

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

**A. PROJECT IDENTIFICATION**

1. Applicant/CON Action Number

**Palms of Pasadena Hospital, L.P./CON #9608**  
d/b/a Palms of Pasadena Hospital  
1501 Pasadena Avenue South  
St. Petersburg, Florida 33707

Authorized Representative: David Verinder, CFO  
(727) 341-7578

2. Service District/Subdistrict

District 5 (Pasco and Pinellas Counties)

**B. PUBLIC HEARING**

Although no public hearing was requested, the application contains 13 letters of support; two from area Mayors, three from board members and eight from physicians of the hospital's approximately 304 medical staff members. The 13 letters of support primarily speak to the outstanding quality of care provided at Palms of Pasadena Hospital. One letter from Dr. Stanley Rosenberg, a St. Petersburg doctor of internal medicine, indicates that he, and several of his colleagues, feel that with the continued emphasis on orthopedics and large number of orthopedic procedures at Palms of Pasadena, the conversion of hospital-based skilled nursing unit (HBSNU) beds would be a better use of the beds because HBSNU services can be obtained elsewhere in the area and most of his patients elect to remain nearby for care. Although not stated in the letter, Dr. Rosenberg suggests that patients needing CMR services are electing to remain at Palms of Pasadena Hospital and are being treated in either acute or HBSNU beds. He indicates that:

*“Travel downtown creates stresses and presents stresses for the elderly when considering post-acute care. In an informal poll, I believe that at least another 30 patients [per] month (in addition to the ones already referred to and served by the existing rehabilitation programs like Bayfront Medical Center, HEALTHSOUTH and Sun Coast) would benefit from a comprehensive program at Palms of Pasadena. I also believe that the number of patients who could benefit will continue to increase as the orthopedic program grows.”*

Another letter was received by the Agency in opposition to the proposed project. Ms. Catherine Newhouse, RN, Chief Operating Officer of Sun Coast Hospital in Largo cited several reasons why the project is not needed including historical utilization in existing District 5 comprehensive medical rehabilitation (CMR) beds. Ms. Newhouse indicates that existing CMR beds in District 5 are operating below optimal levels. Ms. Newhouse concludes her letter by stating that Sun Coast Hospital would be substantially and adversely impacted by approval of additional CMR beds in District 5. She further states: "Utilization of the 20 beds being applied for, would come at the direct and immediate expense of Sun Coast, causing substantial financial and operational harm". According to data published by the Agency for the July 2002 batching cycle, occupancy in Sun Coast Hospital's 20-bed CMR unit in calendar year (CY) 2001 was 38.85 percent.

**C. PROJECT SUMMARY**

**Palms of Pasadena Hospital, L.P.** is a Delaware limited partnership formed on September 24, 1999 to own and operate Palms of Pasadena Hospital, a 307-bed general acute care hospital consisting of 294 acute beds and 13 hospital-based skilled nursing beds in Pinellas County. The Partnership's general partner is IASIS Healthcare Holdings Inc. and the limited partner is IASIS Healthcare Corporation. Through this application, the applicant seeks to establish a 20-bed comprehensive medical rehabilitation (CMR) unit at the hospital by delicensing 13 hospital-based skilled (HBSNU) nursing beds and seven acute care beds.

As a condition of the approval, the applicant proposes to provide a minimum of three percent of its total annual patient days of care to Medicaid patients and a minimum of 0.2 percent of its total annual patient days to care to charity care. There are currently no CON conditions on existing beds.

The total project cost is estimated at \$316,128. The project encompasses 5,850 GSF of space that includes 1,060 GSF to be renovated at a cost of \$169,500. No new space is indicated for the project.

**D. REVIEW PROCEDURE**

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

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

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

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

**E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA**

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

**1. Fixed Need Pool**

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

In Volume 28, Number 30, dated July 26, 2002 on page 3318 of Section XII of the Florida Administrative Weekly, a fixed need pool of zero beds was published for comprehensive medical rehabilitation beds in District 5 for the January 2008 planning horizon. District 5 has 170 licensed and 20<sup>1</sup> CON-approved comprehensive medical rehabilitation beds. The comprehensive medical rehabilitation beds in District 5 experienced an average occupancy rate of 64.80 percent during the period January 2001 through December 2001. The applicant is applying outside of the fixed need pool.

