STATE AGENCY ACTION REPORT

ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

Kindred Hospitals East, L.L.C./CON #9488
3030 6th Street
St. Petersburg, Florida 33705

Authorized Representative: Frank J. Battafarano
680 South Fourth Avenue
Louisville, Kentucky 40202
(502) 596-7300

2. Service District/Subdistrict

District 5

B. PUBLIC HEARING

A public hearing was not held. However, the application does contain 46 letters of support for the project, including 11 letters from various professional staff at Edward White Hospital, three from Morton Plant Hospital, four from Bayfront Medical Center, five letters from staff at Palms Hospital of Pasadena, and 10 letters of support from various staff at St. Petersburg General Hospital.

The submitted letters are basically the same in content and speak to the difficulty in finding facilities willing to accept medically complex patients and the frequency of encountering a waiting list for long-term hospital care.

C. PROJECT SUMMARY

Kindred Hospital East, L.L.C. (CON #9488) proposes to add 22 long-term care hospital beds to Kindred Hospital Bay Area-St. Petersburg (Kindred Bay), an existing 60-bed long-term care hospital (LTCH) located in Pinellas County. The applicant is proposing to convert existing office space on the first floor to add the 22-bed unit, which will consist of 11 semi-private rooms. This space had been previously utilized as patient rooms when the hospital was owned and operated by another provider.

Kindred Hospital East, L.L.C. (KHE) is currently the licensee of 15 LTCHs located across the United States. The applicant's parent company is Kindred Healthcare, Inc., which operates 58 LTCH's located in 24 states nationwide.

The proposed addition will contain 5,361 gross square feet of renovation at a cost of $807,746 and includes the construction of a nurse station, storage area, medicine preparation room, nourishment area and clean and soiled workrooms. The capital cost required to implement the project is $1,132,841.

The applicant does not wish to accept any conditions relative to the proposed project.

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.

Section 59C-1.010(2) (b), Florida Administrative Code, allows no application amendment information subsequent to the application being deemed complete. The burden of proof to entitlement of a certificate rests with the applicant. As such, the applicant is responsible for the representations in the application. This is attested to as part of the application in the Certification of the Applicant.

As part of the fact-finding, the consultant, M. Riley Gibson, analyzed the application in its entirety with consultation from the Financial Analyst, Doug Pierce, who evaluated the financial data, and the Architect, Joel Hill, who evaluated the architecturals 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 (F.A.C.); Local Health Plans.

1. Fixed Need Pool

a. Does the project proposed respond to need as published by a fixed need pool? Chapters 59C-1.008 and 59C-1.036, Florida Administrative Code.

Need is not published by the Agency for long-term care hospital beds. It is the applicant's responsibility to demonstrate need, pursuant to Chapter 59C-1.008(e), Florida Administrative Code.

Chapter 59C-1.002(44) of the Florida Administrative Code defines a long-term care hospital as a facility licensed under Chapter 395, which seeks exclusion from the Medicare prospective payment system for inpatient health. Long-term care hospitals typically serve patients with complex medical, nursing and therapeutic requirements that are beyond the capabilities of nursing homes and/or home care and outside of the services provided by rehabilitation hospitals. This type of care may be applied to the treatment of a wide variety of medical conditions.

At the present time there are eight long-term care hospitals with 643 beds licensed to operate in the State of Florida. These facilities are concentrated in five of the 11 health planning areas: District 4 (Jacksonville and Clay County), District 5 (St. Petersburg), District 6 (Tampa) District 10 (Ft. Lauderdale and Hollywood) and District 11 (Miami). In addition, two long-term care hospitals are proposed for District 11. The first is for a 29-bed facility for implementation at Mercy Hospital, Miami and the second involves a 40-bed facility to be implemented at Victoria Care Center in Miami.

State of Florida Long Term Care Hospital Inventory

AHCA District	Long Term Acute Care Hospital	Number of Beds	Occupancy Rate CY 2000	Occupancy Rate 7/00-6/01
4	Kindred-N. Florida	60	86.8%	88.39%
4	Specialty/Jacksonville	107	52.3%	53.23%
4	Kindred-Bay Area	60	98.2%	96.22%
6	Kindred-Central Tampa	102	83.1%	78.33%
6	Kindred-Bay Area	73	66.0%	63.45%
10	Kindred-Hollywood	124	66.7%	67.98%
10	Kindred-Ft. Lauderdale	64	91.3%	84.99%
11	Kindred-Coral Gables	53	88.3%	78.94%
Total/Avg.	8 Existing LTCH's in State	643	76.6%	73.25%

Source: AHCA LTCH Inventory for CY 2000 and preliminary utilization data for July 00-June 01.

