

DOCKET NO: A -	BOARD MEETING: August 12-13, 2008	PROJECT NO: 08-014	PROJECT COST: Original: \$24,911,716 Current:
FACILITY NAME: THC Chicago d/b/a Kindred Hospital - Springfield		CITY: Springfield	
TYPE OF PROJECT: Substantive			HSA: III

PROJECT DESCRIPTION: The applicants propose to construct a long-term acute care hospital (LTAC) containing 50 long-term acute care beds in 51,834 gross square feet. The cost of the project is \$24,911,716.

The State Agency notes the proposed project was initially approved at the August, 2005 State Board Meeting as permit #05-015. In December 2006 the State Board approved an alteration for Project #05-015 that increased the cost of the project from \$14,738,500 to \$15,475,425 or an increase of \$736,925 and decreased the size of the project from 55,000/GSF to 45,489/GSF or a decrease of 9,511/GSF. However after the alteration was approved, the applicants' encountered significant problems with the building site that resulted in the project costs escalating beyond the altered permit amount of \$15,475,425. Under current State Board rules a permit holder cannot increase the cost of a project more than 5% of the original permit amount. (77 IAC 1130.750a) 5)). Subsequently the permit holder abandoned the permit on December 4, 2007. According to the applicants the site problems were related to the sewer system located on the site. The applicants were unaware the sewer system was located on the site at the time of purchase. Previously constructed buildings on the site had spanned the sewers. When the sewers were discovered the City of Springfield would not allow the applicants to build its hospital over the sewers and required Kindred to grant two easements that segmented the site into quarters. Therefore the applicants needed to develop a building plan that would accommodate the quartered site to avoid the sewer easements. This resulted in the addition of a third floor as well as a basement to the structure and the design of a smaller building to accommodate the available footprint. The applicants have received a foundation permit from the City of Springfield and have a building permit on file with the City of Springfield. Kindred will submit the final fee for the building permit if the application for permit is approved by the State Board.

Description	Project #05-015 ⁽¹⁾	Proposed Project #08-014
Cost	\$15,475,425	\$24,911,716
Size	45,489/GSF	51,834/GSF
Beds	44 M/S, 6 ICU Beds	44 M/S, 6 ICU Beds
Cost of Land	\$950,000	\$865,944
Address	701 North Walnut, Springfield, Illinois	701 North Walnut, Springfield, Illinois

1. Information for Project #05-015 reflects altered permit amount.

The State Agency notes that on December 29, 2007 President Bush signed the Medicare, Medicaid and SCHIP Extension Act of 2007. This act institutes a 3-year moratorium on the establishment of new LTACHs, LTACH Satellites, and increased beds for LTACHs or LTACH Satellites. Three exceptions to the moratorium on establishment exist: (1) an LTACH that began its qualifying period for Medicare payment as an LTACH on, or before, December 29, 2007; (2) LTACHs that have a binding, written agreement with an outside, unrelated party for the actual construction, renovation, lease, or demolition for a long-term care hospital, and have expended, before December 29, 2007, at least 10% of the estimated cost of the project (or, if less, \$2,500,000); or (3) LTACHs that have obtained an approved Certificate of Need (in states requiring such Certificate) on, or before, December 29, 2007.

APPLICATION SUMMARY	
Applicant(s)	
Facility Name	Kindred Hospital - Springfield
Location	Springfield, Illinois
Application Received	March 3, 2008
Application Deemed Complete	March 20, 2008
Scheduled Review Period Ended	July 18, 2008
Review Period Extended	No
Public Hearing Requested	No
Public Hearing Held	No
Applicants' Deferred Project?	No
Can Applicants Request Deferral?	Yes
Applicants' Modified the Project?	No

STATE AGENCY REPORT

Kindred Healthcare, Inc.,
 THC Chicago and
 THC Chicago d/b/a
 Kindred Hospital - Springfield
 Springfield, Illinois
 Project #08-014

I. The Proposed Project

The applicants propose to construct a long-term acute care hospital ("LTACH") that will contain 44 Medical/Surgical ("M/S") beds and 6 Intensive Care ("ICU") beds. The facility will contain 51,834 gross square feet ("GSF") of space. The total estimated project cost is \$24,911,716.

II. Summary of Findings

- A. The State Agency finds the proposed project does not appear to be in conformance with the provisions of Part 1110.
- B. The State Agency finds the proposed project does not appear to be in conformance with the provisions of Part 1120.

