

Minnesota Hospital Public Interest Review:

North Memorial Health Care
Proposal for a New Inpatient
Facility in Maple Grove,
Minnesota

Minnesota Department of Health

March 2005



Office of Health Policy, Statistics and Informatics
Health Economics Program
PO Box 64882
St. Paul, Minnesota 55164-0882
(651) 282-6367
www.health.state.mn.us



Protecting, maintaining and improving the health of all Minnesotans

March 11, 2005

The Honorable Jim Abeler
Chair, Health Care Cost Containment Division
Minnesota House of Representatives
509 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd.
Saint Paul, Minnesota 55155

The Honorable Linda Berglin
Chair, Health and Human Services
Budget Division
Minnesota Senate
Room 309, State Capitol
75 Rev. Dr. Martin Luther King Jr. Blvd
Saint Paul, Minnesota 55155-1606

The Honorable Fran Bradley
Chair, Health Policy and Finance
Committee
Minnesota House of Representatives
563 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd.
Saint Paul, Minnesota 55155

The Honorable Becky Lourey
Chair, Health and Family Security
Committee
Minnesota Senate
Room G-24, State Capitol
75 Rev. Dr. Martin Luther King Jr. Blvd
Saint Paul, Minnesota 55155-1606

To the Honorable Chairs:

Minnesota Statutes 144.552 requires any hospital seeking to increase its number of licensed beds or an organization seeking to obtain a hospital license to submit a plan to the Commissioner of Health. The Commissioner is required to review each plan submitted under Minnesota Statutes 144.552 and issue a finding on whether the plan is in the public interest. The law requires that the Commissioner provide a copy of the finding on whether the plan is in the public interest to the chairs of the House and Senate committees having jurisdiction over health and human services policy and finance.

In November 2004, the MDH received three proposals from entities planning to seek a license to build a new hospital in Maple Grove, Minnesota. North Memorial Health Care and Fairview Health Services each submitted a proposal, and the third proposal was submitted by a partnership between Allina Hospitals and Clinics, Park Nicollet Health Services, and Children's Hospitals and Clinics (the "Maple Grove Tri-Care Partnership"). Consistent with the requirements of Minnesota Statutes 144.552, we have reviewed each of the three plans that we received. Because the law does not specifically contemplate situations in which more than one proposal may be submitted for the same geographic area, we reviewed each of the plans individually. A separate report and findings for each of the plans submitted to MDH for public interest review is enclosed.

All three of the reports find that it is in the public interest to construct a new hospital in Maple Grove. From a local perspective, the Department concurs that the community can support a hospital of the size and scope proposed, and that a new facility would provide more convenient access to services for residents in the community. From a statewide perspective, the Department finds that existing inpatient hospital capacity is likely to experience increasing strains over the next decade, and that construction of some new capacity may be necessary to relieve those strains. Because hospitals that currently serve the Maple Grove area collectively account for about one third of total hospital admissions in Minnesota, this issue is a statewide concern. The three proposals address this issue to varying degrees. Also to varying degrees, all three proposals specifically address issues of statewide concern such as a shortage of inpatient behavioral health services. In considering whether to grant an exception to the hospital moratorium, the legislature may wish to give strong consideration to whether certain services, such as inpatient behavioral health services, should be included as a requirement under any moratorium exception granted.

While the Department finds that it is in the public interest to construct a new hospital in Maple Grove, we believe that it is unlikely that the construction of three new inpatient facilities in Maple Grove would be in the public interest. As noted above, the legislation establishing the public interest review process did not contemplate a situation in which there would be simultaneous proposals to expand hospital capacity in the same geographic area. A direct comparison of the three proposals and recommendation as to which proposal is best is beyond the scope of the Department's authority under the law.

I look forward to working with into the future on issues of hospital capacity in Minnesota.

Sincerely,

A handwritten signature in cursive script, reading "Dianne M. Mandernach". The signature is written in dark ink and is positioned to the left of the typed name.

Dianne M. Mandernach

Commissioner

P.O. Box 64882

St. Paul, Minnesota 55164-0882

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1. Background

Since 1984, Minnesota law has prohibited the construction of new hospitals or expansion of bed capacity of existing hospitals without specific authorization from the Legislature (Minnesota Statutes 144.551). As originally enacted, the law included a few specific exceptions to the moratorium on new hospital capacity; other exceptions have been added over time, and there are currently 18 exceptions to the moratorium that are listed in the statute. Many of these exceptions apply to specific facilities, but some define an exception that applies more broadly (for example, an exception that allows for the relocation of a hospital within five miles of its original site under some circumstances).

The moratorium on licensure of new hospital beds replaced a Certificate of Need (CON) program that provided for case-by-case review and approval of proposals by hospitals and other types of health care providers to undertake large projects such as construction and remodeling or purchases of expensive medical equipment. The CON program was in effect from 1971 until it was replaced by the hospital moratorium in 1984. The CON program was criticized for failing to adequately control growth, but at the same time there was substantial concern among policymakers about allowing the CON program to expire without placing some other type of control on investment in new capacity.

At the time the hospital moratorium was enacted, policymakers were concerned about excess capacity in the state's hospital system, its impact on the financial health of the hospital industry, and its possible impact on overall health care costs. According to a 1986 Minnesota Senate Research Report on the hospital moratorium, "Declining occupancy has resulted in thousands of empty hospital beds across the state, in financial difficulty for some hospitals, and in efforts by hospitals to expand into other types of care. In spite of the excess hospital capacity in the state, hospitals continued to build and expand until a moratorium was imposed..."¹ The moratorium was seen as a more effective means of limiting the expansion of hospital capacity than the Certificate of Need program it replaced. One drawback of the moratorium, however, has been that there is no systematic way of evaluating proposals for exceptions to the moratorium in terms of the need for new capacity or the potential impact of a proposal on existing hospitals.

¹ "Hospital and Nursing Home System Growth: Moratoria, Certificate of Need, and Other Alternatives," Minnesota Senate Research Report, by Dave Giel and Michael Scandrett, January 1986.

2. Hospital Public Interest Review Process

In 2004, the Legislature established a new process for reviewing proposals for exceptions to the hospital moratorium (Minnesota Statutes 144.552). This “public interest review” process requires that hospitals planning to seek an exception to the moratorium law submit a plan to the Minnesota Department of Health (MDH). Under the law, MDH is required to review each plan and issue a finding on whether the plan is in the public interest. Specific factors that MDH is required to consider in the review include:

- Whether the new hospital or hospital beds are needed to provide timely access to care or access to new or improved services;
- The financial impact of the new hospital or hospital beds on existing acute-care hospitals that have emergency departments in the region;
- How the new hospital or hospital beds will affect the ability of existing hospitals in the region to maintain existing staff;
- The extent to which the new hospital or hospital beds will provide services to nonpaying or low-income patients relative to the level of services provided to these groups by existing hospitals in the region; and
- The views of affected parties.

Finally, the law requires that the public interest review be completed within 90 days, but allows for a review time of up to six months in extenuating circumstances. Authority to approve any exception to the hospital moratorium continues to rest with the Legislature.

In November 2004, MDH received three separate filings for public interest review of a proposal to build a new hospital in Maple Grove, Minnesota. North Memorial Health Care and Fairview Health Services each submitted proposals, and a joint proposal from Allina Hospitals and Clinics, Park Nicollet Health Services, and Children’s Hospitals and Clinics (collectively, the “Maple Grove North Memorial Partnership”) was also submitted. The law that established the public interest review process does not specifically contemplate situations in which more than one proposal for an exception may be submitted for the same geographic area. With regard to the three applications for public interest review that MDH has received for the Maple Grove area, we have reviewed each plan separately according to the criteria established in the law. It is important to note that each of the three proposed projects also involves the construction of large new outpatient facilities that will provide a broad range of services such as primary and specialty care, ambulatory surgery, and diagnostic imaging, with construction beginning as early as 2005; however, Minnesota law does not restrict the ability to construct outpatient facilities in the same way as it does for inpatient facilities, and those portions of the proposed projects are therefore outside of the scope of MDH’s public interest review.

Our review of each proposal included several different components. Some of these components, such as soliciting public input, reviewing historical and projected data on population demographics and hospital use, and reviewing previously published research on relevant topics, were overlapping among the three proposals. Other aspects of our review, such as estimating the potential impact of the proposed facility on other hospitals in the region and evaluating each proposal in light of the specific criteria listed in the law, were conducted separately for each proposal.

The remainder of this report is organized as follows:

- Section 3 provides a summary of the comments from the public and other affected parties that we received related to the need for a hospital in Maple Grove;
- Section 4 presents information on trends in the use of hospital services and how the use of hospital services is projected to change as a result of future demographic changes, from a statewide and regional perspective and also for the local hospital market serving residents of the Maple Grove area;
- Section 5 evaluates North Memorial's plan to build a hospital in Maple Grove in light of the criteria for review that are specified in Minnesota Statutes 144.552;
- Section 6 concludes the report with a summary of the analysis and findings, along with other factors that policymakers may wish to consider in evaluating this proposal for an exception to the hospital moratorium.

3. Public Input

We used three strategies to collect input on the views of affected parties. First, we sent a letter to all hospital administrators in Minnesota notifying them of the plans that had been filed and soliciting their input if they wished to provide any. Second, we published a notice in the December 6, 2004 State Register as a general notice to interested parties that we had received three plans and providing an opportunity to comment on the proposals. Third, we held a public meeting in Maple Grove on January 11, 2005 to solicit input from the community on the need for a hospital in Maple Grove and the impact that a hospital in Maple Grove might have on other hospitals in the region. In addition, we posted an electronic copy of each of the filings that we received on MDH's website, in order to provide convenient access to the proposals to anyone who might wish to comment. Copies of written comments that we received about this proposal for an exception to the hospital moratorium are included in Appendix 1.

The public meeting that MDH held in Maple Grove on January 11 was intended to provide a forum for public input to MDH on the general need for a hospital in Maple Grove. An estimated 300 people attended the meeting, and 42 citizens provided comments. Many of the comments shared similar themes, which are summarized below:

- Concerns about health and safety:
 - Citizens are concerned about the distance to the nearest hospital (11 miles to North Memorial in Robbinsdale) and by the amount of time that it takes to travel there due to frequent traffic congestion.
 - Citizens and health care professionals alike believe that the Maple Grove area needs to have more timely access to emergency and trauma services. According to one person, the closest emergency care is “20 to 30 minutes away on a good day” and there is a need for more timely access.
 - Some health care professionals expressed specific public safety concerns about the lack of access to emergency care. They reported that the distance to the nearest emergency room deters some people from seeking emergency care that they really need (or causes them to delay seeking care), and they reported that urgent care centers currently located in Maple Grove are increasingly being used by people who are too sick to be treated there because of the lack of convenient access to a hospital emergency room.

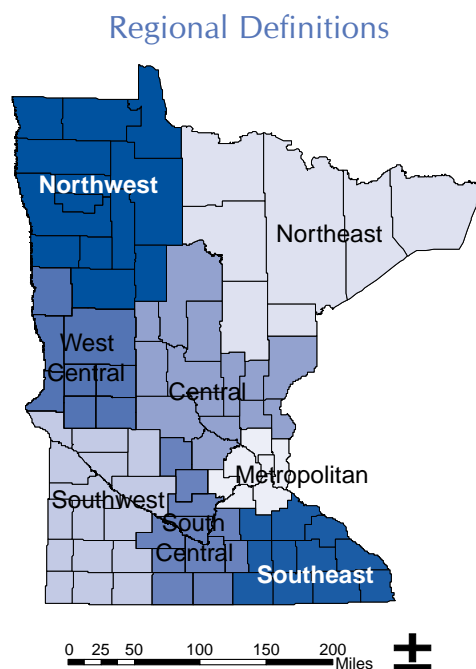
- Shortages of specific services:
 - Several people commented on the need for additional mental health and chemical dependency services, due to a shortage of inpatient beds available to treat these conditions.

-
- Convenient access to services:
 - Community residents expressed a desire for more convenient access to health care services, particularly obstetric care, pediatric care (including specialty pediatric services), and cancer treatment.
 - Although many of the comments that focused on convenient access to services related to services that are likely to be provided in an outpatient setting, several people expressed a desire that any hospital that is built in Maple Grove should be a “full service” hospital providing a complete range of care without the need for patients to be transferred to other hospitals to receive more complex services.
 - Collaboration between health care providers and the community:
 - Several people provided comments that emphasized the need for any organization that builds a hospital in Maple Grove to work collaboratively with the community (schools, churches, etc.) to identify and address community needs.
 - Impact on other hospitals in the region:
 - Several community residents, some of whom are employed by North Memorial, expressed concerns about a potential adverse impact on North Memorial if one of the other two proposals were to be approved, about North Memorial’s ability to survive as an independent institution, and about potential further consolidation of the hospital market into a market controlled by one or two large hospital systems.

4. Trends in the Use of Inpatient Hospital Services and Projected Impact of Future Demographic Change

State and Regional Trends

As noted above, one of the reasons for the original enactment of the hospital moratorium was that there was perceived to be a significant amount of excess capacity in Minnesota's hospital system. Since the moratorium was enacted, occupancy rates for Minnesota's hospital system as a whole have continued to be relatively low in comparison to licensed capacity. For example, in 2003 the system as a whole had an occupancy rate of about 42 percent of licensed beds; however, there is substantial variation in occupancy rates among different regions of the state – in 2003, occupancy rates ranged from a low of 28 percent in the South Central region to a high of 48 percent in the Twin Cities Metropolitan region (see map for region definitions).



In some ways, however, analyzing occupancy rates based on licensed beds can be misleading because many hospitals (particularly in the Twin Cities Metropolitan and Southeast regions) have large numbers of beds that are licensed but are unused. In some cases, these licensed beds may not even be able to be used within a facility's current physical capacity (i.e., a facility would have to undertake a major construction project in order to make use of these licensed beds). As a result, counting all of these licensed hospital beds when calculating occupancy rates is likely to overstate

the true capacity of Minnesota's hospital system. When occupancy rates are calculated based on "available beds",² the statewide hospital occupancy rate was 59 percent in 2003, ranging from a low of 28 percent in the Southwest region to a high of 71 percent in the Twin Cities Metropolitan region.

Because of advances in technology (e.g., the ability to do many procedures on an outpatient basis that formerly would have required a hospital stay), changes in standards of care, changes in health insurance payment systems, and other factors, use of inpatient hospital services in Minnesota (both admissions and total number of inpatient days) declined through the mid-1990s despite population growth. As shown in Table 1, even though Minnesota's population grew by about 20 percent from 1987 to 2003, the number of hospital admissions grew more slowly over the same period (14 percent) and the number of inpatient hospital days actually declined by 16 percent.

Table 1

Historical Trends in Use of Inpatient Hospital Services

	Percent change in:		
	Inpatient Admissions	Inpatient Days	Minnesota Population
1987 to 1994	-6.5%	-20.2%	8.9%
1994 to 1998	7.9%	-1.6%	4.4%
1998 to 2003	13.4%	7.1%	5.2%
1987 to 2003	14.4%	-15.9%	19.6%

Source: MDH, Hospital Cost Containment Information System, 1987 to 2003. 1987 was the first year of data collection.

