

STATE AGENCY ACTION REPORT
ON APPLICATION FOR CERTIFICATE OF NEED

A. PROJECT IDENTIFICATION

1. Applicant/CON Action Number

Select Specialty Hospital-Marion, Inc./CON #9647

2021 Church Street, Suite 202
Nashville, Tennessee 37203-2016

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

Kindred Hospitals East, L.L.C./CON #9648

680 South Fourth Street
Louisville, Kentucky 40202

Authorized Representative: Bud Wurdock
(502) 596-7718

2. Service District

District 3

B. PUBLIC HEARING

A public hearing was not held or requested with regard to the establishment of a long-term care hospital (LTCH) in District 3. However, letters in support of each applicant's proposal were received as follows:

Select Specialty Hospital-Marion, Inc. (CON #9647) submitted one letter of support from West Marion Community Hospital (Cheryl Deamer-Boykin, Administrator) stating that many of the hospital's acute care patients are candidates for LTCH services and that the hospital anticipates implementing a transfer agreement with the facility.

CON Action Numbers: 9647 & 9648

Kindred Hospitals East, L.L.C. (CON #9648) submitted 13 letters of support for the project. Letters of support were submitted by the following: Munroe Regional Medical Center (three), Ocala Regional, TimberRidge Nursing & Rehabilitation Center, Leesburg Regional Medical Center, The Villages Regional Hospital, Ocala Vascular Specialists, Citrus Memorial Hospital, State Representative Dennis K. Baxley (District 24), Senator Nancy Argenziano (District 3), Parnell Townley (Marion County Board of Commissioners), and Gerald K. Ergle, Mayor (City of Ocala).

The letters of support basically state that the location of a LTCH in District 3 will enhance services and accessibility for residents. Several of the letters addressed the inability to place acute care patients that qualify for LTCH services. One of those letters was from Carolyn Porter, the Director of Case Management at Munroe Regional Medical Center (MRMC), the hospital within which the applicant proposes to locate. Ms. Porter states that in MRMC's fiscal year 2002, there may have been as many as 702 patients needing, but not receiving LTCH services. Another letter from Caroline Smith, the administrator at TimberRidge Nursing and Rehabilitation Center, a local skilled nursing facility, states that she is aware of community residents needing LTCH services who are too ill to be placed in the nursing home. Ms. Smith indicates that these patients are either transferred out of the area to a LTCH or remain in a local hospital. None of the letters of support quantified the actual number of patients needing LTCH services but not receiving them.

C. **PROJECT SUMMARY**

Select Specialty Hospital-Marion, Inc. (CON #9647), a wholly owned subsidiary of Select Medical Corporation, proposes the creation of a 60-bed freestanding LTCH to be located in Ocala, Marion County. The applicant has identified three sites within Ocala that are appropriate for development of the proposed LTCH but only specifies that they are near the medical community of hospitals and physician offices.

The proposed hospital will consist of 44,434 gross square feet of new construction and construction costs of \$7,892,500. Total project cost is estimated to be \$12,244,724. The funding for the proposed project will be provided by Select Medical Corporation.

The applicant agrees to condition award of the certificate of need on the provision of 2.8 percent Medicaid and indigent patient days combined.

CON Action Numbers: 9647 & 9648

Kindred Hospitals East, L.L.C. (CON #9648), a wholly owned subsidiary of Kindred Healthcare, Inc., proposes to establish a 31-bed LTCH within Munroe Regional Medical Center in Ocala, Marion County.

The proposed LTCH will be located on the fifth floor of Munroe Regional Medical Center at the main campus and will contain 11,606 square feet, which encompasses 15 semi-private rooms and one isolation room. The project involves a total cost of \$1,404,425, including renovation construction costs of \$440,957.

The applicant agrees to condition award of the certificate of need on the provision of 2.0 percent Medicaid and indigent patient days combined.

D. REVIEW PROCEDURE

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

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

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

As part of the fact-finding, the consultant, M. Riley Gibson, analyzed the application in its 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.

E. CONFORMITY OF PROJECT WITH REVIEW CRITERIA

The following indicate the level of conformity of the proposed project with the criteria and application content requirements found in Florida Statutes, Sections 408.035, and 408.037; applicable rules of the State of Florida, Chapter 59C-1 and 59C-2, Florida Administrative Code; Local Health Plans.

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

1. Fixed Need Pool

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

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

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

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) have established a prospective payment system for short-stay acute care providers to include limited "outlier" payments for long-stay acute care patients in short-stay acute care hospitals. Effective October 1, 2002, CMS implemented a new prospective payment system for long-term care hospital providers. Through this system, termed LTC DRGs, CMS is recognizing the patient population of LTCHs as separate and distinct from the populations treated by short term acute care and post acute care providers that each have their own prospective payment system in recognition of the material differences in patient populations, cost of care, and health care delivery. Under this system, each patient admitted to a LTCH is assigned a DRG with a corresponding payment rate that is weighted based upon the patient's diagnosis and acuity. The LTCH will be reimbursed the pre-determined payment rate for that DRG, regardless of the cost of care.

Federal Regulations, 42 CFR Parts 412, 413 and 476 regarding prospective payment for long-term care hospitals published in Volume 67, Number 169 of the Federal Register describe the universe of LTCHs on page 55960 as:

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

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

CON Action Numbers: 9647 & 9648

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

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

At present there are nine long-term care hospitals with 683 beds licensed to operate in the State of Florida. These facilities are concentrated in five of the 11 AHCA health planning areas and are in the following counties: Dade (Miami), Hillsborough (Tampa), Broward (Ft. Lauderdale and Hollywood), Duval, Clay and Pinellas (St. Petersburg). There are an additional 182 beds approved but not yet operational: 20 beds at Kindred Hospital in District 4, 22 beds at Kindred in District 5, six beds at Kindred in Ft. Lauderdale in District 10 and the following approved new LTAC Hospitals: SemperCare (30 beds) in Panama City in District 2, SemperCare (35 beds) in Orlando in District 7, HealthSouth (40 beds) in Sarasota in District 8, and Mercy (29 beds) in District 11. The

CON Action Numbers: 9647 & 9648

average occupancy of the operational programs was 76.6 percent for the period July 2001-June 2002, ranging from a low occupancy rate of 54.6 percent for Specialty LTCH-Jacksonville to a high of 99.2 percent for Kindred LTCH-St. Petersburg.

The following table shows the beds, patient days and occupancy of Florida's operational LTCH's for the July 2001-June 2002 reporting period.

**Florida Long Term Care Hospitals
Utilization Experience July 2001-June 2002**

Hospital	District	Beds	Bed Days	Patient Days	Occupancy
Kindred-North Florida	4	60	22,080	19,524	88.4%
Specialty-Jacksonville	4	107	39,376	21,482	54.6%
Kindred-St. Petersburg	5	60	22,080	21,909	99.2%
Kindred-Central Tampa	6	102	37,536	28,794	76.7%
Kindred-Tampa	6	73	26,864	18,499	68.9%
Kindred-Hollywood	10	124	45,632	32,485	71.2%
Kindred-Ft. Lauderdale	10	64	23,552	21,279	90.3%
Kindred-Coral Gables	11	53	19,504	17,166	88.0%
*Select Specialty-Miami	11	40	Not Reported	Not Reported	Not Reported
Florida Total		683	236,624*	181,138*	76.6%*

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

*Select Specialty-Miami was licensed 12/23/02 and has no reported utilization. Utilization data shown above is based on 643 beds in operation for 12-month reporting period.

There are presently no existing or approved long-term care hospitals (LTCHs) located in District 3.

Both Select Specialty (CON #9647) and Kindred East (CON #9648) contend that their respective proposals will provide LTCH services to patients with complex and medically unstable conditions that cannot be adequately addressed by licensed acute care beds, comprehensive medical rehabilitation beds, hospital-based skilled nursing unit beds, and nursing home beds in the service planning area. Select Specialty (CON #9647) intends to provide I.V. therapy, enteral therapy, wound/skin care, post surgical stabilization, respiratory care, ventilator weaning, nutritional support, dialysis and oncology support. In addition, rehabilitation services will be offered to augment the primary treatment program of the patient. Kindred East (CON #9648) intends to provide highly intensive services to medically complex and catastrophically ill patients. These include neurological disorders, brain and spinal cord trauma, chemical brain injuries, head injuries, cerebral vascular accidents, and other central nervous system disorders, developmental anomalies and cardiopulmonary disorders.

