Updated KHA CON Analysis

Prepared for KHA by

2023

Kentucky Hospital Association

Study Overview

- **Database of Relevant Metrics compiled to measure:**
  - CON States to No CON States
  - Kentucky to No-CON States
- **Impact of Repeal if Kentucky were to mirror the No CON States**
  - Cost Growth following CON repeal
  - ASC and Hospital Growth following repeal (Case studies)

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Same Key Findings as in 2019

- **Kentucky outperforms No-CON states** on a number of measures:
  - Kentucky has **better access to hospitals and physicians**, and similar access to ambulatory surgery centers (ASCs), than No CON states
  - Kentucky has **lower prices** – inpatient health care net prices are **10% lower** – than No CON states
  - Kentucky provides considerably **higher value** than No-CON states (as measured by utilization over spending) particularly **given its more vulnerable population**

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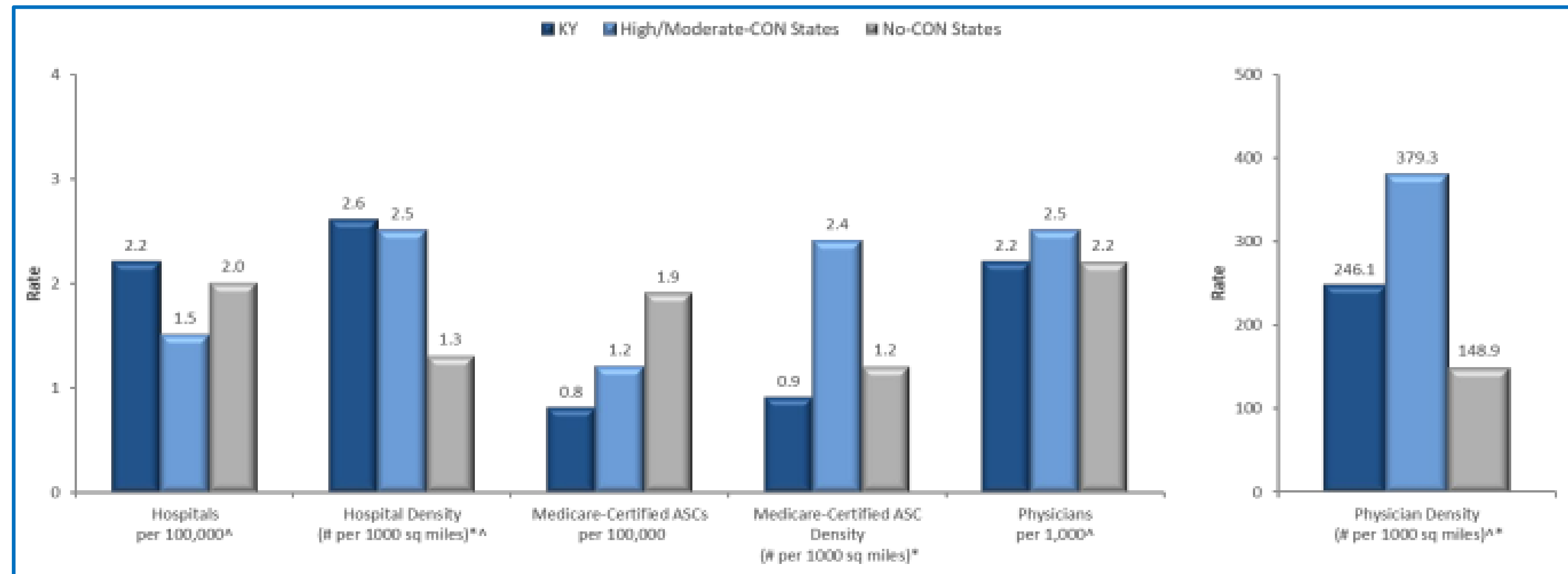
CON Assures Access