There are several factors that are likely to influence future use of hospital services. Population growth will continue to play an important role, and aging will begin to be a more important factor as the baby boom generation reaches the age at which use of hospital services begins to increase sharply. In addition, technological advance will continue to be a very important determinant of future use of hospital services, with some new technologies likely increasing the use of inpatient services and others decreasing the use of services. Changes in the prevalence of disease (for example, due to rising rates of overweight and obesity) are also likely to play a role.

According to MDH estimates, population growth and the changing age distribution of the population are expected to result in an overall 36 percent increase in inpatient hospital days statewide between 2000 and 2020. As shown in Figure 1, this estimated increase varies by region: growth in the Central and Metropolitan regions is expected to be strongest, with growth in inpatient days of 53 percent and 40 percent, respectively. As a result, if the number of available beds were unchanged, occupancy rates would rise as well. The highest projected occupancy rates in

² The definition of "available beds" is the number of acute care beds that are immediately available for use or could be brought on line within a short period of time.

2020 are for the Metropolitan region (94 percent), Southeast region (85 percent) and Central region (76 percent), compared to a statewide average of 77 percent (see Figure 2). If occupancy rate calculations are performed using the number of hospital beds licensed in 2003 instead of available beds, the estimated future occupancy rates are much lower – 63 percent in the Metropolitan region, 53 percent in the Southeast region, 64 percent in the Central region, and 55 percent statewide.

Figure 1

Projected Growth in Inpatient Days by Region, 2000 to 2020

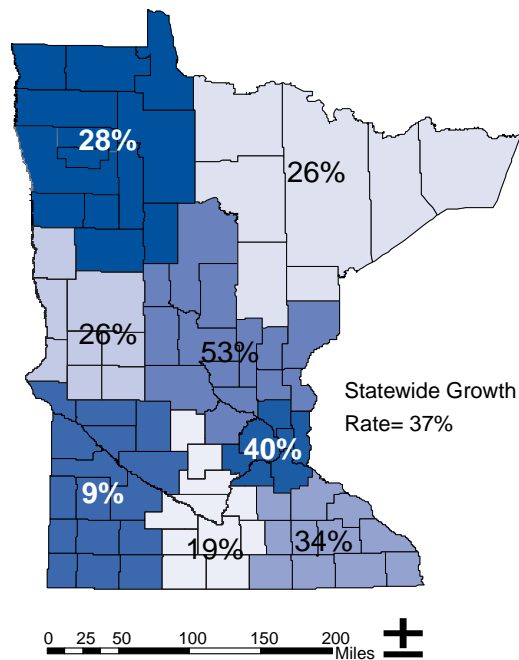
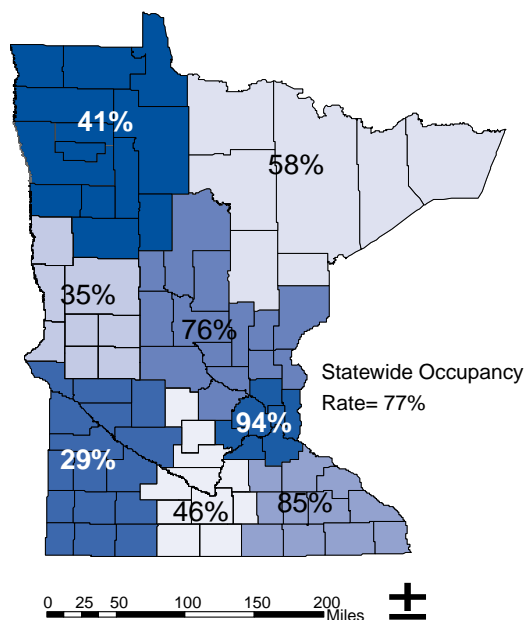


Figure 2

Projected Occupancy Rates as % of 2003 Available Beds by Region, 2020



In other words, there is clearly no shortage of licensed hospital beds in the state as a whole, nor is a shortage likely to materialize in the next fifteen years. However, the fact that the aggregate number of licensed beds in the state appears to be sufficient over this time period does not necessarily mean that there is no need for new physical hospital capacity, particularly in certain areas of the state experiencing rapid growth. There are several reasons why this may be the case:

- First, as noted earlier, occupancy rates vary widely across the state. Based on the number of currently available beds, occupancy rates projected for 2020 in the Metropolitan region (94 percent) and Southeast region (85 percent) are very high. The degree to which hospitals in these regions may be able to expand the number of available beds to meet future demand without undertaking major construction projects to increase physical capacity is uncertain. (This issue is discussed more specifically with regard to the Maple Grove area below.)
- In addition, average occupancy rates measured over a full-year period do not capture variations in occupancy rates that occur during the year. This consideration is important because even though a hospital's annual occupancy rate may not seem high enough to create concerns about whether capacity is sufficient, there are likely a number of times during the year when the hospital's occupancy rate is substantially higher than the average experienced over the entire year. As a result, using occupancy rates that measure capacity use over a full-year period may understate the degree to which the hospital system may be operating at or near capacity constraints at certain times.

It should also be noted that hospitals' ability to make full use of their licensed beds within existing facilities is limited by the relatively recent shift in the hospital market (both in Minnesota and nationally) toward private instead of semi-private hospital rooms. Consumer preferences have played an important role in many hospitals' business decisions to convert semi-private to private rooms, as well as concerns about patient safety and compliance with patient privacy laws.³

While Minnesota's hospitals likely have the ability to expand the number of available beds to some degree at existing facilities to meet projected future demand, it may also be the case that future demand in high-growth areas cannot be met without some major construction projects, either the construction of new hospitals or the expansion of existing facilities. If it is likely that some type of major construction project will be necessary to meet future needs, then the question before legislators as they consider granting an exception to the hospital moratorium becomes more a question not of whether new hospital capacity is needed, but where the new capacity should be located.

Trends in the Maple Grove Area

The Maple Grove area is experiencing rapid population growth. Although each of the proposals for an exception to the hospital moratorium in Maple Grove defines the area somewhat differently, population growth is projected to be much faster than the statewide average regardless of the specific geographic definition chosen. The Maple Grove area is expected to grow approximately 3 to 4 times faster than the projected statewide growth rates of 4.7 percent from 2003 to 2009 and 5.0 percent from 2009 to 2015.

The plans submitted to MDH by the hospitals seeking an exception to the moratorium identify several hospitals that currently serve significant numbers of residents of the Maple Grove area. Figure 3 shows the locations of each of the eleven hospitals that currently serve most residents of the Maple Grove area. Key utilization and financial indicators for these hospitals in 2003 (the most recent year of data that is available) are listed in Table 2. Recent trends in admissions, the total number of inpatient days, and occupancy rates are described in Table 3. For these eleven hospitals as a group, the occupancy rate as a percentage of available beds increased from 69 percent in 1999 to 74 percent in 2003.

³ Michael Romano, "Going Solo: Private-Rooms-Only Provision for New Hospital Construction Stirs Controversy," *Modern Healthcare*, November 29, 2004.

Figure 3

Hospitals Serving the Maple Grove Area

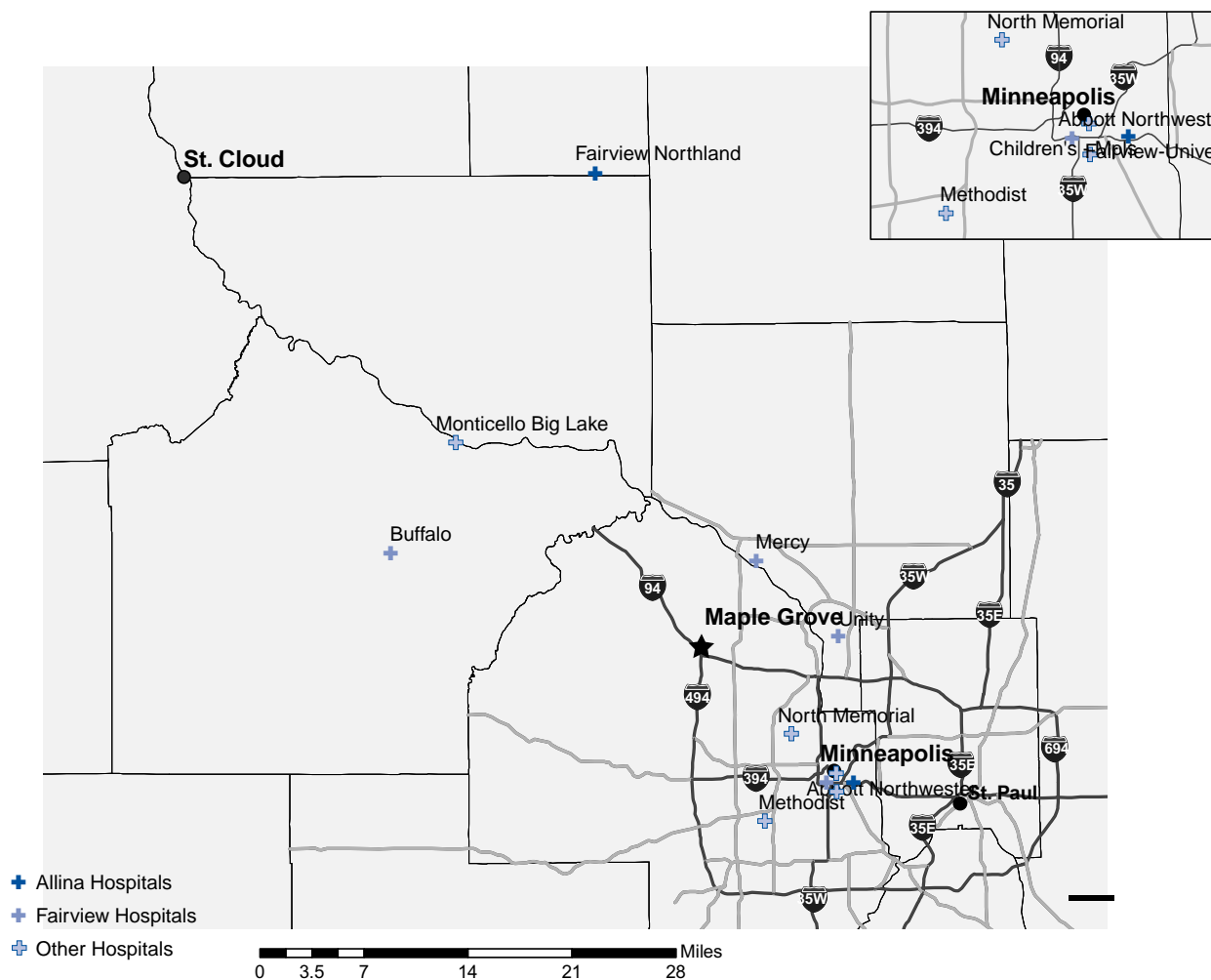


Table 2
Hospitals Serving Maple Grove Area Patients: Capacity and Financial Indicators for 2003

	Distance from Maple Grove	Licensed Beds	Available Beds	Occupancy Rate (as % of Available Beds)	Net Income (\$ millions)	Net Income as % of Revenue	Uncompensated Care* (\$ millions)	Uncompensated Care as % of Operating Expenses
Abbott Northwestern Hospital	20 miles	926	627	75.5%	\$44.1	7.5%	\$6.0	1.1%
Buffalo Hospital	32 miles	65	34	59.7%	\$2.9	8.8%	\$0.7	2.4%
Children's Hospitals and Clinics, Minneapolis	19 miles	153	153	84.6%	\$12.1	5.9%	\$1.8	0.9%
Fairview Northland Regional Hospital	35 miles	41	41	51.4%	(\$2.2)	-3.6%	\$1.5	2.3%
Fairview-University Medical Center	20 miles	1,700	729	69.6%	\$39.5	5.7%	\$3.8	0.6%
Hennepin County Medical Center	19 miles	910	422	71.3%	(\$7.2)	-1.8%	\$21.8	5.3%
Mercy Hospital	11 miles	271	212	78.6%	\$15.3	6.8%	\$3.4	1.6%
Methodist Hospital Park Nicollet Health Services	17 miles	426	370	71.3%	\$17.5	5.3%	\$2.3	0.7%
Monticello-Big Lake Hospital	22 miles	39	18	57.1%	\$1.2	5.4%	\$1.0	3.9%
North Memorial Medical Center	11 miles	518	432	74.0%	\$23.6	7.8%	\$3.3	1.0%
Unity Hospital	14 miles	275	211	66.1%	\$1.7	1.1%	\$3.0	2.0%
Statewide average				59.4%		5.3%		1.6%

*Uncompensated care is adjusted by a ratio of hospital costs to charges.

Source: MDH, Health Care Cost Information System.

Distance from Maple Grove is measured as the driving distance from the Maple Grove Community Center, according to MapQuest.

Table 3

Trends for Maple Grove Area Hospitals

	1999	2000	2001	2002	2003
Total available beds			3,260	3,158	3,249
Inpatient admissions	176,550	180,772	185,029	190,882	190,475
Inpatient days	822,799	849,862	854,346	857,519	858,746
Occupancy rate*	69.1%	71.4%	71.8%	74.4%	72.4%

*calculated based on available beds. For 1999 and 2000, calculation is based on 2001 available beds (data were not collected in 1999 and 2000).

Source: MDH, Health Care Cost Information System.

Projections for Hospitals Currently Serving the Maple Grove Area

Each of the three plans that were submitted to MDH for a public interest review contained an analysis of the ability of the Maple Grove area to sustain a hospital. While the question of whether the community can support a hospital is important, it is a different question from whether there is a need for a new hospital in the community. The legislation that established the public interest review process directs MDH to evaluate proposals for exceptions to the hospital moratorium based on the question of the need for the proposed facility, not whether the community can support a new facility.

As the starting point for MDH's analysis of the Maple Grove area, we analyzed the need for a new hospital from the perspective of the hospital system as a whole. Our analysis began with an estimate of what will happen to occupancy rates at hospitals that currently serve the majority of patients living in the Maple Grove area in the absence of a new hospital being built in Maple Grove. These "baseline" estimates incorporate projected changes in population and demographics in the market areas served by these hospitals. The baseline estimates also incorporate a range of assumptions about future hospital use rates, due to the inherent uncertainty in projecting changes in use of services due to factors like technological change.⁴ This set of estimates formed the starting point for our analysis, and was the same for each of the three plans submitted to MDH for public interest review.

The overall results from this baseline analysis are presented in Table 4. As shown in the table, the occupancy rate for the eleven hospitals included in this analysis was 74 percent of available beds in 2003.⁵ The occupancy rate is projected to increase to 79.4 percent in 2009, and 85.5 percent in 2015 (assuming no increase in available beds). It is important to note that this increasing strain on hospital capacity affects more than just residents of the Maple Grove area. Because the eleven

⁴ More detail on the methodology we used to create the baseline estimates is included in Appendix 2. This discussion of the results of our analysis does not identify individual hospitals because the data we used to perform the analysis were collected under MDH's authority provided by Minnesota Statutes 62J.301, and Minnesota Statutes 62J.321 Subd. 5(e) prohibits the release of analysis that names any institution without a 21-day period for review and comment.

⁵ This figure differs from Table 3 because it uses a different data source.

hospitals included in our analysis account for about one-third of total hospital admissions in Minnesota, the issue of rising occupancy rates is an issue that will likely have a much broader impact.

