

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

**A. PROJECT IDENTIFICATION**

1. Applicant/CON Action Number

**Kindred Hospitals East, L.L.C. (CON #9621)**

680 South Fourth Street  
Louisville, Kentucky 40202

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

2. Service Planning Area/District

Proposed Service Planning Area V/Districts 10 & 11

**B. PUBLIC HEARING**

A public hearing was not held or requested with regard to the project. However, 20 letters in support of the applicant's proposal were included in Appendix 6 and a discussion of these follows.

Letters of support were submitted by representatives of the following hospitals: the applicant's facility (three), North Ridge Medical Center (three), Palm Beach Gardens Medical Center (two), St. Lucie Medical Center (two), and one each from Lawnwood Medical Center, Westside Regional Medical Center, Delray Medical Center, Holy Cross Hospital, University Hospital & Medical Center, Northwest Medical Center, Palms West Hospital, and JFK Medical Center. The applicant also provided one letter from a South Florida case management organization, and one from a local cardiac surgeon. 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. However, while the facility is stated to have a waiting list at times, it is noted that the 124-bed Kindred Hospital South Florida – Hollywood, traditionally operates at less than 73 percent occupancy

(averaging 69.17 percent in last five years ending CY 2001, with the high being 72.88 percent in CY 2000). It is also noted that there is no specific peak quarter utilization period for either facility during the previous five years<sup>1</sup>.

**C. PROJECT SUMMARY**

**Kindred Hospitals East, L.L.C. (CON #9621)** proposes to add six long-term care hospital beds to Kindred Hospital South Florida – Ft. Lauderdale, an existing 64-bed LTCH located at 1516 East Las Olas Boulevard in Ft. Lauderdale, Broward County, Florida. The project involves the conversion of six private rooms that were originally semi-private rooms back to semi-private rooms. The applicant's facility averaged 90.35 percent occupancy during the 12 months ending June 30, 2002.

The project involves a total cost of \$39,003 of which \$4,000 represents renovation costs. The project involves 1,270 gross square feet of renovation.

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

**D. REVIEW PROCEDURE**

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

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

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<sup>1</sup> Kindred Hospital South Florida – Hollywood utilization data from “Florida Hospital Bed & Service Utilization by District” July batching cycles of 1998 – 2002, which includes calendar years 1997 – 2001.

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, James B. McLemore, 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 application(s).

**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 defined as a hospital licensed under Chapter 395, Florida Statutes, which meets the requirements of Part 412, subpart B, paragraph 412.23(e), Code of Federal Regulations; and, where applicable, also meets the requirements for a hospital within hospital specified under paragraph 412.22(e) of that subpart. A long-term care hospital has an average length of inpatient stay greater than 25 days for all hospital beds. Long-term care hospitals are designed to provide extended care to patients who are clinically complex and have multiple acute or chronic conditions. Long-term care hospitals typically provide programs in one or more of the following areas: respiratory care, particularly for ventilator-dependent patients; treatment of patients with multiple illnesses or multiple systems failure; treatment of wounds 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.

**Kindred Hospitals East, L.L.C. (CON #9621)** proposes the addition of six LTCH beds to the applicant's existing licensed 64-bed LTCH located in Broward County, Florida. According to CY 2001 utilization data, Kindred Hospital South Florida-Ft. Lauderdale experienced an average utilization of 88.14 percent. This increased to 90.35 percent for the 12 months ending June 30, 2002. 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 37.3 days for the ten months ending June 30, 2002 and 36.7 for the 12 months ending August 31, 2002. The hospital's report ALOS is slightly less than the 39.7 days documented in AHCA financial data for FY 1999.

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, and may need to start turning away patients. The applicant states that during 2002, the hospital reached a census of 60 patients or more on 122 days, or 33 percent of the time. However, as noted above, rather than add six private rooms, which would address the "gender incompatibilities", the applicant is proposing to convert private rooms to semi-private, which is less likely to address this problem.

The applicant discusses its contracts with health plans indicating that this is another reason it must assure the availability of beds. The applicant states that Kindred-South Florida currently has provider agreements with 33 health plans and has recently signed a revised agreement with Humana. Appendix 5 contained a list of the 33 managed care contract partners.

