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ST. PAUL/RAMSEY MEDICAL CENTER

Report Prepared January, 1982
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ST. PAUL/RAMSEY MEDICAL CENTER

I. INTRODUCTION

The Board of Ramsey County Commissioners and the County Executive Director are increasingly concerned about the level of County direct and indirect funding required for the St. Paul/Ramsey Medical Center. They have asked for a report which offers some explanation of the increasing costs and suggestions for further analysis.

II. BACKGROUND - THE COST OF HEALTH CARE

Health care has traditionally been provided by individual practitioners who both served the individual and received payment based on an individual's specific situation. Health care was neither expensive nor sophisticated.

A. Increasing Cost

Government, insurance companies, and other third party payers have made payment for health care more certain and more frequent. Government support of health care (and health care providers) has become especially significant since the advent of Medicaid and Medicare programs in 1966. Today one dollar out of every ten dollars spent in the United States is spent for health care. Most would agree that our country's health care has also improved. Increasingly sophisticated and expensive medical technology, the use of highly trained and expensive personnel, and the overall effects of inflation have contributed to a dramatic increase in the cost of health care.

B. Method of Delivery

Concomitant with increased spending for health care is a shift inthe method of health care delivery. Traditionally, health care has been delivered in an individual's home, private practitioner's office, or charitable hospital. Perhaps the most significant change in health care delivery has been the rapid expansion of the profit-making corporate delivery of health care.

1. For Profit Health Care

A recent issue of the U.S. NEWS AND WORLD REPORTS describes how earnings for profit-making hospitals in the U.S. has increased from 1.9 billion dollars in 1970 to an estimated 16.4 billion dollars in 1981, an increase of 763% during this period. This increase in earnings is especially significant when one considers that the number of hospital beds managed by profit-making hospitals has only doubled in the same period. The article went on to explain that: "All in all, most health care leaders applaud the sophisticated efficiency that corporate management can bring to health care. Nevertheless, they worry that bottom-line medicine may divide the country's health care system between hospitals in the black, which consist mostly of proprietary and community hospitals, and those in the red - mostly public institutions and many urban teaching centers."

2. For Profit Management of Public Facilities

Profit-making concerns have also taken over the management of public institutions. Generally, people are impressed with the management expertise employed by the profit-making firms, but it should be noted that while previously debt-ridden hospitals "have gone in the black" as a result of their management efforts, other consequences result. Shortly after Hyatt Medical Management Services took over the management of Cook County Hospital in Chicago on a consultant basis, room rates were raised by 40% and cash flow was improved by hiring more personnel to process Medicaid claims.

C. Less Public Funding of Health Care

The principal form of public funding for health care is through the assumption of financial responsibility for the health care of the indigent. This public policy is now being questioned. The rapidly increasing cost of health care has squeezed the State and Federal programs which pay for the medical care of indigents beyond the level the political leadership may be willing to pay. During the last legislative session, the State of Minnesota increased its efforts to control the State's share of cost for services to the medically indigent. The State's cost-cutting efforts concentrated on shifting the responsibility for payment from the State to the counties. The State's efforts did little to affect the

cost of care, rather it compounded the financial difficulties of Minnesota Counties, particularly those with large public hospitals. Public funding of health care will be considered further during the discussion of the Medical Center's role as a Charitable Hospital.

III. ST. PAUL/RAMSEY MEDICAL CENTER - AN OVERVIEW

A. The Medical Center Commission

The St. Paul/Ramsey Medical Center is governed by a 13-member commission consisting of four members of the Board of Ramsey County Commissioners and nine citizen members who are nominated by the legislators representing the 9 State Senate and House Districts in Ramsey County for appointment by the Board of County Commissioners.

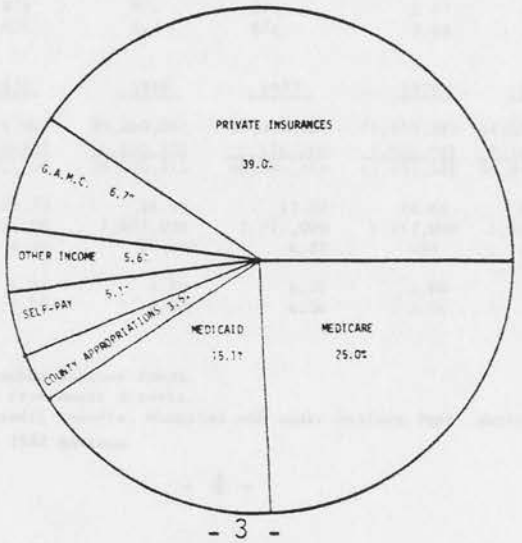
B. Bed Capacity and Staffing

The Medical Center began as a ten-room stone City-County Hospital in 1872. It has evolved from the small City-County Hospital serving the residents of St. Paul and Ramsey County to a fully developed medical center, serving a wide community. The Medical Center has a licensed bed capacity of 455 and staffing for 418 beds. In addition, many people are served on an ambulatory basis - annually more than 300,000 examinations.

C. Budget

The Medical Center's annual operating budget is in excess of $70,000,000. Over 25% of this amount was provided through Ramsey County administered programs (General Assistance Medical Care and Medicaid) and direct County appropriations.