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

District 5 has 170 licensed comprehensive medical rehabilitation beds that experienced an average occupancy rate of 64.80 percent during the period January 2001 through December 2001:

**Comprehensive Medical Rehabilitation Bed Utilization  
District 5 - January 2001 - December 2001**

Facility	County	Number of CMR beds	Occupancy %
North Bay Hospital	Pasco	20	66.51%
Sun Coast Hospital	Pinellas	60	38.85%
HealthSouth Rehab Hospital	Pinellas	70	92.76%
Bayfront Medical Center	Pinellas	20	40.26%
Total/Average		170	64.80%

Source: Florida Hospital Bed and Service Utilization by District - July 26, 2002

<sup>1</sup> CON # 9537 to HealthSouth of Largo Limited Partnership was issued via a settlement agreement with the agency in October of 2002.

As shown above, the average CMR occupancy in the district during the 12-month period ending six months prior to the beginning date of the quarter of the publication of the fixed bed need pool was less than 80 percent. This criterion is not met.

The applicant claims other not normal circumstances exist in the district.

**c. Other Special Circumstances**

The applicant challenges the operational effect of the Comprehensive Medical Rehabilitation Inpatient Services Rule (59C-1.039, Florida Statutes) contending that it reduces access to comprehensive medical rehabilitation beds for District 5. CON applications are not appropriate venues for Rule challenges even when the applicant calls it a challenge of the operational effectiveness of an existing rule. A Rule challenge must be formally submitted to the Agency Clerk. The operational effectiveness of the CMR Rule, has not been challenged nor was the fixed need pool publication challenged, which published need for zero CMR beds in District 5. Despite the fact that the fixed need pool shows zero need for additional CMR beds, applicants may always apply for additional beds and show special circumstances. Special circumstances do not include however, a challenge of the Rule, its operational effectiveness or otherwise, or a reworking of the Agency's need methodology. Special circumstance often addresses, but is not limited to, documented unmet needs of certain populations within a planning area and/or documented limited access to any identified patient populations. Special circumstances presented by the applicant center around patient choice of hospital. As will be noted throughout this section, CMR services are defined in statute as tertiary services and are therefore limited to a few hospitals within a planning area. Tertiary services are defined in statute as: "a health service which, due to its high level of intensity, complexity, specialized or limited applicability, and cost, should be limited to, and concentrated in, a limited number of hospitals to ensure the quality, availability, and cost-effectiveness of such service."

The Rule is based on the statutory definition of CMR services and therefore designed to consider existing CMR program utilization. The applicant contends that while it attempts to transfer patients to exiting providers, some portion of those patients refuse transfer. The hospital is building its orthopedic surgery program and believes that this program will support a 20-bed CMR unit in the future. It currently has 13 HBSNU beds, which it believes will be more effectively used as CMR beds.

The applicant states that the location and current supply of comprehensive medical rehabilitation beds reflects low utilization, however the district has high numbers of elderly and characteristics that would typically coincide with a higher demand for comprehensive medical rehabilitation beds. The applicant further contends that patients are not willing to drive the two hours identified as the access standard in the rule for at least 90 percent of the district's total population. The applicant contends that the majority of CMR patients choose to remain within the primary service area of their physician and hospital providers. However, as noted above, CMR services are defined as tertiary services in statute and therefore, by definition, unlike acute care beds, are not needed at every hospital.