III. General Information

The applicants are THC Chicago, THC-Chicago/DBA Kindred Hospital - Springfield and Kindred Healthcare, Inc. (Kindred). THC-Chicago is a subsidiary of Kindred. Kindred Healthcare, Inc. is a healthcare services company that through its subsidiaries operates hospitals, nursing centers and a contract rehabilitation services

business across the United States. At March 31, 2008, Kindred's hospital division operated 84 LTAC hospitals (6,567 licensed beds) in 24 states. Kindred's health services division operated 228 nursing centers (28,856 licensed beds) in 27 states. In addition Kindred also operate a contract rehabilitation services business which provides rehabilitative services primarily in long-term care settings.

Kindred operate four LTACHs and one sub-acute care hospital in Illinois. The four LTACHs are Kindred North-Chicago, Kindred Northlake-Chicago, Kindred-Sycamore, and Kindred Central-Chicago. Kindred Chicago Lakeshore Hospital is the sub-acute care facility. Kindred acquired the four LTACHs under the change of ownership exemption requirements of the State Board; therefore, an application for permit was not required. The Kindred Chicago Lakeshore Hospital was granted a CON under the Sub-Acute Care Hospital Model (77 IAC 1110.2530). By definition, a sub-acute hospital is a designated site, which provides medical specialty care for patients who need a greater intensity or complexity of care than generally provided in a skilled nursing facility but who no longer require acute hospital care.

The proposed facility will be located at 701 N. Walnut Street, Springfield (Sangamon County), in the E-01 Planning Area in HSA III. HSA III includes the Illinois Counties of Adams, Brown, Calhoun, Cass, Christian, Greene, Hancock, Jersey, Logan, Macoupin, Mason, Menard, Montgomery, Morgan, Pike, Sangamon, Schuyler, and Scott. There are seven acute care hospitals within E-01. IDPH's update to the "Inventory of Healthcare Facilities, Service and Need Determinations" (July, 2008) indicates an excess of 617 M/S and 5 ICU beds in the E-01 Planning Area. Table Two outlines the number of beds and occupancy for hospitals within E-01 and within 80 miles of the proposed location for calendar year ("CY") 2006. The occupancy target for the addition of Medical/Surgical beds is 80% for a bed complement of 1 - 99 beds, 85% for a bed complement of 100 - 199 beds, and 90% for a bed complement of over 200 beds. The applicants propose 44 M/S beds. The occupancy target for the addition of ICU beds is 60% no matter the number of beds proposed. The applicants propose six ICU beds.

TABLE TWO
Travel and Distance and Utilization for All Facilities within the Proposed Service Area

Facility Name (Planning Area)	City	Travel	Distance	M/S	ICU	M/S	ICU
		Time	(miles)	Beds	Beds	2007	2007
		(minutes)				Occupancy	Occupancy
Memorial Medical Center (E-01)	Springfield	2	1	374	34	59.47%	53.80%
St. John's Hospital (E-01)	Springfield	4	1	457	44	35.2%	68.2%
A. Lincoln Memorial Hospital (E-01)	Lincoln	36	30	11	8	69.1%	28.9%
Taylorville Memorial Hospital(E-01)	Taylorville	45	28	16	5	66.7%	40.3%
Decatur Memorial Hospital (D-04)	Decatur	48	41	209	32	51.04%	65.9%
Passavant Hospital (E-04)	Jacksonville	49	40	126	9	26.2%	35.5%
St. Mary's Hospital (D-04)	Decatur	51	43	202	19	21.81%	21.99%
Carlinville Area Hospital (E-02)	Carlinville	67	49	25	0	22.89%	0.00%
Pana Community Hospital (E-01)	Pana	71	45	22	3	17.55%	1.00%
Sarah Culberston Hospital ((E-01)	Rushville	77	58	23	0	11.75%	0.00%
Mason District Hospital (E-01)	Havana	79	57	37	0	7.90%	0.00%

1. Information provided by the Hospital in response to the IDPH's 2007 Hospital Questionnaire.

This is a substantive project, subject to both a Part 1110 and Part 1120 review. An opportunity for a public hearing was offered on this project; however, one was not requested. Project obligation will occur after permit issuance. The anticipated project completion is November 30, 2010. Letters of support were submitted by Memorial Medical Center, Central Illinois Kidney and Dialysis Associates, S.C., St. Mary's Hospital, St. John's Hospital, Sangamon County Medical Society, Southern Illinois University School of Medicine, SIU Physicians and Surgeons, Central Illinois Allergy and Respiratory Services, Springfield Clinic, Office of Planning and Economic Development, and Greater Springfield Chamber of Commerce and can be found at pages 58-79 of the application for permit. No letters of opposition have been received by the State Agency for this project.

