

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

HealthSouth of Stuart, Inc. (CON #9553)

One HealthSouth Parkway
Birmingham, Alabama 35243

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

2. Service District/Subdistrict

District 9 (Indian River County)

B. PUBLIC HEARING

A public hearing was not held or requested with regard to the establishment of a long-term care hospital in Indian River County. However, the application does contain 12 letters of support for the project from area physicians. The letters are similar in content and recognize HealthSouth's quality of care, as well as travel constraints for long-term care services in Indian River County.

C. PROJECT SUMMARY

HealthSouth of Stuart, Inc. (CON #9553) proposes the establishment of a new 18-bed long-term care hospital (LTCH) in Indian River County, Florida. The applicant is a wholly owned subsidiary of HealthSouth corporation, a publicly traded share corporation. The proposed location is on the fifth floor of Indian River Memorial Hospital (IRMH), a community, not-for-profit hospital located in Vero Beach, Florida. IRMH is licensed for 261 acute care beds, 54 psychiatric beds, and 28 skilled nursing facility beds. It is the intent of the applicant to enter into a long-term lease for the available square footage within the hospital. The

relationship will be that of landlord (IRMH) and tenant (HealthSouth). In addition, HealthSouth has entered into a service agreement with IRMH to purchase certain hospital services including: laboratory services; radiology, imaging and other diagnostic services; pharmacy services; emergency services; and housekeeping and maintenance services. However, the applicant's ability to use the hospital's kitchen or to purchase food from the hospital is not included in the agreement provided.

The proposed space for the LTCH is currently occupied by the 28-bed skilled nursing unit. The hospital intends to relocate these beds within the hospital upon CON approval of the LTCH beds. The lease agreement contains confusing language about converting these skilled nursing unit beds to acute care beds rather than moving them and then somehow making these acute beds available as long term care hospital beds. Pursuant to Chapter 395 and Section 408, Florida Statutes, long-term care beds are a separately licensed bed category requiring CON approval to establish, skilled nursing unit beds that are converted to acute cannot then be moved and used as skilled nursing unit beds, and acute beds cannot alternately be used as long-term care beds.

The project involves a total of 9,670 GSF of renovation and \$236,000 in construction costs. Total project cost is stated to be \$1,353,950.

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 this agreement expresses the applicant's intention to provide a percentage of total patient days to Medicaid/charity care patients if approved.

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, John Williamson, 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.**

b.1. Population Demographics and Dynamics:

**Population Estimates for District 9 Counties and Percent Change by County
For Total Population**

County	Total Jan 2002	Total Jan 2007	Percent Change
Indian River	117,456	128,024	9.0%
Martin	130,683	144,673	10.7%
Okeechobee	36,387	39,271	7.9%
Palm Beach	1,171,793	1,303,539	11.2%
St. Lucie	201,988	220,384	9.1%
Total District	1,658,307	1,835,891	10.7%

Source: AHCA Pop. Projections, 12/2001

As shown in the table above, the total population in District 9 is expected to increase by nearly 11 percent during the next five years. The applicant states that of critical importance to LTCHs is the elderly population since they comprise 75 percent of the LTCH patient base. The following tables provide both the 65 and over and 75 and over population co-horts to show the projected increase for these age groups (9.3 percent and 9.6 percent respectively) in the district.

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.

**Population Estimates for District 9 Counties and Percent Change by County
For 65 and Over Population**

County	Total Jan 2002	Total Jan 2007	Percent Change
Indian River	33,582	36,266	7.1%
Martin	36,425	39,717	9.0%
Okeechobee	6,109	7,359	20.5%
Palm Beach	266,565	292,032	9.6%
St. Lucie	45,571	49,419	8.4%
Total District	388,522	424,793	9.3%

Source: AHCA Pop. Projections, 12/2001

**Population Estimates for District 9 Counties and Percent Change by County
For 75 and Over Population**

County	Total Jan 2002	Total Jan 2007	Percent Change
Indian River	17,414	18,751	7.7%
Martin	18,639	20,542	10.2%
Okeechobee	2,611	3,231	23.7%
Palm Beach	144,600	158,042	9.3%
St. Lucie	21,600	23,964	10.9%
Total District	204,864	224,530	9.6%

Source: AHCA Pop. Projections, 12/2001

The 75 and older population group represents one half of the LTCH discharges in the state and appear to represent the age group who both utilize and benefit most from admission to a LTCH.

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).

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. The CON was issued in 2001 and are 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). As shown above, the St. Petersburg facility recently received a CON to add 22 beds, which are expected to be on-line in December 2002. 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 LTCH to District 9 is Kindred Hospital-Fort Lauderdale in District 10. However, the applicant states that while closest in proximity, this facility operates at an average occupancy of 86 percent. In addition, the District 10 facilities are approximately 2 1/2 hours away and the District 4 facilities are nearly four hours drive time from Indian River. The applicant contends that this distance would preclude many Indian River residents from accessing long term acute care services. According to the applicant this results in many patients simply remaining in acute care hospitals. Refer to the need analysis section below.