Table 4

Projections for Hospitals Serving Maple Grove Residents

	2003 Actual	2009 Projected	2015 Projected
Number of discharges	193,402	207,828 Range: 187,045 to 228,610	224,267 Range: 201,840 to 246,304
Number of inpatient days	877,448	943,712 Range: 849,341 to 1,038,084	1,016,040 Range: 914,436 to 1,115,288
Occupancy rate: 2003 available beds	74.0%	79.4% Range: 71.5% to 87.4%	85.5% Range: 77.0% to 93.9%
Occupancy rate: as % of maximum physical capacity		69.6% Range: 62.7% to 76.6	75.0% Range: 67.5% to 82.3%

Source: MDH Health Economics Program. Data sources include Minnesota hospital discharge database, Health Care Cost Information System (HCCIS), and population projections from Claritas, Inc.

As part of the public interest review process, we also conducted an informal survey of hospitals that currently serve patients living in the Maple Grove area to find out whether those hospitals have the physical capacity to expand the number of available beds at their current locations to meet expected growth in demand. We asked these hospitals about the maximum number of beds that they could operate on a permanent basis without undergoing major construction.⁶ While there may be issues with the quality of this self-reported data, based on the results of that informal survey, if each of the eleven hospitals increased its number of available beds to the maximum level that would be feasible with its current physical capacity, the projected occupancy rates for 2009 and 2015 are 69.6 percent and 75.0 percent, respectively. One important thing to note about this analysis, however, is that the hospitals that currently serve the largest numbers of Maple Grove area residents did not report much ability to expand the number of available beds without a major construction project; the only hospital that reported having the ability to make a large number of additional beds available without a major construction project is one of the hospitals that is most distant from Maple Grove, and currently serves a small share of the Maple Grove market.

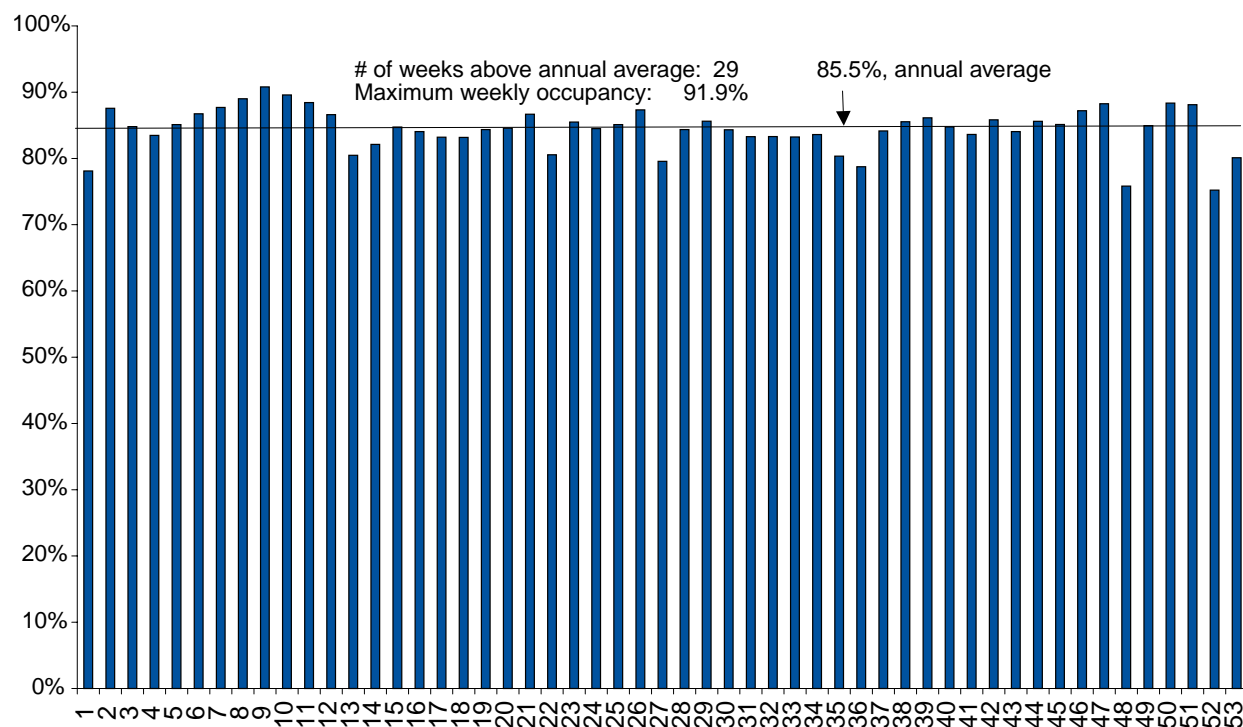
At certain times during the year the occupancy rate for the group of eleven hospitals currently serving most Maple Grove residents is expected to be substantially higher than the average occupancy rate over the entire year. In 2009, the highest projected weekly occupancy rate for the eleven hospitals as a group is 85.4 percent; in 2015, the peak weekly occupancy rate is projected to

⁶ We asked the hospitals to answer this question within the context of their current business plan – for example, if their business plan calls for all private rooms and they would not consider converting rooms to semi-private rooms in order to serve a larger number of patients, then they would report their maximum physical capacity based on a configuration of all private rooms.

be 91.9 percent for the group of hospitals currently serving residents of the Maple Grove area. Figure 4 provides an illustration of the variation in projected occupancy rates at different times of the year for the group of eleven existing hospitals that serve residents of the Maple Grove area.

Figure 4

2015 Weekly Projected Occupancy Rates for Hospitals Serving Residents of the Maple Grove Area



Occupancy rates calculated based on available beds.

One key question that arises from this analysis is at what point should a hospital's (or group of hospitals') occupancy rate be considered "too high"? Unlike some other industries, which strive to operate at or near full capacity, hospitals are different. Because the level of demand at any given time is somewhat unpredictable, hospitals generally attempt to operate at a level below full capacity in order to be able to meet unexpected surges in the need for services. In addition, operating at a level too close to full capacity can lead to costly inefficiencies, such as delays in the ability to admit new patients or transfer patients between units.

One approach to answering the question of the "right" occupancy rate would be to define a specific benchmark level above which the occupancy rate is considered too high. Alternatively, one could define a specific number of hospital beds that is needed given an area's population. Both of these approaches have been used extensively in the past, particularly under Certificate of Need regulatory structures. However, more recent analysis of this question has pointed out that the question of

what an appropriate occupancy rate should be requires a much more complex approach than identifying a single number that applies to all hospitals, but instead depends on both hospital size and the number and size of distinct units within the hospital.⁷ There is no agreed-upon standard for occupancy rates or threshold for when an occupancy rate should be considered too high in either hospital industry trade publications or peer-reviewed academic research publications. Industry experts that we spoke to indicated that 70 to 80 percent occupancy is an appropriate range, and that costly inefficiencies may occur at occupancy levels above 85 percent.

Analysis of Specific Proposals

After projecting what occupancy rates at hospitals serving patients from the Maple Grove area would be in the absence of a new hospital, the next step in our analysis was to estimate the impact of a new facility in Maple Grove on admissions, inpatient days, and occupancy rates at these hospitals. Since each of the three proposals to build a hospital in Maple Grove is unique, this analysis was performed separately for each proposal and the results are presented below in the discussion of the specific proposal as it relates to each of the criteria specified in the law.

Importantly, the analysis of each proposal is specific to the service area that was defined by the applicant as the proposed primary service area. The three proposed service areas range in size from 10 to 22 zip codes. For a variety of reasons, such as variation in existing physician affiliations and referral patterns, we believe it is possible that the proposed Maple Grove hospital's service area (the geographic area from which it draws most of its patients) may vary depending on which, if any, of the three proposals is approved by the Legislature. The "true" service area for any new hospital can only be observed after the fact; as a result, it is likely that all of the applicants' proposed service areas are different from what the service area for a hospital built in Maple Grove would eventually be. In this case, there is an especially high degree of uncertainty about the proposed hospital's service area due to the likelihood that as many as three large new ambulatory care centers may be built in the community, which we would expect to have an impact on patterns of hospital referrals. For these reasons, MDH did not attempt to independently define a service area for the proposed Maple Grove hospital.

We used a similar approach to analyze the impact on hospitals currently serving patients from the Maple Grove area in terms of the potential financial impact on these hospitals, including the potential impact on their ability to provide services to nonpaying or low-income patients. These results are also included below in the discussion of how the proposal relates to each of the evaluation criteria in the law.

⁷ See, for example, Linda V. Green, "How Many Hospital Beds?" Inquiry v. 39, Winter 2002/2003.

5. Review of North Memorial Health Care’s Proposal for an Exception to the Hospital Moratorium

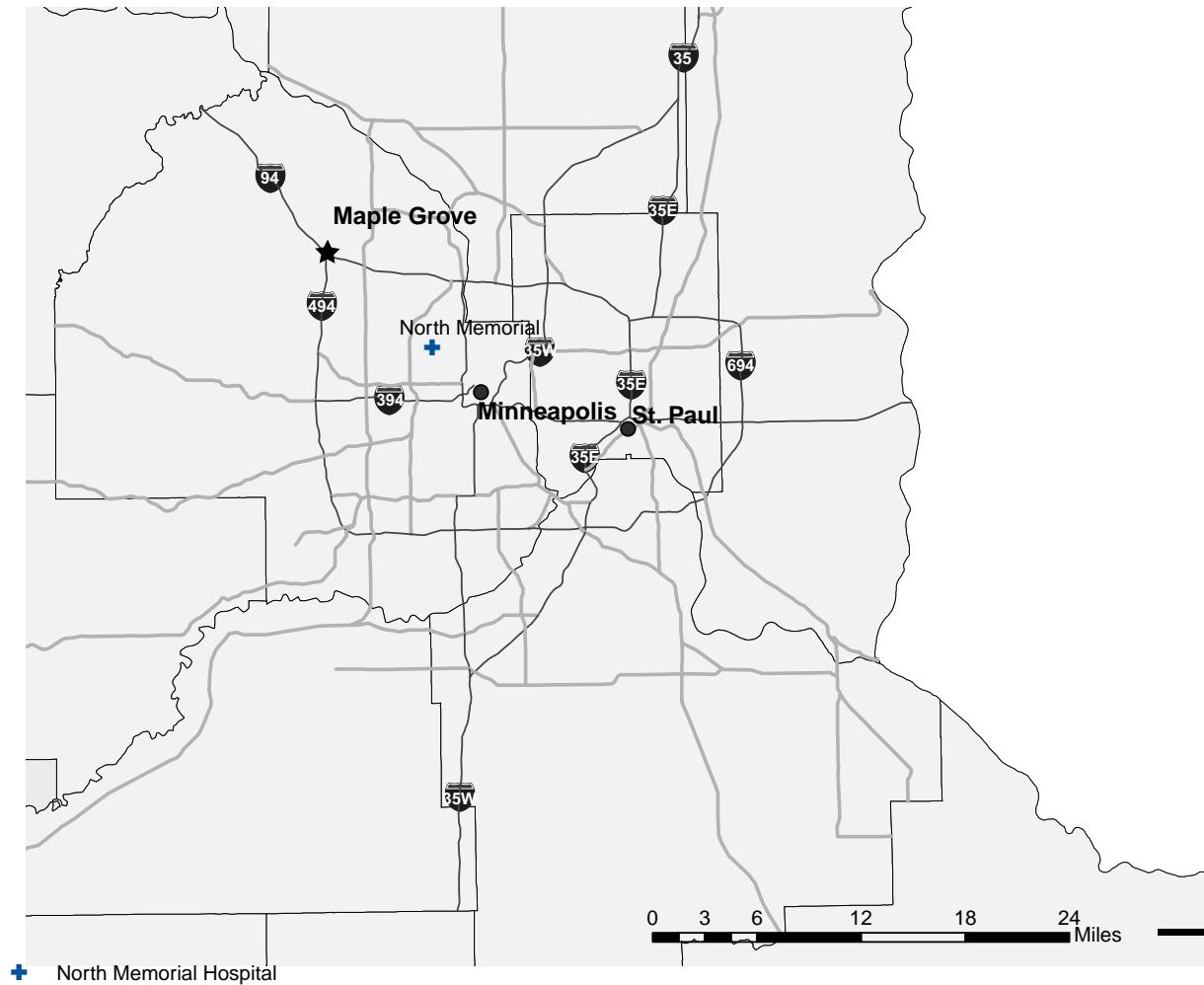
This section describes North Memorial Health Care’s (NMHC’s) proposal for an exception to the hospital moratorium in order to build a new hospital in Maple Grove. Following a brief description of the proposed project, we evaluate NMHC’s proposal in light of each of the five factors specified in the statute that established the public interest review process.

Background and Project Description

NMHC is an independent non-profit hospital located in Robbinsdale. Currently, NMHC is licensed for 518 beds, of which 438 are considered “available beds” (beds that are immediately available for use or could be brought online within a short period of time). NMHC is one of three hospitals in Minnesota that have been designated as Level I trauma centers by the American College of Surgeons. Figure 5 shows the location of NMHC in comparison to Maple Grove.

Figure 5

North Memorial Health Care



In the spring of 2005, NMHC will open a new 80-bed heart and stroke center at its Robbinsdale facility. At the same time, NMHC will close other beds for remodeling and conversion to private rooms. The net result of these changes is expected to be no change in the number of available beds. If NMHC's proposal for a Maple Grove hospital is approved, NMHC proposes to transfer 80 staffed beds from its Robbinsdale campus, resulting in no net increase in the number of available beds.

NMHC proposes the phased construction of a health care campus in Maple Grove, which would include an acute care hospital with Level III emergency services⁸ primary and specialty physician clinics, outpatient surgical suites, and urgent care facilities. As noted earlier, Minnesota law does not restrict the ability of a health care provider to construct outpatient facilities, and the outpatient

⁸ See Appendix 3 for a description of the differences between Level I, II, III and IV emergency services as defined by the American College of Surgeons.

portion of NMHC's proposed Maple Grove campus is outside of the scope of the public interest review process established under Minnesota Statutes 144.552. In order to proceed with the inpatient hospital portion of the project, NMHC is seeking an exception to the hospital construction moratorium.

The proposed exception would allow the transfer of 80 licensed beds, currently assigned to NMHC's Robbinsdale facility, to a newly constructed acute care hospital in Maple Grove. The estimated cost of the proposed health care campus is \$117 million—\$59 million for the medical office building and ambulatory center (Phase I of the project, planned to open in 2006) and \$58 million for the 80-bed acute care hospital (Phase II, proposed to open in 2008 pending legislative approval). NMHC has also proposed the expansion of the 80-bed hospital to as many as 260 beds by 2013 (Phase III) if the need for an expansion is sufficiently demonstrated. NMHC has stated that it would seek all necessary legislative approval for an increase in the hospital's licensed beds at that time.

