

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

HealthSouth LTAC of Sarasota, Inc. (CON #9548)

One HealthSouth Parkway
Birmingham, Alabama 35243

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

2. Service District/Subdistrict

District 8

B. PUBLIC HEARING

A public hearing was not held or requested with regard to the establishment of a long-term care hospital in Sarasota County. However, the application does contain 10 letters of support for the project, with the majority from area physicians attesting to the quality of care provided by HealthSouth and the need for additional long-term care beds to serve medically complex patients. A letter was also submitted and signed by the case management staff of Doctors Hospital, stating their support for the project.

C. PROJECT SUMMARY

HealthSouth LTAC of Sarasota, Inc. (CON #9548) proposes the establishment of a new 40-bed freestanding long-term care hospital to be located in Sarasota County, in close vicinity of HealthSouth of Sarasota, a comprehensive medical rehabilitation center. The primary focus of the proposed services will be on the respiratory and rehabilitation (brain injury and coma management) patients. The medically complex patients and possibly some cardiovascular patients will comprise a small portion of the patient population. The applicant is a wholly owned subsidiary of HealthSouth corporation, a publicly traded share corporation.

The project involves a total of 40,000 GSF of new construction and construction costs of \$6,386,000. Total project cost is stated to be \$12,739,345.

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

D. REVIEW PROCEDURE

The evaluation process is structured by the certificate of need review criteria found in Section 408.035, Florida Statutes. These criteria form the basis for the goals of the review process. The goals represent desirable outcomes to be attained by successful applicants who demonstrate an overall compliance with the criteria. Analysis of an applicant's capability to undertake the proposed project successfully is conducted by assessing the responses provided in the application, and independent information gathered by the reviewer.

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

Section 59C-1.010(2) (b), Florida Administrative Code, allows no application amendment information subsequent to the application being deemed complete. The burden of proof to entitlement of a certificate rests with the applicant. As such, the applicant is responsible for the representations in the application. This is attested to as part of the application in the Certification of the Applicant.

As part of the fact-finding, the consultant, Riley Gibson, analyzed the application in its entirety with consultation from the Financial Analyst, Doug Pierce, who evaluated the financial data, and the Architect, Joel Hill, who evaluated the architectural and the schematic drawings as part of the application.

E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA

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

1. Fixed Need Pool

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

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

Chapter 59C-1.002(44) of the Florida Administrative Code defines a long-term care hospital as a facility licensed under Chapter 395, which seeks exclusion from the Medicare prospective payment system for inpatient health. LTCHs typically serve patients with complex medical, nursing and therapeutic requirements that are beyond the capabilities of nursing homes and/or home care and outside of the services provided by rehabilitation hospitals. This type of care may be applied to the treatment of a wide variety of medical conditions. A recent historical study funded by CMS¹, 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.**

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. 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.

b.1. Population Demographics and Dynamics:

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

County	Total January 2002	Total January 2007	Percent Change	65+ Percent Change	75+ Percent Change
Charlotte	146,839	163,335	11.2%	6.7%	8.3%
Collier	272,952	313,968	15.0%	20.8%	29.4%
Desoto	33,215	37,828	13.9%	19.0%	22.7%
Glades	10,715	12,296	14.8%	21.2%	37.3%
Hendry	36,676	43,174	17.7%	24.7%	30.0%
Lee	463,967	509,144	9.7%	9.2%	11.3%
Sarasota	338,764	358,131	5.7%	6.7%	6.9%
Total District	1,303,128	1,437,876	10.3%	10.7%	13.1%

Source: AHCA Pop. Projections, 12/01

As shown above, the population in District 8 is expected to increase by 10 percent during the next five years, with the 65 and over age cohort growing by nearly 11 percent. As expected, the 75 and over population is expected to increase at an even higher rate (13.1 percent). This latter age group is likely to use the services of a long-term care hospital and stay longer than other age groups.

Sarasota County has one-third of the 75 and over population of the district.

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

There are no defined planning areas for long term care hospitals. Historically in Florida, existing long-term care hospitals have served areas larger than Agency defined districts. At the present time there are eight long-term care hospitals with 643 beds licensed to operate in the State of Florida. These facilities are concentrated in five of the 11 health planning areas: District 4 (Jacksonville and Clay County), District 5 (St. Petersburg), District 6 (Tampa) District 10 (Ft. Lauderdale and Hollywood) and District 11 (Miami). In addition, there are 29 long-term care hospital beds approved for space within Mercy Hospital (CON #9462) and a recently approved 40-bed LTCH approved for District 8 (CON 9499). This latter project was preliminarily approved for HealthSouth LTAC of Sarasota, Inc. in December 2001. However, at the present time, the project is subject to administrative challenge before the Division of Administrative Hearings (DOAH Case No. 02-0458, et al.). The proposed project represents a resubmittal of the preliminarily approved project.