The average occupancy for the state long-term care facilities for CY 2000 was 76.60 percent, with occupancy levels ranging from 52.3 percent (Jacksonville) to 98.2 percent (St. Petersburg). However, the preliminary data for the most current reporting period (July 2000-June 2001 was 73.25 percent. The most recent utilization data is less than the 75 percent occupancy rate normally considered efficient in an acute care hospital. However, as shown above, Kindred-Bay in District 5 experienced occupancy averages of 98.2 percent and 96.2 percent for the respective time periods.

b. **If no agency policy exists, the applicant will be responsible for demonstrating need through 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:**

1. **Population demographics and dynamics;**
2. **Availability, utilization and quality of like services in the district, subdistrict, or both;**
3. **Medical treatment trends; and**
4. **Market conditions.**

The applicant contends that the need to add twenty two beds to the existing Kindred Bay long-term care hospital in St. Petersburg is prompted by historically high occupancy and the inability to admit patients needing long term acute care services. The applicant states that short-term acute care facilities in District 5 recorded an average case mix of 1.47, while Kindred Bay's current case mix of 2.76 is much higher and demonstrates that the hospital cares for a much sicker patient. Case mix index is a means of measuring the acuity level of the patients in an acute care hospital. The average length of stay at Kindred Bay is also substantially higher at 54.6 days for CY 2000 and 57.7 days year to date August 31, 2001. By comparison, the national average for all short-term acute care hospitals during 1999 was 5.0 days.

The applicant basically contends that because of the high occupancy at its St. Petersburg facility patients in the area needing long term care, particularly ventilator, services have difficulty accessing them. According to the applicant, currently 42 percent of Kindred Bay's patients are ventilator dependent.

The applicant states that during the past year and a half, Kindred Bay has had multiple patients that could not be admitted because there were no available beds. As noted earlier, the average length of stay (ALOS) at Kindred-Bay was 57.7 days. The average length of stay has increased during the past three years (51.1 days in 1999, 54.6 days in 2000 and 57.7 days year to date August 31, 2001), which the applicant contends, decreases the number of available beds at any given time since patients tend to be occupying the beds longer. In addition, the applicant states that the number of patients that Kindred had to turn away because of an immediate lack of available beds has increased over the past two years and was greater than 200 in 2000. The applicant submitted several letters from hospital case workers and local physicians attesting to the non-availability of long-term care hospital beds, but also being non-specific with regard to the number of patients that could not be accommodated by the long-term care hospital.

Based on the historical utilization of the hospital, the applicant projects that the hospital will be 83 percent occupied at the end of year one after adding the proposed 22 beds. This projection was arrived at by reviewing historical data as well as the year 2000 acute care patient days, the average length of stay and the proposed number of beds to be added. The applicant states that were it to look at only one third of the 221 patients that were denied admission due to the non-availability of beds in 2000, and apply its year 2000 average length of stay (54.6 days), this equates to an additional 4,018 patient days had there been

available beds. Secondly, the applicant reviewed its year 2000 acute care patient days, which total 21,554, and added the calculated bed days of 4,018 had those patients been admitted. This equals a total of 25,572 acute care patient days. The applicant further states that had the hospital been operating 82 long-term care hospital beds (60 existing and 22 proposed), the potential patient bed days would have been 29,930. Based on the combined potential patient bed days of 25,572, the applicant contends that the hospital could have been 85 percent occupied for the 82 beds.