1981 ST. PAUL/RAMSEY MEDICAL CENTER CASH INCOME



It is not expected that operation "in the black" will continue in 1981 or 1982. The direct contribution to the Medical Center authorized by the Board of Ramsey County Commissioners is $6,245,352 for 1982. Of this amount, $673,000 is budgeted for 1981 deficits caused by reduced State funding of medical care for the indigent, $2,916,000 is budgeted for similar shortages in 1982, $2,550,952 is budgeted for payment of uncollectible accounts and $106,400 is budgeted for a community paramedic program.

The 1980 direct County payment (for uncollectible accounts) was $2,100,000. The 1982 direct contribution to the Medical Center, if expended, represents a $4,146,352, or 197% increase.

Ramsey County also pays for the retirement of the bonds which financed construction of the Medical Center. The 1982 payment requires a property tax levy of $1,089,640. The City of St. Paul has also levied $252,363 for 1982 payment on the same bonds.

The following chart outlines the extent of direct Ramsey County subsidy for the Medical Center since 1971 (excluding bond payments):

ST. PAUL RAMSEY MEDICAL CENTER

TOTAL REVENUE - COUNTY APPROPRIATION

	1968	1969	1970	1971	1972	1973	1974
Patient Revenue	N/A	N/A	16,901,250	16,653,043	16,998,077	19,023,101	21,082,780
Other Income			434,446	630,178	1,309,569	1,545,113	1,500,862
Total Income	N/A	N/A	17,335,696	17,283,221	18,307,646	20,568,214	22,583,642
% Increase			N/A	(.30)	5.92	12.35	9.79
County Appropriation	-0-	-0-	-0-	979,300	898,000	1,291,000	1,619,836
% Increase (Decrease)			N/A	100.00	(8.30)	43.76	25.47
% Total Income	N/A	N/A	N/A	5.67	4.91	6.27	7.17
% Patient Income	N/A	N/A	N/A	5.88	5.28	6.79	7.68

	1975	1976	1977	1978	1979	1980	1981
Patient Revenue	26,170,068	33,460,041	39,348,066	45,855,391	54,578,453	64,729,847	72,212,490
Other Income	1,552,632	1,510,770	1,576,390	1,882,197	2,365,267	3,407,453	3,850,754
Total Income	27,722,700	34,970,811	40,924,456	47,737,588	56,943,720	68,137,300	76,063,244
% Increase	22.75	26.14	17.02	16.64	19.28	19.66	11.63
County Appropriation	1,722,200	1,607,000	1,717,000	1,717,000	1,717,000	2,100,000	2,439,000
% Increase (Decrease)	6.31	(6.69)	6.85	-0-	-0-	22.31	16.14
% Total Income	6.21	4.59	4.20	3.60	3.01	3.08	3.21
% Patient Income	6.58	4.80	4.36	3.74	3.15	3.24	3.37

NOTE:
1) Excludes Grant & other purpose funds.
2) Information taken from Audit Reports.
3) 1968 & 1969 - No audit reports, Hospital was under Welfare Dept. during this period.
4) Estimate used for 1981 Revenue

D. The Role(s) and Service Delivery Area of the Medical Center

The community service programs of the Medical Center have broadened over time to include roles as a regional medical center and as a medical education and research institution. The Medical Center has also expanded its scope to serve not only the residents of St. Paul and Ramsey County but to provide services to people from throughout the metropolitan area, Minnesota and Wisconsin, and the upper Midwest. Minnesota Statute states that the Medical Center "shall provide hospital and medical services for the general public, including the indigent, the contagiously ill, catastrophically injured and City and County prisoners, and shall maintain the hospital as a research and teaching institution". The Medical Center's formal mission statement accurately described its expanded goals, "to provide for today's health care needs in a comprehensive and compassionate manner and to build for tomorrow's needs through medical education and research".

1. ST. PAUL/RAMSEY MEDICAL CENTER - A Charitable Hospital

The Statute which requires that the Medical Center serve "the general public, including the indigent" is interpreted as a mandate to serve all who seek services of the Medical Center regardless of the ability to pay.

There are three principal means of payment by Ramsey County for care to the indigent at the Medical Center - Medical Assistance, General Assistance Medical Care, and direct Ramsey County payment for uncollectible accounts.

a. Medical Assistance

Medical Assistance, also known as Medicaid, M.A., and Title 19, is a Federal Program for the care of the medically indigent in Minnesota. Most non-hospital health care providers are paid at a rate equal to 50% of what a State survey determines to be the "usual and customary charges" paid for the service in some previous year. The providers are now paid based on 1978 rates. Hospitals are paid at a rate determined through the use of a complex cost-finding formula developed by the Federal Government. The formula does attempt to consider cost factors differing among hospitals so there are some differences in the rate paid. Currently, the Medi-

caid formula allows payment of only 82% of the Medical Center cost to provice services. The State Legislature has imposed an 8% cap for increase in hospital charges regardless of the cost of care. The Medical Center staff estimates that by the end of the biennium only 71% of Medical Center costs will be paid for services provided under Medical Assistance.

