

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

**A. PROJECT IDENTIFICATION**

1. Applicant/CON Action Number

**Long Term Care Hospital of SW Florida, Inc./CON #9714**  
1725 Mahan Drive, Suite 201  
Tallahassee, Florida 32308

Authorized Representative: Michael D. Jernigan  
(850) 877-4332

**Select Specialty Hospital-Lee, Inc./CON #9715**  
2021 Church Street, Suite 202  
Nashville, Tennessee 37203-2016

Authorized Representative: Greg Sassman, Vice President  
(615) 284-6716

**Select Specialty Hospital-Sarasota, Inc./CON #9716**  
2021 Church Street, Suite 202  
Nashville, Tennessee 37203-2016

Authorized Representative: Greg Sassman, Vice President  
(615) 284-6716

**SemperCare Hospital of Sarasota, Inc./CON #9717**  
2745 North Dallas Parkway  
Plano, Texas 75093

Authorized Representative: Gary A. Kagan  
(972) 836-1300

2. Service District

District 8

**B. PUBLIC HEARING**

A public hearing was not held or requested with regard to the establishment of a long-term care hospital in District 8. However, letters of support were submitted for each applicant as follows:

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)** submitted 50 letters of support for the proposed project. The majority of the letters were from physicians either associated with Lee Memorial Hospital/Health System or in private practice in the area. There were also letters of support submitted by other health care providers and interested individuals in the area. Several of the letters address the difficulty in transferring ventilator dependent and tracheotomy patients, many of whom remain in an acute care setting. The letters also address the access issue with having to transfer LTCH appropriate patients to either Tampa or St. Petersburg, located in excess of 100 miles from Lee Memorial. The letters from area physicians estimate in total approximately 236 LTCH appropriate patients who could utilize a LTCH serving Lee and surrounding counties. A letter from the system director for Discharge Planning and Care Management for the Lee Memorial Health System, estimates well over 350 patients from a patient universe of over 838 long-stay patients within the Lee Memorial Health System who would fully qualify for appropriate placement within the proposed LTCH. The identification of these patients by DRG, length of stay and discharge disposition was provided as Attachment 4 in the application. A letter from the executive director of The Rehabilitation Hospital, affiliated with Lee Memorial Health System, estimates approximately 220 patients were denied admission to rehabilitation services in 2002 because their medical management issues were too complex to meet criteria for inpatient rehabilitation. Although several of the letters identify potential cases for referral to the proposed LTCH, the letters did not show that any residents of the district needing LTCH services were unable to obtain those services outside of the area.

**Select Specialty Hospital-Lee, Inc. (CON #9715)** submitted 14 letters, two of which are supportive of a Lee County based LTCH. The remaining letters were submitted by health care providers and family members outside of the district attesting to the services provided by Select Specialty Hospitals at other locations, including the recently opened Select Specialty LTCH in Miami. None of the letters identified potential cases for referral to the proposed LTCH, nor did any of the letters show that residents of the district needing LTCH services were unable to obtain those services outside of the area.

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**Select Specialty Hospital-Sarasota, Inc. (CON #9716)** submitted 12 letters, none of which address or specifically support the proposed Sarasota County based LTCH. The submitted letters are from health care providers and family members outside of the district attesting to the services provided by Select Specialty at other locations, including the recently opened Select Specialty LTCH in Miami.

**SemperCare Hospital of Sarasota, Inc. (CON #9717)** submitted 22 letters of support, the majority are form letters from officials and health care providers affiliated with Sarasota Memorial Hospital/Healthcare System. The letters basically discuss the lack of options in the area for LTCH appropriate patients and the inconvenience of referring patients to the LTCH in St. Petersburg, nearly an hour away. Several of the letters also indicate that the approved HealthSouth LTCH in Sarasota, if eventually built, will not provide the comparable benefits to patients, physicians, and families as will the hospital-in-hospital model proposed by SemperCare and Sarasota Memorial. None of the letters identified potential cases for referral to the proposed Lee County LTCH, nor did any of the letters show that residents of the district needing LTCH services were unable to obtain those services outside of the area.

**C. PROJECT SUMMARY**

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)** proposes to establish a 35-bed long-term care hospital (LTCH) as a hospital-in-hospital at Lee Memorial Hospital, in Lee County. The applicant is a wholly-owned subsidiary of Lee Memorial Hospital, Inc. d/b/a Lee Healthcare Resources (the Parent), a Florida not-for-profit corporation. The host, Lee Memorial Health System, encompasses three acute care hospitals, Lee Memorial Hospital (427 beds), HealthPark Medical Center (238 beds), and Cape Coral Hospital (281 beds).

The project will involve a partial renovation of the third, seventh and eighth floors within the existing Lee Memorial Hospital. The total project cost of \$2,560,038 includes renovation costs of \$1,359,030 and involves 18,122 gross square feet (GSF) of renovation.

As a condition of approval, the applicant agrees to provide a combined five percent of the inpatient admissions annually to Medicaid/charity patients.

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**Select Specialty Hospital-Lee, Inc. (CON #9715)**, a wholly-owned subsidiary of Select Medical Corporation, proposes the creation of a 60-bed freestanding long-term care hospital to be located in Lee County, Fort Myers, Florida. The parent, Select Medical Corporation, currently has 72 LTCHs nationwide, including one operational LTCH in Miami that was licensed on December 23, 2002, and a recently approved 40-bed LTCH to be located within Lucerne Medical Center in District 7. Select Specialty has submitted seven proposals in the current review cycle to develop LTCHs within the state of Florida. These involve new proposals in Districts 1, 3, 4, 6, 8 and 9.

The proposed hospital will consist of 44,434 gross square feet of new construction and construction costs of \$7,892,500. Total project cost is estimated to be \$13,043,457. The funding for the proposed project will be provided by Select Medical Corporation.

As a condition of approval, the applicant agrees to condition award of the certificate of need on the provision of 2.0 percent of patient days to Medicaid and 0.8 percent of patient days for charity care.

**Select Specialty Hospital-Sarasota, Inc. (CON #9716)**, a wholly-owned subsidiary of Select Medical Corporation, proposes to establish a 44-bed freestanding long-term care hospital to be located in Sarasota County, Sarasota, Florida. The parent, Select Medical Corporation, currently has 72 LTCHs nationwide, including one operational LTCH in Miami that was licensed on December 23, 2002 and a recently approved 40-bed LTCH to be located within Lucerne Medical Center in District 7. Select Specialty has submitted seven separate proposals in the current review cycle to develop LTCHs within the State of Florida. These involve new proposals in Districts 1, 3, 4, 6, 8 and 9.

The proposed hospital will consist of 38,906 gross square feet of new construction and construction costs of \$6,819,750. Total project cost is estimated to be \$11,954,796. The funding for the proposed project will be provided by Select Medical Corporation.

As a condition of approval, the applicant agrees to condition award of the certificate of need on the provision of 2.0 percent of patient days to Medicaid and 0.8 percent of patient days for charity care.

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**SemperCare Hospital of Sarasota, Inc. (CON #9717)**, a wholly-owned subsidiary of SemperCare, Inc., is proposing to develop a 29-bed long-term care hospital to be located within Sarasota Memorial Hospital, in Sarasota County. The parent, SemperCare, Inc. currently operates 13 LTCHs with five in the process of start-up and seven more in the regulatory process. In Florida, SemperCare has been approved for a 30-bed LTCH in Panama City and a 29-bed LTCH in Tallahassee, both in District 2. The applicant also has a 35-bed LTCH located within Florida Hospital in Orlando. SemperCare has submitted four separate proposals during the current review cycle to develop LTCHs in the state of Florida. These involve new LTCHs in Districts 1, 4, 6 and 8.

The applicant proposes to lease space on the fourth floor of Sarasota Memorial Hospital currently occupied by a medical/surgical unit. The project involves 15,500 GSF of renovation and renovation costs of \$1,222,000. The total project cost is estimated to be \$2,226,689.

As a condition of approval, the applicant agrees to condition award of the certificate of need on the provision of 2.0 percent of its total patient days to Medicaid recipients and a ratio of indigent/charity care to gross revenue that will average one percent.

### **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.

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As part of the fact-finding, the consultant, M. Riley Gibson, analyzed the application in its entirety with consultation from the Financial Analyst, Douglas Pierce, 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.

Proposed Rule 59C-1.045, Florida Administrative Code implements the provisions of subsection 408.034(3), and paragraphs 408.036(1)(a), (b), (c), (d), (f), and (g), Florida Statutes for the purpose of regulating proposals subject to comparative review for the establishment of new long-term care hospitals, the addition of beds to existing long-term care hospitals, and the conversion of licensed hospital beds to long-term care hospital beds.

**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 acute care hospital (LTCH) beds. It is the applicant's responsibility to demonstrate need on the criteria provided in rule and listed in Item b below.

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 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

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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.

According to a recent *MedPac* report to Congress:

*“LTCHs are the post-acute setting least used by beneficiaries and are not available in many areas. In general, policymakers regard rapid growth in any sector as a phenomenon that requires examination. As the number of LTCHs has almost doubled since 1993 and Medicare spending for such care has also quintupled from 1993 – 2001, questions have arisen about whether beneficiaries using LTCHs are different from patients using other settings. Our analysis found patients in market areas with LTCHs had similar acute hospital lengths of stay regardless of whether they used LTC hospitals or not. Patients who used these hospitals were three to five times less likely to use SNF care, suggesting that SNFs and LTCHs may be substitutes. Compared with similar patients who did not use LTHCs, total payments and mortality rates for LTCH patients were considerably higher.”<sup>1</sup>*

### **b. Determination of Need.**

In the absence of agency policy regarding long-term care hospital beds and services, Chapter 59C-1.008 (2)(e), Florida Administrative Code, provides a needs assessment methodology which must include, at a minimum, consideration of the following topics, except where they are inconsistent with the applicable statutory or rule criteria:

- a. Population demographics and dynamics;
- b. Availability, utilization and quality of like services in the district, subdistrict or both;
- c. Medical treatment trends; and
- d. Market conditions.

The existence of unmet need will not be based solely on the absence of a health service, health care facility, or beds in the district, subdistrict, region or proposed service area.

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<sup>1</sup> June 2003 MedPac Report to Congress: *Variations and Innovation in Medicare*, page 72.

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*Note: The Centers for Medicare and Medicaid Services (CMS) have 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 providers. Through this system, termed LTC DRGs, CMS is recognizing the patient population of LTCHs as separate and distinct from the populations treated by short-term acute care and post-acute care providers that each have their own prospective payment system in recognition of the material differences in patient populations, cost of care, and health care delivery. Under this system, each patient admitted to a LTCH is assigned a DRG with a corresponding payment rate that is weighted based upon the patient's diagnosis and acuity. The LTCH will be reimbursed the pre-determined payment rate for that DRG, regardless of the cost of care.*

Federal Regulations, 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 describe 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 post-acute care providers, most notably rehabilitation providers (page 55965):

- 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 hospitals, nonoutlier acute care hospitals, and other (indicating direct admissions without acute stay).

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- 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 (nine 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.

In addition, rehabilitation facilities are required to have 75 percent of their admissions in one of 10 specific diagnoses related to conditions requiring rehabilitation services. LTCHs only condition of participation in addition to those required of all hospitals is to have an average Medicare length of stay greater than 25 days.

*Note: The proposed rule (42 CFR Part 412) for the LTCH Prospective Payment System (PPS) with proposed annual payment rate updates and policy changes was published in Vol. 68, No. 45, of the Federal Register on March 7, 2003.*

In addition to similarities to rehabilitation providers noted above, as previously stated, *MedPac*, in a June 2003 *Report to Congress* indicted that data suggests that care provided in LTCHs is similar to that provided in skilled nursing facilities and that care in LTC hospitals is becoming a substitute for skilled nursing care rather than a different or higher level of care. Further, that the lengths of stay in acute care beds was not reduced when LTCH beds were available in the area. However, despite similarities in care suggested by the data, payments for LTCH patients were considerably higher as were mortality rates.

At present there are eleven long-term care hospitals with 769 beds licensed to operate in the state of Florida. These facilities are located in seven of the 11 AHCA health planning areas and are in the following counties: Dade (Miami), Hillsborough (Tampa), Broward (Fort Lauderdale and Hollywood), Duval, Clay, Orange (Orlando) and Pinellas (St. Petersburg). There are an additional 165 beds approved but not yet operational: 20 beds at Kindred Hospital in District 4, six beds at Kindred in Fort Lauderdale in District 10 and the following approved new LTCHs. SemperCare (30 beds) in Panama City and SemperCare (29 beds) in Tallahassee both in District 2, Select Specialty (40 beds) at Lucerne Medical Center in Orlando/District 7, and HealthSouth (40

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beds) in Sarasota in District 8. The average occupancy of the operational programs was 76.84 percent for the period January 2002 through December 2002, ranging from a low occupancy rate of 52.21 percent for Specialty LTCH-Jacksonville to a high of 100.15 percent for Kindred LTCH-St. Petersburg.