Payor Mix

The expected payor mix for Kindred Hospital-Springfield is 79% Medicare, 5% Medicaid, 1% charity, and 15% commercial/other payors. Regarding charity care the applicants stated "Kindred Hospitals do not track charity care as defined by the State of Illinois. Rather, the charity care provided by Kindred Hospitals is typically for patients who have exhausted their insurance coverage and are too ill to be discharged. Such charity care is written off as "bad debt". It is important to note that most patients are transferred to an LTACH directly from a general

Medical/Surgical hospital and almost always have public or private insurance coverage upon admission. When a patient exhausts all forms of coverage while in the LTACH, Kindred continue to care for that patient. The main sources of uninsured patients in a general Medical/Surgical hospital are Obstetrics and Emergency services. However, a long-term acute care hospital does not provide Obstetric services and offers only minimal Emergency services. Therefore, a long-term acute care hospital does not treat the type of patients who typically require charity care.” The applicants go on to state “that indigent patients who are clinically appropriate shall not be denied admission based upon the lack of payment source.”

IV. The Proposed Project - Details

The applicants propose to construct a facility containing 44 M/S and 6 ICU beds. There will be 21 semi-private, 2 private isolation rooms and a 6 bed intensive care unit. The cost of the land for the proposed site is \$865,944. Buildings located on the site have been demolished. The new construction will have four levels, including three floors plus a basement. The basement level will contain space for functions such laboratory, central supply, medical records, receiving, maintenance, soiled and clean linen areas, housekeeping, and body holding. Mechanical and electrical areas are also contained in the basement. The first floor will contain the lobby, administrative offices, pharmacy, imaging/portable x-ray machine storage area, kitchen, cafeteria, and physical/occupational therapy areas. The second and third floors will contain patient rooms, with dialysis located on the second floor and the ICU located on the third floor.

V. Project Costs and Sources of Funds

The project is being funded with cash and securities of \$24,911,716. Table Three displays the project’s cost information. The State Agency notes all costs for Permit #05-015 (\$1,793,733) have been included in the cost for this project.

TABLE THREE			
Project Costs and Sources of Funds			
Use of Funds	Clinical	Non-Clinical	Total
Preplanning Costs	\$36,000	\$24,000	\$60,000
Site Survey and Soil Investigation	\$9,450	\$5,550	\$15,000
New Construction Contracts	\$10,027,242	\$6,684,828	\$16,712,070
Contingencies	\$900,000	\$600,000	\$1,500,000
Architectural/Engineering Fees	\$482,400	\$321,600	\$804,000

TABLE THREE			
Project Costs and Sources of Funds			
Consulting and Other Fees	\$69,300	\$40,700	\$110,000
Movable or Other Equipment	\$2,931,920	\$1,578,726	\$4,510,646
Other Costs to be Capitalized	\$720,000	\$480,000	\$1,200,000
TOTAL	\$15,176,312	\$9,735,404	\$24,911,716
Source of Funds			
Cash and Securities			\$24,911,716
TOTAL			\$24,911,716

VI. Cost Space Requirements

The State Agency notes that approximately 39.10% of the project’s cost and 28.8% of the GSF are not subject to review since they are for non-clinical service areas or for other areas for which the State Board has not established review standards. Table Five displays the project’s cost/space requirements.

TABLE FOUR			
Clinical Components			
Department	Total Costs Clinical	Proposed GSF	New Construction GSF
Medical Surgical	\$5,966,239	12,414	12,414
ICU	\$1,985,863	4,132	4,132
Radiology	\$283,077	589	589
Treatment	\$252,799	526	526
Physical Therapy	\$444,560	925	925
Respiratory Therapy	\$189,359	394	394
Laboratory	\$205,699	428	428
Pharmacy	\$421,972	878	878
Support	\$1,866,897	9,196	9,196
Hemodialysis	\$462,343	962	962
Emergency	\$185,033	385	385
Mech/Elect	\$2,768,289	5,760	5,760
Occupational	\$144,182	300	300
Total Clinical	\$15,176,312	36,889	36,889

VII. Review Criteria - Establishment of Additional Beds

A. Criterion 1110.320 (a) Establishment of Additional Hospitals

The criterion states that a proposed general hospital to be located within a Metropolitan Statistical Area (“MSA”) must contain a minimum of 100 M/S beds.

The applicants propose a new hospital within an MSA with 50 beds (44 M/S Beds and 6 ICU). Based upon the current State Board rules, the applicants have not met the requirements of this criterion.

THE STATE AGENCY FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ESTABLISHMENT OF HOSPITAL REVIEW CRITERION.

B. Criterion 1110.320(b) - Allocation of Additional Beds

This criterion requires the applicants to document that the addition of this service will improve access. Documentation shall consist of one of the following:

- “1) The proposed service is not available within the planning area;
- 2) Existing facilities have restricted admission policies resulting in access limitations;
- 3) Existing service providers are experiencing occupancy levels in excess of the category of service target levels;
- 4) The travel time to existing service providers are excessive (exceeds 45 minutes) for area residents to be served by the project.”