As previously stated, the applicant indicates that the facility averaged 90.0 percent utilization during the 12 months ending July 2002. AHCA utilization data indicates the facility averaged 90.35 percent occupancy during the 12 months ending June 30, 2002<sup>2</sup> and 88.14 percent occupancy for the 12 months ending December 2001 in its 64-bed LTCH. The applicant meets this criterion. The historical utilization of the applicant's facility is shown below.

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<sup>2</sup> Based on the preliminary AHCA Florida Hospital Bed & Service Utilization data for the January 2003 batching cycle.

**Kindred Hospital South Florida-Ft. Lauderdale  
Utilization by Calendar Year**

<b>Year</b>	<b>Percent Occupancy (64 beds)</b>
2001	88.14%
2000	87.61%
1999	86.03%
1998	83.69%
1997	90.63%

**Source:** *Florida Hospital Bed and Service Utilization by District for July batching cycles 1998 - 2002.-*

**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 10 CON Allocation Factors Report lists the following generic preference relevant to all CON hospital applicants:

- (a) Priority should be given to those applicants that have a history of and clear expression of intent to provide services to the indigent.**

The applicant indicates that Medicaid and charity care will comprise 3.3 percent of total patient days in year one and 4.0 percent in year two of the project. However, the facility provided zero Medicaid patient days in FY 1999 and 3.2 percent of its net revenues to charity care. Both of these are below the state average. The applicant does not propose to condition the CON to provision of care to indigent patients.

**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, LTC hospitals in Florida provided an average of 3.4 percent Medicaid patient days of total patient days.

**Kindred Hospitals East, L.L.C. (CON #9621)** anticipates providing 2.1 percent of total projected patient days to Medicaid patients for the first year of operation and 2.7 percent during year two following the proposed addition of beds. Schedule 7A of the application indicates that these patient days will consist of traditional Medicaid, with zero Medicaid HMO 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.

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 for all long-term care hospitals is 8.7 percent.

**Kindred Hospitals East, L.L.C. (CON #9621)** anticipates charity care revenues representing 3.67 percent of net patient service revenue during its first year of operation and 3.96 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.

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

The applicant 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 2.1 percent of total projected patient days to traditional Medicaid patients in year one and 2.7 percent in year two. According to the *Certificate of Need Predicated on Conditions* page, the applicant does not wish to accept any conditions.

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

**Kindred Hospitals East, L.L.C. (CON #9621)** states that it 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 3.67 percent of net patient service revenue during its first year of operation and 3.96 percent of net patient service revenue for the second year of operation following the bed addition. This amount is less than the statewide average.

**5. An applicant who proposes to convert existing hospital beds.**

**Kindred Hospitals East, L.L.C. (CON #9621)** is not proposing to convert existing hospital beds.

**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.**
- 1. Care for patients with multi-system failure.**
- 2. Services for difficult-to-wean ventilator-dependent patients.**
- 3. Services for patients who cannot be weaned from ventilator dependence.**
- 4. Respiratory/pulmonary care.**
- 5. Airway restoration.**
- 6. Intensive wound care.**

7. **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.**

**Kindred Hospitals East, L.L.C. (CON #9621)** did not specifically respond to the above listed services provision. However, it is noted that Kindred currently provides the services listed above.

- 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.**

**Kindred Hospitals East, L.L.C. (CON #9621)** did not specifically respond to this provision. However, elsewhere in the application, the applicant states that Kindred Hospital South Florida-Ft. Lauderdale has and will continue to adhere to Florida's health care standards to ensure the provision of 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.**

**Kindred Hospitals East, L.L.C. (CON #9621)** currently has a 64-bed LTCH. This provision is met.

- 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.**

**Kindred Hospitals East, L.L.C. (CON #9621)** did not respond to this provision of the proposed rule. However, the applicant indicates that approximately 40 percent of its patients are ventilator dependent and provides an analysis of

admissions by diagnosis and age group for the 12-month period ending July 2002 in Attachment 3 of the application.

**2. Specialty programs to be provided.**

**Kindred Hospitals East, L.L.C. (CON #9621)** 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, cardiac services, physical, speech and social services, among others.

**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.**

**Kindred Hospitals East, L.L.C. (CON #9621)** 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.

**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.**

**Kindred Hospitals East, L.L.C. (CON #9621)** 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 letters of support from officials of 11 acute care facilities that refer patients to Kindred Hospital South Florida-Ft. Lauderdale, are provided in Appendix 6 of the application.