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 (53.2 percent).

The applicant presented AHCA discharge data for the 12 months ending March 31, 2001 to show the proportion of pulmonary cases for each LTCH 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 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, which it contends are not appropriately treated in a comprehensive medical rehabilitation hospital.

A review of the aggregate discharge data summary report for the state for LTCH's for the period July 2000 - June 2001 shows a total of 166 LTC discharges from District 9. These District 9 discharges represent approximately four percent of the total statewide LTC discharges for the time period (4,203 total 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 9 LTCH patient discharges accounted for 7,168 total aggregate patient days.

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. There is no indication provided that the proposed project will increase access to Medicaid and/or charity care patients in the district.

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 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.

Because the proposed long-term care hospital will be located within an acute care facility, it is expected that some patients will originate from Indian River Memorial Hospital. These patients can be easily transferred to the long-term beds with minimal disruption in their continuity of care.

b.4. Market conditions:

Long-term care hospitals in Florida have historically served areas larger than AHCA districts, covering a number of counties. Although the applicant addressed the need for long-term care hospital beds in District 9, with the main focus on the Indian River County market, it is likely that their 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”.

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 9 population by using the following methods:

- Method 1: Use Rate Analysis, which employs statewide use rates applied to District 9 and Indian River 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

The applicant contends that each of the five methodologies listed above support the development of the 18-bed proposal. The first four methodologies each present a range of beds needed at an average stabilized occupancy of 75 percent. All show need for over 150 LTCH beds.

The fifth methodology, the extended length of stay analysis, provides a potential universe of patients from which the applicant will admit patients. The applicant identified the top 20 DRGs from the long term care hospitals in the state with the greatest number of discharges from these hospitals. The number of District 9 acute care hospital discharges with an ALOS greater than 24 days were identified for all DRGs to compute the potential number of LTC patients and thus, the number of beds required to meet the perceived need of these patients. With this method, the applicant arrived at 203 needed beds based on a 75 percent occupancy rate. The reason the applicant used a 75 percent occupancy rate was not explained. With a projected census of less than 18, the applicant contends that the hospital would only require a penetration rate in the range of 10 percent to be fully occupied. Although the list of DRGs used by the applicant in this analysis is consistent with those typically seen in LTCHs, the contention that anyone with an ALOS of over 24 days potentially needing LTCH care was not demonstrated. The

applicant has not clearly demonstrated that more than the 166 District 9 patients served in existing LTCHs needed LTCH services.

None of the applicant's 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.

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 9 and short-term acute care hospitals are inappropriate locations for long-term acute care patients. The applicant contends that the proposed LTCH could have a positive impact on area hospitals in reducing length-of-stay and making short-term beds available for the seasonal residents and highly occupied critical care beds.

The applicant contends that with the closest long-term care hospital in Fort Lauderdale highly utilized and other facilities within the state are on average, in excess of three hours from the proposed location, area residents are experiencing difficulty in accessing LTCH services. Thus, the proposed project would appear to enhance access to services that are currently non-existent in the district.

The hospital is a quality provider as discussed below under E.4. b. While the applicant does not have any operational 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.**

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 of Stuart, Inc., is a for-profit company formed for the purpose of developing a long-term acute care hospital within Indian River Memorial Hospital (IRMH). The applicant is a development stage enterprise with no assets, \$10 in equity and no revenues as of December 31, 2001.

The company is a wholly owned subsidiary of HealthSouth Corporation whose most recent 10K report for the period ended December 31, 2001 disclosed \$276.5 million in cash on hand, \$1.7 billion in current assets and \$7.4 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:

HealthSouth of Stuart, Inc. will lease the space required to operate the hospital from Indian River Memorial Hospital. The capital costs for this project are \$1.35 million. Schedule 2 indicates a total of \$1.45 million in capital needs through year two of the project.

HealthSouth Corporation provided a commitment letter for funding the project.

Staffing:

According to Schedule 6A, the applicant is projecting a total of 31.6 FTE staff in the first year of operation, increasing to 42.1 FTE staff in year two. The majority of the positions listed involve nursing staff and technicians/aides. There was no mention of food service personnel including a dietitian. In fact, there is no mention of food service for the

patients in the lease provided. There is no discussion provided as to the recruitment of trained staff. There was not mention of food service personnel including a dietician. In fact, there is no mention of food service for the patients in the lease provided.

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.

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 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.

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 mentions that the agreement to purchase services from IRMH "may include a cap of 15 percent."

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 \$659 in year one and \$730 in year two is between the control group lowest and median values of \$649 and \$836 in year one and \$669 and \$861 in year two. The lowest value is generally viewed as the practical lower limit on economies of operation. With net revenues per adjusted patient day 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 \$658 in year one and \$571 in year two is below the control group lowest values of \$672 in year one and \$692 in year two. 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. Examining the various expense categories discloses estimated overhead cost per adjusted patient day of \$242 in year one and \$189 in year two to be significantly lower than the control group values of \$282 and \$291. (See Comparative Table). Compared to the control group these costs are efficient.