The following table shows the beds, patient days and occupancy of Florida's operational LTCHs for the calendar year (CY) 2002 reporting period:

**Florida Long Term Care Hospitals  
Utilization Experience January 2002-December 2002**

<b>Hospital</b>	<b>District</b>	<b>Beds</b>	<b>Bed Days</b>	<b>Patient Days</b>	<b>Occupancy</b>
*Kindred-North Florida	4	60	21,900	19,821	90.51%
Specialty-Jacksonville	4	107	39,055	20,392	52.21%
**Kindred-St. Petersburg	5	60	21,900	21,933	100.15%
Kindred-Central Tampa	6	102	37,230	29,569	79.42%
Kindred-Tampa	6	73	26,645	17,986	67.50%
Kindred-Hollywood	10	124	45,260	32,300	71.37%
Kindred-Ft. Lauderdale	10	64	23,360	21,409	91.65%
Kindred-Coral Gables	11	53	19,345	17,197	88.90%
***Select Specialty-Miami	11	40	360	-0-	0.00%
Florida Total		683	235,055*	180,607*	76.84%

*Source: Florida Hospital Bed Need and Service Utilization, 1/24/03*

*\*Kindred-North Florida has been approved under CON #9650 to add 20 beds.*

*\*\*Kindred-St. Pete added 22 licensed beds on 04/23/03 increasing total beds to 82.*

*\*\*\*Select Specialty-Miami was licensed 12/23/02, reporting zero utilization for the quarter. Not listed but recently licensed LTCHs include Sister Emmanuel Hospital for continuing Care (29 beds) licensed 07/15/03 in District 11 and SemperCare (35 beds) in Orlando in District 7 licensed 06/12/03.*

There are currently no existing long-term care hospitals (LTCHs) located in District 8. As previously indicated, HealthSouth LTCH of Sarasota, Inc. received approval via CON #9499 to develop a 40-bed LTCH in District 8.

The current bed complement, patient days and average occupancy of other forms of care in District 8 is as follows:

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**Acute Care and Post-acute Care Providers  
District 8 Beds and Utilization**

<b>Facility Type</b>	<b>Total Beds District 8</b>	<b>District 8 Average Occupancy</b>
Long Term Hospital Care	*40	CON approved not yet licensed
Acute Care	3,883	49.57%
Comprehensive Med. Rehab	239	78.09%
Hospital Based Skilled Nursing	**20	55.89%
Skilled Care Community Nursing Homes	7,070	88.24%

**Source: Hospital Bed Need Projections 07/03 for LTCH, acute care and CMR beds  
By District July 2001-June 2002**

**\*40 bed LTCH approved for HealthSouth/CON 9499**

**\*\*HBSNU bed total reflects an approved request to delicense 24 beds at Naples Community but utilization is based on 44 beds in operation. This leaves only Charlotte County in District 8 with HBSNU beds.**

**Skilled care community nursing home utilization for January 2002-December 2002.**

As previously noted, LTCHs are designed to treat patients with medical conditions requiring extended hospital-level services, for a lengthy period of time (generally more than 25 days). All four co-batched applicants state that their respective proposals will provide LTCH services to patients with complex and medically unstable conditions that cannot be adequately addressed by licensed acute care beds, comprehensive medical rehabilitation beds, hospital-based skilled nursing unit beds, and nursing home beds in the service planning area. However, as noted earlier, studies recently conducted suggest the opposite.

As noted earlier, when no need methodology exists, it is the applicant's responsibility to demonstrate need based upon the availability, utilization and quality of like services in the district. The Centers for Medicare and Medicaid, based on several studies, have determined that LTCH services are similar to home health services, skilled nursing services and comprehensive medical rehabilitation services. Applicants for LTCH services must therefore show that there is need based upon the availability, utilization and quality of LTCH, home health, skilled nursing and comprehensive medical rehabilitation services in the district. All four applicants contend that LTCH services are distinct.

The June 2003 MedPac Report referenced above also found that patients in market areas with LTCHs had similar acute hospital lengths of stay regardless of whether they used LTCHs or not. Patients who used these hospitals were found to be three to five times less likely to use skilled nursing facility (SNF) care, suggesting that SNFs and LTCHs may be substitutes. Compared with similar patients who did not use LTCHs, total payments and mortality rates for LTCH patients were considerably

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higher. Although the MedPac report questions the role LTCHs play in providing acute and post-acute care and the relationship of patient outcomes and the high cost of care in this post-acute setting, the report admits that more information is needed on a number of issues regarding LTCHs before concluding that LTCHs represent a valid post-acute care option.

It was not definitively demonstrated by any of the co-batched applicants that patients cannot be treated in one of three other venues: rehabilitation, home health and skilled nursing.

A discussion of each applicant's need analysis is presented below following general findings regarding expected population growth in the district within the next five years.

**Population Estimates for District 8 Counties and Percent Change by County  
For Total Population, 65 and over, and 75 and Over Population**

<b>County</b>	<b>Total July 2003</b>	<b>Total July 2008</b>	<b>Percent Change</b>	<b>65+ Percent Change</b>	<b>75+ Percent Change</b>
Charlotte	150,817	164,561	9.11%	5.77%	5.38%
Collier	287,073	332,575	15.85%	20.45%	25.71%
DeSoto	34,477	38,369	11.29%	14.96%	18.47%
Glades	11,038	12,125	9.85%	15.70%	27.77%
Hendry	38,081	43,077	13.12%	15.24%	18.19%
Lee	479,194	527,924	10.17%	9.36%	9.34%
Sarasota	346,053	367,996	6.34%	7.71%	5.82%
Total District	1,346,733	1,486,627	10.39%	10.75%	11.02%

Source: AHCA Pop. Projections, published June 2003.

As shown above, the overall population in District 8 is expected to increase by 10.39 percent during the next five years, with the 65 and over and 75 and over age cohort increasing by 10.75 percent and 11.02 percent, respectively. For both Lee and Sarasota Counties, the most populous counties in the district, the overall population increase as well as the increase in the 65 and over and 75 and over age groups is expected to be less than the district averages.

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)** contends that there a need for LTCH beds in District 8 and specifically in Lee County within Lee Memorial Health System (LMHS) consisting of Lee Memorial Hospital, HealthPark Medical Center, and Cape Coral Hospital.

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In response to population demographics and dynamics, the applicant focuses on five-year and 10-year projections to demonstrate continued growth in both total population and age 65 and over population. The source of the applicant's projections is not disclosed but data are similar to the Agency population projections for the five-year period. The applicant states that the age 65 and over population is expected to make up approximately 90 percent of the admissions to the LTCH and will increase by 21.3 percent in Lee County and 21.7 percent in District 8 over the next 10 years.

In an effort to demonstrate the lack of availability and access to LTCH services the applicant states that LMHS referred 22 patients to the three Tampa/St Petersburg LTCHs in the past year but only had three accepted for admissions. According to the applicant, the majority of potential LTCH patients are currently being treated in the acute care (including ICU) and rehabilitation settings within LMHS and are not transferred out of the district due to family reasons, physician concerns regarding continuity of care, and patient's conditions for travel. As previously shown, the Kindred-St. Petersburg facility was utilized at capacity in CY 2002, thus explaining the lack of access to that facility. However, that facility subsequently added 22 beds (licensed in April 23, 2003), thus increasing its total bed complement to 82 beds. These additional beds should help alleviate capacity constraints at that facility. It is not known if or why either of the Kindred Tampa facilities did not admit referred patients from Lee Memorial. Kindred-Central Tampa was utilized at 79.42 percent for CY 2002, while the Kindred-Tampa facility was utilized at only 67.50 percent, an indication of the availability of beds at those facilities.

The applicant recognizes the approved 40-bed HealthSouth LTCH project (CON #9499) but questions whether the project will be developed given HealthSouth's current financial situation. The applicant contends that even if the HealthSouth LTCH is developed in Sarasota, there is little medical trade overlap between Lee and Sarasota Counties. However, as a freestanding LTCH, the HealthSouth facility is expected to accept referrals from numerous area providers and will be in reasonable proximity to both the Sarasota and Lee metropolitan areas. Additionally, the Agency has been notified by HealthSouth, that it intends to begin construction by April 13, 2004 and that the CON will be implemented and the 40-bed LTCH licensed.

In an effort to determine need, the applicant reviewed 838 patient stays solely from the LMHS to determine potential admissions to the LTCH.

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These potential admissions represent patients over the age of 17 that originate solely from Lee Memorial (44.5 percent), Cape Coral Hospital (28 percent), and Health Park Medical Center (27.5 percent), the three hospitals that comprise LMHS. From the universal group identified, the applicant determined a patient day capture rate of 80 percent as being appropriate LTCH patient days. The applicant determined a set average length of stay of 30 days. The applicant arrived at projected admissions of 329 in year one (9,870 patient days) and 365 admissions in year two (10,950 patient days). The occupancy is projected to be 77.3 percent in year one and 85.7 percent in year two.

The applicant further references the letters of support previously discussed in the Public Hearing section to confirm its estimates of need. According to letters from physicians affiliated with Lee Memorial, a total of approximately 236 LTCH appropriate patients could utilize a LTCH serving Lee and surrounding counties. In further support, the letter from the executive director of The Rehabilitation Hospital, affiliated with Lee Memorial Health System, estimates approximately 220 patients were denied admission to rehabilitation services in 2002 because their medical management issues were too complex to meet criteria for inpatient rehabilitation. Although several of the letters identify potential cases for referral to the proposed LTCH and address travel constraints to LTCH services outside the district, the letters did not show that any residents of the district needing LTCH services were unable to obtain those services outside of the area or utilize other care options within the district, specifically skilled nursing and home health care. According to the MedPac report to Congress regarding monitoring post-acute care, patients with identical DRGs may use different post-acute providers because of a number of factors. The patients may have different levels of functional limitation, differences in severity of illness within a given DRG, or personal preferences. The supply of providers, Medicare's eligibility requirements, and local practice patterns also may influence what type of post-acute care patients receive. In addition, certain variations in patient characteristics can alter need assumptions. This may include the patient's functional ability, availability of caretakers at home, ethnicity, age, socio-demographics, and dependence on technology.

Based on the documentation provided by the applicant, need for a 35-bed LTCH is supported for the district. However, as previously noted, certain variations in patient characteristics and the availability of other care options may alter the need assumptions as presented. Additionally, a 40-bed LTCH is being established in District 8.

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**Select Specialty Hospital-Lee, Inc. (CON #9715)** contends that there is a need for a LTCH in Lee County that exceeds the capacity of the approved HealthSouth (CON #9499) 40-bed LTCH in Sarasota County. The applicant contends that data support need for LTCH services for a county, rather than district planning area and analyzed existing LTCHs in Florida to support its belief. Discharge data reported by existing Florida LTCHs show that in urban areas, the majority of the patients discharged were residents of the counties in which the LTCH was located. It is not clear that this data supports a county, rather than a district planning area. As the applicant notes, in more rural areas discharge data does not support its belief. The applicant did not conduct a study, similar to the *MedPac* study, to look at the impact of LTCH services on skilled nursing or rehabilitation admissions to see if, in urban areas for example, these services are used as a substitute for skilled nursing or comprehensive medical rehabilitation care. It is not known if these data illustrate that having LTCH beds available in the county or hospital is more of a convenience than a need and that they actually negatively impact other post-acute care providers. The Agency has no policy or existing rule for the establishment of LTCH services. There is no defined planning area. Need must be demonstrated by the applicant and the patient population in a service area defined.

The applicant states that of the total acute care cases in District 8 hospitals for CY 2002, long stays (25 days or longer excluding newborns, psychiatric and substance abuse) represent one percent of the cases, but 6.6 percent of the patient days. The applicant contends that this indicates a disproportionate and significant impact on acute care hospitals.

In response to population and demographics, the applicant compares Agency population estimates (June 2003) for District 8 with state estimates to demonstrate that the district is expected to have the highest percentage increase in the 65 and over and 75 and over population groups of any district in the state by 2006. As previously shown, the increase in population percentages for total population as well as the 65 and over and 75 and over age groups in both Lee and Sarasota Counties is actually expected to be less than the district averages. In any event, Lee County is expected to account for approximately 36 percent of the total population in District 8 and 33 percent of the 65 and over population in 2008.

In the absence of an approved methodological approach to need, the applicant presents two methodologies for consideration in support of the proposed project. The first methodology utilizes a long length of stay model and the second method involves a use rate model.

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The long length of stay model evaluates hospital cases that are likely to result in long lengths of stay of 25 days or longer to determine how many cases are appropriate for LTCH services. The results of this model estimate a need for 169 LTCH beds in CY 2006 by inflating the CY patient days greater than 25 days by the compounded annual growth rate (0.019972), arriving at an average daily census and then dividing by an expected 80 percent occupancy rate. The applicant then used the same method to determine allocation of LTCH beds between what the applicant considers the Northern Tier (Sarasota, Charlotte, Desoto, and Glades Counties) and Southern Tier (Lee, Collier, and Hendry Counties) of District 8. This results in a perceived need to allocate 97 beds to the northern counties and 72 beds to the southern counties. As noted earlier, in a recent report to Congress, *MedPac* gathered data that suggests the length of stay in an acute care beds is not reduced when LTCH care is available. Using this method, which captures these excess acute days, does not appear valid. Additionally, this method assumes that patients with long lengths of stay cannot be appropriately placed in existing post-acute beds and are therefore held in acute beds and that has not been demonstrated by the applicant.