- **High/Moderate CON states have better access than No-CON** states based on population density
  - Kentucky's **hospital density** is **double** the median of No-CON states
  - Kentucky's **physician density** is **more than 1 ½ times** the No CON states
  - Kentucky's Medicare certified ASC density is **similar** to No CON states but KY **combined hospital + ASC density is higher** than No CON states (3.5 vs 2.6)



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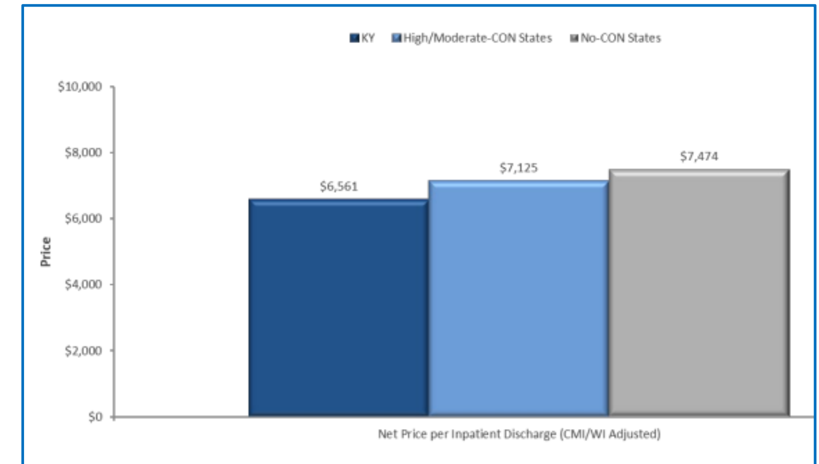
CON Helps Keep Costs Low

- High/Moderate CON states have **lower hospital prices** than No-CON states
  - **The median net price** (payment) per inpatient discharge (wage and CMI adjusted) **in no-CON states is 5% higher** than in high-moderate CON states
  - **Kentucky's net price per inpatient discharge** is nearly **$ 1,000 lower** than the median of No- CON states **(>10% lower) and is the 10th lowest in the US**



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CON States Provide Better Value

- Value = Utilization/Spending (Total Per Capita Spending)
- High/Moderate CON states provide better value than No-CON states
- Kentucky provides excellent value because:
  - Our **per capita health spending** is similar to the median of all high/moderate CON states and **only 1% higher than median of No-CON states while serving a sicker population** (measured by higher utilization of inpatient and ED services)
    - *KY inpatient admissions and ED visits/1000 are **39%-49% higher than No CON states***

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Kentucky Hospitals Serve a More Vulnerable Population

Kentucky is less healthy

- **Life expectancy is lower** than all NO-CON states (except New Mexico), and **more than 3 years lower than the median** of No CON states
- Kentucky's **state health score is worse** than all No-CON states
  - *There is more than a 15-fold difference between the median state health score of CON versus No CON states, with population health worse in CON states*
- Kentucky's **population is poorer** than all No-CON states, based on median income and percent of population below poverty (Except New Mexico)

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Profile of Kentucky, No CON, and Neighboring No-CON States

Measure	Kentucky	Indiana	Ohio	No CON States
Net Price per Inpatient Discharge	\$ 6,561 (10th Lowest)	\$ 7,847	\$ 7,005	\$ 7,474
% IP Discharges Medicaid	25.1% (9th Highest)	23.2%	23.5%	21.4%
% IP Discharges Medicare/Medicaid	71.3% (7th Highest))	69.4%	69.7%	65.4%
Median Household Income	\$ 55,573 (7th Lowest)	\$ 62,743	\$ 62,262	\$ 67,044
Pop % Below Poverty	16.5% (5th Highest)	12.2%	13.4%	11.6%
State Health Score	-0.76 (6th Worst)	-0.27	-0.49	0.03
Life Expectancy	73.5 (5th Worst)	75	75.3	76.9
% Adults Reporting Fair or Poor Health	22.6% (2nd Highest)	16.7%	16.8%	13.8%

