CITIZENS LEAGUE
530 Syndicate Building
Minneapolis, MN 55402

November 19, 1980

STATEMENT TO THE METROPOLITAN HEALTH BOARD
November 19, 1980
Concerning Rebuilding Proposal of University Hospitals

I. Introduction

Madam Chair, Members of the Health Board: The Citizens League appreciates the opportunity to appear before you and present our views on this proposal.

It is appropriate that the Citizens League speak to this issue, because it involves a major new investment in our area's health care system -- a topic of long-time concern and involvement for our organization.

In 1977 the League issued a study entitled "More Care About the Cost in Hospitals." Its central finding was that the Twin Cities area has a very high quality, and also a very large and expensive, hospital system, whose expansion is essentially unrestrained at the moment, either by public control or by competitive forces in the health care market.

Our central conclusion was that the arrangements for financing medical and hospital care must now be re-examined and rearranged, to restrain the expansion within some limits set by public policy.

Since that time, we have continued to be actively involved on the issue of systemwide cost containment and have commented on your plans for areawide reduction. We continue to feel, as we stated in our June 1977 position, that the relatively small cut proposed by that plan, in the area's hospital capacity makes it "essential to maintain a tight control on the flow of investment into the system."

In that context we turn our attention to the merits of this proposal.

II. The University's Proposal Should Receive the Full Scrutiny of State and Regional Policymakers.

The University of Minnesota Hospitals has been an outstanding provider of medical care. Its national reputation is well known and well earned. It seems clear that much of its present plant is outdated and should be replaced in some form. Despite these considerations, however, it is in the public interest to fully examine all facets of proposals calling for the expenditure of significant sums of public monies. This, clearly, is one such proposal. At a total cost of more than one-half billion dollars, over a 30-year period, this is, by far, the largest hospital proposal in the state's history. The debate surrounding this proposal gives the region and the state their best -- and perhaps only -- opportunity to come to grips with fundamental questions about the future of this nationally-respected hospital.

III. There are Many Questions That Could Be Asked About This Application But, Essentially, Three Questions Seem To Be Central

A. Has the Process Been Thorough Enough, Given the Size of This Proposal?

On a project of this scale, calling as it does for a substantial expenditure of public funds, the public and the applicant must have confidence that the bodies charged with reviewing the proposal did a thorough and fair job. Did the reviewing authorities, for example, explore both sides of the issue? Did they consult other parties besides the applicant or those who had a direct interest in the proposal? If no one, other than the applicant, came forward, voluntarily, were efforts initiated to actively seek out other perspectives? The process of actively seeking out other perspectives need not turn up opposition. It might lend even more credence to the merits of the project. At the very least, however, such activities would assure the public that the review had been thorough. And it would also protect against the faulty assumption that, simply because no opposing views surfaced, there were, in fact, no legitimate opposing views.

In this case, we question whether the Health Board's review process has been thorough enough. From the public record, it appears that virtually no one without some affiliation to the applicant was consulted during the project review hearings (the one exception being a representative of a group to save Powell Hall). No efforts seem to have been made to solicit other views, or to explore national trends affecting university hospitals.

In our statement of nearly a year ago, the League stated, "If the community had deliberately tried to maximize the flow of money into hospital expansion, it probably would have created substantially the system now in place. With hospitals' ability to secure reimbursement and public credit virtually unlimited, the only remaining obstacle is the certificate-of-need process. That that is true really shows how important it is that your process be thorough and take the initiative to get out in front of proposals and applications.

We recognize, of course, that this project is different from most others under your review. The University Hospitals is both a state and regional provider. Therefore, two "need" decisions are required -- one at the state level, and one at the regional level. Many of the issues surrounding this issue are, by nature, state issues and can most appropriately be raised at the state level.

We all share the common interest of assuring that a high level of intelligent debate takes place on this issue. Since it appears that the Health Board will approve this proposal, we raise the next two major questions in order to continue public discussion of this issue between now and the time it comes up for legislative consideration.

B. Will the State Have to Invest Tax Dollars to Help Finance This Project?

The University of Minnesota Hospitals proposes to finance the project through the use of tax-exempt State of Minnesota general obligation bonds: to be repaid by the University through patient revenue and other resources over a 30-year period.