Medical Assistance payments are split between the Federal Government 54%, State Government 41%, and County 5%. 15% of Medical Center billings are paid through the Medical Assistance Program. The County share of Medicaid cost at the Medical Center is, therefore, about $525,000. Proposals by the current State Administration would double the County contribution. It should be noted that most of these costs would be incurred by the County even if the recipients chose another health care institution since Medical Assistance payments remain the responsibility of the recipient's county of residence.

b. General Assistance - Medical Care

General Assistance Medical Care, also known as GAMC, refers to a State program for the medically indigent who are not eligible for Medical Assistance. Minnesota now pays non-hospital health care providers at a rate equal to 50% of what a State survey determines to be the "Usual and customary" charges paid in some previous year. Providers are now paid based on 1978 rate.

The State of Minnesota also uses a cost-finding formula what it considers the cost for hospitals to provide service under the General Assistance Medical Care Program. When the State determines what it considers the cost of service to be, 25% is deducted from the billing for outpatient services, 35% is deducted from the billing for inpatient hospital care and 45% is deducted from billing for psychiatric and chemical dependency care. The 45% deduction from the cost of providing psychiatry and chemical dependency care is especially significant at the Medical Center since 43% of GAMC recipitnts treated at the Medical Center are treated for psychiatry or chemical dependency care. Program costs are split between the State (90%) and the County (10%). 7% of Medical Center billings are paid through the General Assistance-Medical Care program. The County

share of General Assistance-Medical Care costs at the Medical Center is about $490,000. These costs would also be incurred by the County even if the recipients were to receive care at another health care facility in Ramsey County.

c. Uncollectibles

Uncollectibles, as the name infers, are accounts for which no payment can or will be received. The Medical Center estimates that approximately 4.6% of patient revenue has to be considered uncollectible due to:

1. the inability of the near poor to meet the obligation

2. bad debts resulting from patients' mismanagement of their own funds.

As one might expect, public hospitals serving poor people have worse bad debt experience than non-public community hospitals serving a more wealthy clientele. A recent survey of hospitals similar to the Medical Center shows uncollectible rates of 7.8% to 16% of gross revenue. In contrast, non-public community hospitals bad debt experience rarely exceeds 2%.

The Ramsey County Board has an informal policy of budgeting the receipts of one mill of taxation for uncollectible accounts at the Medical Center. This amounts to approximately 2.5 million dollars per year. Not all uncollectible accounts are paid by Ramsey County. Certain accounts deemed uncollectible or are "written off" as part of the Medical Center cost of doing business while other accounts are written off as part of the Medical Center's obligation to serve the indigent under the Federal Hill-Burton Act. If an amount is collected through the efforts of a collection agency or by some other means after it has finally been declared uncollectible, (regardless of how it was originally written off), the amount is credited to the Ramsey County contribution. The write-off schedule on the following page was prepared for Medical Center consideration in December 1981.

PROPOSED WRITE-OFFS FOR DECEMBER 1981

	SPRMC UNCOLLECTIBLE	SPRMC HILL-BURTON	SPRMC GAMC CONTINGENCY	RAMSEY COUNTY UNCOLLECTIBLE	CREDITS	NET RAMSEY COUNTY UNCOLLECTIBLE	TOTAL
Budget and Estimated Amounts for 1981	$1,161,085.00	$279,000.00	$673,000.00	N/A	N/A	$2,039,000.00	$4,152,085.00
Approved Write-Offs For February 1981	35,007.27	19,304.62		$257,302.24	$20,525.88	236,776.36	291,088.25
Approved Write-Offs For March 1981	25,174.33	25,100.07		166,860.93	34,508.56	132,352.37	182,626.77
Approved Write-Offs For April 1981	59,037.66	10,557.56		215,454.60	44,734.81	170,719.79	240,315.01
Approved Write-Offs For May 1981	29,504.24	18,452.72		199,082.69	39,147.24	159,935.45	207,892.41
Approved Write-Offs For June 1981	33,686.49	17,037.23		229,921.05	42,792.37	187,128.68	237,852.40
Approved Write-Offs For July 1981	42,193.80	21,956.85		227,206.61	60,021.95	167,184.66	231,335.31
Approved Write-Offs For August 1981	31,206.90	23,118.67		213,545.89	43,297.68	170,248.21	224,573.78
Approved Write-Offs For September 1981	19,743.80	24,669.59	19,302.87	246,349.49	23,074.11	223,275.38	286,991.64
Approved Write-Offs For October 1981	36,171.57	17,179.75	57,211.87	183,890.30	33,726.75	150,163.55	260,726.74
Approved Write-Offs For November 1981	16,534.50	27,031.88	37,851.83	175,584.31	18,455.62	157,128.69	238,546.90
Proposed Write-Offs For December 1981	42,847.34	27,011.09	64,635.18	263,558.60	43,154.39	220,404.21	354,897.82
Total Write-Offs	371,107.90	231,420.03	179,001.75	N/A	N/A	1,975,317.35	2,756,847.03
Ending Balance	789,977.10	47,579.97	493,998.25			63,682.65	1,395,237.97

The above charge-offs have been reviewed and all abortion-related charges have been reclassified from Ramsey County Uncollectibles (Reimbursed by Ramsey County) to the SPRMC Uncollectible category. still collect??

d. Other Ramsey County Support

The Ramsey County Board has budgeted an additional 3.5 million dollars for anticipated shortfalls in Medical Assistance and General Assistance Medical Care payments. This amount does not contemplate efforts by the current State administration to further shift the burden for healthcare for the indigent to the larger Minnesota Counties.