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CON Repeal Leads to Urbanization of Healthcare

- Distribution statistics indicate that **when not regulated, healthcare services tend toward urban centers**, reducing access for rural areas.
- If Kentucky's hospitals were distributed in the same patterns as its physicians (which are not regulated), **Kentucky would have only 33 rural hospitals rather than the 78 it has today.**

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Case Studies

Georgia – Repealed CON for Single Specialty ASCs in 2008

- Added more than **180 single specialty ASCs in first year** after repeal
- Outpatient surgical volume increased dramatically: **+60% from 2007-2008**
- **Volume shifted out of small rural markets** (-10%) into suburban (+97%) and urban (+>50%)
- Georgia **OP surgical hospital market share dropped 23%** from 69% (2007) to 46% (2014), single specialty ASCs held 41%, and CON approved ASCs dropped 18% to a 13% share
- **7 of 9 hospitals that closed were adjacent to one or more counties with multiple single specialty ASCs**

Pennsylvania – ASC CON Repeal (1996)

- ASCs increased by nearly 200 from 2001-2019, with the **vast majority in rural and suburban counties**
- ASCs provided **60% less care to Medicaid patients** and had a higher % of commercial than PA hospitals
- **KY could experience an increase of 120 ASCs** in rural and suburban counties

Ohio – ASC CON Repeal (1995-1997)

- In first 3 years, **ASCs increased by more than 150**

Ohio – Hospital CON Repeal (1995-1997)

- In first 3 years, Ohio **lost at least 14 hospitals**, **15% of its supply**

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Impact of CON Repeal

- **If Kentucky were to mimic the No-CON states:**
  - Kentucky would **lose 10 hospitals**
  - An **ASC would be developed in virtually every Kentucky county**, at the expense of struggling rural hospitals
  - Kentuckians and their payors would **pay $ 450 million more** per year for inpatient services if KY prices mimicked No CON states
  - Proliferation of unnecessary lower volume facilities (GA) will exacerbate the healthcare workforce crisis

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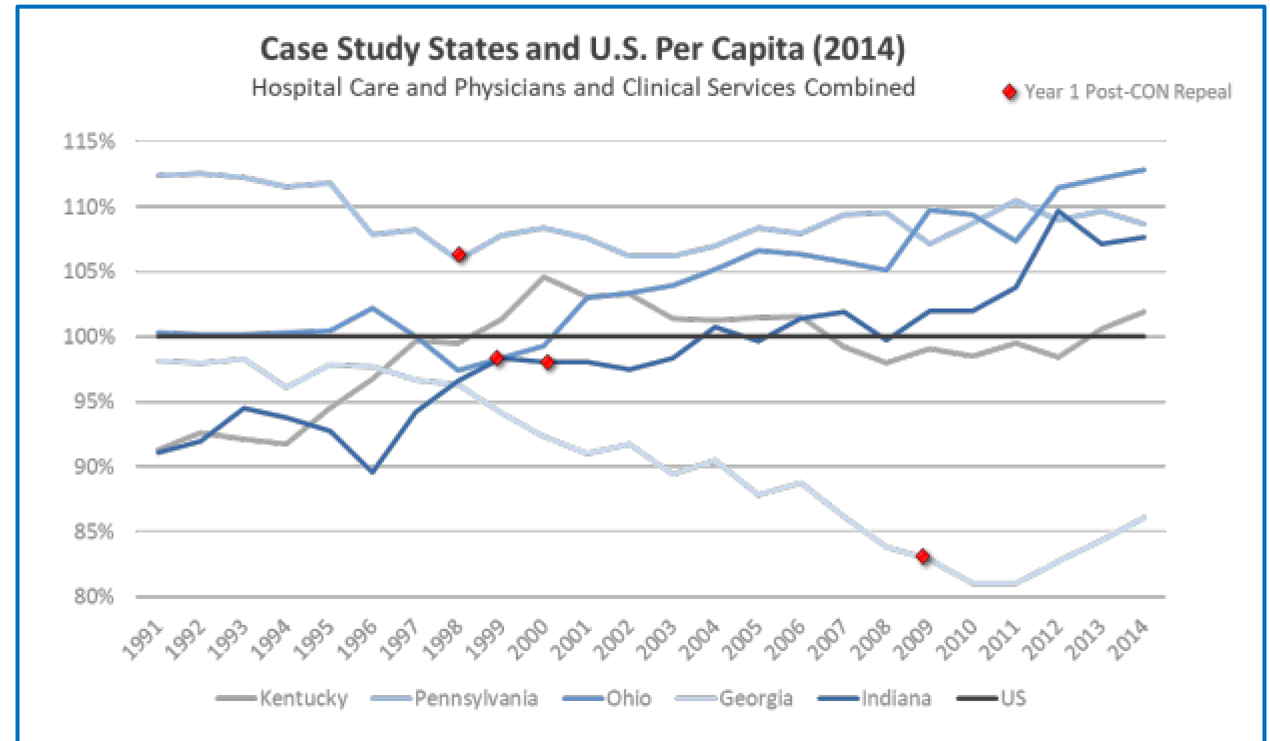
Kentucky Can't Afford to be like No-CON states