Two of the three hospital-based CMR units in District 5 have the lowest occupancies of all 44 comprehensive medical rehabilitation providers in the state. The applicant contends this indicates that comprehensive medical rehabilitation beds in District 5 are misallocated, with too many beds concentrated at hospitals where they are not used. Of the district's 170 licensed comprehensive medical rehabilitation beds, 60 are located at Bayfront Medical Center and 20 are located at Sun Coast Hospital. For the 2001 reporting period, Bayfront Medical Center experienced 40.26 percent occupancy of its 60 comprehensive medical rehabilitation beds and Sun Coast Hospital experienced 38.85 percent utilization of its 20 comprehensive medical rehabilitation beds. The applicant presented two tables on page 1-28 of the application demonstrating 10 years of utilization at both of these hospitals. For the 10-year period, 1992 - 2001, Bayfront Medical Center had an average daily census of 24, with a high average daily census of 26 in 1998. For the same period Sun Coast Hospital experienced an average daily census of 10 patients per day. Therefore the applicant concludes that approximately 40 CMR beds are misallocated. The underutilization of these 40 beds "suppresses the forecast of demand" according to the applicant. Since the formula uses a prior 12-month utilization experience to develop a use rate, which is then applied to future population estimates, low utilization at these two hospitals results in an understatement of the demand for CMR services, according to the applicant. However, as expressed by Ms. Catherine Newhouse, RN, Chief Operating Officer of Sun Coast Hospital in Largo in a letter submitted to the Agency prior to the date this application was deemed complete, the addition of CMR beds as Palms of Pasadena Hospital will "come at the direct and immediate expense of Sun Coast, causing substantial financial and operational harm". Additionally, a letter of support for the project submitted by an internist practicing at Palms of Pasadena indicates that some CMR patients are currently being transferred from Palms of Pasadena to other area hospitals including Sun Coast and Bayfront, while others are electing to remain at the

applicant's hospital, rather than being denied needed services. The internist appears to suggest that the number of patients electing to stay at the hospital, rather than being transferred, will increase as the orthopedic program at the hospital grows. This supports Ms. Newhouse's contention that the establishment of a CMR program at Palms of Pasadena will be at the expense of Sun Coast's CMR program.

The applicant did not demonstrate that patients were being denied appropriate CMR services within District 5. Rather, it appears to be a matter of patient choice. Of the 1,298 discharges under DRG 462 for District 5 residents, only 1.8 percent (233 discharges) went out of the district for CMR services during calendar year 2001.

Additional beds at Palms of Pasadena would address the preferences of some of the hospital's patients, but it appears to be at the expense of existing programs. Again, as noted above, CMR services are defined as tertiary services in statute. Therefore, unlike acute services, they are not services that are needed at every hospital. Need for additional CMR beds in District 5 has not been demonstrated. No special circumstances have been demonstrated to exist in District 5 that warrant the approval of a 20-bed CMR unit at Palms of Pasadena.

## **2. Local Health Plan Preferences**

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

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

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

The following table represents a comparison of Medicaid and charity care at the three acute hospitals in District 5 that have comprehensive medical rehabilitation units, plus the specialty comprehensive medical rehabilitation hospital and the applicant's facility. The percentage of Medicaid and charity care shown in the table represents total hospital services and not just comprehensive medical rehabilitation services.

**District 5 Hospitals  
Providing Comprehensive Medical Rehabilitation Services**

<b>Facility</b>	<b>CMR Beds</b>	<b>County</b>	<b>Medicaid &amp; Medicaid HMO</b>	<b>Charity</b>
Bayfront Medical Center	60	Pinellas	16.1%	3.1%
HealthSouth Rehab Hospital*	70	Pinellas	4.3%	0.0%
North Bay Hospital	20	Pasco	7.1%	0.9%
Palms of Pasadena Hospital**	0	Pinellas	1.8%	0.3%
Sun Coast Hospital	20	Pinellas	8.7%	0.9%
District 5 Weighted Average for all Class I General Hospitals****			6.9%	1.1%

Source: AHCA Hospital Financial Data records for Fiscal Year 2000

\*Specialty CMR hospital

\*\*Applicant for 20 CMR beds

\*\*\*\*Average does not include the following facilities: Kindred Hospital, St. Petersburg; All Children's Hospital; Windmoore Healthcare; and HealthSouth Rehab.

According to the applicant, Palms of Pasadena Hospital is located within an area of District 5 where a large number of residents are over the age of 65, therefore the principal payer for these patients is Medicare. The applicant explains that the hospital also does not provide obstetric services for which Medicaid is a major payer. Consequently, the hospital does not provide a large amount of services to the Medicaid population.

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

The applicant demonstrated a history of serving HIV infected patients and states that it intends to continue to do so in the future. It provided information from *The Florida Division of Disease Control Quarterly Surveillance Report, Second Quarter 2002*, published by the Department of Health, that there are approximately 53 persons over 65 with HIV/AIDS in District 5. For the time period January 1, 2001 through December 31, 2001, Palms of Pasadena Hospital provided services in MCD 25, HIV Infections, to three persons for a total of 17 patient days.