As we see it, there are essentially four issues here with which state policymakers must grapple. They are:

1. The Unusual Method of Financing This Proposal

Although the constitution limits state general obligation bonds to 20 years, the University of Minnesota is proposing that the state issue 20-

year bonds, but then turn around and loan the money to the University of Minnesota on a 30-year repayment schedule. Thus, the University will get 30-year financing with the state complying with the technical requirements of the constitution. What this means is that a subsidy will be required during the first 20 years, with the hope that the U of M Hospitals will repay the subsidy during the next ten years. It also means that the state, at least initially, will absorb the greater share of both the costs and risks associated with this proposal.

2. Sufficiency of University Hospital Revenues Over Time

The University's dominant means of repaying the state will be through the use of debt financing accrued through patient revenues. The question then arises as to whether hospital occupancy will be high enough over the 30-year period to supply the needed revenues with which to repay the state.

The University assumes that they will. Judging from the Health Board's Project Review Committee's Report, however, that assumption deserves legislative scrutiny. For several key trends could actually reduce the University's volume levels below the level that they anticipate. Briefly, these factors are:

* The trend toward price-conscious purchase of medical care - As more medical care is purchased on a price-conscious basis, the University may find itself at a competitive disadvantage in relation to other metropolitan acute care and tertiary care providers, because of its higher costs, longer length of stay, and forced subsidization of medical education out of patient revenues. Obvlously, the 13% increase in patient charges because of construction of the new hospital must also be considered.

* Other hospital' increased capacity to deal with medically sophisticated patients.

* The supply of specialists and subspecialists in the region and out-state, and their increased ability to treat patients in their offices on an outpatient basis.

Given these trends, the Project Review Committee concluded that University Hospitals is at somewhat of a "watershed" point, in terms of volume levels. For that reason, as well as those cited above, they concluded that volume projections for future years should be examined "from a conservative perspective."

These trends cannot conclusively verify that the University Hospitals' volume will significantly decline during the next decade, or even during the 20-year life of the State GO bonds. But they do raise the question of a possible risk of that occurring -- to the state and its taxpayers -- affecting, as it would, the institution's ability to repay its debt to the state.

Given the serious nature of these questions, no final action on this project should occur until the Legislature has carefully weighed all of the financial implications and alternatives.

For, clearly, full state backing of this proposal would be an unprecedented action. The State has never committed the level of general obligation bonds that the University is seeking, to any one applicant. Nor has the State ever refinanced a half-billion dollar project before. That is not to say that it shouldn't, in this case.

C. Given the Changing Role of the University Hospitals, Does This Proposal Affirmatively Carry Forward the State's Major Health Care Objectives?

In addressing this issue it is important to consider that major changes have already taken place in the role of this institution.

University Hospitals were originally established to: (a) take care of indigent patients, and (b) to be a training hospital for future physicians. Both of these roles are much less central to the institution's mission now than they were. Medicare and Medicaid now allow indigent patients to be cared for anywhere. Most of the state's medical education, which involves a hospital setting, takes place in other hospitals. As the institution has de-emphasized these roles, it has emphasized others -- post-graduate education, for example, and research and development. One of the major questions this application poses to the state and its legislators and to the region, and you, its policymakers, is whether to support this shift in emphasis.

For, clearly, what distinguishes the University of Minnesota Hospitals is not the patient care -- most of which is easily accessible elsewhere. Nor is it the medical education component. The case for the University Hospitals rests on research. The present reimbursement system for medical care is helping to support research and development in medicine. It can be argued, as the University does, that this research and development function plays a vital role in our local economy. But, if that is the justification for the proposal, then it is well to ask whether this type of research and development should be financed directly by the State, or by other sources that have an interest in furthering medical technology. Is it the state's role to provide a $300 million laboratory for medical technological research? Does this proposal affirmatively carry forward out objectives in the health care system?

If one of our objectives is health promotion and education -- in a word, preventive medicine -- would this proposal be in turn with those goals?

What would be the state's role in the maintenance of this kind of research-oriented facility, in the event that national research funds were diverted to other uses?

Is the state best advised to concentrate most of its monies in one major specialty center in the Twin Cities, or to divide the money among numerous regional specialty centers throughout the state? What level of medical specialization should we have in our rural areas?

Many of these questions require a great deal more study before they can be answered. Much of that study, necessarily, is beyond the scope of this review and the resources of the Health Board. But, again, we think that the quality of the public debate on this issue to date has not been what it should. We raise these issues solely to contribute to that debate. Ultimately, however, the most thorough discussion of these issues should take place in a series of legislative hearings on the project. We recommend that the Minnesota State Legislature initiate such hearings early in the 1981 session.