The applicant proposes to operate a hospital within a hospital, leasing space and contracting for certain services from Indian River Memorial Hospital. The terms of these agreements are to be negotiated. Schedule 8 shows a rent expense of \$180,000 per year or \$833 per month per bed. Actual cost will depend on the amount negotiated under the agreement, which may differ from these estimates.

The year two operating profit for the hospital of \$993 thousand computes to an operating margin per adjusted patient day of \$160 which falls

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

The projected Medicare and Medicaid days as a percent of total days in year two is 93.0 percent. With the large majority of patient care being provided from fixed price government payer sources, this project is not likely to have any discernable positive impact on competition to promote quality assurance or cost-effectiveness.

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

The application is to establish a long-term acute care hospital (LTACH) within a hospital. HealthSouth proposes to lease “the fifth floor of Indian River Memorial Hospital” (IRMH) to establish a long-term care facility. The application narrative says that the floor will be devoted to the new hospital, but the 5th floor plan shows that only one of three wings is involved in the project.

The lessee will purchase a number of services, which are itemized on Page 2 of Schedule B from Indian River Memorial Hospital. In addition to the ones listed, the Lessee will also purchase “all other services available to be purchased from IRMH not otherwise specified.” Although food service is not specifically mentioned in the proposed agreement, it could be inferred that this service will be purchased from the existing hospital based on the sentence above. The agreement says as a lead-in to this sentence: “These agreements include, but are not limited to, the following key components.” The agreement goes on to state that every part of the host hospital’s areas “shall be common area for the joint use of lessee....”.

The space is currently occupied by a skilled nursing facility whose beds will be relocated if the application is approved. The new hospital space is almost self-contained – the wing has egress stairs at either end and does not require the LTACH patients to go through the host hospital area in case of evacuation. However, the innermost stair is also an egress stair for the rest of the 5th floor, so other host hospital patients might have to enter the end of the LTAC to egress in case of an emergency. Since there is another stair in the core of the building, this should not present a problem.

The new hospital will use the nine existing private patient rooms that have private baths. Two patient rooms are shown to have accessible toilet rooms. An existing public toilet will be renovated to meet accessibility requirements. The area will have a therapy room, a dining/dayroom, offices and a single nurse station with its ancillary spaces. The nurse station is located in the center of the length of the wing, but is not adjacent to the corridor. It is located on the exterior wall and closed off from the corridor by a recessed wall, which may be glazed. It is not possible to be sure of any glazing from the scale of the drawings. This is an unusual location for a nurse station, and some explanation is needed to justify how the nurse station will function in its location. Also from the scale of the drawings, it is not possible to tell if the staff toilet is accessible. The nurse station configuration would benefit from further study so that it could have visual control of the patients. As shown, it has basically no way to view the length of the central corridor.

There is no demolition plan on the drawings, but the notes explain fairly clearly what is to be accomplished to establish the long-term hospital. The renovation cost per square foot appears to be quite reasonable.

The applicant provided a list of the most common applicable codes, but is not accurate and will have to be revised if this project should proceed.

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 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 8.00 percent of total patient days in both year one and year two. Charity care was not specifically identified 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.

F. SUMMARY

HealthSouth of Stuart, Inc. CON #9553) proposes the establishment of a new 18-bed long-term care hospital (LTCH) to be located within Indian River Memorial Hospital (IRMH), a community, not-for-profit hospital located in Vero Beach, Florida. It is the intent of the applicant to enter into a long term lease for the available square footage within the hospital and to construct, implement and operate a newly licensed long term care hospital.

The applicant is a wholly owned subsidiary of HealthSouth Corporation.

The project involves a total of 9,670 GSF of renovation and \$236,000 in construction costs. Total project cost is stated to be \$1,353,950.

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

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

Need/Other Considerations

- Need is not published by the agency for long-term care hospital beds. It is the applicant's responsibility to demonstrate need, pursuant to Chapter 59C-1.008(e), Florida Administrative Code
- The applicant did not reasonably demonstrate that District 9 residents are being denied access to LTCH beds within a reasonable travel time. However, discharge data does suggest that some portion area residents needing long-term care hospital services may not have received them.

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. 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. Although the computed operating margin ratio of 21.9 percent appears high; it is the result of lower overhead costs and 93 percent of revenues coming from fixed-rate payers, not from excessive charges. The financial analyst concludes that the project appears to be financially feasible.
- The projected Medicare and Medicaid days as a percent of total days in year two is 93.0 percent. With the large majority of patient care being provided from fixed price government payer sources, the project is not likely to have any discernable positive impact on competition to promote quality assurance or cost-effectiveness.

Architectural Analysis

- The proposed project will occupy a skilled nursing unit of the hospital and is reasonably self-contained and separate from the hospital with the exception of an innermost stair egress that should not present a problem.
- Assuming that certain support services will be purchased from the existing hospital, including food services, the only concern identified by the architectural review involves the location of the nurses' station that has limited visual control of the patient floor. The most common applicable codes will also have to be revised for the project to proceed.

G. RECOMMENDATION

Deny CON #9553.

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