Shortfalls at St. Paul/Ramsey Medical Center caused by inadequate Medical Assistance or General Assistance Medical Care payments and uncollectible accounts are directly paid by Ramsey County taxpayers regardless of where the the individuals receiving care reside. Although comparative data are not available, to some extent, health care is also given to Ramsey County residents in other counties.

2. ST. PAUL/RAMSEY MEDICAL CENTER - A Regional Medical Center

The Medical Center's role as a regional medical center is most visible through the provision of emergency services. The St. Paul/Ramsey Medical Center is the designated center for trauma (accidents), burn, poison treatment and medical control serving the East Metro Area and Western Wisconsin.

Less well-known,but certainly of major importance throughout the Upper Midwest,is St. Paul/Ramsey's role as a backup to other medical facilities. The Medical Center's role as backup facility is manifested in two ways: 1) people who probably cannot pay are referred to the Medical Center since, by law, it must accept everyone regardless of ability to pay; and 2) particularly difficult (and expensive) cases are transferred to the Medical Center to take advantage of the high quality (teaching) staff assembled there.

In addition to the above-listed services, the Medical Center offers service in a great number of medical specialties, including internal medicine, pediatrics, obstetrics, gynecology, dermatology, neurology, psychiatry, chemical dependence, neuro surgery, otolaryngology, physical medicine, orthopedic services, urology, ophthalmology, surgery and dentistry.

3. ST. PAUL/RAMSEY MEDICAL CENTER - A Medical Education and Research Facility

The 1980 Medical Center Report states that "St. Paul/ Ramsey Medical Center is a teaching hospital. Its commitment to health education extends to patients, physicians, nurses, and other health professionals and the community." 154 full and part-time medical staff members are also members of the faculty of the University of Minnesota Medical School. 80 Medical School undergraduates also study at the hospital. In addition, other students from a five state area receive postgraduate training in pharmacy, public health, dentistry and nursing. Training programs are also available to nurse anesthetists, dieticians, and technicians in radiology, opthamology and medical technology. The Medical Center administration believes that this concentration of top quality medical professionals add a base of experience and specialized knowledge upon which one of the nation's finest medical centers is built.

During 1980 over 170 research projects were in progress at the Medical Center. 102 papers were published, and 97 research presentations were made at seminars and meetings. About half of the research projects at St. Paul/Ramsey were funded by a foundation affiliated with the Medical Center (Medical Education and Research Foundation or MERF) with the remainder funded by grants of government agencies or private foundations. MERF will be discussed later in more detail.

Regardless of the benefits derived from the Medical Center being a teaching and research center, it must be recognized that costs are higher at the Medical Center, at least in part, as a result of the Medical Center assuming this role. A recent publication of the Association of American Medical Colleges points out that "teaching hospital costs are higher than those of non-teaching hospitals of similar size by almost any commonly used yardstick - total cost, per diem cost, cost per admission, or a cost per case for particular diagnosis. Moreover, it is essential to note that no matter how efficient or well-managed a teaching hospital is, it is unlikely that these average costs will ever be lower than those of other hospitals." (emphasis added)

The chart on the following page illustrates a "market basket comparison" of hospital costs given various primary diagnoses. There may be some dispute regarding the universal validity of the results given the group of patients studied (Medicare recipients) and the intensity or complications associated with the individual diagnosis, but the chart nevertheless represents a reasonable basis for comparison of hospital charges among hospitals.

The St. Paul/Ramsey market basket cost ($25,866) and average cost per diagnosis ($2,867) is somewhat high when compared to the average of surveyed hospitals (market basket $19,384, market basket per diagnosis $2,234). The St. Paul/Ramsey costs would be considered low when compared to other Twin Cities major teaching hospitals, University of Minnesota (market basket $31,229, per diagnosis $3,469), Hennepin County Medical Center (market basket $37,152, per diagnosis $4,128).

The Medical Colleges article offers four reasons for the added costs in a teaching hospital.

a. Education

Health economists and others are debating over the "teaching effect" and the degree to which it contributes to the ordering of unnecessary lab tests, X-rays, excessive lengths of stay and generally lower productivity. Regardless of the validity of the arguments made regarding the financial impact of the "teaching effect", teaching hospital personnel constantly face the conflict of scholarly pursuit of knowledge and business pursuit of capital. What may be a perfectly logical, methodical, and reasoned approach to an individual case from the viewpoint of a teacher and/or student may well be viewed as inefficient or wasteful from a business point of view. Other more direct costs can be attributed to education. The Association of Medical Colleges article lists: "house staff stipends and benefits, compensation for physicians supervising residents and teaching medical students; the salary of the director of medical education or other individuals performing this function; the costs of any meals, laundry, and lodging provided to students, residents, or fellows; and the costs of any educational space, equipment, and supplies."

