

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

SemperCare Hospital of Volusia, Inc. (CON #9604)
2745 North Dallas Parkway, Suite 300
Plano, Texas 75093

Authorized Representative: Robert A. Lefton, CEO
(972) 836-1300

Kindred Hospitals East, L.L.C. (CON #9605)
680 South Fourth Street
Louisville, Kentucky 40202

Authorized Representative: James H. Gillenwater, Jr.
(502) 596-7300

HealthSouth LTAC of Jacksonville, Inc. (CON #9606)
One HealthSouth Parkway
Birmingham, Alabama 35243

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

2. Service Planning Area/District

Proposed Service Planning Area II/District 4

B. PUBLIC HEARING

A public hearing was not held or requested with regard to the establishment of a long-term care hospital (LTCH) or the addition of LTCH beds in Service Planning Area II. However, letters in support of each applicant's proposal were received and a discussion of these follows.

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SemperCare Hospital of Volusia, Inc. (CON #9604) submitted eight letters of support for the project. Letters of support were submitted by Halifax Medical Center (two letters) , Florida Hospital (two letters from the Memorial Division), Coastal Cardiovascular & Thoracic Associates (Dr. James D. Wuamett), P.A., Dr. James E. McDonnell, Dr. Sandford H. Kinne, III, and Shores Medical Center (Dr. Gerald R. Woodard). The majority of the letters support development of an alternative placement option for Volusia County residents. Several of the letters also discuss improved efficiency of existing hospitals in the area by relocating patients from an acute care setting to a facility where they can receive care for a more extended term. Dr. Wuamett's letter states that out of 600 heart cases a year, he is aware of several patients each year that are transferred, apparently to a LTCH.

Kindred Hospitals East, L.L.C. (CON #9605) submitted 77 letters of support for the project. Letters of support were submitted by the following health care providers: St. Luke's Hospital (two), Cape Canaveral Hospital, Putnam Community Medical Center, Wuesthoff Health Systems (two), Shands Jacksonville (three), Parrish Medical Center (seven), Orange Park Medical Center, Central Florida Regional Hospital (two), Halifax Medical Center (two), Baptist Health and Baptist Medical Center (four), Ocala Regional Medical Center, Munroe Regional Medical Center, Shands HealthCare, Flagler Hospital (two), St. Vincent's, Shands at Starke, and North Florida Regional Medical Center. These letters indicate that the applicant provides high quality services with exceptional outcomes, however, bed availability is limited. Some also refer to reimbursement issues and the dwindling number of facilities willing to accept medically complex patients. The applicant also submitted letters of support by the University of North Florida School of Nursing, St. Johns River Community College (two copies), University of Florida Health Science Center (three), Clay County Board of County Commissioners, Clay County Economic Development Council, Clay County Chamber of Commerce, Clay County Council on Aging, City of Green Cove Springs (two), Green Cove Springs Southeast Business Council, Town of Orange Park, and CCAR Services, Inc. These letters also state that the applicant provides high quality services with exceptional outcomes, that bed availability is limited due to high occupancy, and that the applicant's hospital provides economic benefits to the area. The schools also cite the clinical experience the hospital offers. Sixteen physicians also wrote in support of the project. In addition to the foregoing comments, the physicians who referred patients to the applicant's facility stated that the services offered enhance the continuum of care for the patients and due to the shortage of available beds, patients many times are referred to an alternate setting which is

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not beneficial for the patient's care and often increases health care costs because the patient may be required to be re-admitted to the general acute care setting. Therefore, according to these letters, additional beds at the applicant's facility would eliminate this problem. State Representatives Wiles, Hogan, Pickens, and Kravitz and State Senator Wise also wrote letters of support for the proposal and letters of support were submitted by Humana Health Plans (two), Volusia Health Network (three), Sacred Heart Church, and patients and their families (three).

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) did not submit any letters of support for its proposed project.

C. PROJECT SUMMARY

SemperCare Hospital of Volusia, Inc. (CON #9604) proposes the establishment of a 43-bed long-term care hospital at Memorial Hospital Peninsula in Ormond Beach, Florida. Memorial Hospital Peninsula is now doing business as Florida Hospital Oceanside, which reflects the acquisition of Memorial Health Systems, Inc. by Adventist Health System/Sunbelt, Inc.

Memorial Health Systems, Inc. d/b/a Florida Hospital Oceanside has agreed to lease 43 of its 79 acute care beds to SemperCare for use as a hospital-within-a-hospital long-term care hospital (LTCH) on the second floor of the facility. After completion of the proposed project, Florida Hospital Oceanside will operate 36 acute care beds¹ and 40 comprehensive medical rehabilitation beds.

The applicant states that the typical SemperCare facility provides approximately 40 percent of its care to patients with respiratory diagnoses, 40 percent with medically complex conditions, 10 percent with state III and IV wound care with concomitant medical conditions, and 10 percent rehabilitation for patients too ill to meet the clinical admission criteria of an acute rehabilitation inpatient program.

The estimated project costs for the proposed LTCH are \$1,742,000, including \$800,000 in construction costs. The project involves renovation of 26,600 square feet on the second floor of the hospital, and includes nine private rooms, including two isolation rooms, 13 semi-private rooms, and two four-bed "high observation" units.

¹ This reflects the delicensure of 43 of Florida Hospital Oceanside's 79 acute care beds.

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According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions.

Kindred Hospitals East, L.L.C. (CON #9605) proposes to add 20 long-term care hospital beds to Kindred Hospital North Florida, an existing 60-bed LTCH located at 801 Oak Street in Green Cove Springs, Clay County, Florida. The project involves the addition of a new wing to the existing hospital and will increase the bed capacity to 80 LTCH beds.

The majority of patients treated at Kindred Hospital North Florida have a primary diagnosis of respiratory disease and of these patients, an average of 45 percent are ventilator dependent. The proposed project is intended to meet existing capacity constraints at the existing hospital.

The project involves a total cost of \$2,815,001 of which \$1,696,751 represents new construction. The project involves 7,850 gross square feet of new construction.

According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) proposes the establishment of a new 40-bed long-term care hospital to be located in Volusia County, AHCA District 4. The applicant is a wholly owned subsidiary of HealthSouth Corporation.

The applicant intends to provide both respiratory care as well as complex medical care in the proposed hospital.

The applicant agrees to condition award of the certificate of need on the following: a minimum of six percent of total annual patient days will be provided to combined Medicaid/charity patient days.

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

D. REVIEW PROCEDURE

The evaluation process is structured by the certificate of need review criteria found in Section 408.035, Florida Statutes. These criteria form the basis for the goals of the review process. The goals represent desirable outcomes to be attained by successful applicants who demonstrate an overall compliance with the criteria. Analysis of an applicant's capability to undertake the proposed project successfully is

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conducted by assessing the responses provided in the application, and independent information gathered by the reviewer.

Applications are analyzed to identify strengths and weaknesses in each proposal. If more than one application is submitted for the same type of project in the same district (subdistrict), applications are comparatively reviewed to determine which applicant best meet the review criteria.

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

As part of the fact-finding, the consultant, M. Riley Gibson, analyzed the application(s) in their entirety with consultation from the Financial Analyst, John Williamson, who evaluated the financial data, and the Architect, Joel Hill, who evaluated the architectural and the schematic drawings as part of the applications.

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? Ch. 59C-1.008, Florida Administrative Code.

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

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hospitals typically provide programs in one or more of the following areas: respiratory care, particularly for ventilator-dependent patients; treatment of patients with multiple illnesses or multiple systems failure; treatment of wounds caused by disease or accident; and treatment for patients requiring interdisciplinary rehabilitation services who are unable to tolerate the more intensive treatments provided in a comprehensive medical rehabilitation hospital.

The Centers for Medicare and Medicaid Services (CMS) recently revised its rule regarding reimbursement for LTCHs. The Code of Federal Regulation 42 CFR Parts 412, 413 and 476 regarding prospective payment for long-term care hospitals published in Volume 67, Number 169 of the Federal Register describes the universe of LTCHs on page 55960 as:

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

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

- Most patients in LTCHs had several diagnosis codes on their Medicare claims, indicating that they had multiple co-morbidities and are probably less stable upon admission than patients admitted to other postacute care settings. Relative to intensive rehabilitation facilities (IRFs), LTCHs had a higher proportion of patient costs attributable to ancillary services (for example, pharmacy, laboratory, and radiology charges).
- LTCHs provide care to a disproportionately large number of Medicare beneficiaries who are eligible because of disability. While individuals with disabilities make up about 10 percent of the Medicare population, they make up 17 percent of the LTCH patients.
- LTCH admissions typically come from outlier acute care hospital, nonoutlier acute care hospital, and other (indicating direct admissions without acute stay)

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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.

b. Criteria for Determination of Need.

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

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

There are currently two Jacksonville-area LTCH providers in District 4. These providers are the 60-bed Kindred (formerly Vencor) Hospital-North Florida, located in Green Cove Springs in Clay County and 107-bed specialty hospital Jacksonville in Duval County. Kindred Hospital-North Florida reported an average occupancy rate of 88.92 percent in CY 2001, while specialty hospital reported occupancy of 55.54 percent in CY 2001.

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The following table indicates the average utilization of acute care and post acute care providers including LTCH providers, acute care providers, comprehensive medical rehabilitation providers, and skilled nursing home providers in Districts 3 and 4 (previously proposed Service Planning Area 2):

**Acute Care and Post Acute Care Provider Beds and Utilization
In Initially Proposed Service Area of AHCA Districts 3 and 4**

Facility Type	Total Beds District 3	Total Beds District 4	District 3 Average Occupancy	District 4 Average Occupancy
Long Term Care	-0-	167	Not applicable	67.54%
Acute Care	3,210	4,037	69.60%	60.33%
Comprehensive Med. Rehab	55	167	75.17%	82.69%
Hospital Based Skilled Nursing	84	91	48.05%	59.6%
Skilled Nursing Homes	7,528	9,163	85.89%	89.03%

**Source: Hospital Bed Need Projections CY2001 and Nursing Home Utilization By District
July 2001-June 2002**

Two of the three co-batched applications are applying to become new providers of LTCH services. Kindred, an existing provider, is applying to add beds to its facility.

