

**STATE AGENCY ACTION REPORT**  
**ON APPLICATION FOR CERTIFICATE OF NEED**

**A. PROJECT IDENTIFICATION**

1. Applicant/CON Action No.

**Lakeshore System Services of Florida, Inc./CON #9598**  
d/b/a HealthSouth Emerald Coast Rehabilitation Hospital  
One HealthSouth Parkway  
Birmingham, Alabama 35243

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

2. Service District/Subdistrict

District 2, Bay County

**B. PUBLIC HEARING**

No public hearing was held or requested on the proposed project, however there are three letters of support included in the application. The first letter is from Mr. Todd Gallati, President/CEO of Gulf Coast Medical Center in Panama City, confirming the close working relationship between the two hospitals. Mr. Gallati states in his letter to the CEO of HealthSouth Emerald Coast Rehab Hospital that, "the 10-bed addition will prevent any unnecessary delays in discharge from our Acute Care Hospital while concurrently providing a seamless continuum of care for out patients." The second letter is a typical letter of support from a related entity, HealthSouth Rehabilitation Hospital of Tallahassee. The third letter is from the medical director and President of the medical staff, Michael Hennigan, MD. Dr. Hennigan speaks on behalf of the medical staff of HealthSouth Emerald Coast Rehabilitation Hospital in support of the proposed 10-bed addition. Dr. Hennigan states that the "extra beds will facilitate the admission of the patients into our hospital, prevent unnecessary stays in the acute care facilities and provide a seamless continuum of care in the most cost-effective manner."

**C. PROJECT SUMMARY**

**Lakeshore System Services of Florida, Inc. (CON #9598)** d/b/a HealthSouth Emerald Coast Rehabilitation Hospital is a non-publicly held Florida corporation and is a wholly-owned subsidiary of HEALTHSOUTH Corporation. The hospital is licensed as a 65-bed Class III Specialty Hospital, located at 1847 Florida Avenue, Panama City, Florida. The applicant currently provides inpatient and outpatient comprehensive medical rehabilitation (CMR) services. The applicant is proposing the addition of 10 CMR beds to its existing 65 CMR beds for a 75-bed facility.

According to the *Certificate of Need Predicated on Conditions* page, the applicant proposes to be conditioned for three percent of total annual patients days to Medicaid patients and three percent of total annual patient days to charity patients. There is an existing condition pursuant to CON #9221 that assigns a 3.2 per cent condition of total annual patient days to Medicaid patients and 4.5 percent of total annual patient days to charity patients. A blending of the existing and proposed conditions will result in a new condition of 3.2 percent of total annual patients days to Medicaid patients and 4.3 percent of total annual patient days to charity patients. Pro formas (Schedule 7B) for the first two years of operation of the 75 beds, projects two percent Medicaid in the first year and six percent in the second year. Charity care is not specifically identified on the pro forma projections.

The total project cost is estimated at \$2,086,404, which includes \$1,401,500 of new construction for the additional 5,500 GSF required for the proposed 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 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 projects 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.**

In Volume 28, Number 30, dated July 26, 2002 on page 3318 of Section XII of the Florida Administrative Weekly, a fixed need pool of ten beds was published for comprehensive medical rehabilitation beds in District 2 for the January 2008 planning horizon.

District 2 has 141 licensed comprehensive medical rehabilitation beds and four approved beds. The comprehensive medical rehabilitation beds in District 2 experienced an occupancy rate of 88.37 percent during the period January 2001 through December 2001. The proposed project is responding to published need.

**CMR Occupancy Rates  
District 2**

<b>Facility</b>	<b>County</b>	<b>Licensed beds</b>	<b>Occupancy 01/01 - 12/01</b>
HealthSouth Emerald Coast	Bay	65	89.42%
HealthSouth Rehab Hospital of Tallahassee	Leon	70*	87.39%
Total beds and average annual occupancy		135*	88.37%

\*Six additional beds were licensed April 24, 2002, therefore there are now 141 licensed CMR beds in District 2.

Source: AHCA publication, Florida Hospital Bed Need Projections by District, Vol. 1, 07/26/02.

**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 2 October 2000 CON Allocation Factors Report provides the following preference statements specific to comprehensive medical rehab beds.