Average Charge Billed for Selected Diagnoses (MEDICARE PATIENTS ONLY)

	Malignant Cancer of the large intestine, surgically treated	Malignant cancer of the breast, surgically treated	Malignant cancer of the bladder, surgically treated	Senile cataract, surgically treated	Essential benign hypertension, medically treated	Inguinal hernia, medically treated	Diverticula of colon, medically treated	Urinary tract infection, medically treated	Hyperplasia of prostate, surgically treated		MARKET BASKET	MARKET BASKET PER DX
Abbott-NW	$ 4,880 (47)	$2,714 (64)	$1,518 (78)	$1,163 (743)	$1,530 (74)	$1,781 (77)	$1,319 (75)	$2,027 (45)	$2,783 (134)	---	$19,715	$2,190
Bethesda	4,079 (29)	2,465 (8)	1,920 (27)	1,476 (56)	1,487 (41)	1,435 (27)	1,407 (22)	1,704 (24)	2,281 (53)	---	18,254	2,028
Divine Redeemer	4,740 (2)	2,449 (5)	2,475 (10)	1,795 (7)	1,824 (6)	1,766 (14)	1,219 (4)	1,325 (3)	2,449 (28)	---	20,042	2,226
Eitel	6,076 (10)	3,290 (11)	1,744 (22)	1,168 (142)	1,043 (9)	1,462 (17)	1,270 (13)	1,305 (5)	2,319 (41)	---	19,677	2,186
Fairview-Mpls.	6,350 (6)	2,121 (8)	1,939 (39)	1,205 (13)	1,624 (5)	1,203 (29)	942 (16)	1,725 (5)	2,311 (48)	---	19,420	2,157
Fairview-South	3,015 (6)	1,930 (27)	1,589 (48)	1,050 (348)	1,262 (12)	1,110 (44)	1,237 (51)	1,509 (9)	2,161 (88)	---	14,863	1,651
Forest Lake	2,613 (4)	1,832 (1)	1,658 (1)	--- (---)	716 (7)	2,019 (5)	1,184 (7)	597 (3)	1,975 (2)	---	12,594	1,574
Golden Valley	--- (---)	--- (---)	--- (---)	--- (---)	1,642 (3)	1,462 (3)	--- (---)	1,568 (6)	3,195 (2)	---	7,867	1,966
Hastings	3,446 (3)	2,016 (1)	967 (2)	1,238 (33)	735 (3)	1,210 (6)	3,697 (1)	1,217 (1)	1,554 (8)	---	16,080	1,786
Henn. Cty. Med. Ctr.	11,082 (6)	5,173 (11)	3,579 (15)	3,360 (53)	2,236 (19)	2,805 (19)	2,106 (3)	2,683 (28)	4,128 (36)	---	37,152	4,128
Luth. Deaconess	9,022 (1)	2,623 (5)	1,433 (19)	1,819 (24)	2,166 (9)	1,641 (20)	2,091 (13)	2,425 (8)	3,270 (28)	---	26,490	2,943
Mercy Medical Ctr.	5,705 (12)	1,931 (5)	4,311 (9)	1,575 (43)	1,174 (9)	1,387 (15)	1,130 (13)	1,248 (16)	2,692 (39)	---	21,153	2,350
Methodist	4,195 (27)	2,450 (27)	1,398 (27)	952 (69)	1,218 (30)	1,259 (45)	1,255 (26)	1,437 (31)	1,859 (87)	---	16,023	1,780
Metro. Med. Ctr.	6,206 (27)	3,399 (36)	3,109 (38)	1,268 (248)	1,469 (37)	1,918 (52)	1,142 (77)	2,187 (20)	2,501 (90)	---	23,199	2,577
Midway	5,105 (19)	2,565 (25)	3,041 (28)	1,358 (84)	1,305 (48)	1,273 (43)	1,152 (42)	1,332 (21)	2,039 (67)	---	19,170	2,130
Mounds Park	3,642 (6)	2,242 (9)	2,457 (5)	1,283 (141)	1,598 (7)	1,649 (16)	1,543 (17)	1,535 (14)	2,421 (11)	---	18,370	2,041
Mount Sinai	7,023 (6)	3,145 (25)	1,584 (50)	1,502 (195)	1,522 (14)	2,320 (29)	2,415 (11)	2,185 (18)	2,533 (72)	---	24,229	2,692
New Prague	872 (3)	1,631 (3)	652 (7)	--- (---)	1,408 (7)	1,143 (18)	1,327 (8)	1,071 (3)	1,029 (3)	---	9,133	1,141
North Memorial	3,790 (25)	1,805 (15)	1,262 (53)	861 (153)	1,306 (39)	1,273 (71)	1,204 (33)	2,607 (22)	1,343 (80)	---	15,951	1,772
Ramsey	5,435 (8)	3,181 (7)	4,998 (9)	1,671 (38)	1,055 (4)	1,846 (11)	1,093 (2)	2,086 (16)	4,141 (26)	---	25,806	2,867
Riverdale Memorial *	5,396 (1)	1,846 (1)	--- (---)	--- (---)	729 (3)	1,625 (3)	1,573 (2)	1,849 (3)	3,312 (7)	---	16,330	2,332
Saint Francis	4,955 (3)	1,904 (9)	940 (8)	1,149 (52)	1,076 (8)	1,771 (14)	1,020 (6)	1,842 (6)	1,962 (25)	---	16,619	1,846
Saint John's	5,071 (19)	2,642 (22)	2,934 (23)	1,319 (37)	1,311 (27)	1,619 (28)	998 (22)	2,163 (12)	2,475 (54)	---	20,532	2,281
Saint Joseph's	7,724 (15)	2,935 (18)	2,501 (17)	1,277 (185)	1,445 (20)	1,459 (21)	1,014 (19)	2,153 (19)	2,468 (56)	---	22,976	2,552
Saint Mary's	5,424 (14)	2,142 (25)	1,308 (39)	1,266 (50)	1,674 (16)	1,564 (22)	2,529 (6)	2,136 (9)	2,115 (39)	---	20,158	2,239
Sanford Memorial	4,592 (1)	1,740 (2)	--- (---)	--- (---)	1,392 (2)	1,066 (5)	590 (4)	--- (---)	1,567 (8)	---	10,947	1,824
Stillwater	3,201 (9)	1,653 (8)	782 (3)	822 (97)	797 (4)	1,397 (13)	544 (4)	1,189 (9)	1,454 (11)	---	11,839	1,315
United	8,469 (33)	3,485 (31)	1,882 (34)	1,300 (239)	1,302 (54)	1,826 (48)	1,483 (84)	1,840 (37)	3,101 (125)	---	24,988	2,776
Unity	5,947 (7)	1,699 (6)	4,626 (10)	1,462 (164)	1,201 (11)	1,862 (22)	1,304 (8)	1,459 (7)	2,379 (52)	---	21,939	2,437
U of M	5,773 (31)	4,304 (34)	6,707 (36)	1,623 (45)	1,782 (11)	2,623 (15)	1,016 (3)	2,891 (3)	4,910 (64)	---	31,229	3,469
Waconia	6,913 (4)	1,924 (7)	951 (27)	1,215 (21)	1,078 (8)	1,102 (23)	1,303 (9)	1,710 (7)	1,960 (39)	---	18,186	2,020
** Average	5,358	2,507	2,296	1,391	1,358	1,608	1,403	1,766	2,525		19,384	2,234

