

December 14, 2004

Scott Leitz
Director, Health Economics Program
P.O. Box 64882
St. Paul, Minnesota 55164-0882

Dear Mr. Leitz:

Thank you for your November 22, 2004, letter indicating that our application is complete to begin the public interest review.

In addition, you have requested supplemental information as expressed through six questions.

1. Clarification and explanation of roles and proposed formal partnership between Fairview staff, UMPhysicians and community based physicians.

Fairview Health Services and University of Minnesota Physicians (UMPhysicians) are committed to providing an integrated provider network to the residents of the North Hennepin area. For the past several months, we have been collaborating on the contractual role and responsibilities between the organizations. Discussion is ongoing and we expect the final relationship documents to be completed within the next fiscal quarter. I'm sure you understand the specific legal and economic relationships are confidential.

UMPhysicians will recruit and place needed physicians at the Fairview Maple Grove Health Care Campus. UMPhysicians will also coordinate alignment of Fairview-affiliated and other community-based physicians to practice at this site as needed. Over the past several years, UMPhysicians, Fairview-affiliated and other community-based physicians throughout the Twin Cities and the state have successfully collaborated on various specialty service arrangements. Fairview and UMPhysicians are moving forward to establish these service provision relationships for Maple Grove. Fairview has already received several inquiries from North Hennepin area community providers interested in expanding their practices to the Fairview Maple Grove site.

2. List of facilities [hospitals] where UMPhysicians and Fairview provide specialty services to patients from the Maple Grove Primary Service Area (PSA).

In 2003, Fairview had a 12 percent inpatient marketshare for patients originating from the defined primary service area. Fairview-University Medical Center, Fairview Southdale, Fairview Ridges and Fairview Princeton (Northland) accommodated the majority of these patients. UMPhysicians admit patients predominately at Fairview-University Medical Center, but also provide selected specialty services at other facilities.

UMPhysicians do not currently admit patients to non-Fairview hospitals providing services to residents of this PSA.

In addition to the UMPhysician providers, we expect and welcome community physicians to join the medical staff at the Fairview Maple Grove Hospital. Our Exception Application indicates the range of clinical services to be provided at the Hospital. Fairview and UMPhysicians look forward to working collaboratively with community physicians to strengthen the primary and specialty service mix provided in the community and at the hospital.

3. List of the primary care facilities [clinics] that currently provide care to patients from the Maple Grove PSA.

Other than the Yellow Pages, we are not aware of a credible single source document that identifies the primary care clinics serving the PSA residents. Fairview is not aware of any patient origin study that documents where area residents go for primary or other ambulatory care. We suspect that clinics associated with specific health care systems refer their patients for specialty care or hospitalization to providers associated or affiliated with their respective systems. For tertiary/quaternary, specialty and hospital care, typically these providers refer to UMPhysicians and Fairview-University Medical Center.

Fairview expects these referral relationships to continue, but to change and evolve as new providers enter the market and as new provider-to-provider referral relationships develop. We believe that patient choice, quality of service, and healthplan networks will continue to drive referral patterns and relationships.

4. Description of services considered new and improved, i.e., services that patients in the PSA currently do not have access to.

As a general statement, area residents have access to any type of service needed. However, access may be impeded by insurance, ability to pay, scarcity of resources (i.e., organs for transplant), transportation, etc. In the greater Twin Cities area, the population is blessed with a rich and varied mix of available resources.

Specific to PSA residents, new and improved services will be measured by more timely access to and integrated delivery of needed health care services. This includes a greater local choice of physicians, including specialists, and other providers, as well as ambulatory and inpatient services all to be provided at the Fairview Maple Grove Health Care Facility. Improved access to time sensitive services, such as emergency, acute cardiac and obstetrical services and “one stop” comprehensive medical care are just a few examples of improved delivery.

5. Methodology used for the selection of the PSA

The definition of the primary service area was developed based on three key factors:

- The home zip code area of patients currently being served by Fairview, particularly the Fairview-University and Fairview Southdale hospitals.
- The home zip code area of patients being served by University of Minnesota Physicians and other Fairview-affiliated physicians.
- The driving time and distance of communities located in the northwest metro to the proposed Fairview Maple Grove Health Care Campus

The final definition of the PSA reflects a ten-mile radius of the Fairview Maple Grove Health Care Campus location based on the above factors.