- 1. Preference shall be given to CON applications that agree to provide the greatest percentage of the facility's annual patient days to Medicaid patients and indigent patients. These commitments should be included on the granted CON as a condition of that CON.**

For the fiscal year 2000, HealthSouth Emerald Coast provided 3.7 percent of total annual patient days to Medicaid patients and no charity care. The applicant has agreed to condition the proposed project on three percent Medicaid patient days and three percent charity patient days. In response to this preference the applicant states that it is conditioning the approval of this CON application to a combined three percent of its patient days to Medicaid and three percent to charity care patients, which is not how the condition is expressed on the "Conditions" page of the application. The applicant has apparently misused the word "combined". As previously mentioned, there is an existing condition pursuant to CON #9221 that assigns a 3.2 percent condition of total annual patient days to Medicaid patients and 4.5 percent of total annual patient days to charity patients. The applicant has not met its charity care commitment in the past.

2. **Preference shall be given to CON applications for the conversion of under-utilized beds in an existing facility to a comprehensive medical rehabilitation inpatient unit over CON applications which seek to provide comprehensive medical rehabilitation inpatient services through facility expansion or new construction.**

The proposed project is in response to the fixed need pool for 10 CMR beds and the fact that the applicant is experiencing high utilization of its existing beds, 89.42 percent for CY 2001, there are no beds available for conversion. The applicant considers this preference not applicable.

3. **Preference shall be given to CON applications establishing a comprehensive medical rehabilitation inpatient services facility, which have obtained written agreements with the district's acute care hospitals for patient referral and transfer.**

The applicant has transfer and admitting relationships with the following area hospitals:

Bay Medical Center  
Gulf Coast Medical Center  
HealthSouth Rehab Hospital of Tallahassee  
HealthSouth Rehab Hospital of Dothan

In addition, the applicant states that it has referral relationships with 10 local nursing homes in Panama City, Florida.

### 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.**

- a. **Section 59C-1.039(3) & (4), Florida Administrative Code: General Provisions and Required Staffing and Services.**

**General Provisions:**

- 1. 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 Emerald Coast Rehabilitation Hospital is an existing 65-bed Class III Specialty Hospital governed under Chapter 395, Florida Statutes. The proposal seeks the addition of 10 CMR beds to create a 75-bed facility.

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

The applicant states that it provides an extensive array of specialty programs including brain injury, spinal cord injury, cardiac rehabilitation, pain management, oncology rehabilitation, stroke/neurological, orthopedic, amputee, and others. However, there is no indication that any separately organized unit exists within the hospital.

- 3. 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 an existing 65-bed specialty CMR hospital, therefore this preference is not applicable.

- 4. 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.**

The applicant is responding to the published need for ten additional CMR beds in District 2. To accommodate the new beds, the applicant intends to construct an additional 5,500 GSF of space so that two of the patient rooms are private and the other four are semi-private.

- 5. 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.**

The applicant currently participates in both the Medicare and Medicaid programs and with the addition of 10 more CMR beds will continue its participation in both programs without any changes.

**b. Required Staffing and Services.**

- 1. 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 medical director at HealthSouth Emerald Coast Rehabilitation Hospital is Michael Hennigan, M.D. His resume is included in the CON application, at Tab 16. Dr. Hennigan is a psychiatrist who is board-certified by the American Board of Physical Medicine and Rehabilitation. He has been the medical director/psychiatrist at the Hospital since 1997 and also has consulting privileges at Bay Medical Center and Gulf Coast Hospital.

- 2. 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**

The applicant provides a range of services that significantly exceed the minimum requirements addressed in rule (see page 26 through 29, of the application). The applicant has determined that the

provision of orthotics/prosthetic services is more cost-effective and efficient when contracted out of the hospital.

- c. **Section 59C-1.039(5)(g), Florida Administrative Code, states that priority considerations for CMR inpatient services will be given to applicants who: (1) are a disproportionate share hospital; (2) are proposing to service Medicaid-eligible persons; and, (3) are a designated trauma center.**

The applicant indicates that as a specialty comprehensive medical rehabilitation hospital, it is not eligible for either disproportionate share status or as a designated trauma center.

As mentioned previously, the applicant will commit to a condition of three percent Medicaid and three percent for charity care patients in the approved beds.

- d. **59C-1.039(6), Florida Administrative Code, 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.**

While the travel standard is met for CMR services in the district, the two facilities providing CMR services are located approximately 100 miles apart with travel times approaching two and one-half hours. Under normal circumstances this does not create a problem, however when utilization is high as it has been at the applicant's facility (89.42 percent average utilization for CY 2001) beds are not always available when needed. The applicant states that in the most recent year, an average of three cases per month were denied access to the facility from January 1, 2002 to August 31, 2002 due to lack of available beds. Approval of 10 additional CMR beds is expected to ensure programmatic and patient access through the planning horizon, according to the applicant.