The use rate model presented by the applicant is based on the assumption that District 8 will perform similar to another district's population use of LTCH services. The applicant looked at each district with LTCH beds to produce six separate use rate models, one for each of the districts with LTCH beds as well as one use rate using the state. The applicant then applied each use rate to the elderly population in District 8 to forecast LTCH days for each use rate option. Using this method the applicant arrived at several different bed need calculations before deciding that the statewide average represented the "best fit" and similar to the district's use of other types of services (rehabilitation beds, SNF, HBSNU beds). The applicant once again allocated need between the northern and southern counties in the district arriving at a need for 70 LTCH beds in Lee County and 93 beds for Sarasota County by CY 2006. However, had the applicant chosen another of its "options", for example, it would have shown little or no need<sup>2</sup> for beds in either Lee or Sarasota County or in the district given the 40 approved LTCH beds. This method is somewhat arbitrary and not supported by evidence that patients needing post-acute services are unable to access them in either Lee or Sarasota Counties or within District 8.

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<sup>2</sup> CON 9715 Need Analysis Page 1-42, shows bed need in Sarasota County in 2006 between 43 and 151 using the range of use rates.

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The projection of need models used by the applicant do not take into account other variables that may impact utilization including changes in population growth of the various age groups, the availability of other care options and a change in referral patterns. The applicant provided no documentation from area hospitals to show that it can reasonably expect hospitals in the area to discharge LTCH appropriate patients to the proposed facility. There were no letters of support submitted from area physicians or other health care providers identifying potential referrals to the facility. It should also be noted that the development of the 40-bed HealthSouth facility in Sarasota (CON #9499) as well as the recent licensure of 22 additional LTCH beds to the highly utilized Kindred-St. Petersburg facility, adds a total of 62 beds to the LTCH bed inventory of the area. There is nothing to preclude Lee County hospitals from discharging patients in need of post-acute care to the new HealthSouth LTCH approved for the area and located in Sarasota County. The applicant provided no evidence to suggest that once this new LTCH is established in Sarasota County that Lee County hospitals will not discharge patients needing LTCH services to this facility.

In summary, the applicant's two methodological approaches to need are not supported by any specific discharge studies or other data, including DRG admission criteria from area hospitals regarding potential need. In addition, the applicant failed to provide any supporting documentation from area physicians regarding potential referrals. The applicant's use rate approach is based on the experience of other LTCHs in other parts of the state and relies on assumptions that may or may not occur in the proposed service area. With regard to the LOS methodological approach, the applicant's projections are based on assumed capture rates with no supporting data or indication of potential referrals from area hospitals. There were no letters of support for the project submitted by any area providers. The applicant did provide a listing of District 8 top 10 LTCH DRGS with an ALOS greater than 25 days by hospital, DRG and attending physician. However, it cannot be confirmed that the patient numbers listed by hospital and physician will actually result in a discharge to a LTCH if available. It was further not demonstrated by the applicant that patients that may meet the definition of a LTCH patient are not currently being placed or that an access problem currently exists in the district. With the approval of a new freestanding 40-bed LTCH to be constructed by HealthSouth in District 8 (Sarasota) and the recently licensed addition of 22 LTCH beds for the Kindred-St. Petersburg facility in District 5, the need for additional LTCH beds in this area is not demonstrated.

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**Select Specialty Hospital-Sarasota, Inc. (CON #9716)** contends that there is a need for a LTCH in Sarasota County that exceeds the capacity of the approved HealthSouth (CON #9499) 40-bed LTCH to be located in Sarasota County. As stated above under CON #9715, the applicant contends that data support need for LTCH services for a county, rather than district, planning area and analyzed existing LTCHs in Florida to support its belief. Discharge data reported by existing Florida LTCHs show that in urban areas, the majority of the patients discharged were residents of the counties in which the LTCH was located. It is not clear that this data supports a county, rather than a district, planning area. As the applicant notes, in more rural areas discharge data does not support its belief. The applicant did not conduct a study, similar to the *MedPac* study, to look at the impact of LTCH services on skilled nursing or rehabilitation admissions to see if, in urban areas for example, these services are used as a substitute for skilled nursing or comprehensive medical rehabilitation care. It is not known if these data illustrate that having LTCH beds available in the county or hospital is more of a convenience than a need and that they actually negatively impact other post-acute care providers. The Agency has no policy or existing rule for the establishment of LTCH services. There is no defined planning area. Need must be demonstrated by the applicant and the patient population in a service area defined.

In the absence of any currently operational LTCH beds in District 8 and specifically in Sarasota County, the nearest LTCH services are presently located in District 5 (St. Petersburg), approximately 25 miles in distance from Sarasota. As previously shown, the Kindred LTCH in St. Petersburg was utilized at 100.15 percent for CY 2002 and was licensed on April 23, 2003 for an additional 22 LTCH beds, increasing its total bed complement to 82 LTCH beds.

The applicant states that of the total acute care cases in District 8 hospitals for CY 2002, long stays (25 days or longer excluding newborns, psychiatric and substance abuse) represent one percent of the cases, but 6.6 percent of the patient days. The applicant contends that this indicates a disproportionate and significant impact on acute care hospitals.

In response to population and demographics, the applicant compares Agency population estimates (June 2003) for District 8 with state estimates to demonstrate that the district is expected to have the highest percentage increase in the 65 and over and 75 and over population groups of any district in the state by 2006. As previously shown, the increase in population percentages for total population as well as the 65 and over and 75 and over age groups in both Sarasota and Lee Counties

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is actually expected to be less than the district averages. In any event, Sarasota County is expected to account for approximately 28 percent of the total population in District 8 and 29 percent of the 65 and over population in 2008.

In the absence of an approved methodological approach to need, the applicant presents two methodologies for consideration in support of the proposed project. The first methodology utilizes a long length of stay model and the second method involves a use rate model.

The long length of stay model evaluates hospital cases that are likely to result in long lengths of stay of 25 days or longer to determine how many cases are appropriate for LTCH services. The results of this model estimate a need in District 8 for 169 LTCH beds in CY 2006 by inflating the CY patient days greater than 25 days by the compounded annual growth rate (0.019972), arriving at an average daily census and then dividing by an expected 80 percent occupancy rate. The applicant then used the same method to determine allocation of LTCH beds between what the applicant considers the Northern Tier (Sarasota, Charlotte, Desoto, and Glades Counties) and Southern Tier (Lee, Collier, and Hendry Counties) of District 8. This results in a perceived need to allocate 97 beds to the northern counties and 72 beds to the southern counties. As noted earlier, in a recent report to Congress, *MedPac* gathered data that suggests the length of stay in an acute care beds is not reduced when LTCH care is available. Using this method, which captures these excess acute days, does not appear valid. Additionally, this method assumes that patients with long lengths of stay cannot be appropriately placed in existing post-acute beds and are therefore held in acute beds and that has not been demonstrated by the applicant.

The use rate model presented by the applicant is based on the assumption that District 8 will perform similar to another district's population use of LTCH services. The applicant looked at each district with LTCH beds to produce six separate use rate models, one for each of the districts with LTCH beds as well as one use rate using the state. The applicant then applied each use rate to the elderly population in District 8 to forecast LTCH days for each use rate option. Using this method, the applicant arrived at several different bed need calculations before deciding that the statewide average represented the "best fit" and similar to the district's use of other types of services (rehabilitation beds, SNF, HBSNU beds). The applicant once again allocated need between the northern and southern counties in the district arriving at a need for 93 LTCH beds for Sarasota County by CY 2006 and 70 LTCH beds for Lee County. However, had the applicant chosen another of its "options", for

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example, it would have shown little or no need<sup>3</sup> for beds in either Lee or Sarasota County or in the district given the 40 approved LTCH beds. This method is somewhat arbitrary and not supported by evidence that patients needing post-acute services are unable to access them in either Lee or Sarasota Counties or within District 8.

The projection of need models used by the applicant do not take into account other variables that may impact utilization including changes in population growth of the various age groups, the availability of other care options and a change in referral patterns. The applicant provided no documentation from area hospitals to show that it can reasonably expect hospitals in the area to discharge LTCH appropriate patients to the proposed facility. There were also no letters of support submitted from area physicians or other health care providers identifying potential referrals to the facility. The applicant did provide a listing of District 8 top 10 LTCH DRGS with an ALOS greater than 25 days by hospital, DRG and attending physician. However, it cannot be confirmed that the patient numbers listed by hospital and physician will actually result in a discharge to a LTCH if available. It should also be noted that the development of the 40-bed HealthSouth facility in Sarasota (CON #9499) as well as the recent licensure of 22 additional LTCH beds to the highly utilized Kindred-St. Petersburg facility (CON #9488) will add a total of 62 beds to the LTCH bed inventory of this area. There is nothing to preclude Lee County hospitals from discharging patients in need of post-acute care to the new HealthSouth LTCH approved for the planning area and located in Sarasota County. The applicant provided no evidence to suggest that once this new LTCH is established in Sarasota County that Lee County hospitals will not discharge patients needing LTCH services to this facility. It was further not demonstrated by the applicant that patients that may meet the definition of a LTCH patient are not currently being placed or that an access problem currently exists in the district. With the approval of a new freestanding 40-bed LTCH approved for HealthSouth in District 8 (Sarasota) in close proximity to the proposed LTCH, as well as the addition of 22 LTCH beds to the Kindred-St. Petersburg facility in District 5, the need for additional LTCH beds in the area is not demonstrated.

**SemperCare Hospital of Sarasota, Inc. (CON #9717)** is proposing to create a 29-bed LTCH within leased space at Sarasota Memorial Hospital in Sarasota, Florida (Sarasota County) to serve residents of District 8.

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<sup>3</sup> CON 9715 Need Analysis Page 1-42, shows bed need in Sarasota County in 2006 between 43 and 151 using the range of use rates.

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The applicant contends that the closest LTCHs do not meet the needs of the long-stay acute care patient population of District 8 and attempts to demonstrate that clinical, socio-demographic, and utilization profiles of the patient population in District 8 and specifically in Sarasota County supports the need for the proposed project.

In response to population demographics and dynamics, the applicant's analysis focuses on the historical population increase for Sarasota County and District 8 from January 1995 through January 2003 to show a significant increase in total population, and most importantly in the 65 and over population group for both the county (13 percent) and the district (23 percent). However, based on Agency population estimates for the five year period July 2003 through July 2008, Sarasota County is expected to experience the lowest percent change in total population (6.34 percent) of the seven counties that comprise District 8 and is below the expected increase in total population in the district of 10.39 percent. For the same time period, the 65 and over population increase (7.71 percent) and 75 and over (5.82 percent) increase represents the second lowest estimated increase in the district behind Charlotte County and is below the total district averages of 10.75 percent and 11.02 percent, respectively. However, in view of its size, Sarasota County is expected to account for approximately 25 percent of the total district population by 2008, with the 65 and over group accounting for 29 percent and the 75 and over group accounting for 31 percent of the district population.

The applicant intends to primarily serve residents of Sarasota and Charlotte Counties and contends that due to its size and location, Sarasota Memorial is the most suitable location for the proposed LTCH. The applicant questions the ultimate development of the 40-bed HealthSouth LTCH due to HealthSouth's unresolved legal and financial difficulties. However, as noted earlier, the Agency understands that HealthSouth intends to begin construction by April 13, 2004. The applicant references several of its support letters (previously discussed) from area physicians indicating that they will not refer patients to the HealthSouth facility if it is built. This appears to clearly be physician preference and suggests that physicians believe their patients are currently receiving acceptable care, despite claiming that they are not.

The applicant also contends that it is unreasonable to require LTCH appropriate patients to be transported approximately 40 miles to the Kindred-St. Pete LTCH to receive services. According to Agency data, 28 patients from Sarasota County were referred to the existing LTCH in St. Petersburg during 2002. The applicant contends that this is an indication that Sarasota County residents are not accessing LTCH services outside of the area. There was no indication provided regarding

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the placement of patients who were not transferred out of area for LTCH services. Although the St. Pete LTCH is operating at maximum capacity, an additional 22 beds were recently licensed, thus increasing the bed capacity of that facility to 82 beds. Provided the HealthSouth LTCH is developed in Sarasota County, the travel constraints in transferring patients to the St. Pete facility should not be an issue.

In an attempt to further demonstrate need, the applicant states that discharge planners at Sarasota Memorial were provided the admissions criteria for the proposed LTCH and asked to estimate the number of patients that would be transferred to a LTCH if available. The discharge planners reviewed patient charts for a two week period and identified 12 patients who would benefit from the services of a LTCH if available. On an annualized basis, this would indicate approximately 312 patients who would possibly use LTCH services. According to the applicant, the identified 12 patients could not be placed in another venue of care as a result of their complex medical conditions and only one of these patients was referred to the existing LTCH in St. Petersburg. The applicant did not indicate how long these patients stayed in an acute care setting past the GMLOS for their respective DRGs. The assumption cannot be made that the 12 patients identified represent a truly random sample of all admitted patients for the year. The sample size is too small to have any statistical significance, and the non-randomness of the sample invalidates the applicant's claim.