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

The applicant states that it is not currently an existing CMR provider therefore this preference does not apply. The applicant did not discuss in the application any attempts to negotiate with Bayfront Medical Center to relocate some of their "unused" comprehensive medical rehabilitation beds to the applicant's facility.

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

The applicant proposes to delicense 13 hospital-based skilled nursing beds and seven acute care beds to create the proposed 20-bed comprehensive medical rehabilitation unit. For the reporting period January 2001 through December 2001, the 294 acute care beds at Palms of Pasadena Hospital were occupied at an average annual rate of 32.99 percent. For the July 2001 through June 2002 reporting period for hospital-based skilled nursing beds, the 13 HBSNU beds at Palms of Pasadena Hospital experienced an average annual occupancy of 84.51 percent. Skilled nursing patients will be referred to nearby skilled facilities such as Pasadena Manor and The Fountains, according to the applicant. The applicant expects these referrals to improve the community nursing homes' financial viability.

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

Palms of Pasadena Hospital maintains written agreements with area hospitals and community nursing homes. The hospital has social workers and case managers who are charged with the task of ensuring that patients will have their outpatient rehabilitation needs met upon discharge from the hospital.

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

The applicant offered a qualified response to this preference stating that, to the extent practicable for a small unit, it commits that the hard-to-place patients will be served in the new CMR unit.

3. **Agency Rule Criteria**

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

(3) **General Provisions:**

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

Palms of Pasadena Hospital is a general acute care hospital consisting of 294 acute beds and 13 HBSNU beds for a total licensed capacity of 307 beds.

- (b) **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 seeks to delicense (convert) 13 HBSNU and seven acute care beds to establish a 20-bed dedicated comprehensive medical rehabilitation unit within the general acute care facility.

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

The applicant is requesting 20 CMR beds.

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

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

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

The applicant intends to participate in the Medicare and Medicaid programs and proposes to condition approval of this application for a minimum of 3.00 percent of total annual patients to Medicaid and a minimum of 0.2 percent of total annual patient days to charity care.

**(4) Required Staffing and Services.**

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

The applicant has two psychiatrists on its medical staff that meet the eligibility requirements for director of rehabilitation for the new unit, however a medical director has not been designated at this time. The curriculum vitas of the two eligible medical directors are included in the application. They are: Steven Brian Warren, M.D., and Glenn S. Fuoco, D.O., both associated with Tampa Bay Orthopedic Specialists.

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

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

The applicant states that all of the services listed above will be provided by qualified personnel in Palms of Pasadena Hospital's CMR Unit in accordance with policies of the accrediting organization, Commission on Accreditation of Rehabilitation Facilities (CARF). The applicant agrees to adhere to and implement all CARF guidelines for accreditation. It should be noted however that four of the seven required services do not reflect FTEs on Schedule 6A. There are no FTEs shown for speech therapy, psychological services, orthotic and prosthetic services and social services, although social services are said to be included in other departments. There is also no discussion about outsourcing these services to assure their availability to patients.

**(5) Criteria for Determination of Need:**

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

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

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

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

**(7) Quality of Care:**

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

The applicant states that it conforms to the required codes in Rule 59A-3 and that the schematic drawings include conformity with the code requirements.

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

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

All CMR beds will be designated for the adult population group.

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

The applicant intends to limit the scope of its rehabilitation services to the Comprehensive Integrated Inpatient Rehabilitation Program accredited by CARF and will not seek CARF specialty accreditation for programs such as spinal cord injury or brain injury. It will continue to transfer any patients in need of these specialty services to hospitals equipped to provide such care.

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

As previously noted the applicant will have a medical director who is board-certified and board-eligible in physical rehabilitation and medicine. As a result of the proposed 20-bed CMR project, the applicant intends to add 49.7 FTEs in the first year of operations and 49.6 in the second year. This results in a ratio of 2.49 FTEs per bed, which exceeds the ratio of acute care beds at the hospital with a ratio of 2.17 FTEs per bed. Schedule 6A does not demonstrate FTEs for four of the seven "other required services"; speech therapy, social services, psychological services or orthotic and prosthetic services.

