

March 9, 2005

2450 Riverside Avenue
Minneapolis, MN 55454-1395
Tel 612-672-6300

Mr. Scott Leitz, Director
Minnesota Department of Health
Golden Rule Building
85 East Seventh Place, Suite 300
Saint Paul, Minnesota 55101

Dear Mr. Leitz:

Thank you for this opportunity to provide Fairview Health Services' (Fairview) perspectives on the North Memorial letter (February 1, 2005) and the Tri-Care letter (February 25, 2005). Throughout this review process Fairview respected the Department of Health's and the Minnesota State Legislature's responsibilities. More importantly, our understanding of this process is that the Minnesota Department of Health (MDH) is to offer an opinion to the Legislature whether or not licensed beds are needed in the Maple Grove area. The Legislature will determine the process for selecting the organization to provide these acute care beds in Maple Grove.

We are clarifying and responding to questions or issues raised concerning Fairview's application for Exception to the Acute Care Hospital Moratorium. Supplemental submissions by North Memorial and the Tri-Care partnership reluctantly force Fairview to respond. Our intent from the beginning has been to respect the MDH assignment and process, and work with our legislators to promote Fairview as the best choice. We are pleased with the level of interest in the development of health care services in the Maple Grove area and believe that with additional review and information, Fairview's application will be successful.

We have organized our comments as follows:

1. Introductory comments
2. Fairview's response to selected issues
3. Why Fairview is the best choice
4. Competition as best approach for Northwest Quadrant residents
5. Final comments

Introductory Comments

Our November 2004 submission in response to the "Public Interest Review Process For Hospital Seeking Exception To State's Hospital Bed Moratorium Law" is a complete presentation of our request. In December we responded to questions from the Department of Health. At this time, Fairview does not see any value in challenging every point raised in the Additional Informational Response letters submitted by North Memorial or Tri-Care. We will address information or comments that may be inaccurate or misleading.

Minnesota residents are blessed with high-quality providers and a wide range of health care services. Strong competition within our marketplace is key to maintaining quality and efficiency, but most importantly – **choice**. The Fairview application articulates our vision and continues a long tradition of partnering with the communities we serve to preserve choice, ensure efficiency and deliver high-quality, innovative health care.

Fairview's Response to Selected Issues

North Memorial raises issues in its Additional Information Response letter to which we would like to respond. Fairview will address these concerns to provide additional information for your consideration.

“Provider of Choice”

With the submission of the North Memorial Additional Information Response letter, North Memorial suggests that the MDH should offer an opinion on the provider of choice in the Northwest Quadrant market. Defining the “provider of choice” is a difficult process and not one, we believe, required of the MDH by the Moratorium Exception process. Each of the applicants has developed information that would demonstrate its ability to perform as the provider of choice. Given that currently there is no high quality, acute care options in Maple Grove, it forces community residents to leave their area for healthcare. The market surveys presented by some of the applicants should be reviewed closely. The sample size of the studies, the information provided to the respondents prior to answering the questions, the nature of the questions asked, and the actual design of the survey instrument can all lead to research results which are neither reliable nor informative. Fairview believes that the residents of Maple Grove/northwest quadrant will greatly benefit by broad provider choice.

Financial Implications of a Hospital in Maple Grove

Generally consistent with Tri-Care's responses, Fairview recognizes North Memorial has concerns about the financial impact a new hospital in Maple Grove might have on North Memorial. These concerns, however, are overstated and are not based on data or the experiences of other area hospitals that have been faced with similar hospital start-ups.