To calculate the potential number of patients in need of LTCH services, the applicant chose to use a length of stay methodology. This approach targets patients whose lengths of stay are above national averages for the respective DRG. The methodology uses the GMLOS for each DRG provided as a part of the Medicare Prospective Payment System and applies the GMLOS to all potential discharges from the host hospital and other area hospitals. The applicant provided an extensive listing of DRGs considered not appropriate for LTCH services and deleted those from consideration as well as all lengths of stay totaling less than the sum of 15 days plus the Medicare GMLOS for that DRG.

The applicant states that according to Agency data, Sarasota Memorial accounted for 273 LTCH appropriate discharges and a total of 7,499 patient days for CY 2002. The applicant states that this volume alone supports a need for 26 beds at 80 percent occupancy. The applicant further states that to confirm need for LTCH services, Sarasota Memorial physicians were surveyed in an effort to estimate the number of patients from Sarasota Memorial alone that he or she would likely refer to the proposed LTCH. Although the applicant references physicians' signed estimates, these were not actually included in any of the support letters

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submitted. The applicant also indicates that Sarasota Memorial provided patient level data by physicians to determine the number of long-stay patient days represented by each physician. However, this information was also not found in Attachment 4.

The applicant assumes that it will also capture 50 percent of the total LTCH appropriate patient days at Doctor's Hospital of Sarasota and approximately 10 percent of LTCH appropriate patient days at Bon Secour-Venice Hospital and Englewood Community Hospital. An additional five percent each is expected from Charlotte County hospitals, including St. Joseph Hospital, Charlotte Regional and Fawcett Memorial. Although a letter of support for the project was provided by Doctor's Hospital, there was no indication given as to the number of potential referrals the applicant can expect. There were no letters of support for the project from the other hospitals listed, and thus no indication from these facilities that they will support and/or utilize the LTCH services at Sarasota Memorial.

The applicant's length of stay methodology (based on assumed LTCH appropriate days) results in a need for 31 beds based on the support of the listed hospitals. By using only patient referrals from Sarasota Memorial, the applicant can demonstrate a need for approximately 26 beds, less than the 29 proposed. Considering that 40 beds have been approved for this area, need has not been shown. It is also noted that certain variations in patient characteristics can alter these need assumptions. These include the patient's functional ability, availability of caretakers at home, ethnicity, age, socio-demographics, and dependence on technology. In addition, it was not demonstrated by the applicant that patients that may meet the definition of a LTCH patient are not currently being placed, either in a LTCH outside the district or discharged to another venue of care. Again, with the approval of a new freestanding 40-bed LTCH approved for HealthSouth in District 8 (Sarasota) in reasonable proximity to the proposed LTCH, as well as the recent addition of 22 LTCH beds to the Kindred-St. Petersburg facility in District 5, the need for additional LTCH beds in this area is not demonstrated.

**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 2003 District 8 CON Allocation Factors Report, effective July 2003, contains the following preference statements pertaining to long-term care beds:

- 1. Preference shall be given to applications that demonstrate the use of shared services and transfer arrangements that mutually increase existing resource efficiency.**

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)** states that the proposed hospital within a hospital project will utilize the existing resources of Lee Memorial Health System. The applicant provided a letter of intent to enter into a lease with Lee Memorial Health System and copies of numerous patient transfer agreements that Lee Memorial has with other health care providers in the area. The applicant did not specifically demonstrate that the use of any shared services and transfer arrangements will mutually increase existing resource efficiency.

**Select Specialty Hospital-Lee, Inc. (CON #9715)** states that it is currently working with area hospitals to foster relationships in anticipation of project approval. The applicant does not currently have any written transfer agreements or letters of intent to work with area providers. However, the applicant states its intention to establish transfer agreements with area providers to offer a continuum of care for the community. The applicant listed several services that it intends to contract for but does not demonstrate that the use of any shared services and transfer arrangements will mutually increase existing resource efficiency.

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**Select Specialty Hospital-Sarasota, Inc. (CON #9716)** provides an identical response as above and states that it is currently working with area hospitals to foster relationships in anticipation of project approval. The applicant does not currently have any written transfer agreements or letters of intent to work with area providers. However, the applicant states its intention to establish transfer agreements with area providers to offer a continuum of care for the community. The applicant listed several services that it intends to contract for but does not demonstrate that the use of any shared services and transfer arrangements will mutually increase existing resource efficiency.

**SemperCare Hospital of Sarasota, Inc. (CON #9717)** states its intention of taking advantage of contracting with Sarasota Memorial Hospital for numerous ancillary services, thereby sharing these services. The services may include, but are not limited to: dietary, radiology and imaging, laboratory, surgery, laundry, and biomedical and equipment maintenance. The applicant contends that shared ancillary services represents a major advantage of a hospital within a hospital LTCH compared to a freestanding facility. The applicant states that the project will provide for seamless transfers between facilities and does not require the expense involved in ambulance transfers. The applicant provided a copy of the lease agreement with Sarasota Memorial Hospital, indicating the various ancillary and medical services the host hospital will provide. However, other than providing a rather detailed listing of services to be purchased, the applicant did not demonstrate that the use of any shared services and transfer arrangements will mutually increase existing resource efficiency.

3. **Agency Rule Criteria** (*The Agency does not currently have adopted preferences relating to LTCHs; however, the proposed rule for LTCHs does contain specific preferences which are discussed as follows*)
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.**

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)** basically summarizes its previous discussion regarding need, pointing out that

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estimates of potential LTCH patients is demonstrated by an analysis of LMHS patients and survey support letters from area physicians. The applicant further questions the ability of HealthSouth to develop the approved 40-bed LTCH proposed for Sarasota. However, HealthSouth has provided the Agency with assurance that it intends to begin construction of this project by April 13, 2004.

In response to quality of care, the applicant references several attachments to the application documenting the quality of care being provided by the host and its affiliates (see Item 4b for further discussion regarding quality of care).

In regard to accessibility and efficiency, the applicant references its condition to provide five percent of total patient days to Medicaid/charity care patients and to improve access to LTCH services, currently provided in excess of 100 miles away in Tampa and St. Petersburg. The applicant discussed the advantages of the hospital within a hospital concept, including less capital outlay, utilization of existing resources and continuity of care.

Although the applicant reasonably demonstrated a sufficient number of potential LTCH cases originating from within the Lee Memorial Health System, it was not shown that patients were unable to obtain LTCH services outside of the area or utilize other care options within the district. The *MedPac* report to Congress notes that there are different levels of functional limitation, illness, personal preferences and other variations that impact post-acute care options as well as need assumptions.

Need for LTCH services in the district beyond those already approved was not demonstrated by the applicant. The applicant did not demonstrate need for the project as 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.

**Select Specialty Hospital-Lee, Inc. (CON #9715)** states that at the present time the residents of District 8 do not have access to LTCH services and the closest LTCHs are located in District 6 (two in Hillsborough County), and in District 5 (one in Pinellas County). The applicant acknowledges the approval of the 40-bed HealthSouth LTCH in District 8 but contends that it has documented sufficient numbers and types of long-stay in acute care hospitals that would benefit from an additional LTCH in the district. Although the applicant provided two separate methodological approaches to determine need, there was no documentation provided specifically from area hospitals, physicians or

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other health care providers identifying potential referrals to the proposed LTCH. As discussed in the need section above, the applicant failed to demonstrate need for the project.

Need for LTCH services in the district beyond those already approved was not demonstrated by the applicant. The applicant did not demonstrate need for the project as 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.

**Select Specialty Hospital-Sarasota, Inc. (CON #9716)** provided a similar response as presented above for the Select-Lee proposal (CON #9715). The applicant states that at the present time, the residents of District 8 do not have access to LTCH services and the closest LTCHs are located in District 6 (two in Hillsborough County), and in District 5 (one in Pinellas County). The Kindred facility located in Pinellas County (St. Petersburg) is located approximately 25 miles north of Sarasota and is considered the closest LTCH for area residents. Although the Kindred LTCH was fully utilized in CY 2002, the facility recently added an additional 22 beds, thus increasing the hospital's total bed complement to 82 beds. The applicant acknowledges the approval of the 40-bed HealthSouth LTCH in District 8 but contends that it has documented sufficient numbers and types of long stays in acute care hospitals that would benefit from an additional LTCH in the district. Although the applicant provided two separate methodological approaches to determine need, there was no documentation provided specifically from area hospitals, physicians or other health care providers identifying potential referrals to the proposed LTCH. As discussed in the need section above, the applicant failed to demonstrate need for the project.

Need for LTCH services in the district beyond those already approved was not demonstrated by the applicant. The applicant did not demonstrate need for the project as 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.

**SemperCare Hospital of Sarasota, Inc. (CON #9717)** basically references its previous response to need (Item 1b). The applicant states that as evidenced by the numerous letters of support from physicians, short term acute care hospitals, post-acute facilities, and the community, the need for the proposed LTCH in Sarasota is both critical and immediate and will provide a level of care that does not currently exist in the district. Although the applicant did provide an estimated number of potential LTCH admissions from discharge planners at Sarasota Memorial, documented estimates from area physicians and other

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providers was not provided. The applicant's assumed capture rates of area LTCH appropriate patients from other area hospitals was also not documented. As discussed in the need section above, the applicant failed to demonstrate need for the project.

Need for LTCH services in the district beyond those already approved was not demonstrated by the applicant. The applicant did not demonstrate need for the project as 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.**

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)** is a new entity with no prior LTCH operational experience. The applicant intends to enter into a management arrangement with an as yet selected management group. The applicant did submit documentation of the Joint Commission of Accreditation of Healthcare Organizations (JCAHO) accreditation for the host, Lee Memorial Health System. The JCAHO accreditation is an indication that quality of care is being delivered and that the components are in place to ensure the delivery of quality of care.

Both **Select Specialty Hospital-Lee, Inc. (CON #9715)** and **Select Specialty Hospital-Sarasota, Inc. (CON #9716)** are development stage corporations, and as such have no operating history. However, both applicants are controlled entities of Select Medical Corporation, an existing provider of LTCH services nationwide with 72 existing facilities, including one in Miami, Florida that was licensed on December 23, 2002. Select Specialty has also been approved for a 40-bed LTCH in District 7. The applicants state that all existing Select Medical facilities have current JCAHO accreditation, except those that have recently opened and are awaiting survey. The JCAHO accreditation is an indication that quality of care is being delivered and that the components are in place to ensure the delivery of quality of care.

The co-batched applicants provided identical descriptions of their respective performance improvement plans for establishing specific methods and techniques for monitoring and improving care delivery.

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**SemperCare Hospital of Sarasota, Inc. (CON #9717)** is a new entity and does not have any historical experience upon which to demonstrate its ability to provide quality care. However, the applicant states that the parent corporation, SemperCare, Inc., has a variety of mechanism that have been used to ensure and maintain quality care in its other facilities. These mechanisms include a comprehensive performance improvement system called QualMax, constant maintenance of regulatory compliance and readiness, outcomes measurement systems, utilization and risk management programs, credentialing and privileging systems, a corporate compliance program, and a customer satisfaction system. The applicant include the JCAHO survey results for four currently operational SemperCare facilities. The four existing facilities scored above the benchmark score of 92 on their JCAHO surveys.

The applicant points out that the facility will be separately licensed and responsible for securing and completing all appropriate state licensure requirements, Medicare and Medicaid certification, and JCAHO accreditation. The applicant states that Sarasota Memorial Hospital, the host hospital, is currently fully licensed and accredited.

- 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 co-batched applicants are not proposing special health care services that are not reasonably and economically accessible 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.**

None of the co-batched projects are to be located in a statutorily defined teaching hospital nor will the primary purpose of the proposed projects involve research or physician education.

- e. What resources, including health manpower, management personnel, and funds for capital and operating expenditures, are available for project accomplishment and operation? ss. 408.035(6), Florida Statutes.**

The audited financial statements were reviewed to assess the financial position of the four co-batched applicants as of the balance sheet date and the financial strength of the operations for the applicants for the applicable period presented.

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**Long Term Care Hospital of SW Florida, Inc. (CON #9714)** is a development stage company with \$48,931 in assets as of September 30, 2003. Lee Memorial Hospital, Inc. d/b/a Lee Healthcare Resources, the parent, was formed for the purpose of serving as the support organization for Lee Memorial Health System (Hospitals). The company had, at September 30, 2002, \$5.9 million in restricted and unrestricted cash on hand, \$13.0 million in current assets and \$129.5 million in total assets. The company has total net assets of \$14.8 million, a net operating loss for the period of \$2.0 million with negative cash flows from operations of \$1.8 million. The company showed a small operating profit in 2001. Currently, the company's supported entity (hospitals) operates three acute care general hospitals and a 112-bed nursing home. LHCR also operates several non-health care related businesses.