The applicant also reviewed its historical patient origin and the projected population forecasts for its primary and secondary service area in conjunction with the state historical utilization rate of both long-term acute care patient days per 1,000 population age 65 and over and per 1,000 total population. According to the applicant, 90 percent of Kindred-Bay's patient population originated from four counties (Pinellas, Sarasota, Manatee and Charlotte Counties), however, 75 percent originated only from Pinellas County. Though Pasco County is located in District 5, the applicant states that these patients prefer to seek LTCH services in Tampa and that less than one percent utilized the Pinellas County facility, while an average of four percent sought treatment at either Kindred-Tampa or Kindred-Central Tampa. According to the applicant, Pasco County residents do not travel to Pinellas County for long-term care hospital services since the ease of travel for family members and physicians is easier going to Hillsborough County in District 6. As previously shown in the utilization table above, the Kindred-Central Tampa LTCH was utilized at 83.1 percent in CY 2000, decreasing to 78.3 percent for the most recent reporting period of July 2000 to June 2001, while the Kindred facility in Hillsborough experienced an average occupancy of 65.9 percent in CY 2000, decreasing to 63.5 percent for the most recent reporting period. According to Yahoo travel directions, the Kindred-Central Tampa long-term care hospital is 26 miles or approximately 35 minutes travel time from the Kindred-Bay facility in Pinellas County, while the Kindred Hillsborough Tampa facility is 18.9 miles or 30 minutes from the applicant facility. These distances and travel times are within the accepted travel limitations for acute care services.

In further support of the project, the applicant points out that according to AHCA population estimates (September 2000), Pinellas County is projected to increase by 15,898 or one percent by January 1, 2004, the beginning of the second year of operation of the proposed bed addition. The secondary service area (Charlotte, Manatee and Sarasota Counties) is projected to increase by five percent. The 65 and over population in Pinellas is expected to remain the same while the secondary service area will increase by three percent for this age group. Since the average age of the typical long-term care hospital patient is over 70 years of age, the population projections for the 65 and over population cohort does not appear to be that supportive for the Pinellas County primary patient base and minimally supportive for the total service area.

The applicant reasonably demonstrated a facility specific need for the additional 22 beds requested based on the current high utilization of the existing 60 beds and the number of patients that were not admitted due to the non-availability of beds.

2. Local Health Plan Preferences

Is need for the project proposed supported by the applicable district plan? ss. 408.035(1)(a), Florida Statutes and Ch. 59C-1.030, Florida Administrative Code.

There are no local health plan preferences for long-term care hospitals.

3. Agency Rule Preferences

Please indicate how each applicable preference for the type of service proposed is met. Florida Administrative Code.

There are no agency rule criteria for long-term care hospitals.

4. Statutory Review Criteria

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

The applicant reasonably demonstrated that the availability of beds in District 5 as well as its identified service area is limited based on high utilization of existing long-term care hospital beds at Kindred-Bay and the high number of patients that were not admitted during the year due to the non-availability of long-term care hospital beds at Kindred Bay.

The hospital is a quality provider as discussed below under E.4. b. However, as discussed below in the financial review in E.4. g, cost-efficiencies were not demonstrated.

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) 408.035(12), Florida Statutes.

The applicant states that Kindred-Bay, as well as the other 14 hospitals licensed to it are currently accredited by the Joint Commission on Accreditation of Hospitals (JCAHO). This accreditation is considered an indication that quality of care is being delivered by the applicant.

The applicant provided a description of the admission, care planning and discharge planning process at Kindred-Bay. The applicant utilizes the APACHE Medical Prognostic System (Acute Physiology, Age, Chronic Health Evaluation) as part of its admission and evaluation of patients. This system is an attempt to estimate patient risk for mortality. The applicant states that empirically based risk assessments are useful in evaluating new therapies, monitoring resource utilization and improving quality assessment. The applicant further states that because Kindred hospitals and patient population is unique, the hospitals utilize APACHE to determine the value of and need for its services to referring hospitals, physicians, family members and government and private payors.

The applicant provided a copy of the Kindred Strategic Quality Plan that outlines the various quality management functions currently in place at the hospital. This program is utilized by all Kindred hospitals to ensure that high quality care is delivered to all patients. This goal is accomplished through consistent monitoring and evaluation of patient care, objective and systematic identification of potential or existing problems in service delivery, identification of opportunities to resolve or prevent these problems at both clinical and managerial levels, active participation by all members of the health care team in the review process, and improved communication, education and follow-up. The hospital also has a facility quality council comprised of professional staff that coordinate quality improvement at the facility through various methods. The applicant contends that a number of facility processes, including clinical and administrative functions, are monitored and evaluated routinely to ensure that quality standards are actually being met.

