

**Maple Grove Hospital Proposals  
North Memorial Health Care Response**

	<u>Page</u>
<b>I. North Memorial’s Proposal</b>	<b>1</b>
<b>II. Public Interest Review</b>	<b>4</b>
<b>III. Adverse Impact on Area Hospitals</b>	<b>7</b>
<b>IV. Market Concentration</b>	<b>21</b>
<b>V. Collaboration Arguments</b>	<b>26</b>
<b>VI. Impact on Staffing</b>	<b>29</b>
<b>VII. Services for Non-paying or Low-paying Patients</b>	<b>31</b>
<b>VIII. Conclusion</b>	<b>32</b>

**Comments regarding Maple Grove Hospital Proposals**  
Submitted by North Memorial Health Care

**INTRODUCTION**

The Minnesota Legislature and Department of Health are currently facing a major health planning challenge. Accelerating suburban population growth in the northwest suburbs of the Twin Cities has created a demand for development of a new hospital in the City of Maple Grove. Unexpectedly, three major hospital providers in the Twin Cities have each announced plans to develop such a hospital. This complicates the planning exercise. Clearly, not all three proposed hospitals can or should be built; moreover, because the Minnesota Legislature has long imposed a moratorium on any hospital construction (the “Moratorium Law”), the building of even one such hospital requires legislative intervention. Before any new inpatient facility is permitted in Maple Grove, the Legislature must decide two key questions: (1) whether any of the three proposals should be allowed to go forward, and (2) if so, which one? As part of this process, the Department of Health is required by law to report to the Legislature on each of the three proposals. The issues to be addressed by the Department are difficult and politically charged. Nonetheless, the Health Department and the Legislature, carrying out their responsibilities as health planners under the current law, must address *both* questions.

**I. NORTH MEMORIAL’S PROPOSAL**

North Memorial is a single-site independent hospital providing primary, secondary and tertiary hospital services. North Memorial’s medical staff is largely independent in that it consists primarily of physicians who operate their own private medical practices and voluntarily associate with North Memorial by joining its open medical staff. Over 50% of the physicians who practice at North Memorial are on staff at other hospitals. North Memorial has served the growing Maple Grove community for over 50 years. Its special competencies, described below, make North Memorial ideally suited to develop an effective hospital to serve the Maple Grove area. As stated in all of the proposed hospital plans, the core need in Maple Grove is for emergency, cardiac, OB and other time-sensitive hospital services, which can be accessed today only by traveling down often traffic-choked highways.

**Key Services:**  
**Trauma and Ambulance**

North Memorial has greater expertise in emergency and trauma services than any other health care facility in Minnesota, with the possible exception of the urban county hospitals. In fact, North Memorial is the only hospital proposing to build in Maple Grove that is accredited as a Level I Trauma Center by the American College of Surgeons. This is the highest level verification a trauma center can achieve. North Memorial’s Emergency Department has been staffed for over thirty years by board-certified emergency medicine physicians employed by North Memorial.

North Memorial's emergency physicians provide medical direction and control to North Memorial Ambulance Service, the largest and most accomplished ambulance service in the state, which provides ground and air ambulance transportation to more than 50 communities in Minnesota and western Wisconsin. North Memorial Ambulance Service operates one of the largest ambulance fleets in the nation, and is accredited by the Commission on Accreditation of Ambulance Services (CAAS), which recognizes services that meet the "gold standard" in the ambulance industry. In addition, North Memorial operates the leading EMS training program in the area, providing training to first responders (EMS, fire and police). North Memorial has for years trained EMS personnel in many of the communities around Maple Grove. North Memorial has participated in Homeland Security drills and debriefing sessions for the communities surrounding Maple Grove were developed by local officials and North Memorial EMS, and North Memorial's air and ground ambulance service, together with North Memorial's Level I Trauma Center, is at the heart of the local emergency plans.

**Key Services:**  
**Heart, Stroke, Cardiovascular**

Among the hospital services that it is most critical be delivered fast are the cardiovascular services, including heart, stroke and peripheral vascular services. North Memorial is one of the leaders in Minnesota at delivering this care. Notably:

- North Memorial Medical Center was the first hospital in Minnesota to receive national certification as a Primary Stroke Center by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). North Memorial was recognized in 2004 for providing comprehensive, interdisciplinary stroke services to patients and their families.
- North Memorial was named one of the nation's Top 100 Cardiovascular Hospitals by Solucient® in 2002 and 2003.
- North Memorial received the Minnesota Hospital and HealthCare Partnership (MHHP) "Innovation of the Year" award in 2000 for the creation of the Single-Unit Stay, a heart surgery approach that allows patients to remain in the same room throughout their hospital stay.
- North Memorial's Heart Team STAT program minimizes the time between a patient's arrival at the emergency department with an acute heart attack and the opening of the patient's coronary arteries with angioplasty--demonstrably improving results for patients.
- For the last two years, North Memorial has had a 100% survival rate for patients receiving first-time elective coronary artery bypass surgery.
- North Memorial has the first Twin Cities clinic dedicated exclusively to women's heart care. The Women's Heart Center is staffed by female heart specialists, nurse practitioners and exercise physiologists. This innovative clinic helps address the under-

reported and under-treated incidence of cardiac disease in women, a direct response to community need.

**Key Services:**  
**OB, Neonatal Care**

North Memorial is among the most highly-regarded obstetrical hospital service providers in the metro area. North Memorial's OB Service includes a Level III Neonatal Intensive Care Unit staffed by Neonatology, P.A., the same group of neonatologists that staff Children's Hospital in Minneapolis. It also provides perinatology services through Minnesota Perinatology Physicians, the same group that serves Abbott Northwestern.

**Best Use of Resources**

North Memorial's proposal involves the transfer of currently operating beds from North Memorial's Robbinsdale location to Maple Grove. This will permit the Robbinsdale hospital to convert double occupancy rooms to single occupancy, an upgrade that will be welcomed by North Memorial's patient population, and will help North Memorial to reduce costs and improve the quality of service it delivers at its Robbinsdale facility by reducing the transmission of diseases. North Memorial's professional staff also welcomes the change, which is in keeping with current industry standards and enhances the quality of patient care. Hospitals across the country are currently working hard to control the spread of noroviruses in their facilities. Private rooms help.

Neither Fairview nor Allina/Park Nicollet have proposed moving currently operating beds to the new campus; instead, both Fairview and Allina/Park Nicollet are proposing a net increase in operating bed capacity in the state. North Memorial believes that current occupancy rates are appropriate and that there is no current need to increase hospital bed capacity. Instead, North Memorial's proposal allows existing operating beds to be used to their fullest potential. In proposing to relocate beds to Maple Grove, North Memorial is essentially proposing to redeploy hospital capacity already being used to care for Maple Grove residents to a location closer to their homes.

**Community Prefers North Memorial**

As described in more detail below, North Memorial is by far the largest hospital provider to Maple Grove residents, so it makes sense to consider the opinions of those residents in reviewing the new hospital proposals for the area. A quantitative survey of Maple Grove residents, conducted by Padilla Speer Beardsley in November 2004 (attached), found that:

- *45% of respondents who stated a preference, more than twice as many as the second-place hospital, said that North Memorial is the preferred builder for a Maple Grove hospital.*

- *The intersection of I-94 and Hwy. 610 (North Memorial's proposed site) is considered the ideal location for a new hospital by 50% of Maple Grove area residents, and 64% of them believe that location should be a key factor in the hospital decision.*

North Memorial is the most familiar hospital among Maple Grove residents, as well as and the most preferred, based on external, independent market research done by Scarborough Research in 2003 (and confirmed by Padilla Speer Beardsley in 2004). North Memorial has approximately a one-third share of the Maple Grove market, based on 2003 Minnesota Hospital Association (MHA) information. Mercy Hospital is a distant second with 12% of the market. The only Fairview hospital with any notable share of the Maple Grove market is Fairview-University with 6.4%.

## **II. PUBLIC INTEREST REVIEW**

Minnesota Statutes § 144.552 establishes a public interest review process for any organization seeking to obtain a legislative exception to the Moratorium Law. A hospital seeking an exception is required to submit a plan to the Commissioner of Health, who is required to issue a finding on whether the plan is in the public interest. In making her recommendation, the Commissioner is to consider several issues:

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

A close examination of the five issue areas will yield very different conclusions for each of the three competing proposals. Most importantly, each system's proposal will have a very different impact on the other providers' financial condition, ability to maintain staff, and overall ability to continue to provide a high level of care. This is especially true in the case of North Memorial.

In order to carry out the duty imposed by Minnesota Statutes § 144.552, the Department will need to determine its goals and purposes in performing this health planning function. Similarly, the Legislature will be interested in the reasons supporting the Department's decisions and what goals will be achieved. The State of Minnesota's prior forays into health planning provide guidance for the analysis the Health Department should conduct in this case.

**Minnesota Statutes § 144E.11 establishes a health planning scheme for ambulance licensing (the “Ambulance Law”) that provides a good example for executing the statutory scheme set forth in § 144.552.**

Under Minnesota Statutes § 144E.11, when any entity applies for an ambulance license, the health systems agency must hold a public hearing and then make a written recommendation to the Commissioner of Public Health. Although there is no moratorium on new ambulance services in Minnesota, each ambulance service is licensed to provide care in an assigned “primary service area” that has defined geographic boundaries. The state limits expansion, making judgments based on the criteria listed below, to prevent overlap in primary service areas and to avoid duplication of services. In making its recommendation about an ambulance license, the health systems agency considers four factors:

1. The recommendations or comments of the governing bodies of the counties, municipalities, community health boards, and regional emergency medical services system in which the service would be provided.
2. The deleterious effects on the public health from duplication, if any, of ambulance services that would result from granting the license.
3. The estimated effects of the proposed service or expansion in an ambulance provider’s primary service area on the public health.
4. Whether any benefit accruing to the public health would outweigh the costs associated with the proposed service or expansion in primary service area.

The Ambulance Law creates an analytical framework that is quite similar to the Moratorium Law and the provisions of § 144.552. The reviewing agency, taking into account the views of affected parties (factor #5 for hospital and factor #1 for ambulance services), analyzes the positive contribution made by the new provider (factors #1 and #4 for hospitals, factors #3 and #4 for ambulance companies), also taking into account the impact of potential duplication of the service in the area as well as any general adverse effects on existing providers (factors #2 and #3 for hospitals and factor #2 for ambulance services).

**Minnesota Courts have found that the Legislature intended that the Ambulance Law protect the public welfare against “deleterious competition.”**

Because the analytical frameworks of the Ambulance Law and the Moratorium Law are so similar, it is helpful to review the case law that has grown up around the ambulance service licensing process. The most essential point made by the courts on this matter can be summed up by the following quote from the Supreme Court of Minnesota:

[W]e interpret Minnesota Statute § 144.802 to manifest a legislative intention to protect the public welfare against deleterious competition in the ambulance services field. The provision embodies a legislative determination that the ambulance services business is one in which the public welfare is not promoted

by free enterprise. Ambulance service is essential to a community. It is also a service for which demand is inelastic and expenses largely fixed.