Long Term Care Hospital of SW Florida, Inc. will lease the space required to operate the hospital from Lee Memorial Hospital, Inc. The applicant presented a letter of intent to lease, which did not disclose the terms of the proposed lease. However, the applicant budgeted \$578,709 and \$597,806, respectively, for rent in the first and second years of operation.

### **Capital requirements:**

Total capital costs for this project from Schedule 1 are \$2,560,038. Schedule 1 did not include the estimated loss during the initial six-month qualification period of \$1,294,340, bringing the total project costs for the applicant to \$3,854,378. Schedule 2 indicates the applicant has no other capital projects, but has included \$200,000 for additional equipment bringing the total capital budget to \$4,054,378.

### **Available capital:**

Funding for the proposed project is coming from a subsidiary of one of the parent's wholly-owned for profit subsidiaries Lee Health Ventures, Inc. (LHV). A commitment letter from LHV states that it has the resources to fund the entire capital budget. The current line of credit and term loan balances available are insufficient to fund this project, however if the sale of land alluded to in the commitment letter materializes funding should be available. Examination of the consolidated financial statements fails to show that LHV parent Lee FP, Inc. has the available financial resources to adequately fund this project.

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### **Staffing:**

The applicant anticipates that the proposed LTCH will require 32.65 new full-time equivalent (FTE) staff during the qualification period, increasing to 78.85 FTE's in each of the first two full years of operation. In view of the fact that several of the ancillary services will be leased from the host hospital, the listed FTE's primarily involve nursing staff and administrative staff. The applicant states that staffing levels are based upon the operating experience of the proposed management company and are consistent with the anticipated service caseloads. There was no discussion regarding actual staff recruitment and retention plans.

### **Conclusion:**

Even contingent on the sale of property by LHV, funding for this project is questionable.

**Select Specialty Hospital-Lee, Inc. (CON #9715)**, a wholly-owned subsidiary of Select Medical, Inc., is a start-up company with \$10 in assets as of February 4, 2003. The applicant submitted Form 10K for Select Medical, Inc. for the period ended December 31, 2002. The company reported \$56.1 million in cash on hand, \$346.9 million in current assets and \$739.1 million in total assets. For the same period, Select Medical had earnings from operations of \$74.8 million on net revenues of \$1.1 billion, with total operating expenses of \$1.0 billion. Cash flows from operations totaled \$120.8 million. This is a financially strong company.

### **Capital requirements:**

Total capital costs for this project from Schedule 1 are \$13.04 million. Schedule 2 indicates that the applicant has included the cost from the previous application of \$12.3 million, as well as routine capital costs in year two of \$100,000 for a total capital budget of \$25.4 million. If approved, the actual capital expenditures would be limited to the current projects cost.

### **Available capital:**

Funding for the proposed project is coming from the parent, Select Medical, Inc. A letter was provided in support of their commitment to fund the project.

## **CON Action Numbers: 9714, 9715, 9716 & 9717**

### **Staffing:**

According to Schedule 6, the applicant is anticipating that the 60 bed LTCH will require 69 FTE's in year one, increasing to 122 FTE's in year two. As a freestanding LTCH, all required staffing will be required with nursing staff/nursing aides comprising 34 FTE positions in year one and 61 positions in year two. The applicant did not specifically describe a staff recruitment plan or discuss staff retention. However, the applicant does state its confidence in effectively recruiting and maintaining appropriately qualified staff to meet patient needs.

### **Conclusion:**

Funding for this project, with the support of its parent, should be available as needed.

**Select Specialty Hospital-Sarasota, Inc. (CON #9716)**, a wholly-owned subsidiary of Select Medical, Inc., is a start-up company with \$10 in assets as of February 4, 2003. The applicant submitted Form 10K for Select Medical, Inc. for the period ended December 31, 2002. The company reported \$56.1 million in cash on hand, \$346.9 million in current assets and \$739.1 million in total assets. For the same period, Select Medical had earnings from operations of \$74.8 million on net revenues of \$1.1 billion, with total operating expenses of \$1.0 billion. Cash flows from operations totaled \$120.8 million. This is a financially strong company.

### **Capital requirements:**

Total capital costs for this project from Schedule 1 are \$13.04 million. Schedule 2 indicates that the applicant has included the cost from the previous application of \$12.3 million, as well as routine capital costs in year two of \$100,000 for a total capital budget of \$25.4 million. If approved, the actual capital expenditures would be limited to the current projects cost.

### **Available capital:**

Funding for the proposed project is coming from the parent, Select Medical, Inc. A letter was provided in support of their commitment to fund the project.

## **CON Action Numbers: 9714, 9715, 9716 & 9717**

### **Staffing:**

According to Schedule 6, the applicant is anticipating that the 44-bed LTCH will require 61 FTE's in year one, increasing to 90 FTE's in year two. As a freestanding LTCH, all required staffing will be required with nursing staff/nursing aides comprising 25 FTE positions in year one and 49 positions in year two. Ancillary services (therapy, pharmacy) will require 17 FTE's in year one, increasing to 21 FTE's in year two. The applicant did not specifically describe a staff recruitment plan or discuss staff retention. However, the applicant does state its confidence in effectively recruiting and maintaining appropriately qualified staff to meet patient needs.

### **Conclusion:**

Funding for this project, with the support of its parent, should be available as needed.

**SemperCare Hospital-Sarasota, Inc. (CON #9717)** is a start-up company with \$100 in assets as of October 14, 2003. SemperCare, Inc., the parent, was formed in 1999 for the purpose of developing a network of facilities providing long-term hospital care. The company had, at June 30, 2002, \$13.7 million in cash on hand, \$20.1 million in current assets and \$23.3 million in total assets. Capital has been raised through the issuance of stock and long-term debt. The company has a shareholders' deficit of \$13.6 million, a net operating loss for the period of \$3.1 million with negative cash flows from operations of \$4.7 million. SemperCare opened its first LTC hospital in April 2000. Currently, the company has 12 facilities operational as of the date of the balance sheet. The facilities are too new to judge the financial strength of the parent based on their revenue. The short-term financial position of the company depends on its continued ability to raise sufficient capital to support its operating losses. On August 18, 2003, the company established with General Electric Capital Corporation (GECC) a \$55 million credit facility to support its development strategy and ongoing working capital requirements. The long-term future of the company will depend on its being able to operate the facilities at a profit level that will support the company's debt. It is too early to determine the long-term financial strength of the parent.

SemperCare Hospital of Sarasota, Inc. will lease the space required to operate the hospital from Sarasota Memorial Hospital, with SemperCare paying no rent for the first six months and \$1,000 per month per licensed LTC bed thereafter. The initial term of the lease is for five years, with options to extend.

## **CON Action Numbers: 9714, 9715, 9716 & 9717**

Sarasota Memorial Hospital will be responsible for funding part of the part of the project. Audited financial statements were submitted for the period ended September 30, 2002. Those statements reported cash, cash equivalents, and short-term investments of \$20.3 million, current assets of \$86.3 million, with an operating profit of \$8.8 million and operating cash flows of \$28.6 million.

### **Capital requirements:**

Total capital costs for this project from Schedule 1 are \$2.2 million. Schedule 1 did not include the estimated loss during the initial six months of operation of \$1,097,427, bringing the total project costs for the applicant to \$3,324,116. Schedule 2 indicates the applicant has no other capital projects.

### **Available capital:**

Funding for the proposed project is coming from the parent, SemperCare, Inc. and Sarasota Memorial Hospital Each provided a letter in support of their commitment to fund the project. SMH agreed to provide up to \$869,000. SemperCare, Inc.'s financial resources are discussed above.

### **Staffing:**

According to Schedule 6A, the applicant is anticipating that the 29-bed LTCH to be located at Sarasota Memorial Hospital will require a total of 77.4 FTE staff positions. It is unclear if this represents the proposed staffing for year one or year two. In any event, nursing staff is expected to require a total of 40.6 positions, while administration will require 14.4 positions and ancillary staff (therapy, respiratory, pharmacy) will require 20.9 positions. As a hospital within a hospital, several of the support functions will be leased from the host hospital. The applicant did not discuss staff recruitment or retention.

### **Conclusion:**

Funding for this project is likely to 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 each of the co-batched applicant's estimates to the corresponding 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

## **CON Action Numbers: 9714, 9715, 9716 & 9717**

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.

Comparative data were derived from hospitals in peer groups that reported data in 2002; the applicants 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 2003 2<sup>nd</sup> Quarter New CMS Hospital Market Basket Index.

**Long Term Care Hospital of SW Florida, Inc. (CON 9714)** submitted estimated revenues for the project that were developed based on the prospective payment system. In order to qualify for an exemption under CFR Part 412.23 for reimbursement under the prospective payment system a long-term acute care facility, operating as a hospital within a hospital, must not exceed more than 15 percent of its total inpatient operating costs in services obtained under contract with the host hospital *or* at least 75 percent of the hospital's inpatient population must be referred from a source other than the host facility. The applicant stated they intend to comply with this provision. Failure to comply would have a material negative impact on revenues.

**CON Action Numbers: 9714, 9715, 9716 & 9717**

The applicant submitted schedules for a six-month period (qualification period) required for Medicare reimbursement under the LTCH PPS. This period is required to demonstrate a minimum 25-day average length of stay. During the qualification period the hospital is reimbursed at the acute care rate. For the best estimation of long-range financial feasibility the two years subsequent to the demonstration period are being used in this analysis. However, the applicant estimated average reimbursement to be \$31,500 per Medicare discharge during the qualification period. The revenue amount on Schedule 7A for the qualification period calculates to an average for the estimated 46 discharges of \$33,210. The applicant provided no data in support of these projections or any explanations for the revenue variances. At the higher revenue amount, the applicant is projecting a loss of \$1,234,340 during the qualification period. If the estimated average payment amount (Schedule 7A) is not realized, the loss projected for the qualification period will be much greater.

Projected net revenue per adjusted patient day (NRAPD) of \$1,238 in year one and \$1,269 in year two is between the control group median and highest values of \$1,187 and \$2,203 in year one and \$1,225 and \$2,274 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).

Projected cost per adjusted patient day of \$1,183 in year one and \$1,148 in year two is between the control group median and highest values of \$1,105 and \$2,260 in year one and \$1,140 and \$2,332 in year two. Compared to the control group these costs are efficient. (See Comparative Table).

The year two operating profit for the hospital of \$1,330,903 computes to an operating margin per adjusted patient day of \$122, which falls between the peer group median and lowest values of \$125 and \$-31 respectively. The operating margin of 9.3 percent indicates that net revenues are proportional to costs.

Given the uncertain financial viability of the applicant's parent, this application appears to be financially questionable.

## CON Action Numbers: 9714, 9715, 9716 & 9717

### Long Term Care Hospital of SW Florida, Inc.

#### Comparative Table PEER GROUP 12

	2007 YEAR 2 ACTIVITY	YEAR 2 ACTIVITY PER DAY	<b>INFLATION ADJ. VALUES</b>		
			Highest	Median	Lowest
ROUTINE SERVICES	14,058,068	1,284	1,257	933	687
INPATIENT AMBULATORY	0	0	12	0	0
INPATIENT SURGERY	0	0	0	0	0
INPATIENT ANCILLARY SERVICES	0	0	3,919	3,002	2,440
OUTPATIENT SERVICES	0	0	232	2	0
TOTAL PATIENT SERVICES REV.	14,058,068	1,284	4,912	3,957	3,128
OTHER OPERATING REVENUE	0	0	4	2	0
<b>TOTAL REVENUE</b>	<b>14,058,068</b>	<b>1,284</b>	<b>4,916</b>	<b>3,959</b>	<b>3,128</b>
DEDUCTIONS FROM REVENUE	158,504	14	N/A	N/A	N/A
<b>NET REVENUES</b>	<b>13,899,564</b>	<b>1,269</b>	<b>2,274</b>	<b>1,225</b>	<b>933</b>
<b>EXPENSES</b>					
ROUTINE	3,336,632	305	583	329	199
ANCILLARY	4,673,873	427	667	310	211
AMBULATORY	77,928	7	0	0	0
TOTAL PATIENT CARE COST	8,088,433	739	1,250	639	410
ADMINISTRATIVE & OVERHEAD	3,097,495	371	978	525	385
PROPERTY	965,746	*	*	*	*
TOTAL HOSPITAL EXPENSE	12,151,674	1,110	2,332	1,140	800
OTHER OPERATING EXPENSE	416,987	0	0	0	0
<b>TOTAL EXPENSE</b>	<b>12,568,661</b>	<b>1,148</b>	<b>2,332</b>	<b>1,140</b>	<b>800</b>
OPERATING INCOME (MARGIN)	1,330,903	122	280	125	-31
PERCENT OPERATING MARGIN	9.6%				

#### PERCENTAGES NOT INFLATION ADJUSTED

PATIENT DAYS	10,950				
ADJUSTED PATIENT DAYS	10,950				
TOTAL BED DAYS AVAILABLE	12,775				
ADJ. FACTOR	1.0000				
TOTAL NUMBER OF BEDS	35				
PERCENT OCCUPANCY	85.7%		100.2%	84.2%	52.2%

	PATIENT DAYS	PERCENT OF TOTAL			
	<b>PAYER CLASS</b>				
SELF-PAY	116	1.1%	3.8%	0.9%	0.0%
MEDICAID	435	4.0%	13.3%	0.2%	0.0%
MEDICAID HMO	0	0.0%			
MEDICARE	9,906	90.5%	97.3%	75.4%	67.4%
MEDICARE HMO	0	0.0%			
INSURANCE	232	2.1%			
HMO/POP	261	2.4%	23.4%	10.5%	0.0%
OTHER	0	0.0%			
<b>TOTAL</b>	<b>10,950</b>	<b>100.0%</b>			

**CON Action Numbers: 9714, 9715, 9716 & 9717**

**Select Specialty Hospital-Lee, Inc. (CON #9615)** presented projected net revenue per adjusted patient day (NRAPD) of \$925 in year one and \$996 in year two which is between the control group lowest and median values of \$921 and \$1,209 in year one and \$951 and \$1,248 in year two. The lowest value is generally viewed as the practical lower limit on economies of operation. With net revenues per adjusted patient day falling between the lowest and median the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table).