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

**Kindred Hospitals East, L.L.C. (CON #9621)** 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-

South Florida-Ft Lauderdale for the year ended August 31, 2001 was 36.7 days and 37.3 days for the 10 months ended June 30, 2002. AHCA financial data for FY 1999 indicates the overall facility's average length of stay was 39.7 days. Attachment 3 also contains a table, which shows the ALOS per age group for the 12 months ending July 2002.

**6. Expected discharge destination by age group.**

**Kindred Hospitals East, L.L.C. (CON #9621)** did not specifically respond to this provision of the proposed rule. However, Appendix 3 included a discharge destination table for the 12-month period ending July 2002, which indicates that the majority of the facility's patients age 18-49 (83 of 107) are discharged to home and that most patients by age category until reaching the age 60-64 are discharged to home. The age 60-64 group is the first where more patients, with only 13 of 46 total are discharged to home (normal) while 30 are transferred to other care settings and three were undefined.

**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.**

**Kindred Hospital South Florida-Ft. Lauderdale  
Projected Patient Days and Percentage By Payer Type, Year Two**

<b>Self Pay</b>	<b>Medicaid</b>	<b>Medicare</b>	<b>Insurance</b>	<b>Managed Care</b>	<b>Total</b>
310 days 1.3%	642 days 2.7%	16,723 days 70.3%	3,935 days 16.5%	2,172 days 9.1%	23,782 days 100.0%*

Source: CON #9621, Schedule 7A.

Note: Actual percentage is 99.9 probably due to rounding.

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

The applicant does not directly respond to this criterion. However, Kindred Hospitals East indicates that it charity care revenues will represent 3.67 percent of year one's net revenues and 3.96 of year two net revenues. However, based on the facility's FY 1999 charity care provision of 3.2 percent of net revenues compared to state average of 8.7 percent and the applicant's financial schedules in the application, the applicant does not 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):**

- 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.**

The applicant's Attachment 3 includes a detailed table, which responds to this criterion.

- 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 #9621)** did not specifically respond to this provision of the proposed rule.

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

**Kindred Hospitals East, L.L.C. (CON #9621)** did not specifically respond to this provision of the proposed rule.

- 4. Current staffing.**

**Kindred Hospitals East, L.L.C. (CON #9621)** did not specifically respond to this provision of the proposed rule. However, Schedule 6A shows current staffing at 230.0 FTEs and indicates that the project will add 20.3 more FTEs by the year ended December 31, 2003. Among the proposed staff are 4.71 registered nurse (RN) FTEs. This is almost one RN per bed.

- 5. Current specialized treatment programs.**

**Kindred Hospitals East, L.L.C. (CON #9621)** did not specifically respond to this provision of the proposed rule. As previously addressed, Kindred – Ft. Lauderdale provides respiratory services, IV services, surgical services, orthopedic services, neurological services, skin services, renal services, physical, speech and social services, among others.

- 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 #9621)** did not specifically respond to this provision of the proposed rule. However, the facility presently reports utilization data to the local health council.

**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.**

**Kindred Hospitals East, L.L.C. (CON #9621)** states that increased utilization at Kindred Hospital South Florida-Ft. Lauderdale is the primary basis for the requested six additional LTCH beds. The applicant indicates that utilization of the existing 64 beds has increased from 85 percent in the year ended July 2001 to 90 percent in the year ended July 2002. AHCA utilization data for the period 12-month period ending June 30, 2002 shows the facility at 90.32 percent utilization compared to 86.11 percent for the 12-month period ending June 30, 2001. The LTCH utilization over the past few years is shown in the following table:

**LTHC Utilization by Calendar Year  
Kindred-Hospital South Florida -Ft. Lauderdale and Service Planning Area V**

<b>Calendar Year</b>	<b>Kindred Hospital- Ft. Lauderdale</b>	<b>Service Planning Area V</b>
2001	88.14%	78.84%
2000	87.61%	81.01%
1999	86.03%	76.70%
1998	83.69%	79.97%
1997	90.63%	77.38%

**Source:** *Florida Hospital Bed and Service Utilization by District for appropriate years.*  
**Note:** Service area V consists of three long-term acute care facilities owned by the applicant, Kindred Hospital South Florida-Ft. Lauderdale (64 beds), Kindred Hospital South Florida-Hollywood (124 beds) and Kindred Hospital South Florida-Coral Springs (53 beds).