*Twin Ports Convalescent, Inc. v. Minnesota State Board of Health*, 257 N.W.2d 343, 348 (Minnesota 1977)

This conclusion, that the legislative policy underlying the health planning provisions of the Ambulance Law is based on the need to avoid deleterious competition, is underscored in *North Memorial Medical Center v. Minnesota Department of Health*, 423 N.W.2d 737, Minn. Ct. App. (1988) (stating that the Commissioner correctly analyzed the law in his finding that the “pivotal issue” in making the licensing decision was that of “destructive competition”) and in *In re Rochester Ambulance Service*, 500 N.W.2d 495, Minn. Ct. App. (1993) (noting the “legislative intention to protect the public welfare against deleterious competition in the ambulance service field”).

The idea that health planning involves the avoidance of “deleterious competition” where demand is inelastic and expenses largely fixed, is a fancy way of describing a hard-headed practical problem: If Company A is a health care business that (1) has made an immense investment in plant and equipment that (2) serves a particular neighborhood or geographic area, and if (3) the regulatory authority then permits Company B to operate in the area primarily served by Company A, one or both may fail, with the result being detrimental to the delivery of healthcare services in the area. General hospitals are health care businesses of exactly this type. They are capital intensive, bricks-and-mortar infrastructure providers, and they tend to have high market shares in their nearby geographic area. They consequently become wedded to their geography, at least for primary and secondary services.

Hospitals in the Twin Cities typically draw 50% market shares in their immediate geographic areas. Thus, North Memorial has 56.6% of the market in the 55422 zip code area; Mercy has 54.4% in 55433; Methodist has 44.6% of 55426; Fairview-University has 52.7% in 55455; and Unity has 43.7% in 55432. Since North Memorial currently has the highest percentage of patients from the Maple Grove zip codes (over 30%), if a new hospital there retains 50% of the immediate local market, a Maple Grove facility will have an enormous negative impact on North Memorial’s Robbinsdale facility.

In the Twin Cities, all of the major hospitals compete for patients from around the area and the whole Upper Midwest who need hospital services. Price and quality competition is largely city-wide. If a Maple Grove hospital increased prices, payors would have the option of directing their patients to another Twin Cities facility. The ability so to compete is often based in large part on stability in patient flow from the areas that are close to the hospital’s facility. This patient flow, if lost, can be irreplaceable.

We recognize that competition in hospital services, as with virtually every industry, is to be generally encouraged. However, the Legislature should seek to avoid destructive competition that could so financially damage a hospital that, in the end, it would result in a profound anti-competitive effect that would leave health care consumers and purchasers with fewer options. Indeed, this is the essence of effective health planning: the Health Department and the

Legislature should preserve healthy competition by exercising their authority to prevent the fixed investment already employed to serve the Maple Grove area from being cannibalized by big-system competitors.

### **III. ADVERSE IMPACT OF FAIRVIEW AND ALLINA/PARK NICOLLET'S PROPOSALS ON NORTH MEMORIAL**

We believe that the development of a hospital would provide an important benefit to the Maple Grove community because of the demonstrated need for timely hospital services there. North Memorial's proposal for a Maple Grove hospital elaborates upon the reasons that a North Memorial-owned facility in Maple Grove would provide the greatest public benefit. However, it is important to understand that a new facility in Maple Grove that is not owned by North Memorial would have a substantial adverse impact on North Memorial.

The Moratorium Law requires an analysis by the Department of Health of the potential adverse impact of a new facility on other area providers. This "adverse effects" analysis consists of two separate, but related issues: (1) the adverse financial impact on existing hospitals, and (2) the effect of a new hospital on the ability of existing hospitals in the area to maintain staff. We believe the facts show that in both respects there would be significant adverse effects on North Memorial if a non-North Memorial-owned facility is allowed to proceed in Maple Grove.

#### **Only North Memorial's proposed hospital accomplishes the public benefit aims of Minnesota Statute § 144.552 while mitigating the adverse effects of deleterious competition.**

We believe that even the Fairview and Allina/Park Nicollet proposals show that a new hospital operated by any party other than North Memorial will undermine North Memorial's local market and impair its ability to compete effectively in the broader Twin Cities market. It would also have the undesirable effect of leading to a more concentrated hospital services market in the Twin Cities. As outlined in North Memorial's proposal for a Maple Grove hospital, if North Memorial is not able to build a hospital in Maple Grove to serve its existing and growing patient base there, the estimated resulting shift in market share would ultimately cause *a reduction of annual net revenue to North Memorial of \$45 million and a corresponding margin reduction on that lost revenue of \$13 million*. This loss could do significant damage to North Memorial's ability to continue to operate as a top-rated hospital facility and to provide health care consumers and payors with a health care choice to other than the big systems in the Twin Cities. Any diminution in North Memorial's ability to operate as a strong, top-rated health care provider would be a major loss, not just for North Memorial as an entity, but for the entire Twin Cities community, and the urban community in particular. In contrast, a North Memorial-owned Maple Grove facility would be a benefit to the community, but would not adversely affect other existing providers. Therefore, granting the moratorium exception to North Memorial puts both the Maple Grove community and the Twin Cities hospital community in a win-win situation.

#### **Service Area of Maple Grove Hospital**

To perform a proper analysis of the adverse effects a new facility might have on already existing hospitals with an emergency department, one must first develop an understanding of patient flow

in a given service area. Examining current hospital utilization will help to show how a new hospital will affect the service areas and patient populations of existing hospitals. There is no perfect definition of a “service area” for this purpose, and each of the three hospital proposals uses a different service area analysis. North Memorial has described a service area comprised of twenty zip codes. Twenty-two zip codes are used by Allina/Park Nicollet, and ten zip codes were chosen by Fairview to represent the primary service area of a new Maple Grove facility. Even though we believe that the zip codes proposed by Allina/Park Nicollet and Fairview were chosen in a calculated effort to diminish the apparent impact on North Memorial and show an impact that is not really there for Allina, Park Nicollet, and Fairview facilities, an objective analysis will show that no matter which service area is used, the conclusion will be similar.

### **Allina’s Proposed Service Area**

It is worth noting that the Allina/Park Nicollet proposed primary service area includes zip codes for which a new facility in Maple Grove will not be the most timely or appropriate provider of non-tertiary hospital services; the zip codes surrounding Allina’s Buffalo Hospital and Monticello-Big Lake Hospital are the most obvious examples of areas unlikely to send patients to Maple Grove. While patients in these areas may go to another hospital when they need complex or specialty services that are not provided at the local hospitals, those patients will more likely end up at one of the major tertiary care hospitals in the Twin Cities, not a Maple Grove community-level hospital. For less specialized or complex care, patients in these communities are very likely to go to the nearest facility, which will not be the new Maple Grove facility. On the other hand, the Allina/Park Nicollet proposed primary service area does *not* include several zip codes that are now primarily served by North Memorial and which, we believe, are likely to provide a substantial number of patients to a new Maple Grove facility (including zip code 55429 [Crystal] and zip code 55444 [eastern Brooklyn Park]). Inclusion of extra zip codes where Allina facilities are located-and exclusion of certain others that are mainly served by North Memorial-has the overall effect of diluting the apparent effect of a new hospital on North Memorial’s inpatient population. As we show below, the actual effect would be very significant.

### **Fairview’s Proposed Service Area**

In Fairview’s response to MDH’s question about how it selected its proposed primary service area, Fairview stated that:

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

- The home zip code of patients currently being served by Fairview, particularly the Fairview-University and Fairview Southdale hospitals.
- The home zip code 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 primary service area reflects a ten-mile radius of the Fairview Maple Grove Health Care Campus location based on the above factors.”

This statement exemplifies the problem with the hospital systems' approaches to describing patient flow in this area. Fairview is not describing an area in need of hospital service; it is primarily describing an area where it can claim some current market share.

Fairview's proposed primary service area contains only 10 zip codes, but includes one zip code that the Allina/Park Nicollet proposal does not: 55303, an Anoka zip code. As discussed below, we believe that the new Maple Grove facility is unlikely to draw many patients from the Anoka zip code because of limited access routes due to the Mississippi River separating the residents of that zip code from the new facility. With these caveats about the proposed primary service areas in mind, we will look at the potential adverse effects of a new Maple Grove Hospital on existing facilities.

**In analyzing the impact of a new hospital on existing providers, the Department of Health should examine not simply the market share of a given hospital in a proposed primary service area, but the percentage of a hospital's overall admissions from the proposed primary service area.**

The chart reproduced below abstracts MHA data for 2003, showing discharges and patient days for the hospitals most used by residents of North Memorial's proposed primary service area.

<b>Hospital Name</b>	<b>Discharges</b>	<b>Patient Days</b>
North Memorial Medical Center	11434	44284
Mercy Hospital	4292	14514
Methodist Hospital	4204	13341
Unity Hospital	3371	11919
Abbott Northwestern Hospital	3069	12636
Fairview-University Medical Center	2261	12550
Hennepin County Medical Center	1630	7105
Fairview Southdale Hospital	952	2976
Children's Hospitals and Clinics	912	6122
Fairview Northland Regional Hospital	568	1591
Buffalo Hospital	461	1156
Monticello-Big Lake Hospital	381	911
United Hospital	291	1333

The figures are striking. North Memorial provides roughly the same volume of inpatient services to these areas as the next three hospitals combined. Stated as market-share percentages, North Memorial currently has 32.3% of total hospital discharges from North Memorial's described primary service area, while Mercy has 12%. Methodist also has about 12% of the total discharges from this area while Abbott had 8.6% and Fairview had 6.4%. Again, looking at the numbers provided on Appendix 11 of the Allina/Park Nicollet proposal, even with Allina's 22 zip codes, North Memorial's accounts for 30.4 percent of discharges (excluding newborns) in

that primary service area, while the next most-affected hospital (Methodist, a Park Nicollet facility) has only 12.8 percent of the discharges from that service area.

More important with respect to the actual effect on the existing facilities is this statistic: *The 11,434 discharges from North Memorial's proposed Maple Grove primary service area make up approximately 37%, of North Memorial's total of 30,983 discharges.* Losing even 25% of these discharges to a new, non-North Memorial facility clearly would have a huge negative impact on North Memorial's financial stability. *By comparison, based on data abstracted from MHA reports, Allina/Park Nicollet had 123,457 total discharges, of which 14,528 (approximately 11.7%) were from Maple Grove; Fairview had 63,161 total discharges of which only 3,113 (approximately 5%) were from Maple Grove.* Fairview has estimated that the Maple Grove facility will ultimately draw a 55% market share from the primary service area, and sets the initial number at 20-30%. Clearly, losing 50% of the patients in the primary service (without much replacement from population growth, as noted below), would have a very deleterious effect on North Memorial.

**In analyzing the impact of a proposed hospital on existing providers, the Department of Health should examine the market shares of individual hospitals, not metro-wide hospital systems.**

Both Fairview's and Allina/Park Nicollet's proposals misapply the MHA statistics. One way they do this is by combining discharge numbers for all hospitals within their systems. A more relevant and accurate measure of adverse effects on existing providers is the effect of a new hospital on existing *individual* hospitals, which is, in fact, the data requested by the Department of Health. Hospitals are, after all, licensed on an individual basis.