CON Action Numbers: 9647 & 9648

The current bed complement, patient days and average occupancy of these distinct other forms of care in District 3 are as follows:

Acute Care and Post Acute Care Providers District 3 Beds and Utilization

Facility Type	Total Beds District 3	District 3 Average Occupancy
Long Term Care	-0-	N/A
Acute Care	3,239	69.87%
Comprehensive Med. Rehab	55	72.86%
Hospital Based Skilled Nursing	*84	44.23%
Skilled Care Community Nursing Homes	7,528	85.89%

Source: Hospital Bed Need Projections 01/03 Projections/HBSNU beds January 2002-December 2002 and Nursing Home Utilization By District July 2001-June 2002 *44 HBSNU beds approved for deletion.

Population Estimates for District 3 Counties and Percent Change by County For Total Population, 65 and over, and 75 and Over Population

County	Total Jan. 2003	Total Jan. 2008	Percent Change	65+ Percent Change	75+ Percent Change
Alachua	228,512	241,150	5.53%	7.32%	5.02%
Bradford	26,558	28,408	6.97%	14.10%	15.84%
Citrus	124,397	135,450	8.89%	11.08%	12.00%
Columbia	58,460	64,458	10.26%	13.44%	15.85%
Dixie	14,635	16,372	11.87%	23.34%	29.28%
Gilchrist	15,376	17,637	14.70%	17.98%	18.09%
Hamilton	14,065	14,326	1.86%	3.67%	4.07%
Hernando	136,923	150,551	9.95%	8.48%	6.35%
Lafayette	7,273	7,920	8.90%	9.52%	10.80%
Lake	232,515	259,017	6.53%	16.00%	19.60%
Levy	36,360	40,130	11.40%	24.52%	26.88%
Marion	274,052	303,324	10.68%	14.43%	18.74%
Putnam	71,579	73,888	3.23%	6.46%	10.57%
Sumter	61,317	70,419	14.84%	22.79%	44.50%
Suwannee	36,988	40,387	9.19%	17.02%	20.82%
Union	13,922	15,071	8.25%	19.28%	30.68%
Total District	1,352,932	1,478,508	9.28%	13.43%	16.23%

Source: AHCA Pop. Projections, published October 2002.

As shown above, the overall population in District 3 is expected to increase by 9.28 percent during the next five years, with the 65 and over and 75 and over age cohort increasing by 13.43 percent and 16.23 percent, respectively. For Marion County, the increase is anticipated to be 10.68 percent overall, with the 65 and over population increasing 14.43 percent while the 75 and over population is expected to increase by 18.74 percent during the next five years. The percentage increase over the next five years in all three population groupings in Marion County is expected to exceed the overall District 3 increases. Marion County is the most

CON Action Numbers: 9647 & 9648

populous county in the district with a total population of 274,052. The mean age for the 4,210 patients discharged from eight Florida LTCH's in the 12-month period ending June 2002 was 72.3 percent. Approximately 77 percent of these were age 65 or older while only 6.1 percent were age 44 or less.

Select Specialty Hospital-Marion, Inc. (CON #9647) projects that its primary service area will be the central portion of the district, centering around Marion County and the city of Ocala. The applicant acknowledges that some residents in the northern portion of the district live closer to facilities in District 4 (Jacksonville and Green Cove Springs) and others in the southern portion of the district are closer to the LTCH services in District 6 (Tampa). Therefore, the applicant intends to target residents residing closer to the proposed LTCH in Ocala than other licensed or approved LTCHs in the state. The applicant uses Claritas population estimates for what can only be assumed, based on limited information presented, is a proposed service area encompassing a 40 mile radius from Ocala. Although the applicant alludes to a wider service area, it does state that the majority of its patients will originate from Ocala Regional Medical Center (or its satellite facility West Marion Community Hospital) and Munroe Regional Medical Center. Both Ocala Regional and Munroe Regional are located approximately 3.4 miles from the primary selected site of the proposed LTCH. The applicant also expects to receive transfers from the newest acute care hospital in Marion County, Ocala Regional West located in the western part of Ocala as well as numerous other hospitals in the district including Alachua General, Shands and North Florida Regional. The applicant presented one letter of support for the project from Western Marion Community Hospital expressing interest in implementing a transfer agreement with the facility and that need exists for a LTCH in District 3. There was no indication given that the applicant has had discussions with or received any tentative agreements with other area hospitals regarding potential transfers to the proposed LTCH.

With regard to short-term acute care, the applicant states that the overall case mix index for short-stay acute care patients nationwide (1.00) and in Florida (1.24) is less by comparison with patients treated in the eight existing LTCH's in Florida (2.36). This indicates a higher medical complexity of cases. *(Note: The case mix index is a measure developed in conjunction with Medicare's prospective payment system (PPS) as a means of adjusting payments to hospitals based upon case complexity)* With regard to

CON Action Numbers: 9647 & 9648

comprehensive medical rehabilitation (CMR) services, the applicant states that some rehabilitation will be offered at the LTCH but is not the primary focus. The applicant intends to use rehabilitation to augment the primary treatment program of the patient and that these services will be less intense than that provided by CMR programs in the area. With regard to hospital based or nursing home skilled care, the applicant contends that these patients are generally less medically complex and are provided a more limited length of stay. Typically, the ALOS in skilled nursing units runs between 12 and 15 days whereas, Florida's eight LTCH's had an ALOS of 42.2 days during the 12-month period ending June 2002. However, this data does not show that medically complex post acute patients were inappropriately cared for in this setting. The currently licensed 84 hospital-based skilled nursing beds in District 3 were utilized at only 44.23 percent for calendar year 2002.

Although the applicant emphasizes that the level of care provided by a LTCH is acute care, this is not the case. Acute care services are only provided in an acute care setting, whereas, the care provided in a LTCH is considered "post acute care", predominantly provided to patients discharged from an acute care setting. A LTCH distinguishes itself within the overall health care continuum based upon the high acuity level of the patients it treat, the interdisciplinary treatment model, and the duration of the patients' hospitalization. Typically, patients are medically unstable, require extensive care and often require extensive technological support (ventilator care, dialysis, etc.).

For the reporting period July 2001 through June 2002, a total of 207 District 3 residents were discharged from Florida LTCH's, and only 18 from Marion County. The average length of stay for District 3 residents was 53.7 days and over 67 days for residents of Marion County. This is higher than the average length of stay statewide of just over 42 days. The applicant concludes that because the LTCH beds are all located outside of District 3, only the most seriously ill or injured patients currently utilize LTCH services and possibly wait until the severity of their circumstances dictates longer stays.

CON Action Numbers: 9647 & 9648

In the absence of an approved methodological approach to need, the applicant presents two methodologies for consideration in support of the proposed project. The first methodology utilizes statewide age-specific LTCH use rates applied to population projections for the first three years of operation of the proposed hospital. The second method involves an average length of stay (ALOS) methodology to identify acute care patients with lengths of stay in acute care hospitals that exceed the acceptable DRG stay.

With regard to the use rate method, the applicant calculated a statewide utilization rate using District 4, District 6 and District 10 patient days and populations only. The applicant states that both the District 11 and District 5 areas have only four LTCH beds per 10,000 elderly people and in combination, suggests that LTCH use in these two districts is limited by bed availability. Therefore, the applicant concludes that the low utilization rate but yet high occupancy levels in these districts, skews the patient day projections downward, producing misleadingly conservative estimates of future demand. Rather than illustrating need, this methodology, as explained by the applicant is not a valid method of calculating need because, in at least two areas of the state, the applicant itself describes these results as “misleading”.

The use rate approach is based on the assumption that District 3 LTCH proposal will perform, on average, the same as some, but not all, of the other LTCHs in the state. It does not take into account other variables that may impact utilization including changes in population growth of the various age groups, the availability of other care options and a change in referral patterns.

