

Acute Care Services Committee
Agency Report for
Petition Regarding Policy AC-3 in the
Proposed 2011 State Medical Facilities Plan
Novant Health, Inc.

Petitioner:

Novant Health, Inc.
2085 Frontis Plaza Blvd.
Winston-Salem, NC 27103
Attn: Barbara Freedy, Director, CON

Request:

The petitioner requests that the State Health Coordinating Council (SHCC) repeal or revise Policy AC-3 Exemption from Plan Provisions for Certain Academic Medical Center Teaching Hospital Projects. The proposed revisions to Policy AC-3 would prohibit the addition of beds, operating rooms or equipment in counties with surpluses. In addition, the proposed revised policy would require annual reports of all services and equipment acquired under the policy, development of special rules for the review of Policy AC-3 applications, and inclusion of written statements from providers within a 20-mile radius of the AMC indicating they cannot meet the need described in the Policy AC-3 CON application.

Background Information:

Policy AC-3 states that certificate of need projects submitted by academic medical centers (AMCs) designated as AMCs before January 1, 1990 may qualify for exemption from State Medical Facilities Plan (SMFP) need determinations, if certain conditions are met. As the petitioner points out, the predecessor of Policy AC-3, Policy B.5 Special Consideration for Academic Medical Center Teaching Hospitals, first appeared in the 1983 SMFP. The policy emerged during a time when the federal government began to make provisions for academic teaching hospitals to receive Medicare payments to help offset the increased costs of graduate medical education (GME) to medical students (Association of American Medical Colleges website, www.aamc.org). “The justification for a special payment adjustment for teaching hospitals is rooted in Medicare's cost limits of the 1970s. As payment limits for hospitals' routine costs grew more stringent, government and private researchers consistently showed that teaching hospitals had higher costs than non-teaching hospitals, even after the direct costs of GME were removed from teaching hospitals' cost structures... In 1982, The Tax Equity and Fiscal Responsibility Act (P.L. 97-248) established an adjustment for teaching hospital costs.” (<http://www.aamc.org/advocacy/library/gme/gme0002.htm>).

Wording for the policy changed in the 1990 SMFP, and included the stipulation that projects submitted by AMCs designated prior to January 1, 1990 may qualify for the exemption. The AC-3 Policy in the 1999 SMFP stated that any service, facility, or equipment obtained as a result of the policy would be excluded from the inventory in the SMFP. In the 2001 SMFP, this part of the policy changed to apply to health service facilities or health service facility beds, but not to equipment. The 2001 SMFP explains that excluding equipment “...from the inventory of equipment that is required by Academic Medical Centers may result in a need in the service area

already served by the Academic Medical Center facility” (2001 SMFP, page 15). Currently, “[a]ny health service facility or health service facility bed that results from a project submitted under this Policy after January 1, 1999 shall be excluded from the inventory of that health service facility or health service facility beds in the North Carolina State Medical Facilities Plan” (Proposed 2011 SMFP, page 27).

Analysis/Implications:

The petitioner has requested that the SHCC repeal or revise Policy AC-3 by prohibiting the addition of beds, operating rooms or equipment in counties with surpluses; requiring annual reports of all services and equipment acquired under the policy; developing special rules for the review of Policy AC-3 applications; and including written statements from providers within a 20-mile radius of the AMC indicating they cannot meet the need described in the Policy AC-3 CON application. As explained in Chapter Two of the 2011 Proposed SMFP,

“Anyone who finds that the North Carolina State Medical Facilities Plan policies or methodologies, or the results of their application, are inappropriate may petition for changes or revisions. Such petitions are of two general types: those requesting changes in basic policies and methodologies; and those requesting adjustments to the need projections... People who wish to recommend changes that may have a statewide effect are asked to contact the Medical Facilities Planning Section staff as early in the year as possible, and to submit petitions no later than **March 3, 2010**. Changes with the potential for a statewide effect are the addition, deletion, and revision of policies and revision of the projection methodologies.”

The change recommended by this petitioner would be the repeal or revision of the AC-3 Policy, which, if approved, would have a statewide effect. Therefore, in accordance with procedures set forth in Chapter Two of the SMFP, it has not been timely filed for inclusion in the 2011 SMFP.

Agency Recommendation:

Given that the petition seeks changes in Policy AC-3 that would have a statewide effect, and the deadline for submission of such petitions for the 2011 SMFP has passed, the Agency recommends the petition be denied. The petitioner may wish to submit the petition in the spring of 2011 for consideration of inclusion in the next proposed SMFP.