The July 2008 Update to the “Inventory of Healthcare Facilities, Service and Need Determinations” indicates an excess of 617 medical surgical beds and 5 ICU beds in the E-01 planning area, therefore the applicants do not meet the first requirement of this criterion. No evidence of restrictive admission policies at existing facilities have been provided by the applicants, therefore the applicants do not meet the second requirement of this criterion. Existing service providers are not experiencing occupancy levels in excess of the State Board standards, and there are existing providers within 45 minutes of the proposed site; therefore the applicants do not meet the third and fourth requirements of this criterion.

THE STATE AGENCY FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ALLOCATION OF ADDITIONAL BEDS CRITERION.

C. Criterion 1110.320(c) - Addition of Beds to Existing Facilities

This criterion is not applicable, as the applicants are proposing a new facility.

THE STATE AGENCY FINDS CRITERION ADDITION OF BEDS TO EXISTING FACILITIES IS NOT APPLICABLE TO THIS PROJECT.

VIII. Review Criteria - Medical/Surgical, Obstetric, Pediatric and Intensive Care

A) Criterion 1110.530 Unit Size

1) Obstetrics

A) The minimum unit size for a new obstetric unit within a Metropolitan Statistical Area is 20 beds.

B) The minimum unit size for a new obstetric unit outside a Metropolitan Statistical Area is 7 beds.

2) Intensive Care. The minimum unit size for an intensive care unit is 4 beds.

3) Pediatrics. The minimum size for a pediatric unit within a Metropolitan Statistical Area is 16 beds.

Under current State Board rules, there is no unit size for the M/S category of service. For the ICU service, there is a minimum unit size of four beds. The applicants have met the requirements of this criterion.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE CRITERION UNIT.

B) Criterion 1110.530 Variances to Bed Need

The applicants must document one or more of the following.

1) High Occupancy Variance

2) Medically Underserved Variance

A) The applicants must document that access to the proposed service is restricted in the planning area as documented by:

i) the absence of the service within the planning area;

- ii) limitations on governmentally funded or charity patients;
 - iii) restrictive admission policies of existing providers;
 - iv) the area population and existing care system exhibit indicators of median care problems such as an average family income level below the State average poverty level, high infant mortality or designation as a Health Manpower Shortage Area; or
 - v) the project will provide service for a portion of the population who must currently travel over 45 minutes to receive service.
- B) Documentation shall consist of location and utilization of other planning area service providers; patient location information and all applicable time-travel studies; a certification of waiting times and scheduling or admission restrictions that exist in area providers; and an assessment of area population characteristics which would indicate an access problem.
- C) The applicants must also document that the number of beds proposed will not exceed the number needed at the target occupancy rate to meet the health care needs of the population identified as having restricted access.

Medical/Surgical-ICU Beds

The applicants have chosen to address the medically underserved variance.

The applicants proposed this project based on the absence of a long-term acute care hospital in central Illinois and the need to serve a portion of the population not currently being served by the existing healthcare delivery model. The closest long-term acute care facility is located in St. Louis, Missouri, approximately 100 miles from the proposed site and the Kindred Hospitals in the Chicago area. The applicants believe there is an unmet need in that patients have to leave the area to find long-term acute care services causing unnecessary hardship on patients, physicians and families. According to the applicants, many patients are required to remain in short-stay acute care hospitals that are considerably more expensive than long-term acute care hospitals. In addition rehabilitation of patients may

be prolonged due to extended stays in short-term acute care hospitals.

The applicants have identified a portion of the population that would currently need to drive over 45 minutes to receive long-term acute care services. Presently, these individuals are being served by the short-stay acute care hospitals in the area or the long-term acute care facilities in St. Louis or Chicago. The applicants propose a service that does not exist within 100 miles of the proposed site and one in which the State Board has no established criteria.

As noted above, there is no absence of M/S or ICU services in the planning area. Therefore, the applicants do not meet the first criterion. The applicants have not documented limitations on governmentally funded or charity patients, or evidence of restrictive admission policies for other area providers; therefore, the applicants have not met the second and third criteria. There is no evidence that the area population or existing providers exhibit indication of median care problems. Finally, there is sufficient Medical/Surgical and ICU services capacity within the service area that there is no need for patients to travel over 45 minutes for service.

The State Agency is unable to make a positive finding under current State Board rules.

THE STATE AGENCY FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE VARIANCE TO BED NEED CRITERION.

