

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

HealthSouth LTAC of Tampa, Inc./CON #9612
One HealthSouth Parkway
Birmingham, Alabama 35243

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

2. Service Planning Area/District

Proposed Service Planning Area III/Districts 5, 6, and 8

B. PUBLIC HEARING

A public hearing was not held or requested, nor were any letters of support submitted with regard to the establishment of a long-term care hospital in Hillsborough County.

C. PROJECT SUMMARY

HealthSouth LTAC of Tampa, Inc. (CON #9612) proposes the establishment of a new 40-bed long-term care hospital to be located in Hillsborough County, District 6. The applicant is a wholly owned subsidiary of HealthSouth Corporation, a publicly traded share corporation.

The applicant agrees to condition award of the certificate of need upon providing six percent of its total annual patient days to charity and Medicaid patients on a combined basis.

The proposed project cost is \$12,703,625 and will involve 39,000 GSF of new construction and \$6,386,000 in construction costs.

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.

Chapter 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; Local Health Plans.

1. Fixed Need Pool

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

Need is not published by the Agency for long-term care hospital (LTCH) beds. It is the applicant's responsibility to demonstrate need.

A long-term care hospital is defined as a hospital licensed under Chapter 395, Florida Statutes, which meets the requirements of Part 412, subpart B, paragraph 412.23(e), Code of Federal Regulations; and, where applicable, also meets the requirements for a hospital within a hospital specified under paragraph 412.22(e) of that subpart. A long-term care hospital is exempt from the Medicare acute care prospective payment system. A long-term care hospital has an average length of inpatient stay greater than 25 days for all hospital beds. Long-term care hospitals are designed to provide extended care to patients who are clinically complex and have multiple acute or chronic conditions. Long-term care hospitals typically provide programs in one or more of the following areas: respiratory care, particularly for ventilator-dependent patients; treatment of patients with multiple illnesses or multiple systems failure; treatment of wounds caused by disease or accident; and treatment for patients requiring interdisciplinary rehabilitation services who are unable to tolerate the more intensive treatments provided in a comprehensive medical rehabilitation hospital.

b. Criteria for Determination of Need.

1. New Provider. In determining the need for a new long-term care hospital, the agency shall consider the proposed facility within the context of licensed or approved long-term care hospital beds in the service planning area, and the licensed acute care beds, comprehensive medical rehabilitation beds, hospital-based skilled nursing unit beds, and nursing home beds in the service planning area. The applicant proposing a new long-term care hospital shall provide documentation that the other licensed inpatient beds in the service planning area do not meet the need for the proposed service.

Note: The Centers for Medicare and Medicaid Services (CMS) has established a prospective payment system for short-stay acute care providers to include limited "outlier" payments for long-stay acute care patients in short-stay acute care hospitals. Effective October 1, 2002, CMS implemented a new prospective payment system for long-term care hospital.

CON Action Numbers: 9612

There are presently two long-term care hospitals located in District 6: Kindred Hospital-Central Tampa and Kindred Hospital-Bay Area-Tampa. The two hospitals had utilization rates respectively of 75.01 percent and 68.63 percent for the 12-month reporting period January 2001 through December 2001.

The applicant states that to-date, most of this complex life support care has been provided in intensive care units of short-term hospitals, not the most appropriate or the lowest cost setting for this type of care. The applicant contends that both comprehensive medical rehabilitation (CMR) units of hospitals and hospital based sub-acute care units (HBSNU) generally provide care to patients who are medically stable, can tolerate three or more hours of rehabilitation services per day and are not generally dependent on high technology monitoring or complex diagnostic procedures. The applicant's proposal is to provide services to patients with chronic, complex and medically unstable conditions and intends to develop programs which will include, but are not limited to, respiratory, rehabilitation and medically complex. However, the medically complex patients and possibly some cardiovascular patients will comprise only a small portion of the proposed LTC patients. The applicant's primary focus will be on the respiratory and rehabilitation (brain injury and coma management) patients. While the applicant appears to be claiming that the services it proposes to provide are "acute" rather than "sub" or "post" acute, recent studies by the Centers of Medicare and Medicaid Services (CMS) indicate otherwise. Further, 42 CFR Parts 412, 413 and 476 regarding prospective payment for long-term care hospitals published in Volume 67, Number 169 of the Federal Register describes the universe of LTCHs on page 55960 as:

"LTCHs typically furnish extended medical and rehabilitation care for patients who are clinically complex and have multiple acute or chronic conditions. Generally, Medicare patients in LTCHs have been transferred from acute care hospitals and received a range of "postacute care" services at LTCHs, including comprehensive rehabilitation, cancer treatment, head trauma treatment and pain management."