The applicant also presents a length of stay methodology to project patient days for a new LTCH using the ALOS for LTCH appropriate patients in acute care hospitals to calculate an estimated number of patient days that may be generated by area hospitals. The applicant used Florida's Hospital Discharge Data for the 12-month period ending June 2002 for hospitals within its proposed service area to identify patient days appropriate for LTCH services.

CON Action Numbers: 9647 & 9648

Since not all diagnoses are appropriate for the services offered at a LTCH (burn victims, obstetric and gynecological care, alcohol and drug abuse, rehabilitation and psychoses, etc.), the applicant has deleted these DRGs and others from inclusion in the analysis. The applicant also removed all patients with a length of stay that is less than the GMLOS plus 15 days. *(Note: The GMLOS represents an adjusted value for all cases for a given DRG, assigned by the CMS)* It is therefore assumed that if patients stayed in the acute care hospital more than a few days beyond the GMLOS, they are potential candidates for a LTCH.

The following table indicates the applicant's calculated number of discharges and LTCH patient days for the hospitals expected to transfer patients to the proposed LTCH.

**Long Term Hospital Patient Days
Marion County Service Area Hospitals: GMLOS plus 15 Definition
July 2001 - June 2002**

Hospital	Discharges	LTCH Days	ADC	Bed Need
Alachua General Hosp.	229	6,102	16.7	21
Citrus Memorial	93	2,017	5.5	7
Florida Hosp-Waterman	52	1,149	3.1	4
Leesburg Regional-North	6	138	0.4	0
Leesburg Regional Med.	99	2,082	5.7	7
Munroe Regional	215	4,911	13.5	17
Nature Coast Regional	3	61	0.2	0
North Florida Regional	220	5,436	14.9	19
Ocala Regional	157	3,720	10.2	13
Seven Rivers Community	15	323	0.9	1
Shands Hospital/UF	631	25,284	69.3	87
Total	1,720	51,221	140.3	175

Source: CON Application

Based on the above discharges, the applicant arrives at a total bed need for 175 LTCH beds, based on extended acute care lengths of stay. However, with Ocala Regional and Munroe Regional expected to be the primary acute care referral sources for the project, the applicant determines what it believes to be a more realistic local LTCH bed need of 30 beds is shown. The applicant also looks at all lengths of stay longer than 15 days to arrive at an even greater need, approximating 222 beds. However, this method does not recognize the nationally accepted GMLOS as assigned by CMS and appears to present a much more liberal approach to arriving at need. The applicant contends that the two estimates provide a reasonable upper and lower range of projected LTCH patient days.

CON Action Numbers: 9647 & 9648

The mid-point of these two estimates is used to establish age specific utilization rates in order to forecast estimates for future years. This approach accounts for all of the hospitals located in the subdistrict service area, which is not specifically defined by the applicant. The applicant arrived at a sub-area need for 233 beds by 2008. This need in 2008 is reduced to 47 beds looking only at the patient days originating from Ocala Regional and Munroe Regional, the two major referral sources for the project.

As with any LOS methodology, certain variations in patient characteristics can alter assumptions of need. These include the patient's functional ability, availability of caregivers at home, ethnicity, age, socio-demographics, and dependence on technology. The applicant did not provide any specific supporting data, including specific DRG data from any area hospitals in support of the project. There was no documentation presented from area hospital planners with regard to discharges of potential LTCH patients.

In summary, the applicant's two methodological approaches to need are not supported by any specific discharge studies or other data, including DRG admission criteria from area hospitals regarding potential need. In addition, the applicant failed to provide any supporting documentation provided from area physicians regarding potential referrals. The applicant's use rate approach is based on the experience of other LTCHs in other parts of the state and relies on assumptions that may or may not occur in the proposed service area. With regard to the LOS methodological approach, the applicant's projections are based on assumed capture rates with no supporting data or indication of potential referrals from area hospitals. West Marion Community Hospital is the only area hospital that expressed interest in developing a transfer agreement with the applicant. A noncommittal letter of support was provided by Citrus Memorial Hospital. However, there were no letters of support or other supporting data provided by either Ocala Regional or Munroe Regional, the primary referral sources for the project. It was further not demonstrated by the applicant that patients that may meet the definition of a LTCH patient are not currently being placed or that an access problem exists in the district.

Kindred Hospitals East, L.L.C. (CON #9648) states that in choosing markets for development of a LTCH, the most important factors are the size of the elderly population, projections for population growth, and the number of referral hospitals in an area.

CON Action Numbers: 9647 & 9648

The applicant states that these factors were used in determining that Marion County in District 3 would be the most suitable and accessible market for the development of a LTCH and that Munroe Regional Medical Center (Munroe Regional) in Ocala would provide the most optimal setting, given the hospital's size, location and importance to the district's health care delivery system.

The applicant identified the primary service area for the proposed LTCH to be Alachua, Citrus, Lake, Levy, Marion and Sumter Counties while the secondary service area will consist of the remaining counties in District 3. The applicant addressed the population growth in the primary service area, which accounts for 70.9 percent of the total district population. According to the applicant's projections, this area is expected to grow by 3.6 percent (34,325 persons) by July 2005 (the second year of operation of the proposed project). For the same time period, the applicant states that the 65 and over population is expected to increase by 5.3 percent in the primary service area and 3.8 percent in the secondary service area. As previously shown in the population table for the district for the projected time frame January 2003 through January 2008, the percent of change is actually more pronounced with the overall district showing an increase in the 65 and over age cohort of 13.43 percent. Marion County alone is projected to show an increase in the age group of 14.43 percent with an overall district increase for the total population of 9.28 percent.

The applicant addressed several methods of arriving at potential need for the Ocala project, including a use rate approach. Based on the operations of the LTCH's in the state for the period July 1, 2001 through June 30, 2002, the applicant arrived at a combined average of 20.36 LTCH patient days per 1,000 total population and 125.69 days per 1,000 population age 65 and older using the population for the districts in which LTCH's are located. These rates are then used to project the number of potential patient days at the proposed facility based on the projected 65 and over population. The applicant states that since the average age of the LTCH patient at its current hospitals is approximately 70 years old, the applicant applied the historical utilization figure to projected 65 and over population for the proposed primary service area as of July 1, 2005 (second year of operation) to arrive at 29,184 potential patient days or an average daily census(ADC) of 80, increasing to an ADC of 109 for the entire service area (primary and secondary). The application of this methodology for the total population of the applicant's proposed primary service area as well

CON Action Numbers: 9647 & 9648

as the total service area results in ADCs of 56 and 79 patients, respectively.

As discussed above in co-batched applicant, Select Specialty - Marion, Inc.'s discussion of a use rate methodology, the use rate approach is based on the assumption that the District 3 service area will perform, on average, the same as other LTCHs in the state. It does not take into account other variables that may impact utilization including a change in population growth, the availability of other care options and a change in referral patterns.

The applicant also addressed a population based methodology utilized by the State of Tennessee to determine need for the project. This methodology uses a factor of 0.5 beds per 10,000 total population. The applicant applied this methodology to arrive at a need for approximately 70 LTCH beds (1,400,812 divided by 10,000 x 0.5=70.04). Bed-to-population ratios are generally not considered good indicators of need as they do not consider utilization. Additionally, this method of determining need is based on review criteria and standards as well as other demographic factors from another state that may not be applicable to Florida.

In addition to the population based approaches discussed above, the applicant also estimated need based on an average length of stay (ALOS) approach that looks at acute care discharges and patient days. The applicant states that it analyzed data for all District 3 residents age 18 and older for the 12 months ending September 2002. That data reveals the DRGs for patients that most frequently have long lengths of stay. The applicant then removed those DRGs that are not considered appropriate for LTCH referrals (pediatric, psychological, leukemia, heart transplants, rehabilitation, obstetrics, etc.). The applicant provided a list of 50 DRGs that are considered LTCH appropriate, as based on the experience at other Kindred Hospitals. The applicant then analyzed the discharge data for hospitals located in District 3 to determine lengths of stay that exceed the DRG specific geometric mean length of stay by 7 days to arrive at 19,031 potential LTCH patient days in District 3, for an ADC of 52, not including potential days for patients currently leaving the district for LTCH services. This number approximated 200 for calendar year 2002. However, the applicant states that these patients live in the applicant's secondary service areas that are geographically closer to Clay, Duval, or Hillsborough Counties.