According to the information in the plan submitted by NMHC to the Minnesota Department of Health, NMHC's proposed 80-bed acute care hospital would offer the following services:

- Inpatient services:
 - Cardiology
 - General medical/surgical
 - Obstetrics/gynecology
 - Level II nursery
 - Oncology
 - Orthopedics
 - Pediatrics
 - Psychiatry
 - Special care units
- Inpatient surgical suites
- Level III trauma center
 - Linked to North Memorial Health Care's Level I trauma center
 - Air and ground ambulance service
 - Emergency services
 - Expanded ambulance garage (NMHC already has ambulances in Maple Grove)
 - Heliport

- Cardiopulmonary services
 - Catheterization/electrophysiology labs
 - Stress testing
 - Echocardiography

 - Holter monitoring
 - Electrocardiogram
 - Respiratory therapy
 - Pulmonary diagnostics
 - Cardiac rehabilitation

 - Neurology services
 - Evoke potential
 - Electroencephalography
 - Stroke clinic

 - Oncology services
 - Outpatient clinic
 - Chemotherapy/infusion therapy
 - Possible radiation therapy

 - Medical imaging
 - General radiology
 - Bone densitometry
 - Fluoroscopy
 - Nuclear medicine
 - Mammography
 - Computed tomography (CT)
 - Magnetic resonance imaging (MRI)
 - Interventional radiology
 - Positron emission tomography (PET) - possible

 - Dialysis services

 - Inpatient laboratory

 - Pharmacy

 - Rehabilitation services
 - Physical therapy
 - Occupational therapy
 - Speech pathology

 - Community education
-

NMHC's proposed breakdown of inpatient beds by service category is shown in Table 5.

Table 5

NMHC's Proposed Breakdown of Inpatient Beds by Service Category

Cardiology	9
Ear, nose, throat	1
General medicine	21
General surgery	9
Gynecology	2
Neurology	5
Newborns	6
Obstetrics	7
Oncology	4
Orthopedics	8
Psychiatry	4
Urology	3
Total	79

Source: NMHC submission to MDH dated December 2, 2004.

NMHC's proposed health care campus would be built on 30 acres of a proposed 157-acre development at the intersection of I-94 and the proposed extension of Highway 610. Currently, there are no ramps that connect the site to I-94, and current plans do not call for the extension of Highway 610 for at least several years. However, there are many advocates of beginning the extension of Highway 610 earlier than is currently planned, if funding can be obtained.

Primary Service Area

NMHC expects the primary service area (PSA) of its proposed Maple Grove hospital to span 20 zip codes and cover portions of Hennepin, Sherburne, Wright, and Anoka counties. Communities in the proposed PSA include Albertville, Maple Grove, Champlin, Dayton, Elk River, Medina, Hamel, Corcoran, Hanover, Loretto, Osseo, Rockford, Rogers, St. Michael, New Hope, Plymouth, Brooklyn Park, Crystal, and Fridley.

The population in NMHC's proposed service area is projected to increase by 13.3 percent between 2003 and 2009, and by an additional 13.3 percent from 2009 to 2015; these growth rates are substantially higher than the projected statewide population growth of 4.7 percent between 2003 and 2009 and 5.0 percent between 2009 and 2015.⁹ In addition to rapid population growth in the proposed service area, the most rapid projected population growth is among the population aged 55 years or older; while this is also true for the state as a whole, growth among this population is

⁹ Population projections for 2009 are from Claritas, Inc.; projections for 2015 were developed by MDH assuming the same annual growth rate from 2009 to 2015 as projected by Claritas for 2004 to 2009.

expected to be much faster in the service area defined by NMHC compared to statewide growth (28.1 percent from 2003 to 2009 compared to 13.5 percent statewide). This combination of rapid population growth and an aging population is expected to increase the demand for hospital services by residents of this area. Based on MDH's analysis, the number of hospitalizations of residents of this area is expected to increase by 17.1 percent from 2003 to 2009, and by an additional 17.4 percent from 2009 to 2015.

Factor 1: Whether the new hospital or hospital beds are needed to provide timely access to care or access to new or improved services

In order to assess the impact of all three proposals for a Maple Grove hospital that MDH received in terms of whether the hospital is needed to provide timely access to care, we analyzed the impact of each of the proposals on future occupancy rates at existing hospitals that serve residents of the Maple Grove area. We also looked at how the proposals addressed specific service areas such as mental health, obstetrics, and emergency services that were identified by community members as areas of need for additional services.

Capacity of Existing Facilities

Residents of the Maple Grove area were hospitalized in many hospitals throughout the state during 2003, but eleven metro area hospitals provided the bulk of inpatient acute care to residents during that year. These facilities are also dependent, to varying degrees, upon this area for an ongoing proportion of their inpatient volume. The eleven hospitals are North Memorial, Mercy, Methodist, Abbott Northwestern, Buffalo, Monticello-Big Lake, Hennepin County, Fairview-University, Minneapolis Children's, Unity, and Fairview Northland.

As noted earlier, MDH analysis projects that in the absence of any new hospital capacity being built, occupancy rates at the group of 11 hospitals that currently serve most residents of Maple Grove and the surrounding communities are projected to increase from 74.0 percent in 2003 to 79.4 percent and 85.5 percent in 2009 and 2015, respectively. In 2009, six of the eleven hospitals are projected to have occupancy rates above 75 percent; by 2015, ten of the eleven will have occupancy rates above 75 percent and four will exceed 90 percent. As discussed earlier, the usefulness of annual occupancy rates as a measure of the degree to which existing capacity is strained is limited, but it can still be useful as a rough guide.

If NMHC's proposal for an exception to the moratorium is approved, NMHC plans to convert semi-private rooms at its Robbinsdale facility to private rooms and to transfer 80 beds to the proposed Maple Grove facility, with no net increase in the number of available beds in the hospital system. Because the total number of available beds will not increase, the occupancy rate for existing Maple Grove area hospitals is not projected to change significantly under this proposal. Because NMHC would be transferring bed capacity at its Robbinsdale campus, the occupancy rate calculated for the group of eleven existing hospitals would rise slightly due to the reduction in total available capacity at existing hospitals. For the eleven existing hospitals as a group, the projected occupancy rate would rise to 79.7 percent in 2009 and 86.0 percent in 2015.

Some hospitals that currently serve Maple Grove area residents would experience larger impact than others as a result of the NMHC proposal. Hospitals that currently serve the largest shares of patients from the service area that NMHC anticipates for the Maple Grove hospital would likely experience the largest impact. At hospitals other than NMHC that currently serve large numbers of Maple Grove area patients, the impact of NMHC's proposal on occupancy rates ranges from a decline of 0.5 percentage points to 2.9 percentage points in 2009 compared to the projection with no new hospital; for 2015, the decline in occupancy rates ranges from 0.5 percentage points to 2.9 percentage points compared to no new hospital being built.

Distance and Time to Existing Facilities

Because it does not add new available beds to the hospital system, one of the main impacts of NMHC's proposal would be to improve the timeliness of access to inpatient hospital services for residents of the Maple Grove area. As noted earlier, concerns about distance and travel time to a hospital are key issues that were mentioned many times at the public meeting in Maple Grove on January 11, 2005.

In addition, a recurring theme expressed by numerous Maple Grove residents at the MDH public hearing January 11, 2005 was a concern about family and children's safety, given the driving distance to the nearest Level I trauma center at North Memorial, traffic congestion, and the number of traffic lights encountered en route. North Memorial Medical Center and Hennepin County Medical Center are the only American College of Surgeons verified Level I Trauma Centers in Hennepin County. Driving times can vary substantially depending upon the route taken, time of day, weather and traffic conditions. Helicopter transport with advanced life support is available in the area for the most critical medical emergencies.

According to information submitted by NMHC in its application, from the intersection of Highway 30 and Interstate 94, travel time to NMHC is shorter than to any other hospital regardless of the time of day. Depending on the time of day, however, the travel time to NMHC ranged from 14 to 39 minutes; in comparison, travel times to Mercy Hospital and Methodist Hospital ranged from 20 to 44 minutes and 20 to 52 minutes, respectively. According to data from North Memorial Ambulance Service, the average ambulance transport time (averaged across all points of origin in the proposed service area) to NMHC in 2003 was 16 minutes, with a range of 8 to 34 minutes. In some cases, EMS transport times may be extended if an emergency department is diverting ambulances to other facilities. EMS diversions may occur if emergency department beds or other beds are full at a hospital, a staff shortage exists, or on-call specialist physicians are unavailable.

Although a reduction in travel time will mean quicker access to hospital care for Maple Grove area residents, it is unclear to what degree having more timely access will improve health outcomes. At the public meeting in Maple Grove, we heard anecdotal stories of people who delay seeking emergency treatment due to the distance from a hospital emergency room, or people who inappropriately use urgent care clinics when they really need to go to a hospital emergency room. As part of the public interest review process, MDH conducted a review of published research on

the impact that distance and/or travel time to a hospital have on health outcomes. There is not a large amount of published research on this topic, but some researchers have found evidence that increased distance to the nearest hospital is associated with higher mortality from emergent conditions such as heart attacks and unintentional injuries.¹⁰ However, other factors not related to distance or time, such as short Emergency Medical Service (EMS) response times and sophisticated on-scene medical interventions can also improve survival and, in some time-sensitive conditions such as heart attack, stroke, and certain traumas, sustain longer advanced life support transport distances and times. So, while distance to a hospital ER may be a factor for consideration, a well-functioning and timely EMS system also plays a critical role in ensuring patient outcomes.

Access to Specific Services: Mental Health, Obstetrics, and Emergency Services

At the public meeting on January 11, 2005, residents of the Maple Grove area expressed concerns about access to three specific types of hospital services: mental health, obstetrics, and emergency services. Several community residents stated that there was a shortage of inpatient mental health services; for obstetrics and emergency/trauma services, convenience and a desire for more timely access were the main concerns.

With regard to inpatient mental health services, MDH analysis shows that about 93.5 percent of all hospitalizations of residents of the Maple Grove area (as defined by NMHC) occur at one of the eleven hospitals that we identified as serving a significant number of Maple Grove area residents. For psychiatry and chemical dependency services, however, when residents of the Maple Grove area are hospitalized they are much more likely to be hospitalized at a facility other than one of the eleven hospitals that serve most of this market (13.6 percent and 10.1 percent of the time for psychiatric and chemical dependency services, respectively). In other words, residents of the Maple Grove area who need to be hospitalized for psychiatric care or chemical dependency are much more likely to leave their local hospital market to receive care than residents who are hospitalized for other reasons. This is consistent with a statewide pattern that individuals who are hospitalized for psychiatric or chemical dependency services are less likely to be hospitalized in their local area than they would be for other services.¹¹ NMHC's proposal for a Maple Grove hospital includes 4 psychiatric beds.

An additional area of concern for Maple Grove area residents was timely access to obstetric services. Because the population in this area is younger on average than the state as a whole, obstetric admissions represent a higher share of total inpatient admissions from the Maple Grove area than for the state as a whole. In 2003, about 21 percent of hospital admissions from the service area defined by NMHC were for obstetric services, compared to 16 percent statewide. The Maple Grove hospital proposed by NMHC would include 7 obstetric beds.

¹⁰ Thomas C. Buchmueller, Mireille Jacobson, and Cheryl Wold, "How Far to the Hospital? The Effect of Hospital Closures on Access to Care," National Bureau of Economic Research Working Paper No. 10700, August 2004.

¹¹ Minnesota Department of Health, Health Economics Program, "Minnesota Mental Health and Chemical Dependency Treatment Utilization Trends: 1998 – 2002," Issue Brief 2004-07, November 2004.

Finally, Maple Grove area residents have expressed concerns about timely access to emergency and trauma services. As noted above, there is not much clear evidence about how closer access to an emergency room will affect health outcomes. It should be noted, however, that the emergency services proposed by NMHC would meet the American College of Surgeons criteria for designation as a level III trauma center, which means that the hospital would provide “prompt assessment, resuscitation, emergency surgery, and stabilization” and that more complicated cases would be transferred to other hospitals.

In summary, NMHC’s proposed Maple Grove hospital does include the mental health, obstetric, and emergency services mentioned as being of most concern to community residents. The proposed hospital would not offer new or improved services that are not already available at other hospitals nearby.

Factor 2: The financial impact of the new hospital or hospital beds on existing acute-care hospitals that have emergency departments in the region

For a number of reasons, there is a high degree of uncertainty involved in predicting the financial impact of any of the three proposals to build a Maple Grove hospital on existing hospitals that currently serve residents of the Maple Grove area. The potential for three large new ambulatory care centers in Maple Grove providing a wide range of specialty care services would almost certainly have a significant impact on which hospitals residents of the Maple Grove area are referred to by their physicians for inpatient services. The combination of this change (which may occur even if the Legislature does not approve any exceptions to the hospital moratorium) with the addition of a new hospital makes it especially difficult to predict the impact on existing hospitals.

In addition, although MDH has access to hospital discharge data that allowed us to analyze and project hospital discharges, inpatient days, and occupancy rates, we do not have any data that allows us to translate the impact of a new hospital on the volume of services provided into an estimate of the specific financial impact of a new hospital on existing hospitals in the region. If a hospital loses patients that it would have served in the absence of the new hospital being built, it not only loses revenue but also avoids costs (such as staffing and supplies) that it would have otherwise incurred. Because we do not have information available to us that allows us to calculate the net financial impact of the proposed hospital on other existing hospitals in the region, in this section we focus instead on changes in the volume of business and occupancy rates.

In the service area defined by NMHC for the proposed Maple Grove hospital, the largest market share is currently held by NMHC’s Robbinsdale facility. In 2003, more than 30 percent of the discharges from this area were from NMHC, and patients from this service area represented more than 30 percent of NMHC’s total discharges. Other hospitals identified in the plan that NMHC submitted for review as having a substantial share of the market in this service area are Mercy Hospital, Methodist Park Nicollet Health Services, Unity Hospital, Abbott Northwestern Hospital, and Fairview-University Medical Center. As noted earlier, NMHC’s proposed Maple Grove facility

does not add new capacity to the hospital system. However, the construction of a new hospital in Maple Grove by NMHC would likely result in some shift of patients away from the other ten hospitals that currently serve patients from the Maple Grove area.

There are two ways of looking at the financial impact of a new hospital on existing hospitals: first, in relation to a hospital's current business; and second, in relation to what would have occurred in the absence of the new hospital. The impact of NMHC's proposal on existing hospitals in the Maple Grove area varies by hospital, with hospitals that currently serve a large share of the Maple Grove market likely to experience the biggest impact. This is illustrated by the projections described above that compare projected occupancy rates at each of the eleven hospitals to the occupancy rates that would be projected in the absence of a new hospital. However, when comparing the impact of NMHC's proposal in relation to the current patient volume and occupancy rates at existing hospitals, all eleven of the existing hospitals that currently serve patients from the Maple Grove area are projected to experience increases in the total number of inpatient days in 2009 and 2015 compared to 2003. In many cases, however, the increase in volume is slower than it would have been in the absence of a new hospital.

At the eleven existing area hospitals as a group, the total number of patient days is projected to decline by 2 percent in 2009 and 2015 compared to the baseline projection without a new hospital. At individual hospitals other than NMHC, the percentage decrease in inpatient days ranges from 0.7 percent to 3.2 percent. Similarly, the projected occupancy rates for the eleven existing hospitals as a group would rise from 79.4 percent to 79.7 percent in 2009, and from 85.5 percent to 86.0 percent in 2015 (because of the decline in available capacity planned by NMHC at its Robbinsdale campus). For individual hospitals in this group other than NMHC, the projected change in occupancy rates ranges from a decline of 0.5 to 2.9 percentage points.