SemperCare Hospital of Volusia, Inc. (CON #9604) states that other post-acute care providers are not appropriate sites for the delivery of the type and intensity of long-term care services it proposes. While the applicant contends that the services it provides are an “extension of acute care services”, a review of the literature confirms that these services are considered post acute. Although the Center for Medicare and Medicaid Services (CMS) states that “LTCHs must meet State licensure requirements for acute care hospitals...”, it also indicates that “[g]enerally, Medicare patients in LTCHs have been transferred from acute care hospitals and receive a range of ‘postacute care’ services at LTCHs...” (Vol. 67, No. 169 *Federal Register*, August 30, 2002, pages 55961). The applicant further states that the intensity of care provided by LTCHs is generally much greater than care delivered by other post-acute care providers such as medical rehabilitation, hospital-based skilled units, or nursing homes. The applicant contends that LTCH patients can receive restorative care, such as aggressive ventilator weaning, and restorative care, such as rehabilitation, that other providers are ill-suited to provide or cannot provide.

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The applicant states that both current LTCH providers in District 4 are located over an hour from the proposed SemperCare facility to be located at Florida Hospital Oceanside in Volusia County. The applicant states that discharge planners at both Memorial Health Systems in Ormond Beach and Halifax Medical Center in Daytona Beach (Volusia County) indicate that referral of patients 70 or 80 miles to distant providers occurs rarely as a percent of patients needing LTCH care and then only as a last resort. The applicant contends that the distance from the service area results in a complete break in the continuity of care and is burdensome for the families of patients.

The applicant discusses three of the other venues of post acute care: comprehensive medical rehabilitation (CMR), hospital-based skilled nursing unit (HBSNU) beds and community skilled nursing beds, indicating that none are appropriate for the patients it intends to serve. However, data used to define the number of LTCH patients the applicant indicates need LTCH services does not clearly show that these patients could not be appropriately treated in other post acute settings. The applicant is proposing to locate within an existing acute care hospital and work with a second existing acute care hospital, stating that it anticipates the majority of its admissions will come from these two hospitals. It is unclear why discharge planners from both hospitals were not asked to provide the number of patients needing LTCH services but who were unable to receive them because of the unavailability of LTCH beds in the area or because patients refused services because of the distance they would be required to travel to receive them.

The applicant's need methodology relies on the discharges of the Memorial and Halifax health care systems. The applicant states that virtually all of the patients who will be served in the proposed LTCH will also be residents of Volusia or Flagler Counties. The applicant identified 22 zip codes that represent 87.7 percent of all discharges from these providers in 2001.

The applicant also presents population growth projections for Volusia and Flagler Counties as follows:

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**Volusia and Flagler County Population Estimates
2002 and 2007**

County/State	July 2002	July 2007	Percent Change
Volusia County			
65 and Over	100,756	108,565	7.8%
Total	461,391	494,778	7.2%
Flagler County			
65 and Over	16,424	20,018	21.9%
Total	56,090	64,763	15.5%
Florida			
65 and Over	2,927,931	3,259,131	11.3%
Total	16,706,027	18,062,679	8.1%

Source: AHCA Population Estimates, December 2001

As shown above, Volusia County's growth in total population and 65 and over population is projected to remain below the overall state growth while Flagler County, significantly smaller than Volusia County is expected to experience a higher percentage of growth based on a smaller population. As a percent of total however, the age 65 and over population is expected to grow at a higher rate than the state overall. The applicant states that this is significant in that Medicare is the primary payer of LTCH services.

The applicant's need methodology is largely based on the assumption that a long length of stay (LOS) is the result of treatment difficulties that could result from other patient conditions, such as diabetes or underlying respiratory disease, and/or complications from surgery or other medical treatment. However, as noted above, this does not clearly indicate need for LTCH services. Further, the most direct source for evidence of need for LTCH services is the acute care hospital discharge planner. This applicant, because of plans to locate within one area hospital and receive a large number of admissions from a second area acute hospital, should have been able to obtain information from at least the hospital discharge planners at these two hospitals.

Based on CY 2001 hospital discharge data for Volusia and Flagler Counties, the applicant arrived at a total of 526 discharges or 12,668 patient days appropriate for a LTCH. Halifax Medical Center had the highest number of potential LTCH discharges with 284, followed by Memorial Hospital Ormond Beach with 88. In 2001, there were a total of 72 LTCH discharges for residents of Volusia and Flagler Counties. The applicant states that an analysis of the 2001 service area LTCH discharges indicate that 22 of the 72 LTCH patients (representing 995 patient days) were also captured in the LOS methodology presented. The applicant indicates that these days were

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included in the LTCH demand since they would have been incurred regardless of the proposed project, but the discharges were not included to avoid double-counting of patients. There is no quantification of need provided based on potential LTCH discharges provided by areawide discharge planners

The following table provides the 2001 LTCH discharges by Volusia and Flagler County residents based on AHCA hospital discharge data for CY 2001:

2001 LTCH Utilization for Volusia and Flagler County Residents			
LTCH Facility	County	Discharges	Days
Kindred-North Florida	Clay	64	3,033
Kindred-Central Tampa	Hillsborough	5	108
Specialty-Jacksonville	Duval	2	90
Kindred-South Florida	Miami-Dade	1	177
Total		72	3,408
Patients also identified in LOS Methodology		22	955

Source: CON Application/AHCA Hospital Discharge Data

To derive projected need for the proposed LTCH, the applicant projects market shares as follows:

- 75 percent of LTCH patients who currently receive care (37 discharges out of a total of 50). This apparently reflects the potential market share of referrals to the existing providers in the Jacksonville area and the approved SemperCare program at Florida Hospital in Orlando.
- 90 percent of projected need from eastern Volusia and Flagler providers (382 discharges out of a total of 424). This assumes that virtually all of the projected need from Halifax and Memorial provider systems in these counties will be captured.
- 50 percent of projected need from western Volusia providers (51 discharges out of a total of 102). This market share was arrived at based on possible referrals to the approved SemperCare program at Florida Hospital in Orlando.

Based on projected market share and an anticipated average length of stay of 27.2 days, the applicant arrived at a net need for 44 beds based on 80 percent occupancy. The applicant arrived at a numeric need for beds based on perceived market shares as a result of capturing some of the existing LTCH market. However, need was not quantified by area discharge planners regarding the difficulty encountered by area wide patients in accessing LTCH services.

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Additionally, it appears that approval of this project would most likely impact existing LTCH providers in the planning area.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) is proposing the establishment of a 40-bed freestanding LTCH hospital to meet the perceived need of Volusia County residents. HealthSouth takes a similar approach as SemperCare (CON #9604) in stating that residents of Volusia County do not have adequate access to LTCH services and have to travel 85 miles, or greater than 1 1/2 to 2 hours for care. The applicant contends that this is unfeasible given the patient's medical condition, but also unreasonable given the medical, financial, emotional and physical costs incurred with the transfer of a patient to LTCH services. However, as with SemperCare, the applicant did not quantify need based on potential LTCH discharges provided by areawide discharge planners.

The applicant contends that the actual resident admissions from Volusia to LTCHs is not a reasonable approach to need in view of the distance from Volusia to LTCH facilities in District 4 and the state. As a baseline to begin, the applicant identified 64 patients from Volusia and 15 from Flagler that traveled outside of the area for LTCH services. The applicant does not indicate the destination of these patients but it is assumed that most if not all were seen at either the Kindred facility in Clay County or the Specialty facility in Jacksonville, both located within District 4. It is important to note that currently, LTCH planning areas consist of AHCA districts and not specific counties. In a letter to this office, dated September 24, 2002, in response to the proposed Long Term Care Hospital Rule, a representative of the applicant states that it is the position of HealthSouth to support utilization of the current AHCA service Districts (1-11) in planning for LTCHs. In an apparent opposite position to that taken in response to the proposed rule, it appears that the applicant is relying on a county specific approach rather than a district wide approach when it contends that patients residing in Volusia and Flagler Counties are encountering accessibility problems to LTC services.

As part of the applicant's needs assessment, a population analysis was presented as follows:

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Population Estimates for Volusia County and District 4

County	Total January 2002	Total January 2008	Percent Change
Volusia County	457,852	498,425	8.9%
District IV All Other	1,217,699	1,331,758	9.4%
Total District	1,675,551	1,830,183	9.2%

Source: AHCA Population Projections, December 2001

As shown above, the population in District 4 is expected to increase by nearly 9.2 percent during the next six years while Volusia County will experience an increase of 8.9 percent for the same projection period (2008). Given that 75 percent of the LTCH patient base is primarily elderly, the applicant also presented the projected population and percent change for the 65 and over and 75 and over population groups. Although the percent change for these age groups in Volusia County is less than the percent change projected for District 4 between 2002 and 2008 (9.6 percent versus 14.7 percent for the 65 and over group), its elderly population represents 41 percent of the district population.

The applicant presented several need methodologies, but failed to address the proposed Rule criteria stated above. Like co-batched applicant, SemperCare, HealthSouth has not demonstrated that patients needing LTCH are not receiving it to demonstrate need for a new LTCH provider in the area. Any first hand documentation from area providers with regard to delays in care would have been supportive and beneficial in showing an access problem to longer term care services in the area.

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

SemperCare Hospital of Volusia, Inc. (CON #9604) and HealthSouth LTAC of Jacksonville, Inc. (CON #9606) are applicants for new LTCHs. There is currently no approved LTCH in Service Planning Area II.

c. Additional Beds at Existing Long-Term Care Hospitals.

- 1. Need for additional beds at an existing long-term care hospital is demonstrated if the occupancy rate of the hospital was at least 80 percent for the 12-month period ending one month prior to the letter of intent deadline.**

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Kindred Hospitals East, L.L.C. (CON #9605) proposes the addition of 20 LTCH beds to the applicant's existing licensed 60-bed LTCH located in Clay County, Florida. According to CY 2001 utilization data, Kindred Hospital-North Florida experienced an average utilization of 88.92 percent. The hospital primarily treats patients who are generally dependent upon ventilator or other life support devices. The majority of patients entering the facility are typically admitted directly from the intensive care unit of a general acute care hospital and had an average length of stay of 47.2 days for CY 2001.