CON Action Numbers: 9647 & 9648

In summary, the various approaches used by the applicant are not supported by any specific discharge studies or other data, including specific DRG admission criteria from area hospitals regarding potential need. The applicant failed to provide any supporting documentation from area physicians regarding potential referrals. The only letter of any specificity was provided by the director of case management at Munroe Regional stating that in fiscal year 2002, the hospital cared for 702 patients, some of whom may have needed LTCH services. However, no other supporting documentation was provided by the hospital with regard to the ultimate placement of these patients or actual DRG data to support possible LTCH placement.

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 3 CON Allocation Factors Report does not specifically address the development of long-term care hospital beds or provide for generic health care related preferences.

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

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.**

CON Action Numbers: 9647 & 9648

According to the 2001 Hospital Financial Data Report, LTCHs in the state averaged 2.0 percent Medicaid patient days.

Select Specialty Hospital- Marion, Inc. (CON #9647) agrees to condition award of the certificate of need on the provision of 2.8 percent Medicaid and indigent patient days combined. According to Financial Schedule 7A, 2.0 percent of total patient days are allocated to self-pay (considered charity care by the applicant), while only 0.8 percent of total patient days are allocated to Medicaid. This projected provision of Medicaid patient days is less than the state average.

Kindred Hospitals East, L.L.C. (CON #9648) proposes to condition award of the certificate of need on the provision of 2.0 percent Medicaid and indigent patient days combined. According to Financial Schedule 7A, the applicant is projecting that Medicaid will represent 1.3 percent of total patient days in year two, less than the state average of 2.0 percent.

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.**

According to the 2001 Hospital Financial Data Report, LTCHs in the state averaged 1.7 percent charity care patient days.

Select Specialty Hospital-Marion, Inc. (CON #9647) agrees to condition award of the certificate of need on the provision of 2.8 percent Medicaid and indigent patient days combined. In Financial Schedule 7A, the applicant does not specifically allocate patient days for charity care but rather for self-pay days (2.0 percent), considered by the applicant to be charity. Assuming that the self pay days do represent charity care days totally, the applicant exceeds the state average.

CON Action Numbers: 9647 & 9648

Kindred Hospitals East, L.L.C. (CON #9648) proposes to condition award of the certificate of need on the provision of 2.0 percent Medicaid and indigent patient days combined and states in response to this preference that charity patients will account for 1.3 percent of total patient days by the end of year two. However, the applicant does not acknowledge the provision of any charity care patient days on Financial Schedule 7A to support this projection.

- b. Minimum Hospital Size. Freestanding long-term care hospitals established after the effective date of this rule shall have a minimum of 40 licensed beds. Long-Term care hospitals designated as hospitals within hospitals established after the effective date of this rule shall have a minimum of 25 licensed beds.**

Select Specialty Hospital-Marion, Inc. (CON #9647) is proposing a 60-bed freestanding LTCH. The minimum licensed bed size criteria is met.

Kindred Hospitals East, L.L.C. (CON #9648) is proposing a 31-bed LTCH to be located within Munroe Regional Medical Center. The minimum licensed bed size criteria for a designated hospital within a hospital is met.

- c. 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 8 direct patient care nursing hours per patient per day.**

CON Action Numbers: 9647 & 9648

- (13) Physical therapy, occupational therapy, speech therapy, and respiratory therapy.**
- (14) Laboratory**
- (15) Pharmacy.**
- (16) Radiology.**
- (17) An operating room.**

Select Specialty Hospital-Marion, Inc. (CON #9647) states that the proposed project includes staffing, equipment, and facility provisions to meet all of the above requirements.

The applicant has made specific provision for a surgical suite, including an operating room incorporated into the physical plant of the proposed facility. In addition, the required pharmacy and space for radiographic equipment are provided.

Kindred Hospitals East, L.L.C. (CON #9648) states that it will mirror its current operations and provide all of the above listed required services either directly or through contract with Munroe Regional Medical Center. These contracted services include laboratory, radiology, surgical services, dietician services, physical therapy, occupational therapy and speech therapy. Although basic radiology as well as a pharmacy must be provided directly by the applicant, space for these services was not shown on the submitted plans.

The applicant provided a draft copy a lease agreement with Munroe Regional Medical Center outlining the terms and conditions regarding the establishment of the hospital-within-hospital program as proposed. A finalized document has not been submitted to the hospital's board of directors and admittedly, some modifications are expected.

- d. 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. (Note: Also reference Item 4-b regarding the provision of quality of care)**

Both applicants state their intention to comply with applicable licensure standards. As noted above, only Select Specialty provided evidence that it will meet all of the requirements of 59A-3, Florida Administrative Code.

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.**

Comparison Table Showing Projected Percentages of Major Diagnostic Categories For Both Select Specialty and Kindred

Major Diagnostic Category	Projected Percent Patient Day and/or Discharges	
	Select Specialty	Kindred-Ocala
Respiratory System	17.0%	32.0%
Skin	13.0%	11.0%
Circulatory System	14.0%	11.0%
Infectious & Parasitic	3.0%	4.0%
Musculoskeletal	8.0%	9.0%
Kidney & Urinary Tract	3.0%	3.0%
Nervous System	9.0%	6.0%
Digestive System	3.0%	4.0%
Other	30.0%	20.0%
Total	100.0%	100.0%

Source: Extracted from CON Applications

Select Specialty Hospital-Marion, Inc. (CON #9647)

intends to rely on the experience of its parent corporation in operating similar facilities. According to the table provided by the applicant, the typical Select Specialty Hospital provides LTCH services to a predominantly older population group (65 and over). This group represents approximately 80 percent of total discharges.

As previously discussed, the applicant intends to treat patients that can be generally categorized into the following four programs: cardiopulmonary, medically complex, Stage III and IV wounds, and neurological and musculoskeletal disorders. As shown in the above table, 44 percent of the projected discharges fall into the major diagnostic categories that include respiratory, skin and circulatory diseases and disorders.

CON Action Numbers: 9647 & 9648

Kindred Hospitals East, L.L.C. (CON #9648) expects that the majority of patients will be age 65 or older (78 percent) with an average age of seventy years. The applicant states that as a hospital within a hospital, it expects to have a patient mix that is less dominated by respiratory cases and which includes greater percentages of patients with other conditions. However, as shown in the table above, the applicant proposes to serve respiratory cases at a substantially higher percentage rate (32 percent) than that of Select Specialty (17 percent).

2. Specialty programs to be provided.

Select Specialty Hospital-Marion, Inc. (CON #9647) states its intention to provide specialty care for pulmonary/vent; neuro/trauma; medically complex and wound care patients.

Kindred Hospitals East, L.L.C. (CON #9648) states its intention to provide specialized programs for ventilator-dependent patients, treatment for patients with multi-system failure, wound care and rehabilitation therapies. The hospital also intends to offer dialysis services and will admit and treat patients without regard to antibiotic resistant infections. In addition, the applicant states its intention to provide other specialty programs such as telemetry, orthopedic services including amputee rehabilitation and joint replacement rehabilitation and neurological services including the treatment of brain and spinal injuries.

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.

Select Specialty Hospital-Marion, Inc. (CON #9647) provided a description of the qualifications, training and experience required for each of the various LTCH positions in the supporting materials section of the application.

CON Action Numbers: 9647 & 9648

According to Financial Schedule 6, the applicant intends to employ a total of 77.40 FTE staff in the first year of operation, increasing to 125.60 in year two. The applicant intends to staff the facility based upon the operating experience of the parent company. The majority of the positions involve nursing (61 positions) and ancillary/therapy (34 positions).

Kindred Hospitals East, L.L.C. (CON #9648) references Schedule 6 (staffing) and briefly states that a typical Kindred hospital has one medical director who is a pulmonologist or an intensivist expert in the management of the catastrophically ill patient. The applicant did not provide the job descriptions of proposed staff. According to Schedule 6, the applicant anticipates that the project will require a total of 59.5 FTE positions with the majority of FTEs being direct care givers consisting of a mix of RNs, LPNs and CNAs (35.2 positions). Non-clinical overhead is based upon staffing and salary levels at other Kindred hospital within hospital facilities. Clinical staffing figures were also based upon staffing levels at other Kindred hospital within hospitals.

