

Lovelace

Health System

Wayne Johnson
Bernalillo County Commissioner
One Civic Plaza
Albuquerque, NM 87102

February 22, 2013

Re: Responses to your Inquiries on Health Care in Bernalillo County

Dear Commissioner Johnson:

I am in receipt of your letter making inquiries and seeking advice for future health care needs of Bernalillo County from myself and Mr. Jim Hinton, the CEO of Presbyterian. Thank you for making such a request. I believe the request was made with the best interests of the county in mind, and I see every reason why all the health care organizations should work together in a spirit of cooperation to provide the best medical care at the most effective cost for the residents of this county and the state. Furthermore, we too share your concern about the need to provide quality health care to the poor and indigent. With this concern in mind, I shall now try to answer your questions and make an offer that might assist the county in saving mill levy funds. The headings below in italics are your requests for information and our responses follow underneath.

How the Affordable Care Act, also known as "Obamacare," will affect the health care environment in the next five years:

We know that this is a time of great change in our industry, and all of us who are in the business of managing health care systems are struggling to adapt to the changes and determine the outcome of the new legislation. What we do know, as far as county health care is concerned, is that the Affordable Care Act (ACA) will drive people away from hospitals and emergency rooms and towards more clinics and primary care doctors. If an additional 30 to 40 million people are now insured, those patients no longer need to use the ER and the beds available at main hospitals, as their primary source of health care. In short, our industry must shift from a paradigm of full hospitals to fewer hospital rooms and more outpatient services.

The need for more clinics in the Bernalillo County area:

There is an extensive need, especially in light of the ACA taking hold, for more clinics in the Bernalillo County area and more facilities spread out throughout the county. For one, the county transportation system is not adequate for ailing patients who must make the long trip through the county to the downtown location, often on crowded buses. And second, there is a trend towards neighborhood medicine,

which is not centralized. For these reasons and more, Bernalillo County should use some of its health care funds to promote clinics throughout the county.

The need for the \$146 million new hospital in the downtown area:

It is not up to us to determine priorities for a new hospital, but we can cite trends in the health care industry. Those trends are away from large boutique hospitals that move against the currents in the new Affordable Care Act. Large new hospitals are probably unnecessary in the next five to ten years, and also will be hard to maintain and pay for. We can tell you this as far as Lovelace is concerned – given the current health care environment, a new big hospital in the downtown area is not what is needed at this point.

The current mill levy structure and how it might be reformed

Over the past several years, Bernalillo County has addressed the health care needs of the indigent with a mill levy for health care that now stands at 6.4 mills, paid in property taxes by the residents of the county. The county has made a good faith effort to attend to these lower income people using this mill levy. Last year, the county paid \$90 million from mill levy money to be used for direct care for those who cannot afford health care. This money went directly to a sole provider, the University of New Mexico Health Sciences Center, and its hospital, University of New Mexico Hospital (UNMH).

The rationale for UNMH being the sole provider is that it is the “county hospital” and that it uses all of its mill levy money for the purpose of funding the uncompensated care for its indigent patients. However, lately it has come to light that UNMH chooses not to spend all of its mill levy money on indigent care and had announced that it plans to use some of that money for the construction of a \$146 million facility that is not meant for such patients.

Furthermore, the public has been led to believe that UNMH uses that mill levy money to care for *all* of the poor patients in this county while the other two main facilities in the area are not asked to share in that burden. This perception is incorrect. Lovelace Health System is asked to bear the burden of more than \$82 million in uncompensated care each year, while Presbyterian bears a similar amount. In short, UNMH receives the entirety of the mill levy money but Presbyterian and Lovelace must absorb millions of dollars in uncompensated care without any reimbursement from the county or any other source. Year after year, Lovelace has absorbed the cost of millions of dollars of uncompensated care from indigent patients, and we have done this without complaint.

The recent revelation that UNMH would like to use the mill levy to build a \$146 million facility “with cash” left over from mill levy payments has changed the fundamental situation. The time may have come to reasonably and equitably share the mill levy with the other health care facilities that must bear the responsibility of paying the costs of uncompensated care. It appears only fair that the mill levy money meant to cover uncompensated care begins to go to all the institutions that

pay for these costs in the first place. *It may no longer be appropriate that one institution receives the entirety of the mill levy when other institutions bear similar costs.*

We propose an equitable solution to this matter that is in line with what other governmental entities have utilized in similar situations. We propose that the health care dollars should follow the patient, no matter what health system that patient uses. It has become possible in the last decade to track patient costs and reimburse the health system that provides the service. In effect, the county health care money would go to the provider and not to one institution.

Making a total expenditure to just one institution is unfair to the other institutions that provide free care to those who cannot afford it and leads to inefficiencies in the health care system overall. UNMH's decision to use mill levy money to build a hospital not designed for the indigent is an example of that kind of inefficiency. In fact, a recent poll conducted by the Rio Grande Foundation showed that only 15 percent of Bernalillo County voters would choose a new hospital as a priority for the county. Additionally, 46 percent of these voters wanted more health care clinics.

We believe that this revenue-sharing arrangement between providers would make sense to the taxpayers of Bernalillo County, who are footing the bill because they were willing to make a significant commitment to health care for the poor. A new system of payments made to the facility that provides the care may be right, proper and equitable.

The current bed occupancy rates from the New Mexico Hospital Association:

We cannot comment on the bed occupancy numbers for other hospitals including UNMH, as that information is proprietary and can only be released by each individual hospital. However, we do not mind sharing this information with you for Lovelace facilities. Presbyterian and UNMH can share its bed occupancy as it sees appropriate, but we do believe transparency is appropriate in this situation. The Lovelace occupancy rate as stated by the New Mexico Hospital Association is 61% for the downtown Albuquerque facility.