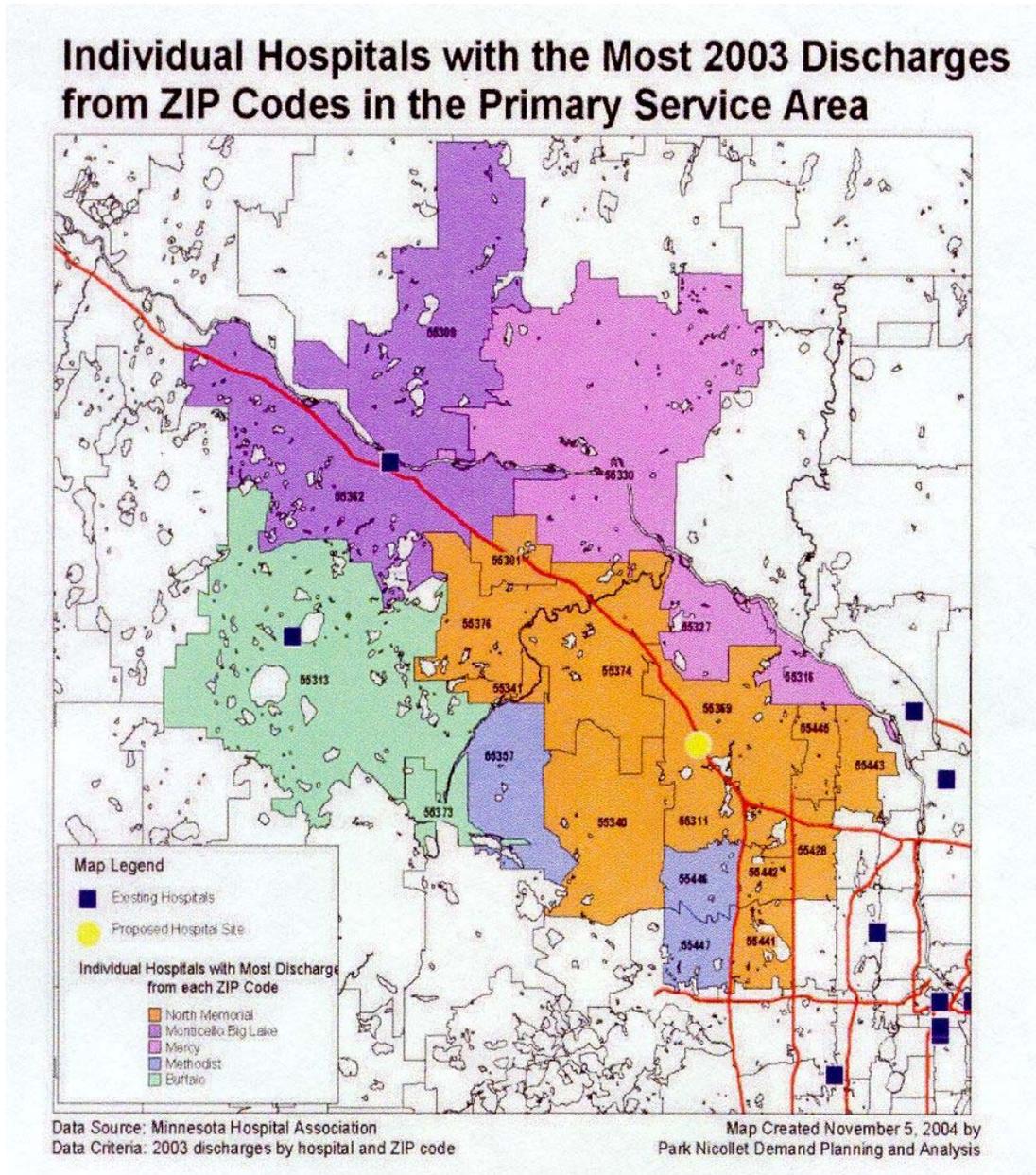
### **Allina Market Share**

Allina/Park Nicollet's proposed primary service area appears to be designed to bolster its claim that Allina/Park Nicollet's facilities meet more than 40% of inpatient demand in that service area (based on accumulated system wide inpatient discharge data for 2003). We believe it is misleading to add together discharge statistics from two hospital systems (a total of five separate hospitals). This overstates the potential impact on Allina, since, in fact, any adverse effects would be spread across all five facilities. This method also minimizes the huge impact of a new hospital on North Memorial as a single institution. If one separates Allina/Park Nicollet's "group" of system hospitals into *individual* hospitals, the disproportionate impact that a new hospital would have on North Memorial compared with any other individual hospital is very clear.

### **Individual Zip Codes**

The Allina/Park Nicollet proposal also includes another misleading statement regarding its service area: "Allina and Park Nicollet together have the majority of discharges from 18 of the 22 zip codes. (North Memorial has the highest share of discharges from 3 zip codes and Monticello has the highest share from 1 zip code.)" This statement does not appear to be factually correct; even using Allina's method of adding together all five of its hospitals to

increase perceived impact, North Memorial has the highest discharges from *four* zip codes, not three. (The color-coded map shown on page 20 of the Allina proposal reproduced below, apparently is inaccurate, classifying zip code 55443 (Brooklyn Park) as an Allina/Park Nicollet discharge area, when in reality Appendix 12 shows that North Memorial had 1137 discharges in that area, and all of the 5 combined Allina/Park Nicollet facilities had 1131.) Again, however, it is important to look at *individual* hospitals, not a collection of hospitals that are a part of a large system. North Memorial had the most discharges from more than half (twelve) of the zip codes; Mercy and Methodist each had the most discharges from three zip codes; and Monticello-Big Lake and Buffalo both had the most discharges from had one zip code.



### Fairview Market Share

The Fairview submission did not provide information regarding the impact of a new Maple Grove hospital on the market shares of individual hospitals. The only Fairview hospital that has more than a 5% share of the Maple Grove area is Fairview-University Hospital. It is difficult to determine the percentage of the patients seeking medical care at Fairview-University who could be treated at a Maple Grove hospital; Fairview-University provides organ transplants, medical research studies and other tertiary care services that would not be replicated in a community hospital. Due to the lack of overlap in these services, a Maple Grove facility would have little impact on the current Fairview-University market share.

The Fairview system, which includes only ten zip codes in its analysis, also misleadingly groups “Fairview Hospitals,” including all of its metro hospitals, in its comparisons of the effect on other providers (see the chart below from Fairview’s proposal).

<b>Hospital</b>	<b>Total Service Area Discharge Marketshare</b>				
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Mercy Hospital	30.1%	30.6%	29.2%	29.3%	27.7%
North Memorial Medical Center	24.0%	23.1%	23.2%	23.1%	23.2%
Methodist Hospital	8.6%	8.4%	9.1%	9.2%	10.9%
Abbott Northwestern	7.9%	7.9%	7.6%	8.3%	7.9%
Fairview hospitals	13.5%	13.1%	12.6%	12.3%	12.0%
<b>Hospital Total</b>	<b>84.2%</b>	<b>83.1%</b>	<b>81.7%</b>	<b>82.3%</b>	<b>81.8%</b>

Fairview also adds together all five of its hospitals on its diagnosis-specific analysis on Exhibit 15 of its proposal. Even using this method, Fairview system hospitals currently provide services to only a very small fraction of the patients in Fairview’s proposed Maple Grove primary service area. As shown on Fairview’s reproduced chart above, all Fairview system hospitals combined make up only 12% of the discharges from Fairview’s proposed Maple Grove primary service area. North Memorial accounts for more than twice that, with 23.2% of the discharges. Mercy Hospital is also shown as having a high percentage of the discharges (27.7%), but we believe that this is due primarily to the inclusion of the Anoka zip code in Fairview’s proposed primary service area. If the Mercy discharges are reduced by the number of Anoka zip code discharges which are unlikely to be drawn away by a new Maple Grove facility, North Memorial would have an even greater percentage of the remaining discharges.

**Because of current population and expected population growth, only North Memorial, an urban hospital, is likely to suffer heavy inpatient losses as a result of a new Maple Grove hospital. Meanwhile, because of the geographic distribution of Allina and Fairview hospitals, which have multiple facilities in suburban growth areas other than Maple Grove, those hospitals and systems will likely benefit significantly from population growth.**

Allina/Park Nicollet’s proposal claims to show shifting from Allina/Park Nicollet hospitals and from other hospitals, but the two referenced Appendices (Exhibits 17B and 17C) are missing from the submitted copy. In fact, because virtually all studies of population trends in the Twin

Cities show that suburban areas will see significantly more population growth than urban areas the shifting of patients as a result of a new hospital should not be a mystery. North Memorial is located in an urban area that is not predicted to grow, except in the Maple Grove area and beyond. The chart below shows population change in a number of communities surrounding North Memorial.

**Minneapolis Area Population Estimates for Communities  
near North Memorial, Robbinsdale site.**

(U. S. Census data—annual estimates of population July 2002-July 2003)

<b>City</b>	<b>July 2002</b>	<b>July 2003</b>	<b>Percentage Change</b>
Brooklyn Center	28,733	28,362	-1.3
Brooklyn Park	68,080	67,781	-0.4
Columbia Heights	18,589	18,428	-0.9
Crystal	22,509	22,258	-1.1
Fridley	27,414	27,169	-0.9
Golden Valley	20,707	20,505	-1.0
Minneapolis	375,884	373,188	-0.7
Robbinsdale	13,870	13,668	-1.5