CMS further draws parallels and distinctions among postacute care providers, most notably rehabilitation providers (page 55965):

CON Action Numbers: 9612

- Most patients in LTCHs had several diagnosis codes on their Medicare claims, indicating that they had multiple co-morbidities and are probably less stable upon admission than patients admitted to other postacute care settings. Relative to intensive rehabilitation facilities (IRFs), LTCHs had a higher proportion of patient costs attributable to ancillary services (for example, pharmacy, laboratory, and radiology charges).
- LTCHs provide care to a disproportionately large number of Medicare beneficiaries who are eligible because of disability. While individuals with disabilities make up about 10 percent of the Medicare population, they make up 17 percent of the LTCH patients.
- LTCH admissions typically come from outlier acute care hospital, nonoutlier acute care hospital, and other (indicating direct admissions without acute stay)
- In terms of age, those without prior acute care stays were younger and about twice as many were under the age of 65, with a mean age about five or three years lower than those with prior acute care stays (whether outlier or nonoutlier). When compared to intensive rehabilitation facilities (IRFs) the proportion of LTCH patients who are under 65 years of age (18 percent) was twice that of IRF patients (9 percent).
- About 1/3 of the LTCH Medicare stays were beneficiaries who are also eligible for Medicaid, compared to fewer Medicaid-eligible beneficiary stays at IRFs. CMS states that it is widely documented that dually eligible beneficiaries are generally much sicker than non-Medicaid eligible Medicare beneficiaries.

The applicant has attempted to define its patient population. As noted above, studies have been conducted recently by CMS in an attempt to understand the “universe” of LTCHs. Although the applicant has defined the patient population it intends to serve, it has not made it clear that this patient population is not currently being served by other providers in the area. The applicant has presented no evidence that patients with serious, complex and chronic conditions are unable able to access care.

The applicant states that the Kindred LTCH facilities, two of which are operational in Hillsborough County are known for their focus on respiratory/pulmonary disorders, whereas other LTCHs tend to provide a wide range of services to medically complex patients in addition to patients with pulmonary and respiratory disorders. The applicant notes that pulmonary cases comprise 83.8 percent of the Kindred-Tampa LTCH facility and 44.9 percent of Kindred-Central Tampa patient days. Although the patient day data provided by the

CON Action Numbers: 9612

applicant indicates that Kindred-Tampa does see a high pulmonary patient caseload, the other Kindred-Central Tampa facility provides less pulmonary days than the state average of 53.5 percent and correspondingly less percent of total cases (42.2 percent at Kindred-Central Tampa compared to the state average of 48.7 percent). This appears to be verified by Discharge Data Summary Reports for the two Kindred facilities indicating that 44.92 percent of Kindred-Central Tampa's total patients for CY 2001 were respiratory disease patients while 74.23 percent of the patient load at Kindred-Tampa had the same principal diagnosis (DRGs460-519).

AHCA population estimates for District 6 show the following:

**Total Population Projections
January 2002 - January 2008**

County	Total January 2002	Total January 2008	Percent Change
Hillsborough	1,042,828	1,117,487	7.2%
District 6-All Other	894,772	975,230	9.0%
Total District	1,937,600	2,092,717	8.0%

**Age 65 and Over Population Projections
January 2002 - January 2008**

County	65 plus January 2002	65 plus January 2008	Percent Change
Hillsborough	125,990	146,488	16.3%
District 6-All Other	194,503	225,404	15.9%
Total District	320,493	371,892	16.0%

Source: AHCA, Population Projections, December 2001

As shown above, the population in District 6 is expected to increase by 8.0 percent during the next six years, with the 65 and over age cohort increasing by 16.0 percent. For Hillsborough County, the increase is anticipated to be 7.2 percent for the total population and 16.3 percent for the 65 and over population. Although not shown in the table above, the 75 and over population is expected to increase by 16.9 percent for the same time period. As expected, the 65 and over and 75 and over population is expected to increase at a higher rate for the district and Hillsborough County.