The applicant contends that adding six beds to the existing hospital will increase the availability of LTCH services and provide greater access to residents in District 10. However, Kindred Hospital South Florida – Hollywood, the applicant’s other Broward facility licensed for 124 beds traditionally has utilization below 73 percent.

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 applicant could maximize its overall efficiency by transferring beds from the Hollywood facility, which is not as well utilized, to the Ft. Lauderdale facility without increasing the total beds in the service area. Kindred Hospital South Florida-Hollywood averaged 70.10 percent utilization during CY 2001. AHCA utilization data for the period 12 month period ending June 30, 2002 shows the Hollywood facility at 71.19 percent utilization compared to 70.15 percent for the 12-month period ending June 30, 2001. This means that 35 to 36 beds are usually available at this Broward County facility. Review of long-term care hospital utilization does show a peak season such as the winter months, which often show high utilization at short-term acute care facilities.

The applicant has demonstrated hospital-specific need to add beds under the proposed rule.

- 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.**

**Kindred Hospitals East, L.L.C. (CON #9621)** states that Kindred Hospital South Florida – Ft. Lauderdale 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 this is an indication of the quality of care provided and 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 in the application’s Appendix 7. 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 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. A copy of the applicant's Utilization Review Plan was contained in Appendix 8.

According to AHCA data, Kindred Hospital South Florida – Ft. Lauderdale had no confirmed complaints during the last three years.

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

The applicant does not demonstrate that it is proposing special health care services. LTCH services are currently available to service area residents. The applicant does not 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.**

The proposed project is not to be located in a statutorily defined teaching hospital nor will the primary purpose of the project 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.**

**Kindred Hospitals East, L.L.C. (CON #9621):** The audited financial statement for the nine-month period ending December 31, 2001 was 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
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.

**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 20.3 additional FTE staff to increase the total FTE staff to 250.6 at the end of the project's year one ending December 31, 2003. While the applicant does provide a Schedule 6A for year two of the project, Schedule 5 indicates that total year two patient days are projected to increase by only 758 days from 23,024 in year one to 23,782 in year two. 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 statement 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.

**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.

The Centers for Medicare and Medicaid Services (CMS) published a prospective payment system (PPS) rule for long-term care hospitals 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.

**Kindred Hospitals East, L.L.C. (CON #9621):** Projected net revenue per adjusted patient day (NRAPD) of \$1,292 in year one and \$1,387 in year two is between the control group median and highest values of \$925 and \$1,650 in year one and \$952 and \$1,699 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 \$1,312.

Projected cost per adjusted patient day of \$1,105 in year one and \$1,099 in year two is between the control group median and highest values of \$803 and \$1,660 in year one and \$827 and \$1,710 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 \$1,147 per adjusted patient day.

The year two operating profit for the hospital of \$6.9 million computes to an operating margin per adjusted patient day of \$288 which falls above the group highest value of \$219. The computed operating margin ratio is 20.8 percent. The actual margin reported in 2001 was 12.6 percent. This project is considered financially feasible.

**Comparative Table**

CON # 9621 Kindred Hospitals East, L.L.C. 2000 DATA Peer Group 12	2004	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY	FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	20,011,745	841	812	646	490
INPATIENT AMBULATORY	0	0	5	0	0
INPATIENT ANCILLARY SERVICES	80,152,857	3,370	3,590	2,590	1,545
OUTPATIENT SERVICES	0	0	161	3	0
OTHER OPERATING REVENUE	0	0	13	2	0
TOTAL REVENUE	100,164,602	4,212	4,260	3,222	2,250
DEDUCTIONS FROM REVENUE	67,175,916	2,825	*	*	*
NET REVENUES	32,988,686	1,387	1,699	952	740
EXPENSES					
ROUTINE	6,679,309	281	399	225	186
ANCILLARY	8,711,384	366	474	215	205
AMBULATORY	0				
OVERHEAD	8,509,486	358	858	390	321
OTHER	2,228,632	94			
TOTAL EXPENSES	26,128,811	1,099	1,710	827	766
OPERATING INCOME	6,859,875	288	219	4	-55
		20.8%			
PATIENT DAYS	23,782		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	23,782		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	25,550				
ADJ. FACTOR	1.0000				
TOTAL NUMBER OF BEDS	70				
PERCENT OCCUPANCY	93.1%		98.2%	85.0%	52.4%
PAYER TYPE	PATIENT	% TOTAL			
MEDICARE	DAYS				
COMMERCIAL	16,723	70.3%	95.7%	74.1%	56.9%
MEDICAID	3,935	16.5%			
PRIVATE	642	2.7%	16.9%	0.4%	0.0%
HMO/PPO	310	1.3%			
OTHER	2,172	9.1%	19.6%	14.2%	0.0%
TOTAL	0	0.0%			
	23,782	100.0%			