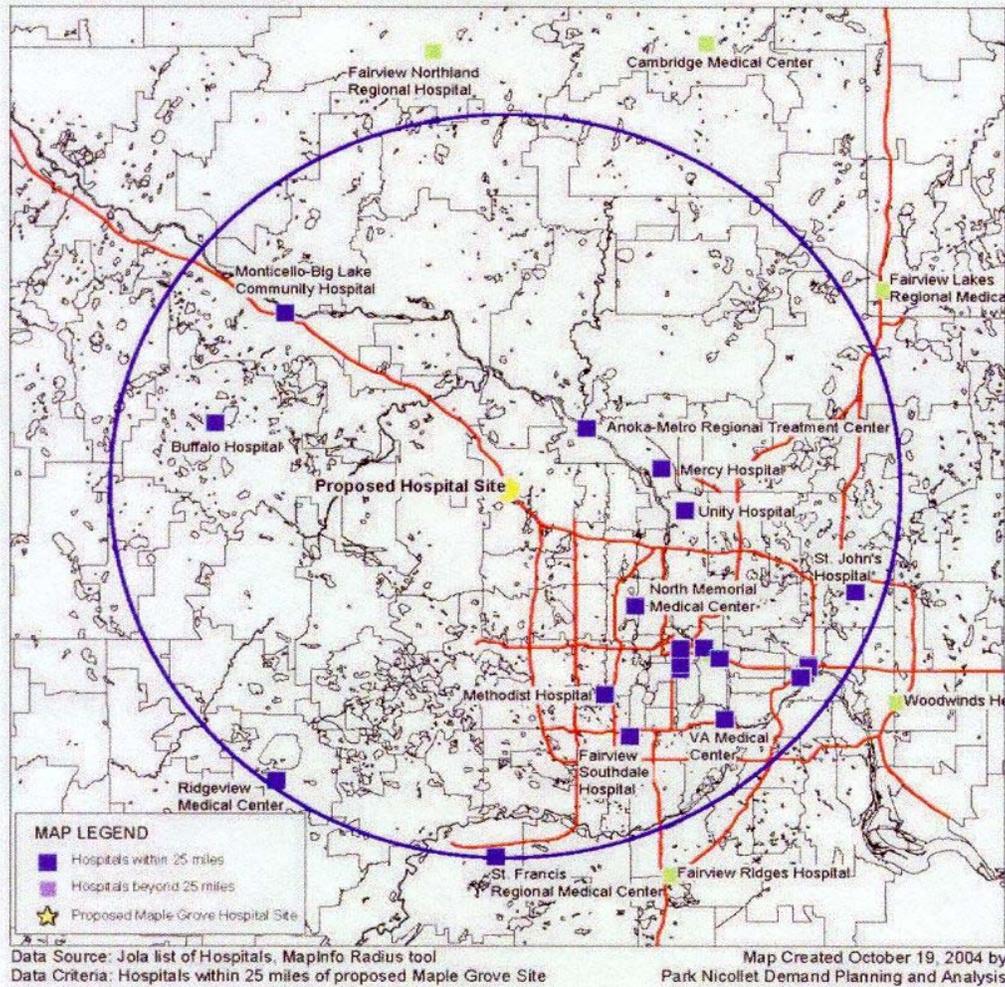
Each of these population areas around the current North Memorial Robbinsdale urban location is projected to decline in population, unlike the Maple Grove area, which is predicted to grow 9% over the next five years. As noted in the Allina/Park Nicollet proposal, “Areas to the south and east of the campus [in other words, areas served by North Memorial] are more densely populated and have a rapidly aging population, but are projected to experience slower population growth.”

A new hospital in Maple Grove will draw suburban patients to that facility, leaving North Memorial with a much smaller (urban) population base from which to draw. Of the hospitals that draw any significant portion of patients from the Maple Grove primary service area, only one other hospital (Allina’s Abbott Northwestern) could truly be considered “urban,” and that hospital draws only 8.8% of its patients from the primary service area. As with Fairview-University, Abbott offers tertiary care services (organ transplants, open heart surgeries, NICU, etc.) that make it difficult to determine what percentage of its current market would be lost to a community hospital in Maple Grove, but it is likely that the loss would be relatively insignificant. Further, Abbott, with 926 licensed beds (compared to North Memorial’s 518 beds), and total 2003 discharges of 37,524 (compared to North Memorial’s 27,545), predicts a much lower percentage of its own overall admissions coming from the proposed primary service area.

All of the suburban facilities (Mercy and Unity hospitals, located to the north and east of Mississippi River; hospitals at Princeton, Chisago, Edina, Burnsville, to the south) within the Allina and Fairview systems will likely benefit significantly from population growth over time.

As can be seen in the map below, the current primary service area for these hospitals is not in the Maple Grove area.

### Hospitals Within a 25-mile Radius of Proposed Maple Grove Hospital



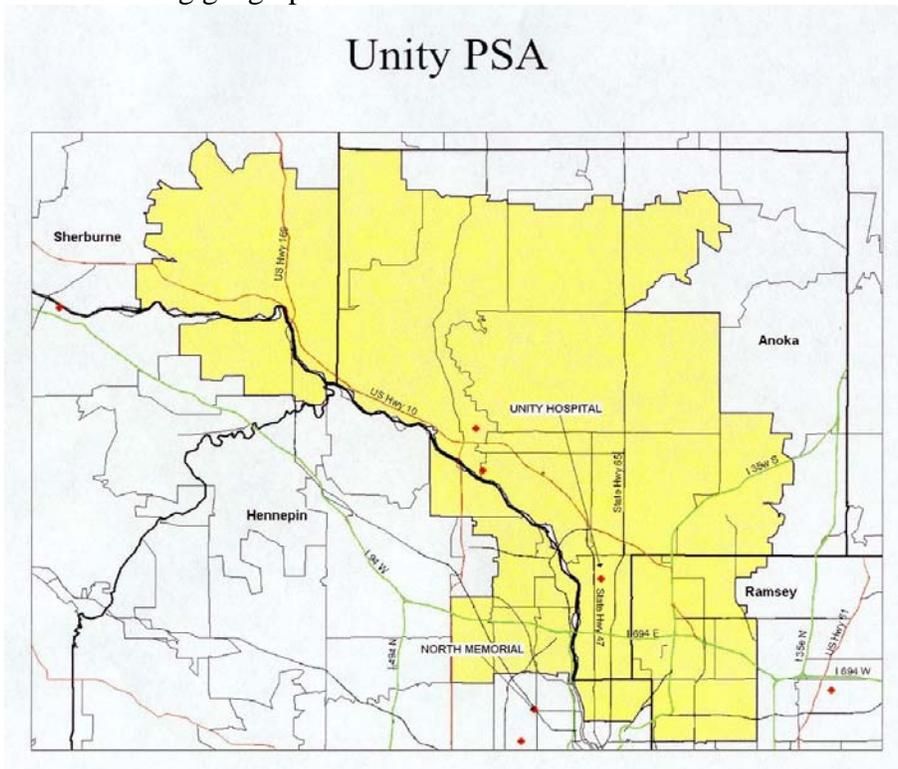
All of the suburban facilities have the ability to increase admissions from their current primary service areas as the population grows in these suburban regions. Population growth in the period during which the Maple Grove hospital will be constructed will increase census in Allina's system and in that of other regional hospitals. North Memorial's single, urban location will not see this increase (the Robbinsdale area, for example, is predicted to grow less than 0.5% annually) and, without a North Memorial-owned Maple Grove facility, the North Memorial losses in the Maple Grove area would not be offset.

As is evident from the map reproduced above, the Fairview and Allina groups include hospitals with access to growing suburban populations that, essentially, surround North Memorial. The

paragraphs following the map explain in greater detail the reasons why we believe that no facility-other than North Memorial-would be harmed by a Maple Grove hospital.

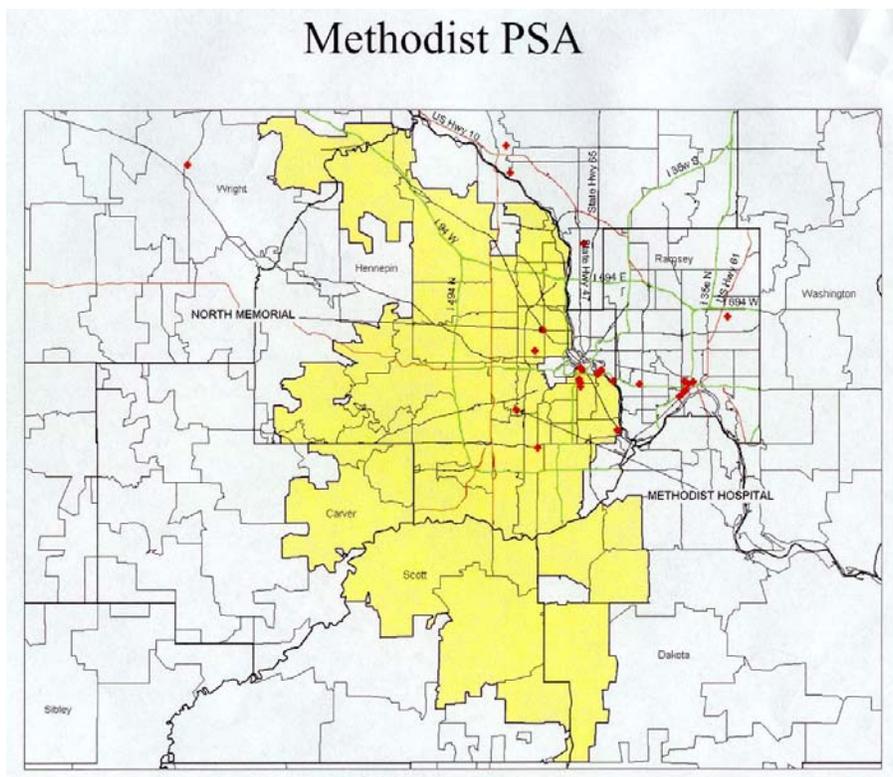
**Allina’s hospitals in Coon Rapids (Mercy) and Fridley (Unity) would not be significantly affected by North Memorial’s proposed hospital in Maple Grove because the Mississippi River separates the relevant service areas.**

The Allina/Park Nicollet proposal concedes this point, noting that the river “presents a significant barrier to access” for many residents seeking urgent care and emergency services. Unity Hospital currently draws only 3.3% of the patients from the Maple Grove primary service area. Mercy Hospital draws only 11.1% of those patients. Ignoring the effect of the river barrier, the Fairview proposed primary service area includes one zip code (55330) that is largely on the east side of the Mississippi River. Even from that zip code, North Memorial patients make up almost 12% of total discharges (next highest after Mercy’s approximately 40%). We believe that the river will prevent Mercy from losing a substantial number of patients to a new Maple Grove facility. In addition, Mercy, though it would be the closest hospital to the new facility (9 miles away), will be able to make up any initial losses that it does suffer through suburban population growth, which is expected to continue in the northern and eastern Twin Cities suburbs. Both Unity and Mercy will continue to draw the vast majority of patients from communities east of the Mississippi River, and are unlikely to be significantly affected by the new facility. This concept is illustrated by the maps reproduced below. These maps show the current primary service areas of Mercy and Unity hospitals. The maps were developed by Solucient® based on MHA data that represents zip codes that produce 80% of admissions to each hospital. As is clear from the maps, Unity and Mercy’s service areas are north and east of the river, where each has a long geographic reach.





Although Methodist draws a larger proportion of patients from Allina/Park Nicollet's proposed primary Maple Grove service area than any hospital other than North Memorial, its percentage of discharges still is only 12.8% (10.9% using Fairview's 10 zip code primary service area). This relatively small percentage can be made up through suburban population growth, as Methodist draws mostly from the growing western suburbs for its patient census (see map below)



**Arguments that North Memorial will not be adversely affected by a Maple Grove hospital do not stand up to analysis.**

North Memorial's location as the hospital nearest to the proposed facility (after Mercy, which is separated from the primary service area by the Mississippi River), as well as its urban setting, is very likely to result in a substantial loss for North Memorial's inpatient census. Although both the Fairview and Allina/Park Nicollet proposals suggest that this impact will be limited, we believe that these arguments do not add up to the reality faced by North Memorial.

**Woodwinds Experience**

Fairview suggests that existing providers (such as North Memorial and Mercy) can "easily backfill" their patient census, because of "population growth." This may be true in Mercy's case, where Mercy will benefit from anticipated northern and eastern suburban population growth; however, urban growth, if any, is projected to be small and actually declining in some areas, and North Memorial will not share in any advantageous suburban growth. Any suburban population growth that can be expected to go to North Memorial would come from the Maple Grove area and a new hospital in that area will take a majority of that patient census, and tertiary

referrals out of that service area would be directed chiefly to hospitals in the parent system(s), as stated in the Allina/Park Nicollet proposal. This limited growth potential combined with fewer patients from the Maple Grove primary service area will have a negative impact on North Memorial. “Backfilling” is not an option when there is no fill for the hole.

