

**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 #9708**

d/b/a Palms of Pasadena Hospital  
1501 Pasadena Avenue South  
St. Petersburg, Florida 33707

Authorized Representative: Mr. Joseph Schlagheck  
(727) 341-7577

2. Service District/Subdistrict

District 5 (Pinellas and Pasco Counties)

**B. PUBLIC HEARING**

A public hearing was held on October 24, 2003 at the request of representatives of Bayfront Medical Center, Inc. in response to the application by Palms of Pasadena Hospital, L.P. to establish a 20-bed comprehensive medical rehabilitation unit. There were four persons in attendance and two members of the [Suncoast Health Council, Inc.](#) staff. Of the four attendees, three were opposed to CON #9708 and one was in favor of it. The person favoring the project did not speak nor did one of the three opposing the project. Comments from the two public hearing speakers are below.

Joann Gardner, Director, Patient Care Services, Bayfront Medical Center presents an overview of Bayfront's existing program and states her opposition to CON #9708. Ms. Gardner states that in order to run an inpatient rehabilitation facility, highly experienced and certified staff is required and Bayfront staff has a history of working with rehabilitation patients that range from six to 28 years. Bayfront's rehabilitation program is highly qualified and they maintain that by engaging in regular

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surveys by JCAHO and CARF (medical and vocational rehabilitation accrediting bodies). She opposes CON #9708 because there is no need for additional comprehensive medical rehabilitation beds as evidenced by the AHCA 2003 Hospital Beds and Facilities Fixed Need Pool.

She also indicates that according to the Federal Register, 13 percent of all inpatient rehabilitation facilities are failing to meet the admission impairment category requirements. Currently the inpatient rehabilitation facility admission requirements are 65 percent major (12 diagnoses) and 35 percent minor (11) rehabilitation impairment categories. The ratio will return to 75 percent (major rehabilitation impairment categories) and 25 percent minor 11 rehabilitation impairment categories in 2007. As a trauma Level II emergency room, Bayfront is able to meet these requirements. However, the introduction of another facility could negatively impact Bayfront's ability to meet the Federal rehabilitation requirements because Palms of Pasadena, which is presently an intermediate care facility, would be retaining patients in the major rehabilitation impairment categories.

Lastly, Bayfront has and will continue to have beds that are available to the community and hospitals.

Dr. Marc Reiskind, Pinellas Psychiatry Associates, opposes CON #9708 on the basis of patient care issues. He spoke of the limited number of nurses in the community, with even fewer available that understand the intricacies of comprehensive medical rehabilitation. Dr. Reiskind felt that a dilution of services would occur if additional comprehensive medical rehabilitation beds are made available in the community. He also wondered if Palms of Pasadena is capable of dealing with complicated neurological cases stating that currently, Bayfront receives their most difficult cases. Dr. Reiskind also pointed out that if Palms of Pasadena were to strive to become CARF certified, they would need available physicians 24 hours a day, seven days a week. With such few specialists in the county (only five to six) and very few new graduates nationally, this could present a barrier in our county. Dr. Reiskind concluded by restating that if Palms of Pasadena were granted the ability for the expansion, less quality care would be provided in the community.

The hearing was concluded after Dr. Reiskind's comments.

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 states 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."

Three physician letters of support for the project were received via the mail. These primarily speak to the outstanding quality of care provided at Palms of Pasadena Hospital. Two of these basically restate Dr. Rosenberg's comments concerning Palms of Pasadena Hospital's orthopedic patient growth, skilled nursing care available and stress of travel for the elderly population. They did not include projections of the number of patients the project may serve.

Another letter was received by the Agency in opposition to the proposed project. Mr. James Hauser, representing Sun Coast Hospital in Largo, cited several reasons why the project is not needed including historical utilization in existing District 5 CMR beds. Mr. Hauser indicates that existing CMR beds in District 5 are operating below optimal levels. He further states: "Utilization of the applied for 20 beds 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 2003 batching cycle, occupancy in Sun Coast Hospital's 20-bed CMR unit in calendar year (CY) 2002 was 48.38 percent. Mr. Hauser concludes his letter by stating that Sun Coast Hospital would be substantially and adversely impacted by approval of additional CMR beds in District 5.