* Now Closed

SOURCE: State Planning Agency

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b. Intensity of Care

Intensity of care refers to the same phenomenon which was described earlier as part of the hospital's backup role to other hospitals in the region More seriously ill patients requiring more intensive or skilled care are often referred to a teaching hospital because of the high quality staff and facilities available there. It is argued that "while a non-teaching hospital and a teaching hospital may both have coronary care units, the teaching hospital is more likely to treat the patient who has more serious complications".

The following is a comparison of 20 leading diagnoses for St. Paul/Ramsey Medical Center and all Metropolitan Hospitals. The first column lists the 20 most frequent diagnoses at the Medical Center. The second column offers the 20 most frequent diagnoses for all Metropolitan hospitals. The numbers in parentheses is the second column representing the equivalent rant (if any) at the Medical Center.

COMPARISON OF 20 LEADING DIAGNOSES
SAINT PAUL-RAMSEY AND ALL METROPOLITAN HOSPITALS - 1977
SOURCE: Foundation for Health Care Evaluation

Saint Paul-Ramsey	All Metropolitan Hospitals*
1. Newborn, single, term, spontaneous	Single term hospital newborn (1)
2. Other and unspecified alconolism	Normal delivery (4)
3. Concussion	Cholecystitis and/or cholelithiasis
4. Normal delivery	Senile and unspecified type cataracts
5. Other therapeutic abortion	Chronic ischemic heart disease
6. Other and unspecified epilepsy	Hypertrophy of tonsils and adenoids
7. Congestive heart failure	Displacement of lumbar & lumbosacral disc
8. Schizophrenia, other specified Type	Inguinal hernia without obstruction
9. Schizophrenia, paranoid type	Depressive neurosis (13)
10. Chest pain	Acute myocardial infarction
11. Alcoholic addiction	Chronic alcoholism (11)
12. Angina pectoris	Congestive heart failure
13. Depressive neurosis	Abdominal pain (15)
14. Intracranial injury of other & unspecified nature	Diabetes mellitus
15. Abdominal pain	Pneumonia (19)
16. Newborn, single, term, with Caesarian section	Gastroenteritis and colitis
17. Manic-depressive illness, manic type	Intermunstrual bleeding
18. Unknown & Unspecified cause of morbidity & Mortality	Prophylactic sterilization
19. Lobar Pneumonia	Benign prostatic hypertrophy
20. Fracture of radius and ulna, lower end, closed	concussion (3)

*Number in parenthesis is equivalent rank (if any) at Saint Paul-Ramsey

c. Uncompensated Care

It was previously pointed out that the Medical Center, and other teaching hospitals, provide a great deal of charity care to both out-patients and in-patients. Charity care is often financed through higher charges to full paying patients. Therefore, while the actual cost of care may not be different for charity cases, the charges to paying patients are often higher than other facilities in the geographic area.

d. Outpatient Care

Outpatient care is often a "loss leader". The Medical Colleges article points out several possible reasons for this: public and private payment insurance programs provide insufficient or non-existent benefit coverage for ambulatory services; patients who are attracted to hospital outpatient departments are from low income groups and frequently have no insurance or poor insurance coverage, and are unable to pay for services; involvement of house officers and medical students in the delivery of ambulatory medical care reduces productivity, thus raising the "per visit" cost to the point where it is not fully reimbursable; the added education costs coupled with lower service productivity factor stated above further compound the problem; and accounting methods designed for inpatient purposes "over allocate" overhead to outpatient activity.

E. The Organizational Structure for Medical Care

The Medical Center's organizational structure for the delivery of medical care is as complex as the financial structure. As previously states, the Medical Center is governed by the Medical Center Commission.