Commenting on the similar development of Woodwinds hospital, the Fairview submission states on page 19 that “Woodwinds has limited impact on the discharge numbers of most of the area hospitals . . .” However, based on the east metro market share data (below), the opening of Woodwinds in 2000 had a significant impact on St. Paul’s urban hospitals, United Hospital, St. Joseph’s and St. John’s. Although discharges increased for the market overall, the share of that market was less for the urban hospitals (as shown in the chart below).

	<b>ADULT ADMITS Market Share</b>					<b>'03-04</b>	
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004 Share</b>	<b>Inc/(dec)</b>	<b>Volume Growth%</b>	
	Full Year	Full Year	Full Year	YTDNov			
ST JOHNS	18.7%	18.6%	18.2%	17.4%	-0.8%	-3.8%	
ST JOES	17.7%	17.1%	16.9%	16.7%	-0.2%	-1.3%	
REGIONS	26.7%	26.2%	27.0%	26.2%	-0.8%	-3.3%	
UNITED	32.7%	32.0%	31.7%	32.9%	1.3%	3.9%	
WOODWINDS	4.3%	6.0%	6.2%	6.8%	0.6%	9.1%	
	100.0%	100.0%	100.0%	100.0%	0.0%	0.0%	

	<b>BIRTH ADMITS Market Share</b>					<b>Volume</b>	
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004 Share</b>	<b>Inc/(dec)</b>	<b>Growth%</b>	
	Full Year	Full Year	Full Year	YTDNov			
ST JOHNS	23.6%	23.7%	23.6%	22.8%	-0.8%	-3.3%	
ST JOES	9.6%	8.0%	8.4%	8.6%	0.2%	3.9%	
REGIONS	21.3%	21.5%	21.2%	21.3%	0.0%	1.5%	
UNITED	39.2%	37.5%	36.2%	36.7%	0.5%	2.5%	
WOODWINDS	6.4%	9.3%	10.6%	10.6%	0.1%	1.5%	
	100.0%	100.0%	100.0%	100.0%	0.0%	0.9%	

### **Cherrypicking**

Allina/Park Nicollet’s proposal also states that “[a]ny shift in market share will quickly be offset by other demographic factors that will increase the demand on services. . . . [B]y focusing on less complex inpatient care at the Maple Grove hospital, capacity at Twin Cities’ tertiary hospitals will be freed to serve more complex cases.” However, it is not clear what the “other demographic factors” are that will “offset” North Memorial’s loss of market share, nor is it evident that serving “more complex cases” will offset North Memorial’s lost revenue. Presumably, Allina/Park Nicollet means to say that it expects patients who are initially admitted to the Maple Grove hospital, but who require care for more complex problems, such as cardiac care, to be transferred to one of the core hospitals within the Allina system (for example, to Abbott Northwestern), instead of going to North Memorial. Thus, the value of the new facility to the big systems is to act as a feeder of “more complex cases” to the home-base provider.

It is not clear that there is any need for North Memorial or any other hospital to free up space to serve more complex cases. North Memorial has proposed moving beds from its own tertiary facility to the new facility. The new facility would, in fact, provide care for patients with less





seems questionable where the residents that make up the proposed primary service area have been clamoring for a new hospital. Market studies consistently show that hospitals always dominate their immediate local markets. In actuality, patient loyalty is likely to be most applicable to the patients who are not particularly close to the new facility; for example, patients in Monticello-Big Lake will likely continue to go to the community hospitals for their non-complex needs.

We acknowledge that a North Memorial-owned Maple Grove facility will also draw away patients that otherwise would have gone to North Memorial's Robbinsdale location. Operating both locations, however, will allow North Memorial to allocate costs and distribute operations in such a way as to keep both the Robbinsdale and Maple Grove locations operating at the high levels that *all* of the surrounding communities deserve.

#### IV. MARKET CONCENTRATION

**Hospital consolidation/additional concentration of large hospital systems does not benefit competition. Allina and Fairview together control 50% of the metropolitan market.**

The Federal Trade Commission and the United States Department of Justice issued a report on Competition and Health Care in July 2004 concludes that a market with little competition among hospital providers is associated with increased prices. According to that report "most studies of the relationship between competition and hospital prices have found that high hospital concentration is associated with increased prices, regardless of whether the hospitals are for-profit or non-profit. Some studies have found that merged hospitals experienced smaller price and cost increases than those that have not merged, except in the highly concentrated markets, where the pattern was reversed. Another study found that some systems' acquisition of hospitals did not produce efficiencies because of a failure to combine operations."

**The proposed development of a new hospital in Maple Grove could have an impact on market concentration in the hospital market for the Twin Cities area. In general, it would be preferable for the Maple Grove hospital to be developed in a manner that would mitigate the adverse effects of additional market concentration.**

North Memorial has engaged a consultant with special expertise in healthcare economics to analyze the Twin Cities hospital market and provide an opinion regarding the impact of this development on the market. This consultant's opinion will be provided to aid the Department and the Legislature in their joint consideration of this matter and the consultant will testify in Legislative hearings to present his findings. However, at this time a few facts may be stated which bear on this problem and reflect conclusions which will be detailed in the report.

First, the market concentration for hospital services in the Twin Cities Metropolitan Area is currently high. A useful measure of market concentration is the four-firm concentration ratio ("CR4"). This is the percentage of output held by the four largest firms. Numerous studies of other industries have shown that anti-competitive market behavior can be presumed to occur when CR4 exceeds 50%, and that such behavior becomes more aggravated for each increase in

concentration above this level. The four largest Twin City firms currently supply 70.8% of hospital services.

Another tool to measure market concentration is the Herfindahl-Hirschman Index (“HHI”). Under a Herfindahl-Hirschman analysis, the current level of concentration of the hospital market in the Twin Cities is calculated by summing the squares of the market shares of the firms in the market. To illustrate the effects on market concentration of the various proposals, we have estimated market share using inpatient admissions as the basic measure of output. Under this approach, the current HHI of the Twin Cities hospital market would be as follows:

<b>Hospital System</b>	<b>Overall Metropolitan Market Share for Hospital Services</b>	<b>Contribution to Herfindahl Index</b>
Allina	31.3%	979.69
Fairview	19.9%	396.01
HealthEast	10.5%	110.25
North Memorial	8.7%	75.69
Methodist	7.7%	59.29
Hennepin County	6.7%	44.89
Regions	7.0%	49
Children’s	3.5%	12.25
<b>TOTALS</b>	<b>95.3%</b>	<b>1727.07</b>

As a rule of thumb, an HHI of over 1500 indicates a moderately concentrated market. One of 1800 is highly concentrated. An increase of 50 points in a moderately concentrated market is viewed as a sign of concern in FTC reviews of business mergers.

In the event that Allina builds the Maple Grove Hospital, its market share in Maple Grove would increase, with a consequent increase in its overall market share. The increase in the HHI reflecting the market concentration that might be expected is as follows:

<b>Hospital System</b>	<b>Overall Metropolitan Market Share for Hospital Services</b>	<b>Contribution to Herfindahl Index</b>
Allina	33%	1089
Fairview	19.5%	380.25
HealthEast	10.5%	110.25
North Memorial	7.3%	53.29
Methodist	8.4%	70.56
Hennepin County	6.3%	39.69
Regions	6.7%	44.89
Children’s	3.4%	11.56
<b>TOTALS</b>	<b>95.9%</b>	<b>1799.49</b>

These numbers are derived by assuming that a new hospital will obtain a 40% market share in North Memorial’s primary service area, and assuming that this 40% loss in census would be

distributed across the other facilities in proportion to their current market shares in the service area. Given these assumptions, the Allina proposal would likely result in 70-point increase in the HHI: a significant increase in an already concentrated market.

If Fairview builds the hospital the same calculation could be done. Because Fairview currently has no hospital in the Maple Grove area, its increase in market share would likely be greater than an increase for Allina. This results in part, from the fact that some of the patients utilizing Allina’s Maple Grove hospital would be going there instead of Allina’s own hospitals in Coon Rapids and Fridley. As Fairview has no hospitals in the immediate vicinity; it would receive far more purely additive admissions. A quick calculation of the HHI if Fairview is awarded the Maple Grove hospital results in a 50-point increase as set forth below:

<b>Hospital System</b>	<b>Overall Metropolitan Market Share for Hospital Services</b>	<b>Contribution to Herfindahl Index</b>
Allina	30%	900
Fairview	23.8%	566.44
HealthEast	10.5%	110.25
North Memorial	7.3%	53.29
Methodist	7.2%	51.84
Hennepin County	6.3%	39.69
Regions	6.7%	44.89
Children’s	3.4%	11.56
<b>TOTALS</b>	<b>95.2%</b>	<b>1777.96</b>

If North Memorial were to build the Maple Grove Hospital, the consequent change in the Herfindahl index for hospital service would be as set forth below:

<b>Hospital System</b>	<b>Overall Metropolitan Market Share for Hospital Services</b>	<b>Contribution to Herfindahl Index</b>
Allina	30%	900
Fairview	19.5%	380.25
HealthEast	10.5%	110.25
North Memorial	11.6%	134.56
Methodist	7.2%	51.84
Hennepin County	6.3%	39.69
Regions	6.7%	44.89
Children’s	3.4%	11.56
<b>TOTALS</b>	<b>95.2%</b>	<b>1673.04</b>

The market concentration measured by the HHI is *decreased* by about 50 points in this example. Admittedly, this preliminary Herfindahl analysis is based on assumptions which might be challenged. For example, a better measure of market share might be based non-tertiary patient days. Similarly, it might be valuable to examine some particular sub-markets. These are preliminary calculations that will be refined, with the help of North Memorial’s consultant. But

the essential conclusion embodied in this analysis is very likely to be reflected in any sensible analysis of the impact of the Maple Grove hospital on the overall Twin Cities health care market: permitting the hospital to be part of the Allina or Fairview systems, which are the two largest in the metropolitan area, will increase the power of those systems and diminish the ability of other systems to be effective competitors. If, on the other hand, North Memorial builds the hospital, the result would be a *less concentrated* hospital market.

It is noteworthy in this context that Allina has proposed to establish the hospital in an alliance with the Methodist/Park Nicollet/Children’s systems. While this arrangement has not been described as a merger between Allina and Park Nicollet, it certainly entails a degree of coordination and cooperation which is on the spectrum of consolidation, and as such amounts to an additional concentration of market players.

North Memorial’s consultant is preparing an analysis of the relevant geographic and product markets in which the various systems compete which will provide a more thorough-going examination of the impact each of the three proposed hospital plans will have.