State of Florida Long Term Care Hospital Inventory

AHCA District	Long-Term Acute Care Hospital	Number of beds	Occupancy Rate 7/2000-6/2001	Occupancy Rate CY 2000
4	Kindred, North Florida	60	88.39%	86.8%
4	Specialty/Jacksonville	107	53.23%	52.3%
5	Kindred, Bay Area – St. Pete	60	96.22%*	98.2%*
6	Kindred, Cent. Tampa	102	78.33%	83.1%
6	Kindred, Bay Area	73	63.45%	66.0%
10	Kindred, Hollywood	124	67.98%	66.7%
10	Kindred, Ft. Lauderdale	64	84.99%	91.3%
11	Kindred, Coral Gables	53	78.94%	88.3%
Total/average	8 Existing LTAC hospitals in State	643	73.25%	76.6%
11	Mercy Medical Dev. Inc. Approved CON #9462	29	CON approved	CON approved
8	HealthSouth LTAC of Sarasota CON #9499	40	CON approved	CON approved
5	Kindred, Bay Area – St. Pete	22	CON approved	CON approved

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

***As discussed above, this facility received CON #9488 to add 22 LTCH beds to its existing 60 beds and is expected to come on-line in December 2002.**

The average occupancy for the state long-term care facilities for the June-July 2001 reporting period was 73.25 percent, down from the previous CY average of 76.6 percent. The occupancy levels ranged from 53.23 percent (Jacksonville) to 96.22 percent (St. Petersburg). The most recent utilization data indicates that the average long term care occupancy statewide is now slightly less than the 75 percent occupancy rate normally considered efficient in an acute care hospital.

The nearest hospital to District 8 is the District 5 facility located in St. Petersburg. However, this facility is highly utilized with an average occupancy rate of 96.22 percent. This is slightly less than the 98.2 percent average occupancy reported for CY 2000 but still indicates a highly utilized facility. As shown above, the St. Petersburg facility recently received a CON to add 22 beds. The applicant further states that the District 10 and 11 facilities have an estimated travel time of nearly four hours from Sarasota, while District 6 facilities are up to 1 1/2 hours away and District 4 facilities are nearly five hours from Sarasota.

The applicant states that Kindred Hospitals (formerly Vencor) primarily focus on respiratory/pulmonary disorders, whereas other long-term care hospitals tend to provide a wider range of services to medically complex patients. The applicant appears to be referring to long-term care hospitals in states other than Florida. Kindred currently owns seven of the eight existing long-term care hospitals in the state. The only non-Kindred owned facility, Specialty Hospital Jacksonville, is located in District 4 and had the lowest occupancy of any LTCH in the state with an average occupancy of 53.23 percent. 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 concluding that the Kindred facilities (with the exception of Kindred-Central Tampa and Kindred-Hollywood) provide between 54 percent and 70 percent of total patient days to pulmonary patients. Overall, statewide, pulmonary patients account for between 52 percent of cases and 70 percent of total cases. As previously noted, the applicant intends to focus primarily on respiratory and rehabilitation (brain injury and coma management) patients and not pulmonary patients.

A review of the aggregate discharge data summary report for the state for LTCH's for the period July 2000-June 2001 show a total of 129 LTC discharges from District 8. These District 8 discharges represent approximately three percent of total statewide LTC discharges for the time period (4,203 total statewide discharges). With an average length of stay (ALOS) of 43.18 days, LTCH's in the state experienced a total of 181,486 total patient days. District 8 LTC patient discharges accounted for 5,570 total patient days for the July through June reporting period.

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

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.

The applicant states its intention to develop and implement inpatient programs that will include, but not be limited to, the following:

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

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.

b.4. Market conditions:

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

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 currently 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.

Numeric Need Analysis

In view of the fact that AHCA has not developed a need formula to determine the number of beds required to meet long-term care hospital needs, the applicant attempts to quantify the number of long-term care hospital beds that can be supported by the District 8 population by using the following methods:

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.