The applicant also discussed its Utilization Review (UR) Plan, to address admission certification, continued stay review and care evaluation studies in accordance with the applicable statutes, regulations and requirements set forth by Medicare, JCAHO and third party payors. The UR program further assures the appropriateness, efficiency and effectiveness of the use of the hospital's resources.

The applicant reasonably demonstrated that it has a history of providing quality of care.

c. Is the applicant proposing special health care services for its service area that are not reasonably and economically accessible in adjacent service areas? ss. 408.03593), 408.035(12), Florida Statutes.

The proposed project will not provide special health care services for its service area that are not reasonably and economically accessible in adjacent service areas.

As previously discussed, the closest long-term acute care facilities to Pinellas County are located in District 6 and specifically in the Tampa area. The two existing long-term care hospitals in District 6 are also Kindred facilities and are currently underutilized.

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

The proposed project will not be located in a teaching hospital, nor is the project's primary purpose research or physician education. Health professional training and development programs will not be a significant feature of the project.

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(1)(h), Florida Statutes.

The applicant, Kindred Hospitals East, L.L.C. (the Company) is a for-profit healthcare corporation, is wholly owned of Kindred Healthcare, Inc., (the Parent). The company operates long-term care hospitals in the southeastern United States. Initial project cost is $1,132,841 with incremental operating costs being $3,092,261 in year one and $4,849,064 in year two.

The audited financial statements for the periods indicated below were reviewed to assess the financial position as of the balance sheet date and the financial strength of its operations for the period presented. Key financial account balances along with specific ratios are presented for this analysis.

FINANCIAL INDICATORS AND RATIOS

	12/31/2000	12/31/1999
Current Assets	$ 114,532,693	$ 116,613,502
Cash and Current Investment	$ 3,434,949	$ 2,899,086
Assets Restricted for Capital Funding	$ 0	$ 0
Total Assets	$ 146,046,074	$ 147,475,786
Current Liabilities	$ 71,652,791	$ 9,784,554
Total Liabilities	$ 99,490,722	$ 97,775,144
Total Equity	$ 46,555,352	$ 49,700,642
Net Operating Revenues	$ 363,330,052	$ 339,300,447
Interest Expense	$ 1,059,125	$ 1,017,251
Net Profit - Operations	$ (6,969,945)	$ (27,592,872)
Net Income	$ (4,286,517)	$ (17,650,935)
Cash Flow Provided by Operating Activities	$ 4,973,237	$ 37,860,987
Working Capital	$ 42,879,902	$ 106,828,948
Current Ratio (CA/CL)	1.6	11.9
Long-Term Debt to Equity (TL-CL/TE)	0.6	1.8
Operating Cash Flow (CFO/CL)	0.1	3.9
Equity to Total Assets (TE/TA)	31.9%	33.7%
Operating Margin (NPO/NOR)	-1.9%	-8.1%
Total Margin (NI/NOR)	-1.2%	-5.2%
Return on Assets (NI/TA)	-2.9%	-12.0%
Operating Cash Flow to Assets (CFO/TA)	3.4%	25.7%

Short-term position:
The applicant's current ratio of 1.6 indicates current assets are more than one and a half times that of short-term liabilities, an adequate position. The working capital (current assets less current liabilities) of $42.8 million indicates positive short-term liquidity. The applicant has an adequate short-term position.

Long-term position:
The long-term debt to equity ratio of 0.6 is slightly greater than the 50th percentile statewide of 0.5. Long-term debt of is of little concern, given the applicant's recent emergence from bankruptcy. Net income (total margin) amounted to negative $4.3 million in 2000 or –1.2 percent, which is substantially less than the statewide 50th percentile of 3.8 percent. Net loss in 1999 amounted to $17.6 million. Stockholder Equity totaled $46.5 million. The long-term position is adequate.

Capital requirements:
Schedule 2 indicates capital projects total $6.7 million. No maturities on long-term debt are indicated. The total capital requirement is estimated at $6.7 million.