1. The Medical Education and Research Foundation

In 1966, the Medical Education and Research Foundation (MERF) was established as a formal affiliate of the Medical Center to "promote and finance research and education, and to supplement the compensation of researchers through research and teaching grants". MERF was set up as a non-profit foundation with a non-physician board of directors. All physicians on the medical staff chose to affiliate with MERF and all physician generated fees for services provided patients were turned over to MERF who redistributed the funds for the above purposes. Since its inception in 1969, the foundation has given more than $13 million to the Medical Center.

The Medical Center and MERF maintain their working arrangement through a "Joint Liason Committee" composed of personnel from each organization. In theory each organization could terminate the affiliation agreement.

2. Ramsey Clinical Associates

In 1979, the MERF board developed Ramsey Clinical Associates (RCA) as a group practice of physicians and dentists. RCA, under a separate board but under the budgeting control of MERF, now administers both the salary supplementation of Medical Center physicians and other activities such as satellite clinics. RCA, as an independent corporation, does not limit its activities to Ramsey County or the State of Minnesota. Although associated with the Medical Center and staffed by members of the Medical Center medical staff, RCA is not controlled by the Medical Center Commission or the Board of County Commissioners. Since RCA was established, MERF limits its activity to the reception, administration and allocation of funds for medical education and research.

Currently the Medical Center's medical staff receives an average of 50% of their salary from the Medical Center for teaching and administrative responsibilities and 50% of their salary from RCA for direct patient care.

3. Health Support Incorporated

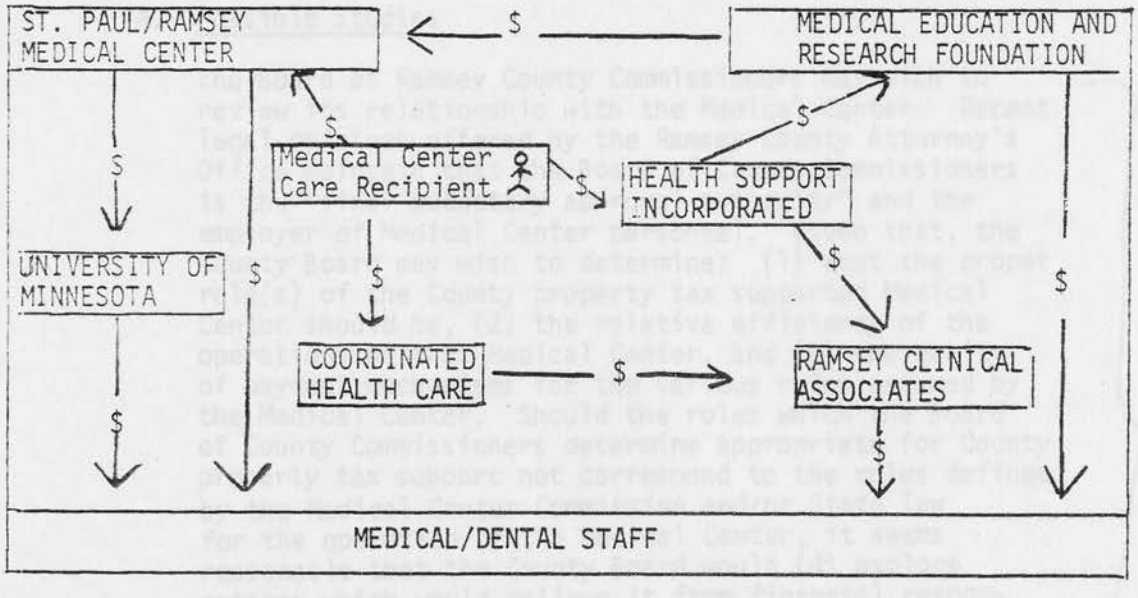
Another corporation, Health Support, Inc., was organized to collect patient fees and to provide accounting services to MERF and RCA.

4. Cordinated Health Care

The Medical Center Commission has also created a health maintenance organization called Coordinated Health Care (CHC). Under the direction of another independent board, CHC operates several clinics - including one operated in the Medical Center complex. CHC contracts with RCA for physicians services and the Medical Center for the Medical Center facility.

5. University of Minnesota

A large majority of the medical staff is part of the University of Minnesota faculty. The affiliation agreement between the Medical Center and University allows the Medical Center to pass salary funds through the University payroll. The Medical Center administration believes that it is important for accommodation and the prestige of the facility that the teaching staff receive their payment via the University.



IV. FURTHER ACTION

For 110 years the Medical Center has evolved into the complex service organization that it is today. Throughout that period, the Ramsey County Board of County Commissioners has had a direct financial interest in the facility. The financial interest continued and, given the current political philosophy of the State and federal administrations, may well expand.

The Medical Center role as community health care provider has changed both as to services provided and population served. A very complex analysis would be required to determine the cost of providing care to any one group of people or to determine the cost to fulfill any one role of the Medical Center.

The financing of hospital care has become very complex given the wide variety of payers and the methods they use in determining how much they will pay for what services. That, coupled with the complexities and levels of care found in a major teaching hospital make the allocation of costs to any one segment of the Medical Center's program an extremely difficult task.

