

An Evaluation of Illinois' Certificate of Need Program

A study of The Lewin Group by
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Agenda

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- ◆ Benchmark States
- ◆ Interpretation of National Literature
 - CON and Market Structure
 - CON and Market Performance (cost, quality, & access)
- ◆ Recommendations
- ◆ Conclusions

Purpose of Our Study

- ◆ To “conduct a comprehensive evaluation of the Illinois Health Facilities Planning Act to determine if it is meeting the goals and objectives...with special consideration for its affect on controlling unnecessary and excessive capital expenditures that may be contributing to health care inflation.”
- ◆ Legislative “sunset” provision extended to April 1, 2007, allowing for further evaluation of the program.

Methodology

- ◆ Interviewed industry stakeholders and leaders to determine how effective the Illinois Health Planning Board has been from varying industry standpoints.
- ◆ Conducted literature review on other state CON programs, as well as literature that pertains to cost, quality and access.
- ◆ Performed selected quantitative analyses.

Illinois CON Program

- ◆ Established the Health Facilities Planning Board comprised of 5 members to oversee CON applications.
- ◆ Regulates capital expenditures by health care facility, bed expansions in existing facilities, and numerous categories of service.
- ◆ Funded solely by application fees, ranging from \$2,000 to \$100,000, conditional on project type.

Benchmark States

- ◆ Illinois' CON program is designed and operates similarly to benchmark states, including Washington, Michigan, Virginia and New York.
- ◆ Benchmark states had CON approval rating comparable to Illinois, with states ranging from 82-91% for 2002-2006, and Illinois' at 92% .
- ◆ CON rarely reduces health care costs in benchmark states, with the potential to increase costs in some situations.
- ◆ Attempts to maintain health care access to all populations has been only marginally beneficial for the benchmark states.

Interpretation of National Literature: CON and Market Structure

- ◆ Specialty providers might undercut community hospital's ability to serve indigent patients.
- ◆ Specialty hospitals
 - Disproportionately are for-profit and have physician owners.
 - Tend to serve profitable patients, for various reasons.
 - In non-CON states (if established since 1990).
 - May be more efficient than community hospitals, but evidence is inconclusive.
 - Have quality that is equal to or higher than community hospitals'.
 - By injecting competition into market place, may enable payers to lower unit payment.

Interpretation of National Literature: CON and Market Structure (cont'd)

- ◆ Ambulatory surgery centers (ASCs)
 - In CON states, market share of hospital outpatient departments is moderately higher and share of ASCs is moderately lower.
- ◆ Conclusion: CON states have fewer specialty providers and ASC

Interpretation of National Literature: CON and Market Structure (cont'd)

- ◆ CON laws are designed to contain costs by regulating capacity.
- ◆ Lewin Group analyzed national data on number of beds by hospital relative to “optimal” occupancy.
- ◆ Surplus beds (as a % of staffed beds) were higher in non-CON than in CON states.
- ◆ Conclusion: CON limits bed capacity.

Interpretation of National Literature: CON and Market Performance

- ◆ Cost Containment
 - Most recent work: Little, if any, impact on cost.
 - Little recent work has been done assessing CONs ability to reduce health care expenditures per capita.
 - States that have removed CON did not experience a rise in spending on costs relative to other states.
- ◆ Quality of Care
 - Argument: CON limits number of facilities performing tertiary procedures, which concentrates procedures in a few facilities. Because “practice makes perfect,” quality is improved.
 - Research is largely limited to cardiac procedures (e.g., CABGs).
 - Conclusion: CON may lower mortality slightly but findings are mixed.

Interpretation of National Literature: CON and Market Performance (cont'd)

- ◆ Access to care.
 - Lewin Group analyzed Medicare data on hospital margins.
 - Hospital margins are lower in CON states.
 - Safety-net hospitals have somewhat lower margins in CON states, contrary to the argument that CON protects those hospitals.
 - Replication of these results would further weaken the arguments supporting CON.

CON Status	Non-Safety-Net		Safety-Net	
	n	Total Margin	n	Total Margin
Non-CON	1,254	5.8%	375	3.2%
CON	1,299	4.0%	384	1.3%
ALL	2,553	4.8%	759	2.1%

Source: The Lewin Group analysis of Medicare Cost Report data, 2003 - 2005

Interpretation of National Literature: Implications for Policy

- ◆ CON impacts market structure:
 - Limits number of specialty providers.
 - Limited bed capacity.
- ◆ CON does not substantially impact market performance.
 - Has little or no ability to control health care expenditures.
 - May have minor impact on quality of care.
 - But does redistribute expenditures among providers, especially from potential new providers to incumbents.
 - Tentatively, does not maintain access to care by protecting safety-net hospitals.

Recommendations

1. Extend CON program for 3 years.
 - During this period, review evidence on CON's impact on safety-net hospitals.
2. Evaluate other policies that support safety-net hospitals.
 - E.g., Critical Hospital Adjustment Payment (CHAP) program.
3. Consider a more proactive charter for Health Facilities Planning Board.
 - Role of safety-net hospitals.
 - Role of specialty hospitals.
 - Distribution of care across providers.

Recommendations (cont'd)

4. Modify board membership.
 - Increase board size.
 - Recruit members with expertise in health care industry.
5. Consider compensating for board members for their extensive time commitments.
6. Focus the workload of the board, which should:
 - Review new facilities, perhaps exclusively.
 - Monitor the viability of safety-net hospitals.

Conclusions

- ◆ Traditional rationales for CON are not justified by evidence.
 - CON has little or no impact on unnecessary and excessive capital expenditures and inconclusive evidence on quality.
 - CON may affect market share across providers,
- ◆ Nontraditional rationales for CON deserve consideration, especially in an uncertain world.
 - Safety-net hospitals may need protection, although explicit transfers of funds maybe more direct policy tools.
 - Specialty providers may threaten community hospitals, but evidence thus far is inconclusive.
- ◆ The relative balance between the potentially harmful effect on community hospitals as opposed to the beneficial effect on competition has yet to be ascertained.