The need for more psychiatric facilities for mental health patients, and the need for drug and alcohol facilities:

The need for more psychiatric facilities for mental health patients is well documented in Albuquerque and around the state. There are many reasons for the shortage of facilities but the main reason is the cost of these facilities and the reluctance of health insurance companies to fund these services. However, if some of the \$90 million mill levy money became available, it would be possible to create a system of clinics for mental health care, and that would go a long way towards alleviating the problem. This applies to drug and alcohol facilities as well. The need is well known. If the mill levy money was available, a huge need could be met.

The possibility of a bed-sharing agreement for the downtown Albuquerque area:

We have observed as UNMH has proposed building a \$146 million new hospital in the downtown area. It seems to us that because taxpayer money is involved in this case, the health systems ought to do their best to create the most efficient network of facilities, to minimize the costs to taxpayers. With this in mind, we have offered to enter into a bed-sharing agreement with UNMH in order to handle the overflow, if and when that overflow exists in the emergency room and in the main hospital. We are stepping forward to enter into this agreement in the spirit of cooperation that we believe all health systems should embrace. A copy of our letter outlining the bed-sharing agreement is attached.

The proper priorities for Bernalillo County going forward:

The priorities for county health care should be the indigent and the poor, and dealing with the changes coming from the Affordable Care Act. The county is in a unique position, as the governmental entity mostly responsible for providing health care for the disadvantaged. It is not too much for the county to consider a vision of the future in health care. That vision would have a series of clinics across the county. It would also have specialty clinics for behavioral services, mental health services and drug and alcohol services. This new network would adapt to the changes coming from the Affordable Care Act. There would not be large facilities that may become empty in the years to come while more insured people in outlying areas of the county cannot access the downtown. In summary, Bernalillo County should respond to the actual needs of the residents and design a system that meets their needs.

It has been a pleasure responding to your inquiries. Please feel free to contact me if you would like more information or clarification.

Sincerely,



Ron Stern
President and CEO
Lovelace Health System

Attachment: Letter to University of New Mexico Health Sciences Center on bed-sharing agreement

Lovelace

Health System

February 22, 2013

Mr. Steve McKernan
Chief Executive Officer
University of New Mexico Health Sciences System
2211 Lomas Blvd. NE
Albuquerque, NM 87106

Re: Bed-sharing Agreement between the Parties

Dear Mr. McKernan:

Over the past six months, the management at Lovelace has observed as the University of New Mexico Health Sciences Center has placed before the public a proposal to build a new \$146 million hospital in downtown Albuquerque. The rationale for this new hospital, as detailed by University of New Mexico Hospital (UNMH) has to do with the need for more hospital beds for both UNMH's Emergency Room and in the main hospital. After much reflection and discussion of options, Lovelace now is authorized to offer to UNMH a solution that may save the taxpayers \$146 million and allow for cooperation between the downtown hospitals to ensure the best health care for the people of this state.

It seems to us that the most efficient way to treat patients and save taxpayer money would be to implement a solution that will share resources between the public and private hospitals. In this way, we can foster a spirit of cooperation and in doing so demonstrate to the county and state that we have the best interests of both the patients and the taxpayers in mind when we make decisions.

With this in mind, Lovelace can now offer to enter into a bed-sharing agreement with UNMH with the purpose of taking patients when its hospital or ER are full. Our proposal is to take the overflow patients from UNMH and treat those patients at our downtown facility, Lovelace Medical Center, which is less than two miles from the current UNMH facility. We would prioritize those patients with Lovelace insurance, followed by patients with other payor sources contracted to Lovelace Health System.

In short, if UNMH has a bed occupancy problem at the ER or in the main hospital, Lovelace is willing to enter into this bed-sharing agreement to lighten the load and provide first-class patient care to the patients UNMH cannot treat. I can assure you

that Lovelace Medical Center has the space and high quality care to offer relief for UNMH's overcrowding problem in the vast majority of cases.

We step forward with this offer to alleviate the overcrowding problem in the spirit of cooperation that should exist in this period of adjustment with the Affordable Care Act coming into existence. With the ACA's express goal of lightening the load on emergency rooms and hospital stays, it may be advantageous to UNMH to enter into this bed-sharing agreement until the effects of the legislation become clear, perhaps in four or five years.

While a period of negotiation would be necessary to work out the details of this contract, I believe that in short order we can come to an agreement in principle. Lovelace is prepared to accept patients in several ways. If the UNMH facility reaches capacity, Lovelace can accept patient transfers. Should it reach capacity, Lovelace can accept diversions from Albuquerque Ambulance Company and bring patients to our facility without ever having to overload your emergency room.

While this would possibly be a benefit to Lovelace, it is clearly in the spirit of cooperation that Lovelace makes this offer. We seek to do the sensible and right thing for our community by caring for patients who may back up your ER at certain times. The people of Bernalillo County are counting on us, the health care professionals, to do the proper thing. In this case, with excess capacity at Lovelace and perhaps at other private or nonprofit facilities, it makes sense to offer to absorb the patients that cannot get in to your emergency room or main hospital.

We are at your service to begin negotiations on the subject of a bed-sharing agreement to alleviate any problems you may have and absorb the patient load for the good of Bernalillo County and the state.

Sincerely,

Ron Stern
President and CEO
Lovelace Health System

cc: NM Board of Finance