- 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.**

Select Specialty Hospital-Marion, Inc. (CON #9647) provided only a copy of a hospital transfer agreement currently in force at Select Specialty Hospital-Miami as well as one letter of support for the project from West Marion Community Hospital. The letter indicates the hospital's willingness to implement a transfer agreement with the facility. The applicant did not provide any other letters of support or evidence of transfer agreements with other local hospitals, especially Munroe Regional and Ocala Medical Center. There was also no evidence provided as to potential referrals from area physicians or other health care providers.

Kindred Hospitals East, L.L.C. (CON #9648) states that the primary source of patient referrals will come from area acute care providers. In addition, the applicant anticipates referrals from physicians, nursing facilities, rehabilitation facilities and home health providers.

CON Action Numbers: 9647 & 9648

Since the project involves a collaboration with Munroe Regional, it appears that the majority of the referrals will originate from that hospital. The applicant provided a proposed transfer agreement, contract agreement and a letter from Munroe Regional committing to support and implement the project.

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

Select Specialty Hospital-Marion, Inc. (CON #9647)

expects the length of stay to be 32.81 days with the 0-64 age group averaging 29.59 days and the 65 plus age group averaging 33.61 days.

Kindred Hospitals East, L.L.C. (CON #9648) expects the average length of stay will be 27 days with the 18-44 age group averaging 26 days, the 45-64 group averaging 28 days, the 65-84 group averaging 27 days and the 85 and over averaging 25 days.

6. Expected discharge destination by age group.

Select Specialty Hospital-Marion, Inc. (CON #9647)

apparently expects to mirror the experience of its other freestanding hospitals. On average across all age groups, the applicant expects that discharge status will represent the following percentages: acute care hospital (7.7 percent); assisted living (16.5 percent); expired (11.7 percent); home (58.6 percent); and other (5.5 percent).

Kindred Hospitals East, L.L.C. (CON #9648) also expects to mirror its other hospital within hospital experience. On average across all age groups, the applicant expects that discharges will represent the following percentages: skilled nursing (24.6 percent), home (19.2 percent), home health care (18.6 percent), acute care (14.0 percent), expired (13.1 percent), unknown (8.6 percent), and rehabilitation (1.8 percent).

CON Action Numbers: 9647 & 9648

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 or Charity	Medicaid/Medicare HMO	Medicare/Medicare HMO	Insurance	Managed Care	Other
Select Specialty (9647)	2.0% 298 days	0.8% 117 days	77.6% 11,539	14.7% 2,194	4.9% 731 days	-0-
Kindred East (9648)	-0-	1.6% 129 days	82.1% 6,488	15.1% 1,191 days	-0-	1.2% 92 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 both Select Specialty (CON #9647) and Kindred East (CON #9648).

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

Both applicants basically state their willingness to admit patients who meet their admission criteria regardless of ability to pay. Both applicants have agreed to condition award of the CON upon providing a percentage of charity care.

9. Services that will be provided by contract.

Select Specialty Hospital-Marion, Inc. (CON #9647)

anticipates that radiology, laboratory, and laundry services will be provided by contract. The required pharmacy and space for radiographic equipment is shown on the submitted schematic drawings.

Kindred Hospitals East, L.L.C. (CON #9648) will contract with Munroe Regional to provide the following services: laboratory, radiology, surgery/operating room; dietary; physical, speech and occupational therapies; cardiology; housekeeping, linen and laundry. In addition, the applicant intends to contract directly with community providers for emergency physician coverage, dialysis, MRI and biomedical engineering, as these services are outsourced Munroe Regional. A formal contract for services between the proposed LTCH and Munroe Regional has not been finalized

CON Action Numbers: 9647 & 9648

and modifications are expected. It is noted again that basic radiology as well as a pharmacy must be provided in-house and cannot be contracted out. According to the architectural review of the project, neither space for a pharmacy or for general radiographic equipment is included in the submitted plans.

- f. **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.**

Only Kindred East (CON #9648) responded to this provision, stating that it will provide all appropriate reports to AHCA in a timely manner in accordance with 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.**

Select Specialty Hospital-Marion, Inc. (CON #9647) states that from the proposed location of its LTCH, the nearest existing facilities are Kindred Hospital-North Florida, in Green Cove Springs (District 4), approximately 90 miles away, and the two Kindred hospitals in Tampa: Central Tampa and Bay Area-Tampa (District 6), also about 90 miles away. The applicant further states that some areas in the western portion of District 3, such as Levy County, are even further from existing facilities. The applicant contends that consequently, few residents of Marion County, or basically any area of District 3 use long-term acute care hospital services to any great extent. In view of the lack of availability and accessibility of LTCH services, the applicant contends that patients tend to remain for extended stays in general acute care hospitals.

The applicant does acknowledge that some residents in the northern portion of the district live closer to facilities in District 4 and others in the southern portion of the district are closer to the LTCH services in District 6. The applicant provided a letter of support for the project from Western Marion Community Hospital indicating interest in implementing a transfer agreement with the facility. However, there were no other

CON Action Numbers: 9647 & 9648

tentative transfer agreements or indication of interest in developing a transfer agreement with the LTCH from any other area hospitals. Specific documentation from area providers with regard to delays in care would have been supportive and beneficial in showing an access problem to long-term care in the area.

The applicant did not fully demonstrate need for the project as evidenced by the availability, quality of care, accessibility, and extent of utilization of existing health care facilities and health services in the applicant's service area.

Kindred Hospitals East, L.L.C. (CON #9648) states that the proposed project will increase the availability and accessibility to care in District 3 because of the lack of any LTCH services in the district and the distance that residents must travel for these services. The applicant identifies the primary service area for its project to be Alachua, Citrus, Lake, Levy, Marion and Sumter Counties, while the secondary service area will consist of the remaining counties in District 3.

The applicant contends that the proposed hospital within hospital program will improve efficiency of services by working with area providers to integrate a continuum of care to promote efficient use of area resources and placement of patients. The applicant also states that efficiency will be improved as a result of centralized sharing with other area Kindred facilities (purchasing, management, clinical and quality management, medical records, etc.). However, any centralized benefits to be realized were not outlined, specifically with regard to financial cost savings.

As previously discussed, the applicant provided a letter from Munroe Regional indicating a potential caseload of LTCH patients based on length of stay. However, the applicant failed to provide any other specific supporting documentation from area hospitals and physicians regarding potential LTCH referrals. Specific documentation from area providers with regard to delays in care would have been supportive and beneficial in showing an access problem to long-term care in the area.

The applicant did not fully demonstrate need for the project as evidenced by the availability, quality of care, accessibility, and extent of utilization of existing health care facilities and health services in the applicant's service area.

- b. **Does the applicant have a history of providing quality of care? Has the applicant demonstrated the ability to provide quality care? ss. 408.035(3), Florida Statutes.**

Select Specialty Hospital-Marion, Inc. (CON #9647) is a new, development stage corporation, and as such has no operating history. However, the applicant is a controlled entity of Select Medical Corporation, an existing provider of LTCH services nationwide with 72 existing facilities, including one in Miami, Florida that was licensed on December 23, 2002. The applicant states that all existing Select Medical facilities have a current JCAHO accreditation, except those that have recently opened and are awaiting survey. The JCAHO accreditation is an indication that quality of care is being delivered and that the components are in place to ensure the delivery of quality of care.

The applicant provided a description of its performance improvement plan that establishes specific methods and techniques for monitoring and improving care delivery. The applicant also described the makeup of the Organizational Improvement Committee, an interdisciplinary group that connects all of the quality improvement activities and structures together. A copy of the Select Specialty Hospital Plan for Improving Organizational Performance, Year 2003 is included in the Supporting Materials section.

Kindred Hospitals East, L.L.C. (CON #9648) states that all of its currently licensed LTCH's are accredited by JCAHO, an indication that quality of care is being delivered and that the necessary components are in place to ensure delivery of care. The applicant provided a reasonably thorough description of the admission, care planning and discharge process. The quality management functions that are currently in place in Kindred hospitals are contained in a strategic quality plan, a copy of which is provided as an attachment to the application. The applicant also indicates that patient satisfaction surveys are given to all patients and family members.