North Memorial, in its Additional Information Request letter, outlines its case that another acute care provider in Maple Grove will seriously and negatively impact its ability to provide care, continue its charitable care program, and maintain selected services, such as the Level 1 Trauma service. On this matter, we are in agreement with Tri-Care that recent Twin Cities experience does not bear out North Memorial's speculation. The financial performance of a hospital is the result of numerous factors including occupancy, clinical complexity, patient discharges and expense control, not just marketshare. One new area hospital, Woodwinds Health Care Campus, opened in the fall of 2000 in a community experiencing population growth similar to Maple Grove and the surrounding area. The hospitals closest to Woodwinds Health Campus: United Hospital, Lakeview Hospital and Regions Hospital have not experienced declines in inpatient discharges and have continued to grow, even though their respective marketshare numbers may have changed slightly. Fairview Ridges Hospital also shares part of the Woodwinds service area, but it also has experienced very little decline in discharges. (During this same period, Park Nicollet Clinic redirected its

patients to Methodist Hospital resulting in some decline to the Fairview Ridges Hospital inpatient discharges.)

North Memorial stated in its Additional Information Response letter that it would be “financially devastated” if another provider were granted the acute care license in Maple Grove. North Memorial’s plan to shift staffed beds to Maple Grove and downsize its Robbinsdale facility will only lead to increased costs at both sites to serve what they describe as the same patient base (i.e., an additional \$50 - \$70 million in Maple Grove project costs, and additional staff to maintain two buildings). There is a real possibility if North Memorial does move beds and downsizes its Robbinsdale location, it could financially devastate both facilities, not meeting the demand at either location, and substantially increase its facility costs.

While we understand North Memorial’s fear about a competing hospital in Maple Grove, the data from numerous studies, including from the Department of Health, Health Economics Program, demonstrate that the population growth or decline is not the only determinant of inpatient utilization. North Memorial should anticipate increased inpatient utilization based on the aging of its service area population and the increased use of inpatient services due to technology. We respect North Memorial’s right to engage a health policy expert to help them understand these market changes, but we believe the Department of Health, Health Economics Program is in the best position to evaluate the impact of a new hospital and to objectively assess any anticipated regional changes in hospital utilization over the next 20 to 30 years.

Further, the health policy consultant work that North Memorial has commissioned is a work-in-progress. The study’s assumptions are not disclosed, and North Memorial describes the analysis as “preliminary” and concedes that the assumptions “might be challenged.” We do not believe, therefore, that it would be productive to respond to this analysis at this time. We do note, however, that North Memorial candidly acknowledges one fact that will not change between now and any later version of this study: in North’s words, and unlike either Fairview or Allina, “Fairview currently has no hospital in the Maple Grove area.” No matter what else any study might say, a Fairview hospital would introduce a new competitor to that part of the metro region.

Value of a Health Care System

During the last ten years there has been significant restructuring of health care delivery in the Twin Cities as hospitals have merged, redesigned their services to meet demand and offered new technologies. Strategically, North Memorial has chosen to remain independent while others, believing they could create greater value to the communities and patients they serve, have developed different organizational models and systems. These organizational designs and the consolidation of clinical and organizational talent distinguish these health care systems and allow them to provide high-quality care at lower costs. North Memorial highlights the success Fairview has had in providing low-cost care by the chart referenced on page 24 of North Memorial’s Additional Information Response letter. Both Fairview Ridges and Fairview Southdale hospitals are among the least expensive providers based on expenses per adjusted admission in the metro area and no one would dispute that Fairview-University Medical Center serves a more

clinically complex and challenging patient population whose expenses would be higher than the norm.

A major and key difference in the Fairview proposal is the creation of a comprehensive, regional health care campus in Maple Grove to serve Northwest Quadrant residents, similar to our health care campuses in Burnsville, Wyoming, Red Wing, Edina and Princeton. Like North Memorial, each comprehensive health care campus has a mix of employed and independent medical staff, an open hospital medical staff, decentralized clinic locations, reinvestment in plant and equipment, etc.

This is where the similarities end. Fairview's approach differs from other applicants; we plan to build more than a satellite hospital. We are committed to working with the community to create a fully integrated, comprehensive health care campus. Fairview has a long history of meeting unique community needs, providing local accountabilities and being able to provide access to a full range of tertiary, quaternary and world-class academic medicine. We will work with community leaders to assure that Maple Grove residents' needs are reflected in the health care campus and that they have access to the numerous and varied services available through Fairview.