**C. PROJECT SUMMARY**

**Palms of Pasadena Hospital, L.P. (CON #9708)** d/b/a Palms of Pasadena Hospital is part of a for profit hospital management company, which owns or operates 14 general acute care hospitals in four states. The Palms of Pasadena Hospital is 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. The applicant proposes to establish a 20-bed comprehensive medical rehabilitation (CMR) unit at the hospital. The applicant's letter of intent indicated this would be accomplished by the conversion of up to 20 acute care beds and skilled nursing beds at the facility. While not discussed in the project summary, Pages 1-33 and 2-5 of the application indicate that the hospital's 13-bed skilled nursing unit and seven acute care beds will be converted to create the CMR unit.

As a condition of the approval, the applicant proposes to provide a minimum of 3.9 percent of the 20-bed CMR unit's total annual patient days of care to Medicaid patients and a minimum of one percent of the unit's 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 \$325,420. The project encompasses 5,850 GSF of space that includes 1,060 GSF to be renovated at a cost of \$175,433. 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, James B. McLemore, analyzed the application with consultation from the financial analyst, Doug Pierce, 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 29, Number 30, dated July 25, 2003 on page 3008 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 2009 planning horizon.

District 5 has 170 licensed and 20 CON approved comprehensive medical rehabilitation beds. The comprehensive medical rehabilitation beds in District 5 are reported in the July 25, 2003 edition of the Agency's publication *Florida Hospital Bed and Service Utilization by District, Volume II*, as having an average occupancy rate of 64.18 percent during the period January 2002 through December 2002.

The following table reflects the Agency's published utilization data on page 70 of the *Florida Hospital Bed and Service Utilization by District, Volume II*.

**CMR Occupancy Rates  
District 5  
Calendar Year 2002**

<b>Facility</b>	<b>County</b>	<b>Licensed Beds</b>	<b>% Occupancy</b>
North Bay Hospital	Pasco	20	69.18%
Sun Coast Hospital	Pinellas	20	48.38%
HealthSouth Rehabilitation Hospital	Pinellas	70	91.06%
Bayfront Medical Center	Pinellas	60	36.42%
Total/Average		170	64.18%

Source: Florida Hospital Bed and Service Utilization by District - July 25, 2003.

The applicant proposes to add 20 CMR beds through conversion of seven acute care and 13 hospital-based skilled nursing unit beds. The applicant is seeking beds on the basis of special circumstances.

- 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.**

As shown above, the average annual occupancy rate of all the licensed CMR beds in District 5 for the CY 2002 reporting period was 64.18 percent. Accordingly, 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 Administrative Code, 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 it serves more patients that qualify under the Inpatient Rehabilitation Facilities Prospective Payment System reimbursement criteria of the Centers for Medicare and Medicaid (CMS) than the two 20-bed CMR providers in the district and implies that while it attempts to transfer patients to existing 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.

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The applicant presents a comparison of the CMR units in District 5 compared to the 44 reporting CMR providers during CY 2002 in the state which shows that Bayfront Medical Center ranks 40<sup>th</sup> and Sun Coast Hospital 44<sup>th</sup> in terms of lowest occupancies. 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 2002 reporting period, Bayfront Medical Center experienced 36.42 percent occupancy of its 60 comprehensive medical rehabilitation beds and Sun Coast Hospital experienced 48.38 percent utilization of its 20 comprehensive medical rehabilitation beds. The applicant presented two tables on pages 1-23 and 1-24 of the application demonstrating 11 years of utilization at these hospitals. For the 11-year period, 1992 - 2002 Bayfront Medical Center had an average daily census of 22, 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 Mr. Hauser, representing 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 at 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 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. This letter and other support letters in the file appear 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 Mr. Hauser'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. 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, which will impact other patients in the district. 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 CY 2003 CON Allocation Factors Report provides the following preferences in the review of applications pertaining to comprehensive medical rehabilitation beds:

**a. 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.

**b. 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 2002 through December 2002, the 294 acute care beds at Palms of Pasadena Hospital were occupied at an average annual rate of 33.98 percent. For the January 2002 through December 2002 reporting period for hospital-based skilled nursing beds, the 13 HBSNU beds at Palms of Pasadena Hospital experienced an average annual occupancy of 83.88 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.

- c. **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. A copy of the hospital's Transfer Agreement Form Log and samples of these agreements were included in Exhibit 2-3 of the application. 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.

- d. **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.**

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 3.9 percent of total annual patients to Medicaid and a minimum of 1.0 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 one psychiatrist on its medical staff that meets 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 Glenn S. Fuoco, D.O., who is associated with Tampa Bay Orthopedic Specialists, was included in Exhibit 3-1.

- (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 and speech therapy is stated to be a contracted service.