There are two additional factors that may be important in analyzing the potential financial impact of NMHC's proposal on existing hospitals that serve patients from the Maple Grove area:

First, the impact is likely to vary by type of service. Because profitability varies by type of service, this is an important consideration. We did not attempt to specifically estimate the impact on existing hospitals by type of service.

Second, there is a high degree of uncertainty about how physician referral patterns may change as a result of the new hospital and the multiple new ambulatory care centers that are currently being proposed. Even if the proposed NMHC hospital does not directly provide highly specialized services (such as open heart surgery), its association with NMHC could have an impact on referrals to other hospitals. Our analysis does not incorporate this possible change, but instead uses the information that we have on current travel patterns of patients from the Maple Grove area. However, it is important to note that the change is a possibility that could have an impact.

Factor 3: How the new hospital or hospital beds will affect the ability of existing hospitals in the region to maintain existing staff

According to NMHC, more than 1,700 (or 25 percent) of its employees live in the proposed Maple Grove hospital's service area; 1,000 NMHC employees live within a five-mile radius of the proposed site. If NMHC's proposal for an exception to the moratorium is approved, NMHC plans to reduce the number of beds at its Robbinsdale facility and transfer staff to its new Maple Grove facility. Because the net result of the NMHC proposal is no change in inpatient hospital capacity, NMHC's proposal likely would have no impact on the ability of other hospitals in the region to maintain their existing staff.

Factor 4: The extent to which the new hospital or hospital beds will provide services to nonpaying or low-income patients relative to the level of services provided to these groups by existing hospitals in the region

In 2003, NMHC was one of the top 10 providers of uncompensated care (or UC, which includes both charity care and bad debt) in Minnesota, but spent less on UC as a percentage of operating expenses than the statewide average (North Memorial Health Care's UC represented 1.0 percent of operating expenses compared with a statewide average of 1.6 percent). In its plan submitted to MDH for review, NMHC makes a commitment to implement the charity care policies in place at its Robbinsdale facility at the proposed Maple Grove facility.

In addition to concerns about the level of UC that will likely be provided by the new hospital, a related concern is whether the new hospital will change the payer mix of existing hospitals in the region that provide relatively large amounts of UC. For example, if a large number of privately insured patients are attracted to the new hospital, this could adversely affect the ability of existing facilities that provide large amounts of UC to continue to serve nonpaying patients. Compared with the state as a whole and with the current service area of NMHC's Robbinsdale facility, the service area proposed by NMHC for the Maple Grove hospital has a higher share of residents with private group insurance and a lower share of residents with public coverage, as shown in Table 6. The uninsurance rates for both NMHC's current service area and the proposed Maple Grove service area are not statistically different from each other, or from the state average (although the rates are directionally lower than the statewide average, the difference is within the survey's margin of error). In spite of what may be a somewhat lower level of uninsurance in the community, based on comments from people who attended the January 11, 2005 public meeting, there may be significant pockets of unmet need in the area.

Table 6

Sources of Health Insurance Coverage, 2001

	NMHC service area*	NMHC proposed Maple Grove service area**	Minnesota
Private	76.0%	82.1%	74.6%
Group	72.6%	78.4% *	69.6%
Individual	3.4%	3.6%	4.9%
Public	19.2%	12.8% *	20.1%
Uninsured	4.8%	5.2%	5.4%

*Defined by MDH as the zip codes accounting for 75% of NMHC's admissions

**As defined by NMHC, includes 20 zip codes

Source: MDH, Health Economics Program analysis of 2001 Minnesota Health Access Survey.

Numbers in bold indicate a statistically significant difference (95% level) from statewide rate.

Numbers with an asterisk indicate a statistically significant difference (95% level) from the rate for NMHC's current service area.

With the exception of Hennepin County Medical Center, NMHC is more reliant on public payers (Medicare and state programs) as a source of revenue than other hospitals that serve Minneapolis and the northern suburbs. In its plan submitted to MDH for review, NMHC argues that in order to continue to provide UC and a high level of services to patients insured by public programs, it needs to maintain a strong base of patients with private insurance. NMHC argues further that an NMHC Maple Grove hospital will enable it to strengthen or maintain its market position among patients with private insurance, thereby providing cross-subsidies to make up for shortfalls in public program payments and to fund UC.

In order to analyze the potential impact of the proposed NMHC Maple Grove hospital on the payer mix of other existing hospitals, we used data from the 2001 Minnesota Health Access Survey¹² to estimate sources of health insurance coverage in the area currently served by NMHC and the proposed Maple Grove service area. We combined these estimates with information on hospital discharges and travel patterns to estimate 1) the insurance coverage distribution for populations served by that hospitals currently provide significant amounts of UC to patients living in this area, and 2) how this distribution would change if NMHC's proposed Maple Grove hospital were built. The distribution of coverage in the area served by an existing hospital could change, for example, if the proposed Maple Grove hospital were to draw patients from zip codes with higher than average rates of private insurance coverage. According to our analysis, the payer mix of existing hospitals that provide large amounts of UC would not be changed significantly by NMHC's proposed Maple Grove hospital.

¹² Although this survey was updated in 2004, we used 2001 data because it has a much larger sample size and produces better estimates of health insurance coverage for small geographic areas.

Factor 5: The views of affected parties

As described above, the process that we used to solicit the views of affected parties included a letter to all hospital administrators in Minnesota, a notice in the State Register, and a public meeting held in Maple Grove. The views of citizens of the Maple Grove area, as expressed at the public meeting on January 11, 2005, pertain mainly to the need for a hospital and for specific services and are reflected in the discussion of NMHC's proposal with regard to the first four statutory review criteria. In addition, we received several written comments in support of NMHC's proposal; copies of these are included in Appendix 1. MDH did not receive input from any affected parties who believed that NMHC's proposal would be either not in the public interest or harmful to them specifically.

6. Discussion and Recommendations

The 2004 Legislature established a new step in the process for seeking an exception to Minnesota's hospital moratorium, putting in place a Public Interest review by the Minnesota Department of Health. The proposals to build new inpatient capacity in the Maple Grove area present the first opportunity to apply the new law.

The public interest review law requires a hospital seeking to increase its number of licensed beds or an organization seeking to obtain a hospital license to submit a plan to the MDH. The commissioner is required to review the plan and issue a finding on whether the plan is in the public interest. As mentioned earlier in this report, there are a number of statutory factors the MDH must consider during its review, in addition to other factors the MDH believes are relevant to the review.

The public interest review statute does not define "public interest" nor does it define for which "public" the analysis should be conducted. There could be a variety of different "publics": the citizens of the proposed service area, the citizens of communities not in the proposed service area that could be affected by the proposal, or the citizens of Minnesota. In addition, the statute does not provide direction to MDH on the analysis of situations where more than one hospital is intending to seek an exception to the hospital moratorium for the same or similar geographic area. We received three separate requests for reviews at approximately the same time in November 2004: Fairview Health Services, North Memorial Health Care, and the Maple Grove Tri-Care Partnership. The MDH reviewed all three proposals simultaneously under the public interest review law relative to the statutory factors in Minn. Stat. 144.552, and is issuing separate findings on each plan. The finding in this report is specific to the North Memorial Health Care's (NMHC) proposal.

The previous section of the report examined the proposal of NMHC in light of the five specific factors MDH must consider as part of the public interest review process. This final section of the report highlights several issues that the Legislature may wish to consider in its deliberations on proposals brought before it for new inpatient capacity in the Maple Grove area. These issues are outlined below.

Ability to Support versus Need for a Hospital

During the review process for the Maple Grove hospital proposals, MDH has heard from the community, as well as from those who are interested in seeking an exception to the hospital moratorium to build new inpatient capacity in Maple Grove, that the community can support a new hospital. Based on analysis of population growth in the service areas defined by the three applicants, the likely use of services in the community, and the clearly-stated community desire for inpatient hospital capacity in the community, the Department concurs that the community could support a hospital of the size and scope in the proposals. That is, if a new inpatient facility as described in any of the three applications were constructed, it is unlikely that the hospital would fail due to insufficient usage.

However, it is also important to distinguish between support and need. Specifically, while the ability of a community to support a hospital is an important consideration, the hospital public interest review law requires the MDH to conduct an examination of need. That is, whether a given community can support a hospital is a separate question than whether a new hospital in a given community is necessary to ensure the health outcomes of the residents of the community. Analysis of need must also take into account the capacity of existing facilities that currently serve residents of the community, the likely health care needs of the residents of the community, and any other factors that might influence the availability of services for members of a given community.

In our projections of hospital occupancy, we estimate that, absent any new facility being constructed, the overall occupancy rate of hospitals currently serving the Maple Grove area will grow from 74.0% in 2003 to approximately 79.4% by 2009 and 85.5% by 2015. As mentioned earlier in this report, these estimates of occupancy rates will also vary by facility, depending on patient flows and the expected growth in areas served by these various hospitals. There is no single “right” rate of occupancy. To some degree, the rate of occupancy at which facilities can and should operate depends on the mix of services being provided at that facility. However, based on the projected occupancy figures, it is reasonable to conclude that hospitals serving the Maple Grove market will face increasing capacity strains within the next several years. It is also important to note that the 11 facilities that currently serve Maple Grove also account for approximately one-third of statewide admissions, so the likely increased strain on capacity has an impact on geographic areas beyond Maple Grove as well.

As the Legislature considers proposals to build a new inpatient facility in Maple Grove, it may wish to consider whether the estimated growth in occupancy rates at existing facilities is sufficient to merit the construction of a new facility. Should the legislature determine that some new inpatient capacity is needed to address rising occupancy rates at area hospitals, then the question for policymakers to consider is not whether new capacity should be added, but rather how and where this new capacity should be added: by expansion of existing facilities to the extent that is feasible, or through the construction of a new facility.

Hospital Competition and Consolidation

Another issue for consideration is the degree to which the addition of a new hospital in Maple Grove will add to or decrease hospital competition. This is an important issue because, on balance, peer-reviewed studies show that increases in hospital concentration lead to higher hospital prices.¹³ The Twin Cities hospital market already operates with a certain degree of “systemness.” That is, several hospital systems have a relatively large share of the inpatient market in the metro area: Allina-affiliated hospitals have approximately 30% of the market, Fairview hospitals approximately 20%, and HealthEast hospitals around 10%.

¹³ See, for example, David Dranove and Richard Lindrooth, “Hospital Consolidation and Costs: Another Look at the Evidence,” *Journal of Health Economics*, Volume 22, Issue 6, November 2003.

There are two ways to think about the issue of hospital competition and concentration for the Twin Cities market: metro-wide and local. A hospital constructed in Maple Grove by an existing hospital system, such as Fairview, Allina, or Children's, would likely increase the level of Twin Cities-wide concentration. However, it's important to note that all of the proposed hospitals for Maple Grove are relatively modest in size and may be unlikely to substantially increase the level of Twin Cities-wide hospital market concentration. In addition, it's difficult in advance to know the exact impact that a new facility in Maple Grove owned by an existing system will have on market concentration overall, since the exact effect depends on patient flow patterns that can only be observed after the fact.

On the other hand, a new hospital constructed in Maple Grove by an existing facility with substantial existing market share in the immediate local area, such as North Memorial Health Care, may increase local concentration levels. This increase in local concentration may be mitigated, at least to some degree, by the fact that North Memorial's proposal does not result in an increase in overall bed capacity. The degree to which prices are increased due to increases in either local or Twin Cities-wide concentration depends on whether prices are set at a local level for services or whether they are set system- and Twin Cities-wide.

Bed Types and Services Provided

Another consideration for the Legislature in considering granting an exception is the mix of bed types and services provided in any new hospital constructed in Maple Grove. For example, the expected rapid increase in the population of childbearing age in the Maple Grove area is likely to increase the need for obstetric services.¹⁴ In addition, because differentials exist in payment rates by type of service, hospital beds used for different services generate different levels of profitability. For instance, beds for cardiac care are generally profitable, while those used for behavioral health are generally less profitable. Over time this can lead to a situation where Minnesota may have sufficient capacity or over-capacity for profitable services, and an undersupply of beds for services that are less profitable. Evidence suggests that Minnesota may have sufficient supply of certain types of beds and services, but may lack adequate inpatient behavioral health capacity.¹⁵

In general, all three proposals respond to the likely need into the near future for obstetric services in the Maple Grove area. Two of the three proposals (Fairview and North Memorial) propose to include some level of additional inpatient behavioral health capacity in their initial inpatient construction (12 and 4 beds, respectively), while the third (Tri-Care) does not specifically plan the construction of new inpatient capacity, although it states its intent to "construct a viable model for inpatient services."

¹⁴ The population aged 18 to 44 in the Maple Grove area is projected to grow between 18.3% and 33.9%, depending on the service area defined, compared to 1.7% statewide.

¹⁵ See "The Shortage of Psychiatrists and of Inpatient Psychiatric Bed Capacity," Minnesota Psychiatric Society Task Force Report, September 2002 and "Minnesota Mental Health and Chemical Dependency Treatment Trends: 1998-2002," Minnesota Department of Health, Health Economics Program, Issue Brief 2004-07, November 2004.

In considering the proposals to build new inpatient capacity in Maple Grove, the legislature may wish to give strong consideration to whether certain services, such as behavioral health inpatient capacity, should specifically be included as a requirement under any moratorium exception granted. For instance, the legislature could require that a certain percentage of beds of any exception granted be used for behavioral health services.

Potential Health Care System Costs

Although not included as a specific statutory criterion under the public interest review law, health care cost is also a policy issue important to the consideration of inpatient hospital construction and expansion. As a matter of policy, states have generally taken some interest in monitoring or in some way constraining the expansion of inpatient hospital facilities. For instance, hospital CON laws still operate, in some form, in 37 states.¹⁶ States have generally shown an interest in inpatient hospital capacity, as it relates to health care cost, for two reasons. First, hospitals are expensive to construct and operate, and those costs are built into the health care system and subsequently into health insurance premiums. Second, some argue that duplication of services increases health care costs under the argument that, in health care, supply of services is likely to induce demand for those services. Laws, such as Minnesota's construction moratorium law, that restrict the construction of new inpatient facilities unless approved in advance, can have the effect of reducing potential duplication of services.

While we did not attempt to estimate the specific impact that the addition of a new inpatient facility in Maple Grove would have on health care costs, it is likely that the construction of any new facility will add at least some additional cost to Minnesota's health care system, although the proposed construction costs of all three proposed projects are relatively modest in comparison to overall state hospital spending. The extent to which the construction of a new hospital is duplicative of existing services and is therefore likely to induce excess demand depends in large part upon whether the existing facilities serving the Maple Grove area have sufficient capacity to serve the population into the future or whether those facilities are sufficiently strained to merit additional capacity. That is, if existing capacity is insufficient to provide services to the Maple Grove community into the future, then policy issues related to construction cost and the potential of induced demand may be less of a concern.

Summary and Recommendations

Reviews related to the construction of a new inpatient facility in the Maple Grove area are the first under the new public interest review process passed by the 2004 Legislature. The law requires that the MDH issue a finding as to whether the proposal is in the public interest.