The applicant contends that as a result of its high utilization, it has encountered capacity limits related to gender incompatibilities and infectious disease isolation requirements, especially once it reaches a census of 55 patients or more. The applicant states that during 2001, the hospital reached a census of 55 patients or more on 129 days, or 57 percent of the time. In view of apparent "gender incompatibilities" and "infectious disease isolation requirements", it would appear that all 20 beds should be located in private rooms rather than a combination of private and semi-private rooms.

The applicant states that Kindred-North Florida serves patients from a wide area and that during the 12 months ending July 2002, the hospital treated residents from 29 Florida counties. For the same period of time, approximately 56 percent of the patients originated from Clay (14 percent), Duval (15 percent), Volusia (14 percent), Brevard (seven percent) and St. Johns (six percent) Counties.

The applicant contends that Kindred-North Florida's services are increasing due to population growth in the five counties listed above that comprise the hospital's primary service area (PSA). According to AHCA population estimates (December 2001), the PSA is expected to increase by four percent during the three years ending January 1, 2005 while the 65 and over population is expected to increase by five percent for the same period.

Another contributing factor involves the increasing demand for LTCH services due to the hospital's increasing number of contracts with health plans. The applicant states that Kindred-North Florida currently has provider agreements with 36 health plans and expects to sign agreements in the future with Cigna and AvMed.

Kindred is the only co-batched applicant that meets the 80 percent rule provision as stated above. The applicant meets this provision based on 88.92 percent occupancy for the 12 months ending December 2001 in its 60-bed LTCH. For the most recent reporting

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period of July 2001 through June 2002, Kindred-North Florida reported an average occupancy rate of 89.93 percent.

The historical utilization of the applicant's facility is as follows:

**Kindred Hospital North Florida
Utilization by Calendar Year**

Year	Kindred Hospital North Florida
2001	88.92%
2000	86.84%
1999	86.67%
1998	82.58%
1997	73.88%

Source: *Florida Hospital Bed and Service Utilization by District*

2. Local Health Plan Preferences

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

The October 2000 District 4 CON Allocation Factors Report lists the following generic preferences relevant to all CON applicants:

For both competing and non-competing CON applications, preference shall be given to:

- (a) Applicants who demonstrate that they will meet identified needs by providing services, which meet commonly accepted quality standards in a most economical manner in terms of capital and operating expenditures.**

SemperCare Hospital of Volusia, Inc. (CON #9604) states that the proposed project will allow it to provide quality services in an economical manner through the lease agreement with Florida Hospital Oceanside. By leasing existing beds within a short-stay acute care facility and not building new beds in a freestanding facility, the applicant contends it will reduce the capital costs and operating expenditures of the project.

Kindred Hospitals East, L.L.C. (CON #9605) states that it will continue to operate the existing Kindred-North Florida LTCH facility following the proposed 20-bed addition in the same

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manner. This includes an emphasis on quality as evidenced by its JCAHO accreditation. The applicant also states that it will take advantage of economies of scale from the expertise of a strong management team as well as centralized corporate resources. Examples of these economies of scale were not provided.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) states that its performance improvement programs already in place at other HealthSouth locations will be implemented in the proposed facility. These programs are designed to enable continuous monitoring of the effectiveness of the health care and rehabilitative services being provided. A quality council will also be formed to review all quality indicators, and direct hospital-wide efforts to improve patient safety outcomes. The applicant does not indicate how quality standards will be implemented in an economical manner in terms of capital and operating expenditures.

(b) Applicants who demonstrate that they can alleviate a current or potential geographic access problem.

SemperCare Hospital of Volusia, Inc. (CON #9604) states that both current LTCH providers (Kindred-North Florida and Specialty Hospital-Jacksonville) in the planning area are located over an hour from the proposed facility. The applicant contends that the distance from the service area results in a complete break in the continuity of care and is burdensome for the families of patients.

The applicant did not quantify that health care providers are experiencing difficulty in placing medically complex patients who no longer need short-term acute care services. Further, although the applicant states it will be working with two acute care hospitals, it did not demonstrate that any area residents were unable to access needed LTCH care.

Kindred Hospitals East, L.L.C. (CON #9605) contends that adding beds to Kindred-North Florida will enable geographically dispersed patients the ability to access care without traveling farther to a larger metropolitan area. The applicant indicates that it provides transportation reimbursement to families who do not live close to the hospital and has also made arrangements with local churches and hotels to provide free or reduced-rate lodging to families to alleviate the burden of traveling a distance to see their loved one. The applicant contends that these measures alleviate geographic access problems for northeast Florida and makes it unnecessary for additional LTCH hospitals to be established in

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Service Planning Area 2. The applicant did not provide specific information regarding monetary reimbursements or how many families receive monetary or other assistance.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) again states that there is a lack of access and availability of LTCH beds in the southern area of District 4 and specifically Volusia County. Although the applicant contends that its proposed project will provide reasonable access to Volusia County residents as well as residents in District 3, it failed to demonstrate that any Volusia County resident or resident of District 3 was unable to access needed care. It was not shown that health care providers are experiencing difficulty in placing medically complex patients who no longer need short-term acute care services. There were no letters of support submitted for the project from area providers or any written confirmation from providers (i.e. caseworkers, physicians, etc.) that quantifies an access problem for patients.

(c) Applicants who demonstrate that the proposed service has access to an adequate supply of appropriate health manpower.

SemperCare Hospital of Volusia, Inc. (CON #9604) projects 59.9 FTEs for the first full year of operation of the proposed LTCH center. The applicant intends to use traditional methods of recruitment in the local market and recruit from existing resources within the company. Although there is no guarantee that adequate staffing will be available, the support of the Halifax and Memorial health systems should be of benefit in recruiting qualified staff.

Kindred Hospitals East, L.L.C. (CON #9605) states that it has relationships with several area nursing schools, which have provided a source of personnel sufficient to meet the staffing needs of Kindred Hospital-North Florida. These schools include St. Johns River Community College, University of Florida, University of North Florida, Florida Community College of Jacksonville and First Coast Technical Institute. The applicant also states that it has a strong recruitment and retention program in place. The applicant indicates that it has not required supplemental staffing through agencies for the past two years but did not provide the retention rate for current employees.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) anticipates a total of 107 FTE staff in the second year of operation. Nursing staff (nurses, aides, other related nursing staff) will comprise 53 of the projected positions. As a freestanding facility,

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the project will require a full regimen of professional staff and support staff. The applicant states that as part of a network of affiliated health care providers, it will experience resource efficiencies and shared service opportunities. However, the applicant did not specifically address how the project will ensure a full complement of FTE staff.

- (d) Applicants who demonstrate that new or expanded bed capacity and/or service will not have a significant negative impact on similar adjacent health care facilities.**

SemperCare Hospital of Volusia, Inc. (CON #9604) contends that the proposed project will not have a negative impact on either existing LTCH facility in District 4 due to the distance of these facilities from the proposed site in Volusia County. An analysis of the 2001 service area LTCH discharges show that there were a total of 72 LTCH discharges (3,408 patient days) for residents of Volusia and Flagler counties in 2001. Of this total, 64 discharges originated from Kindred-North Florida, five from Kindred-Central Tampa, two from Specialty-Jacksonville, and one from Kindred-South Florida. As previously shown in discussion of projected market share, the applicant projects that it will capture 75 percent of the patients in Volusia County that are currently leaving the county for services at the Kindred-North Florida facility. This would appear to have a negative impact on the Kindred facility.

Kindred Hospitals East, L.L.C. (CON #9605) states that although it draws patients from a large geographical area there is not a high concentration of patients that reside in Duval County where the only other LTCH (Specialty Hospital-Jacksonville) is located. The applicant states that the CEO of Specialty Hospital has been quoted as saying that both hospitals meet the needs of the area population. It does not appear that the addition of 20 beds to a reasonably utilized LTCH will have an adverse impact on similar providers in the district and contiguous areas.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) contends that the proposed project is intended to fill an unmet need and as a result will not impact existing providers. However, this was not substantiated since the applicant failed to show that there is in fact an unmet need. As stated above, HealthSouth failed to demonstrate that patients needing LTCH services were unable to receive them.

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- (e) **Applicants who commit to maximizing services to rural county residents (if applicable).**

SemperCare Hospital of Volusia, Inc. (CON #9604) states that this preference did not appear applicable since the service area counties are not considered to be rural counties. The applicant is looking at counties in District 4 only.

Kindred Hospitals East, L.L.C. (CON #9605) states that Kindred-North is currently serving many rural areas, as shown in the listing of admissions by county of patient residence. The applicant further states that since the hospital is located outside the Jacksonville city limits, it is actually closer to rural populations than other hospitals in Service Planning Area 2 (Districts 2 and 3). The applicant contends that the proposed addition of beds should enhance the provision of services to rural areas.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) states that it will serve all patients referred from anywhere within District's 3 and 4 which include several rural counties near Volusia County.

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

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

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

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

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

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SemperCare Hospital of Volusia, Inc. (CON #9604)

proposes to provide 2.0 percent of total patient days to Medicaid patients in the first two years of operation of the hospital within a hospital LTCH service. The applicant's projected provision of Medicaid patient days is less than the state average. According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions relating to the provision of Medicaid and or charity care. The applicant does not meet this preference.

Kindred Hospitals East, L.L.C. (CON #9605) anticipates providing two percent of total projected patient days to Medicaid patients for the first two years of operation following the proposed addition of beds. Schedule 7A of the application contains a projection of one percent each for Medicaid and Medicaid HMO. According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions. The applicant does not meet this preference.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) did not specifically address this preference. However, according to Schedule 7A, the applicant is projecting that Medicaid and Medicaid HMO days will represent 4.50 percent of total patient days in each of the first two years of operation. The applicant agrees to condition award of the certificate of need and provide a minimum of six percent of total annual patient days to combined Medicaid/charity patient days. This amount of Medicaid exceeds the statewide average. Based on its projections, the applicant appears to meet this preference.