(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:**

**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 38.5 FTEs in the first year of operations, and no additional FTEs in the second year. 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. Although, speech therapy is stated to be a contracted service and social services is stated to be included in other departments.

- (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, advertising in designated geographic areas and professional publications (locally and nationally), and bi-weekly block of all current open positions in the St. Petersburg Times, 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 discussed in its response to Item 4. e. The applicant states that it experienced a turnover rate of registered nurses of 13.9 percent compared to 18.5 percent turnover rate for Florida during CY 2002.

- (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 73.3 percent Medicare, 4.1 percent Medicaid, and 6.9 percent commercial insurance, 1.7 percent self-pay (which

includes charity care), 11.6 percent other managed care and 2.3 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 Exhibit 2-1 of the application. The applicant has agreed to condition the project to provide one 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 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 91.06 percent utilization for the reporting period, January 2002 through December 2002. It is noted that this hospital recently received a CON to add 20 CMR beds<sup>1</sup>. The district's average occupancy rate was 64.18, down from 64.80 percent during the CY 2001 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 64.18 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. Exhibit 5-1 included a copy of the JCAHO accreditation. 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.

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. A copy of the facility's FY 2002-2003 Plan of Care was included in Exhibit 13 of the application.

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<sup>1</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

Palms of Pasadena Hospital has only one confirmed compliant with deficiencies since July 2000. The one confirmed compliant that included deficiencies was for an inappropriate discharge. 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. Exhibit 7-1 included a copy of the hospital's employee education assistance program. Palms of Pasadena 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 the periods ending September 30, 2002 and 2001 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:

**FINANCIAL INDICATORS AND RATIOS**

	09/30/2001	09/30/2002
Current Assets	\$ 16,933,862	\$ 20,701,953
Cash and Current Investment	\$ 0	\$ 124,877
Assets Restricted for Capital Funding	\$ 0	\$ 0
Total Assets	\$ 81,646,541	\$ 87,259,708
Current Liabilities	\$ 7,981,620	\$ 6,994,764
Total Liabilities	\$ 62,262,351	\$ 61,141,725
Total Equity	\$ 19,384,190	\$ 26,117,983
Net Operating Revenues	\$ 76,656,892	\$ 83,212,549
Interest Expense	\$ 6,874,433	\$ 6,879,593
Net Profit - Operations	\$ 2,784,326	\$ 5,651,343
Net Income	\$ 2,114,514	\$ 6,733,793
Cash Flow Provided by Operating Activities	\$ 5,452,561	\$ 9,339,830
Working Capital	\$ 8,952,242	\$ 13,707,189
Current Ratio (CA/CL)	2.1	3.0
Long-Term Debt to Equity (TL-CL/TE)	2.8	2.1
Operating Cash Flow (CFO/CL)	0.7	1.3
Times Interest Earned ((NPO+Int)/Int)	1.8	1.8
Equity to Total Assets (TE/TA)	23.7%	29.9%
Operating Margin (NPO/NOR)	3.6%	6.8%
Total Margin (NI/NOR)	2.8%	8.1%
Return on Assets (NI/TA)	2.6%	7.7%
Operating Cash Flow to Assets (CFO/TA)	6.7%	10.7%

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-Q for the nine months ended June 30, 2003. The unaudited financial statements showed cash and equivalents of \$74.5 million, total assets of \$995.7 million and equity of \$174.1 million. For same period, IASIS had earnings from operations of \$18.5 million on net revenues of \$805.0 million, with total operating expenses of \$785.9 million. Cash flows from operations totaled \$70.9 million.

**Short-term position:**

The applicant's current ratio of 3.0 indicates current assets are more than three times short-term liabilities. This ratio is above the 50 percentile of Florida acute care hospitals of 2.1, a good position. The working capital (current assets less current liabilities) of \$13.7 million is a measure of excess liquidity that could be used to fund capital projects. The ratio of cash flow to current liabilities (Operating Cash Flow) of 1.3 is above average. Overall, the applicant has a good short-term position.

**Long-term position:**

The ratio of long-term debt to equity is 2.1; indicating long-term debt is significantly greater than equity. Total equity is \$26.1 million; the ratio of equity to assets is 29.9 percent. These indicators are all below average for Florida acute care hospitals of 49.2 percent and reveal a weak financial position. The ratio of cash flow to assets of 10.7 percent is slightly above average. The profit margin in 2002 was 8.1 percent, which is significantly above the average. Overall, the applicant has an average long-term position.

**Capital requirements:**

Schedule 2 indicates the applicant has \$29.0 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 2002, 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.