HealthSouth states that the establishment of a LTCH hospital in Tampa (Hillsborough County) will meet the needs of and enhance the continuum of services to residents of District 6 and correspondingly reduce the costs to the health care system. The applicant also contends that as an additional benefit, District 5 patients might also access the facility given the proximity to the facility which the applicant contends would be more proximate to those residents and physicians than any of the existing LTCHs statewide. The applicant

makes this latter statement based on the current high occupancy of the Kindred Hospital located in St. Petersburg (District 5). The Kindred facility in St. Petersburg reported an average occupancy rate of 98.02 percent for calendar year 2001. Although the District 5 facility is highly utilized, the two Kindred facilities located in District 6 had an average occupancy rate of 72.35 percent for CY 2001, an indication that LTCH beds are available to meet the needs of the residents of District 6.

The applicant presented several different methodological approaches to determine need for the proposed project. However, as previously stated, the applicant did not further quantify need for an additional LTCH provider by performing an assessment of problems encountered by health care providers in placing medically complex patients. Specific 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. In view of the lack of specific documentation regarding LTCH placement problems and the apparent availability of LTCH beds in District 6, the need for the proposed project is not demonstrated.

- 2. Limitation on Approvals. The agency will not approve more than one new long-term care hospital for a service planning area during a review cycle. No additional long-term care hospital will be approved for a service planning area that has an approved new provider not yet licensed.**

HealthSouth is applying for a new freestanding LTCH hospital. There is currently no approved LTCH Hospital in Service Planning Area Three comprised of Health Planning Districts 5, 6 and 8.

2. Local Health Plan Preferences

Is need for the project evidenced by the applicable district health plans? Applicants shall provide evidence in their applications that a proposed long-term care hospital is consistent with the needs of the community and other criteria contained in Local Health Council Plans. ss. 408.035(1) and 408.037(1), Florida Statutes, and Ch. 59C-1.030(2)(c), Florida Administrative Code.

The October 2002 District 6 CON Allocation Factors Report lists the following generic preferences relevant to all CON applicants:

- (a) **Preference shall be given to CON applications who proposes to locate a new facility in an area that will improve access for Medicaid and indigent patients.**

The applicant states its intention of being a participating provider in the Medicare and Medicaid programs and has requested that the proposed project be conditioned to provide a combined mix of Medicaid and charity care patient days of six percent. The applicant does indicate on Financial Schedule 7A that it will provide 2.50 percent of total patient days to Medicaid patients in year two but does not specifically indicate an amount of charity care to be provided. The provision of any amount of Medicaid and charity care is minimal at all existing LTCH hospitals in the state. There is no indication that the proposed project will improve access for Medicaid and indigent patients.

- (b) **Preference shall be given to the applicant which follows through in a timely manner to construct and operate the additional facilities or beds, and do not use them for later negotiations with other organizations seeking to enter or expand the number of beds they own or control.**

The applicant states its intention to implement the proposed project without engaging in any negotiations with any other organizations.

The October 2002 District 6 CON Allocation Factors Report lists the following preferences relevant to CON applications for acute care beds.

- (a) **Preference shall be given to a CON applicant who provides AHCA with documentation that they provide, or will provide, the largest percent of Medicaid and charity care patient days in relation to other hospitals in the subdistrict.**

Based on 1999 Hospital Financial Data regarding state averages for licensed LTCH hospitals, the two existing LTCH hospitals in Tampa provided the following amount of Medicaid and charity care.

**Amount of Medicaid and Charity Care Provided By District 6
LTCH Hospitals in Comparison with State Averages**

Hospitals	Medicaid Days % of Total Patient Days	Ratio of Charity Care Deductions to Net Patient Service Revenue
Kindred-Tampa	2.0%	20.1%
Kindred-Bay Area	0.8%	17.1%
State Average	3.4%	8.7%

Source: 1999 AHCA Hospital Financial Data Report

As shown above, the existing Kindred LTCH Hospitals in District 6 averaged less Medicaid than the state average but considerably more charity care than the state average. The applicant is proposing a combined total of six percent Medicaid and charity care days. The applicant's provision of Medicaid per Schedule 7 is 2.50 percent which is higher than the district average. However, the applicant does not specifically indicate the provision of charity care per Schedule 7. There is no indication that the applicant will meet or exceed the District 6 average provision of charity care.