Projected cost per adjusted patient day of \$1,204 in year one and \$965 in year two is between the control group median and highest values of \$1,125 and \$2,302 in year one and the control group lowest and median values of \$815 and \$1,161 in year two. Compared to the control group these costs are efficient. (See Comparative Table).

The year two operating profit for the hospital of \$467,751 computes to an operating margin per adjusted patient day of \$31, which falls between the peer group median and highest values of \$125 and \$-31 respectively. The operating margin of 3.1 percent indicates that net revenues are proportional to costs.

This project appears to be financially feasible.

## CON Action Numbers: 9714, 9715, 9716 & 9717

### Select Specialty Hospital-Lee, Inc

#### Comparative Table PEER GROUP 12

	2007 YEAR 2 ACTIVITY	YEAR 2 ACTIVITY PER DAY	<b><u>INFLATION ADJ. VALUES</u></b>		
			Highest	Median	Lowest
ROUTINE SERVICES	14,308,900	950	1,281	950	700
INPATIENT AMBULATORY	31,532,435	2,094	13	0	0
INPATIENT SURGERY	366,665	24	0	0	0
INPATIENT ANCILLARY SERVICES	0	0	3,993	3,058	2,485
OUTPATIENT SERVICES	0	0	236	2	0
TOTAL PATIENT SERVICES REV.	46,208,000	3,068	5,004	4,031	3,187
OTHER OPERATING REVENUE	0	0	4	2	0
<b>TOTAL REVENUE</b>	<b>46,208,000</b>	<b>3,068</b>	<b>5,008</b>	<b>4,033</b>	<b>3,187</b>
DEDUCTIONS FROM REVENUE	31,207,536	2,072	N/A	N/A	N/A
<b>NET REVENUES</b>	<b>15,000,464</b>	<b>996</b>	<b>2,316</b>	<b>1,248</b>	<b>951</b>
<b>EXPENSES</b>					
ROUTINE	2,952,850	196	594	335	202
ANCILLARY	5,316,836	353	680	315	215
AMBULATORY	0	0	0	0	0
TOTAL PATIENT CARE COST	8,269,686	549	1,274	650	417
ADMINISTRATIVE & OVERHEAD	3,844,083	255	996	535	392
PROPERTY	2,418,944	161	*	*	*
TOTAL HOSPITAL EXPENSE	14,532,713	965	2,375	1,161	815
OTHER OPERATING EXPENSE	0	0	0	0	0
<b>TOTAL EXPENSE</b>	<b>14,532,713</b>	<b>965</b>	<b>2,375</b>	<b>1,161</b>	<b>815</b>
OPERATING INCOME (MARGIN)	467,751	31	280	125	-31
PERCENT OPERATING MARGIN	3.12%				
<b>PERCENTAGES NOT INFLATION ADJUSTED</b>					
PATIENT DAYS	15,061				
ADJUSTED PATIENT DAYS	15,061				
TOTAL BED DAYS AVAILABLE	21,900				
ADJ. FACTOR	1.0000				
TOTAL NUMBER OF BEDS	60				
PERCENT OCCUPANCY	68.8%		100.2%	84.2%	52.2%
<b>PAYER CLASS</b>					
	PATIENT DAYS	PERCENT OF TOTAL			
SELF-PAY	120	0.8%	4.1%	0.9%	0.0%
MEDICAID	301	2.0%	13.3%	0.2%	0.0%
MEDICAID HMO	0	0.0%			
MEDICARE	11,679	77.5%	97.3%	75.4%	67.4%
MEDICARE HMO	0	0.0%			
INSURANCE	2,221	14.7%			
HMO/PPO	740	4.9%	23.4%	10.5%	0.0%
OTHER	0	0.0%			
<b>TOTAL</b>	<b>15,061</b>	<b>100.0%</b>			

**CON Action Numbers: 9714, 9715, 9716 & 9717**

**Select Specialty Hospital-Sarasota, Inc. (CON #9716)** projected net revenue per adjusted patient day (NRAPD) of \$921 in year one and \$1,016 in year two is between the control group lowest and median values of \$920 and \$1,207 in year one and \$949 and \$1,246 in year two. The lowest value is generally viewed as the practical lower limit on economies of operation. With net revenues per adjusted patient day falling between the lowest and median the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table).

Projected cost per adjusted patient day of \$1,179 in year one and \$967 in year two is between the control group median and highest values of \$1,123 and \$2,298 in year one and the control group lowest and median values of \$814 and \$1,159 in year two. Compared to the control group these costs are efficient. (See Comparative Table).

The year two operating profit for the hospital of \$597,350 computes to an operating margin per adjusted patient day of \$49, which falls between the peer group median and lowest values of \$125 and \$-31 respectively. The operating margin of 4.8 percent indicates that net revenues are proportional to costs.

This project appears to be financially feasible.

## CON Action Numbers: 9714, 9715, 9716 & 9717

### Select Specialty Hospital-Sarasota, Inc

#### Comparative Table PEER GROUP 12

	2007 YEAR 2 ACTIVITY	YEAR 2 ACTIVITY PER DAY	<b>INFLATION ADJ. VALUES</b>		
			Highest	Median	Lowest
ROUTINE SERVICES	11,619,450	950	1,279	949	698
INPATIENT AMBULATORY	25,688,634	2,100	13	0	0
INPATIENT SURGERY	297,716	24	0	0	0
INPATIENT ANCILLARY SERVICES	0	0	3,986	3,053	2,481
OUTPATIENT SERVICES	0	0	236	2	0
TOTAL PATIENT SERVICES REV.	37,605,800	3,075	4,995	4,024	3,181
OTHER OPERATING REVENUE	0	0	4	2	0
<b>TOTAL REVENUE</b>	<b>37,605,800</b>	<b>3,075</b>	<b>4,999</b>	<b>4,026</b>	<b>3,181</b>
DEDUCTIONS FROM REVENUE	25,176,338	2,058	N/A	N/A	N/A
<b>NET REVENUES</b>	<b>12,429,462</b>	<b>1,016</b>	<b>2,312</b>	<b>1,246</b>	<b>949</b>
<b>EXPENSES</b>					
ROUTINE	2,468,475	202	592	335	202
ANCILLARY	4,104,350	336	679	315	215
AMBULATORY	0	0	0	0	0
TOTAL PATIENT CARE COST	6,572,825	537	1,271	650	417
ADMINISTRATIVE & OVERHEAD	3,140,677	430	994	534	391
PROPERTY	2,118,610	*	*	*	*
TOTAL HOSPITAL EXPENSE	11,832,112	967	2,371	1,159	814
OTHER OPERATING EXPENSE	0	0	0	0	0
<b>TOTAL EXPENSE</b>	<b>11,832,112</b>	<b>967</b>	<b>2,371</b>	<b>1,159</b>	<b>814</b>
OPERATING INCOME (MARGIN)	597,350	49	280	125	-31
PERCENT OPERATING MARGIN	4.81%				
<b>PERCENTAGES NOT INFLATION ADJUSTED</b>					
PATIENT DAYS	12,231				
ADJUSTED PATIENT DAYS	12,231				
TOTAL BED DAYS AVAILABLE	16,060				
ADJ. FACTOR	1.0000				
TOTAL NUMBER OF BEDS	44				
PERCENT OCCUPANCY	76.2%		100.2%	84.2%	52.2%
<b>PAYER CLASS</b>					
	PATIENT DAYS	PERCENT OF TOTAL			
SELF-PAY	98	0.8%	4.1%	0.9%	0.0%
MEDICAID	245	2.0%	13.3%	0.2%	0.0%
MEDICAID HMO	0	0.0%			
MEDICARE	9,488	77.6%	97.3%	75.4%	67.4%
MEDICARE HMO	0	0.0%			
INSURANCE	1,800	14.7%			
HMO/PPO	600	4.9%	23.4%	10.5%	0.0%
OTHER	0	0.0%			
<b>TOTAL</b>	<b>12,231</b>	<b>100.0%</b>			

**CON Action Numbers: 9714, 9715, 9716 & 9717**

**SemperCare Hospital of Sarasota, Inc. (CON #9717)** submitted estimated revenues for the project that were developed based on the prospective payment system. In order to qualify for an exemption under CFR Part 412.23 for reimbursement under the prospective payment system a long-term acute care facility, operating as a hospital within a hospital, must not exceed more than 15 percent of its total inpatient operating costs in services obtained under contract with the host hospital *or* at least 75 percent of the hospital's inpatient population must be referred from a source other than the host facility. The applicant stated they intend to comply with this provision. Failure to comply would have a material negative impact on revenues.

The applicant submitted schedules for a six-month period (qualification period) required for Medicare reimbursement under the LTCH PPS. This period is required to demonstrate a minimum 25-day average length of stay. During the qualification period the hospital is reimbursed at the acute care rate. For the best estimation of long-range financial feasibility the two years subsequent to the demonstration period are being used in this analysis.

Projected net revenue per adjusted patient day (NRAPD) of \$1,168 in year one and \$1,211 in year two is between the control group median and lowest values of \$1,204 and \$917 in year one and \$1,242 and \$946 in year two. The lowest value is generally viewed as the practical lower limit on economies of operation. With net revenues per adjusted patient day falling between the lowest and median the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table).

Projected cost per adjusted patient day of \$1,146 in year one and \$1,141 in year two is between the control group median and highest values of \$1,120 and \$2,291 in year one and is between the control group median and lowest values of \$1,156 and \$811 in year two. Compared to the control group these costs are efficient. (See Comparative Table).

The year two operating profit for the hospital of \$611,428 computes to an operating margin per adjusted patient day of \$70, which falls between the peer group median and lowest values of \$125 and -\$31 respectively. The operating margin of 5.8 percent indicates that net revenues are proportional to costs.

This application appears to be financially feasible.

## CON Action Numbers: 9714, 9715, 9716 & 9717

### SemperCare Hospital of Sarasota

#### Comparative Table PEER GROUP 12

	2007 YEAR 2 ACTIVITY	YEAR 2 ACTIVITY PER DAY	<b><u>INFLATION ADJ. VALUES</u></b>								
			Highest	Median	Lowest						
ROUTINE SERVICES	29,530,989	3,371	1,275	946	696						
INPATIENT AMBULATORY	0	0	13	0	0						
INPATIENT SURGERY	0	0	0	0	0						
INPATIENT ANCILLARY SERVICES	0	0	3,975	3,043	2,474						
OUTPATIENT SERVICES	0	0	235	2	0						
TOTAL PATIENT SERVICES REV.	29,530,989	3,371	4,979	4,012	3,171						
OTHER OPERATING REVENUE	0	0	4	2	0						
<b>TOTAL REVENUE</b>	<b>29,530,989</b>	<b>3,371</b>	<b>4,983</b>	<b>4,014</b>	<b>3,171</b>						
DEDUCTIONS FROM REVENUE	18,922,986	2,160	N/A	N/A	N/A						
<b>NET REVENUES</b>	<b>10,608,003</b>	<b>1,211</b>	<b>2,305</b>	<b>1,242</b>	<b>946</b>						
<b>EXPENSES</b>											
ROUTINE	3,084,305	352	591	333	201						
ANCILLARY	3,555,115	406	676	314	214						
AMBULATORY	0	0	0	0	0						
TOTAL PATIENT CARE COST	6,639,420	758	1,267	647	415						
ADMINISTRATIVE & OVERHEAD	1,821,303	347	991	532	390						
PROPERTY	1,217,604	*	*	*	*						
TOTAL HOSPITAL EXPENSE	9,678,327	1,105	2,364	1,156	811						
OTHER OPERATING EXPENSE	318,248	0	0	0	0						
<b>TOTAL EXPENSE</b>	<b>9,996,575</b>	<b>1,141</b>	<b>2,364</b>	<b>1,156</b>	<b>811</b>						
OPERATING INCOME (MARGIN)	611,428	70	280	125	-31						
PERCENT OPERATING MARGIN	5.8%										
<b>PERCENTAGES NOT INFLATION ADJUSTED</b>											
PATIENT DAYS	8,760										
ADJUSTED PATIENT DAYS	8,760										
TOTAL BED DAYS AVAILABLE	10,585										
ADJ. FACTOR	1.0000										
TOTAL NUMBER OF BEDS	29										
PERCENT OCCUPANCY	82.8%		100.2%	84.2%	52.2%						
<table border="1" style="margin: auto;"> <thead> <tr> <th></th> <th style="background-color: #e0f2f7;">PATIENT DAYS</th> <th style="background-color: #e0f2f7;">PERCENT OF TOTAL</th> <th></th> <th></th> <th></th> </tr> </thead> </table>							PATIENT DAYS	PERCENT OF TOTAL			
	PATIENT DAYS	PERCENT OF TOTAL									
<b>PAYER CLASS</b>											
SELF-PAY	88	1.0%	3.8%	0.9%	0.0%						
MEDICAID	175	2.0%	13.3%	0.2%	0.0%						
MEDICAID HMO	0	0.0%									
MEDICARE	7,227	82.5%	97.3%	75.4%	67.4%						
MEDICARE HMO	0	0.0%									
INSURANCE	350	4.0%									
HMO/POP	920	10.5%	23.4%	10.5%	0.0%						
OTHER	0	0.0%									
<b>TOTAL</b>	<b>8,760</b>	<b>100.0%</b>									