IX. General Review Criteria

A. Criterion 1110.230(a) - Location

An applicant who proposes to establish a new health care facility or a new category of service or who proposes to acquire major medical equipment that is not located in a health care facility and that is not being acquired by or on behalf of a health care facility must document the following:

- 1) that the primary purpose of the proposed project will be to provide care to the residents of the planning area in which the proposed project will be physically located.

- 2) that the location selected for a proposed project will not create a maldistribution of beds and services

The applicants provided a map outlining all facilities within 25 miles and 30 minutes drive time of the proposed facility and an outline of the proposed target population. The population estimate within the 25-mile radius is based upon the 2007 estimated data provided by Claritas. The estimated population within the proposed service area, as provided by the applicants, is 227,644. Medical/Surgical beds per thousand, as estimated by the applicants, are 3.73 beds. Warranty deeds for the property have been provided at pages 21-39 of the application for permit. This property is currently zoned R5-B which allows for medical offices and long-term acute care facilities.

It appears the primary purpose of the project is to provide care to the residents of the planning area. However, the location selected will create a maldistribution of service due to the excess M/S and ICU beds within the planning area. See pages 19-40 of the application for permit.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE LOCATION REVIEW CRITERION.

B. Criterion 1110.230(b) - Background of Applicants

The applicant shall demonstrate that it is fit, willing and able, and has the qualifications, background and character to adequately provide a proper standard of health care service for the community.

The applicants provided licensure and certification information as required. The applicants also certified they have not had any adverse actions within the past three years. The applicants own four long term acute care hospitals within the State of Illinois: Kindred North (Chicago), Kindred Northlake (Chicago), Kindred Hospital (Sycamore) and Kindred Central (Chicago). The applicants also own one Sub Acute Care Hospital - Chicago Lakeshore Hospital. It appears the applicants are fit, willing and able and have the qualifications, background and character to adequately provide a proper standard of healthcare service for the community. See pages 41-51 of the application for permit.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE BACKGROUND OF THE APPLICANTS REVIEW CRITERION.

C. Criterion 1110.230(c) - Alternatives

The applicants must document that the proposed project is the most effective or least costly alternative.

The applicants considered these alternatives:

1. Do Nothing; and
2. Build a 50-bed long-term acute care hospital.

The applicants chose the alternative of constructing a 50-bed long-term acute care facility to serve the needs of the E-01 planning area. The applicants believe they have identified a segment of the population that is in need of the long-term acute care service and the proposed long term acute care hospital is more cost advantageous than short-term acute care facilities.

Under current State Board rules, there is sufficient capacity to meet the M/S and ICU services in which the State Agency is currently reviewing this application. There is excess capacity within this planning area for Medical Surgical and ICU services and the "do nothing" alternative appears to be the most cost effective alternative. However, if the State Board accepts the applicants' contention that there is significant costs savings to be realized from approval of this proposal, then the applicants' data appears reasonable. See pages 52-54 of the application for permit for a complete discussion of this criterion.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH CRITERION ALTERNATIVES TO THE PROPOSED PROJECT.

D. Criterion 1110.230(d) - Need for the Project

The project must be needed.

- 1) If the State Board has determined need pursuant to Part 1100, the proposed project shall not exceed additional need determined unless the applicant meets the criterion for a variance.

- 2) If the State Board has not determined need pursuant to Part 1100, the applicant must document that it will serve a population group in need of the services proposed and that insufficient service exists to meet the need. Documentation shall include but not be limited to:
 - A) area studies (which evaluate population trends and service use factors);
 - B) calculation of need based upon models of estimating need for the service (all assumptions of the model and mathematical calculations must be included);
 - C) historical high utilization of other area providers; and
 - D) identification of individuals likely to use the project.
- 3) If the project is for the acquisition of major medical equipment that does not result in the establishment of a category of service, the applicant must document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months after acquisition.

There is no computed need within this planning area for additional M/S or ICU beds as identified by the update to the "Inventory of Healthcare Facilities, Service and Need Determinations" (July, 2008), therefore the applicants do not meet the requirements of this criterion. However if the State Board accepts the applicants assertion that there is a need for long term acute care services within this planning area, then the applicants methodology appears reasonable. See pages 55-79 of the application for permit for a complete discussion of the need for the project.

THE STATE AGENCY FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE NEED FOR THE PROJECT REVIEW CRITERION.