- (b) Preference shall be given to a CON applicant who requests the transfer of existing beds and/or service complement should be given preference if the applicant can document commitment to provide care and assure access for the community regardless of ability to pay.**

The proposed project does not involve a bed transfer, nor are there available beds operated by the applicant to convert.

- (c) Preference shall be given to CON applications that can document the minimum occupancy standards in medical/surgical and pediatric bed categories.**

The proposed project involves new LTCH hospital beds and no medical/surgical and/or pediatric beds are proposed.

- (d) Preference shall be given to CON applications that document the impact associated with the transfer of existing beds**

The proposed project does not involve a bed transfer.

- (e) Preference shall be given to CON applications that document the cost-effectiveness and efficiency associated with the addition and/or transfer of new or existing beds.**

The proposed project does not involve the addition and/or transfer of new or existing beds.

- (f) **Preference shall be given to CON applications that identify existing and approved providers of like services in the proposed planning area and provide an analysis of need for the proposed service, including the impact of the proposed project on existing providers and why the identified need is not currently being met.**

The applicant contends that there is a shortage of LTCH beds in the district and that the proposed project will not impact existing providers. However, this was not demonstrated since the applicant did not sufficiently demonstrate a shortage of LTCH beds or that problems currently exist in discharging medically complex patients to area providers. The two existing Kindred facilities in Hillsborough County reported an average occupancy of 72.35 percent for CY 2001. In view of this occupancy rate, the addition of LTCH beds could have a detrimental impact on existing facilities.

3. **Agency Rule Criteria** *(The Agency does not currently have adopted preferences relating to LTCHs; however, the draft rules for LTCHs do contain specific preferences which were not addressed by the applicant)*

- a. **Preferences Among Applicants for Long-Term Care Hospital Beds. In weighing and balancing statutory and rule review criteria, the agency will give preference to:**

1. **An applicant who provides or proposes to provide Medicaid days as a percentage of their total patient days equal to or greater than the statewide average percentage of Medicaid patient days provided by all long-term care hospitals, as determined in the Agency's most recent "Hospital Financial Data" report.**

According to the most recent "Hospital Financial Data" report, which contains Fiscal Year 1999 data, LTCH hospitals in Florida provided an average of 3.4 percent Medicaid patient days of total patient days.

The applicant did not specifically address this preference. However, according to Schedule 7A, the applicant is projecting that Medicaid days will represent 2.50 percent of total patient days in each of the first two years of operation. The applicant agrees to condition award of the certificate of need and provide a minimum of six percent of total annual patient days to combined Medicaid/charity patient days.

This amount of Medicaid does not exceed the statewide average. Based on its projections, the applicant does not appear to meet this preference.

2. **An applicant who has or proposes to have a ratio of charity care deductions to net patient service revenue equal to or greater than the statewide average ratio for all long-term care hospitals, as determined in the Agency's most recent "Hospital Financial Data" report.**

The 1999 Hospital Financial Data Report shows that the statewide average ratio for all long-term care hospitals of charity care deductions to net patient service revenue for all long-term care hospitals is 8.7 percent.

The applicant did not specifically address this preference. However, based on the requested condition, it appears that the applicant is projecting that charity care will represent 3.5 percent of total patient days in each of the first two years of operation of the proposed facility. The applicant does not meet this preference.

3. **An applicant who proposes to serve Medicaid-eligible persons.**

The applicant did not specifically address this preference. However, as previously discussed, the applicant is projecting that Medicaid patient days will comprise 2.5 percent of total patient days. As expected, Medicare is expected to comprise 78 percent of total projected patient days in the first year of operation.

4. **An applicant who proposes to serve individuals without regard to their ability to pay.**

The applicant did not specifically address this preference. However, as previously noted, the applicant has conditioned the CON on the provision of a total of 6.5 percent of total patient days be devoted to Medicaid and charity care patients. It appears that the actual charity care proposed will comprise 3.5 percent of total patient days, while Medicaid will comprise the remaining 2.5 percent.

5. **An applicant who proposes to convert existing hospital beds.**

The applicant is not proposing to convert existing hospital beds.