- e. **59C-1.039(7), Florida Administrative Code, Quality of Care: CMR inpatient services shall comply with 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. Applicants proposing to add beds to a licensed CMR inpatient service shall be accredited by CARF specialized inpatient rehabilitation, as applicable to the facility; or, if not yet eligible for CARF accreditation, the applicant shall have received full Medicare certification as a rehabilitation hospital.**

Refer to Section 4. b. below.

**f. 59C-1.039(8), Florida Administrative Code, Services Description: An applicant for comprehensive medical rehabilitation inpatient service shall provide a detailed program description in its certificate of need application including:**

**1. Age groups to be served.**

Over 95 percent of patients served in 2001 by the applicant were 65 years of age or older. The average age of patients is most recently reported at 77, however the majority of patients are still within the 65 plus category. The ten additional beds will provide services to the same categories of patients as currently served at the facility.

**2. Specialty inpatient rehabilitation services to be provided, if any (e.g. spinal cord injury; brain injury).**

The addition of 10 CMR beds does not identify any specific specialty service to be provided but will complement the 65 existing beds at the hospital. The applicant states that part of its success is attributable to its provision of specialty rehabilitation programs previously unavailable in the service area, such as brain and spinal cord injury, neurology, pulmonary and other diagnostically distinct programs, such as; ortho, cardiac, CVA, Parkinson's, etc. It should be noted that HealthSouth Emerald Coast Rehabilitation Hospital is not a state-designated brain and spinal cord injury facility according to the Department of Health. Its sister facility in Tallahassee is so designated however.

**3. 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 of all staff who will provide comprehensive medical rehabilitation inpatient services.**

The applicant is both JCAHO and CARF accredited. As previously discussed, the medical director, Michael Hennigan, M.D., is a physiatrist who is board-certified by the American Board of Physical Medicine and Rehabilitation. On pages 53 through 56 the applicant identifies its key managers, their responsibility, education and training.

**4. A plan for recruiting staff, showing expected sources of staff.**

As an existing entity, the applicant has a formal recruitment and retention program which has been successful in the past, meeting staffing requirements. It anticipates continued success in this regard. The applicant is projecting 11.8 new FTEs as a result of the proposed project.

**5. Expected sources of patient referrals.**

The applicant expects current referral patterns to remain unchanged as a result of the proposed 10-bed addition.

**6. Projected number of comprehensive medical rehabilitation 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.**

The table below reflects projected patient days by payor, for the entire 75-bed facility assuming approval of the 10-bed addition to 65 existing CMR beds.

<b>Projected Patient Days by Payor</b>		
<b>Payor Source</b>	<b>Year 1</b>	<b>Year 2</b>
Medicare	21,690	21,477
Medicaid	584	1,578
Insurance	1,720	1,702
Workers Compensation	428	424
Total	24,422	25,181

Source: CON #9598, Schedule 7B.

**7. Admission policies of the facility with regard to 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. The applicant offers to condition its proposal on the provision of services to three percent for Medicaid patients and three percent for charity care patients.

**g. 59C-1.039(10), Florida Administrative Code, Utilization Reports**

The applicant will continue to report utilization and other required information as scheduled to the agency and the Big Bend Health Council, Inc.

**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.**

District 2 has 141 licensed and four CON approved comprehensive medical rehabilitation beds. The comprehensive medical rehabilitation beds in District 2 experienced an occupancy rate of 88.37 percent during the period January 2001 through December 2001. The proposed project is responding to published need.

**CMR Occupancy Rates  
District 2**

<b>Facility</b>	<b>County</b>	<b>Licensed beds</b>	<b>Occupancy 01/01 - 12/01</b>
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\*Six additional beds were licensed April 24, 2002, therefore there are now 141 licensed CMR beds in District 2.

Source: AHCA publication, Florida Hospital Bed Need Projections by District, Vol. 1, 07/26/02.

The applicant states that there are no barriers to service at the facility except its current excess occupancy. Utilization projections (Schedule 5) anticipate an average utilization for all 75 beds, during the second year of operations, to average 94.5 percent occupancy.

