

Acute Care Services Committee
Agency Report for
Petitions Regarding Policy AC-3 in the
Proposed 2012 State Medical Facilities Plan

Petitioner 1:

Duke University Health System d/b/a Duke University Hospital
2301 Erwin Road
Box 3708 DUMC
Durham NC 27710
Kevin Sowers, RN, MSN, FAAN, President

North Carolina Baptist Hospital
Medical Center Boulevard
Winston-Salem, North Carolina 27157
Donny C. Lambeth, President

University of North Carolina Hospitals
3rd Floor, Med Wing E
Campus Box 7600
Chapel Hill, N.C. 27514
Gary L. Park, President

Pitt County Memorial Hospital
2100 Stantonsburg Road
Greenville, NC 27835
Stephen J. Lawler, President

Petitioner 2:

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

Requests:

The petition from Duke University Hospitals, North Carolina Baptist Hospital, University of North Carolina Hospitals, and Pitt County Memorial Hospital proposes that Policy AC-3 be amended such that: (1) the State Health Coordinating Council (SHCC) would designate an entity as a new Academic Medical Center (AMC) based on a submitted petition; (2) exemptions from need determinations in the State Medical Facilities Plan (SMFP) would be granted to projects from designated AMCs that meet certain criteria and conditions; (3) projects would be required to demonstrate that the need can not be met “in a cost-effective and clinically efficient manner” at another facility that offers the service and is within 20 miles of the AMC; (4) annual utilization reports would be required; and (5) all services and equipment developed from approval of AC-3 projects would not be included in the SMFP inventories and utilization tables.

Novant Health proposes that the SHCC repeal or revise Policy AC-3 in the 2012 SMFP. “Under Novant’s proposal, there would be no more AC-3 exemptions from need determinations in the SMFP. Rather, a special needs petition would need to be filed by the AMC, and if approved, a special need determination would be placed in the SMFP...” (petition, page 5). If there is a surplus of the requested service or equipment in the county or within 20 miles of project, the special needs petition must demonstrate why there is a need, and how it does not conflict with certificate of need statutes. Anyone may apply for the need. Academic Medical Centers would be required to report inventory, procedures or cases, and patient origin, and provide annual reports for the first five years of project. Also, the Department [DHHS] should adopt special rules concerning the review and award of Academic Project applications.

Background Information:

Policy AC-3 states that certificate of need projects submitted by AMCs designated as AMCs before January 1, 1990 may qualify for exemption from SMFP need determinations, if certain conditions are met. 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” (2011 SMFP, page 22).

Analysis/Implications:

The petitioners have requested modifications to Policy AC-3 that likely will have a significant affect on academic medical centers and healthcare services in North Carolina. The changes recommended by both petitioners, if approved, would have a statewide effect and have been timely filed, in accordance with procedures set forth in Chapter Two of the SMFP.

Agency Recommendation:

Given that the petitions seek changes in Policy AC-3 that would have substantial statewide impact, the Agency recommends that a workgroup be established to allow for adequate discussion and study of all aspects of this issue by SHCC members and the public.