- b. **Required Services. Long-term care hospital services, as provided by the hospital or by contract, shall include at a minimum:**

1. **Pre-admission screening.**
2. **Care for patients with multiple complex diagnoses.**
3. **Care for patients with multi-system failure.**
4. **Services for difficult-to-wean ventilator-dependent patients.**
5. **Services for patients who cannot be weaned from ventilator dependence.**
6. **Respiratory/pulmonary care.**
7. **Airway restoration.**
8. **Intensive wound care.**
9. **Nutrition services, including metabolic analysis, invasive enteral tube placement, and total parenteral nutrition.**
10. **Infusion therapy.**
11. **Daily physician assessments.**
12. **An average of at least eight direct patient care nursing hours per patient per day.**
13. **Physical therapy, occupational therapy, speech therapy, and respiratory therapy.**
14. **On-site laboratory, radiology, and pharmacy.**

The applicant did not specifically respond to the above listed services provision.

- c. **Quality of Care. Long-term care hospital services shall comply with the agency standards for long-term care hospital licensure described in Chapter 59A-3, Florida Administrative Code. Applicants who include a statement in their certificate of need application that they will meet applicable agency licensure standards are deemed to be in compliance with this provision.**

The applicant did not specifically respond to this provision. However, in response to the applicant's history and ability to provide quality of care, the applicant appears to have programs in place at other affiliated LTCH to provide quality care.

- d. **Minimum Hospital Size. Freestanding long-term care hospitals established after the effective date of this rule shall have a minimum of 60 licensed beds.**

The applicant is proposing a 40-bed freestanding LTCH.

- e. **Services Description. An applicant for long-term care hospital beds shall provide a detailed program description in its certificate of need application including:**

1. **Characteristics of age groups to be served by age and diagnosis.**

The applicant did not respond to this provision of the proposed rule.

2. **Specialty programs to be provided.**

The applicant did not respond to this provision of the proposed rule. However, elsewhere in the application the applicant states that it intends to provide the following programs including but not limited to: Infection diseases/antibiotic therapy program, wound care management, complex medical care program, stroke program and pulmonary program.

3. **Proposed staffing, including qualifications of the medical director, a description of staffing appropriate for any specialty program, and a description of the training and experience requirements for all staff who will provide direct patient care.**

The applicant does not specifically identify medical and support staff but indicates in Schedule 6A that 84 new FTE staff will be recruited for the available positions in the first year, increasing to 101 FTE's in year two. The applicant does state that medical and support staff will be specially trained to manage medically complex patients.

4. **Expected sources of patient referrals. Applicants shall include evidence of transfer agreements with local hospitals indicating an intent to discharge appropriate patients to the proposed long-term care hospital.**

The applicant did not specifically respond to this provision of the proposed rule. However, from information contained

elsewhere in the application, it appears that the proposed facility will receive referrals from area hospitals and affiliated comprehensive medical rehabilitation services.

5. Expected average length of stay for discharges by age group.

The applicant did not specifically respond to this provision of the proposed rule. However, according to the various methodologies presented, it appears that the applicant is projecting an average length of stay of 42.5 days.

6. Expected discharge destination by age group.

The applicant did not specifically respond to this provision of the proposed rule.

7. Projected number of 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.

Projected Patient Days and Percentage By Payer Type, Year Two

Applicant	Self Pay	Medicaid	Medicare	Insurance	HMO/PPO	WC
HealthSouth (9612)	419 4.50%	233 2.50%	7,254 78.00%	930 10.00%	186 2.00%	279 3.00%

Source: Schedule 7A

The above table provides a comparison of the proposed patient days and percentages by payer group for the second year of operation for each respective applicant.

8. Admission policies of the facility with regard to charity care patients.

The applicant did not respond to the provision in rule. However, in response to proposed Rule 59C-1.045, the applicant states that it will admit patients who meet their admission criteria regardless of ability to pay.

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) and 408.035(7), Florida Statutes.**

HealthSouth LTAC of Tampa, Inc. states that there is a lack of "like and existing" facilities in District 6. The applicant basically contends that while there are existing LTCH hospitals in the district, they are generally fully occupied and/or not accessible to area patients. However, as previously shown, this was not demonstrated by the applicant through letters of support and documentation that providers are encountering problems in placing medically complex patients in LTCHs in the district. The existing two Kindred LTCH facilities in District 6 have 175 beds and reported an average occupancy rate of 72.35 percent for CY 2001. There is no justification provided that the proposed project will substantially improve accessibility to LTCH services in the district.