As mentioned earlier in this section, the legislation does not define "public" for the purposes of "public interest" and therefore the "public" can be defined in a variety of ways. One potential "public" could be the persons living in the Maple Grove area. With regard to the ability of the

¹⁶ U. S. General Accounting Office. "Specialty Hospitals: Geographic Location, Services Provided, and Financial Performance," October 2003.

community to support a hospital, MDH believes that the community can support a hospital and should one be constructed in the Maple Grove area, it is unlikely that the hospital would fail due to lack of use. In addition, the construction of a new facility as proposed would provide more convenient access to services for residents in the community. Therefore, we believe it would likely be in the public interest of members of the Maple Grove community if a new hospital were to be constructed.

In examining whether NMHC's proposal is in the public interest for Minnesota as a whole, the analysis is more complicated because it must also take into consideration issues such as system capacity, potential cost impact, and the statutory factors examined in section 5 of this report. After examining the proposal submitted by NMHC in relation to the factors specifically required by Minn. Stat. 144.552 and other relevant factors, the Minnesota Department of Health has the following findings and recommendations specific to NMHC's proposal:

- NMHC's proposal to build a new inpatient facility in Maple Grove, Minnesota is in the public interest; and
- The legislature should consider requiring that a certain percentage of hospital beds of any exception granted for the Maple Grove area be dedicated for behavioral health services.

Appendix 1

Copies of Comments on the Proposal



City of Maple Grove

12800 Arbor Lakes Parkway, P.O. Box 1180, Maple Grove, MN 55311-6180 763-494-6000

November 5, 2004

Dianne Mandernach
Commissioner of Health
85 E. 7th Place
St. Paul, MN 55101

Dear Commissioner Mandernach:

As Mayor of Maple Grove, I am pleased North Memorial has submitted a review process paper to the Minnesota Department of Health for the potential development of a hospital in Maple Grove.

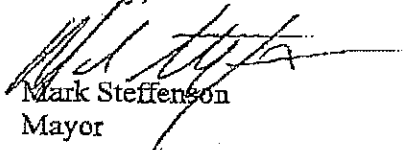
As you are probably aware, Maple Grove and the surrounding suburbs are among the fastest growing communities in Minnesota. We are excited to have a hospital in our community. With a 37.4 percent growth in population between 1990 and 2000 for Maple Grove and eight neighboring suburbs, the need for a hospital to serve the northwest metropolitan area is obvious.

Clearly, with the snarl of congested traffic patterns in the northwest metro area, putting a hospital and its emergency services in the heart of our community would certainly be instrumental in saving lives. The area also is in need of more OB/Gyn services. There are a tremendous number of young families in our region. We also are concerned about the behavioral needs of our citizens, especially teenagers.

We are pleased North Memorial, with its current presence in this area, is interested in adding more community-based care in Maple Grove. We look forward to having a first-rate health care hospital linked to leading, nationally recognized medical centers.


Thank you for your time and attention on this matter. If I can be of any further assistance, please don't hesitate to call me at 763-560-5700.

Sincerely,


Mark Steffenson
Mayor

"Serving Today, Shaping Tomorrow"

AN EQUAL OPPORTUNITY EMPLOYER

 Printed on Recycled Paper
containing at least 15%
post-consumer paper fibers.

MIKE OPAT
COMMISSIONER



612-348-7881
FAX-348-8701
mike.opat@co.hennepin.mn.us

BOARD OF HENNEPIN COUNTY COMMISSIONERS
A-2400 GOVERNMENT CENTER
MINNEAPOLIS, MINNESOTA 55487-0240

November 29, 2004

To Whom It May Concern:

I understand North Memorial Health Care has a comprehensive plan for bringing expanded health care services to the Maple Grove community. As an elected official that represents a number of Northwest suburbs, I strongly encourage you to embrace North Memorial's proposal.

I am very familiar with the outstanding care North Memorial provides and the organization's commitment to our area. When we launched the Northwest Corridor Partnership to transform County Road 81, North Memorial was our first private partner. I know North Memorial is committed to this region for the long-term.

North Memorial has already made significant investments in the Maple Grove area and is a recognized leader in cardiology, ENT, general medicine, gynecology, neonatology, neurology, obstetrical and newborn care, oncology, orthopedics and urology.

As you know, North Memorial's paramedics, emergency physicians and emergency transport personnel have trained and worked with northwest communities' first responders for decades, and their trauma and emergency medicine programs are regional leaders. These services are needed in Maple Grove, and North Memorial is uniquely qualified to provide them. I strongly support their plans for a Maple Grove outpatient health care center and their vision for a hospital on this campus.

Research suggests thousands of area residents already consider North Memorial their "home-town" hospital. I urge your support for North Memorial's plans for expanded health care in Maple Grove. Please contact me if you have questions or would like further information.

Sincerely,

A handwritten signature in black ink that reads "Mike Opat".

Mike Opat
Hennepin County Board of Commissioners



November, 2004

To Whom It May Concern:

For over seven years, HealthPartners has enjoyed a positive and successful relationship with North Memorial Medical Center. The decision to make North Memorial a significant partner in our west-metro strategy was based on their high standards and proven track record in the community they serve. It was also based on selecting a partner that demonstrated the same commitment to patient care and desire to continuously look for ways to improve care.

North Memorial is a health care organization that is well respected by physicians. Over 20 years ago, North worked collaboratively with primary care physicians to help establish clinics to serve the northwest region; they encouraged physicians to practice in the area. They are committed to improving care and their actions demonstrate that commitment, with a current marketshare of greater than 50 percent.

It is a well known fact, for several decades, that their Level I Trauma services and emergency transport system have provided peace of mind to the west and northwest regions. In addition, North is the trusted partner for Minneapolis Children's providing top level newborn intensive care services. North offers its partners value by delivering a full range of the best inpatient and outpatient specialty services, including general medical, surgery, cardiology, obstetrics, orthopedics, neurology, and emergency services.

When we began our evaluation process to select a west-metro hospital partner, we looked for qualities that reflect a hospital's long term commitment to a community, the provision and mix of a full-range of specialty services and high ratings with respect to patient satisfaction. North delivered on our selection criteria, and continues to do so.

North has demonstrated its desire to serve all patients in an exceptional manner. Our recent patient satisfaction survey results show that patients rank them at a 95% or greater level in all areas. Examples of areas assessed included: overall satisfaction with hospital care, willingness to recommend the hospital to others, the attention received from nurses and being treated with respect and dignity.

We trust North Memorial as a proven partner in providing the kind of care and service that we expect for the benefit of our patients, our members and the community.

Sincerely,

A handwritten signature in cursive script that reads "Mary Brainerd".

Mary Brainerd
President & Chief Executive Officer
HealthPartners

Minnesota Neonatal

Physicians, P.A.

Ronald E. Hoekstra, MD

David E. Brasel, MD

Andre J. Nelson, MD

Robert J. Couser, MD

Bonnie G. Landrum, MD

T. Bruce Ferrara, MD

Nathaniel R. Payne, MD

Virginia A. Hustead, MD

Roy C. Maynard, MD

Diane J. Camp, MD

Ellen M. Bendel-Stenzel, MD

Jeanne D. Mrozek, MD

John J. Fangman, MD, PhD (Ret.)

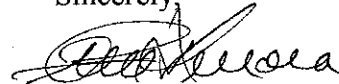
Diane Mandernach
Commissioner
Minn. Dept of Health

12/16/04

Dear Commissioner Mandernach,

I am a physician with Minnesota Neonatal Physicians, an independent thirteen-member group of specialists who provides physician services for ill and premature infants in virtually all of the west metro area hospitals. It is with great enthusiasm that my group endorses the proposal by North Memorial Health Care to develop a hospital in the Maple Grove area. We have worked with North Memorial in providing neonatal care to patients in this area for over 20 years. Patients from this area have benefited greatly by the commitment and expertise North Memorial has provided, and the satisfaction of families with these services has been excellent. In an era of consolidation and expansion of huge health care conglomerates, North Memorial has provided a competitive alternative for patients and payers in this market in a manner that has been beneficial to the communities it serves. The stability of its administration and the clearness of its vision distinguish North Memorial from other entities. Its focus has been to provide top quality services for the families in its geographic service area, which includes Maple Grove. My group looks forward to developing an expansion of services for newborn babies and their families in partnership with North Memorial Healthcare.

Sincerely,



Bruce Ferrara MD

President,

Minnesota Neonatal Physicians

DEC 20 2004



500 South Maple Street • Waconia, MN 55387-1791
952/442-2191 800/967-4620

December 21, 2004

Scott Leitz, Director
Health Economics Program
Minnesota Department of Health
85 East 7th Place, Suite 300
St. Paul, MN 55101

Re: Hospital Bed Moratorium Law as it relates to a proposed hospital in Maple Grove, Minnesota

Dear Mr. Leitz:

As President of Ridgeview Medical Center, Waconia, Minnesota, I'm pleased to provide input into the proposal to build a new hospital in Maple Grove, Minnesota.

This letter is not directed at the specific needs for additional hospital beds within this marketplace. I'm assuming that the Minnesota Department of Health, as well as the prospective applicants, have done their due diligence in regards to the need for a hospital in this marketplace and its affect on area facilities that would provide similar services.

My comments are related to which applicant is best suited to be awarded an exemption from the state's hospital bed moratorium law to construct a hospital within this community. Although all three health systems have provided excellent care and have the financial where-with-all to build and operate an acute care hospital, one of these health systems has compelling differences that should weigh heavily in their favor. Of the three applicants for this exemption, North Memorial Health Care has two factors that tip the scales in its favor. The first significant advantage is that North Memorial Health Care currently serves the majority of patients from this marketplace. Patients obviously have the confidence and knowledge of North Memorial that they actively seek this organization out for their healthcare services.

Secondly, North Memorial Health Care is a single hospital health system. They do not manage or have ownership interest in any other acute care facility in the state of Minnesota. The other two applicants have considerable acute care hospital holdings not only in Minnesota, but also surrounding this marketplace. To award an exemption to construct hospital beds to either the Fairview Health System or Park Nicollet/Allina would continue the current consolidation of health care services within the seven county

metro area and Minnesota as a whole. This would reduce competition without any demonstrable difference in quality or cost.

Assuming that a demonstrated need for acute care hospital beds is determined, I would then encourage the Department of Health to strongly consider North Memorial Health Care as the desired entity to build an acute care hospital in Maple Grove, Minnesota. Should you have any questions or concerns regarding this letter, please don't hesitate to contact my office directly.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert Stevens". The signature is written in black ink and is positioned above the printed name and title.

Robert Stevens
President

Cc: Mike Werner, Chairman, Ridgeview Medical Center Board of Directors

From: "Susan Kreatz" <Susan.Kreatz@northmemorial.com>
To: <Scott.Leitz@state.mn.us>
Date: 12/30/2004 11:39:37 AM
Subject: Maple Grove Hospital

I am a resident of Maple Grove and would like to share my public opinion as to why North Memorial Medical Center should be the hospital of choice for the Maple Grove and surrounding areas. It is only fair to say that I also am an employee of North Memorial, but would like to share my thoughts as to why I feel North Memorial is unique and by far should be the hospital of choice.

I moved to the Twin Cities in 1978, and have worked in at least 5 other hospital organizations. What makes North Memorial so special, for one, is that we have remained independent. From the time I first started at North Memorial and walked through it's doors, I felt something that I have not experienced with any of the other organizations. North Memorial treats their employee's with importance and is built around the relationships we develop not only with each other, but especially those with our patients and families. Many of the patients we have cared for, come back and will return to the unit they were on, just to see the staff once again. Many have even developed lasting friendships with the staff.

I am not only speaking from a nurse perspective but also from my own personal experience that impacted my family significantly. I have been on the other side with my daughter who was extremely ill with cancer and ultimately died as a result of the cancer. If I had not had the relationships I developed at North Memorial, I cannot imagine how much harder this experience would have been, since none of my family lived here. My fellow employees at North became my family support system. I continue to see this each and every day, by how we relate and treat each other. thus in turn our patients and families.

Out of the three hospitals that have applied, we are the only one to have a Level 1 Trauma Center, with a pediatric focus. We are committed to the people in our community to provide the safest and highest level of care possible that result in positive outcomes for our patients.

We also have many specialized programs that serve our populations as well. (The Hubert Humphrey Cancer Center, Our Stroke Program, first in the Twin Cities to be accredited by JCAHO, and the New Women's Heart Center, just to list a few).

North Memorial wants to continue to serve the Maple Grove Area as we have for so many years with our clinics and ambulance service by bringing our doors close to you. Our care delivery system is one that centers around our patients and families. That is what is most important to us as an organization, the remarkable care we give to our patients, to achieve the best possible patient outcomes.

Thank-you,

A family receipt of care with my daughter as a mother as well as a nurse.

Susan R.B. Kreatz, BS, RN, Nurse Manager

From: "Carol Skaja-Jacobsen" <Carol.Skaja-Jacobsen@northmemorial.com>
To: <Scott.Leitz@state.mn.us>
Date: 1/5/2005 1:48:42 PM
Subject: Hospital in Maple Grove

I feel that Maple Grove definitely needs a hospital in their area. Maple Grove and all of the cities North and West of them has grown substantially in the last 10 years. I think North Memorial would be ideal in that area since they are a Trauma I Center, now a Stroke Center, they created the first women's heart care clinic by Pamela Paulson, M.D., along with all their other specialties and excellent doctors, and the majority of people that I know from this area (Champlin) are North Memorial patients. I had all of my children at North Memorial even though there is another hospital closer to our home. Many of our neighbors choose North Memorial over other hospitals in the area. They have a great reputation from around the state for their trauma service. I hope North Memorial is the hospital to be built in that area.

Carol Skaja-Jacobsen
Champlin, MN

From: "Todd Butler" <Todd.Butler@northmemorial.com>
To: <Scott.Leitz@state.mn.us>
Date: 1/10/2005 2:08:30 PM
Subject: North Memorial Maple Grove Hospital Support

To Whom It May Concern,

My name is Todd Butler and my home is located in Hassan Township, just northwest of Maple Grove. I would like to express my strong support for the proposed plan for a North Memorial Health Care Maple Grove Hospital.

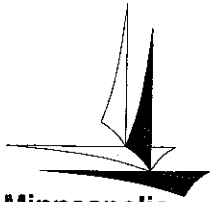
I have been employed as a nurse anesthetist for just over 5 years by North Memorial. I rotated through multiple hospitals in the Twin Cities area as part of my nurse anesthesia education including Fairview, Allina, and Park Nicollet facilities and chose North Memorial as an employer because of the independent, community feel of the facility, not the corporate healthcare outpost feel of the others. I also choose and trust North Memorial for my health care needs and, with my wife and I expecting a baby very soon, plan on delivering our first born child there.

I, of course, have been thinking a lot about our new child and the changes that he or she will bring to our lives. One of those things that has weighed heavily (probably because of my profession) on my mind is the distance from our home to a hospital. Currently, it takes about 25-35 minutes for us to reach North Memorial or any other hospital. If a North Memorial hospital were to be built in Maple Grove, our travel time to that hospital would be more than cut in half to about 5-10 minutes. If my child, my wife, or I need urgent or emergent care, I would be pleased to drive or be taken a very short distance to excellent emergent care. When I go to work, I would be pleased to commute only 5-10 minutes to my community facility that I have strong ownership in. And, if we choose to have another child, I would be very happy to deliver that child in my own community, at my own community hospital, hopefully a North Memorial community hospital.