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

None of these methodologies are supported with documentation, such as physician's letters indicating that a specific number of patients had to be kept in the acute care hospital when long-term care was more appropriate, which show there is an access problem to long-term care in the area. Bed need determined by these methodologies show need for over 100 beds in the district. The applicant's fifth methodology was analyzed using data reported to the Agency. As discussed earlier under b.2. of this section under availability and utilization, 129 District 8 residents were seen in long-term care hospitals in Florida, with the majority of these seen in long-term care hospitals in the Tampa/St. Petersburg area. As previously shown, occupancy in these three hospitals for the June 2000-July 2001 reporting period was as follows:

Tampa/St. Petersburg Area Long-Term Care Hospital June 2000-July 2001 Utilization		
<i>Hospital</i>	<i># Beds</i>	<i>Occupancy</i>
Kindred – Bay Area	60	96.2%*
Kindred – Central Tampa	102	78.3%
Kindred – Hillsborough	73	63.5%

Source: *Florida Hospital Bed and Service Utilization by District, Volume II, 1/25/02*

Although Kindred's Bay Area hospital is experiencing high occupancy, the other two area long-term care hospitals are not. As noted earlier, 22 beds have been approved for this facility and can be expected to be on-line in December of 2002. However, as the applicant contends, data suggest that area residents may be choosing to remain in acute care hospitals rather than be transferred to a long-term care hospital.

As noted earlier this application was preliminary approved in the last hospital batching cycle. Information presented in the previous batched review indicated that some portion of the District 8 population needing LTCH services was not receiving them.

2. Local Health Plan Preferences

Is need for the project proposed supported by the applicable district plan? ss. 408.035(1)(a), Florida Statutes and Ch. 59C-1.030, Florida Administrative Code.

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

3. Agency Rule Preferences

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

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

4. Statutory Review Criteria

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

The applicant states that availability and accessibility will be improved as a result of the project since there are currently no long-term care hospitals in District 8 and short-term acute care hospitals are inappropriate locations for long-term acute care patients. The applicant contends that with the closest long-term care hospital being heavily utilized, facilities within the state are on average in excess of three hours from the proposed location and area residents. It is again noted that Kindred's St. Petersburg facility, the most heavily utilized facility in the area, was recently approved to add 22 long-term care beds.

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

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

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

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

- c. Is the applicant proposing special health care services for its service area that are not reasonably and economically accessible in adjacent service areas? ss. 408.03593), 408.035(12), Florida Statutes.**

The proposed project will not provide special health care services within the proposed service area that are not reasonably and economically accessible in adjacent service areas. Long-term care hospitals in Florida have historically served areas larger than districts.

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

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

- e. What resources, including health manpower, management personnel and funds for capital and operating expenditures are available for project accomplishment and operation? ss. 408.035(1)(h), Florida Statutes.**

HealthSouth LTAC of Sarasota, Inc. (CON #9548) (the Company) is a for-profit health care corporation, which is a controlled entity of HealthSouth Corporation, (the Parent). The company was formed to develop and operate a 40-bed long-term acute care hospital in Sarasota, Florida (Sarasota County). Initial project cost is \$12,739,345 with initial operating costs being \$7,267,329 in year one and \$7,982,172 in year two.

The audited financial statements for the periods were reviewed to assess the financial position as of the balance sheet date and the financial strength of its operations for the period presented.

HealthSouth LTAC of Sarasota, Inc, is a development stage enterprise, incorporated for the purpose of developing and operating a long-term acute care hospital. The applicant presented financial statements for the year ending December 31, 2001 that consisted of a balance sheet with no assets and no equity. The financial statements reflect limited transactions normally associated with organizational activities, but contain no results from operations

Capital requirements:

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

Staffing:

According to Financial Schedule 6A, the applicant anticipates that 118.95 FTE staff will be required for the first year of operation, increasing to 126.75 FTE staff in year two. The applicant indicates that the salaries and benefits for the proposed staffing is based upon current staffing levels of HealthSouth's experience in S.W. Florida projected forward to future years. The applicant did not discuss any recruitment methods that will be used to attract the required number of professional staff; i.e. registered nurses, licensed practical nurses, aides, and ancillary positions.

Available capital:

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

f. What is the immediate and long-term financial feasibility of the proposal? ss. 408.037(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 management skills of the applicant). In general, projections that approximate the median are the most desirable, and balance the opposing forces of feasibility and efficiency. In other words, as estimates approach the highest in the group, it is more likely that the project is feasible, because fewer economies must be realized to achieve the desired outcome. Conversely, as estimates approach the lowest in the group, it is less likely that the project is feasible, because a much higher level of economies must be realized to achieve the desired outcome. These relationships hold true for a constant intensity of service through the relevant range of outcomes. As these relationships go beyond the relevant range of outcomes, revenues and expenses may, go either beyond what the market will tolerate, or may decrease to levels where activities are no longer sustainable.