The applicant claims that through the addition of 10 CMR beds it will be able to offer a wider range of services to a greater number of people and provide continuity of care to the patients it serves, in a multi-level care system. Through its own continuum of care the applicant provides a variety of inpatient, day treatment and outpatient programs available throughout the district. An interdisciplinary team of rehabilitation specialists work together to design the most effective treatment program for each individual. Specialized inpatient and outpatient programs include: stroke/neurological; spinal cord injury; work start/injured worker program; musculoskeletal (orthopedics, amputee); brain injury; Parkinson's rehabilitation program; adaptive aquatics (therapeutic pool); biofeedback and day hospital. The addition of 10 CMR beds will expand the capacity for patients requiring this level of specialized service in the district.

For a discussion of quality of care, see 4.b.

- b. Does the applicant have a history of providing quality of care? Has the applicant demonstrated the ability to provide quality care? Please discuss your licensure history within and outside of Florida, and discuss any accreditation(s) held. ss. 408.035(3), 408.035(12), Florida Statutes.**

The applicant provided copies of accreditation letters that show three-year accreditation by both 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 has comprehensive policy and procedure guidelines that control the standards of clinical practice in the hospital. It employs utilization review and quality assurance programs to ensure high quality of patient care.

In regard to a performance improvement plan, the applicant states that the hospital has in place programmatic teams consisting of members from the various disciplines organized to design and implement a rehabilitation program for patients, that is characterized as being customer-focused, effective, efficient, appropriate, timely, accessible and well documented.

The applicant reports that the hospital has not been out of compliance with federal conditions of participation for the Medicare program, there have been no civil rights complaints against the facility and there are no access barriers to minorities and the handicapped. This statement is consistent with Agency licensure records.

- 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 applicant is not proposing special health care services for the service area.

- 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 Emerald Coast Rehabilitation Hospital is not a statutory teaching hospital nor is the proposed project's primary purpose research or physician education.

- 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 Lakeshore System Services of Florida, Inc. d/b/a HealthSouth Emerald Coast Rehabilitation Hospital for the periods ending December 31, 2001 and 2000 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:

	12/31/2001	12/31/2000
Current Assets	\$ 6,794,485	\$ 3,010,215
Cash and Current Investment	\$ 3,751,692	\$ 154,380
Assets Restricted for Capital Projects	\$ 0	\$ 0
Total Assets	\$ 24,176,400	\$ 15,325,909
Current Liabilities	\$ 1,384,860	\$ 4,306,220
Total Liabilities	\$ 24,474,524	\$ 14,706,220
Total Equity	\$ (298,124)	\$ 619,689
Net Operating Revenues	\$ 14,458,743	\$ 10,405,694
Interest Expense	\$ 8,132	\$ 0
Net Profit – Operations	\$ 5,871	\$ 78,743
Net Income	\$ 5,871	\$ 78,743
Cash Flow from Operations	\$ 1,140,142	\$ 281,889
Working Capital	\$ 5,409,625	\$ (1,296,005)
Current Ratio (CA/CL)	4.9	0.7
Cash Flow to Current Liabilities (CFO/CL)	0.8	0.1
Long-Term Debt to Equity (TL-CL/TE)	-77.4	16.8
Times Interest Earned (NPO+Int/Int)	1.7	#DIV/0!
Equity to Total Assets (TE/TA)	-1.2%	4.0%
Operating Margin (NPO/NOR)	0.0%	0.8%
Total Margin (NI/NOR)	0.0%	0.8%
Return on Assets (NI/TA)	0.0%	0.5%
Operating Cash Flow to Assets (CFO/TA)	4.7%	1.8%

**Short-term position:**

The applicant's current ratio of 4.9 indicates current assets are nearly five times that of short-term liabilities, a strong position. The working capital (current assets less current liabilities) of \$5.4 million is a measure of excess liquidity that could be used to fund capital projects. The amount of working capital is good in relation to the total assets of the hospital. The ratio of cash flow to current liabilities for the year ended December 31, 2001 is 0.8. This ratio is above the average for Florida Hospitals, and is a good position. Overall, the applicant has a strong short-term position.

**Long-term position:**

The ratio of long-term debt to equity is -77.4. This is very poor and a result of the hospital having negative equity, that is the hospital owes more on its assets than their book value. This is a very weak position. However, it should be noted that \$23.1 million of the debt represents an intercompany payable, not as the significant concern it would be if it were third party financing. The ratio of cash flows to assets for the year ended 2001 is 4.7 percent. This ratio is below average and is a moderately weak position. The most recent year had an operating profit of only \$5,871, barely above the break-even point. This results in a margin ratio of 0.0 percent, which is below the average level of Florida hospitals. Total equity is -\$298,124. The ratio of equity to assets is -1.2 percent, which is also well below the average level. Equity decreased from 2000 to 2001. Overall, the applicant has a weak long-term position.