<u>Available capital</u>:
The applicant states that they have $42.0 million in working capital (see table one) and the parent will provide an additional $1.5 million from available cash flow. A letter from Kindred Healthcare, Inc. (the Parent Company) indicates that they will provide the $1.5 million in financing for completion of this project. However, significant losses in 1999 and 2000 may impair management's ability to generate additional capital.

<u>Conclusion</u>:
It should be pointed out, that prior to filing for Chapter 11 protection, Kindred Healthcare, Inc. (formally Vencor, Inc.) sustained losses in excess of $500 million. This calls their ability to fund this and other projects into question. Based on documentation contained in their audited financial statements, the parent showed little improvement in net revenues and has failed to return to profitability in 2000. Without further evidence of sustained profitability; the parent's ability to completely fund this project, as well as other capital projects, is uncertain.

f. What is the immediate and long-term financial feasibility of the proposal? ss. 408.037(8), Florida Statutes.

A comparison of the applicant's estimates to the control group values provides for an objective evaluation of financial feasibility, (the likelihood that the services can be provided under the parameters and conditions contained in Schedules 7 and 8), and efficiency, (the degree of economies achievable through the skill and management of the applicant). In general, projections that approximate the median are the most desirable, and balance the opposing forces of feasibility and efficiency. In other words, as estimates approach the highest in the group, it is more likely that the project is feasible, because fewer economies must be realized to achieve the desired outcome. Conversely, as estimates approach the lowest in the group, it is less likely that the project is feasible, because a much higher level of economies must be realized to achieve the desired outcome.
These relationships hold true for a constant intensity of service through the relevant range of outcomes. As these relationships go beyond the relevant range of outcomes, revenues and expenses may, go either beyond what the market will tolerate, or may decrease to levels where activities are no longer sustainable.

Comparative data for overall acute care services were derived from hospitals in peer groups that reported data in 1999. The hospital's projected data will be compared to hospitals in peer group 12 (LONG-TERM SPECIALTY). Per diem, rates are expected to increase by an average of 3.5 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

Gross revenues, net revenues, and costs were obtained from Schedules 7 and 8. These were compared to the control group as a calculated amount per adjusted patient day. The adjustment is made to factor outpatient revenues into the patient day computation. However, since the applicant reported no outpatient revenue, only a minor adjustment for other operating revenue was made.

Net revenue per adjusted patient day of $1,170 in year one and $1,241 year two is between the control group median and the highest level of $1,162, and $1,806 in year one; and $1,193, and $1,855 in year two. The median is generally viewed as the ideal or the balance between economy and feasibility, while the highest level is the limit on both economy of operation and financial feasibility. With net revenues per adjusted patient day falling between the median and the lowest level, the hospital is expected to consume health care resources in slightly greater proportion to the services provided.

Projected cost per patient day of $1,026 in year one and $1,093 in year two fall between the median and the lowest values of $1,059 and $993 in year one and between the median and the highest values of $1,088 and $1,941 in year two. The projections are cost-efficient when compared to the control group.

The year two operating profit of $3,893,606 produces an operating margin of $148 per patient day. This falls above the highest level of $114 in year two. This operating margin computes to an 11.9 percent that is significantly above the 50th percentile for all hospitals of 2.6 percent. It also appears high, considering that in 1999, the hospital reported an operating margin of $15 per adjusted patient day. The 22-bed addition is projected to contribute $792,385 to this margin in year two.

The project appears to be feasible.

PEER GROUP 12

	2004 YEAR 2 ACTIVITY	YEAR 2 ACTIVITY PER DAY	INFLATION ADJ. VALUES Highest	Median	Lowest
ROUTINE SERVICES	21,009,600	800	1,171	886	555
INPATIENT AMBULATORY	0	0	12	0	0
INPATIENT SURGERY	682,812	26	0	0	0
INPATIENT ANCILLARY SERVICES	78,786,000	3,000	4,454	3,432	2,517
OUTPATIENT SERVICES	0	0	176	8	2
TOTAL PATIENT SERVICES REV.	100,478,412	3,826	5,813	4,326	3,074
OTHER OPERATING REVENUE	0	0	8	3	0
TOTAL REVENUE	100,478,412	3,826	4,328	3,232	2,299
DEDUCTIONS FROM REVENUE	67,885,470	2,585	N/A	N/A	N/A
NET REVENUES	32,592,942	1,241	1,855	1,193	785
EXPENSES					
ROUTINE	6,295,353	240	490	265	228
ANCILLARY	9,010,794	343	452	294	266
AMBULATORY	0	0	0	0	0
TOTAL PATIENT CARE COST	15,306,147	583	942	559	494
ADMINISTRATIVE & OVERHEAD	8,650,170	510	1,111	534	487
PROPERTY	4,743,019	*	*	*	*
TOTAL HOSPITAL EXPENSE	28,699,336	1,093	1,941	1,088	1,020
OTHER OPERATING EXPENSE	0	0	0	0	0
TOTAL EXPENSE	28,699,336	1,093	1,941	1,088	1,020
OPERATING INCOME (MARGIN)	3,893,606	148	114	-42	-249
PERCENT OPERATING MARGIN	11.9%				