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

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

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SemperCare Hospital of Volusia, Inc. (CON #9604) states that it intends to provide 1.0 percent of patient days to charity care patients, which equates to 3.4 percent of net revenue in the second year of operation. This amount is less than the statewide average. The applicant does not meet this preference.

Kindred Hospitals East, L.L.C. (CON #9605) anticipates charity care revenues representing 4.7 percent of net patient service revenue during its first year of operation and 4.4 percent of net patient service revenue for the second year of operation following the bed addition. This amount is less than the statewide average. The applicant does not meet this preference.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) did not specifically address this preference. However, based on the requested condition, it appears that the applicant is projecting that charity care will represent 1.5 percent of total patient days in each of the first two years of operation of the proposed facility. The applicant does not meet this preference.

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

SemperCare Hospital of Volusia, Inc. (CON #9604) projects that Medicaid will comprise 2.0 percent of total projected patient days. According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions. The applicant does not meet this preference.

Kindred Hospitals East, L.L.C. (CON #9605) states that it has a history of providing health services to Medicaid patients and that the proposed bed addition will increase the hospital's capacity to serve the Medicaid population. As previously discussed, the applicant is projecting two percent of total projected patient days to Medicaid patients for the first two years of operation. According to Schedule 7A of the application, the applicant is projecting one percent each for Medicaid and Medicaid HMO. According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions. The applicant does not meet this preference.

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HealthSouth LTAC of Jacksonville, Inc. (CON #9606) did not specifically address this preference. However, according to Schedule 7A, the applicant is projecting that Medicaid and Medicaid HMO days will represent 4.50 percent of total patient days in each of the first two years of operation. This amount is higher than the statewide average of 3.40 percent. The applicant agrees to condition award of the certificate of need and provide a minimum of six percent of total annual patient days to combined Medicaid/charity patient days. Based on its projections, the applicant appears to meet this preference.

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

SemperCare Hospital of Volusia, Inc. (CON #9604) states that it will serve patients regardless of their ability to pay. The applicant projects that it will provide 1.0 percent of total patient days to indigent/charity care. This amount is less than the statewide average. The applicant does not meet this preference.

Kindred Hospitals East, L.L.C. (CON #9605) states that will not discriminate or deny any individual access to care or services regardless of his/her ability to pay. The applicant anticipates that charity care revenues will represent 4.7 percent of net patient service revenue during its first year of operation and 4.4 percent of net patient service revenue for the second year of operation following the bed addition. This amount is less than the statewide average. The applicant does not meet this preference.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) states that in conformance with the proposed rule (59C-1.045), it will admit patients who meet their admission criteria regardless of ability to pay. Based on the applicant's requested condition, it appears that charity care will represent 1.5 percent of total patient days. The applicant does not meet this preference.

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

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

SemperCare Hospital of Volusia, Inc. (CON #9604) states that it will provide the above listed required services. In response to Item #12, the applicant indicates that it will provide an average of nine direct patient care nursing hours per patient per day. Although the applicant intends to provide its own pharmacy per Item #14, laboratory services and radiology services will be provided through contract with Florida Hospital Oceanside which meets the on-site criteria requirement.

Kindred Hospitals East, L.L.C. (CON #9605) did not specifically respond to the above listed services provision. However, it is noted that Kindred currently provides the services listed above.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) did not specifically respond to the above listed services provision.

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

SemperCare Hospital of Volusia, Inc. (CON #9604) states that it will meet all applicable agency licensure standards. As required for LTCHs that are hospital-within-a-hospital facility, the applicant states that it will apply for a waiver to 59A-3 subsequent to receiving certificate of need approval.

Kindred Hospitals East, L.L.C. (CON #9605) did not specifically respond to this provision. However, elsewhere in the application, the applicant states that Kindred Hospital-North Florida has and will continue to adhere to Florida's health care standards to ensure the provision of quality care.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) did not specifically respond to this provision. However, in response to the applicant's history and ability to provide quality of care, the applicant appears to have programs in place at other affiliated LTCHs to provide quality care.

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

SemperCare Hospital of Volusia, Inc. (CON #9604) is proposing a 45-bed LTCH within a hospital.

Kindred Hospitals East, L.L.C. (CON #9605) is proposing to add 20 LTCH beds to its existing 60-bed Kindred-North Florida hospital.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) is proposing a 40-bed freestanding LTCH.

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

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

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SemperCare Hospital of Volusia, Inc. (CON #9604) states that approximately 57 percent of all patients are projected to be 65 and over while the facility intends to serve approximately 16 percent of patients aged 15-44 and 27 percent of patients aged 45-64.

Kindred Hospitals East, L.L.C. (CON #9605) did not respond to this provision of the proposed rule.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) did not respond to this provision of the proposed rule.

2. Specialty programs to be provided.

SemperCare Hospital of Volusia, Inc. (CON #9604) states its intention to provide pulmonary care, a medically complex program, wound care management, and a rehabilitation program.

Kindred Hospitals East, L.L.C. (CON #9605) did not respond to this provision of the proposed rule. However, elsewhere in the application the applicant states that it provides respiratory services, IV services, surgical services, orthopedic services, neurological services, skin services, renal services, and cardiac services.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) did not respond to this provision of the proposed rule. However, elsewhere in the application the applicant states that it intends to provide the following programs including but not limited to: Infection diseases/antibiotic therapy program, wound care management, complex medical care program, stroke program and pulmonary program.

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

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SemperCare Hospital of Volusia, Inc. (CON #9604) referenced Schedule 6 for the proposed staffing plan by position and FTEs. The applicant states that the medical director for the proposed facility will be selected after consultation with Memorial and Halifax and their medical staffs.

Kindred Hospitals East, L.L.C. (CON #9605) provided a listing of current and proposed staff in Schedule 6A. However, the applicant did not identify the current medical director or other direct patient care staff or the training and experience requirements of the staff.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) does not specifically identify medical and support staff but indicates in Schedule 6A that 107 new FTE staff will be recruited for the available positions. The applicant does state that medical and support staff will be specially trained to manage medically complex patients.

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

SemperCare Hospital of Volusia, Inc. (CON #9604) expects the main source of patient referrals to come from the local acute care facilities. In view of the support of the Halifax and Memorial Health Systems and the location of the LTCH beds within an acute care hospital, acute care hospitals appear to represent the major source of patient referrals. The applicant states that formalized transfer agreements are forthcoming with several area acute care providers.

Kindred Hospitals East, L.L.C. (CON #9605) did not specifically respond to this provision of the proposed rule. However, elsewhere in the application, the applicant states that admissions originate from area hospitals and an increasing amount from health plans in the area. Copies of patient transfer agreements from Orange Park Medical Center, St. Vincent's Medical Center, are provided under tab 7 of the application.

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HealthSouth LTAC of Jacksonville, Inc. (CON #9606) did not specifically respond to this provision of the proposed rule. However, from information contained elsewhere in the application, it appears that the proposed facility will receive referrals from area hospitals and affiliated comprehensive medical rehabilitation services.

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

SemperCare Hospital of Volusia, Inc. (CON #9604) expects the overall length of stay for each age group to be 27.2 days.

Kindred Hospitals East, L.L.C. (CON #9605) did not specifically respond to this provision of the proposed rule. However, elsewhere in the application, the applicant states that the average length of stay of the patients at Kindred-North Florida for calendar year 2001 was 47.2 days.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) did not specifically respond to this provision of the proposed rule. However, in response to "Need" (Item E-1), the applicant indicates that the average length of stay will be 42.5 days.

6. Expected discharge destination by age group.

SemperCare Hospital of Volusia, Inc. (CON #9604) expects the proposed facility to mirror its experience at other facilities, which is: home with home health (36 percent); skilled nursing facility (25 percent); rehabilitation (16 percent); and other (23 percent).

Kindred Hospitals East, L.L.C. (CON #9605) did not specifically respond to this provision of the proposed rule.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) did not specifically respond to this provision of the proposed rule.

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- 7. Projected number of patient days by payer type, including Medicare, Medicaid, private insurance, self-pay and charity care patient days for the first two years of operation after completion of the proposed project.**

Projected Patient Days and Percentage By Payer Type, Year Two

Applicant	Self Pay	Medicaid/Medicare HMO	Medicare/Medicare HMO	Insurance	Managed Care	Other
SemperCare (9604)	1.0%	2.0% 190 days	58.0% 5,504 days	7.0% 664 days	32.0% 3,037 days	-0-
Kindred (9605)	-0-	2.0% 495 days	70.0% 17,400 days	19.0% 4,643 days	7.0% 1,785 days	2.0% 497 days
HealthSouth (9606)	4.50% 419 days	2.50% 233 days	78.0% 7,254	10.0% 930 days	2.0% 186 days	3.0% 279 days

Source: Schedule 7A

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

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

The three applicants basically respond in either direct response to the provision or elsewhere in the application. All three basically state their willingness to admit patients who meet their admission criteria regardless of ability to pay. However, based on the financial schedules in the application, none of the applicants intend to provide any substantive amount of charity care.

- f. Applications from Licensed Long-Term Care Hospitals. A licensed long-term care hospital seeking approval for additional inpatient beds shall provide the following information in addition to the information required by subsection (6):** *(Note: Only Kindred Hospital East, L.L.C./CON #9605 is seeking approval for additional inpatient beds)*

- 1. Number of admissions and patient days by age group and diagnosis for the 12-month period ending one month prior to the letter of intent deadline.**

Kindred Hospitals East, L.L.C. (CON #9605) did not respond to this provision of the proposed rule.

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- 2. Number of patient days by payer type, including Medicare, Medicaid, private insurance, self-pay and charity care patient days, for the 12-month period ending one month prior to the letter of intent deadline.**

Kindred Hospitals East, L.L.C. (CON #9605) did not specifically respond to this provision of the proposed rule.

- 3. Gross revenues by payer source for the 12-month period ending 1 month prior to the letter of intent deadline.**

Kindred Hospitals East, L.L.C. (CON #9605) did not specifically respond to this provision of the proposed rule.

- 4. Current staffing.**

Kindred Hospitals East, L.L.C. (CON #9605) did not specifically respond to this provision of the proposed rule.