**CON Action Numbers: 9714, 9715, 9716 & 9717**

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

**District 8 Long-Term Care Hospital Projects**

**Second Operational Year Comparisons**

<b>SELECTED FINANCIAL INDICATORS</b>	<b>Long Term Care Hospital of SW Florida, Inc.</b>	<b>Select Specialty Hospital of Lee, Inc.</b>
<b><u>CON Number</u></b>	<b><u>9714</u></b>	<b><u>9715</u></b>
Net Revenue per adjusted patient day	\$1,269	\$996
Cost per adjusted patient day	\$1,148	\$965
Operating profit (loss) per patient day	\$ 122	\$ 31
Estimated Managed Care level	2.4%	4.9%
Estimated Medicaid level	4.0%	2.0%
<b>SELECTED FINANCIAL INDICATORS</b>	<b>Select Specialty Hospital of Sarasota, Inc.</b>	<b>SemperCare Hospital of Sarasota, Inc.</b>
<b><u>CON Number</u></b>	<b><u>9716</u></b>	<b><u>9717</u></b>
Net Revenue per adjusted patient day	\$1,016	\$1,211
Cost per adjusted patient day	\$ 967	\$1,141
Operating profit (loss) per patient day	\$ 49	\$ 70
Estimated Managed Care level	4.9%	10.5%
Estimated Medicaid level	2.0%	2.0%

**Long-Term Care Hospital of SW Florida, Inc. (CON #9714)** projects managed care days, including Medicare and Medicaid managed care days, to represent 2.4 percent of its patient days. This is between the control group median and lowest level of activity of 10.5 and 0.0 percent. The projected managed care levels are not significant in promoting quality assurance and cost-effectiveness.

**Select Specialty Hospital-Lee, Inc. (CON #9715)** projects managed care days, including Medicare and Medicaid managed care days, to represent 4.9 percent of its patient days. This is between the control group lowest and median level of activity of 0.0 and 10.5 percent. The projected levels, if realized, will not have a positive impact on competition to promote quality assurance and cost-effectiveness.

**Select Specialty Hospital-Sarasota (CON #9716)** projects managed care days, including Medicare and Medicaid managed care days, to represent 4.9 percent of its patient days. This is between the control group lowest and median level of activity of 0.0 and 10.5 percent. The projected levels, if realized, will not have a positive impact on competition to promote quality assurance and cost-effectiveness.

**CON Action Numbers: 9714, 9715, 9716 & 9717**

**SemperCare Hospital of Sarasota, Inc. (CON #9717)** projects managed care days, including Medicare and Medicaid managed care days, to represent 10.5 percent of its patient days. This is at the control group median 10.5. The projected levels, if realized, will have a moderate positive impact on 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.**

*It is required that schematic drawings be submitted as part of the CON application. The drawings for the co-batched projects 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 applications 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.*

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)** proposes to establish a 35-bed long-term care hospital to occupy portions of the third, seventh and eighth floors of Lee Memorial Hospital. The majority of space to be converted to patient rooms is currently used for medical/surgical patients, so these spaces will be considered existing for code review purposes. There was a list of applicable building codes on the drawings that appear to be current.

A pharmacy is included in the new hospital and there is also a space on the seventh floor that could be used for radiographic equipment as required. The applicant acknowledges that travel through the confines of the new hospital will be necessary to access the ICU wings on the upper floors of Lee Memorial. This is not ideal, but is acceptable as well as the plan to spread the new facility over three floors of the existing facility.

The applicant presented a site plan, plans of the three floors and large-scale plans of the patient rooms. There were no demolition plans provided, but the application indicates that minimal renovation will be needed on the upper floors and complete renovation will be required for the third floor area, which is to be used as administrative functions.

## **CON Action Numbers: 9714, 9715, 9716 & 9717**

Some indication of the existing functions of the spaces to undergo demolition would have been helpful to better evaluate the renovation scope and relate it to the budget. Based on the information presented, the projected costs and schedules appear to be relatively reasonable. At a projected cost of over 1.6 million dollars, the total building cost of the facility is somewhat higher than might be expected. Perhaps the demolition is somewhat more involved in scope than is described in the application.

**Select Specialty Hospital-Lee, Inc. (CON #9715)** proposes to establish a freestanding 60-bed long-term care hospital to be located in Fort Myers, Florida.

Obviously new construction standards will be applied when and if the AHCA Office of Plans and Construction reviews the proposed building. The 2003 revisions of the Florida Building Code are currently in effect, but the new edition of Chapter 59A-3 of the Florida Administrative Code has not yet been promulgated. There was a list of applicable building codes presented and it is mostly correct.

The application included a floor plan of the proposed one-story building, larger scaled plans of patient rooms and a smoke compartment plan. The main part of the building is almost identical to several other facility plans that have been previously reviewed for certificates of need. The surgery/procedure wing has been revised for this submittal and most of the architectural concerns have been satisfactorily addressed.

The building is laid out quite efficiently. There is a large central nurse station with three patient wings radiating from it. One wing leads to a large ICU area with its own nurse station and required support spaces.

In the two other patient wings, the more critical areas and the semi-private rooms are located near the central nurse station. There are several toilet/shower configurations. Some patient rooms have handicapped accessible showers and some do not, which is acceptable. There is a five-station central bathing space, which includes a shower that will accommodate a patient on a stretcher. This bathing area is located conveniently to the nurse station and the non-ICU patient wings, which it serves. There is also a sizable administrative/dining/visitor area.

In addition to having a staff dining room near the main entrance, there is also a small patient dining space. Both of these rooms open onto a covered exterior patio. Evidently the applicant anticipates that all patients will not be bedridden.

## **CON Action Numbers: 9714, 9715, 9716 & 9717**

The surgery/procedure wing has undergone extensive revision since the previous reviews. The traffic pattern for doctors and staff has been improved and there is a locker/changing space provided for both sexes with adjacent toilet/shower spaces. However, as before, there are no comparable spaces for the nursing staff. In most facilities, the staff support spaces are separate from those of the doctors. This was commented upon in the previous architectural reviews, and so it could be assumed that the nursing staff will use these spaces along with the doctors. If this is the case, labeling the spaces "DR'S" is misleading.

A nurse station and its ancillary spaces has been provided in the holding and recovery area and there is good visibility for the three patient stations in the area. One station is isolation and has its own toilet room. The surgery waiting room has been relocated and functions much better as redesigned.

Throughout the facility, there are several storage spaces as well as visitor and staff/patient amenities. The required pharmacy and space for radiographic equipment are provided.

The schedule appears to be reasonable. The cost data submitted appear to be reasonable if somewhat high. Costs are projected similar to the proposed comparable facility in Alachua County, CON #9704. There are extensive outline specifications for the proposed facility in the application. Although hurricane codes are referred to in the outline specifications, no mention is made of the required impact resistance of the major exterior surface materials of the building.

**Select Specialty Hospital-Sarasota, Inc. (CON #9716)** is proposing to establish a freestanding 60-bed long-term care hospital to be located in Sarasota, Florida.

Obviously new construction standards will be applied when and if the AHCA Office of Plans and Construction reviews the proposed building. The 2003 revisions of the Florida Building Code are currently in effect, but the new edition of Chapter 59A-3 of the Florida Administrative Code has not yet been promulgated. There was a list of applicable building codes presented and it is mostly correct.

The application included a floor plan of the proposed one-story building, larger scaled plans of patient rooms and a smoke compartment plan.

## **CON Action Numbers: 9714, 9715, 9716 & 9717**

The main part of the building is almost identical to several other facility plans that have been previously reviewed for certificates of need, including one for this facility. The surgery/procedure wing has been revised for this submittal and most of the architectural concerns have been satisfactorily addressed.

The building is laid out quite efficiently. There is a large central nurse station with three patient wings radiating from it. One wing leads to an ICU area with its own nurse station and required support spaces.

In the two other patient wings, the more critical areas and the semi-private rooms are located near the central nurse station. There are several toilet/shower configurations. Some patient rooms have handicapped accessible showers and some do not, which is acceptable. There is a five-station central bathing space, which includes a shower that will accommodate a patient on a stretcher. This bathing area is located conveniently to the nurse station and the non-ICU patient wings, which it serves. There is also a sizable administrative/dining/visitor area.

In addition to having a staff dining room near the main entrance, there is also a small patient dining space. Both of these rooms open onto a covered exterior patio. Evidently the applicant anticipates that all patients will not be bedridden.

The surgery/procedure wing has undergone extensive revision since the previous reviews. The traffic pattern for doctors and staff has been improved and there is a locker/changing space provided for both men and women with adjacent toilet/shower spaces. However, as before, there are no comparable spaces for the nursing staff. In most facilities, the staff support spaces are separate from those of the doctors. This was commented upon in previous architectural reviews for projects submitted by the applicant. It could be assumed that the nursing staff will use these spaces along with the doctors. If this is the case, labeling the spaces "DR'S" is misleading.

A nurse station and its ancillary spaces has been provided in the holding and recovery area and there is good visibility for the three patient stations in the area. One station is Isolation and has its own toilet room. The surgery waiting room has been relocated and functions much better as redesigned.

Throughout the facility, there are several storage spaces as well as visitor and staff/patient amenities. The required pharmacy and space for radiographic equipment are provided.

## **CON Action Numbers: 9714, 9715, 9716 & 9717**

The schedule appears to be reasonable. The cost data submitted appear to be reasonable if somewhat high. Costs are projected similar to the proposed comparable facility in Alachua County, CON #9704. There are extensive outline specifications for the proposed facility in the application. Although hurricane codes are referred to in the outline specifications, no mention is made of the required impact resistance of the major exterior surface materials of the building.

**SemperCare Hospital of Sarasota, Inc. (CON #9717)** proposes to establish a 29-bed long-term care hospital on the north wing of the fourth floor of Sarasota Memorial Hospital. The new hospital will occupy all patient care spaces on this wing. The space to be converted is currently used as a medical/surgical unit, so the long-term care patient rooms will be considered as existing for code review purposes. There was a list of applicable building codes in the narrative. The list was somewhat out of date, but this not a serious issue.

A pharmacy is included in the new hospital and there is space that can be used for basic radiographic equipment. Operating room services will be contracted with the host hospital as will maintenance, dietary and others as stated in the draft of the lease agreement included in the application.

The application contains a site plan, an overall floor plan of the fourth floor and large-scale plans of the patient rooms. There was no demolition plan, so it is not possible to determine the actual scope of renovation from the material submitted. The highest costs noted in the application are \$200,000 for electrical work, building a stretcher shower for \$10,000 and handicapped-accessible toilet room construction for \$35,000.

If an existing non-patient bedroom is to be converted to be a new patient bedroom for the new hospital, then it must meet new patient room sizes and other code requirements. It appears that the patient rooms are existing and therefore their square footage is acceptable. The rooms all have a hand washing station within the room itself but none in the bathroom. If the new rooms are existing as patient rooms, which is assumed, then an additional lavatory will not have to be provided.

Some indication of the functions of the existing spaces would have been helpful to evaluate the renovations scope better and relate it to the budget. Based on the information presented, the projected costs and schedules appear to be reasonable

**CON Action Numbers: 9714, 9715, 9716 & 9717**

- 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 the 2002 Hospital Financial Data Report, LTCHs in the state averaged 1.8 percent Medicaid patient days and 1.7 percent charity care patient days.

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)** is a development stage company with no operating history.

As a condition of approval, the applicant agrees to provide a combined five percent of the inpatient admissions annually to Medicaid/charity patients. According to Financial Schedule 7A, the applicant is showing 4.11 percent of total patient days allocated to Medicaid and 0.88 percent allocated to charity care in year one. In year two, the applicant is showing a slight decrease in Medicaid patient days to 3.97 percent and a slight increase in charity care patient days to 1.06 percent. The applicant's projected Medicaid provision is higher than the state average for LTCHs while the projected charity care provision is less than the state average in both operating years.