**Capital requirements:**

Schedule 2 indicates the applicant has \$3.2 million in capital projects.

**Available capital:**

Lakeshore System Services of Florida, Inc. is a wholly owned subsidiary of HEALTHSOUTH Corporation. According to Schedule 3, funding for this project is coming from the parent, with the remainder from operating cash flows. A letter committing HEALTHSOUTH to funding the project was provided; it stated that HEALTHSOUTH has \$950 million available under a line of credit and \$545 million in cash-on-hand. The corporation's Form 10K report, submitted with the application, disclosed \$276.6 million in cash, \$7.6 billion in total assets and \$670 million in annual cash flows as of December 31, 2001

**Conclusion:**

The audited financial statements of the applicant, Lakeshore System Services of Florida, Inc., show a mixed financial position – strong in the short-term but very weak long-term. However, HEALTHSOUTH Corporation has more than adequate financial strength to meet the capital needs of the applicant.

**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 group 18. Per Diem rates are projected to increase by an average of 3.2 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

Gross revenues, net revenues, and costs were obtained from Schedules 7 and 8 in the financial portion of the application. These were compared to the control group as a calculated amount per adjusted patient day. The adjustment is made to factor out the outpatient revenues in the per patient day computation.

Net revenue per adjusted patient day (NRAPD) of \$750 in year one and \$733 in year two is between the control group median and highest values of \$609 and \$1,017 in year one and \$627 and \$1,048 in year two. The highest level is generally viewed as the practical upper limit on economies of operation. With net revenues falling between the median and highest level, the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table). The 2000 actual NRAPD of \$559 for this hospital was slightly below the median for the group of \$562. NRAPD in 2001 was \$509. Given the historical performance of this hospital, it is likely that estimated revenues are overstated.

Projected cost per adjusted patient day of \$547 in year one and \$543 in year two is between the group lowest and median values of \$414 and \$632 in year one and \$427 and \$651 in year two. The projections are considered cost-efficient when compared to the control group. (See Comparative Table). The 2000 actual CAPD for this hospital was \$559, which was between the lowest and median values in the group of \$539 and \$605.

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The year two operating profit for the hospital of \$6.1 million computes to an operating margin per adjusted patient day of \$190 which is above the highest value in the group of \$122. The operating margin is 26.0 percent, which is above average for Florida hospitals. The projected margin does not appear to be reasonable when compared to actual historical operations. Financial feasibility is probable, at a lower operating profit.

**Comparative Table**

CON # 9598 HEALTHSOUTH of Emerald Coast 2000 DATA Peer Group 18	2005	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	11,153,418	346	816	407	238
INPATIENT AMBULATORY	0	0	6	0	0
INPATIENT ANCILLARY SERVICES	24,260,379	752	1,552	732	471
OUTPATIENT SERVICES	8,581,838	266	537	162	16
OTHER OPERATING REVENUE	124,230	4	35	4	0
TOTAL REVENUE	44,119,865	1,368	2,905	1,314	951
DEDUCTIONS FROM REVENUE	20,480,378	635	*	*	*
NET REVENUES	23,639,487	733	1,048	627	418
EXPENSES					
ROUTINE	3,476,898	108	263	110	66
ANCILLARY	4,165,001	129	271	159	95
AMBULATORY	0				
OVERHEAD	7,770,817	241	447	370	266
OTHER	2,090,942	65			
TOTAL EXPENSES	17,503,658	543	928	651	427
OPERATING INCOME	6,135,829	190	122	-16	-114
		26.0%			
PATIENT DAYS	25,878		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	32,240		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	27,375				
ADJ. FACTOR	0.8027				
TOTAL NUMBER OF BEDS	75				
PERCENT OCCUPANCY	94.5%		99.4%	87.8%	30.3%
PAYER TYPE	PATIENT	% TOTAL			
	DAYS				
MEDICARE	21,477	83.0%	86.7%	77.8%	42.7%
COMMERCIAL	1,671	6.5%			
MEDICAID	1,578	6.1%	13.9%	4.4%	0.7%
PRIVATE	0	0.0%			
HMO/PPO	31	0.1%	30.5%	10.7%	0.0%
OTHER	1,121	4.3%			
TOTAL	25,878	100.0%			

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

The applicant projects 89.1 of percent of revenues to come from fixed rate payers and 0.1 percent from managed care. The managed care level is near the control group lowest level of activity of 0.0. Actual reported level in 2000 was 4.0 percent. The projected levels, if realized, are not likely to increase 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.**

The application is to add a gymnasium and 10 new rehabilitation beds to the existing facility. Two of the patient rooms are private and the other four are semi-private. The new patient toilet/shower rooms are completely accessible for patients with disabilities and the showers will accommodate a wheelchair.