Although the applicant provided sufficient discussion to conclude that it has the ability to provide quality of care, there is no indication that existing providers of LTCH services are not providing quality of care.

With regard to efficiency, the applicant states its intention to provide service at a reasonable price and in a cost-efficient/effective manner. However, the financial review of the project (*Reference Item 4-f, regarding the immediate and long-term financial feasibility of the project*) concludes that the projected costs are significantly underestimated and that the project, as presented, is not financially feasible.

Need for the project is not evidenced by the availability, quality of care, 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 providing quality of care? Has the applicant demonstrated the ability to provide quality care? ss. 408.035(3), Florida Statutes.**

HealthSouth LTAC of Tampa, Inc. does not have any operational long-term care hospitals in Florida. The applicant states that the parent corporation's experience, knowledge, and accreditation principals will clearly benefit the proposed facility. The applicant intends to seek accreditation and implement appropriate protocols to maintain a superior quality of care. The applicant further states that its performance improvement programs will be interdisciplinary in nature.

CON Action Numbers: 9612

It is the intent of the applicant to use the performance improvement plans instituted at other HealthSouth Florida locations. The quality management department will implement the performance improvement plan to measure, assess, and improve patient care on an ongoing basis.

- 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.**

Currently, there are existing LTCH providers in District 6 as well as in adjacent District 5. Therefore, the applicant is not proposing LTCH services that are not reasonably and economically accessible in the proposed service area or in adjacent service areas.

- 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 statutorily defined teaching hospital nor will the primary purpose of either project involve research or physician education.

The applicant does state that HealthSouth Corporation is one of the largest clinical training and development resources in the nation and lists behind Tab 4 of the application the more than 750 colleges and universities who conduct on-site clinical training at HealthSouth facilities. The applicant also states that HealthSouth Corporation supports ongoing medical research and education through established partnerships with prestigious schools, that the proposed project will enhance research and positively impact the clinical training needs of health professionals in the region, and that the proposed project will enhance the clinical needs and employment opportunities available to health care professionals in District 6. According to the applicant, HealthSouth Corporation will establish agreements/affiliations with educational/training programs to use the proposed hospital for applicable clinical training and internships. Also, the applicant says it will be able to expand and develop new programs and services for patients and as such introduce new clinical areas for the education of future clinicians and support personnel, which will in turn enable educational opportunities, which do not exist locally.

- 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 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 LTAC of Tampa, Inc. is a for-profit company formed for the purpose of developing a freestanding long-term acute care hospital. The applicant is a development stage enterprise with no assets, \$10 in equity and no revenues as of August 31, 2002.

The applicant is a wholly owned subsidiary of HealthSouth Corporation. HealthSouth's 10K report for 2001 disclosed that the Corporation had cash on hand of \$276.6 million, current assets of \$1.7 billion, total assets of \$7.6 billion, revenues of \$4.4 billion, net income of \$202.4 million and cash flows of \$670.4 million for the period ended December 31, 2001.

Capital requirements:

The capital costs for this project are \$12.7 million. Schedule 2 indicates a total of \$12.83 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 FTE staff of 101 in the first year of operation, increasing to 107 in year two.

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. 408.035(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.

The Centers for Medicare and Medicaid Services (CMS) published a prospective payment system (PPS) rule for long-term care hospitals (LTCH) effective for cost reporting periods beginning or after October 1, 2002. Under the 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.

A new LTCH must demonstrate a 25-day average length of stay for six months prior to receiving a Medicare exemption as an LTCH. During the six-month period, Medicare payment is the acute care rate. Since the first year estimates would be skewed by lower revenue in the first six months, this data will not be used for comparative purposes.

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 \$979 in year two is between the control group lowest and median values of \$833 and \$1,072. The lowest value is generally viewed as the practical lower limit on economies of operation. (See Comparative Table).

CON Action Numbers: 9612

Projected cost per adjusted patient day of \$591 in year two is below the control group lowest values of \$861 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 ancillary cost per adjusted patient day of \$104 in year one and \$112 in year two to be significantly lower than the control group lowest values of \$224 and \$231. (See Comparative Table). It is likely that estimated costs are understated.

The year two operating profit for the hospital of \$3.6 million computes to an operating margin per adjusted patient day of \$387 which falls above the peer highest value of \$219. This indicates that net revenues are not proportional to costs. The computed operating margin ratio of 39.6 percent appears high; it is likely that operating income is overstated.