These are just a few reasons why I think a North Memorial Maple Grove Hospital makes good sense. Thank you.

Sincerely,

Todd Butler, CRNA, MS
24055 Northridge Avenue
Rogers, MN 55374



Minneapolis
City of Lakes

City Council

Don Samuels

Council Member, Third Ward

350 South 5th Street - Room 307
Minneapolis MN 55415-1383

Office 612 673-2203

Fax 612 673-3940

TTY 612 673-2157

January 14, 2005

Commissioner Dianne Mandernach
Minnesota Department of Health
Golden Rule Building
85 East 7th Place
P.O. Box 64882
Saint Paul, MN 55164-0882

Dear Commissioner Mandernach:

I am writing as a public official interested in the decision the Minnesota Department of Health will be making regarding a hospital in Maple Grove, Minnesota. As a Minneapolis City Council Member, and a community leader in the north Minneapolis area, I am very familiar with North Memorial Medical Center, one of the organizations submitting a proposal to build a hospital in Maple Grove.

I believe one of the considerations in your evaluation should be the quality of care from the hospital, but also the quality of the hospital as a community partner. North Memorial has been a strong and steady community partner for Minneapolis as well as a provider of excellent care. For example, their education department works with North High School to expose high school students to health care careers, and Carol Kelsey, North's education director services on the Career Center advisory board.

They are also a long-time sponsor of Healthy Neighbors, a program focused on neighborhood revitalization on the north side of Minneapolis and the Jordan neighborhood.

I respect that your department has a difficult task in reviewing proposals to build in Maple Grove. I do urge you to consider these facts in making your decisions: 1) North Memorial was the first hospital to focus on the northeast side of Minneapolis, and has earned a strong following and one-third of the market share in the Maple Grove area; 2) North has a proven track record as a good community partner and they would be a good partner in the northwest corridor communities, and 3) giving North Memorial the opportunity to grow in the suburban areas would help keep them strong in the urban area. The larger hospital systems have other branch hospitals where they can extend their reach. North Memorial is an independent, one-location hospital, and they need to have access to patient growth areas to keep them strong. Please consider North Memorial as the best partner for a new hospital in Minnesota.

Thank you for your acknowledgement that this decision needs to be made with Minneapolis and Robbinsdale in mind— not just Maple Grove.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Samuels". The signature is fluid and cursive, with a large initial "D" and "S".

Don Samuels
Minneapolis City Council

Scott Leitz - Comments on Maple Grove Hospital

From: "Maureen Vanek" <Maureen.Vanek@northmemorial.com>
To: <Scott.Leitz@state.mn.us>
Date: 1/18/2005 1:30 PM
Subject: Comments on Maple Grove Hospital

Scott Leitz, Director
Health Economics Program
Minnesota Department of Health
85 E. 7th Place, Suite 300
St. Paul, MN 55101

Dear Mr. Leitz:

I am writing to you to comment on the proposed hospital in Maple Grove. I am currently a resident of Maple Grove, having lived there for 7 ½ years. As a resident I truly believe a hospital in our community is important. On our cul-de-sac alone, 10 of the 11 households are inhabited by baby boomers. And of course as we age we will be in need of more and more medical services.

I am also an employee of North Memorial Medical Center and in the capacity as Manager of Volunteer Services and Lifeline programs I would like to comment on the impact of the new hospital on these programs.

North Memorial has strong community support in Maple Grove and surrounding communities. The majority of our volunteers come from the communities going northwest in an arc from North Memorial through Brooklyn Park, Champlin, Rogers, St. Michael, Corcoran, Maple Grove, down to Plymouth. We currently have over 1100 volunteers and a hospital in Maple Grove, other than North Memorial would hugely impact our volunteer corps and our ability to recruit from those areas. Having had the support of these communities has strengthened and grown our program over the past 48 years. In the Hospice program alone, three-fourths of their volunteers come from the communities north and west of North Memorial.

I also manage the Lifeline program. Lifeline is a personal response system used by people who are alone in their homes, have chronic health problems, and are elderly or disabled. We are the primary provider of Lifeline services in the impacted area and we provide a quality service to our clients and their families. We currently serve about 980 clients with 159 of them living in Brooklyn Park, Brooklyn Center, Plymouth and Maple Grove, Elk River, etc... Out of 47 Lifeline volunteers, most of whom install the Lifeline equipment, 44 come from the communities north and west of North Memorial. Our Lifeline program could be severely impacted by another hospital providing service in this market.

Thank you for your consideration of my comments. I would be happy to provide any additional related information you might require. My work number is 763-520-2144.

Maureen Vanek
Work: Manager
Volunteer Services/Lifeline
North Memorial Medical Center
Home: 16515 84th Place No
Maple Grove, MN 55311



North Memorial Clinic

Occupational Health

February 8, 2005

Mr. Scott Leitz
Health Policy, Information and Compliance Monitoring Division
Golden Rule Building
85 East Seventh Place
Suite 300
St. Paul, MN 55101

Dear Mr. Leitz:

Today Pat Cooksey, North Memorial Health Care's Vice President for Business Development and Strategic Planning, asked if I would contact your office to inform you of additional community connections in the Maple Grove area which North Memorial enjoys. I am happy to do so.

North Memorial Health Care has long supported an occupational health product serving local municipalities and community employers. The history of "NorthWorks" (now North Memorial Clinic – Occupational Health) goes back more than 15 years. In its infancy the program was based out of the Emergency Department of North Memorial Medical Center, and eventually became a free-standing, off-site program involving occupational medicine, occupational health nursing services, occupational and physical therapy, and occupational drug testing.

We have some large and loyal customers in the Maple Grove region. First, there is the City of Maple Grove itself. We serve as the medical director for their fire and police departments. We work closely with Ann Marie Shandley of their Human Resources Department. Other nearby municipalities that we also serve include Osseo and Rogers (police and fire departments). In fact, we provide services to 27 different municipalities from Minnetonka to Annandale to Roseville.

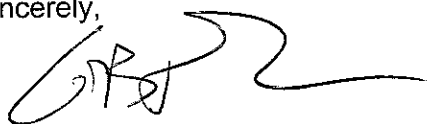
Our largest client in the Maple Grove region is Boston Scientific. We do the great majority of their worker's compensation injury care and also serve as the local medical consultant for their medical surveillance programs (for workers handling hazardous materials) and for their health and safety programs in general. Today we have 21 different examination protocols for Boston Scientific employees reflecting the size and diversity of that work force. A few of the examination types include hearing surveillance, pre-placement evaluations, Department of Transportation driver evaluations, examinations for employees who wear respiratory protection, and examinations for workers exposed to hazardous materials. Recently we helped implement an extensive examination program for employees exposed to paclitaxel, a cytotoxic compound. Paclitaxel is coated on the surface of Boston Scientific's market-leading drug-eluting cardiovascular stent (Taxus).

Caterpillar Paving in Brooklyn Park is also an important and long-standing customer of ours. We provide them with worker's compensation injury services, pre-placement examinations, on-site occupational health nursing services, and support for their medical surveillance programs. Other large local employers in that region which use us exclusively include Alcoa KAMA, Alcoa Reynolds, Banta Catalog, REO Plastics, Tennant (they have a Maple Grove and Golden Valley manufacturing site), Upsher Smith, and United Parcel Service (recently they built a very large distribution center in Maple Grove). All totaled, in 2004 we had standing agreements to provide occupational health services to 161 companies with business addresses in Maple Grove, Rogers, Brooklyn Park, Loretto, Osseo, Dayton, Rockford, and Elk River.

Two weeks ago we sat down with three health and safety professionals representing Hennepin County. They will likely become a customer in the near term future. They showed a great deal of enthusiasm for a possible Maple Grove base for our occupational health services. While we are quite fortunate to have many loyal customers who are willing to send their employees over a considerable distance to reach us, proximity and convenience is still very important to most community employers. I anticipate there will be a very high level of interest among community employers in the Maple Grove region if we are able to provide our quality service from that location.

Mr. Leitz, thank you for your time and attention. It was my goal to provide you with additional credible information demonstrating North Memorial's connection to the Northwest Suburban community. Please don't hesitate to contact us if you have further questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'G. B. Johnson', with a long horizontal flourish extending to the right.

Gary B. Johnson, MD, MPH, FACOEM
Medical Director
North Memorial Clinic – Occupational Health

cc: Pat Cooksey
Vice President
Business Development and Strategic Planning
North Memorial Health Care



City of Robbinsdale

4100 Lakeview Avenue North
Robbinsdale, Minnesota 55422-2280
Phone: (763) 537-4534
Fax: (763) 537-7344
www.robbinsdalemn.com

February 14, 2005



Commissioner Dianne Mandernach
Minnesota Department of Health
85 East 7th Place
Suite 400
St. Paul, MN 55101

Dear Commissioner Mandernach:

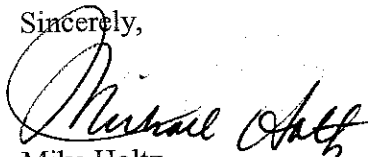
I would like to take this opportunity to share my perspective regarding the report your department is preparing relating to a future hospital in the Maple Grove area. I serve as Mayor of Robbinsdale, which is the home of North Memorial Medical Center, and I'm well acquainted with North Memorial and its staff.

I would support North Memorial as the organization to build a hospital in Maple Grove because:

- North Memorial is a good neighbor as proven by their participation in the Robbinsdale community, with sponsorship of events and providing numerous volunteers in our community.
- North Memorial Medical Center is the only Level I Trauma Center facility proposing a hospital. As such, they have the experience and depth of trained staff to respond to any level of trauma or injury. Our residents have benefited many times from the care and healing of this trauma staff.
- North Memorial has proposed a very rational approach for moving beds from Robbinsdale to Maple Grove. They are moving the beds to where the patients are moving. Yet, they are also still investing in our Robbinsdale area, with new outpatient services in our neighborhood and by continuing to improve the current hospital.
- As a single, independent hospital, North Memorial needs access to growing communities, such as Maple Grove, in order to stay strong. I'm concerned that if larger hospital systems are the only ones allowed access to new markets that North Memorial's long-term stability could be harmed, which has a direct negative impact on Robbinsdale.

In summary, I would urge you to endorse North Memorial's plan for a hospital in Maple Grove. North has proven itself to be an excellent community partner in Robbinsdale and I know they would continue this tradition of excellence and citizenship in Maple Grove.

Sincerely,


Mike Holtz
Mayor of Robbinsdale

MH:mm

February 21, 2005

Commissioner Dianne Mandernach
Department of Health
85th East Seventh Place, Suite 400
St. Paul, MN 55101



Dear Commissioner Mandernach:

I would like to take this opportunity to share my perspective regarding the report your department is preparing relating to the future hospital in the Maple Grove area. I represent the Crystal community and I am well acquainted with North Memorial Medical Center.

I support North Memorial's goal to build a hospital in Maple Grove because North Memorial has always been a great friend and neighbor in our community. They have not only sponsored events and provided volunteers they have demonstrated partnerships with the city of Crystal and our local school district (Robbinsdale Area School). When I served as a member of the Robbinsdale School Board, they provided the usual school education programs and helped to finance the cost of our annual district-wide arts calendar.

One of the partnerships is with West Metro Fire Department which serves both Crystal and New Hope. The fire department no longer responds to emergency health calls because it is now done by North Memorial Medical Center's ambulance service. Since NMMC is close and their ambulances are parked in our community, we benefit in two ways:

1. Less strain on the fire department resources along with actual monetary savings
2. Top-notch medical care strategically located to citizens at a time when a citizen needs it most.

North Memorial Medical Center has grown its facility in Robbinsdale during a time when many businesses have taken flight. Their presence in our community provides not only great medical care at all levels, but also provides important jobs that add to the prosperity of our community. They continue to need access to growing communities in order to stay strong and I am convinced they will serve the community of Maple Grove as well as they have served our communities.

I would urge you to endorse North Memorial's plan for a hospital in Maple Grove. NMMC has proven itself to be an excellent neighbor and community partner for the city of Crystal. I know they will continue this tradition of excellence with the city of Maple Grove.

Respectfully,

A handwritten signature in cursive script, appearing to read 'ReNae J. Bowman', written over a horizontal line.

ReNae J. Bowman
Mayor of Crystal
763/531-2074

City of Brooklyn Center *A Millennium Community*

February 21, 2005

Commissioner Dianne Mandernach
Department of Health
85th East Seventh Place, Suite 400
St. Paul, Minnesota 55101



Dear Commissioner Mandernach,

I would like to add my thoughts regarding the report your department is preparing relating to a future hospital in the city of Maple Grove. I am the Mayor of the city of Brooklyn Center and appreciate having North Memorial Medical Center and it's excellent staff as the major medical facility used by our community.

I would support North Memorial as the hospital to build its new facility in Maple Grove because:

North Memorial Medical Center is the only Level I Trauma Center facility proposing a hospital. My family and I have personal experience in the excellence of the trained staff and facilities needed in the event of a major medical emergency. They have cared for us many times in the almost 40 years we have been in this area.

North Memorial has proposed moving beds from Robbinsdale to Maple Grove, moving beds where the need is. They are currently in the process of adding a new heart center and emergency department in Robbinsdale. Not taking away the quality of care expected by the people using their facilities, but adding and improving on site.

Maple Grove will benefit in many ways with North Memorial as a independent hospital in their community, and North Memorial will continue to grow and become the medical facility the citizens can count on, as we do here in Brooklyn Center.

I would urge you to endorse North Memorial's plan for a hospital. Bring a new Hospital and it's excellent staff and state of the art equipment to the people of Maple Grove and surrounding area.

I hope my personal endorsement of North Memorial will add to your positive thoughts to bring a quality facility to Maple Grove.

Sincerely,

Myrna Kragness
Mayor of Brooklyn Center MN





Commissioner Dianne Mandernach
Department of Health
85th East Seventh Place, Suite 400
St. Paul, Minnesota 55101



Dear Commissioner Mandernach:

I would like to take this opportunity to share my opinion regarding the report your Department is preparing relating to a future hospital in the Maple Grove area (North West Metro). I represent the New Hope community, which is a part of the North West Metro Area that is currently served by The North Memorial Medical Center. As the Mayor of New Hope and as a resident of North Memorial's service area I am knowledgeable of the excellent care this hospital provides for New Hope's residents as well as the entire area.

I support North Memorial to be the prefer hospital for this needed expansion.

- 1) North Memorial is the only Hospital that is a Level 1 Trauma Center of all those Applying for consideration. Their Staff is well trained, and able to handle all Emergencies. North Memorial should be given extra consideration for this level of experience.
- 2) North Memorial is currently serving this community and receives about 20% of its current patient base from the immediate Maple Grove, Rogers, Elk River area the very residents the expansion is to serve. If this portion of North Memorials base is allowed to be served by a different medical facility it could have a very negative effect on North's ability to serve the entire North West Metro Area and my City's residents.
- 3) North Memorial purposed a very well planned expansion allowing for the improved care of the entire North West Metro area, for the continued great care at it's Robbinsdale Base and the new treatment facility/hospital in Maple Grove.
- 4) North Memorial Supports my community emergency medical response and transport and their air lift fleet covers a large area of MN. . Again weakening North Memorial by not allowing them access to maintain their current clientele and this controlled expansion will surely hurt North Memorial's ability to maintain itself as a true health care leader and a valuable community member/ contributor.