- In each of the case study states, expenditures were growing at a rate below the US average before CON repeal
- They grew at a higher rate in the years following repeal and OH and PA grew higher than the US average
- **KY Per capita spending would exceed the US average by 19%**



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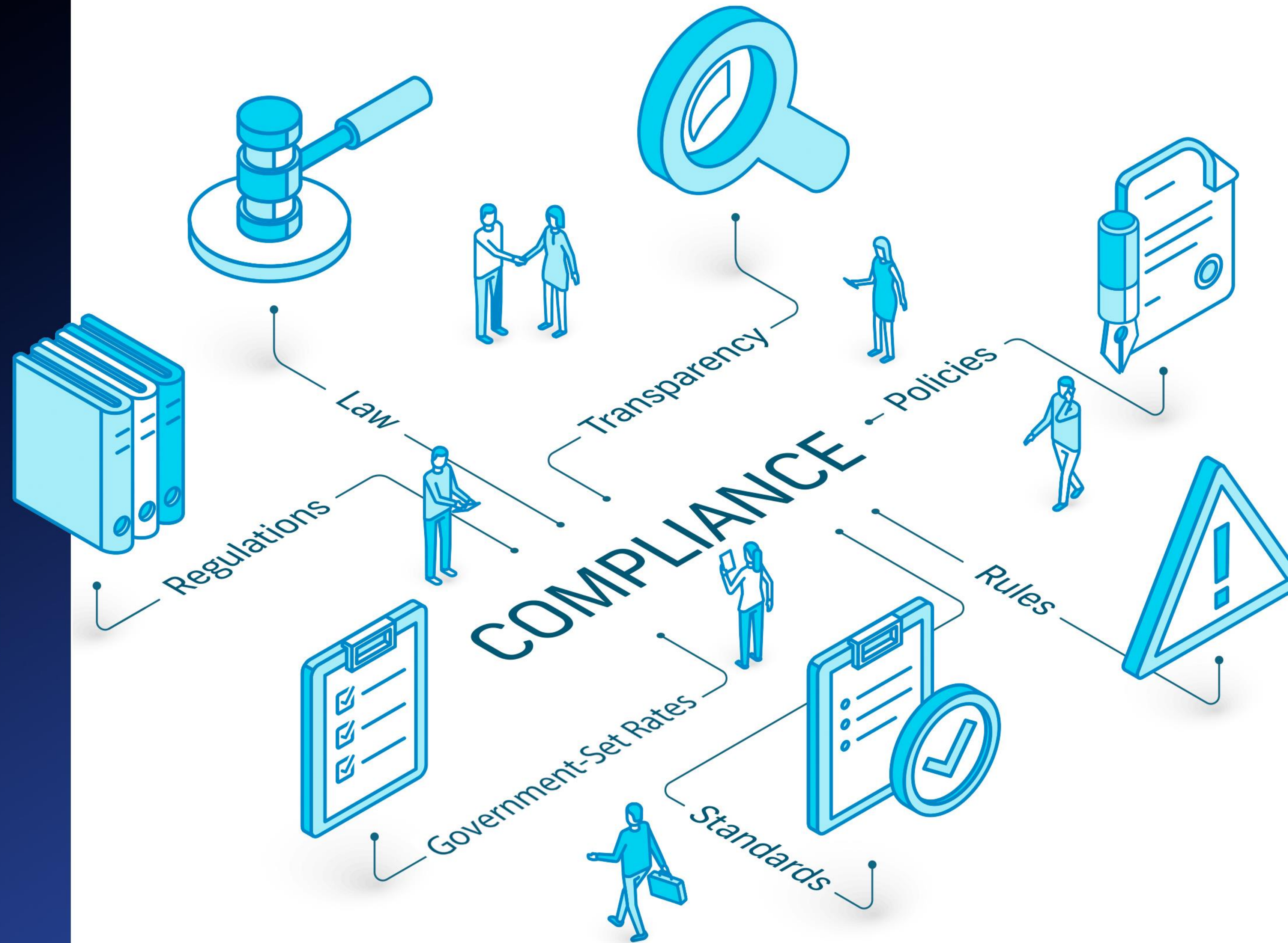
There is NO Free Market in Health Care