Redistribution of Acute Care Licensed Beds

The Tri-Care and Fairview proposals suggest that acute care licensed, unstaffed, non-used beds would be redistributed from current hospitals to the Maple Grove area where demand is increasing. North Memorial has proposed moving staffed beds from its current Robbinsdale campus to the Maple Grove location. Moving beds from the Robbinsdale campus to a Maple Grove campus will not solve the bed demand resulting from anticipated population growth and aging of the Maple Grove and surrounding residents. The inpatient demand from the current North Memorial primary and secondary service areas will continue. Moving these currently staffed beds will only mean North Memorial will be returning to the MDH and the legislature in five to ten years requesting new licensed beds for one or both campuses. Moving licensed, unstaffed beds, however, as Fairview has proposed, will mean capacity reduction from areas where inpatient bed demand is lower to areas where a shortage of beds exists. Fairview believes so strongly in this approach that we would be willing to enter into further discussions with the MDH to de-license acute care beds to create patient bed redistribution.

Service Area Definition

None of the applicants used the same service area to define the Maple Grove primary or secondary service areas. The differences would be expected because each applicant plans to serve residents it has historically served in addition to those living in close proximity to the proposed sites. If Fairview used a broader service area, expanding the primary service area from 10 zip code areas to the 20 proposed by North Memorial or the 22 proposed by Tri-Care, all of our assumptions about future volumes, current marketshare and future community needs would change. Fairview's goal is to serve Maple Grove and surrounding area residents with high-quality services allowing them to choose their providers, thereby defining the market. We believe, based on that scenario, the community would support and make full use of Fairview and our health care services.

Approval of Moratorium based on “Entitlement” to Acute Care Beds

North Memorial’s initial and subsequent submissions to the MDH are consistent in two ways. First, North Memorial believes it is “entitled” to be the acute care provider in Maple Grove based on its current location and markshare. If North Memorial and all the other providers in the area were fully serving Maple Grove and the surrounding communities, the community would not be demanding better access to acute care services. The needs of the community have evolved over the last few years and will continue to evolve as the population grows and the demographics change requiring new services and new providers.

Emergency Services for Maple Grove Residents

The West Metro area has access to sophisticated and high-quality Level I and II Trauma Services. Designation as a Level I Trauma Center requires on-site, 24 hour physician and clinical services that were not identified in any of the Exception applications and are not likely to be available in a hospital in Maple Grove. Each of the applications includes urgent/emergent care services (consistent with a Level III emergency designation), but none has indicated that it will seek Level I or II Trauma designation. This will result in continued use of nearby trauma programs. Linking to one health care organization because of its trauma services will not be necessary to assure the residents of Maple Grove continue to receive appropriate emergency care.

Minnesota State Statute 144E.11 – the “Ambulance Law”

The Minnesota State Legislature defined the regulations and administrative processes applicable to the moratorium on any hospital construction (the “Moratorium Law”). The Legislature has maintained its control over the hospital moratorium process and has not delegated this responsibility to any other body as it has done in the “Ambulance Law”.

A number of factors considered in the Exception application process are not applicable to entities that apply for an ambulance license. The Legislature has elected to retain control of this process because of its increased complexity and the economic consequences that might result. Moving to an “Ambulance Law” evaluation process for the hospital moratorium exception process would not be appropriate because the provisions of the “Ambulance Law” will not provide a comprehensive review of the complex issues required to evaluate competing applications for a hospital exception to the “Moratorium Law.”

WHY FAIRVIEW HEALTH SERVICES IS THE BEST CHOICE

Fairview, a faith-based health care organization, has been a part of the Minnesota communities we serve for nearly 100 years. Our hospitals, ambulatory care centers, senior living communities, homecare and other health care services have proven our ability to work side by side with physicians and community leaders to create health care campuses that reflect the community, its health care needs and its culture. We have worked closely with other providers and partners to grow with the communities and to develop comprehensive, regional health care campuses. Fairview Southdale, Fairview Lakes and Fairview Ridges are all examples of successful health care campuses that

started small, served the unique needs of their host communities, and evolved based on the demands of our communities.