**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 management skills of the applicant). In general, projections that approximate the median are the most desirable, and balance the opposing forces of feasibility and efficiency. In other words, as estimates approach the highest in the group, it is more likely that the project is feasible, because fewer economies must be realized to achieve the desired outcome. Conversely, as estimates approach the lowest in the group, it is less likely that the project is feasible, because a much

higher level of economies must be realized to achieve the desired outcome. These relationships hold true for a constant intensity of service through the relevant range of outcomes. As these relationships go beyond the relevant range of outcomes, revenues and expenses may, 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 2002; the applicant will be compared to the hospitals in peer group 6. 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 \$1,724 in year one and \$1,770 in year two is between the control group median and highest values of \$1,806 and \$2,394 in year one and \$1,863 and \$2,471 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 2002 actual NRAPD for this hospital was \$1,577, between the group median and highest values of \$1,561 and \$2,334.

Projected cost per adjusted patient day of \$1,601 in year one and \$1,604 in year two is between the control group median and lowest values of \$1,674 and \$1,367 in year one and \$1,728 and \$1,411 in year two. (See Comparative Table). Compared to the control group these costs are efficient. The 2002 actual costs per adjusted patient day reported for this hospital was \$1,465, between the group median and highest values of \$1,440 and \$2,309.

The year two operating profit for the hospital of \$9.7 million computes to an operating margin per adjusted patient day of \$166 which falls between the peer group median and highest values of \$115 and \$517 respectively. The operating margin indicates that net revenues are proportional to costs. The 2002 computed operating margin ratio is 7.1 percent. This application appears to be financially feasible.

**CON Action Number: 9708**

**Palms of Pasadena, L.P.**

COMPARATIVE TABLE  
PEER GROUP 6

	2006 YEAR 2 ACTIVITY	YEAR 2 ACTIVITY PER DAY	<u>INFLATION ADJ. VALUES</u>		
			Highest	Median	Lowest
ROUTINE SERVICES	219,608,012	3,747	1,210	713	344
INPATIENT AMBULATORY	0	0	159	83	47
INPATIENT SURGERY	0	0	0	0	0
INPATIENT ANCILLARY SERVICES	0	0	6,063	3,836	2,228
OUTPATIENT SERVICES	92,520,742	1,579	2,303	1,556	1,099
TOTAL PATIENT SERVICES REV.	312,128,754	5,326	9,735	6,188	3,718
OTHER OPERATING REVENUE	1,290,997	22	264	11	2
<b>TOTAL REVENUE</b>	<b>313,419,751</b>	<b>5,348</b>	<b>8,789</b>	<b>6,082</b>	<b>3,871</b>
DEDUCTIONS FROM REVENUE	209,670,432	3,577	N/A	N/A	N/A
<b>NET REVENUES</b>	<b>103,749,319</b>	<b>1,770</b>	<b>2,471</b>	<b>1,863</b>	<b>1,689</b>
<b>EXPENSES</b>					
ROUTINE	15,309,887	261	399	290	232
ANCILLARY	34,696,241	592	1,003	661	521
AMBULATORY	3,287,822	56	0	0	0
TOTAL PATIENT CARE COST	53,293,950	909	1,402	951	753
ADMINISTRATIVE & OVERHEAD	29,461,144	503	1,002	680	465
PROPERTY	11,267,203	192	*	*	*
TOTAL HOSPITAL EXPENSE	94,022,297	1,604	2,445	1,728	1,411
OTHER OPERATING EXPENSE	0	0	0	0	0
<b>TOTAL EXPENSE</b>	<b>94,022,297</b>	<b>1,604</b>	<b>2,445</b>	<b>1,728</b>	<b>1,411</b>
OPERATING INCOME (MARGIN)	9,727,022	166	517	115	-42
PERCENT OPERATING MARGIN	9.38%				

**PERCENTAGES NOT  
INFLATION ADJUSTED**

PATIENT DAYS	41,067				
ADJUSTED PATIENT DAYS	58,610				
TOTAL BED DAYS AVAILABLE	112,055				
ADJ. FACTOR	0.7007				
TOTAL NUMBER OF BEDS	307				
PERCENT OCCUPANCY	36.6%		91.1%	67.6%	32.3%