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. 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 revenue estimates to the control group values, based on the reasonable cost-based reimbursement system, provide a rational basis for evaluating estimated revenues.

Comparative data for overall acute care services were derived from hospitals in peer groups that reported data in 2000. The hospital's projected data will be compared to hospitals in peer group 12 (LONG TERM SPECIALTY). Per diem, rates are expected to increase by an average of 3.5 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index. As the applicant did not report the dates for first and second years of operation on Schedule 7, the inception of service date of May 2004 was derived from construction Schedule 10.

Since all existing HEALTHSOUTH hospitals, as well as the parent corporation itself, operate on a calendar year basis, we have set the first and second operational years as May-December 2004 and January-December 2005 to use for a basis of comparison.

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

Net revenue per adjusted patient day of \$637 in year one and \$775 year two is below the control group lowest level of \$699 in year one and between the median and the lowest level of \$927, and \$720 in year two. The median is generally viewed as the ideal or the balance between economy and feasibility. In year two, with net revenues per adjusted patient day falling between the median and the lowest level, the hospital is expected to consume health care resources in slightly lesser proportion to the services provided. However, based on what seems to be optimistic occupancy projections of 84.3 percent in the first year and 87.6 percent in the second, the revenue estimates appear to be overstated.

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Projected cost per patient day of \$589 in year one and \$623 in year two fall below the lowest values of \$724 in year one and of \$745 year two. The projections are not considered to be cost-efficient when compared to the control group, as they project efficiencies that no other providers have realized. Reduction of costs to this level may well jeopardize patient care. Expenses appear to have been underestimated.

The year two operating profit of \$1,953,347 produces an operating margin of \$152 per patient day. This falls between the median of \$4 and the highest level of \$219 in year two. This operating margin computes to a 19.7 percent that is significantly above the 80th percentile for all hospitals of 10.8 percent. The underestimation of expenses is, in part, responsible for the excessive margin. Actual profits are not likely to be as high as projected.

The parent corporation apparently has adequate financial resources, to fund the project and it appears to be feasible. However, the projected level of occupancy in both years seems to be somewhat optimistic and it follows from this assumption, that revenue may also have been overstated. Also, as previously stated, cost projections appear to be severely understated. If the optimistic revenue projections are not achieved and actual costs are significantly above estimates, the projected profits in both years will disappear. This project is not financially feasible if the projected levels of revenue and expense are not achieved and sustained.

Occupancy rates for the specialty hospital group range from a low of 55.5 percent to a high of 97.3 percent. The average occupancy rate for this group is 79.0 percent.

Financial Comparison Table

PEER GROUP 12

	2005	YEAR 2	INFLATION ADJ. VALUES		
	YEAR 2	ACTIVITY	Highest	Median	Lowest
	ACTIVITY	PER DAY			
ROUTINE SERVICES	6,038,384	471	790	629	477
INPATIENT AMBULATORY	0	0	5	0	0
INPATIENT SURGERY	0	0	0	0	0
INPATIENT ANCILLARY SERVICES	11,838,702	923	3,495	2,521	1,504
OUTPATIENT SERVICES	0	0	157	3	0
TOTAL PATIENT SERVICES REV.	17,877,086	1,394	4,141	3,135	2,191
OTHER OPERATING REVENUE	36,000	3	6	2	0
TOTAL REVENUE	17,913,086	1,397	4,147	3,137	2,191
DEDUCTIONS FROM REVENUE			*	*	*
NET REVENUES	9,935,520	775	1,654	927	720
EXPENSES					
ROUTINE	2,147,897	168	388	219	182
ANCILLARY	1,752,403	137	461	209	200
AMBULATORY	0	0	0	0	0
TOTAL PATIENT CARE COST	3,900,300	304	849	428	382
ADMINISTRATIVE & OVERHEAD	2,053,598	318	836	379	313
PROPERTY	2,028,275	*	*	*	*
TOTAL HOSPITAL EXPENSE	7,982,173	623	1,448	811	761
OTHER OPERATING EXPENSE	0	0	0	0	0
TOTAL EXPENSE	7,982,173	623	1,664	805	745
OPERATING INCOME (MARGIN)	1,953,347	152	219	4	-55
PERCENT OPERATING MARGIN	19.7%				
PATIENT DAYS	12,795		<u>PERCENTAGES NOT INFLATION</u>		
ADJUSTED PATIENT DAYS	12,821		<u>ADJUSTED</u>		
TOTAL BED DAYS AVAILABLE	14,600				
ADJ. FACTOR	0.9980				
TOTAL NUMBER OF BEDS	40				
PERCENT OCCUPANCY	87.6%		98.2%	85.0%	52.4%
PAYER CLASS					
	PATIENT	PERCENT			
	DAYS	OF			
		TOTAL			
SELF-PAY	172	1.3%	9.3%	1.4%	0.1%
MEDICAID	611	4.8%	16.9%	0.4%	0.0%
MEDICAID HMO	0				
MEDICARE	9,623	75.2%	95.7%	74.1%	56.9%
MEDICARE HMO	0				
INSURANCE	1,612	12.6%			
HMO/PPO	561	4.4%	19.6%	14.2%	0.0%
OTHER	216	1.7%			
TOTAL	12,795	100.0%			