Overall, the financial projections are problematic. Levels of spending in patient care are significantly below historical levels in freestanding hospitals. The operating margin of 39.6 percent indicates that spending is disproportionate to revenues. Expenses and profits are likely to be materially misstated. In an industry where a 10 percent profit margin is considered good, the projected margin indicates that costs are significantly underestimated. While the ability of HealthSouth to operate a long-term care hospital is not in question, the project, as presented, is not financially feasible.

CON Action Numbers: 9612

Comparative Table

CON # 9612 HealthSouth LTAC of Tampa, Inc. 2000 DATA Peer Group 12	2006	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	6,510,000	698	913	727	551
INPATIENT AMBULATORY	0	0	6	0	0
INPATIENT ANCILLARY SERVICES	5,775,300	619	4,039	2,914	1,739
OUTPATIENT SERVICES	0	0	181	3	0
OTHER OPERATING REVENUE	36,000	4	15	2	0
TOTAL REVENUE	12,321,300	1,321	4,793	3,625	2,532
DEDUCTIONS FROM REVENUE	3,192,223	342	*	*	*
NET REVENUES	9,129,077	979	1,912	1,072	833
EXPENSES					
ROUTINE	1,743,010	187	449	253	210
ANCILLARY	1,048,300	112	533	242	231
AMBULATORY	0				
OVERHEAD	2,724,323	292	966	438	362
OTHER	0	0			
TOTAL EXPENSES	5,515,633	591	1,923	930	861
OPERATING INCOME	3,613,444	387	219	4	-55
		39.6%			
PATIENT DAYS	9,301		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	9,328		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	14,600				
ADJ. FACTOR	0.9971				
TOTAL NUMBER OF BEDS	40				
PERCENT OCCUPANCY	63.7%		98.2%	85.0%	52.4%
PAYER TYPE	PATIENT	% TOTAL			
MEDICARE	DAYS				
	7,254	78.0%	95.7%	74.1%	56.9%
COMMERCIAL	930	10.0%			
MEDICAID	233	2.5%	16.9%	0.4%	0.0%
PRIVATE	419	4.5%			
HMO/PPO	186	2.0%	19.6%	14.2%	0.0%
OTHER	279	3.0%			
TOTAL	9,301	100.0%			

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

The projected Medicare and Medicaid days as a percent of total days in year two is 80.5 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? Do they comply with statutory and rule requirements? ss. 408.035(10), Florida Statutes; Ch. 59A-3 or 59A-4, Florida Administrative Code.**

The drawings include a floor plan of the single story building. It consists of a long rectangle with another rectangle overlaid at a skewed angle. The main entrance area bisects the building and all the patient rooms are located on one side of the building. On the other side are the staff and business offices, therapy areas, food service and other ancillary spaces. There is a large patient dining room and generous quarters for management and staff. Space is provided for extensive patient records within the business office area. The plan is quite straightforward and well organized. It has three smoke compartments and the rated walls are shown where required in most cases.

The facility has the required pharmacy, radiology area and laboratory but has no space(s) indicated for emergency services. Although an emergency department is not required, a designated area to provide emergency services must be incorporated in the facility. There are no surgical or anesthesia departments shown with their required ancillary spaces such as pre-op and recovery. These functional spaces must be located on site per Chapter 59A-3 of the Florida Administrative Code.

Since there is no laundry shown, it is assumed that this service will be contracted off-site. Adequate space for soiled linen holding and clean linen receiving need to be addressed in more detail than is shown on the schematic plan included in the application.

Ten of the patient rooms are private and the rest are semi-private. Each room has a wheelchair-accessible shower and a lavatory within the patient room instead of in the toilet/shower room. There are two nurse stations centrally located and back-to-back within the patient room area. Required ancillary support spaces have been provided as well as a pharmacy, prep and exam rooms within the patient room area.

There has obviously been a great deal of thought put into the plan with the patient's needs and convenience involved. There are a few minor instances where further study will be needed such as several doors that open into a corridor.

There is no explanation as to why there is a rather spacious area containing men's lockers and an accessible toilet/shower off the main physical therapy room and no similar facilities for women.