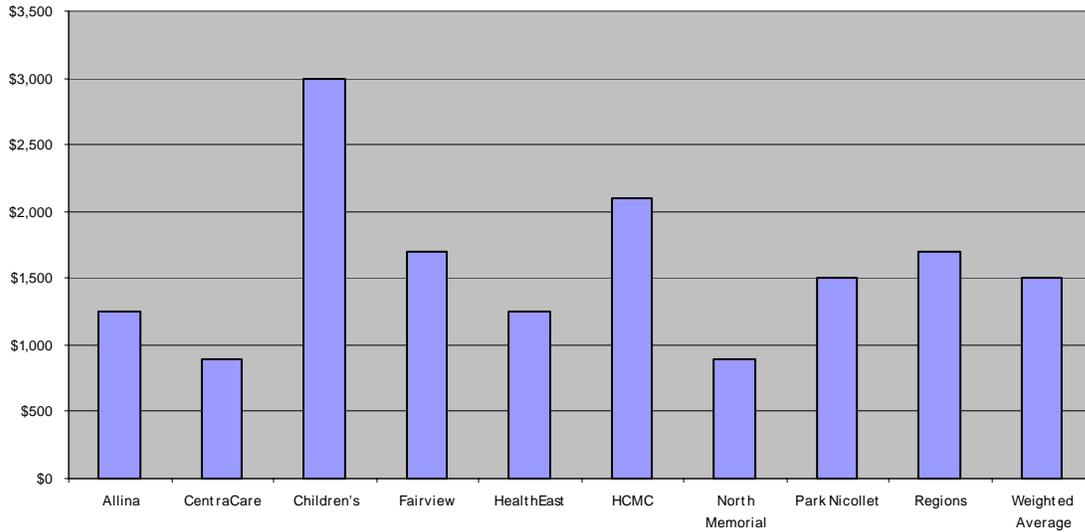
**North Memorial provides an option for patients looking for high-quality, more cost-effective providers not tied to a system.**

The Minnesota Hospital Association’s 2003 supplemental cost comparisons (2003 Metro) list “Expenses per Adjusted Admission” for each of the hospital systems proposing to build a Maple Grove hospital. The data are abstracted in the following chart:

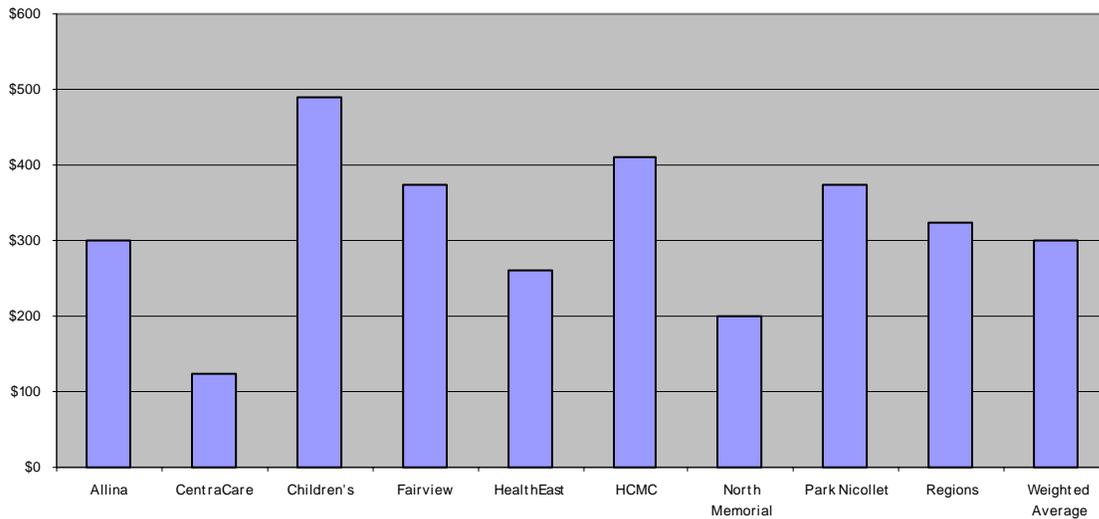
Hospital Name	Expenses per Adjusted Admission
Children’s Hospital	19,297
Fairview-University	13,829
Abbott Northwestern	10,893
United Hospital	9,181
North Memorial	8,579
Mercy Hospital	8,277
Methodist Hospital/Park Nicollet	7,923
Fairview Southdale	7,781
Unity Hospital	7,502
Fairview Ridges	5,555

The same source describes administrative costs on a per admission and per/day basis, summarizing the results in the following bar graphs.

**Total Costs (of areas assessed) per Adjusted Admission**



**Total Costs (of administrative areas assessed) per Adjusted Patient Day**



As is clear from this data, North Memorial is the market leader in controlling administrative costs, and is in the middle of the metropolitan group overall on expenses. Allina/Park Nicollet and Fairview are much higher cost providers.

**Independent, non-system hospitals have administrative and other advantages over larger systems.**

We believe that the Twin Cities benefits from having healthy competition among Twin Cities hospitals. And because many Twin Cities hospitals provide tertiary care to patients from across the state, the competitive climate here is valuable to the whole state. Interestingly, of all of the hospitals in the areas surrounding Maple Grove, North Memorial and Monticello-Big Lake Community Hospital are the only hospitals not owned by a large system. The other hospitals in the area are owned and operated by Allina, Park Nicollet or the Fairview system. As noted above, North Memorial is one of the lower-cost providers in the Twin Cities hospital market. We believe that part of the reason for this is the greater efficiency that North Memorial can achieve with fewer layers of decision-making and administration, as well as the fact that North Memorial does not have to expend its resources on large corporate headquarters and many highly-paid executives. In addition, unlike the big system hospitals, which employ hundreds of physicians, North Memorial does not have a very large expenses corresponding to losses in its clinic services division (which are typical of large hospital systems).

The state is well served by having independent players such as North Memorial with its diverse medical staff. North Memorial's approach to providing care has been to avoid layering heavy administration or system costs into the equation. North Memorial's medical staff is not dominated by a large single-group that has been purchased by the system, such as the Allina Medical Group or the Fairview Physicians Association. North Memorial has not attempted to use physician integration strategies to capture markets. Instead, it has worked to be the preferred location for doctors to practice. Our medical staff is comprised of many smaller, independent physician groups, in both primary care and specialties. Not only would North Memorial's Maple Grove hospital be open to all credentialed providers, North Memorial would create an atmosphere where all physicians, regardless of their medical group association, can be active, involved decision making leaders.

## V. COLLABORATION ARGUMENTS

**Allina/Park Nicollet suggest that their collaboration is a positive factor that should influence the decision to grant them the exception to the Moratorium Law. None of their three stated "reasons for collaboration" actually provide any evidence that the collaboration is useful to Minnesota patients.**

The Allina/Park Nicollet proposal states that collaborating to build a hospital in Maple Grove "allows [them] to cost-effectively serve patient's need." While we understand that sharing debt between two partners can spread out the development cost to each individual party, there is no evidence that the collaboration would result in any overall cost savings that would be passed on to the purchaser or consumer, or, indeed, that it will contain overall health care costs, either initially or in the future. On the contrary, one would expect such a collaboration to introduce additional layers of governance and extra costs in coordinating the efforts of the various parties.

The Allina/Park Nicollet proposal makes the following three arguments for a collaborative hospital. None of these arguments sensibly supports collaboration to develop a Maple Grove hospital.

1. “Sharing the capital cost for facility based services among the participating provider organizations allows us to cost effectively serve patients’ needs. Our proposal spreads the debt burden among our organizations to keep the project development costs to a minimum.” Again, sharing capital costs may limit *relative* costs for Park Nicollet and Allina as individual organizations, say, as a percentage of overall revenue, but doing so has nothing to do with serving patient or provider needs in a cost-effective manner, or with keeping *overall* project development costs to a minimum. If anything, going through two separate organizations to make decisions and allocate costs will lead to additional administrative costs and bureaucracy.
2. “Rather than competing on buildings and locations, all the participants in our collaborative will vigorously compete on quality and cost of care.” It is unclear how the parties in the collaboration will “compete” on quality and cost of care. It is also unclear to us why a collaboration would improve competition in any way. Indeed, a hospital’s most compelling reason to collaborate would be to eliminate the potential competition of its partners. True competition in quality and cost of care will come from an independent hospital, not the addition of another branch of two large hospital systems.
3. “Collaboration meets community needs where competition fails. Our collaborative provides broader community benefits, such as serving the low income population by providing charity care.” Again, it is unclear how a collaboration between these two providers will serve the low-income population any better than a non-collaborative model, or how collaboration meets community needs where competition fails. Moreover, is something strangely inconsistent about these last two arguments. Will the collaborative arrangement give us more competition or less? Unless one party to a collaboration has something that another does not, it does not appear that collaboration is necessary to “meet community needs.”

**The best reason for a collaboration is when one party brings some unique talent or ability to the table. It is not at all clear that the collaboration between Allina and Park Nicollet adds very much to what each organization already has.**

We do not believe that the Allina/Park Nicollet proposal provides reasons for collaboration, aside from the sharing of capital costs. This certainly is a valid reason for the organization to collaborate, but without some evidence that the collaboration actually adds value for patients, it should not be used as an argument that the collaboration somehow benefits patients or creates “efficiencies” for Minnesota.

Allina/Park Nicollet’s proposal notes several “specific examples of programs that will be extended to the community through the partnership,” including Park Nicollet’s Eating Disorder Institute, Allina’s Sister Kenny Rehabilitation Institute, Park Nicollet’s International Diabetes Center, Abbott’s and United’s behavioral health inpatient units, and Unity’s inpatient chemical dependency services. The proposal goes on to note, however, that “not all of these services will be directly provided at the Maple Grove site.” In fact, it does not indicate that *any* of these services will be available at the Maple Grove site, or that patients will have any greater access to those programs and services than they already do. With or without the collaboration the beds

allocated for these programs seem very likely to stay the same as they are now; certainly, none of the service categories included in the Allina/Park Nicollet proposal as part of the Maple Grove project (see p. 7 of the Allina/Park Nicollet proposal) match up with the services listed as benefits of collaboration.

The Allina/Park Nicollet proposal does not describe the benefits that it hopes to achieve through potential collaborations with Children’s Hospital or with Hennepin County Medical Center. The proposal does not indicate that any of the “specialty” programs listed in the Allina/Park Nicollet proposal (such as Park Nicollet’s Eating Disorders Institute or Unity’s chemical dependency services) will be available at the Maple Grove location. More to the point, it is unclear what role Children’s Hospital is to have. North Memorial engaged in discussions with Children’s Hospital that culminated in our submission of a plan that would include Children’s Hospital’s participation with North Memorial. Children’s Hospital clearly indicated that it was opposed to including pediatric beds in the new hospital, but would provide specialty clinics on the campus. Apparently after discussion with Allina, Children’s Hospital indicated that it could not remain in North Memorial’s proposal, and joined Allina/Park Nicollet. Allina/Park Nicollet note in their proposal (at p. 4) that they are “currently in discussions” with Children’s Hospital about becoming an equity partner in the Allina/Park Nicollet joint venture. We assume that this collaboration will also not involve pediatric beds. We also believe that Children’s Hospital would establish specialty clinics to provide services in Maple Grove no matter which proposal is accepted.

