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STATE HEALTH PLANNING
AND DEVELOPMENT AGENCY

June 4, 2012

Mr. Alva Lambert, Executive Director
Alabama State Health Planning and Development Agency
100 North Union Street, Suite 870
Montgomery, Alabama 36104

**RE: Project Modification Request
CON-2541-REHAB (Project Numbers AL2009-062, AL2010-006) The
Health Care Authority of the City of Huntsville**

Dear Mr. Lambert:

This letter requests a project modification, pursuant to Rule 410-1-10-.03 of the *Alabama Certificate of Need Program Rules and Regulations ("SHPDA Rules")*, for CON 2541-REHAB. This Certificate of Need was originally issued on June 28, 2011 to The Health Care Authority of the City of Huntsville ("Huntsville Hospital"), and stated as follows:

A new facility would be created adjacent to the general acute care Huntsville Hospital with up to five floors, depending upon space needed for additional physician offices. The facility would house the relocation of the current 70 inpatient rehabilitation beds from the present HealthSouth Rehabilitation Hospital of North Alabama, together with the six beds awarded for a total of 76 beds. Those inpatient rehabilitation beds and services would be housed on the first three floors with the remaining floors being developed for physician offices.

Huntsville Hospital now respectfully requests the issuance of a project modification to this CON, to permit the continued construction of this new facility, under slightly different parameters.

As you are aware, SHPDA Rules 410-1-10-.03 provides that a project modification is a proposed change in a project for which SHPDA has previously issued a CON; such a change shall include, but not be limited to, any change in the bed capacity or bed use of a facility, the addition of a health service or services, an increase in the cost of the project, or a change in the financing methods of a project.

CON 2541-REHAB was awarded pursuant to Findings of Fact and Conclusions of Law rendered by Administrative Law Judge James F. Hampton, which became the final decision of SHPDA without further proceedings when no exceptions were filed. The change proposed under this project modification request does not relate to a change in the bed capacity or bed use of the facility, does not alter the health services encompassed in the facility, and should not increase the estimated project cost, which was stated on the face of the CON as \$69,116,625.

However, since the issuance of the CON last June, Huntsville Hospital and HealthSouth Rehabilitation Hospital of North Alabama ("HealthSouth") have been engaged in discussions and negotiations regarding the long-term relationship between the two entities. For a number of years, HealthSouth has operated the inpatient rehabilitation hospital under a long-term lease arrangement with Huntsville Hospital. As this new facility has been being planned, the parties determined that it would be in the best interests of both Huntsville Hospital and HealthSouth, as well as the health care system as a whole, for the relationship to enter a new phase. At this point, that phase would begin through the joint ownership of the facility to be developed under CON 2541-REHAB. Details and documents relating to the joint ownership are in the process of being finalized, but the jointly owned entity would involve Huntsville Hospital, HealthSouth and Inkana, LLC, the company that will serve as developer of the facility. None of the three entities will own a majority interest in the joint venture entity. As shown in the attached exhibits, this change in the development structure will result in a change in the information previously shown in the above-referenced CON applications. Previously, the total amount of \$69,116,625 was shown as being paid by cash on hand from Huntsville Hospital. Since the facility will now be owned jointly, that entity will be responsible for the cash infusion for development of the facility, with each partner bearing its proportionate share of the costs.

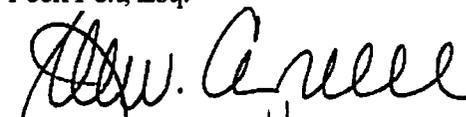
CON 2541-REHAB qualifies for a project modification pursuant to SHPDA Rules. There was no opposition to the approved CON following the contested case hearing, and the distribution of beds pursuant to ALJ Hampton's Order. The other participant in that proceeding, RCHP-Florence, LLC, which received CON-2540-REHAB pursuant to that same proceeding, has been notified as required by regulation.

Thank you for your attention to this request. Should you have questions or concerns, please feel free to contact us.

Sincerely,



HealthSouth Rehabilitation Hospital of North Alabama
Peck Fox, Esq.



The Health Care Authority of the City of Huntsville
Joe W. Campbell, Esq.

MAYNARD COOPER
& GALE PC
ATTORNEYS AT LAW

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cc: Jim Williams
Counsel for RCHP – Florence, LLC

Executive Summary

This project originally proposed the addition of beds available under the Alabama State Health Plan to HealthSouth Rehabilitation Hospital of North Alabama ("HealthSouth") for inclusion in a new facility, as more fully described in SHPDA Projects AL 2009-062 and AL 2010-006. This project modification request would modify Certificate of Need 2541-REHAB, which was originally issued on June 28, 2011 to The Health Care Authority of the City of Huntsville ("Huntsville Hospital") as follows:

A new facility would be created adjacent to the general acute care Huntsville Hospital with up to five floors, depending upon space needed for additional physician offices. The facility would house the relocation of the current 70 inpatient rehabilitation beds from the present HealthSouth Rehabilitation Hospital of North Alabama, together with the six beds awarded for a total of 76 beds. Those inpatient rehabilitation beds and services would be housed on the first three floors with the remaining floors being developed for physician offices.

As modified, the CON for the beds would still be issued to The Health Care Authority of the City of Huntsville. However, under the modification sought, the building itself would be owned by an entity which would be jointly owned by Huntsville Hospital, HealthSouth and Inkana, LLC, the company that will serve as developer of the facility. The project cost of \$69,116,625, as shown on CON 2541-REHAB, would remain the same, but would no longer be paid by cash on hand from Huntsville Hospital. Instead, each of the three joint ownership entities (Huntsville Hospital, HealthSouth and Inkana) would bear its own proportionate share of the project costs.

As originally approved, the project will still be developed on vacant land currently owned by Huntsville Hospital. Also as originally approved, the project will still utilize Inkana as the developer. The building is still planned to consist of 158,475 square feet on five floors.

HealthSouth will lease approximately 92,875 square feet of space in the building for operation of the inpatient rehabilitation hospital. The remainder of the building will be used for physician office space.