6. Impact of the facility's staffing needs on staffing at existing facilities in the area.

This is a difficult question to respond to with a specific set of facts. As discussed in the Exception Application, there are current and anticipated shortages of several professional positions, such as pharmacists, registered nurses and radiologic technicians. In the application, we included shortage documentation from The Minnesota Department of Employment and Economic Development Healthcare Worker Workforce Demand study (Workforce Demand: Labor Assessment Research Project – 04/2004), 2008 – 2012.

Every health care organization, whether hospital, clinic, nursing home or other, will continue to compete for specialized staff. The potential combination of retirements, career changes, technology changes and new workforce entrants will create either a balance, overage or shortage in particular occupational categories.

Fairview has developed, operationalized and promoted a deliberate and concentrated focus on resource management and labor force issues since the late 1990s, thorough analysis of current and future health care work force demographics and trends.

- Effective interventions include:
 - New focus areas and business direction for resource development and management.
 - Leadership development, workforce development and placement, diversity, process improvement, safety, system efficiencies and strategic business planning focus areas.
 - Redefined human resources mission: create, maintain and enhance an organizational culture based on our values of dignity, integrity, services and compassion and where Fairview employees are passionate about their futures and the future of Fairview.
 - A vision: preferred health care employer, with the best employees who demonstrate excellence, strengthening our commitment to being a learning organization that encourages continuous growth and development, respecting and embracing individual differences.
 - Measurement tools to monitor and understand employee turnover, vacancy rates, retention efforts, recognition and rewards, growth opportunities and employee engagement – including a systematic measuring of employee engagement.
 - Installing “best practice” methods of recruitment and retention.
 - Process improvement to use best practice research: delivered lasting results and understanding (retention stats/vacancy stats).
 - Developing applicant management for our critical and clinical positions (e.g., RN pipeline initiative).
 - Established over a dozen Fairview sponsorship and partnership programs in exchange for employment contracts.
 - National and local recognition as an industry leader, including a Governor's commendation for “Surgical Technology Expansion Partnership.”
 - Retention (Stay and Grow) initiatives make Fairview a preferred place to build a long-term career.
 - Alumni networks maintain ongoing relationships with former employees in order to re-recruit appropriate alumni.

- High-profile employee referral campaigns offer employee incentives for referring successful candidates into high demand positions.
- Courtship recruiting targets a select group of candidates through the use of personal follow-up techniques.
- Accelerated specialty orientation prepares new graduate nurses in specialty positions.
- Customized scheduling options address work-life balance issues.
- Recruitment applicant management revised recruitment processes, including the implementation of an electronic applicant tracking and hiring/application system.
 - The impact of this initiative can be seen in increased average number of applicants per opening (2.42 in 2003 to 5.21 in 2004)
 - over a 23% increase in 2004 number of total applications received over 2003.
 - Employee engagement committees strengthen and advance employee involvement/satisfaction.
 - Employee retention improved and time to fill vacancies and number of vacancies decreased.
 - Programs revised and strengthened for new employee welcome and orientation.
- Build and Grow Organizational Talent uses a systematic approach to individual and organizational development planning.
 - Align with and drive organizational strategy to build a talent bench by assessing talent needs at a system level (assuring the future), assessing departmental gaps (focusing on critical department needs) and assessing individual employee gaps (identifying strengths and potential).
 - A road map that includes our high potential program, job rotations, special projects, education and training, feedback mechanisms, cross training, mentor/menteeships, career ladders, temporary job assignment opportunities and executive/management training courses is outlined for inclusion in this initiative.
 - Succession planning to promote and enhance this overall concept.
- Workplace Diversity has significantly grown over the last 10 years.
 - Director of Diversity was hired and a program plan was developed with three focus areas: Workforce Diversity, Culturally Competent Care and Welcoming Work Environment.
 - Outcomes: presentations related to caring for patients with different cultural backgrounds, English at work classes for employees with English as a second language, community outreach with minority communities, development of culturally competent care teams, development and presentation of diversity workshops and summit, mentoring circle program, employee engagement survey data reported out for diverse populations, welcoming environment work teams that analyze and make recommendation at all system locations, courageous conversations skills training offered to Fairview leadership, local diversity councils initiated and heritage month commemorations.
 - Fairview executive staff has self-identified individual and personal diversity goals.
- 2004 environmental study conducted to determine the current and future top trends facing Fairview in the areas of talent management, market demographics, technology etc.