According to the most recent Complaint Summary Report, the seven licensed Kindred LTCH's in the state had a combined total of 17 confirmed complaints, with eight of those without deficiencies dating back to October 1999 through the present. The nine confirmed allegations involve: patient abuse/neglect (1), restraints (2), staffing (2), patient care (2), nursing service (1), and restraints (1). The majority of the allegations occurred at Kindred Hospital-Bay Area Tampa with five confirmed and five confirmed without deficiencies; and at Kindred Hospital South Florida/Coral Gables with three confirmed allegations.

CON Action Numbers: 9647 & 9648

- 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.**

Neither applicant is proposing special health care services that are not reasonably and economically accessible in adjacent service areas.

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

Neither of the proposed projects are to be located in a statutorily defined teaching hospital nor will the primary purpose of either project involve research or physician education.

Select Specialty Hospital-Marion, Inc. (CON #9647) states that health professional training and development programs will not be a significant feature of the proposed project.

Kindred Hospitals East, L.L.C. (CON #9648) states that it will work with area universities, colleges and other educational training program to provide clinical on-site training for students in various programs. The applicant further states that by being located within Munroe Regional Medical Center, it can provide a clinical rotation site for students currently partnered with the hospital.

The applicant did not provide any specific information regarding current and/or historical clinical on-site training at its other Kindred LTCHs in the state.

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

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

CON Action Numbers: 9647 & 9648

Select Specialty Hospital-Marion, Inc. (CON #9647) is a start-up company with \$10 in assets as of February 20, 2003. The applicant is a wholly-owned subsidiary of Select Medical, Inc. The company had, as of December 31, 2001, \$10.7 million in cash on hand, \$276.5 million in current assets and \$650.8 million in total assets. Revenue from operations was \$959 million with cash flows of \$95.8 million. This is a financially strong company.

Capital requirements:

Total capital costs for this project from Schedule 1 are \$12.2 million. Schedule 2 indicates the applicant has no other capital projects.

Available capital:

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

Conclusion:

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

Kindred Hospital East, L.L.C. (CON #9648) is wholly owned subsidiary of Kindred Healthcare, Inc. (formerly Vencor, Inc.). The applicant submitted Form 10K for the parent, which included financial statements for the period ended December 31, 2002. Those statements disclosed that Kindred Healthcare, Inc. had cash of \$244.0 million, current assets of \$920.3 million, and total assets of \$1.64 billion. Income from operations was \$33.3 million with cash flows of \$248.7 million.

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 good.

Capital requirements:

Schedule 2 indicates capital projects of \$23.1 million.

Available capital:

Funding for these projects will come from \$4.0 million from operating cash flows and \$19.1 million from funds in hand. The audited financial statements show \$2.4 million in cash on hand, and \$6.7 million in cash flows.

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 this project as proposed. Funding for all capital projects, with the support of its parent, is likely to be available as needed.

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

A comparison of each of the co-batched applicant's estimates to the corresponding control group values provides for an objective evaluation of financial feasibility, (the likelihood that the services can be provided under the parameters and conditions contained in Schedules 7 and 8), and efficiency, (the degree of economies achievable through the skill and management of the applicant). In general, projections that approximate the median are the most desirable, and balance the opposing forces of 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.

CON Action Numbers: 9647 & 9648

Conversely, as estimates approach the lowest in the group, it is less likely that the project is feasible, because a much higher level of economies must be realized to achieve the desired outcome. These relationships hold true for a constant intensity of service through the relevant range of outcomes. As these relationships go beyond the relevant range of outcomes, revenues and expenses may, either go beyond what the market will tolerate, or may decrease to levels where activities are no longer sustainable.

The Centers for Medicare and Medicaid Services (CMS) published a prospective payment system (PPS) rule for long-term care hospitals (LTCH) effective for cost reporting periods beginning or after October 1, 2002. Under the PPS for LTCH a payment for a Medicare patient will be made at a predetermined, per discharge amount for each LTC-DRG. The law requires that the LTCH PPS be budget neutral, which means that total payments must equal the amount that would have been paid if the PPS had not been implemented. Therefore, a comparison of the applicants' revenue estimates to the control group values, based on the reasonable cost-based reimbursement system, provide a rational basis for evaluating estimated revenues.

Medicare requires a six-month period (demonstration period) before a hospital is eligible for 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. This applicant did not disclose how this period was accounted for in their financial projections.

Comparative data were derived from hospitals in peer groups that reported data in 2001. Both applicants will be compared to the hospitals in peer group 12. Per Diem rates are projected to increase by an average of 3.6 percent per year. Inflation adjustments were based on the 3rd Quarter New CMS Hospital Market Basket Index.

Select Specialty Hospital-Marion, Inc. (CON #9647) submitted estimated revenues for the project that were developed based on the prospective payment system.

CON Action Numbers: 9647 & 9648

Medicare requires a six-month period (demonstration period) before a hospital is eligible for 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. The applicant did not disclose how this period was accounted for in their financial projections.

Projected net revenue per adjusted patient day (NRAPD) of \$888 in year one and \$986 in year two is between the control group lowest and median values of \$767 and \$1,019 in year one and \$792 and \$1,052 in year two. The lowest value is generally viewed as the practical lower limit on economies of operation. With net revenues per adjusted patient day falling between the lowest and median the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table).

Projected cost per adjusted patient day of \$1,124 in year one and \$919 in year two is between the control group median and highest values of \$918 and \$3,108 in year one and the control group lowest and median values of \$778 and \$947 in year two. Compared to the control group these costs are efficient. (See Comparative Table).

The year two operating profit for the hospital of \$993,625 computes to an operating margin per adjusted patient day of \$67, which falls between the peer group median and highest values of \$53 and \$234 respectively. The operating margin of 6.8 percent indicates that net revenues are proportional to costs.

This project appears to be financially feasible.

CON Action Numbers: 9647 & 9648

Comparative Financial Data

CON # 9647 Select Specialty Hospital - Marion, Inc. 2001 DATA Peer Group 12	2007	YEAR 2	VALUES ADJUSTED		
	YEAR 2 ACTIVITY		FOR INFLATION		
	ACTIVITY	PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	14,134,100	950	858	702	311
INPATIENT AMBULATORY	15,906,346	1,069	10	0	0
INPATIENT ANCILLARY SERVICES	362,154	24	3,772	2,475	389
OUTPATIENT SERVICES	0	0	3,403	8	0
OTHER OPERATING REVENUE	0	0	55	2	0
TOTAL REVENUE	30,402,600	2,043	412	260	187
DEDUCTIONS FROM REVENUE	15,738,268	1,058	*	*	*
NET REVENUES	14,664,332	986	2,077	1,052	792
EXPENSES					
ROUTINE	2,952,850	198	412	260	187
ANCILLARY	5,274,865	355	546	267	194
AMBULATORY	0				
OVERHEAD	5,442,992	366	1,345	447	354
OTHER	0	0			
TOTAL EXPENSES	13,670,707	919	3,208	947	778
OPERATING INCOME	993,625	67	234	53	-186
		6.8%			
PATIENT DAYS	14,879		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	14,879		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	21,900				
ADJ. FACTOR	1.0000				
TOTAL NUMBER OF BEDS	60				
PERCENT OCCUPANCY	67.9%		96.0%	75.0%	9.5%
PAYER TYPE	PATIENT	DAYS	% TOTAL		
MEDICARE	11,539	77.6%	97.3%	74.5%	67.2%
COMMERCIAL	2,194	14.7%			
MEDICAID	117	0.8%	15.3%	0.2%	0.0%
PRIVATE	298	2.0%			
HMO/PPO	731	4.9%	16.3%	11.3%	0.0%
OTHER	0	0.0%			
TOTAL	14,879	100.0%			

Kindred Hospital East, L.L.C. (CON #9648) intends to lease the space required to operate the hospital from Munroe Regional Medical Center. At the time of the application, a lease agreement had not been finalized.

CON Action Numbers: 9647 & 9648

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; a copy of a proposed agreement with Munroe Regional Medical Center (MRMC) submitted with the application includes the purchase of services from MRMC. Failure to meet this requirement would have a material negative impact on revenues.

Medicare requires a six-month period (demonstration period) before a hospital is eligible for 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. The applicant did not disclose how this period was accounted for in their financial projections.