Both **Select Specialty Hospital-Lee, Inc. (CON #9715)** and **Select Specialty Hospital-Sarasota, Inc. (CON #9716)** are development stage companies with no operating history. As a condition of approval, both applicants have identical requests to condition award of the certificate of need on the provision of 2.0 percent of patient days to Medicaid and 0.8 percent of patient days for charity care. Financial Schedule 7A reflects both applicant's identical expectation to meet the requested condition in both the first and second year of operation. Both applicants propose to exceed the state Medicaid average for LTCH patient days but fall short of meeting the state average for charity care.

**SemperCare Hospital of Sarasota, Inc. (CON #9717)** is a development stage company with no operating history.

As a condition of approval, the applicant agrees to condition award of the certificate of need on the provision of 2.0 percent of patient days to Medicaid and a ratio of indigent/charity care to gross revenue that will average one percent. According to Financial Schedule 7A, the applicant does project that Medicaid will comprise 2.0 percent of total projected patient days and charity care will comprise 1.0 of total patient days in

**CON Action Numbers: 9714, 9715, 9716 & 9717**

both the first and second year of operation. The applicant projected Medicaid provision exceeds the state average but the charity care provision is less than the state average.

**F. SUMMARY**

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)** proposes to establish a 35-bed long-term care hospital (LTCH) as a hospital-in-hospital at Lee Memorial Hospital, in Lee County, Florida.

The project will involve a partial renovation of the third, seventh and eighth floors within the existing Lee Memorial Hospital. The total project cost of \$2,560,038 includes renovation costs of \$1,359,030 and involves 18,122 gross square feet (GSF) of renovation.

As a condition of approval, the applicant agrees to provide a combined five percent of the inpatient admissions annually to Medicaid/charity patients.

**Select Specialty Hospital-Lee, Inc. (CON #9715)** proposes the development of a 60-bed freestanding long-term care hospital to be located in Lee County, Ft. Myers, Florida.

The proposed hospital will consist of 44,434 gross square feet of new construction and construction costs of \$7,892,500. Total project cost is estimated to be \$13,043,457. The funding for the proposed project will be provided by Select Medical Corporation.

As a condition of approval, the applicant agrees to condition award of the certificate of need on the provision of 2.0 percent of patient days to Medicaid and 0.8 percent of patient days for charity care.

**Select Specialty Hospital-Sarasota, Inc. (CON #9716)** proposes to establish a 44-bed freestanding long-term care hospital to be located within the City of Sarasota, Sarasota County, Florida.

The proposed hospital will consist of 38,906 gross square feet of new construction and construction costs of \$6,819,750. Total project cost is estimated to be \$11,954,796. The funding for the proposed project will be provided by Select Medical Corporation.

As a condition of approval, the applicant agrees to condition award of the certificate of need on the provision of 2.0 percent of patient days to Medicaid and 0.8 percent of patient days for charity care.

**CON Action Numbers: 9714, 9715, 9716 & 9717**

**SemperCare Hospital of Sarasota, Inc. (CON #9717)** is proposing to develop a 29-bed long-term care hospital to be located within Sarasota Memorial Hospital, in Sarasota County, Florida.

The applicant proposes to lease space on the fourth floor of Sarasota Memorial Hospital currently occupied by a medical/surgical unit. The project involves 15,500 GSF of renovation and renovation costs of \$1,222,000. The total project cost is estimated to be \$2,226,689.

As a condition of approval, the applicant agrees to condition award of the certificate of need on the provision of 2.0 percent of its total patient days to Medicaid recipients and a ratio of indigent/charity care to gross revenue that will average one percent.

*After weighing and balancing all applicable review criteria, the primary issues are summarized below:*

**Need:**

*Need is not published by the agency for long-term care hospital beds. It is the applicant's responsibility to demonstrate need.*

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)**

- The applicant basically contends that LTCH appropriate patients are not accessing LTCH services outside of the district due to travel constraints, concerns regarding continuity of care, and lack of availability of LTCH beds due to high utilization. However, with the recent addition of 22 beds to the Kindred-St Pete LTCH and the approval and assumed development of a 40-bed LTCH for HealthSouth within District 8 (Sarasota), the need for the proposed project is not demonstrated.
- The applicant did not show that any residents of District 8 requiring LTCH services were unable to obtain those services outside of the area or utilize other care options within the area.

**CON Action Numbers: 9714, 9715, 9716 & 9717**

**Select Specialty Hospital-Lee, Inc. (CON #9715)**

- The applicant's two methodological approaches to demonstrate need are not supported by any specific discharge studies or other data, including DRG admission criteria from area hospitals regarding potential need. The applicant also failed to provide any supporting documentation from area physicians or other providers regarding potential referrals. It was further not demonstrated that patients that qualify for LTCH services are not currently being served or that an access problem exists for residents in District 8.
- With the approval of a new freestanding 40-bed LTCH in District 8 and the recent licensure of 22 additional LTCH beds for the Kindred-St. Petersburg facility in contiguous District 5, the need for additional LTCH beds in the area is not demonstrated.

**Select Specialty Hospital-Sarasota, Inc. (CON #9716)**

- The applicant's two methodological approaches to demonstrate need are not supported by any specific discharge studies or other data, including DRG admission criteria from area hospitals regarding potential need. The applicant also failed to provide any supporting documentation from area physicians or other providers regarding potential referrals. It was further not demonstrated that patients that qualify for LTCH services are not currently being served or that an access problem exists for residents in District 8.
- With the approval of a new freestanding 40-bed LTCH in District 8 and the addition of 22 LTCH beds to the Kindred-St. Petersburg facility in contiguous District 5, the need for additional LTCH beds in the area is not demonstrated.

**SemperCare Hospital of Sarasota, Inc. (CON #9717)**

- The applicant contends that Sarasota County residents are not accessing LTCH services outside of the district due to travel constraints. The applicant documented a potential patient base in support of the project through Sarasota Memorial patient data. However, with the addition of beds to the Kindred-St Pete LTCH and the approval and presumed development of a 40-bed LTCH for HealthSouth within District 8 (Sarasota), the need for the project is not demonstrated.

**CON Action Numbers: 9714, 9715, 9716 & 9717**

- The applicant did not show that any residents of District 8 requiring LTCH services were unable to obtain those services outside of the area.

**Quality of Care:**

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)**

- The applicant is a development stage corporation with no prior operational experience. The applicant intends to enter into a management arrangement with an as yet selected management group. Although the applicant's ability to provide quality of care is not demonstrated, the host (Lee Memorial Health System) is JCAHO accredited and does appear to be a quality provider.

**Select Specialty Hospital-Lee, Inc. (CON #9715)**

- The applicant is a new development stage corporation with no operating experience. However, the applicant's parent company is an existing provider of LTCH services and states that all existing LTCHs have a current JCAHO accreditation with the exception of those that have recently opened and are awaiting survey. The applicant provided a reasonable description of its performance improvement plan.

**Select Specialty Hospital-Sarasota, Inc. (CON #9716)**

- The applicant is a new development stage corporation with no operating experience. However, the applicant's parent company is an existing provider of LTCH services and states that all existing LTCHs have a current JCAHO accreditation with the exception of those that have recently opened and are awaiting survey. The applicant provided a reasonable description of its performance improvement plan.

**SemperCare Hospital of Sarasota, Inc. (CON #9717)**

- The applicant is a new development stage corporation with no historical experience upon which to demonstrate its ability to provide quality care. However, the parent corporation (SemperCare, Inc.) does have operational experience as a result of JCAHO survey results for four operational SemperCare facilities. The applicant provided a reasonable plan to provide quality of care services based on the programs currently in place by the parent.

**Cost/Financial Analysis:**

**Long Term Care Hospital of SW Florida, Inc. (CON #9714)**

- The applicant is a development stage company with limited assets. The funding for the proposed project will be provided by a subsidiary of the parent corporation and appears questionable in view of financial statements provided.
- The applicant's financial projections for the qualification period indicates a discrepancy that may result in a greater loss than anticipated. 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. The projected operating margin of 9.3 percent indicates that net revenues are proportional to costs. Given the uncertain financial viability of the applicant's parent, the proposed project appears to be financially questionable.
- The applicant projects managed care days, including Medicare and Medicaid managed care days, to represent 2.4 percent of its patient days. This is between the control group median and lowest level of activity of 10.5 and 0.0 percent. The projected managed care levels are not significant in promoting quality assurance and cost-effectiveness.

*Both Select Specialty applicants are start-up companies under the auspices of the parent company, Select Medical, Inc. There are no material financial differences between the two projects with regard to financial resources to accomplish and operate the respective proposed projects..*

**Select Specialty Hospital-Lee, Inc. (CON #9715)**

- The applicant is a start-up company with limited assets. However, the parent, Select Medical, Inc. is a financially strong company with total assets of \$739.1 million and earnings from operations of \$74.8 million on net revenues of \$1.1 billion. The funding for the proposed project is available from the parent company.
- With net revenues falling between the lowest and median values in the first two years of operation, the facility is expected to consume health care resources in proportion to the services provided. The projected operating margin of 3.1 percent indicates that net revenues are proportional to costs. The project appears to be financially feasible.

## **CON Action Numbers: 9714, 9715, 9716 & 9717**

- The applicant projects managed care to represent 4.9 percent of its patient days. This is between the control group lowest and median level of activity of 0.0 and 10.5 percent. The projected levels, if realized, will not have a positive impact on competition to promote quality assurance and cost-effectiveness.

### **Select Specialty Hospital-Sarasota, Inc. (CON #9716)**

- The applicant is a start-up company with limited assets. However, the parent, Select Medical, Inc. is a financially strong company with total assets of \$739.1 million and earnings from operations of \$74.8 million on net revenues of \$1.1 billion. The funding for the proposed project is available from the parent company.
- With net revenues falling between the lowest and median values in the first two years of operation, the facility is expected to consume health care resources in proportion to the services provided. The projected operating margin of 4.8 percent indicates that net revenues are proportional to costs. The project appears to be financially feasible.
- The applicant projects managed care to represent 4.9 percent of its patient days. This is between the control group lowest and median level of activity of 0.0 and 10.5 percent. The projected levels, if realized, will not have a positive impact on competition to promote quality assurance and cost-effectiveness.

### **SemperCare Hospital of Sarasota, Inc. (CON #9717)**

- The applicant is a start-up company with limited assets. The parent, SemperCare, Inc. has \$20.1 million in current assets and \$23.3 million in total assets but a shareholders' deficit of \$13.6 million, a net operating loss for the period of \$3.1 million with negative cash flows from operations of \$4.7 million. The actual financial strength of the parent cannot be determined based only on recent operational experience. The funding for the proposed project is likely to be available as needed.
- With net revenues falling between the lowest and median values, the facility is expected to consume health care resources in proportion to the services provided. The projected operating margin of 5.8 percent indicates that net revenues are proportional to costs. The project appears to be financially feasible.

## **CON Action Numbers: 9714, 9715, 9716 & 9717**

- The applicant projects managed care to represent 10.5 percent of its patient days. This is at the control group median. The projected levels, if realized, will have a moderate positive impact on competition to promote quality assurance and cost-effectiveness.

### **Architectural Analysis:**

#### **Long Term Care Hospital of SW Florida, Inc. (CON #9714)**

- The project involves a 35-bed LTCH to be located on the third, seventh, and eighth floors of Lee Memorial Hospital in space currently used for medical/surgical patients. The listing of applicable building codes appear to be current and the necessary areas for pharmacy and radiographic equipment is shown.
- The projected costs and schedules appear to be reasonable although the extent of demolition required is not known.

#### **Select Specialty Hospital-Lee, Inc. (CON #9715)**

- The project involves new construction of a 60-bed freestanding LTCH. The list of applicable building codes appear to be mostly correct but new construction standards will be applied when promulgated.
- The proposed project appears to be designed efficiently with all required spaces and functions shown, including pharmacy and space for radiographic equipment. The costs and schedule appear to be reasonable.

#### **Select Specialty Hospital-Sarasota, Inc. (CON #9716)**

- The project involves new construction of a 60-bed freestanding LTCH and final drawings will need to meet the revised Chapter 59A-3 of the Florida Administrative Code, which has not yet been promulgated. The list of applicable building codes provided appear to be mostly correct.
- The proposed project appears to be designed efficiently with all required spaces and functions shown including a pharmacy and space for radiographic equipment. The project schedule and cost data appear reasonable.

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**SemperCare Hospital of Sarasota, Inc. (CON #9717)**

- The project involves the establishment of a 29-bed LTCH on the North Wing of the fourth floor of Sarasota Memorial Hospital, currently used as a medical/surgical unit. The applicable building codes appear to be somewhat out of data but this is not considered a serious issue.
- All of the required spaces and functions are shown including a pharmacy and space that can be used for basic radiographic equipment. Operating room services as well as maintenance, dietary and other functions will be leased from the host hospital. A demolition plan was not provided so the actual scope of the project cannot be determined. Based on the information presented, the projected costs and schedules appear to be reasonable.

**G. RECOMMENDATION**

Deny CON #'s 9714, 9715, 9716 and 9717.

**AUTHORIZATION FOR AGENCY ACTION**

Authorized representatives of the Agency for Healthcare 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**