One of the differentiating capabilities that Fairview and the University of Minnesota Physicians bring to Maple Grove and its surrounding area is our ability to link state-of-the-art medical knowledge and treatment with the compassion of community-based medicine. The University of Minnesota Physicians have provided services to Maple Grove residents for many years. This campus will be the first effort by both Fairview and the University of Minnesota Physicians to capture the distinctive talents and capabilities of the academic medical community and combine it with Fairview's extensive understanding of community health services. The University of Minnesota Physicians plan to expand their services and bring additional services to the community that will extend the technology and world class clinical services of the University to Maple Grove and surrounding area residents.

Fairview also brings to Maple Grove and the surrounding area one of the most comprehensive and well developed continuums of care. A typical Fairview community health campus includes facilities designed for children, services for behavioral health patients, seniors, the frail and those seeking services to prevent or manage health care problems or decline. The access to Fairview's continuum of care reaches from pre-birth care to adolescence with a wide array of services offered for children of all ages. Most of the Fairview campuses also have extensive services and specialized programs for older adults through the Ebenezer senior Living services. The continuum also provides services for many of the most complex, life-threatening challenges in health care for both adults and children.

Fairview has received numerous awards over the last five years for our exemplary programs and clinical quality, including being named in the 2004 100 Best Hospitals in seven specialty areas by US News and World Report, being selected by the Robert Wood Johnson Foundation as one of six Palliative Leadership Centers (centers teaching other hospitals to care for dying patients) and selection of the Newborn Intensive Care Unit as one of the top four in the United States. Fairview has received the two most prestigious workplace health management awards – C. Everett Koop National Health Award and Health and Productivity Promotion Award. These are just some of the recognitions Fairview has received recently affirming and recognizing our commitment to creating a great place to work and learn and provide care for our patients, family members and others who seek our services.

Fairview Maple Grove Health Care Campus on Fernbrook Road has been a part of our planning for the last five years. This health care campus for Fairview is not a real estate deal, but an opportunity to own and plan the entire site assuring easy, quick access for emergencies and the appropriate on-site health care resources. Fairview selected the site because of its convenient location and direct access from most major highways and roads serving the area. We are ready to begin construction. Unlike the other applicants, buildability on the Fairview site is not hindered by the need for massive investment/development of roads, bridges and infrastructure. We are currently developing preliminary architectural plans for the acute care services and will move

ahead with these plans when our application for Exception to the State Acute Care Bed Moratorium receives approval.

COMPETITION IS THE BEST APPROACH FOR THE NORTHWEST QUADRANT RESIDENTS

North Memorial's response included a section called Market Concentration, which cites several sources including the US Department of Justice report on Competition and Health Care in July 2004. One conclusion is, "... a market with little competition among hospital providers is associated with increased prices." North Memorial's context for this quote is the whole Twin Cities market. There is healthy competition in the Twin Cities and the Herfindahl Index demonstrates that. Our community has long been recognized as one of the country's low-cost and high-quality health care centers. Residents in this area have benefited from the health care competition and Northwest Quadrant residents will also benefit from competition. However, should North Memorial be granted the acute care license for Maple Grove, that market area will be dominated by one provider and may not have the healthy competition that sparks cost innovation, and improves quality and outcomes.

Granting North Memorial the exclusive right to acute care beds in this market will limit choice, not increase it.

Final Comments

Fairview is deeply committed to providing a comprehensive health care campus in Maple Grove that includes acute, inpatient beds. We believe that upon further review and analysis the Minnesota Legislators and the Minnesota Department of Health will agree that the Maple Grove area does indeed need additional inpatient and ambulatory care resources and that Fairview's vision for the Maple Grove Health Care Campus is most reflective and inclusive of the communities' needs and citizenry.

We appreciate your thoughtful and comprehensive review of our application. Thank you for the opportunity to provide these supplemental comments. If we can provide you with any additional information, please let me know or contact Robin Gaustad, Vice President Development, at 612-672-2252 or rgausta1@fairview.org.

Sincerely,



David R. Page
Fairview Health Services
President and CEO