PAYER CLASS					
	PATIENT DAYS	PERCENT OF TOTAL			
SELF-PAY	740	1.8%	4.2%	1.3%	0.0%
MEDICAID	894	0.0%	16.8%	4.4%	1.5%
MEDICAID HMO	103	0.3%			
MEDICARE	27,841	67.8%	77.9%	60.7%	41.0%
MEDICARE HMO	1,808	0.0%			
INSURANCE	384	0.9%			
HMO/PPO	9,168	27.0%	45.3%	26.8%	5.5%
OTHER	129	0.3%			
<b>TOTAL</b>	<b>41,067</b>	<b>100.0%</b>			

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

The applicant projects managed care days, including Medicare and Medicaid managed care days, to represent 27.0 percent of its patient days. This is between the control group median and highest value of 26.8 and 45.3 percent. The 2002 actual data reported for this hospital was 25.7 percent, between the lowest and median levels of 5.5 and 26.8 percent. The projected level, if realized, is likely not 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.**

Schematic drawings are required to be submitted as part of the CON application. Although the drawings for the proposal may be more advanced than required, they have been reviewed as schematics with the expectation that they will necessarily be revised and refined during the design development (preliminary) and contract document stages. The architectural review of the application shall not be construed as an in-depth effort to determine complete compliance with all applicable codes and standards. The final responsibility for facility compliance ultimately rests with the owner.

Palms of Pasadena Hospital, L.P. proposes to establish a 20-bed comprehensive medical rehabilitation unit in an area consisting of 5,850 GSF. The project involves 1,060 GSF of renovation at a renovation cost of \$175,433.

All the space involved in the project is existing and much of it will be renovated. There will be nine semi-private patient rooms, one private room and one isolation room. All rooms have handicapped accessible toilet rooms. Most of the renovation consists of adding handicapped accessible toilet rooms. Even with some of this square footage being taken from patient rooms, the design professional was able to meet the minimum size requirements for new construction.

The application included a cover sheet and floor plans, both existing and proposed. The renovations will not increase the footprint of the existing building. The isolation room has its own accessible shower, and the other 19 patients rely on the two accessible showers located off the central corridor. A list of codes is included on the cover sheet and is as up-to-date as possible.

The information from Schedule 10 indicates that sufficient time has been allowed for construction. The projected cost for the renovation appears to be reasonable for this type of space and the extent of the renovation required. Costs have increased slightly, which is to be expected.

- 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)**

Payer	Percent of Days 2002	Percent of Days 2001
Medicaid	1.94%	2.54%
Charity	1.63%	1.76%

Source: Application #9708

Information from the Agency's financial review unit, based on fiscal year 2001 data, reflects 0.2 percent gross charity days and 3.0 percent Medicaid days for Palms of Pasadena Hospital. As a condition of approval, the applicant proposes to provide a minimum of 3.9 percent of total annual patient days of care to Medicaid patients and a minimum of one percent of total annual patient 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 shown in the table below:

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

Facility	CMR Beds	County	Medicaid & Medicaid HMO	Charity
Bayfront Medical Center	60	Pinellas	16.1%	2.8%
HealthSouth Rehab Hospital*	70	Pinellas	2.3%	0.0%
North Bay Hospital	20	Pasco	5.7%	1.3%
Palms of Pasadena Hospital**	0	Pinellas	3.0%	0.2%
Sun Coast Hospital	20	Pinellas	8.5%	0.7%
District 5 Weighted Average for all Class I General Hospitals****			9.0%	1.2%

Source: AHCA Hospital Financial Data records for Fiscal Year 2001

\*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**

The applicant, Palms of Pasadena Hospital, is a 307-bed general acute care hospital consisting of 294 acute beds and 13 hospital-based skilled nursing beds in Pinellas County. This project is to establish a 20-bed comprehensive medical rehabilitation (CMR) unit at the hospital by delicensing (converting) 13 skilled nursing beds and seven acute care beds.

The total project cost is estimated at \$325,420. The project encompasses 5,850 GSF of space that includes 1,060 GSF to be renovated at a cost of \$175,433.

**Need/Special Circumstances**

In Volume 29, Number 30, dated July 25, 2003 on page 3008 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 2009 planning horizon.

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 July 2000, there has been only one confirmed complaint with deficiencies and two confirmed without deficiencies regarding the applicant's facility. The one confirmed with deficiencies case involved an inappropriate discharge of a patient. 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 3.9 percent of total annual patient days of care to Medicaid patients and a minimum of one percent of total annual patient 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. The application appears to be financially feasible.

**Architectural**

All the space involved in the project is existing and much 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 #9708

**AUTHORIZATION FOR AGENCY ACTION**

Authorized representatives of the Agency for Health Care Administration adopted the recommendation contained herein and released the State Agency Action Report.

DATE: \_\_\_\_\_

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

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