In summary, I strongly urge you and your staff to endorse North Memorial as the Hospital of choice for the planned Maple Grove expansion as well as their plan to make it happen

Sincerely,

Martin E. Open Sr.
Mayor of New Hope

CITY OF NEW HOPE

February 21, 2005

Commissioner Dianne Mandernach
Department of Health
85th East Seventh Place, Suite 400
St. Paul, MN 55101

Dear Commissioner Mandernach:

I would like to take this opportunity to share my perspective regarding the report your department is preparing relating to the future hospital in the Maple Grove area. I represent the Crystal community and I am well acquainted with North Memorial Medical Center.

I support North Memorial's goal to build a hospital in Maple Grove because North Memorial has always been a great friend and neighbor in our community. They have not only sponsored events and provided volunteers they have demonstrated partnerships with the city of Crystal and our local school district (Robbinsdale Area School). When I served as a member of the Robbinsdale School Board, they provided the usual school education programs and helped to finance the cost of our annual district-wide arts calendar.

One of the partnerships is with West Metro Fire Department which serves both Crystal and New Hope. The fire department no longer responds to emergency health calls because it is now done by North Memorial Medical Center's ambulance service. Since NMMC is close and their ambulances are parked in our community, we benefit in two ways:

1. Less strain on the fire department resources along with actual monetary savings
2. Top-notch medical care strategically located to citizens at a time when a citizen needs it most.

North Memorial Medical Center has grown its facility in Robbinsdale during a time when many businesses have taken flight. Their presence in our community provides not only great medical care at all levels, but also provides important jobs that add to the prosperity of our community. They continue to need access to growing communities in order to stay strong and I am convinced they will serve the community of Maple Grove as well as they have served our communities.

I would urge you to endorse North Memorial's plan for a hospital in Maple Grove. NMMC has proven itself to be an excellent neighbor and community partner for the city of Crystal. I know they will continue this tradition of excellence with the city of Maple Grove.

Respectfully,

ReNae J. Bowman
Mayor of Crystal



North
Memorial
Community
Foundation

March 4, 2005

Dianne Mandernach
Commissioner of Health
85 E 7th Place
St Paul, MN 55101

To Whom It May Concern:

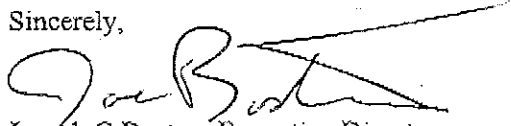
We would like to take this opportunity to share our strong endorsement for North Memorial Medical Center and its plans to create a community hospital in Maple Grove. As community board members for the North Memorial Community Foundation, we are intimately involved with the hospital and its programs and staff. We can personally attest to the integrity and quality of this organization.

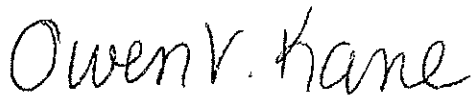
Here are the reasons we believe that North Memorial's plan deserves your support as well:

- North Memorial has already made a major commitment to the Maple Grove and northwest communities—we have served these communities for more than 20 years. We provide the ambulance service for that area and will be locating a new ambulance base on our outpatient campus, set to open in 2006. **Our medical experts provide critical training to fire, police, and other first responders**—this is a valuable contribution to the community that is uniquely provided by North Memorial staff—**at no cost.**
- North Memorial is used by more Maple Grove area residents than any other hospital—**one-third of the community uses North Memorial for their hospital care.** Our plan offers patients the best continuity of care.
- North Memorial has proposed a very reasonable plan for the hospital. *We are moving the beds to where the patients are moving.* We believe this is the kind of rational, efficient approach to health care planning the legislature intended when it passed the hospital moratorium law.
- Competition in health care keeps costs down and quality up. A recent evaluation of the competing hospital proposals by a University of Minnesota health economist states, **"...patient welfare is best served when hospitals vigorously compete. Hospital prices are lower and the quality of care is higher."** We believe that giving the large hospital systems a hospital in Maple Grove does not improve health care in Minnesota.

In summary, we urge you to support North Memorial's plan for a hospital in Maple Grove. North has proven itself to be an excellent community health care partner in the communities it serves and we want the chance to continue this tradition of excellence in Maple Grove.

Sincerely,


Joseph G Boston, Executive Director
North Memorial Community Foundation


Owen V Kane, Chairman of the Board
North Memorial Community Foundation

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2005**

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Robbinsdale MN 55422
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Susan Derus
4046 Xerxes Avenue North
Minneapolis MN 55412
(H) 763-522-3140 (Lake) 218-692-3323
(W) 567-7000; after 7pm: 220-2564
(CAR) 209-9454 (FAX) 593-2649

Jim Lupient
Lupient Enterprises
750 Pennsylvania Avenue South
Minneapolis MN 55426-1629
(W) 763-546-2222

William L McReavy (Vice Chair)
2413 Silver Lane
St Anthony MN 55421
(H) 789-3211
(W) 377-2203

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Golden Valley MN 55422
763-521-0268

David W Cress Executive VP, COO
North Memorial Health Care
3300 Oakdale Avenue North
Robbinsdale MN 55422
(W) 763-520-5450 (Patty - 763-520-5047)

Owen Kane (Chair)
Wachovia Securities Inc
3400 IDS Center
80 South 8th Street
Minneapolis MN 55402
(W) 612-342-0621 (FAX) 332-4071

Richard Ogle
2771 Shadywood Road
Orono MN 55331
(H) 952-471-8635
(Winter) 10176 Orchid Ridge Lane
Bonita Springs, FL 34135
(239) 949-1730

Don Park
Hoffmann & Swintek
7100 Northland Circle #201
Brooklyn Park, MN 55428
(W) 763-537-1700

STAFF

Patrick J Boran
Vice President Finance/CFO
North Memorial Health Care
3300 Oakdale Avenue North
Robbinsdale MN 55422
(W) 763-520-5048

Joseph G Boston
Executive Director
North Memorial Community Foundation
3300 Oakdale Avenue North
Robbinsdale MN 55422
(W) 763-520-5292

Appendix 2

Methodology

This appendix provides additional details on MDH's analysis of the application for public interest review. It describes the methods and data that we used to:

- Project future utilization and occupancy rates at hospitals currently serving residents of the Maple Grove area in the absence of a new hospital being built in Maple Grove;
- Estimate the impact of the proposed Maple Grove hospital on existing hospitals that serve residents of the Maple Grove area; and
- Analyze the potential shift in payer mix at existing hospitals as a result of the proposed Maple Grove hospital.

Projecting Hospital Use and Occupancy in the Absence of a New Hospital

This analysis focused on eleven hospitals that were identified as (a) holding a significant market share of the discharges from the Maple Grove area (as defined by the applicant); (b) having a high dependency on patients from the Maple Grove area (even if the hospital does not have a large share of the total market, it may be very dependent on the Maple Grove area as a source of admissions), or (c) being a major safety-net hospital provider in the region. The hospitals included in this analysis were Abbott Northwestern Hospital, Buffalo Hospital, Children's Hospital in Minneapolis, Fairview Northland Regional Hospital, Fairview-University Medical Center, Hennepin County Medical Center, Mercy Hospital, Methodist Hospital Park Nicollet Health Services, Monticello-Big Lake Hospital, North Memorial Medical Center, and Unity Hospital.

We used Minnesota hospital inpatient discharge data from calendar year 2003, excluding discharges of normal newborns. This data includes information on the patient's zip code and age. First, we calculated occupancy rates for each of the eleven hospitals and for the eleven hospitals as a group in 2003.

Next, we projected inpatient volumes and occupancy rates to 2009 and 2015. In order to take account of population growth and demographic change that may be occurring in a particular hospital's service area, we looked specifically at the zip codes from which most of the hospital's patients originate. We chose to define this area as the geographic area (group of zip codes) from which the top 75 percent of the hospital's discharges of Minnesota residents originated in 2003. For each of the eleven hospitals, we calculated hospital-specific and age-specific hospitalization rates for the population living in the geographic area as defined above. We used projections of future

population (by age group) in the same geographic area to project future hospital volumes.¹⁷ The geographic areas that comprised the remaining 25 percent of the hospital's discharges of Minnesota residents were treated as a group for the purpose of projecting future use of hospital services, and we assumed that the number of discharges of non-Minnesota residents would grow at the same rate as discharges of residents of the state.

The major assumptions that we made in this analysis are as follows:

- We assumed that hospitalization rates by age group would be the same as they were in 2003. To take account of potential future changes in hospitalization rates, we also created projections assuming a range of future use rates – either a 10% increase or 10% decrease in hospitalization rates for each age group. Factors that could cause future hospitalization rates to increase include rising levels of disease (for example, conditions associated with obesity) or technological change; on the other hand, technological change can also be a major driver of reductions in hospitalization rates. (Changes in overall hospital utilization due to the projected aging of the population are accounted for already by the fact that the analysis is done separately for each age group.)
- We assumed that the average length of stay would also be unchanged compared to 2003. Although the average length of a hospital stay declined in Minnesota from 5.1 days in 1993 to 4.3 days in 2003, the average length of stay has been stable over the past five years.
- We assumed that average annual population growth for the geographic areas defined for each hospital would be the same for 2009 to 2015 as projected by Claritas, Inc. for 2004 to 2009. To the degree that this method might overstate or understate actual population growth during this period, our estimates of future hospital use would also be overstated or understated.
- Finally, we assumed that the group of zip codes from which each hospital receives its core business (the geographic area accounting for 75% of discharges) would remain the same over time.

Finally, because calculating occupancy rates over an entire year does not adequately capture variations in occupancy rates that occur at different times of the year, we projected seasonal occupancy rates for 2009 and 2015 by assuming that the distribution of inpatient days across the year would be the same as it was for 2003. In order to account for hospital days that occurred in 2003 but are missing from our data set because the patient was not discharged until 2004, we used hospital days from patients who were admitted in 2002 but not discharged until 2003 as a proxy.

¹⁷ Population estimates by zip code and age were obtained from Claritas, Inc. for 2000, 2004 and 2009. We estimated 2003 population by assuming a constant average annual growth rate from 2000 to 2004. We projected forward to 2015 by applying the same average annual growth rate estimated by Claritas from 2004 to 2009.

Estimating the Impact of the Proposed Hospital on Existing Hospitals That Serve Residents of the Maple Grove Area

In order to calculate the impact of the proposed hospital on existing hospitals that serve residents of the Maple Grove area, we estimated the potential impact on discharges, inpatient days, and occupancy rates at each of the eleven hospitals. First, based on the applicants' submissions,¹⁸ we calculated the total number of bed days that the new Maple Grove facility is designed to accommodate, incorporating information from the applicants on both the size of the facility and the expected occupancy rate. We calculated the impact on existing hospitals by assuming that the new facility would in fact provide the volume of inpatient services consistent with the proposed size and occupancy rate anticipated by the proposal. We also assumed that all of the patients served by the Maple Grove Hospital would come from within the applicant's defined service area. Our estimate of the impact of the facility is therefore a conservative estimate, representing an upper bound on the volume of inpatient services that would be shifted away from existing hospitals.

To estimate the impact on individual hospitals, we assumed that the hospital's market share of the services provided to Maple Grove area residents at hospitals other than the proposed new facility would be the same as its current market share among the group of eleven existing hospitals. Essentially, this assumes that people who do not receive services at the proposed Maple Grove hospital will maintain the same travel patterns that currently exist. As noted in the main text of the report, however, there is a high level of uncertainty about how travel patterns may change. There are two main factors contributing to this uncertainty: first, the possibility of as many as three large new ambulatory care centers in the community, which would likely have an impact on physician referral patterns; and second, the possibility that a system-affiliated hospital in Maple Grove could affect the pattern of referrals to other hospitals for services not provided directly at the proposed Maple Grove hospital. For each hospital, we estimated the impact of the proposed Maple Grove hospital on existing hospitals as the difference between a) projected volumes in the absence of a new hospital and b) projected volumes incorporating the loss of volume from the addition of a new facility in Maple Grove.

Analyzing Potential Payer Mix Shift

To estimate the potential effect of the proposed Maple Grove hospital on payer mix for existing hospitals, we calculated the distribution of insurance coverage at the zip-code or zip-code-group level for the core service areas of several hospitals. For this analysis, we limited the list of hospitals to those that are either 1) most likely to be affected by the proposed Maple Grove hospital, or 2) major providers of uncompensated care in the region. We used data from the 2001 Minnesota Health Access Survey, which was a health insurance survey of over 27,000 Minnesota households,

¹⁸ For the Tri-Care proposal, we assume an 80-bed hospital for 2009 that will increase to 120 beds in 2015. Fairview Health Services' design anticipates also an 80-bed hospital in 2009, which it projects to expand to 240 beds in 2015. Because NMHC has indicated that they are only seeking legislative approval for the transfer of 80 beds at this time, this analysis assumes 80 beds in both 2009 and 2015. (NMHC has indicated that it may request another exception from the hospital moratorium in order to expand its proposed Maple Grove hospital in the future.)

to estimate insurance coverage for zip codes, or for groups of zip codes where there was insufficient data to estimate it at the zip code level. We aggregated these estimates of insurance status by zip code to the geographic area from which the top 75 percent of a hospital's discharges originated in 2003, as defined above in the projection of future demand for hospital services.

Next, we weighted our estimates of the sources of insurance coverage in the geographic area according to the proportion of the hospital's discharges from each zip code or group of zip codes.. This provided an approximation of the distribution of insurance coverage in the geographic area from which the hospital draws most of its patients. We repeated this analysis for 2009 and 2015 for 1) the projections of inpatient volumes in the absence of a new hospital and 2) the projections with the proposed new hospital.

Appendix 3

American College of Surgeons Classification of Trauma Centers

American College of Surgeons Committee on Trauma Classification System
of Trauma Center Level

ACS Levels and Descriptions

Level I

Provides comprehensive trauma care, serves as a regional resource, and provides leadership in education, research, and system planning.

A level I center is required to have immediate availability of trauma surgeons, anesthesiologists, physician specialists, nurses, and resuscitation equipment. American College of Surgeons' volume performance criteria further stipulate that level I centers treat 1200 admissions a year or 240 major trauma patients per year or an average of 35 major trauma patients per surgeon

Level II

Provides comprehensive trauma care either as a supplement to a level I trauma center in a large urban area or as the lead hospital in a less population-dense area.

Level II centers must meet essentially the same criteria as level I but volume performance standards are not required and may depend on the geographic area served. Centers are not expected to provide leadership in teaching and research.

Level III

Provides prompt assessment, resuscitation, emergency surgery, and stabilization with transfer to a level I or II as indicated.

Level III facilities typically serve communities that do not have immediate access to a level I or II trauma center.

Level IV & V

Provides advanced trauma life support prior to patient transfer in remote areas in which no higher level of care is available.

The key role of the level IV center is to resuscitate and stabilize patients and arrange for their transfer to the closest, most appropriate trauma center level facility.

Level V trauma centers are not formally recognized by the American College of Surgeons, but they are used by some states to further categorize hospitals providing life support prior to transfer.

Source: MacKenzie EJ et. al. National Inventory of Hospital Trauma Centers. JAMA 2003 Mar 26; 289(12):1516. ©2003 American Medical Association

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