		PERCENTAGES NOT INFLATION ADJUSTED
PATIENT DAYS	26,262	
ADJUSTED PATIENT DAYS	26,262	
TOTAL BED DAYS AVAILABLE	29,930	
ADJ. FACTOR	1.0000	
TOTAL NUMBER OF BEDS	82	

			Highest	Median	Lowest
PERCENT OCCUPANCY	87.7%		97.3%	83.7%	55.5%
PAYER CLASS	PATIENT DAYS	PERCENT OF TOTAL			
SELF-PAY	525	2.0%	4.4%	1.4%	0.3%
MEDICAID	3,414	13.0%	23.5%	0.5%	0.0%
MEDICAID HMO	0				
MEDICARE	17,282	65.8%	96.4%	75.0%	60.3%
MEDICARE HMO	0				
INSURANCE	2,758	10.5%			
HMO/PPO	2,283	8.7%	16.2%	12.4%	0.0%
OTHER	0	0.0%			
TOTAL	26,262	100.0%			

g. Will the proposed foster competition to promote quality assurance and cost-effectiveness? ss. 408.035(1)(l), Florida Statutes.

The applicant projects only 8.9 percent of total patient days for managed care days in the second operational year. This falls below the median 12.4 percent for group 12 hospitals. The projection is also below the 13.1 percent managed care days that were reported in the hospital's 1999 actual report. It is unlikely that this project will have any additional positive impact on competition-based quality assurance and cost-effectiveness.

h. Are the proposed costs and methods of construction reasonable? ss. 408.035(1)(m), Florida Statutes.

The application is to add 22 new beds to the existing 60-bed facility in St. Petersburg. The area where the project is to be located is currently used as office space, but was formerly used for patient rooms under a different owner. Plans of the renovated area were presented as well as large-scale plans of the typical patient rooms. There were no demolition plans nor any plans showing the wing as it was when there were patient rooms in place. It would have been helpful to know the extent of demolition.

Without this information, it is difficult to ascertain exactly how much construction is going to take place, but an assumption can be made that the existing configuration is similar to the new proposal. The new plan calls for 11 semi-private rooms, each with its own toilet/shower. The bathing situation is varied. There are tubs, stand-up showers and one accessible toilet/shower that open from the semi-private accessible room. This space is also shared by another semi-private room, which is not ideal, but the configuration is most likely existing.

Ideally, the nurse station would be more centrally located rather than at the end as shown, but this is probably where the original station was located. It functions as designed. There is a soiled holding room with a sink, but this cannot serve as the soiled workroom, which must have additional accommodations according Chapter 59A-3 of the Florida Administrative Code. No soiled workroom is shown and one is required.

Some building code information was included on the plans, but any construction will have to be in conformance with applicable codes and rules when the building is in the planning stages. The new Florida Building Code will probably be in force before the project is finalized.

Schedule 10 indicates that the architect/engineer contracts are expected to be signed by December 2001 and the projected completion date is December 2002. The schedule may not be quite sufficient for design, AHCA review and construction. The fact that this is renovation, and that the spaces were previously patient rooms might possibly allow the project to be completed on schedule.

It is evident that the applicant has worked out the use of existing spaces to be suitable for the needs of the facility. The resulting floor plan is laid out well with the exceptions noted above.

Project costs appear to be reasonable, depending on the degree of demolition and re-construction required.