- 5. Current specialized treatment programs.**

Kindred Hospitals East, L.L.C. (CON #9605) did not specifically respond to this provision of the proposed rule. As previously addressed, Kindred-North Florida provides respiratory services, IV services, surgical services, orthopedic services, neurological services, skin services, renal services, and cardiac services.

- g. Quarterly Reports. Licensed long-term care hospitals shall report to the agency or its designee, within 45 days after the end of each calendar quarter, the number of admissions and patient days by age and primary diagnosis that occurred within the quarter.**

Kindred Hospitals East, L.L.C. (CON #9605) did not specifically respond to this provision of the proposed rule.

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.**

SemperCare Hospital of Volusia, Inc. (CON #9604) basically reiterates that LTCH services are not currently accessible to residents of the service area. The applicant states its intention to provide a higher number of nursing hours per patient day than found in a general nursing unit, thus exceeding what is typically provided in an intensive care setting. The applicant further states that the proposed project will provide a more effective alternative for the subset of rehabilitation patients too acute to meet the admission criteria of a comprehensive medical rehabilitation unit but who will benefit from the early introduction of restorative and rehabilitative therapies.

The applicant states that almost all of the patients to be served by the proposed LTCH are residents of Volusia and Flagler Counties. It was not demonstrated that residents of the proposed service areas are experiencing difficulty in accessing LTCH services.

Need for the project is not evidenced by the availability, quality of care, accessibility, and the extent of utilization of existing health care facilities and health services in the applicant's proposed service area.

Kindred Hospitals East, L.L.C. (CON #9605) states that increased utilization at Kindred Hospital-North Florida is the primary basis for the requested 20 additional LTCH beds. The utilization of the existing 60 beds has gradually increased over the past few years as shown in the following table:

**LTCH Utilization by Calendar Year
Kindred-North Florida and Service Planning Area II**

Year	Kindred Hospital N.FL.	Service Planning Area II
2001	88.92%	67.54%
2000	86.84%	64.69%
1999	86.67%	66.67%
1998	82.58%	60.31%
1997	73.88%	55.40%

Source: *Florida Hospital Bed and Service Utilization by District*

The applicant contends that adding 20 beds to the existing hospital will increase the availability of LTCH services and provide greater access to residents in District 4.

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The proposed project is also intended to enhance quality of care as well as improve efficiency through sharing with other Kindred facilities and utilizing centralized corporate services.

The need for the project is reasonably evidenced by the availability, quality of care, accessibility, and extent of utilization of the applicant's current licensed beds.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) states that there are no like and existing facilities in Volusia County and short-term acute care hospitals are inappropriate locations for long-term acute care patients. The applicant also makes reference to the distance that residents of Volusia County must travel for LTCH services. It is the applicant's contention that the proposed project will provide area residents with a necessary facility to improve the health status of the community and county and increase the accessibility and availability of LTCH services.

The applicant did not reasonably quantify need for the project by demonstrating that health care providers are encountering problems in placing medically complex patients.

The need for the project is not evidenced by the availability, quality of care, accessibility, and extent of utilization of existing health care facilities and services in the 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.**

SemperCare Hospital of Volusia, Inc. (CON #9604) does not have an operational history of providing quality of care in Florida. The applicant states that its parent, SemperCare, Inc., has a variety of mechanisms that have been used to ensure and maintain quality care in its other facilities, which will be implemented by the applicant. 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 included the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) survey results for the four currently operational SemperCare facilities. The four existing facilities scored above the benchmark score of 92 on their most recent JCAHO surveys.

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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 Florida Hospital Oceanside, the host hospital, is currently fully licensed and accredited.

Kindred Hospitals East, L.L.C. (CON #9605) states that Kindred Hospital-North Florida has a history of providing quality care and the hospital as well as the other 13 hospitals licensed by the applicant are currently accredited by JCAHO. The applicant further states that in the last two JCAHO surveys, Kindred-North Florida received "accreditation with commendation", and indication of the quality of care provided and indication that the hospital has the necessary components in place to ensure quality of care.

The applicant provided a reasonable description of its admission and assessment components, care planning, discharge planning process, quality management and utilization review, and patient rights. The Quality Management functions are currently in place and are contained in the Kindred Strategic Quality Plan, a copy of which is contained in the application as Appendix 8. The applicant states that quality care is delivered 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, activate participation by all members of the health care team in the review process, and improved communication, education and follow-up. The hospital has also organized a facility Quality Council to coordinate quality improvement. The council is comprised of management members and professional staff. The applicant also discussed the Utilization Review (UR) Plan to address admission certification, continued stay review and care evaluation studies in accordance with applicable statutes, regulations and requirements set forth by Medicare, JCAHO and third part payors.

According to AHCA data, the applicant had two confirmed complaints without deficiency during the last three years.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) does not have any operational LTCHs in Florida. However, the applicant states that its experience, knowledge, and accreditation principals will benefit the proposed facility. The applicant intends to seek accreditation and implement appropriate protocols to maintain quality of care. The applicant further states that its performance improvement programs will be interdisciplinary in nature. It is the intent of the applicant to use the

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

- c. Is the applicant proposing special health care services for its service area that are not reasonably and economically accessible in adjacent service areas? ss. 408.035(4), Florida Statutes.**

None of the co-batched applicants demonstrated that they are proposing special health care services. LTCH services are currently available to service area residents. None of the co-batched applicants demonstrate that residents needing LTCH care were unable to obtain it.

- 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 proposed projects are to be located in a statutorily defined teaching hospital nor will the primary purpose of any of the 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.**

SemperCare Hospital of Volusia, Inc. (CON #9604): The audited financial statements of the applicant were reviewed to assess the financial position as of the balance sheet date and the financial strength of its operations for the period presented.

The applicant is a start up company with \$100 in assets as of September 5, 2002. SemperCare, Inc., the parent, was formed in 1999 for the purpose of developing a network of facilities providing long-term acute care. The company had, at June 30, 2001, \$3.8 million in cash on hand, \$6.6 million in current assets and \$9.8 million in total assets. Capital has been raised through the issuance of stock. The company has a shareholders' deficit of \$8.3 million, a net operating loss for the period of \$3.6 million with negative cash flows from operations of \$3.9 million. However, the first LTCH owned by SemperCare opened in April 2000 with four 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

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support its operating losses. In October 2001 the company issued an additional \$5.05 million in preferred stock. 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 Volusia, Inc. will lease the space required to operate the hospital from Florida Hospital Oceanside, with SemperCare paying no rent until the first patient is admitted and \$1,000 per month per licensed LTCH bed thereafter.

Capital requirements:

Total capital costs for this project from Schedule 1 are \$1.7 million. Schedule 1 did not include the estimated loss during the initial 6 months of operation of \$732,072, bringing the total project costs for the applicant to \$2,474,072. Schedule 2 indicates the applicant has no other capital projects.

Staffing:

According to Schedule 6, the applicant is projecting 59.9 FTE staff in year one, increasing to 80.9 FTE staff in year two. The applicant anticipates that adequate resources are available to staff the proposed LTCH and the applicant intends to use traditional methods of recruitment in the local market as well as from existing resources within the company. The applicant also states that Halifax and Memorial's involvement in the project will enhance recruitment efforts.

Available capital:

Funding for the proposed project is coming from the parent, SemperCare, Inc. A letter was provided in support of their commitment to fund the project. SemperCare, Inc.'s financial resources are discussed above.

The applicant, with the support of its parent, may be able to raise sufficient capital to fund the project under review; however funding for this project is not fully assured.

Kindred Hospitals East, L.L.C. (CON #9605): The audited financial statements for the nine-month period ending December 31, 2001 were analyzed for the purpose of evaluating the applicant's ability to provide the capital and operational funding necessary to implement the project. The following is a list of the accounts and ratios used in the analysis:

	<u>12/31/2001</u>
Current Assets	\$ 114,204,455
Cash and Current Investment	\$ 2,443,051

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Assets Restricted for Capital Projects	\$	0
Total Assets	\$	170,846,687
Current Liabilities	\$	39,013,308
Total Liabilities	\$	39,013,666
Total Equity	\$	131,833,021
Net Operating Revenues	\$	313,783,140
Interest Expense	\$	401,953
Net Profit – Operations	\$	8,260,492
Net Income	\$	8,260,492
Cash Flow from Operations	\$	6,689,594
Working Capital	\$	75,191,147
Current Ratio (CA/CL)		2.9
Cash Flow to Current Liabilities (CFO/CL)		0.17
Long-Term Debt to Equity (TL-CL/TE)		0.0
Times Interest Earned (NPO+Int/Int)		21.6
Equity to Total Assets (TE/TA)		77.2%
Operating Margin (NPO/NOR)		2.6%
Total Margin (NI/NOR)		2.6%
Return on Assets (NI/TA)		4.8%
Operating Cash Flow to Assets (CFO/TA)		3.9%

The applicant is a wholly owned subsidiary of Kindred Healthcare, Inc. (formerly Vencor, Inc.). On April 20, 2001 Kindred Hospitals East, LLC emerged from proceeding under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”) under a Plan of Reorganization. Under the plan the applicant adopted the fresh start accounting provisions of SOP 90-7. Under fresh-start accounting, a new reporting entity is created and the recorded amounts of assets and liabilities are adjusted to reflect their estimated fair values. Accordingly, the prior period financial statements are not comparable to the current period statements and will not be considered in this analysis.

Short-term position:

The applicant’s current ratio of 2.9 is strong. The ratio of cash flow to current liabilities of 0.17 is, on the other hand, weak. Working capital (current assets less current liabilities) of \$75.2 million is substantial in relation to the entity’s size. Overall the applicant has a good short-term position.

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Long-term position:

The ratio of long-term debt to equity of 0.0 is the result of carrying no long-term debt on the books of the applicant. Long-term debt is carried on the books of the parent corporation. The ratio of cash flows to assets of 3.9 percent is below average compared to other Florida hospitals. The most recent nine months had an operating profit of \$8.3 million, resulting in an operating margin of 2.6 percent, an above average position. Total equity is \$131.8 million; the ratio of equity to assets is 77.2 percent. Overall, the long-term position of the applicant is strong.

Capital requirements:

Schedule 2 indicates capital projects of \$8.5 million.