E. Criterion 1110.230(e) - Size of the Project

The applicants must document that the size of a proposed project is appropriate. The criterion states:

- 1) The proposed project cannot exceed the norms for project size found in Appendix B of this Part unless the additional square footage beyond the norm can be justified by one of the following:
 - A) the proposed project requires additional space due to the scope of

- services provided;
- B) the proposed project involves an existing facility where the facility design places impediments on the architectural design of the proposed project;
 - C) the proposed project involves the conversion of existing bed space and the excess square footage results from that conversion; or
 - D) the proposed project includes the addition of beds and the historical demand over the last five year period for private rooms has generated a need for conversion of multiple bed rooms to private usage.
- 2) When the State Board has established utilization targets for the beds or services proposed, the applicants must document that in the second year of operation the annual utilization of the beds or service will meet or exceed the target utilization.
- a. Size

The State Agency identified the departments involved in this project that are considered clinical and have GSF standards established by the State Board. Table Five displays those departments' GSF and a comparison to the State Board's standards.

Department	State Standard			Proposed GSF		Exceeds
		GSF/ Unit	Total GSF	Total GSF	GSF/Unit	
ICU	6 Beds	603/GSF/Bed	3,618	4,132	689/GSF/Bed	Yes
Occupational	44 Beds	4.3/GSF/Bed	189.2	300	6.8/GSF/Bed	Yes
Pharmacy	50 Beds	12/GSF/Bed	600	878	17.56/GSF/Bed	Yes
Medical Surgical	44 Beds	414/GSF/Bed	18,216	12,414	282/GSF/Bed	No
Radiology	2,000 treatments	1386/GSF/Room	1,386	589	589/GSF/Room	No
Physical Therapy	50 Beds	23/GSF/Bed	1,150	925	18.5/GSF/Bed	No
Respiratory Therapy	50 Beds	8.9/GSF/Bed	445	394	7.88/GSF/Bed	No
Laboratory	50 Beds	36/GSF/Bed	1,800	428	8.56/GSF/Bed	No
Emergency	2,000 treatments	744.6/GSF/Room	744.6	385	385/GSF/Room	No

(1) Information provided by the applicants

The applicants exceed the State Board's size standard for ICU beds, and occupational and pharmacy departments.

b. Utilization

The applicants project 60% utilization of the ICU service in the second quarter of the third year of operation and 80% utilization of the M/S beds by the end of the third year of operation. The utilization projections are based upon the applicants' experience operating its existing facilities. According to the applicants, during the first six months of operation, the facility will undergo a federally required demonstration period during which it will establish its average length of stay of 25 days. During this period, Kindred will receive reimbursement as a general acute care hospital and will focus on treating a limited number of very high acuity patients who have significantly long lengths of stay. The applicants also noted that since the proposed service is new to the area, it will take time to educate physicians and hospitals to long-term acute care.

As stated, the applicants exceed the size standards and will not meet the State Board's utilization standards in the second year of operation after project completion as required. Under current State Board rules, the State Agency is unable to make a positive finding regarding this criterion. See pages 80-88 of the application for permit.

THE STATE AGENCY FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH SIZE OF THE PROJECT REVIEW CRITERION.

X. Review Criteria - Financial Feasibility

A. Criterion 1120.210(a) - Financial Viability

1) Viability Ratios

Applicants (including co-applicants) must document compliance with viability ratio standards detailed in Appendix A of this Part or address a variance. Applicants must document compliance for the most recent three years for which audited financial statements are available. For Category B applications, the applicant also must document compliance through the first full fiscal year after project completion or for the first full fiscal year when the project achieves or

exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later, or address a variance.

- 2) Variance for Applications Not Meeting Ratios
Applicants not in compliance with any of the viability ratios must document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

Table Six and Seven display the financial viability for the Kindred Healthcare, Inc and Kindred Hospital - Springfield.

TABLE SIX ⁽¹⁾					
Kindred Healthcare Inc.					
Ratio	State Criteria	2007	2006	2005	2013
Current Ratio	1.5x	1.6x	1.7x	1.5x	1.7x
Net Margin Percentage	3.50%	.8%	1.7%	3.4%	1.9%
Percent Debt to Total Capitalization	60.00%	24%	12%	4%	7%
Projected Debt Service Coverage	1.75	10.2	14.9	29.7	23.2
Days Cash on Hand	90.00	32.6	31.2	42.4	30.1
Cushion Ratio	5.00	18.7	22.1	45.5	33.5
1. Information provided by the applicants					

TABLE SEVEN					
Kindred Hospital - Springfield					
Ratio	State Criteria	2007	2006	2005	2013
Current Ratio	1.5x	NA	NA	NA	2.7x
Net Margin Percentage	3.50%	NA	NA	NA	4.0%
Percent Debt to Total Capitalization	60.00%	NA	NA	NA	10%
Projected Debt Service Coverage	1.75	NA	NA	NA	1.05
Days Cash on Hand ⁽¹⁾	90.00	NA	NA	NA	0.00
Cushion Ratio ⁽¹⁾	5.00	NA	NA	NA	0.00
1. Kindred facilities are deposit only. All cash is centrally disbursed.					