Engaged Employees

Fairview's focus on understanding and measuring employee satisfaction and engagement uses an annual Gallup survey to measure the core elements needed to attract, focus and keep the most talented employees. We survey employees once a year and we are now seeing significant findings through trend analysis. Given Fairview's 2004 results, leadership within Gallup have identified that Fairview may be the best example of large and consistent gains in employee engagement. Our results continue to be strong and include "Best Practice" results from within the Fairview system.

The following is a synopsis of the Fairview engagement data:

- 2003 data show employee engagement increases across almost every category of employee, across most divisions of the organization and for every item on the survey.
- Employee participation in survey completion continues to rise.
- The "Engagement Index" shows significant improvement from 2001 to 2003.
- Engagement by tenure and time status (full or part time) has continued to increase for every tenure and time status bracket.
- Engagement by union status continues to rise for both non-union and union employees.
- Engagement by management status continues to rise for both management and non-management employees.
- Engagement by patient care position status also continues to rise for both patient care and non-patient care job classifications.

Fairview received the 2001 "Best Hospital Workforce Award" in 2001 from Minnesota Hospital and Health Care Partnerships for increased employee satisfaction and retention efforts.

Fairview has multiple programs that support and enhance strong employee engagement:

- Tuition reimbursement program supports training, learning and continuous growth in health care professions.
- Employee health management program demonstrates support of employees and their optimal health through innovative employee health management programs that focus on prevention and health enhancement.
 - Over 75 percent of Fairview employees have participated in the program
 - National recognition for the comprehensive, integrated approach to health improvement and health cost management
 - 2003 C. Everett Koop Health Project Award
 - 2004 Institute for Health and Productivity corporate award.
- Non-union employee compensation programs have a market and performance based philosophy, aligned with our medical communities and supporting outcomes and fiscal responsibility
 - Financial rewards through our "Exceptional Contribution" individual and team awards.
 - Annual review process
 - Leadership incentive opportunities for results that support four focus areas: Fiscal management, customer satisfaction, individual goal completion and employee satisfaction results.

Annual giving campaigns support the local United Way through cash donations as well as supporting employees through donation of funds for employee emergency hardship loans or grants:

- Continuing education not covered by tuition reimbursement.
- Funding for employee medical missions (200 medical mission grants totaling \$400,000 in support of those in need).

Fairview Community Health Works improves the health of those we serve in partnership with other community agencies in the school system, public health structures, churches, government and social service agencies.

- A health careers charter high school with Augsburg will open in the fall of 2005. Fairview employees will have mentor roles with the students by providing them with a view of health careers through visits and job shadowing experiences.
- South Vista School: Fairview provides mentors for pregnant teen students; the percentage of second pregnancies in this population has been reduced to zero. Recognized a program of the year through MOAPP.

Rewarding and recognizing employee excellent is strongly supported within our system. We have opened a company store that provides employees with discounted products and services in addition to assisting management with options for rewarding staff. Many departments highlight quality outcomes and/or extraordinary customer service initiatives. Every year we award one Fairview employee with a "Fairview Cares" award for volunteer service to communities. In addition, we also select one member of our system leadership to receive a "Courageous Leadership" award. These awards are presented at our annual leadership Quality Conference.

Fairview has implemented and supported many different methodologies to develop and retain engaged employees. Efforts are based on a strong performance management belief that includes a focus on good and "best" job fit outcomes. Work will continue to be directed toward the further development and refinement of a highly skilled and engaged work force that is committed to quality outcomes and high customer satisfaction.

We appreciate your time and effort in reviewing our application. Please contact Robin Gaustad at 612-672-2252 if we can provide additional clarification or information.

Sincerely,

A handwritten signature in black ink that reads "David Page". The signature is written in a cursive style with a large, stylized "D" and "P".

David Page
President and Chief Executive Officer