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

**Kindred Hospitals East, L.L.C. (CON #9621)** projects managed care to represent 9.1 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 16.3 percent. The projected levels, if realized, are not likely to increase competition to promote quality assurance and cost-effectiveness.

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

**Kindred Hospitals East, L.L.C. (CON #9621)** proposes to add six beds by converting six private patient rooms that had originally been built as semi-private back to semi-private rooms. The project involves 1,370 GSF of renovation at a projected cost of \$4,000.

There is essentially no construction required to accomplish this conversion. Each room will have an added cubicle curtain, a nurse call cord and a bed light. The spaces will have some cosmetic refurbishment, the signage will be modified and the nurse call system will be re-programmed.

Since the facility is an existing long-term care hospital, the required support spaces are existing and are sized to accommodate the six added beds. There are basically no code issues involved in the project.

The application included 1/8" scaled plans of the first three floors and a 1/4" scaled electrical plan of a portion of the 2<sup>nd</sup> and 3<sup>rd</sup> floors. It cannot be determined from these plans exactly which rooms will be converted to semi-private rooms. In any case, it appears that from the range of rooms that might be the ones in question each have adequate toilet/shower facilities and are in close proximity to either a nurse station or a sub nurse station and their ancillary spaces. There are wheelchair-accessible showers available to those rooms without a shower and lavatories are located within the patient rooms instead of in the toilet/shower rooms.

Costs and the schedule for construction are commensurate for a project with this limited scope.

- 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, LTHC hospitals 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.*

**Kindred Hospitals East, L.L.C. (CON #9621)** anticipates providing 2.1 percent of total projected patient days at Kindred Hospital South Florida – Ft. Lauderdale to Medicaid patients for the first years of operation and

2.7 percent during year two following the proposed addition of beds. Schedule 7A of the application indicates these projections are for traditional Medicaid only as zero patient days are projected for Medicaid HMO patients. The applicant anticipates charity care revenues representing 3.67 percent of net patient service revenue during its first year of operation and 3.96 percent of net patient service revenue for the second year of operation following the bed addition. These amounts are 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**

<b>Applicant Hospital</b>	<b>FY 99 Conventional Medicaid % of Pt. Days</b>	<b>FY 99 Ratio of Charity Care Deductions to Net Patient Service Revenue</b>
Kindred Hospital	0.0%	3.2%
Total Florida LTCHs	3.4%	8.7%

Source: 1999 Hospital Financial Data Report/AHCA

**F. SUMMARY**

**Kindred Hospitals East, L.L.C. (CON #9621)** proposes to add six long-term care hospital beds to Kindred Hospital South Florida – Ft. Lauderdale, an existing 64-bed LTCH located at 1516 East Las Olas Boulevard in Ft. Lauderdale, Broward County, Florida. The project involves the conversion of six private rooms that were originally semi-private rooms back to semi-private rooms.

The project involves a total cost of \$39,003 of which \$4,000 represents renovation costs. The project involves 1,270 gross square feet of renovation.

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 this project based on high utilization at its existing facility. Occupancy averaged 90 percent for the 12-month period ending July 31, 2002. Need for the project was demonstrated.

**Quality of Care:**

- Kindred Hospital South Florida – Ft. Lauderdale has a 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.

**Architectural Analysis:**

- The project involves essentially no construction. The projected costs and schedule are commensurate for a project with this limited scope.

**G. RECOMMENDATION**

Approve CON #9621 to add six long-term care hospital (LTCH) beds to the existing 64 LTCH beds at Kindred Hospital South Florida – Ft. Lauderdale. Total project costs are \$39,003. The project involves \$4,000 in renovation costs and 1,270 gross square feet of renovation.

**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**