Available capital:

Funding for these projects will come from \$5.07 million from operating cash flows and \$2.9 million from funds in hand. The audited financial statements show \$2.4 million in cash on hand, and \$6.7 million in cash flows.

Staffing:

According to Schedule 6A, the applicant anticipates the hiring of 30.6 additional FTE staff to increase the total FTE staff to 185.7. The applicant provided a discussion of the management team and staff resources and indicates that traditional methods of recruitment will be utilized. The applicant did not provide its staff turnover rate but does state that it has been successful in having appropriate staff in place for all care delivery requirements.

Conclusion:

Based on the audited financial statements of the applicant, cash on hand and cash flows, if they continue at the current level, would be sufficient to fund the projects as proposed. Funding for this project and all capital projects is likely to be available as needed.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606): The audited financial statements of the applicant were reviewed to assess the financial position as of the balance sheet date and the financial strength of its operations for the period presented.

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

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

Capital requirements:

The capital costs for this project are \$12.7 million. Schedule 2 indicates a total of \$12.83 million in capital needs through year two of the project. HealthSouth Corporation provided a commitment letter for funding the project.

Staffing:

According to Schedule 6A, the applicant is projecting a total of 84 FTE staff in year one, increasing to 101 FTE staff in year two. The applicant does not discuss specific recruitment methods to be utilized indicating only that the hiring and training of staff members will be effectuated in an effective and efficient manner.

Conclusion:

Based on HealthSouth Corporation's 10K report, and their commitment to fund this project, funding for this project should be available as needed.

f. What is the immediate and long-term financial feasibility of the proposal? ss. 408.035(8), Florida Statutes.

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

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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 2000; the applicant will be compared to the hospitals in peer group 12. Per diem rates are projected to increase by an average of 3.3 percent per year. Inflation adjustments were based on the most current Florida Hospital Input Price Index.

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

SemperCare Hospital of Volusia, Inc. (CON #9604): The estimated revenues submitted by the applicant for the project 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 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 did not state how they intend to comply with this provision. Failure to comply would have a material negative impact on revenues.

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The applicant submitted schedules for a six-month period (demonstration 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 demonstration 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 \$1,118 in year one and \$1,127 in year two is between the control group median and highest values of \$975 and \$1,740 in year one and \$1,005 and \$1,793 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 \$1,023 in year one and \$977 in year two is between the control group median and highest values of \$847 and \$1,751 in year one and \$872 and \$1,804 in year two. Compared to the control group these costs are efficient. (See Comparative Table).

The year two operating profit for the hospital of \$1.4 million computes to an operating margin per adjusted patient day of \$151, which falls between the peer group median and highest values of \$4 and \$219 respectively. The operating margin of 13.4 percent indicates that net revenues are proportional to costs.

This application appears to be financially feasible.

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Comparative Table

CON # 9604 SemperCare Hospital of Volusia, Inc. 2000 DATA Peer Group 12	2006	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	38,254,142	4,031	856	682	517
INPATIENT AMBULATORY	0	0	5	0	0
INPATIENT ANCILLARY SERVICES	0	0	3,787	2,732	1,630
OUTPATIENT SERVICES	0	0	170	3	0
OTHER OPERATING REVENUE	0	0	14	2	0
TOTAL REVENUE	38,254,142	4,031	4,495	3,400	2,374
DEDUCTIONS FROM REVENUE	27,554,365	2,904	*	*	*
NET REVENUES	10,699,777	1,127	1,793	1,005	781
EXPENSES					
ROUTINE	2,345,106	247	421	238	197
ANCILLARY	3,710,486	391	500	227	216
AMBULATORY	0				
OVERHEAD	3,214,167	339	906	411	339
OTHER	0	0			
TOTAL EXPENSES	9,269,759	977	1,804	872	808
OPERATING INCOME	1,430,018	151	219	4	-55
		13.4%			
PATIENT DAYS	9,490		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	9,490		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	15,695				
ADJ. FACTOR	1.0000				
TOTAL NUMBER OF BEDS	43				
PERCENT OCCUPANCY	60.5%		98.2%	85.0%	52.4%
PAYER TYPE		PATIENT			
		DAYS			
		% TOTAL			
MEDICARE	4,679	49.3%	95.7%	74.1%	56.9%
COMMERCIAL	664	7.0%			
MEDICAID	190	2.0%	16.9%	0.4%	0.0%
PRIVATE	95	1.0%			
HMO/PPO	3,862	40.7%	19.6%	14.2%	0.0%
OTHER	0	0.0%			
TOTAL	9,490	100.0%			

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Kindred Hospitals East, L.L.C. (CON #9605): Projected net revenue per adjusted patient day (NRAPD) of \$1,191 in year one and \$1,251 in year two is between the control group median and highest values of \$1,059 and \$1,889 in year one and \$1,091 and \$1,946 in year two. The highest level is generally viewed as the practical upper limit on economies of operation. With net revenues falling between the median and highest level, the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table). The year 2001 actual NRAPD for this hospital was \$1,161.

Projected cost per adjusted patient day of \$923 in year one and \$936 in year two is between the control group median and highest values of \$919 and \$1,901 in year one and \$947 and \$1,958 in year two. (See Comparative Table). Compared to the control group these costs are considered cost efficient. The year 2001 actual data reported for this hospital was \$927 per adjusted patient day.

The year two operating profit for the hospital of \$7.8 million computes to an operating margin per adjusted patient day of \$314 which falls above the group highest value of \$219. The computed operating margin ratio is 25.1 percent. The actual margin reported in 2001 was 20.2 percent. This project is considered financially feasible.

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Comparative Table

CON #9605 Kindred Hospitals East, L.L.C. 2000 DATA Peer Group 12	2006	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	18,028,825	725	930	740	561
INPATIENT AMBULATORY	0	0	6	0	0
INPATIENT ANCILLARY SERVICES	72,213,451	2,905	4,111	2,966	1,770
OUTPATIENT SERVICES	96,502	4	184	3	0
OTHER OPERATING REVENUE	40,000	2	15	2	0
TOTAL REVENUE	90,378,778	3,636	4,879	3,690	2,577
DEDUCTIONS FROM REVENUE	59,293,770	2,385	*	*	*
NET REVENUES	31,085,008	1,251	1,946	1,091	848
EXPENSES					
ROUTINE	5,543,728	223	457	258	214
ANCILLARY	6,338,950	255	543	246	235
AMBULATORY	0				
OVERHEAD	11,390,734	458	983	446	368
OTHER	0	0			
TOTAL EXPENSES	23,273,412	936	1,958	847	877
OPERATING INCOME	7,811,596	314	219	4	-55
		25.1%			
PATIENT DAYS	24,820		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	24,858		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	29,200				
ADJ. FACTOR	0.9985				
TOTAL NUMBER OF BEDS	80				
PERCENT OCCUPANCY	85.0%		98.2%	85.0%	52.4%
PAYER TYPE	PATIENT	%			
	DAYS	TOTAL			
MEDICARE	17,400	70.1%	95.7%	74.1%	56.9%
COMMERCIAL	4,643	18.7%			
MEDICAID	248	1.0%	16.9%	0.4%	0.0%
PRIVATE	0	0.0%			
HMO/PPO	2,032	8.2%	19.6%	14.2%	0.0%
OTHER	497	2.0%			
TOTAL	24,820	100.0%			

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HealthSouth LTAC of Jacksonville, Inc. (CON #9606): Projected net revenue per adjusted patient day (NRAPD) of \$979 in year two is between the control group lowest and median values of \$798 and \$1,027. The lowest value is generally viewed as the practical lower limit on economies of operation. (See Comparative Table).

Projected cost per adjusted patient day of \$591 in year two is below the control group lowest values of \$825 in year two. The lowest cost is considered the lower limit of cost-efficiency. Costs below this threshold would describe efficiencies that no other facility has been able to achieve. Examining the various expense categories discloses estimated Ancillary cost per adjusted patient day of \$104 in year one and \$112 in year two to be significantly lower than the control group lowest values of \$215 and \$221. (See Comparative Table). It is likely that estimated costs are understated.

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

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

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Comparative Table

CON # 9606 HealthSouth LTAC of Jacksonville, Inc. 2000 DATA Peer Group 12	2006	YEAR 2	VALUES ADJUSTED		
	YEAR 2	Y	FOR INFLATION		
	ACTIVITY PER DAY		Highest	Median	Lowest
ROUTINE SERVICES	6,510,000	698	875	697	528
INPATIENT AMBULATORY	0	0	6	0	0
INPATIENT ANCILLARY SERVICES	5,775,300	619	3,869	2,792	1,666
OUTPATIENT SERVICES	0	0	173	3	0
OTHER OPERATING REVENUE	36,000	4	14	2	0
TOTAL REVENUE	12,321,300	1,321	4,592	3,473	2,426
DEDUCTIONS FROM REVENUE	3,192,223	342	*	*	*
NET REVENUES	9,129,077	979	1,832	1,027	798
EXPENSES					
ROUTINE	1,743,010	187	430	243	201
ANCILLARY	1,048,300	112	511	232	221
AMBULATORY	0				
OVERHEAD	2,724,323	292	925	420	346
OTHER	0	0			
TOTAL EXPENSES	5,515,633	591	1,843	891	825
OPERATING INCOME	3,613,444	387	219	4	-55
		39.6%			
PATIENT DAYS	9,301		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	9,328		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	14,600				
ADJ. FACTOR	0.9971				
TOTAL NUMBER OF BEDS	40				
PERCENT OCCUPANCY	63.7%		98.2%	85.0%	52.4%
PAYER TYPE		PATIENT			
		DAYS % TOTAL			
MEDICARE	7,254	78.0%	95.7%	74.1%	56.9%
COMMERCIAL	930	10.0%			
MEDICAID	233	2.5%	16.9%	0.4%	0.0%
PRIVATE	419	4.5%			
HMO/PPO	186	2.0%	19.6%	14.2%	0.0%
OTHER	279	3.0%			
TOTAL	9,301	100.0%			

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

District 6 Long-term Care Projects			
	HealthSouth LTAC of Jacksonville	Kindred Hospitals East, L.L.C	SemperCare Hospital of Volusia, Inc.
CON Number	<u>9606</u>	<u>9605</u>	<u>9604</u>
Net Revenue per adjusted patient day	\$979	\$1,251	\$1,127
Cost per adjusted patient day	\$591	\$ 936	\$ 977
Operating profit per patient day	\$387	\$ 314	\$ 151
Estimated Managed Care level	2.0%	8.2%	40.7%
Estimated Medicaid level	2.5%	1.0%	2.0%

SemperCare Hospital of Volusia, Inc. (CON #9604) The applicant projects managed care to represent 40.7 percent of its patient days. This is above the control group highest level of activity of 19.6 percent. The projected levels, if realized, will have a positive impact on competition to promote quality assurance and cost-effectiveness.