CON Action Numbers: 9612

The list of applicable building codes is incorrect for quite a few of the codes. This is not a significant issue. The correct codes will have to be adhered to when and if the project progresses. The AHCA Office of Plans and Construction will have input at this time and will insure that all code information is correct.

A potentially significant issue is that no reference is made to the Disaster Preparedness Sections of The Florida Building Code and Chapter 59A-3 of the Florida Administrative Code. The provisions regarding the site conditions and the construction requirements are crucial to the project. Since a site has not been selected, it is imperative that the applicant be aware of these code issues before continuing the design process and certainly before the final selection of the site.

The plan of the facility appears to be identical to two other proposed long-term acute care hospitals submitted by HealthSouth. Total project cost information was obtained from Schedule 1 and not Schedule 9.

- 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.**

According to AHCA Fiscal year 1999 data, LTCH hospitals in Florida provided an average of 3.4 percent Medicaid patient days of total patient days and 8.7 percent of charity care deductions to net patient service revenue.

HealthSouth LTAC of Tampa, Inc. is not an existing licensed provider of LTCH services in Florida. The applicant agrees to condition award of the certificate of need on the combined provision of six percent of total patient days for Medicaid and charity care. Schedule 7A of the application does not indicate any percentage of projected patient days for indigent or charity patients. There is no indication given that the proposed project will meet or exceed the state averages.

F. SUMMARY

HealthSouth LTAC of Tampa, Inc. proposes the establishment of a new 40-bed freestanding long-term care hospital to be located in Hillsborough County in District 6.

The project involves a total of 40,000 GSF of new construction and construction costs of \$6,386,000. The total project cost is stated to be \$12,703,625.

The applicant is requesting that the project be conditioned for the provision of a combined total of six percent for Medicaid and charity care.

Need:

- The applicant did not demonstrate that existing LTCH beds in District 6 are not sufficient to meet the needs of patients requiring medically complex services. The applicant did not quantify need by performing an assessment of problems encountered in placing medically complex patients. Need for the project was not reasonably demonstrated.

Quality of Care:

- The applicant does not currently own or operate LTCHs in the State of Florida. The applicant reasonably demonstrated the potential to provide quality of care based on their experience and existing policies in place at other facilities.

Cost/Financial Analysis:

- The applicant is a development stage enterprise with no assets, no equity and no revenues as of March 31, 2002. The company is a wholly owned subsidiary of HealthSouth Corporation whose most recent 10K report for the period ended December 31, 2001, disclosed \$276.6 million in cash on hand, \$1.7 billion in current assets and \$7.6 billion in total assets. The company had \$4.4 billion in revenues, \$202.4 million net income and \$670.4 million in cash flows. HealthSouth Corporation provided a commitment letter for funding the project. Based on HealthSouth Corporation's 10K report, and their commitment to fund this project, funding for this project should be available as needed. Costs are significantly understated and the project may not be financially feasible.

CON Action Numbers: 9612

- The financial review indicates that it is likely that estimated costs for the project are understated in view of the fact that projected cost per adjusted patient day is below the control group lowest values. In addition, projected net revenues do not appear to be proportional to costs. The financial review concluded that the project as presented is not financially feasible.
- With the large majority of patient care being provided from fixed price government payer sources, the proposed project is not likely to have any discernable positive impact on competition to promote quality assurance or cost-effectiveness.

Architectural Analysis:

- The proposed plan appears well organized. The facility has the required pharmacy, radiology area and laboratory but has no space(s) indicated for emergency services. Although an emergency department is not required, a designated area to provide emergency services must be incorporated in the facility. There are no surgical or anesthesia departments shown with their required ancillary spaces such as pre-op and recovery. These functional spaces must be located on site per Chapter 59A-3 of the Florida Administrative Code. Since there is no laundry shown, it is assumed that this service will be contracted off-site. Adequate space for soiled linen holding and clean linen receiving need to be addressed in more detail than is shown on the submitted schematic plan.
- The list of applicable codes is incorrect for quite a few of the codes. The correct codes will have to be adhered to when and if the project progresses. A potentially significant issue is that no reference is made to the disaster preparedness sections of The Florida Building Code and Chapter 59A-3 of the Florida Administrative Code. The provisions regarding the site conditions and the construction requirements are crucial to the project. Since a site has not been selected, it is imperative that these code issues be addressed prior to continuing the design process and selection of the site.

G. RECOMMENDATION

Deny CON #9612.

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