



Protecting, Maintaining and Improving the Health of All Minnesotans

May 1st, 2018

The Honorable Joe Schomacker
Chair, Health and Human Services Reform
Committee, Minnesota House of
Representatives
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Saint Paul, MN 55155-1606

The Honorable Matt Dean
Chair, Health and Human Services Finance
Committee, Minnesota House of
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The Honorable Tina Liebling
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The Honorable Erin Murphy
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The Honorable Michelle Benson
Chair, Health and Human Services Finance &
Policy Committee, Minnesota Senate
Room 3109, Minnesota Senate Building
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The Honorable Jim Abeler
Chair, Human Services Reform Finance & Policy
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The Honorable Tony Lourey
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The Honorable Jeff Hayden
DFL Lead, Human Services Reform Finance &
Policy Committee, Minnesota Senate
Room 2209, Minnesota Senate Building
95 University Ave W.
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To the Honorable Chairs and Ranking Members:

Minnesota Statutes, Section 144.552, requires that any hospital seeking to increase its number of licensed beds, or an organization seeking to obtain a hospital license, submit a plan to the Minnesota Department of Health (MDH) for review and assessment as to whether the plan is in the public interest.

During the months of November 2017 and March 2018 Regions Hospital submitted information on a proposal to expand licensed bed capacity by 100 beds at their existing hospital campus in St. Paul, Minnesota.¹

The purpose of this letter is to provide the Legislature with MDH's expedited, **preliminary** findings from its public interest review. As is typically the case, the findings are based on quantitative analyses of actual and projected capacity and demand for inpatient services in the hospital service area, views of affected parties, and a review of the relevant academic literature.

Based on our review and analysis of available data, MDH finds the **proposal in its current form** – to add 100 licensed beds to Regions Hospital in the next 22 years – **is not in the public interest**. This does **not** mean that we find no public interest in aspects of the proposal. Our finding on the full 100-bed proposal derives from four main points, the details of which are included as an enclosure to this letter:

1. The forecast of inpatient bed need in the proposal likely overstates actual future need by not robustly accounting for factors that may affect future rates of hospitalizations such as continuing shifts of care to outpatient and other settings aided by technology. This potential for overstatement is compounded by choosing an unusually long forecast horizon (greater than 30 years). Our analysis shows that if such forecasts had been done in the past relying solely on population growth, the method used by Regions Hospital and its consultant, those forecasts for bed need by people 65 years or older would have overestimated today's actual bed days by as much as 60 percent. In addition, we show that longer-term forecasts are highly sensitive to assumptions, casting doubt on the accuracy of the forecast.
2. The proposal has the potential to financially affect other east metro hospitals by changing the distribution of services at those hospitals and reducing their market share. Over time and under today's prevailing payment systems the resulting financial pressure has the potential to lead to divestments from low-revenue services, such as inpatient mental health, and competition over brand, technology and service lines that drive unneeded duplication of more profitable services and resources and potentially higher costs.
3. The proposed increase in licensed beds would occur in a market with existing overcapacity in licensed beds. This means the proposal would add considerable resources to the health care system, likely in the range of several billion dollars to create and operate additional excess capacity in the market.
4. Regions Hospital plays a critically important role in the community, exemplified by the hospital delivering trauma and burn care, leading in the delivery of care for vulnerable populations, educating medical and other professionals, and the strong support the proposal enjoys among local officials, community members and others. However, because of the specific criteria MDH is required to use under state law in evaluating proposals, community support alone cannot

¹ The full proposal and supporting materials, as well as public comments on the proposal, are available online: <http://www.health.state.mn.us/divs/hpsc/hep/moratorium/regions/index.html>

offset the public interest concerns related to the establishment of significant excess capacity in the community.

While MDH finds the full proposal in its current form – to add 100 licensed beds at Regions Hospital through 2040 – is not in the public interest, we recognize there are conditions in the east metro market that the Legislature may want to take into consideration when weighing its decision whether to grant an exception to the hospital bed moratorium. The following observations may be of value in the Legislature’s deliberations:

- The proposal and our analysis show that there are currently bottlenecks in service delivery at Regions Hospital that lead the hospital to operate, at times, at unsustainably high levels of occupancy. This results in diversions of patients from Regions, and may contribute to temporary closures of the emergency department. Although there are likely a range of reasons for these bottlenecks, with some unrelated to the availability of physical bed capacity, the addition of a limited number of licensed beds for medical/surgical care could relieve some pressure at Regions Hospital and support care delivery.
- Regions Hospital is breaking ground this spring on a replacement obstetric unit on its campus. Although this is not explicitly part of the proposal, because on its own the obstetric unit would not expand bed capacity, Regions is seeking additional obstetrics beds under the proposal to fully implement its service strategy. The addition of a limited number of obstetrical beds would permit Regions Hospital to effectively compete in a critical revenue area (obstetrics), with minimal added health system costs.
- A condition on a possible exception to the hospital bed moratorium for Regions Hospital that ensured the addition of new licensed inpatient beds solely dedicated to mental health before 2025 would help address related constraints felt across the community, including currently at Regions.

In closing, MDH’s specific task, as directed by the Legislature, was to assess whether the HealthPartners proposal to add inpatient bed capacity at Regions Hospital was in the public interest. As hospital-affiliated care is transforming in response to changes in clinical science, technology and payment methods, our review can only shed light on a narrow slice of care delivery in one community. It does not contemplate broader questions of capacity planning – including whether that is even desirable – or access to critical services across the state.

The review also does not directly address the economic inequities that are an unintended outcome of the Minnesota hospital bed moratorium. By freezing in place historic distributions of licensed bed capacity between hospitals and care systems from decades ago, the moratorium places legislative oversight on growth by institutions without “banked” licensed beds, while hospitals with unused licensed bed capacity are able to pursue significant growth and facility investments without legislative scrutiny. Whether and how to address this health policy issue was outside the frame of the review, although it directly affects Regions Hospital.

The findings in this letter reflect an expedited review, conducted to produce information that the Legislature could act on this legislative session. We are also including some additional detail on these

preliminary findings, attached to this letter. **We do not expect our findings to change materially** at the time we will deliver the final review on or near May 31st, 2018.

If you have questions or concerns regarding this study, please contact Stefan Gildemeister, the State Health Economist, at 651-201-3554 or stefan.gildemeister@state.mn.us.

Sincerely,

A handwritten signature in black ink that reads "Diane Rydrych". The signature is written in a cursive style with a long horizontal flourish at the end.

Diane Rydrych,
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