The current codes will have to be followed when the final plans are submitted to the AHCA Office of Plans and Construction.

Cost data and schedules submitted seem to be reasonable.

- 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.**

<b>District 2 CMR Hospital Services Medicaid &amp; Charity compared to District Average</b>				
<b>Facility</b>	<b>Number of Beds</b>	<b>County</b>	<b>Medicaid %</b>	<b>Charity %</b>
HealthSouth Emerald Coast Rehabilitation Hospital	65	Bay	3.7%	0.0%
HealthSouth Rehab Hospital of Tallahassee	76	Leon	6.1%	0.0%
Total Beds	141			

Source: AHCA Financial Review Unit Data

The applicant provided the following table to demonstrate a history of providing services to the Medicaid patients:

**Historical Provision of Medicaid for Selected Years**

<b>Year</b>	<b>Medicaid Days</b>	<b>Medicaid Revenue</b>
CY 1998	690	\$730,303
CY 1999	487	\$690,204
CY2000	829	\$1,128,617
3 year Total	2,006	\$2,549,124

Source: CON Application #9598. Data provided by the hospital.

The applicant states that it is conditioning the approval of this CON application to a combined three percent of patient days to Medicaid and three percent to charity care patients in the 10 beds.

**F. SUMMARY**

In Volume 28, Number 30, dated January 26, 2002 on page 3318 of the Florida Administrative Weekly, a fixed need pool of 10 beds was published for comprehensive medical rehabilitation beds in District 2 for the January 2008 planning horizon.

**Need:**

The proposed project responds to the fixed need pool projections for ten additional CMR beds for the January 2008 planning horizon.

**Quality of Care:**

HealthSouth Emerald Coast Rehabilitation Hospital is accredited by the Joint Commission on Accreditation of Health Care Organizations (JCAHO) and by the Commission on the Accreditation of Rehabilitation Facilities (CARF). The applicant has demonstrated a capacity for the delivery of quality care to patients.

**Medicaid/Indigent Care:**

The applicant proposes to be conditioned for three percent of total annual patient days to Medicaid patients and three percent of total annual patient days to charity patients. There is an existing condition pursuant to CON #9221 that assigns a 3.2 per cent condition of total annual patient days to Medicaid patients and 4.5 percent of total annual patient days to charity patients. A blending of the existing and proposed conditions will result in a new condition of 3.2 percent of total annual patients days to Medicaid patients and 4.3 percent of total annual patient days to charity patients.

**Financial Feasibility:**

Based on the applicant's audited financial statements, Lakeshore System Services of Florida, Inc. shows a mixed financial position that is strong in the short-term but very weak long-term. The parent HEALTHSOUTH Corporation has more than adequate financial strength to meet the capital needs of the applicant. The operating margin is 26.0 percent, which is above average for Florida hospitals. The projected margin does not appear to be reasonable when compared to actual historical operations. Financial feasibility is probable, at a lower operating profit.

**Architectural:**

There are no architectural concerns with the proposed project to add a gymnasium and 10 new CMR beds to the existing facility. Cost data and schedules seem to be reasonable.

**G. RECOMMENDATION**

Approve CON #9598 to add 10 comprehensive medical rehabilitation (CMR) beds to the existing licensed 65 beds at HealthSouth Emerald Coast Rehabilitation Hospital, creating a 75-bed CMR. The project involves 5,500 GSF of new construction at a construction cost of \$1,401,500. Project costs total is \$2,086,404.

**CONDITIONS:**

- (1) A minimum of 3.2 percent of the total annual patients days in the 75 CMR beds shall be provided to Medicaid patients.
- (2) A minimum of 4.3 percent of the total annual patient days in the 75 CMR beds shall be provided to charity patients.

**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: \_\_\_\_\_

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Karen Rivera  
**Health Services and Facilities Consultant Supervisor  
Certificate of Need**

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Jeffrey N. Gregg  
**Chief, Bureau of Health Facility Regulation**