Kindred Hospitals East, L.L.C. (CON #9605) projects managed care to represent 8.2 percent of its patient days. This is between the control group lowest and median level of activity of 0.0 percent and 14.2 percent. Actual reported level in 2001 was 6.0 percent. The projected levels, if realized, are not likely to increase competition to promote quality assurance and cost-effectiveness.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606): The projected Medicare and Medicaid days as a percent of total days in year two is 80.5 percent. With the large majority of patient care being provided from fixed price government payer sources, this project is not likely to have any discernable positive impact on competition to promote quality assurance or cost-effectiveness.

- h. Are the proposed costs and methods of construction reasonable? Do they comply with statutory and rule requirements? ss. 408.035(10), Florida Statutes; Ch. 59A-3 or 59A-4, Florida Administrative Code.**

SemperCare Hospital of Volusia, Inc. (CON #9604) proposes to create a 43-bed long-term acute care hospital-within-a-hospital. SemperCare of Volusia intends to lease space on the second floor of Florida Hospital - Oceanside (FKA Peninsula) for a long-term acute care facility. The narrative states that the entire second floor will be dedicated to the proposed hospital. The plan indicates that only part of the floor will be

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configured for the new hospital, and the remainder of the floor space is noted “Adjacent Health Care” which is ambiguous and does not actually indicate which hospital this space belongs to. The floor plan bound in the narrative part of the application implies that only the part of the floor with interior partitions will be used by SemperCare. A clarification of this issue needs to be provided.

No indication is given as to what the “Adjacent Health Care” areas are, or will be used for. These are two rather large spaces with no interior partitions shown, existing or new. If the spaces do not have a specific use, their perimeter separating walls must be rated as if they are used for storage. There is another potentially serious architectural problem related to these spaces. The part of the second floor plan that shows interior partitions does not indicate the travel distances to the exits and in the case of the larger of the “empty” adjacent spaces, there is a significant dead-end corridor. Obviously, there must be an existing stair that serves this space, but the way that this stair serves (or not) the new hospital is not shown. Clearly there must be a way to exit from or through this “Adjacent Health Care” space.

Chapter 59A-3 of the Florida Administrative Code and the Florida Building Code do not permit a hospital-within-a-hospital, but it is possible that this policy might change or that a waiver may be granted to allow this type of co-mingling of hospitals.

The Florida Building Code states in Section 419.3.4.5:

“Any other facility or building used for medical care, including a medical office building, must be physically separated from the hospital and have clear, visible and readable signs denoting its separateness from the hospital. Physically separate means, at a minimum, separation by fire walls and distinct mechanical and electrical systems.”

There are certain spaces and functions that a hospital must have by code to be classified as a hospital. In this application, all of these spaces are not shown, nor is it indicated that Florida Hospital has these spaces and that they will be available to the new hospital in a manner that will satisfy the code requirements.

The narrative states that “SemperCare Hospital of Volusia understands that AHCA will not subject the applicant to the requirement of physical separation of” the mechanical, electrical and heating/air conditioning systems. There is no readily apparent documentation to support this assumption. If no separation is required, the applicant states that the building costs will be reduced by \$500,000. All the requirements for

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physical separation of the mechanical, electrical and heating/air conditioning systems do not appear to have been met by the proposed changes and renovations listed in the application.

The application states on Page 5 of Schedule B that Oceanside will “lease 43 of its 79 acute care beds to SemperCare” but on Page 15 it states that these 43 beds will be converted to long-term acute care beds. These statements are contradictory and do not seem to reflect the actual technical licensure-permitted way that the new and existing beds will be dealt with.

SemperCare also plans to purchase a number of services from Florida Hospital - Oceanside and these are in the lease agreement included in the Application as Attachment E. The lessor will provide maintenance for the entire building as well as some other services. Some of these services include dietary, radiology/imaging, laboratory, pathology, surgery, emergency and laundry. Although the new hospital may contract elsewhere for more complex radiological/imaging services, it must have its own equipment and/or space for basic diagnostic radiology services.

The lease agreement stipulates that laboratory and emergency services are proposed to be obtained from the host hospital. Although an emergency department is not required, a designated area and equipment to provide emergency services must be incorporated in the new facility. A similar condition exists for surgery and anesthesia. These functional spaces must be located on site per Chapter 59A-3 of the Florida Administrative Code.

If surgical and anesthesia areas/rooms are located in the host hospital, they (and their required ancillary spaces such as pre-op and recovery) must be dedicated to the exclusive use by the proposed long-term care hospital 24 hours per day, seven days a week.

The LTCH will contain nine private rooms, including two isolation rooms, 13 semi-private rooms and two four-bed “high observation” units. Some renovation of the existing patient rooms will occur to make some of the rooms accessible to those with disabilities.

Since only the second floor plan was included in the application, there is no way to tell where certain spaces, procedure/operating rooms, labs and other amenities are located in the existing Florida Hospital building. There are also a number of "common spaces" that are itemized in the lease and are proposed to be shared by the two facilities.

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Both four-bed patient rooms are to be renovated to provide handicapped accessible toilet rooms. One other private patient room has a toilet marked "ADA", but it may not be large enough to satisfy code requirements.

The plan is fairly straightforward although usually one would expect to find more than one nurse station for a floor of this size and configuration. Required ancillary patient room support spaces appear to have been provided. The nurse locker room is across the corridor from the nurse station but the plans do not indicate a staff toilet. One of the spaces adjacent to the locker room is most likely that toilet.

There was no readily apparent list of applicable codes in the application. This is not a significant issue since the correct codes will have to be adhered to if and when the project progresses. The AHCA Office of Plans and Construction will have input at that time and will insure that all code information is correct.

A potentially significant issue is that no reference is made to the disaster preparedness requirements of The Florida Building Code and Chapter 59A-3 of the Florida Administrative Code. The provisions regarding the site conditions and elevations, construction and missile impact requirements are crucial to the project since it is a new hospital. Even though the new hospital is located within the existing walls of the host hospital, it is considered to be a new facility and must meet and/or satisfy all the code and standards required.

These codes state: "The floor elevation of all new occupied patient area(s) and all patient support area(s) and patient support utilities, including mechanical, electrical except as noted in (55)9.b.(I), and food services shall be located above the 100-year flood plain or hurricane Category 3 (Saffir-Simpson scale) hurricane surge inundation elevations, whichever requires the highest elevation."

Without plans of lower or other floors, it cannot be determined where or if the required patient support areas are located and if they meet the Disaster Preparedness requirements. Additional information must be submitted in order to determine if this proposed new long-term acute care hospital is actually viable in its proposed location were this application approved.

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The floor plan does not indicate where demolition and renovation are to take place, so there is no way to determine how extensive the renovation will be. The renovation cost of \$30 per square foot appears to be quite reasonable as long as it includes costs for separation of the “adjacent Health Care” areas.

Kindred Hospitals East, L.L.C. (CON #9605) proposes to add a new wing to the hospital to accommodate the new 20 beds. One existing semi-private room will be converted to private. There will be a combination of private and semi-private rooms added as well as one isolation room. The large scale plan of the isolation room does not match the smaller scale version, which has a better door configuration.

Although the list of applicable building codes correctly shows the Florida Building Code and the life safety code, there is no mention of the impact the disaster preparedness requirements might have on the design. Since this is not addressed in the application, it might possibly be assumed that the floor elevation of the proposed new wing is above the critical elevations referred to in the Florida Building Code.

In any case, the floor elevation of the new wing will have to be addressed specifically when and if the project proceeds and is reviewed by the AHCA Office of Plans and Construction. If the floor elevation is below the critical heights mentioned in the Florida Building Code and Chapter 59A-3 of the Florida Administrative Code, there could be significant problems. There is no reason to suspect that the design professional is not aware of this issue except that the narrative indicates that items such as windows will match the existing ones.

This issue is only mentioned because the architectural reviewer is not familiar with the design professionals who prepared the plans and it is possible that this firm is not intimately familiar with the relatively recent disaster preparedness requirements.

The new wing appears to match the others in configuration. The nurse station appears to have all the required functions and they are conveniently arranged. The only patient room that has a dedicated shower is the isolation room. All the others have either a private or shared toilet/lavatory space. There are two showers located off the main corridor. These spaces would benefit from having some better means for privacy, particularly if the patients need assistance in bathing.

The projected costs and schedule appear to be reasonable.

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HealthSouth LTAC of Jacksonville, Inc. (CON #9606) submitted drawings for the proposed new 45-bed LTCH that includes a floor plan of the single story building. It consists of a long rectangle with another rectangle overlaid at a skewed angle. The main entrance area bisects the building and all the patient rooms are located on one side of the building. On the other side are the staff and business offices, therapy areas, food service and other ancillary spaces. There is a large patient dining room and generous quarters for management and staff. Space is provided for extensive patient records within the business office area. The plan is quite straightforward and well organized. It has three smoke compartments and the rated walls are shown where required in most cases.

The facility has the required pharmacy, radiology area and laboratory but has no space(s) indicated for emergency services. Although an emergency department is not required, a designated area to provide emergency services must be incorporated in the facility. There are no surgical or anesthesia departments shown with their required ancillary spaces such as pre-op and recovery. These functional spaces must be located on site per Chapter 59A-3 of the Florida Administrative Code. Since there is no laundry shown, it is assumed that this service will be contracted off-site. Adequate space for soiled linen holding and clean linen receiving need to be addressed in more detail than is shown on the schematic plan included in the application.