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

In addition to its existing recruitment and retention plan, which includes such things as job fairs, open houses, career days, and advertising in local newspapers, the applicant is acutely aware of the need to put forth special efforts to attract staff required for the various rehabilitation programs and has initiated a number of innovative approaches which are included in the application. The applicant states that it has experienced a turnover rate of registered nurses of 14.2 percent compared to 20.5 percent turnover rate for Florida and 18 percent nationally.

**(e) Expected sources of patient referrals.**

The applicant expects that most referrals will come from the physicians on staff at Palms of Pasadena Hospital.

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

Based on projected patient days the applicant anticipates a patient mix in year two of 74.8 percent Medicare, 4.4 percent Medicaid, and 7.6 percent commercial insurance, 0.9 percent self pay (which includes charity care), 9.2 percent other managed care and 2.5 percent other payers.

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

The applicant has a structured policy in effect to screen for charity care. A copy of the policy is included in the application. The applicant has agreed to be conditioned for 0.2 percent of total annual patient days to charity patients.

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

The applicant currently participates in the data collection activities of AHCA and the local health council and agrees to continue timely reporting in the future.

**4. Statutory Review Criteria**

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

In reference to availability and extent of utilization, there are a total of 170 CMR beds in the district divided among four hospitals, including one specialty rehabilitation hospital. The only hospital in the district that demonstrated high utilization was the specialty CMR hospital, HealthSouth Rehabilitation Hospital, with 92.76 percent utilization for the reporting period, January 2001 through December 2001. It is noted that this hospital recently received a CON to add 20 CMR beds<sup>2</sup>. The district's average occupancy rate was 64.80, down from 66.17 percent during the previous reporting period. The applicant did not demonstrate special circumstances to establish a 20-bed CMR unit. While accessibility of services for some CMR patients may be improved within the immediate service area of the applicant's facility, the applicant did not demonstrate services are not accessible to district residents. With average utilization of existing CMR beds at 64.80 percent, the addition of more CMR beds in the district will only exacerbate issues such as efficiency for CMR providers in the district. Refer to E. 4. b. below for further discussion on quality of care.

Need for the project is not 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.

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

Palms of Pasadena Hospital is accredited by the Joint Commission on Accreditation of Health Care Organizations for the maximum three-year period granted by this organization. In addition, JCAHO accreditation includes the hospital's comprehensive outpatient rehabilitation facility (CORF). The applicant intends to apply for and obtain accreditation by the Commission on Accreditation of Rehabilitation Facilities.

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<sup>2</sup> It is again noted that CON # 9537 to HealthSouth of Largo Limited Partnership was issued via a settlement agreement with the agency in October of 2002

The applicant has in place a comprehensive performance improvement plan that sets forth the organizational and functional strategies to be used in coordinating and integrating risk, safety, and continuous improvement activities on behalf of its patients.

Since August 1997 there have been 12 complaints filed with the Agency regarding the applicant's facility. All of the complaints have been closed and six were confirmed. Three of the confirmed cases involved billing issues, one was related to the emergency room, one was a patients' rights issue and one involved infection control issues. The applicant has a history of providing quality care.

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

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

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

Palms of Pasadena Hospital is not a statutory teaching hospital nor is the proposed project's primary purpose research or physician education. The facility encourages education and self-improvement among its employees. It is a training site for American Heart Association Basic Life Support and Advanced Cardiac Life Support classes and participates in other community based educational activities. The medical staff is encouraged to involve itself in organizations and support groups that results in many hours of volunteer time committed to the community.