The applicants provided financial ratios for Kindred Healthcare, Inc. Financial information for THC-Chicago, a subsidiary of Kindred, was not provided because all subsidiary information is consolidated. Consolidated financial statements present an aggregated look at the financial position of a parent and its subsidiaries. Under current accounting rules, the parent company (Kindred Healthcare, Inc.) must present its subsidiary's and its own financial operations in a consolidated manner (even though the two companies may be separate legal entities). The parent company does so by publishing a consolidated financial statement, which combines the assets, liabilities, revenue, and expenses of the parent company as well as those of its affiliates (that is, its subsidiaries, associates, and joint ventures).

For all years presented for Kindred Healthcare, Inc., the applicants do not meet the Net Margin Percentage, Days Cash on Hand and Cushion ratios. Kindred Hospital - Springfield does not meet the projected days' cash on hand and cushion ratio for 2013.

1. Net Margin Percentage - is an indication of the amount of profit being realized on every dollar of sales. In 2007, Kindred Healthcare Inc.

earned net income (after interest and taxes) of \$.80 on every \$100 of revenue.

2. Days of Cash on Hand - is an indication of the number of days the facility could operate if no future revenue is provided. In 2007, the applicants had 33 days of cash on hand. Therefore, the applicants could operate for approximately 1 month without future revenue.
3. Cushion Ratio - is an indication of the amount of cash, short-term investment and unrestricted long-term investments remaining after paying all fixed debt expenses (annual principal and interest payments). In 2006 the applicants had 18 times the maximum annual debt service (annual principle and interest) in cash, short-term investment and unrestricted long-term investment.

THE STATE AGENCY FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE FINANCIAL VIABILITY REVIEW CRITERION.

B. Criterion 1120.210(b) - Availability of Funds

The applicant must document that financial resources shall be available and be equal to or exceed the estimated total project cost and any related cost.

The applicants documented that sufficient resources are available to fund the project and related costs. The project will be funded with cash and securities of \$24,911,716. The applicants provided an audited balance sheet for 2007 that would indicate an excess of \$32 million dollars in cash and cash equivalents are available to fund the project. There appears to be sufficient funds to construct this project.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE AVAIABILITY OF FUNDS REVIEW CRITERION.

C. Criterion 1120.210(c) - Start-Up Costs

The applicant must document that financial resources shall be available

and be equal to or exceed any start-up expenses and any initial operating deficit.

The applicants indicate start-up costs and operating deficit for the project would total \$3,891,219. A review of the parents' audited balance sheet indicates sufficient funds are available to cover start-up costs.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE START-UP COSTS REVIEW CRITERION.

XI. Review Criteria - Economic Feasibility

A. Criterion 1120.310(a) - Reasonableness of Financing Arrangements

This criterion is not applicable if the applicant has documented a bond rating of "A" or better pursuant to Section 1120.210. An applicant that has not documented a bond rating of "A" or better must document that the project and related costs will be:

- 1) funded in total with cash and equivalents including investment securities, unrestricted funds, and funded depreciation as currently defined by the Medicare regulations (42 USC 1395); or
- 2) funded in total or in part by borrowing because:
 - A) a portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order that the current ratio does not fall below 2.0 times; or
 - B) borrowing is less costly than the liquidation of existing investments and the existing investments being retained may be converted to cash or used to retire debt within a 60 day period. The applicant must submit a notarized statement signed by two authorized representatives of the applicant entity (in the case of a corporation, one must be a member of the board of directors) that attests to compliance with this requirement.

This criterion is not applicable because debt is not being used to finance this project.

THE STATE AGENCY FINDS THE CRITERION REASONABLENESS OF FINANCING ARRANGEMENTS IS NOT APPLICABLE TO THE PROPOSED PROJECT.

B. Criterion 1120.310(b) - Conditions of Debt Financing

The applicant must certify that the selected form of debt financing the project will be at the lowest net cost available or if a more costly form of financing is selected, that form is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs, and other factors. In addition, if all or part of the project involves the leasing of equipment or facilities, the applicant must certify that the expenses incurred with leasing a facility and/or equipment are less costly than constructing a new facility or purchasing new equipment. Certification of compliance with the requirements of this criterion must be in the form of a notarized statement signed by two authorized representative (in the case of a corporation, one must be a member of the board of directors) of the applicant entity.

This criterion is not applicable because debt is not being used to finance this project.

THE STATE AGENCY FINDS THE CRITERION CONDITIONS OF DEBT FINANCING IS NOT APPLICABLE TO THE PROPOSED PROJECT.