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

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

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

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The list of applicable building codes is incorrect for quite a few of the codes. This is not a significant issue other than it may indicate that the design professionals are not familiar with the hospital construction requirements in Florida. At any rate, the correct codes will have to be adhered to when and if the project progresses. The AHCA Office of Plans and Construction will have input at this time and will insure that all code information is correct.

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

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

According to AHCA Fiscal Year 1999 data, LTCHs in Florida provided an average of 3.4 percent Medicaid patient days of total patient days and 8.7 percent of Charity care deductions to net patient service revenue.

SemperCare Hospital of Volusia, Inc. (CON #9604) proposes to provide 2.0 percent of total patient days to Medicaid patients in the first two years of operation of the hospital within a hospital LTCH service. The applicant's projected provision of Medicaid patient days is less than the state average. With regard to the provision of charity care, the applicant states that it intends to provide 1.0 percent of patient days to charity care patients, which equates to 3.4 percent of net revenue in the second year of operation. This amount is less than the statewide average. According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions relating to the provision of Medicaid and or charity care. As a new entity, the applicant does not have historical experience of its provision of health services to Medicaid patients and the medically indigent.

Kindred Hospitals East, L.L.C. (CON #9605) anticipates providing two percent of total projected patient days to Medicaid patients for the first two years of operation following the proposed addition of beds. Schedule 7A of the application contains a projection of one percent each for Medicaid and Medicaid HMO. The applicant anticipates charity care revenues representing 4.7 percent of net patient service revenue during

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its first year of operation and 4.4 percent of net patient service revenue for the second year of operation following the bed addition. This amount is less than the statewide average. According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions.

**Medicaid and Charity Care of the Applicant
Compared to the Service Planning Area for FY 1999**

Applicant Hospital	FY 99 Conventional Medicaid % of Pt. Days	FY 99 Ratio of Charity Care Deductions to Net Patient Service Revenue
Kindred Hospital	1.0%	3.4%
Total Florida LTCHs	3.4%	8.7%

Source: 1999 Hospital Financial Data Report/AHCA

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) is projecting that Medicaid and Medicaid HMO days will represent 4.50 percent of total patient days in each of the first two years of operation. The applicant agrees to condition award of the certificate of need and provide a minimum of six percent of total annual patient days to combined Medicaid/charity patient days. This amount of Medicaid exceeds the statewide average. Based on the applicant's requested condition compared to Financial Schedule 7A, it appears that the applicant is projecting that charity care will represent 1.5 percent of total patient days in each of the first two years of operation of the proposed facility.

F. SUMMARY

SemperCare Hospital of Volusia, Inc. (CON #9604) proposes the establishment of a 43-bed long-term acute care hospital at Florida Hospital Oceanside (formerly Memorial Hospital Peninsula) in Ormond Beach, Florida.

Memorial Health Systems, Inc. d/b/a Florida Hospital Oceanside has agreed to lease 43 of its 79 acute care beds to SemperCare for use as a hospital-within-a-hospital long-term acute care hospital (LTAC) on the second floor of the facility. After completion of the proposed project, Florida Hospital Oceanside will operate 36 acute care beds and 40 comprehensive medical rehabilitation beds.

The estimated project costs for the proposed LTCH are \$1,742,000, including \$800,000 in construction costs. The project involves renovation of 26,600 square feet on the second floor of the hospital, and includes nine private rooms, including two isolation rooms, 13 semi-private rooms, and two four-bed "high observation" units.

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According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions.

After weighing and balancing all relevant criteria, the following issues are presented:

Need:

- Need is not published by the agency for new long-term care hospital providers. It is the applicant's responsibility to demonstrate need.
- The applicant contends that current LTCH providers in District 4 are not accessible to residents of Volusia and Flagler Counties.
- It was not demonstrated that residents of the service area with complex medical problems are experiencing difficulty in accessing LTCH services.

Quality of Care:

- The applicant does not have an operational history of providing quality of care in Florida. However, the applicant's parent company has a variety of mechanisms that have been used to monitor quality of care in other facilities outside of Florida. These mechanisms will be incorporated into the proposed project. The applicant reasonably demonstrated the potential to provide quality of care based on the experience at other facilities.

Cost/Financial Analysis:

- The applicant is a start up company with limited assets. With assistance from the parent, sufficient capital to fund the proposed project is likely but not assured.
- 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. Projected cost per adjusted patient day is reasonable in comparison to the hospital control group and the operating margin indicates that net revenues are proportional to costs. The financial analyst concludes that the project appears to be financially feasible.

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- The applicant's projected managed care levels, if realized, will have a positive impact on competition to promote quality assurance and cost-effectiveness.

Architectural Analysis:

- The architectural plans are not clear as to space allocations for the proposed project. There is also no indication provided as to the use of certain areas of the facility and the exits are not clearly shown.
- The project does not appear to be in conformance with Chapter 59A-3, Florida Administrative Code that does not permit a hospital-within-a-hospital
- Although an emergency department is not required, a designated area and equipment to provide emergency services must be incorporated in the new facility. A similar condition exists for surgery and anesthesia. These functional spaces must be located on site per Chapter 59A-3 of the Florida Administrative Code. Surgical and anesthesia areas located in the host hospital must be dedicated the exclusive use of the LTCH 24 hours per day, seven days a week.
- The location of all required support areas could not be determined. Although the extent of the renovation could not be determined, the renovation cost appears reasonable as long as it includes costs for separation of the "adjacent health care" areas. Even though the new hospital is located within the existing walls of the host hospital, it is considered to be a new facility and must meet all required codes and standards. No reference is made to the Disaster Preparedness requirements of the Florida Building Code and Chapter 59A-3, Florida Administrative Code.

Kindred Hospitals East, L.L.C. (CON #9605) proposes to add 20 long-term care hospital beds to Kindred Hospital North Florida, an existing 60-bed LTCH located at 801 Oak Street in Green Cove Springs, Clay County, Florida. The project involves the addition of a new wing to the existing hospital that will increase the bed capacity to 80 LTCH beds.

The project involves a total cost of \$2,815,001 of which \$1,696,751 represents new construction costs. The project involves 7,850 gross square feet of new construction.

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According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions.

After weighing and balancing all relevant criteria, the following issues are presented:

Need:

- The applicant is submitting the project based on high utilization at Kindred Hospital-North Florida and related capacity constraints, and to meet the needs of the growing population in the five counties that comprise the hospital's primary service area. The project is also submitted to meet the demand of the hospital's increasing number of contracts with health plans.

Quality of Care:

- Kindred Hospital-North Florida has a reasonable history of providing quality care and is JCAHO accredited. The applicant provided a description of its admission and assessment components, care planning, discharge planning process, quality management and utilization review, and patient rights.

Cost/Financial Analysis:

- Based on the audited financial statements of the applicant, cash on hand and cash flow, the applicant appears to have sufficient capital to fund the projects as proposed.
- 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 project is considered financially feasible.
- The projected levels of managed care are not likely to increase competition to promote quality assurance and cost-effectiveness.

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Architectural Analysis:

- Although the list of applicable building codes are addressed, there is no mention of the impact the disaster preparedness requirements might have on the project design. This could cause significant problems if the floor elevation is below requirements in the Florida Building Code and Chapter 59A-3, Florida Administrative Code.
- The new wing appears to match the other wings in configuration. There are no significant architectural considerations. However, the two identified showers off the main corridor would benefit from increased privacy. The projected costs and schedule appear reasonable.

HealthSouth LTAC of Jacksonville, Inc. (CON #9606) proposes the establishment of a new 40-bed long-term care hospital to be located in Volusia County, AHCA District 4. The applicant is a wholly owned subsidiary of HealthSouth Corporation.

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

The applicant agrees to condition award of the certificate of need on the following: a minimum of six percent of total annual patient days will be provided to combined Medicaid/charity patient days.

After weighing and balancing all relevant criteria, the following issues are presented:

Need:

- Need is not published by the agency for new long-term care hospital providers. It is the applicant's responsibility to demonstrate need.
- The applicant contends that current LTCH providers in District 4 are not accessible to residents of Volusia County. However, it was not demonstrated that residents of the service area with complex medical problems are experiencing difficulty in accessing LTCH services.

Quality of Care:

- The applicant does not have any operational LTCHs in Florida. The applicant intends to seek accreditation and implement appropriate protocols to maintain quality of care.

Cost/Financial Analysis:

- The applicant is a development stage enterprise with no assets. The applicant is a wholly owned subsidiary of HealthSouth Corporation. Based on the parent's 10K report, and their commitment to fund the project, funding for the proposed project should be available as needed.
- The financial review indicates that it is likely that estimated costs for the project are understated in view of the fact that projected cost per adjusted patient day is below the control group lowest values. In addition, projected net revenues do not appear to be proportional to costs. The computed operating margin ratio appears high and it is likely that operating income is overstated. Expenses and profits are likely to be materially misstated. The financial analyst found the financial projections to be problematic overall and concluded that the project is not financially feasible.
- With the large majority of patient care being provided from fixed price government payer sources, the project is not likely to have any discernable positive impact on competition to promote quality assurance or cost-effectiveness.

Architectural Analysis:

- The proposed plan appears well organized with the patients' needs and convenience acknowledged. However, there are a few minor instances where further study will be required such as several doors that open into a corridor.
- Although an emergency department is not required, a designated area to provide emergency services must be incorporated in the facility. There are no surgical or anesthesia departments shown with their required ancillary spaces. These functional spaces must be located on site per Chapter 59A-3, Florida Administrative Code.

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- A potentially significant issue is that no reference is made to the Disaster Preparedness Section of The Florida Building Code and Chapter 59A-3, Florida Administrative Code. The applicant needs to be aware of these provisions prior to selecting a site for the proposed hospital.

G. RECOMMENDATION

Approve CON #9605 to add 20 LTCH beds to the existing 60-bed Kindred Hospital North Florida. The project involves a total cost of \$2,815,001 and \$1,696,751 in construction costs and 7,850 gross square feet of new construction.

Deny CON #9604 and CON #9606.

AUTHORIZATION FOR AGENCY ACTION

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

DATE: _____

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

Jeffrey N. Gregg
Chief, Bureau of Health Facility Regulation