- 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 Palms of Pasadena Hospital, LP for the periods ending September 30, 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:

**CON Action Number: 9608**

	09/30/2001	09/30/2000
Current Assets	\$ 16,933,862	\$ 16,209,043
Cash and Current Investment	\$ 0	\$ 0
Assets Restricted for Capital Projects	\$ 0	\$ 0
Total Assets	\$ 81,646,541	\$ 83,468,968
Current Liabilities	\$ 7,981,620	\$ 5,711,859
Total Liabilities	\$ 62,262,351	\$ 66,708,108
Total Equity	\$ 19,384,190	\$ 16,760,860
Net Operating Revenues	\$ 76,656,892	\$ 69,139,633
Interest Expense	\$ 6,874,433	\$ 6,607,750
Net Profit – Operations	\$ 2,784,326	\$ 2,279,787
Net Income	\$ 2,114,514	\$ 2,545,216
Cash Flow from Operations	\$ 5,452,561	\$ (6,443,514)
Working Capital	\$ 8,952,242	\$ 10,497,184
Current Ratio (CA/CL)	2.1	2.8
Cash Flow to Current Liabilities (CFO/CL)	0.7	-1.1
Long-Term Debt to Equity (TL-CL/TE)	2.8	3.6
Times Interest Earned (NPO+Int/Int)	1.4	1.3
Equity to Total Assets (TE/TA)	23.7%	20.1%
Operating Margin (NPO/NOR)	3.6%	3.3%
Total Margin (NI/NOR)	2.8%	3.7%
Return on Assets (NI/TA)	3.4%	2.7%
Operating Cash Flow to Assets (CFO/TA)	6.7%	-7.7%

Palms of Pasadena Hospital, LP is a Delaware limited partnership. The general partner is an indirect wholly owned subsidiary of IASIS Healthcare Holdings, Inc. All cash receipts by the Hospital are deposited into a central account for IASIS and as a result no cash is recorded on the books of the hospital.

IASIS Healthcare Holdings, Inc. is a publicly traded corporation. The applicant submitted IASIS's Form 10-K for the period ended September 30, 2001. The audited financial statements showed \$6.0 million cash, total assets of \$866.3 million and equity of \$166.3 million. IASIS had losses from operations of \$30.9 million in 2001 and \$4.1 million in 2000. Cash flows were \$446.5 million in 2001 and -\$39.4 million in 2000.

**Short-term position:**

The applicant's current ratio of 2.1 indicates current assets are more than two times short-term liabilities. This ratio is at the 50 percentile of Florida hospitals, a good position. The working capital (current assets less current liabilities) of \$9.0 million is a measure of excess liquidity that could be used to fund capital projects. The ratio of cash flow to current liabilities of 0.7 is average. Overall, the applicant has an average short-term position.

**Long-term position:**

The ratio of long-term debt to equity is 2.8 indicating long-term debt is significantly greater than equity. Total equity is \$19.4 million; the ratio of equity to assets is 23.7 percent. These indicators are all below average for Florida hospitals and reveal a weak financial position. The ratio of cash flow to assets of 6.7 percent is slightly above average. Overall, the applicant has a below average long-term position.

**Capital requirements:**

Schedule 2 indicates the applicant has \$22.2 million in capital projects. Schedule 2 did not include maturities of long-term debt. The Audited Financial Statements show a promissory note with IASIS for \$52.8 million due October 4, 2004. This is an inter-company transaction that is likely to roll over.

**Available capital:**

Funding for the proposed project is coming from the parent corporation. The applicant provided a commitment letter from IASIS that stated they would provide all funding for capital projects as needed.

**Conclusion:**

Based on its audited financial statements, the applicant has adequate funding strength to meet the capital needs of the project under review. While IASIS maintains a line of credit agreement and had positive cash flows for 2001, they also had operating losses for 2001 and 2000 casting some doubt on their ability to supply the funds needed for all capital projects. Funding for all capital projects is likely but not fully assured.

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

A comparison of the applicant's estimates to the control group values provides for an objective evaluation of financial feasibility, (the likelihood that the services can be provided under the parameters and conditions contained in Schedules 7 and 8), and efficiency, (the degree of economies achievable through the skill and management of the applicant). In general, projections that approximate the median are the most desirable, and balance the opposing forces of feasibility and efficiency. In other words, as estimates approach the highest in the group, it is more likely that the project is feasible, because fewer economies must be realized to achieve the desired outcome. Conversely, as estimates approach the lowest in the group, it is less likely that the project is feasible, because a much higher level of economies must be realized to achieve the desired outcome. These relationships hold true for a constant intensity of service through the relevant range of outcomes. As these relationships go

beyond the relevant range of outcomes, revenues and expenses may, either go beyond what the market will tolerate, or may decrease to levels where activities are no longer sustainable.

