Table). Compared to the control group these costs are efficient. The 2000 actual data reported for this hospital's costs per adjusted patient day was \$539, the lowest value reported.

The year two operating profit for the hospital of \$5.3 million computes to an operating margin per adjusted patient day of \$136 which is above the control highest value of \$122. The computed operating margin ratio is 21.6 percent. This estimate is significantly greater than the 3.8 percent total margin reported in 2000. In addition, Schedule 8 contained computational errors that resulted in understating expenses (and overstating profit) on that schedule. The projected margin is likely overstated.

This project appears financially feasible at a lower profit margin.

Comparative Table

CON # 9537 HEALTHSOUTH of Largo L.P. 2000 DATA Peer Group 18	2004	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	35,842,275	910	796	397	232
INPATIENT AMBULATORY	0	0	6	0	0
INPATIENT ANCILLARY SERVICES	0	0	1,514	714	460
OUTPATIENT SERVICES	12,391,870	315	524	158	15
OTHER OPERATING REVENUE	0	0	34	4	0
TOTAL REVENUE	48,234,145	1,225	2,834	1,282	928
DEDUCTIONS FROM REVENUE	23,476,152	596	*	*	*
NET REVENUES	24,757,993	629	1,022	612	408
EXPENSES					
ROUTINE	3,924,812	100	257	107	65
ANCILLARY	3,154,445	80	265	155	92
AMBULATORY	1,752,681				
OVERHEAD	10,586,390	269	436	361	259
OTHER	0	0			
TOTAL EXPENSES	19,418,328	493	905	635	416
OPERATING INCOME	5,339,665	136	122	-16	-114
		21.6%			
PATIENT DAYS	29,259		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	39,375		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	32,850				
ADJ. FACTOR	0.7431				
TOTAL NUMBER OF BEDS	90				
PERCENT OCCUPANCY	89.1%		99.4%	87.8%	30.3%
PAYER TYPE	PATIENT				
	DAYS	% TOTAL			
MEDICARE	23,407	80.0%	86.7%	77.8%	42.7%
COMMERCIAL	0	0.0%			
MEDICAID	1,463	5.0%	13.9%	4.4%	0.7%
PRIVATE	0	0.0%			
HMO/PPO	4,389	15.0%	30.5%	10.7%	0.0%
OTHER	0	0.0%			
TOTAL	29,259	100.0%			

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

The applicant projects managed care to represent only 15.0 percent of its patient days. This is above group median level of activity of 10.1 percent and the HealthSouth of Largo's reported level of 0.0 percent in 2000. The projected levels, if realized, will have a positive impact on competition to promote quality assurance and cost-effectiveness.

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

HealthSouth Largo proposes to add 20 CMR beds to its 70 licensed bed facility in Largo. Part of the space required for the new beds and their ancillary spaces will be gained by modifying an existing outpatient therapy gym, the clinic and some related offices. The floor plan included in the application shows only the proposed layout. There is no other indication as to what the existing functions for the balance of the project are. The 10 added rooms will be semi-private and each room has its own toilet/shower.

The large-scale plans of typical patient toilet rooms do not show the 5'-0" diameter turning radius in these toilet rooms and they are required to be completely accessible. They appear to be large enough to accommodate the radius, but the circle that is usually shown is not on the plans for the new rooms. The lavatories are located within the patient room itself, which is helpful in a semi-private situation.

Without knowing more about the existing conditions, it is not possible to determine the functions of the spaces that will be renovated to create the new patient bedrooms. It has been the Agency policy to accept a patient toilet room without the turning radius if the space is being used for or has been used for patients in the past. New beds created in existing spaces other than patient rooms must have the required radius.

The showers are large enough to accommodate a wheelchair and may actually have enough space for the turning radius. The application included a large scale plans of typical patient rooms. The kitchen is being expanded as part of this project and a medical records file room and office is also included. There is no indication as to what exists in the space for these new and expanded functions.

There is a list of applicable codes in the narrative and it is mostly correct with a few exceptions. The costs and the schedule appear reasonable for renovation of this scope.

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

The applicant demonstrates a history of services to Medicaid patients as shown in the following table.

Year	Medicaid Days	Medicaid Revenues
CY 1999	658	\$983,410
CY 2000	861	\$936,794
CY 2001	530	\$506,875
Three Year Total	2,049	\$2,427,079

Source: Application # 9537

Comparing Medicaid from the above table with annual utilization from Schedule 4 reveals the percent of Medicaid care provided, compared to total patient days of care to patients.

Year	Total Patient Days	Medicaid Days	Percent Medicaid
CY 1999	20,797	658	3.16%
CY 2000	22,253	861	3.87%
CY 2001	23,532	530	2.25%
Three Yr Avg	22,194	683	3.08%

Source: Application # 9537

The applicant states that it has not denied care to any person regardless of financial ability, however by virtue of its excess occupancy many patients have been denied/delayed access. The applicant has proposed to condition approval of the application to a combined three percent of patient days to Medicaid and charity care patients in the 20-bed addition.

F. SUMMARY

In Volume 28, Number 4, dated January 25, 2002 on page 375 of the Florida Administrative Weekly, a fixed need pool of zero beds was published for comprehensive medical rehabilitation beds in District 9 for the July 2007 planning horizon.

The applicant is seeking beds on the basis of the special circumstances provision of the Comprehensive Medical Rehabilitation Inpatient Services Rule (59C-1.039, Florida Administrative Code).

Need/Special Circumstances

HealthSouth of Largo is an existing 70-bed CMR Specialty Hospital seeking to expand the facility by 20 comprehensive medical rehabilitation beds.

The applicant exceeded 90 percent occupancy for all four quarters of the target window period to qualify for additional CMR beds under the special circumstances provision of the CMR rule. However the applicant did not demonstrate that it had a specialty inpatient rehabilitation service that is not available elsewhere in the district. Specifically the applicant is not a State designated spinal cord injury provider as determined by the Department of Health. The applicant is also not a disproportionate share provider and according to the applicant, "nor can it be based on its specialty designation". Once the occupancy standard is met the ADD formula is applied to determine the appropriate number of beds that may be approved at the applicant's facility, which in this case resulted a need for 11 new CMR beds and not the 20 CMR beds requested by the applicant.

Quality of Care

The applicant is accredited by the Joint Commission on Accreditation of Health Care Organizations (JCAHO) and by the Commission on the Accreditation of Rehabilitation Facilities (CARF). Since July 1998 there have been four complaints filed with the Agency regarding the applicant's facility. All of the complaints have been closed and two were confirmed. The applicant has a history of providing quality.

Medicaid/Indigent Care

As a condition of the approval, the applicant proposes to condition the project to provide three percent of total patient days to Medicaid/charity combined. The applicant has a history of service to Medicaid and charity care patients. Blending this proposed condition with the facility's existing conditions results in a condition of 2.67 percent of total annual patient days to be provided to Medicaid/charity patients for the 90-bed facility.

Financial Feasibility

Based on the audited financial statements of the applicant, cash flows would be insufficient to fund all projects as proposed. Funding for this project, with the support of the parent, should be available as needed. This project appears financially feasible at a lower profit margin.

Architectural

The applicant intends to add 20 new CMR beds through renovation of existing space. The 20 beds will be configured in 10 semi-private rooms and each room has its own toilet/shower. There is a list of applicable codes in the narrative and it is mostly correct with a few exceptions. The cost and schedule appear reasonable for renovation of this scope.

G. RECOMMENDATION

Deny CON #9537.

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