**Allina/Park Nicollet note that their proposed Maple Grove Hospital will be an “open access” hospital. North Memorial’s hospital will also be open access, but will actually have more “openness” due to the lack of a dominating physician group.**

As is noted in our submission, North Memorial has over 900 active independent medical staff members. Fairview has indicated in its supplemental answers to questions from the Department that “UMPhysicians will recruit and place needed physicians at the Fairview Maple Grove HealthCare Campus. UMPhysicians will also coordinate alignment of Fairview-affiliated and other community-based physicians to practice at the site as needed . . . Fairview has already received several enquiries from North Hennepin area community providers interested in expanding their practices to the Fairview Maple Grove site.” North Memorial’s independent physicians already have substantial, existing practices in Maple Grove, as indicated in the following table reproduced from North Memorial’s submission.

Physician Group/Clinic Name	Specialty	Hospital Location	Clinic Locations
Camden Physicians	Primary Care	North Memorial	Maple Grove
Cardiovascular Consultants	Cardiology  Sub Specialty: Internal Medicine	North Memorial Methodist Hospital (Electrophysiology patients only)	Plymouth-WestHealth Spring Lake Park Pine City Clinic
Hubert H. Humphrey Cancer Center	Oncology  Sub Specialty: Internal Medicine	North Memorial Mercy-Coon Rapids Unity-Fridley Fairview Princeton Cambridge Hospital	Princeton Cambridge Litchfield Buffalo Monticello

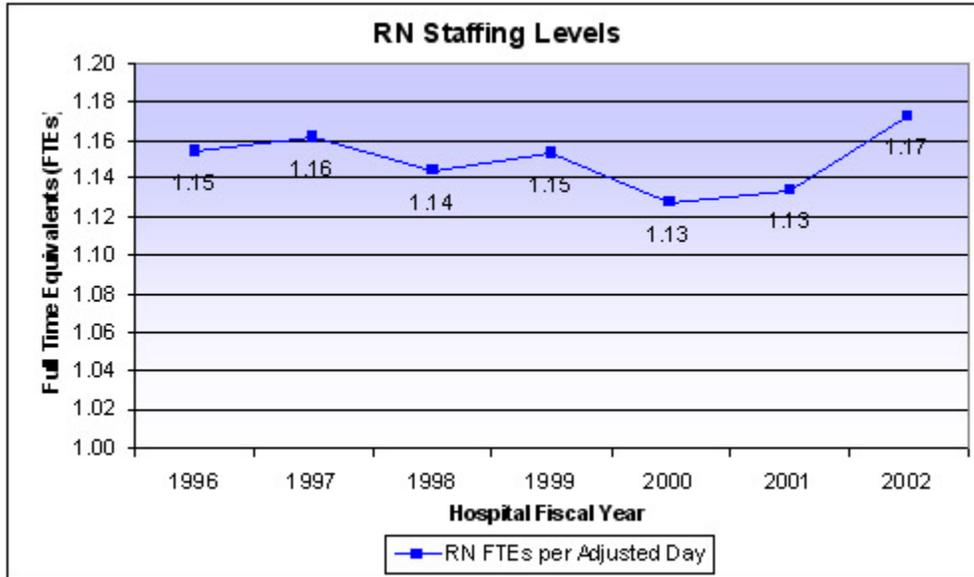
Physician Group/Clinic Name	Specialty	Hospital Location	Clinic Locations
		Buffalo Hospital Monticello-Big Lake Fairview Wyoming	Wyoming
Minneapolis Radiology Associates	Radiology/Interventional Radiology	North Memorial Monticello-Big Lake	Maple Grove (partnership with North Memorial) Monticello Clinic
North Clinic	Primary Care  <u>Sub Specialty:</u> Internal Medicine	North Memorial	Maple Grove Osseo Plymouth (WestHealth)
Northwest Family Physicians	Primary Care  <u>Sub Specialty:</u> Internal Medicine	North Memorial	Crystal (includes Urgent Care) Rogers Plymouth
Northwest Orthopedic Surgeons, PA	Orthopedic Surgery	North Memorial Buffalo WestHealth	Buffalo Clinic
Oakdale OB/Gyn, PA	Obstetrics/Gynecology	North Memorial	WestHealth Elk River
Partners in Pediatrics	Pediatrics	North Memorial Children's Hospitals & Clinics	Maple Grove
Respiratory Consultants PA	Pulmonary Medicine  <u>Sub Specialty:</u> Critical Care Internal Medicine	North Memorial	Robbinsdale Monticello-Big Lake Hospital
Specialists in General Surgery Ltd	General Surgery	North Memorial Monticello-Big Lake Buffalo Mercy Unity	Buffalo Clinic Monticello Clinic Camden Physicians Clinic

## VI. IMPACT ON STAFFING

Each hospital system's Maple Grove proposal will have an array of impacts on other providers and on the market as a whole; many of these impacts are related. Thus, the earlier discussion of the direct revenue loss to North Memorial of an Allina/Park Nicollet or Fairview hospital is echoed in the discussion of the unfavorable results of market concentration, which takes as a springboard the market shares of the various players under alternative scenarios. Related to all of this analysis is the impact that the various proposals would have on hospital staffing.

**North Memorial's proposal will not result in significant pressure on staffing, because North Memorial will transfer actual operating beds and existing employees from its current campus.**

As is evident from the graph reproduced below, RN staffing per patient day has remained relatively stable in Minnesota over the past ten years.



This graph shows that hospital RN staffing is largely a function of patient census. Each patient is served by an efficient complement of such staff.

Actually, it is more accurate to say that staff support active beds. Thus any proposal that would establish additional active beds in Minnesota would require a greater staff complement. North Memorial’s proposal calls for the transfer of active beds only. Fairview has an enormous licensed capacity at Fairview University (over 1,700 beds only 729 of which are active per the Allina/Park Nicollet proposal, Appendix 13). Thus, any transfer of beds by Fairview should be analyzed to determine whether it is, in fact, a transfer of operating and staffed beds or whether it is really the development of new beds that will need to be staffed. Allina spends several pages in its submission arguing that there is no advantage in transferring existing beds. Presumably Allina has made the determination that it will not be transferring beds, but Allina did not state in its proposal whether it plans to operate new or existing beds.

**Allina/Park Nicollet’s proposal does not involve the transfer of beds, but also increases overall bed capacity.**

Allina/Park Nicollet’s proposal indicates that it will not transfer beds. Although the proposal claims that “development of a Maple Grove hospital and health campus will not exacerbate the staffing issues in Minnesota,” the proposal does not back this up with facts, or reasoning to counter the common-sense idea that increasing licensed beds will increase staffing needs. Instead, the proposal suggests that “environmental factors” will require addition staff, regardless of the addition of new licensed beds, and that Allina and Park Nicollet will require additional staff whether or not there is a new hospital. While this may be true, and hospital staffing needs may increase with or without a new hospital, the staffing needs certainly will increase if new beds are added to a stressed system.

**North currently employs 1,100 Maple Grove residents, and 1,700 who live in North Memorial’s proposed 20 zip code primary service area. Fairview has identified 341**

**employees who live in its area. Allina has not identified its Maple Grove employee cohort. If Fairview or Allina are permitted to build a hospital in Maple Grove, the result will be a severely adverse impact on North Memorial's staffing, as Maple Grove residents seek employment at the new hospital.**

The large complement of Maple Grove residents that currently are on staff at North Memorial is not surprising, given the fact, detailed above, that Maple Grove residents generally look to North Memorial to provide care and given the fact that it is the hospital that is easiest for area residents to get to. It is important to understand that the impact on staffing that would be created by the proposed new hospital would not be spread evenly over the market as a whole. Instead, North Memorial would undoubtedly experience a very significant strain, as its current staff, which is so substantially attached to Maple Grove, would disproportionately seek employment at the new hospital.

Allina/Park Nicollet's proposal states that "staffing requirements for a Maple Grove hospital are not viewed as having negative consequences on area providers." (Allina/Park Nicollet proposal, p. 33) Again, this assertion is not backed up in any way, other than the statement that "[w]ages will be competitive and provide additional opportunities for health care employees to work closer to home." We believe that this statement is true; any Maple Grove hospital will have to provide competitive wages, and will certainly offer those living in Maple Grove an opportunity to work closer to home. We also believe, however, that this statement proves our argument that the operation of a new hospital in Maple Grove by either of the hospital systems will put a strain on North Memorial's ability to staff its Robbinsdale hospital. Conversely, if North Memorial is able to develop the Maple Grove facility and transfer existing operating beds to the new location, the net staffing increase will be much smaller, and North Memorial will be far better able to manage staffing transfers.

## **VII. SERVICES FOR NON-PAYING OR LOW-PAYING PATIENTS**

The fourth element in the Moratorium Law's public interest review process requires an analysis of the extent to which a new hospital will provide services to non-paying or low-income patients, relative to the level of services provided to these groups by already existing hospitals. We believe that a related issue is the extent to which a new hospital will affect the charity care being provided at already existing hospitals.

**North Memorial provides crucial services to low-income patients in Minneapolis. A new hospital that transfers patients from North Memorial's current service area to one of the large systems may adversely affect North Memorial, endangering these services.**

At the Maple Grove facility, North Memorial would institute the same charity care policies that it has in place at its Robbinsdale facility. We believe that doing so would mean that a North Memorial-owned facility would provide at least as much charity care as already existing hospitals. A North Memorial-owned Maple Grove facility will *enhance* North Memorial's continuing efforts to provide charity care.

North Memorial, like all other tax-exempt hospitals, has an obligation to provide health care services to patients in need of emergency treatment, regardless of the patient's ability to pay. North Memorial, again like all of the hospitals submitting proposals, has a charity care policy to provide relief for patients unable to afford all or part of the care they need. North Memorial has always been at the forefront of providing charity care, and for a hospital of its size, ranks high on the list of uncompensated care providers in Minnesota. Still, despite civil and legal obligations, the ability of any hospital to provide charity care is dependent on that hospital's financial ability to provide it. Generally, the main way that hospitals—including North Memorial—are able to pay for charity care or subsidize low-paying patients is by collecting revenue from the patients who *do* have the ability to pay for the services they receive. In effect, paying patients allow hospitals to provide charity care.

The North Memorial patient population that is most likely to shift to a new Maple Grove facility is generally higher income and more likely to be insured than the average patient population in the Twin Cities. As noted in the Fairview proposal, “The demographic profile of the service area is generally younger families with children, primarily Caucasian with slightly higher income levels than Hennepin County medians, and insured primarily by health maintenance organizations, preferred provider organizations, or point of service plans.” (Fairview proposal, p. 9) Because patients with insurance or generally the “paying patients,” and because the percentage of uninsured patients in the Maple Grove primary service area is only 3.2% (according to the Kaiser Family Foundation, the Minnesota average is 8% uninsured), it is likely that the Maple Grove facility will see a higher percentage of paying patients, and a lower percentage of patients needing charity care. If North Memorial is shut off from these patients, who, as shown above, currently are largely served by North Memorial, it will mean that a higher percentage of North Memorial's patients will be lower-income and/or uninsured. This, in turn, means that North Memorial would see a higher percentage of patients more likely to be in need of charity care at the same time that it would lose revenue from the higher-income patients in Maple Grove.