Comparative data were derived from hospitals in peer groups that reported data in 2000; the applicant will be compared to the hospitals in peer group 7. Per diem rates are projected to increase by an average of 3.1 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 \$1,539 in year one and \$1,573 in year two is between the control group median and highest values of \$1,435 and \$1,634 in year one and \$1,478 and \$1,683 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 for this hospital was \$1,447, between the group median and highest values of \$1,291 and \$1,514.

Projected cost per adjusted patient day of \$1,487 in year one and \$1,499 in year two is between the control group median and highest values of \$1,308 and \$1,570 in year one and \$1,347 and \$1,617 in year two. (See Comparative Table). Compared to the control group these costs are efficient. The 2000 actual costs per adjusted patient day reported for this hospital was \$1,396 the highest level in the group.

The year two operating profit for the hospital of \$4.1 million computes to an operating margin per adjusted patient day of \$74 which falls between the peer group median and highest values of \$73 and \$351 respectively. The operating margin indicates that net revenues are proportional to costs. The computed operating margin ratio is 4.7 percent.

This application appears to be financially feasible.

**Comparative Table**

CON # 9608 Palms of Pasadena Hospital, LP 2000 DATA Peer Group 7	2005	YEAR 2	VALUES ADJUSTED		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	180,197,857	3,215	761	576	363
INPATIENT AMBULATORY	0	0	97	39	29
INPATIENT ANCILLARY SERVICES	0	0	3,225	2,392	1,495
OUTPATIENT SERVICES	81,876,238	1,461	1,577	1,204	719
OTHER OPERATING REVENUE	402,166	7	39	10	5
TOTAL REVENUE	262,476,261	4,683	5,196	4,295	3,287
DEDUCTIONS FROM REVENUE	174,334,476	3,110	*	*	*
NET REVENUES	88,141,785	1,573	1,683	1,478	1,254
EXPENSES					
ROUTINE	11,788,559	210	331	208	165
ANCILLARY	34,745,503	620	587	482	410
AMBULATORY	3,015,976				
OVERHEAD	34,459,580	615	772	610	514
OTHER	0	0			
TOTAL EXPENSES	84,009,618	1,499	1,617	1,347	1,198
OPERATING INCOME	4,132,167	74	351	73	-97
		4.7%			
PATIENT DAYS	38,481		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	56,051		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	114,610				
ADJ. FACTOR	0.6865				
TOTAL NUMBER OF BEDS	314				
PERCENT OCCUPANCY	33.6%		75.3%	52.3%	30.7%
PAYER TYPE		PATIENT			
		DAYS % TOTAL			
MEDICARE	25,691	66.8%	76.8%	56.4%	20.1%
COMMERCIAL	396	1.0%			
MEDICAID	1,153	3.0%	23.5%	7.5%	1.1%
PRIVATE	668	1.7%			
HMO/PPO	10,376	27.0%	60.6%	26.0%	9.7%
OTHER	197	0.5%			
TOTAL	38,481	100.0%			

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

The applicant projects managed care to represent 27.2 percent of its patient days. This is between the control group median and highest value of 26.0 and 60.6 percent. The 2000 actual data reported for this hospital was 19.1 percent, between the lowest and median levels of 9.7 and 26.0 percent. The projected level, if realized, is 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.**

Palms of Pasadena Hospital, L.P. proposes to establish a comprehensive medical rehabilitation unit of up to 20 beds through the delicensure of up to 13 skilled nursing beds and seven acute care beds.

All the space involved in the project is existing and most of it will be renovated. There are seven existing patient rooms, which are shared, and they will each be decreased by one patient per room. Removal of headwalls will probably occur in these areas.

The application included a site plan and floor plans, both existing and proposed. The renovations will not increase the footprint of the existing building. There will be nine semi-private rooms and two private rooms, one being an isolation room. All the new rehab rooms have fully accessible toilet rooms, which is required for this kind of patient care.

The existing isolation room has its own accessible shower, and the other 19 patients rely on the two accessible showers located off the central corridor. This ratio of patients to showers meets the applicable codes. A list of codes is included on the cover sheet and is up-to-date.