C. Criterion 1120.310(c) - Reasonableness of Project Cost

1) Construction and Modernization Costs

Construction and modernization costs per square foot for non-hospital based ambulatory surgical treatment centers and for facilities for the developmentally disabled, and for chronic renal dialysis treatment centers projects shall not exceed the standards detailed in Appendix A of this Part unless the applicant documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities. For all other projects, construction and modernization costs per square foot shall not exceed the adjusted (for inflation, location, economies of scale and mix of service) third quartile as provided for in the Means Building Construction Cost Data publication unless the applicant documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.

- 2) Contingencies
Contingencies (stated as a percentage of construction costs for the stage of architectural development) shall not exceed the standards detailed in Appendix A of this Part unless the applicant documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities. Contingencies shall be for construction or modernization only and shall be included in the cost per square foot calculation.
BOARD NOTE: If, subsequent to permit issuance, contingencies are proposed to be used for other line item costs, an alteration to the permit (as detailed in 77 Ill. Adm. Code 1130.750) must be approved by the State Board prior to such use.
- 3) Architectural Fees
Architectural fees shall not exceed the fee schedule standards detailed in Appendix A of this Part unless the applicant documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.
- 4) Major Medical and Movable Equipment
 - A) For each piece of major medical equipment, the applicant must certify that the lowest net cost available has been selected, or if not selected, that the choice of higher cost equipment is justified due to such factors as, but not limited to, maintenance agreements, options to purchase, or greater diagnostic or therapeutic capabilities.
 - B) Total movable equipment costs shall not exceed the standards for equipment as detailed in Appendix A of this Part unless the applicant documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.
- 5) Other Project and Related Costs
The applicant must document that any preplanning, acquisition, site survey and preparation costs, net interest expense and other estimated costs do not exceed industry norms based upon a comparison with similar projects that have been reviewed.

Preplanning Costs - These costs total \$36,000, or less than 1% of construction, contingencies and equipment costs of \$13,859,162. This appears reasonable compared to the State guideline of 1.8%.

Site Survey, Soil Investigation and Site Preparation - These costs total \$9,450, which is less than 1% of construction, and contingency costs of \$10,927,242. This appears reasonable compared to the State standard of 5%.

New Construction and Contingency Costs - These costs total \$10,927,242, or \$210.81 per GSF. This appears reasonable compared to the adjusted State standard of \$267.38 per GSF. Demolition costs of \$166,700 that were incurred as part of the previous approved permit project have been included in the construction costs as part of the cost of this project.

Contingencies - These costs are \$900,000 for new construction, or 8.98 % of construction costs. This appears reasonable compared to the State standard of 10%.

Architectural and Engineering Fees - These costs total \$482,400, or 4.41 % of construction and contingencies. This appears reasonable compared to the State standard of 3.9% - 8.45%.

Consulting and Other Fees - These costs total \$69,300. These costs in total include \$40,000 for legal fees, \$12,000 for consultant fees, and \$58,000 for plan review and CON fees. The State Board does not have a standard for these costs.

Equipment - These costs total \$2,931,920. The applicants have provided a list of equipment to be included in the proposed project. No piece of equipment exceeds the major capital expenditure threshold. The State Agency does not have a standard for hospital-based equipment costs.

Other Costs to be Capitalized - These costs total \$720,000 and are for capitalized interest. The State Agency does not have a standard for these costs.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT COSTS REVIEW CRITERION.

D. Criterion 1120.310(d) - Projected Operating Costs

The applicant must provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later. Direct costs means the fully allocated costs of salaries, benefits, and supplies for the service.

The applicants project \$1,060 of direct annual operating costs per patient day for the first full year after project completion. The State Board does not have a standard for this cost.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH PROJECTED OPERATING COSTS CRITERION.

E. Criterion 1120.310(e) - Total Effect of the Project on Capital Costs

The applicant must provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later.

The applicants project \$164 in annual capital costs per equivalent patient day for the first full year after project completion. The State Board does not have a standard for these costs.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TOTAL EFFECT ON THE PROJECT ON CAPITAL COSTS.

F. Criterion 1120.310(f) - Non-Patient Related Services

The applicant must document that projects involving non-patient related services (medical office buildings) will be self-supporting and not result in increased charges to patients or that increased charges to patients are justified based upon such factors as, but not limited to, a cost benefit or other analysis which demonstrates that the project will improve the

applicant's financial viability.

This criterion is not applicable to this project.

THE STATE AGENCY FINDS CRITERION NON-PATIENT RELATED SERVICES IS NOT APPLICABLE TO THE PROPOSED PROJECT.