A. Possible Studies

The Board of Ramsey County Commissioners may wish to review its relationship with the Medical Center. Recent legal opinions offered by the Ramsey County Attorney's Office maintain that the Board of County Commissioners is the "final budgetary approval authority" and the employer of Medical Center personnel. Given that, the County Board may wish to determine: (1) what the proper role(s) of the County property tax supported Medical Center should be, (2) the relative efficiency of the operations of that Medical Center, and (3) the equity of payment mechanisms for the various roles assumed by the Medical Center. Should the roles which the Board of County Commissioners determine appropriate for County property tax support not correspond to the roles defined by the Medical Center Commission and/or State law for the operation of the Medical Center, it seems reasonable that the County Board would (4) explore options which would relieve it from financial responsibility for the Medical Center and obtain the services that it deems appropriate from the most cost-effective sources available.

1. Roles

The Medical Center currently functions as a charitable hospital, regional medical center, and a medical education and research facility. The Board could determine any or all of these roles are appropriate for Ramsey County property tax support.

2. Efficiency

Typically an efficiency study is one which compares production with cost. As previously stated, it is not clear what the production would be at the Medical Center. It could be (1) the number of physicians and other health professionals "produced" for the community, (2) the number of units of medical care delivered, (3) the amount of revenue produced, (4) the number of research activities completed, (5) other factors not listed, (6) any or all of the above. In most cases, however, efficiency study is related to some unit of production which can be directly translated into revenue (profit).

Milwaukee County, Wisconsin and Cook (Chicago) County, Illinois have contracted for the revenue-producing type efficiency study. Both counties have chosen a private consulting firm to develop recommendations for the County Board.

The consulting firm looked at the County hospitals' current organization, method, procedures, staffing and workloads to determine areas for a potential improvement. Detailed reviews were undertaken of the hospitals': (1) departmental organization including management practices, statistical reporting, policies and procedures, training and scheduling policies, (2) financial policies including cash collection procedures, write-off policy and procedures, billing procedures, data processing systems and services, and previous financial studies, (3) the effect of the hospital's association with the County including effect of the Civil Service System, County Board policies, and other outside influences. There are conflicting reports regarding the "success" of the study. This study cost Milwaukee County in excess of $800,000 in 1978.

The Medical Center, has with the assistance of independent consultation, recently completed the following "efficiency" studies which are available on request.

1. Laundry - Should the Medical Center continue an inhouse laundry?

2. Energy - How might the Medical Center reduce energy cost?

3. Space Planning - What are the long and short range space needs?

4. Management Compensation - What should management be paid?

5. Billing - How should billing procedures be improved?

6. Pharmacy - How could pharmacy services be improved?

7. Laboratory - How can laboratory productivity be improved?

3. Equity

An equity study would attempt to relate the benefits derived by various sections of the community to the payment mechanism employed by the hospital-patient billings. Currently virtually all aspects of the hospital are funded through patient billing.

Several organizations are currently studying alternative appropriate funding for medical education. In Minnesota, the Minnesota Health Coalition on Costs is undertaking this review as is the Minnesota Association of Public Teaching Hospitals.

4. Other Alternatives for Health Care of the Indigents

Should the Board of County Commissioners decide that its responsibility should be limited to the care of the medically indigent, several alternatives (which may require change in State and/or Federal Laws or Regulations may be considered: (1) Contract with a health maintenance organization for the care of the medically indigent. This option the County would let the contract for the care of the medically indigent to the lowest responsible bidder. Cost factors not directly related to the cost of care of the medically indigent would not be a factor in the bidding process. (2) Bid out the various types of medical care to all types of providers regardless of HMO affiliation. This would have the same benefit listed above. (3) Seek legis-

lative approval to end all affiliation with the St. Paul/Ramsey Medical Center, but continue to pay for the care of the medically indigent through the Medical Assistance and General Assistance Medical Programs. It is unlikely that this would lessen the county expenditure for Medical Assistance or General Assistance Medical care, but it would relieve the County of any deficits which may be generated by the Medical Center. It should be noted that none of the various contracting options would be of much benefit to the County if the County remains financially responsible for the Medical Center.

B. More Study Needed? Who Should Do It?

The type of study to be done is dictated by what the Board of County Commissioners feels the legitimate role of the Medical Center to be and what the relationship of the Medical Center to the County Board should be. The question of who should conduct the study is more easily answered when the decision as to what type of study needs to be done is made. Following are several options to be considered when choosing people to conduct whatever study the County Board wishes to have done.

1. County Executive Director's Staff - there are too few staff members to conduct any sort of a major study without significant outside resources. Conclusions reached by the Executive Director's Office Staff might be considered biased toward the view of the County Board.

2. Medical Center Staff - the Medical Center has more staff than the Executive Director's Office, and any conclusions reached by the staff might be considered as biased for the view of the Medical Center Commission.

3. Independent Health Economist - this may be desirable for study of limited scope or for a study designed to identify areas for further in-depth investigation by others.

4. Request for Proposals from Major Health Care Organizations - a request for proposal is usually directed at an efficiency type study. There should be no cost for the initial analysis, but the objectivity of an organization which is looking for a possible $800,000 plus contract could be questioned.

The cost for such study is significant and should be considered once there is general agreement as to what the Medical Center is expected to accomplish.

5. Community Based Blue Ribbon Panel - this type of study group led to the current method of Medical Center structure and operation in 1968. This type of study group also led to the creation of the County Executive Director System in 1978. A blue ribbon panel could receive staff support from the Medical Center, Executive Director and/or others.