The information from Schedule 10 indicates that sufficient time has been allowed for construction. The projected cost for the renovation, (\$159/GSF) appears to be reasonable for this type of space and the extent of the renovation required.

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

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

**Palms of Pasadena Hospital's  
Historical Provision of Medicaid and Charity Care  
(Total Hospital)**

<b>Payer</b>	<b>Percent of Days 2000</b>	<b>Percent of Days 2001</b>
Medicare	71.09%	67.85%
Medicaid	1.56%	2.54%
Charity	2.31%	1.76%
Insurance	18.01%	21.08%
All Other	7.03%	6.76%

Source: Application #9608

Information from the Agency's financial review unit, based on fiscal year 2000 data, reflects 0.3 percent gross charity days and 1.8 percent Medicaid day for Palms of Pasadena Hospital. As a condition of approval, the applicant proposes to provide a minimum of three percent of total annual patient days of care to Medicaid patients and a minimum of 0.2 percent of total annual patients days of care to charity patients.

A comparison of the applicant's provision of care to the medically indigent to the district and other CMR hospitals is again shown in the table below:

**Selected District 5 Hospitals Indigent Care Provision  
Compared to the District Average for Class I General Hospitals**

<b>Facility</b>	<b>CMR Beds</b>	<b>County</b>	<b>Medicaid &amp; Medicaid HMO</b>	<b>Charity</b>
Bayfront Medical Center	60	Pinellas	16.1%	3.1%
HealthSouth Rehab Hospital*	70	Pinellas	4.3%	0.0%
North Bay Hospital	20	Pasco	7.1%	0.9%
Palms of Pasadena Hospital**	0	Pinellas	1.8%	0.3%
Sun Coast Hospital	20	Pinellas	8.7%	0.9%
District 5 Weighted Average for all Class I General Hospitals****			6.9%	1.1%

Source: AHCA Hospital Financial Data records for Fiscal Year 2000

\*Specialty CMR hospital

\*\*Applicant for 20 CMR beds

\*\*\*\*Average does not include the following facilities: Kindred Hospital, St. Petersburg; All Children's Hospital; Windmoore Healthcare; and HealthSouth Rehab.

**F. SUMMARY**

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 zero beds was published for comprehensive medical rehabilitation beds in District 5 for the January 2008 planning horizon.

**Need/Special Circumstances**

The applicant is seeking to create a 20-bed CMR unit by delicensing (converting) 13 hospital-skilled nursing beds and seven acute care beds. The applicant claims special circumstances exist which include distance to providers, underutilization of existing CMR beds, and patient choice. However, the applicant's claims are rooted in need to redefine CMR services as non-tertiary and this is contrary to the statutory definition of these services. Although some patients appear to have chosen to decline services offered by existing providers, the applicant failed to demonstrate that services were unavailable, that there was any unmet need for CMR services, or that services were denied to any patient population. There was no demonstration of any access problems to these services and there is some evidence that at least one existing provider will be negatively impacted should this project be approved.

**Quality of Care**

The applicant is accredited by the Joint Commission on Accreditation of Health Care Organizations (JCAHO), which includes its Comprehensive Outpatient Rehabilitation Facility (CORF). Since August 1997 there have been 12 complaints filed with the Agency regarding the applicant's facility. All of the complaints have been closed and six were confirmed. One of the confirmed cases involved billing issues, one was related to the emergency room, one was a patients' rights issue and one involved infection control issues. The applicant has a history of providing quality care.

**Medicaid/Indigent Care**

As a condition of approval, the applicant proposes to provide a minimum of three percent of total annual patient days of care to Medicaid patients and a minimum of 0.2 percent of total annual patients days of care to charity patients. The applicant has a history of service to Medicaid and charity care patients.

**Financial Feasibility**

Based on the audited financial statements, the applicant has adequate funding strength to meet the capital needs of the project under review. Funding for all capital projects is likely but not fully assured however. The application appears to be financially feasible.

**Architectural**

All the space involved in the project is existing and most of it will be renovated. The renovations will not increase the footprint of the existing building. There will be nine semi-private rooms and two private rooms. The projected time and cost for this project appears to be reasonable. There are no architectural concerns expressed in the architectural review.

**G. RECOMMENDATION**

Deny CON #9608.

**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**