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

The applicant states its commitment to serving both Medicaid patients and medically indigent. However, typically patients seeking long-term acute care services are persons ages 65 and over. This results in a greater proportion of Medicare eligible persons using long-term care hospital services.

The applicant states that the percentage of Medicaid patient days reported for the facility during CY 2000 was 17 percent and year to date August 31, 2001 were 16 percent. The 17 percent Medicaid for CY 2000 was verified with data reported to AHCA. Charity care represented two percent in CY 2000 and as of August 31, 2001, the facility had yet to report two percent charity care, as conditioned by its original Certificate of Need (CON) application. The applicant originally requested a Medicaid condition of three percent in the original Certificate of Need application for the 60-bed facility. If this project is approved, the Medicaid condition will be blended and reduced to include these 22 beds because the applicant does not wish to accept any CON conditions relative to the proposed 22-bed addition. The blended condition would be two percent.

F. SUMMARY

Kindred Hospital East, L.L.C. (CON #9488) proposes to add 22 long-term care hospital beds to Kindred Hospital Bay Area-St. Petersburg (Kindred Bay), an existing 60-bed LTCH located in Pinellas County.

The proposed addition will contain 5,361 gross square feet of renovation and a renovation cost of $807,746. The total capital cost is $1,132,841.

The applicant does not wish to accept any conditions relative to the proposed project.

After weighing and balancing all applicable review criteria, the following relevant factors are summarized below:

Need/Other Considerations

- Need is not published by the agency for long-term care hospital beds. It is the applicant's responsibility to demonstrate need, pursuant to Chapter 59C-1.008(e), Florida Administrative Code. The applicant reasonably demonstrated hospital specific need for the proposed 22-bed addition by showing that there is limited access to long-term care hospitals primarily due to high utilization at Kindred-Bay.

Quality of Care

- The applicant is JCAHO accredited and has a history of providing quality of care. The applicant provided a reasonable description of its quality assurance plans and policies that are currently in effect.

Cost/Financial Analysis

- Prior to filing for Chapter 11 protection, Kindred Healthcare, Inc. (formerly Vencor, Inc.) sustained losses in excess of $500 million. This calls the applicant's ability to fund this project and other projects into question. According to the audited financial statements, the parent showed little improvement in net revenues and has failed to return to profitability in 2000. The financial analyst concluded that without further evidence of sustained profitability, the parent's ability to completely fund this project, as well as other capital projects, is uncertain.

- With net revenues per adjusted patient day falling between the median and the lowest level, the hospital is expected to consume health care resources in slightly greater proportion to the services provided. The applicant's cost per patient day projections appear cost-efficient when compared to the control group. However, projected operating margin is significantly above the 50th percentile for all hospitals in the control group.

- Assuming the applicant can achieve its financial projections, the project appears to be feasible.

- The applicant projects only 8.9 percent of total patient days for managed care days in the second operational year. This falls below the control group percentage as well as the managed care days reported by the applicant in the hospital's 1999 actual report. The financial analyst concludes that it is unlikely that the project will have any additional positive impact on competition based quality assurance and cost-effectiveness.

Medicaid/Indigent Care

- The applicant has a partial history of serving Medicaid and charity care patients. The applicant does not wish to accept a CON condition relative to the provision of Medicaid and/or charity care services for the 22 requested beds.

Architectural Analysis

- The architectural review reveals that, although not ideally designed, the proposed floor plan is acceptable with some noted exceptions. These include varied bathing situations, with some sharing of bathroom spaces shown, and the lack of an acceptable soiled workroom. Project costs appear reasonable, depending on the degree of demolition and renovation required. There are no major architectural concerns with the project.

G. RECOMMENDATION

Approve CON #9488 to add 20 long-term care hospital beds to Kindred Hospital-Bay Area in St. Petersburg. The project involves 5,361 GSF of renovation and $807,746 in renovation costs. Total project costs are $1,132,841.

CONDITION: A minimum of two percent of the total annual patient days shall be provided to Medicaid recipients in the 82-bed facility.

AUTHORIZATION FOR AGENCY ACTION

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

DATE: ____________________

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Karen Rivera
Health Services and Facilities Consultant Supervisor
Certificate of Need

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Jeffrey N. Gregg
Chief, Bureau of Health Facility Regulation