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

The applicant projects only 4.4 percent of total patient days for managed care days in both operational years. This project will have no positive impact on competition based quality assurance and cost-effectiveness.

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

The application proposes a 40,000 square foot facility with 18 semi-private and four private patient rooms. The total project cost is estimated to be \$12,739,345. 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 floor plan is virtually identical to several proposed facilities reviewed for other CON applications. It is obvious from the number of times that this 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.

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.

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.**

HealthSouth LTAC of Sarasota, Inc. is not an existing provider of LTAC services and, thus, does not have a history of providing health services to Medicaid and charity care patients. However, the applicant provided an analysis of discharges by payor source for each of the long-term acute care hospitals in Florida for the year ending March 31, 2001. According to this analysis, the eight long-term care hospitals in the state averaged 0.9 percent of total cases for Medicaid with ranges from zero (Kindred Hospital-Tampa) to 3.2 percent (Kindred Hospital-Coral Gables). The provision of charity care is minimal at all of the existing hospitals.

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

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

F. SUMMARY

HealthSouth LTAC of Sarasota, Inc. (CON #9548) proposes the establishment of a new 40-bed freestanding long-term care hospital to be located in Sarasota County, in close vicinity of HealthSouth of Sarasota, a comprehensive medical rehabilitation center. The primary focus of the proposed services will be on the respiratory and rehabilitation (brain injury and coma management) patients. The medically complex patients and possibly some cardiovascular patients will comprise a small portion of the patient population.

The project involves a total of 40,000 GSF of new construction and construction costs of \$6,386,000. Total project cost is stated to be \$12,739,345.

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

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

Need/Other Considerations

- Need is not published by the agency for long-term care hospital beds. It is the applicant's responsibility to demonstrate need, pursuant to Chapter 59C-1.008(e), Florida Administrative Code
- The proposed project is basically an updated version of a project that previously received preliminary approval in December 2001 (CON #9499) and is currently subject to administrative challenge before the Division of Administrative Hearings (DOAH Case No. 02-0458, et al.).

Quality of Care

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

Cost/Financial Analysis

- The applicant is a development stage corporation with limited assets and equity. The project will be funded in its entirety by the parent, HealthSouth Corporation. Although financing arrangements and the availability of sufficient funds to support the capital budget cannot be determined, with the active participation of the parent the project appears to be financially feasible.
- With projected net revenues per adjusted patient day falling between the median and the lowest level, the hospital is expected to consume health care resources in slightly less proportion to the services provided. However, based on what appears to be optimistic occupancy projections in the first two years of operation, the revenue estimates appear to be overstated, while expenses appear to be understated. If the optimistic revenue projections are not achieved and actual costs are significantly above estimates, the projected profits in both years will disappear. This project cannot be considered financially feasible if the projected levels of revenue and expense are not achieved and sustained.
- The applicant indicates only limited managed care participation (4.4 percent of total patient days). Therefore, the project is not expected to have a positive impact on competition based quality assurance and cost-effectiveness.

Architectural Analysis

- The architectural analysis reveals an acceptable plan that is spacious and easily accessible to both patients and staff.
- The applicant provided a listing of applicable codes that are no longer valid and will need to be revised. In addition, no site information was provided and the project completion forecast appears to be to short.
- Other than the identified discrepancies and/or omissions, there appear to be no substantitive architectural concerns with the project.

G. RECOMMENDATION

Deny CON #9548.

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