Projected net revenue per adjusted patient day (NRAPD) of \$892 in year one and \$994 in year two is between the control group lowest and median values of \$743 and \$987 in year one and \$767 and \$1,019 in year two. The lowest value is generally viewed as the practical lower limit on economies of operation. With net revenues per adjusted patient day falling between the lowest and median the facility is expected to consume health care resources in proportion to the services provided. (See Comparative Table).

Projected cost per adjusted patient day of \$1,479 in year one and \$961 in year two is between the control group median and highest values of \$890 and \$3,012 in year one and \$918 and \$3,108 in year two. Compared to the control group these costs are considered efficient. (See Comparative Table).

The year two operating profit for the hospital of \$263,134 computes to an operating margin per adjusted patient day of \$33 which falls between the lowest and median values of -\$186 and \$53. The computed operating margin ratio is 3.4 percent.

This project is considered financially feasible.

CON Action Numbers: 9647 & 9648

Comparative Financial Data

CON # 9648 Kindred Hospitals East, L.L.C. 2001 DATA Peer Group 12	2006	YEAR 2	VALUES ADJUSTED		
	YEAR 2	ACTIVITY PER DAY	Highest	Median	Lowest
ROUTINE SERVICES	5,201,108	658	832	680	302
INPATIENT AMBULATORY	0	0	9	0	0
INPATIENT ANCILLARY SERVICES	20,804,434	2,633	3,656	2,399	377
OUTPATIENT SERVICES	0	0	3,297	8	0
OTHER OPERATING REVENUE	0	0	53	2	0
TOTAL REVENUE	26,005,542	3,292	4,370	3,207	2,140
DEDUCTIONS FROM REVENUE	18,153,950	2,298	*	*	*
NET REVENUES	7,851,592	994	2,013	1,019	767
EXPENSES					
ROUTINE	2,640,002	334	399	251	181
ANCILLARY	2,414,764	306	529	259	188
AMBULATORY	0				
OVERHEAD	2,533,692	321	1,303	433	343
OTHER	0	0			
TOTAL EXPENSES	7,588,458	961	3,108	918	754
OPERATING INCOME	263,134	33	234	53	-186
		3.4%			
PATIENT DAYS	7,900		VALUES NOT ADJUSTED		
ADJUSTED PATIENT DAYS	7,900		FOR INFLATION		
TOTAL BED DAYS AVAILABLE	11,315				
ADJ. FACTOR	1.0000				
TOTAL NUMBER OF BEDS	31				
PERCENT OCCUPANCY	69.8%		96.0%	75.0%	9.5%
PAYER TYPE		PATIENT			
		DAYS % TOTAL			
MEDICARE	6,488	82.1%	97.3%	74.5%	67.2%
COMMERCIAL	1,191	15.1%			
MEDICAID	103	1.3%	15.3%	0.2%	0.0%
PRIVATE	0	0.0%			
HMO/PPO	26	0.3%	16.3%	11.3%	0.0%
OTHER	92	1.2%			
TOTAL	7,900	100.0%			

CON Action Numbers: 9647 & 9648

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

Comparisons Between Applicant's Projections

	Beds	Net Rev. per day	Total Cost per day	Oper Profit per day	Managed Care percent	Medicaid percent
Select Specialty (9647)	60	\$986	\$919	\$67	4.90%	0.80%
Kindred East (9648)	31	\$994	\$961	\$33	0.30%	1.03%

Select Specialty Hospital-Marion, Inc. (CON #9647) projects managed care to represent 4.9 percent of its patient days. This is between the control group lowest and median level of activity of 0.0 and 11.3 percent. The projected levels, if realized, will not have a positive impact on competition to promote quality assurance and cost-effectiveness.

Kindred Hospitals East, L.L.C. (CON #9648) projects managed care to represent 0.3 percent of its patient days. This is between the control group lowest and median level of activity of 0.0 percent and 11.3 percent. The projected levels, if realized, will not 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.**

Select Specialty Hospital-Marion, Inc. (CON #9647) will be subject to new construction standards when and if the AHCA Office of Plans and Construction reviews the proposed 60-bed LTCH. It is expected that the revised Florida Building Code and Chapter 59A-3 of the Florida Administrative Code will be in effect by the time this project could be submitted for review. The disaster preparedness requirements of the applicable codes will also have to be met.

The application included a floor plan of the proposed one-story building, larger scaled plans of patient rooms and a smoke compartment plan. The building is laid out quite efficiently. There is a large central core Nurse Station with three patient wings radiating from it. There is also a surgery/procedure wing and a sizable administrative/dining/visitor area. One wing leads to an ICU area with its own nurse station and its required support spaces. Another 16-bed patient wing is separate from the ICU space and served by a second nurse station core.

CON Action Numbers: 9647 & 9648

In the patient wings, the more critical areas and the semi-private rooms are located near the central nurse station. There are a variety of toilet/shower configurations. Some patient rooms have accessible showers and some do not. There is a five-station central bathing near the nurse station, which includes a shower that will accommodate a patient on a stretcher. This bathing area is more remote from the 16-bed wing than is desirable.

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

The surgery/procedure wing needs extensive further study and revision. Since there is only one operating room and one procedure room, the traffic pattern for doctors, staff and patients is overly complicated. There is only one two-station space that serves as both holding and recovery. It is not clear if "holding" refers to pre-op or post-op functions or both. No space is provided for a nurse station and its ancillary spaces in the holding/recovery room and this is particularly needed to serve the isolation room.

There is a doctor's area with showers for both men and women but no adjacent toilet rooms. There are no comparable spaces for the nursing staff. In most facilities, the staff support spaces are separate from those of the doctors. The surgery waiting room could easily be enlarged and function more efficiently by moving its wall and entrance door further up the corridor. Accomplishing this would create a door leading directly from the waiting room to the surgical suite and the attendant could better monitor this space. In short, the surgical suite needs to be re-designed.

There are numerous storage spaces as well as visitor and staff/patient amenities throughout the building.

There is a list of applicable building codes on the plans, but most of them will change as noted above. Cost data and schedules submitted seem to be reasonable.

CON Action Numbers: 9647 & 9648

It is required that schematic drawings be submitted as part of the CON application. Although the drawings for this proposal may be more advanced than required, they have been reviewed as schematics with the expectation that they will necessarily be revised and refined during the design development (preliminary) and contract document stages. The architectural review of the application shall not be construed as an in-depth effort to determine complete compliance with all applicable codes and standards. The final responsibility for facility compliance ultimately rests with the applicant.

Kindred Hospitals East, L.L.C. (CON #9648) proposes to establish the 31-bed LTCH on the 5th floor of Munroe Regional Medical Center in Marion County. The area to be leased by the applicant is basically an entire wing connected to the existing hospital by a corridor. The wing has a stairwell at both ends with an elevator and a third stairwell in the middle. There are two spacious nurse stations, one near the center of the wing, which apparently serves eight beds and the other further down the corridor to serve the remainder of the 31 beds.

There was a plan of the 5th floor presented in the application. It included larger scaled plans of a typical patient room and the single isolation room. The application stated that a number of existing spaces will be renovated, and all of them are patient/staff support areas, implying that the actual patient rooms will remain as existing.

There was no existing floor plan or demolition plan submitted, so it is not possible to determine the actual extent of the renovation. Demolition within an existing building, particularly on an upper floor, can be costly. Without more information about the scope of the demolition, an architectural cost review can only be speculative. In spite of this, the areas to be renovated are just a small part of the wing, so the proposed costs are likely to be within a reasonable range.

There was a list of applicable building codes on the plans, but it is partly incorrect and most of the codes will change before this project could be submitted to the AHCA Office of Plans and Construction for review. All the staff and patient support areas appear to be provided since this is an operational hospital wing. Any existing patient rooms which will be continued to be used as such by the new hospital will only be required to meet existing construction standards. Newly renovated spaces will have to comply with new construction standards.

CON Action Numbers: 9647 & 9648

The legend on the floor plan indicates that there are several rooms that will be part of the new hospital that are not directly accessible from the main portion of the new facility. These are labeled R. T. clean, R. T. soiled and medical records. There is evidently a drafting error in this area in that smoke-resistive wall indications are shown going through the middle of the soiled room and the medical records room where there are no walls. A more precise indication as to the proposed utilization of these spaces would be helpful. It might be assumed that R. T. indicates respiratory therapy and it might be outdated nomenclature.