It is difficult to gauge the exact effect that a non-North Memorial-owned Maple Grove facility would have on North Memorial's ability to continue to provide high levels of charity care services to low-paying or non-paying patients. Certainly, regardless of the ownership of the Maple Grove facility, North Memorial will continue to provide charity care at its Robbinsdale location. Without revenue to offset the charity care losses, however, it will be difficult for North Memorial to continue to offer charity care at the same level that it has for years. If, on the other hand, North Memorial operates the new Maple Grove facility, the revenue from serving that generally more affluent population, will remain in the North Memorial system, and revenues from the Maple Grove location will continue to allow care for appropriate levels of charity care at *both* facilities.

## VIII. CONCLUSION

The need for a new Maple Grove hospital is clear. The communities in the northwestern suburbs have plainly expressed their desire for a new inpatient facility located within a reasonable driving distance of their homes. We believe we have demonstrated in this document why North Memorial is the best option for the development and operation of the new facility:

- North Memorial is the best suited by virtue of its core competencies to develop a hospital whose purpose is to provide faster, better access to emergency, trauma, OB, cardiac and other regional hospital services.
- North Memorial has the greatest ability to staff the hospital with physicians currently in the community who have relationships with area residents. North Memorial will not need to recruit and import caregivers.
- North Memorial will provide the cost advantages that an independent hospital has over a large system.
- A North Memorial Hospital in Maple Grove will not increase market concentration in the Twin Cities, which could result in an overall increase in price and reduction in quality.
- A North Memorial Hospital in Maple Grove will have the least adverse effect on staffing, and on North Memorial's ability to continue to operate its Robbinsdale facility to benefit Minnesota, including those residents most in need.

In short, having a Maple Grove facility owned and operated by North Memorial would provide all the upside benefits for the state and local community (innovative, quality health care, specialty programs, physician and clinic partnerships, independent providers), without the negative effects inherent in the operation of a Maple Grove facility by any of the other potential operators of the facility.

North Memorial has always been an excellent citizen in its community, operating as a top-notch urban hospital providing excellent value and quality to its patients. The Maple Grove area has long been a part of what North Memorial considers its community, and we see the opportunity to operate our facility there in two important ways. First, we would be able to continue to serve patients in the area with the same commitment to high quality care, but at a prime location that provides them better access. Second, North Memorial would retain the patient base that it now serves, preventing the siphoning away of patient by system hospitals and the further consolidation of the hospital market. Only by continuing to serve this large and growing patient base can North Memorial ensure both the vitality of its urban Robbinsdale location and the provision of health care to suburban patients through an independent hospital

#3064932\2

# Maple Grove

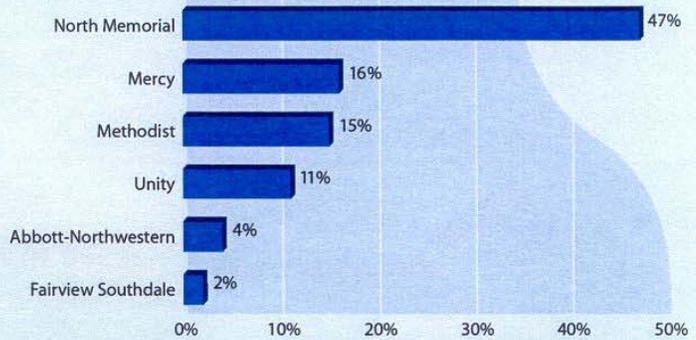
## Community Survey

Conducted by Padilla Speer Beardsley, November 2004

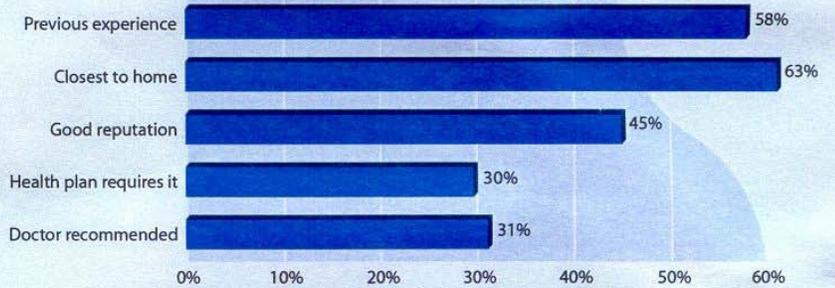
### Overall Key Findings

- North Memorial is the most familiar hospital in the Maple Grove area
- Proximity, experience and reputation drive hospital choice – more than health plan and doctor
- I-94 and 610 is considered the best location for a new hospital
- News media have been the primary source of information regarding plans to add a hospital in Maple Grove
- Consumers expect hospital access within 10 minutes of their homes
- Emergency and urgent care are top priorities in a hospital
- Most people don't know about restrictions on new hospital construction but believe state should make an exception in Maple Grove
- 90% confidence level in survey

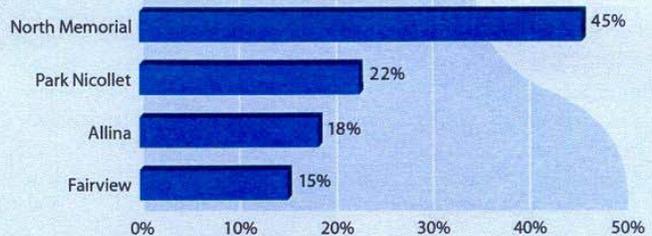
### If you or a member of your family needed to be hospitalized, which hospital would you most likely go to?



### Why would you go to that hospital?



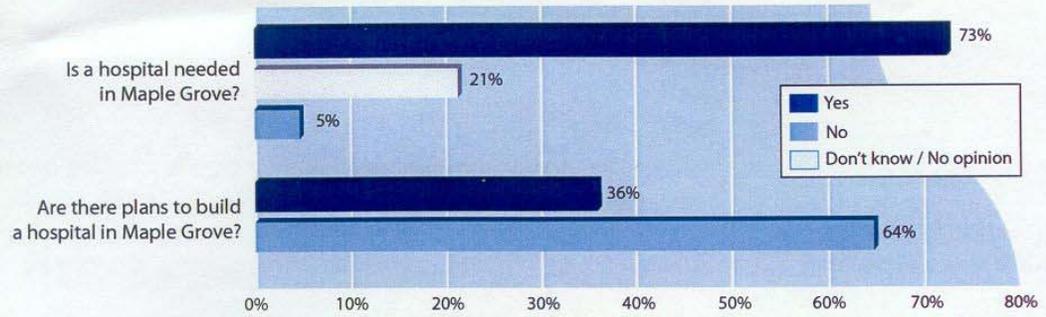
### Who would you most like to see build a hospital in the Maple Grove Area? (67% of respondents expressed a preference)



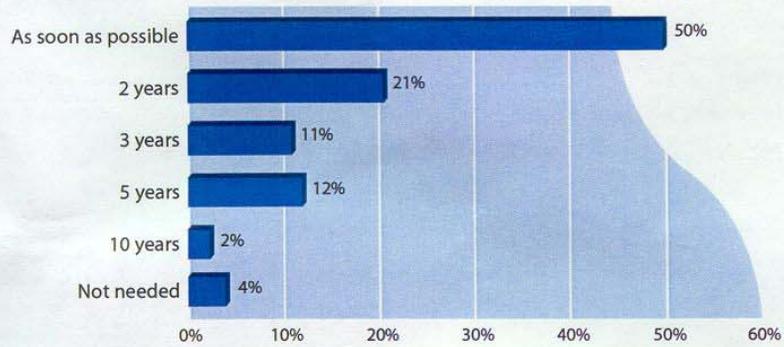
For more information on North Memorial's plans in Maple Grove, please visit [northmemorial.com/maplegrove](http://northmemorial.com/maplegrove).



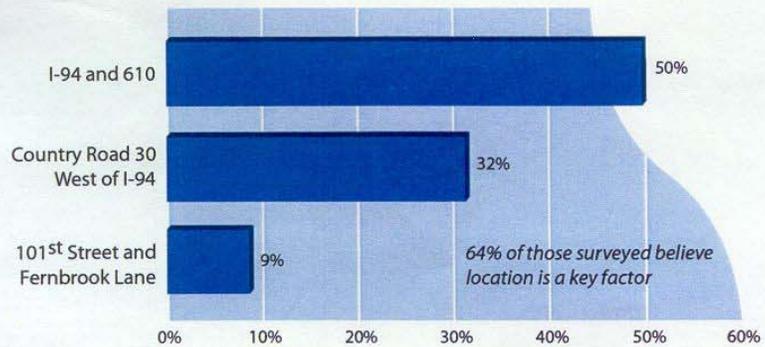
### Is a hospital needed? Are there plans to build one?



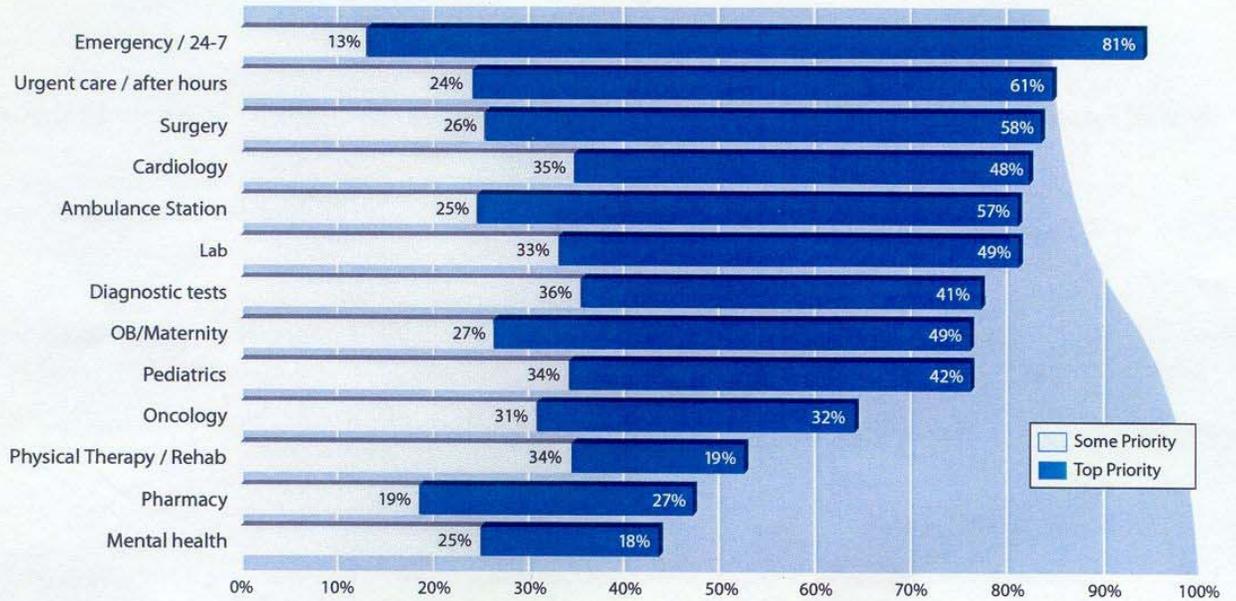
### How soon is a hospital needed in Maple Grove?



### If a hospital were added in the Maple Grove area, where is the ideal location?



**Assuming there is a new hospital in Maple Grove, what level of importance would you assign the following services?**



**Indicate your level of agreement with the following statements...**