Additionally, a new hospital must have a pharmacy as well as a space for general radiographic equipment. Neither of these are shown on the plan and must be provided. There is an equipment storage room adjacent to the central nurse station, and this may be the area for radiographic equipment.

It is required that schematic drawings be submitted as part of the CON application. Although the drawings for this proposal may be more advanced than required, they have been reviewed as schematics with the expectation that they will necessarily be revised and refined during the design development (preliminary) and contract document stages. The architectural review of the application shall not be construed as an in-depth effort to determine complete compliance with all applicable codes and standards. The final responsibility for facility compliance ultimately rests with the applicant.

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

According to the 2001 Hospital Financial Data Report, LTCHs in the state averaged 2.0 percent Medicaid patient days and 1.7 percent charity care patient days.

Select Specialty Hospital-Marion, Inc. (CON #9647) is a new development stage company with no operating history. The applicant proposes to condition award of the certificate of need on the provision of 2.8 percent Medicaid and indigent patient days combined. Schedule 7A indicates the applicant's expectation to deliver up to two percent of its total patient days to self-pay patients and 0.8 percent for Medicaid patients. The applicant anticipates that all self pay patients will be charity. This being the case, the applicant's charity care provision is higher than the state average of 1.7 percent. However, the applicant's projected Medicaid provision is less than the state average of 2.0 percent.

CON Action Numbers: 9647 & 9648

Kindred Hospitals East, L.L.C. (CON #9648) proposes to condition award of the certificate of need on the provision of 2.0 percent Medicaid and indigent patient days combined. According to Financial Schedule 7A, the applicant is projecting that Medicaid (1.3 percent) and Medicaid HMO (0.3 percent) will represent a total of 1.6 percent of total patient days in year two, less than the state average of 2.0 percent.

According to the applicant's response to the proposed rule provisions regarding charity care, the applicant states that charity patients will account for 1.3 percent of total patient days by the end of year two. However, the applicant does not acknowledge the provision of any charity care patient days on Financial Schedule 7A to support this projection.

F. SUMMARY

Select Specialty Hospital-Marion, Inc. (CON #9647), a wholly owned subsidiary of Select Medical Corporation, proposes the creation of a 60-bed freestanding LTCH to be located in Ocala, Marion County. The applicant has identified three sites within Ocala that are appropriate for development of the proposed LTCH but has not identified them other than to indicate that they will be proximate to local hospitals and physician offices.

The proposed hospital will consist of 44,434 gross square feet of new construction and construction costs of \$7,892,500. Total project cost is estimated to be \$12,244,724. The funding for the proposed project will be provided by Select Medical Corporation.

The applicant agrees to condition award of the certificate of need on the provision of 2.8 percent Medicaid and indigent patient days combined.

Kindred Hospitals East, L.L.C. (CON #9648), a wholly owned subsidiary of Kindred Healthcare, Inc., proposes to establish a 31-bed LTCH within Munroe Regional Medical Center in Ocala, Marion County. The applicant is currently the licensee and operator of 16 hospitals, including six LTCH's in Florida.

The proposed LTCH will be located on the 5th floor of Munroe Regional Medical Center at the main campus and will contain 11,606 square feet, which encompasses 15 semi-private rooms and one isolation room. The project involves a total cost of \$1,404,425, including renovation construction costs of \$440,957.

CON Action Numbers: 9647 & 9648

The applicant agrees to condition award of the certificate of need on the provision of 2.0 percent Medicaid and indigent patient days combined.

Need:

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

Select Specialty Hospital-Marion, Inc. (CON #9647)

- The applicant's two methodological approaches to demonstrate need are not supported by any specific discharge studies or other data, including DRG admission criteria from area hospitals regarding potential need. The applicant also failed to provide any supporting documentation from area physicians or other providers regarding potential referrals. It was further not demonstrated that patients that qualify for LTCH services are not currently being served or that an access problem exists for residents in District 3.

Kindred Hospitals East, L.L.C. (CON #9648)

- The various methodological approaches presented are not supported by any specific discharge studies or other data, including specific DRG admission criteria from area hospitals suggesting potential need. The applicant provided a letter from Munroe Regional indicating a potential number of patients in FY 2002 that could have benefited from a LTCH. However, the letter was not specific with regard to diagnosis, length of stay or ultimate placement of patients. The applicant also failed to provide any supporting documentation from area physicians or other providers regarding potential referrals. It was further not demonstrated that patients that qualify for LTCH services are not currently being served or that an access problem exists for residents in District 3.

Quality of Care:

Select Specialty Hospital-Marion, Inc. (CON #9647)

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

Kindred Hospitals East, L.L.C. (CON #9648)

- The applicant states that all of its currently licensed LTCH's are accredited by JCAHO, an indication that quality of care is being delivered and that the necessary components are in place to ensure delivery of care. The applicant provided a reasonable description of its quality management functions.

Cost/Financial Analysis:

Select Specialty Hospital-Marion, Inc. (CON #9647)

- The applicant is a start-up company with limited assets. However, the parent, Select Medical, Inc. is a financially strong company with total assets of \$650.8 million and revenue from operations of \$959 million. The funding for the proposed project should be available, with the support of the parent company.
- With net revenues falling between the lowest and median values in the first two years of operation, the facility is expected to consume health care resources in proportion to the services provided. The projected operating margin of 6.8 percent indicates that net revenues are proportional to costs. The project appears to be financially feasible.
- The applicant projects managed care to represent 4.9 percent of its patient days. This is between the control group lowest and median level of activity of 0.0 and 11.3 percent. The projected levels, if realized, will have not have a positive impact on competition to promote quality assurance and cost-effectiveness.

Kindred Hospitals East, L.L.C. (CON #9648)

- The applicant has both a good short-term and long-term financial position following emerging from bankruptcy proceedings in 2001. Based on the continued financial condition of the applicant, adequate cash on hand and cash flows will be sufficient to fund the proposed project. Funding for all capital projects is likely to be available as needed with the support of the parent company Kindred Healthcare, Inc. (formerly Vencor, Inc.).

CON Action Numbers: 9647 & 9648

- The applicant does not indicate how it will comply with the required provisions for reimbursement as a hospital within hospital. The proposed agreement with Munroe Regional has not been finalized regarding services from the host hospital. The applicant also did not disclose how the six-month demonstration period required by Medicare was accounted for in the financial projections. With net revenues per adjusted patient day falling between the lowest and median the facility is expected to consume health care resources in proportion to the services provided. The project is considered financial feasible.
- The applicant projects managed care to represent 0.3 percent of its patient days. This is between the control group lowest and median level of activity of 0.0 percent and 11.3 percent. The projected levels, if realized, will not increase competition to promote quality assurance and cost-effectiveness.

Architectural Analysis:

Select Specialty Hospital-Marion, Inc. (CON #9647)

- The project involves new construction of a 60-bed freestanding LTCH and final drawings will need to meet the revised Florida Building Code and Chapter 59A-3 of the Florida Administrative Code. The disaster preparedness requirements of the applicable codes will also have to be met.
- The proposed project appears to be designed efficiently although the surgery/procedure wing needs extensive further study and revision. The required pharmacy and space for radiographic equipment is shown on the schematic drawings.
- The cost data and schedules submitted appear to be reasonable.

Kindred Hospitals East, L.L.C. (CON #9648)

- The project involves a 31-bed hospital within a hospital in collaboration with Munroe Regional Medical Center. An existing floor plan or demolition plan was not submitted, so it is not possible to determine the actual extent of the renovation on the 5th floor of the hospital. Without additional information, determining reasonable costs for the project is only speculative but would appear reasonable based on the apparently small area to be renovated.

CON Action Numbers: 9647 & 9648

- The list of applicable building codes is partially incorrect. The final drawings will need to meet the revised Florida Building Code and Chapter 59A-3 of the Florida Administrative Code. A precise indication as to the proposed utilization of several rooms of the new hospital was not provided. There is also no indication as to the location of a pharmacy and space for radiographic equipment.

G. RECOMMENDATION

Deny CON #9647 and CON #9648.

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