Certificate of Need
Lessons from Pennsylvania

October 19, 2023

Our Mission is to heal the sick and to improve the health of the communities we serve.

CRITICAL CONDITION

The State of Health Care in Pennsylvania

Pennsylvania Health Care Cost Containment Council
October 2007

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Pennsylvania Health Care Cost Containment Council

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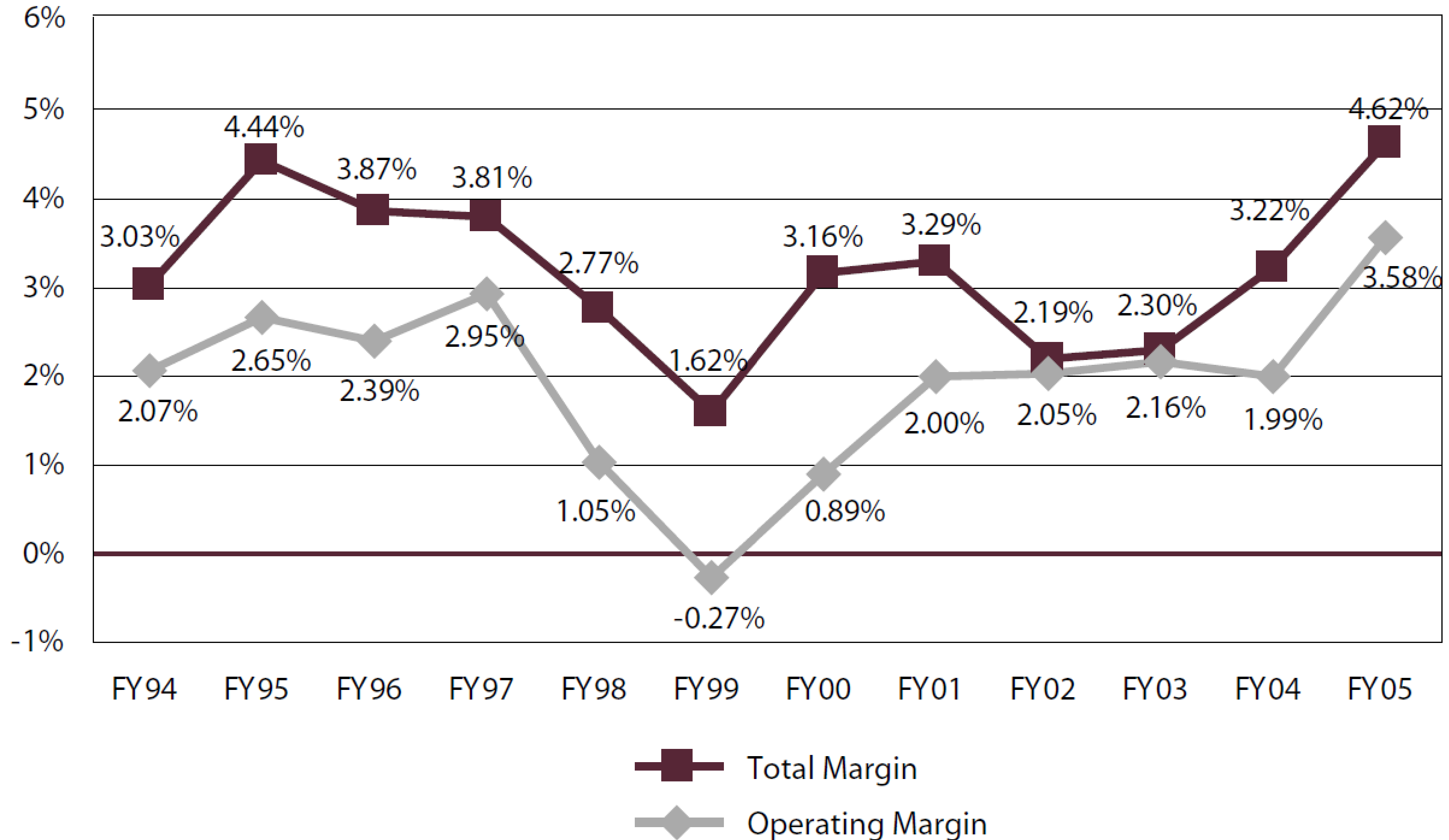
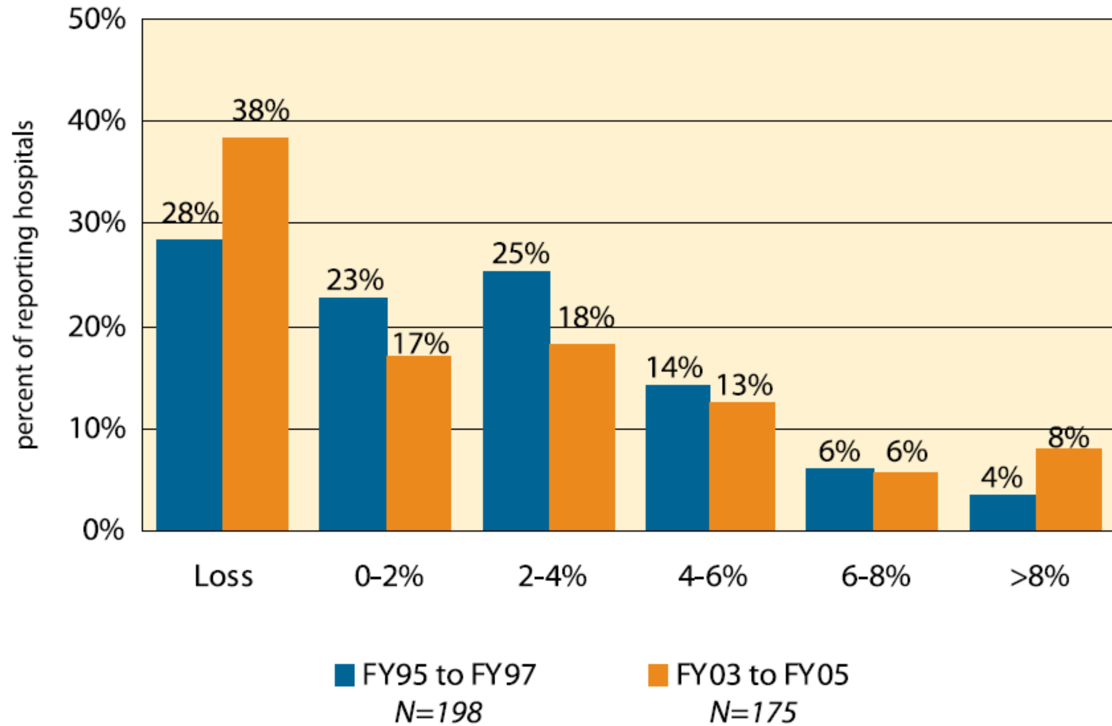
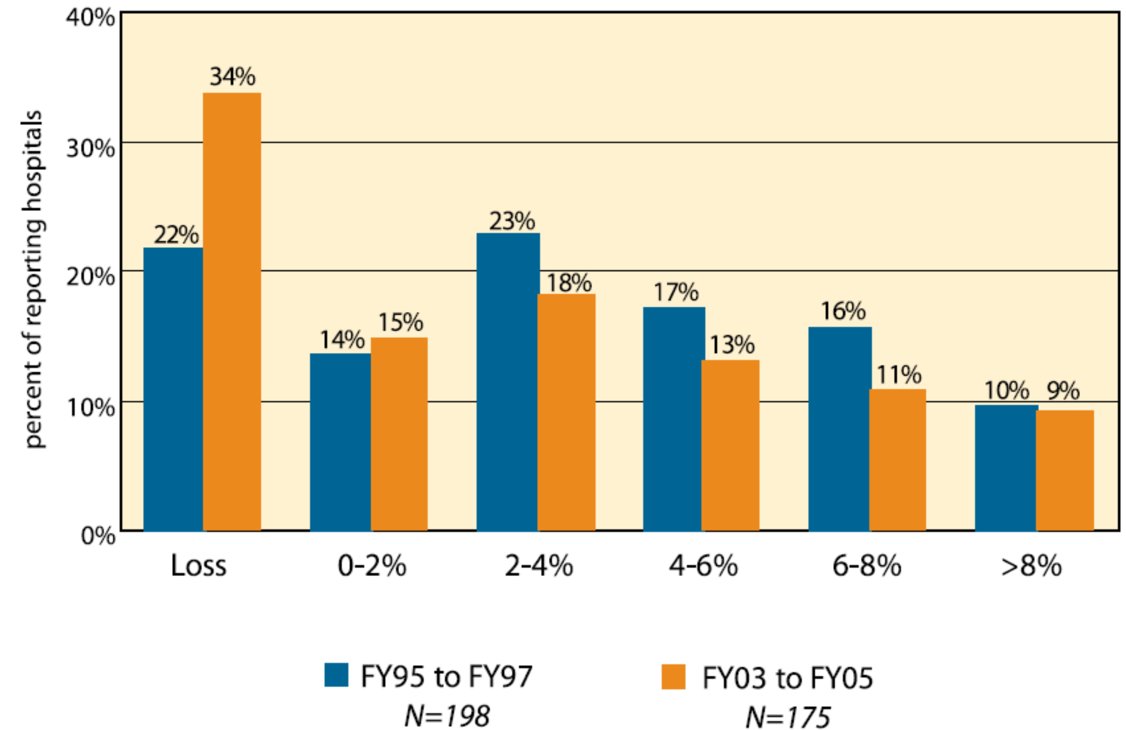
Pennsylvania CON



Pennsylvania CON





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Pennsylvania CON

Number of Facilities in Pennsylvania by Facility Type

Facility Type	1995	2005
General Acute Care Hospitals	206	177
Rehabilitation Hospitals	20	21
Psychiatric Hospitals	23	17
State Psychiatric Hospitals	11	9
Long-Term Acute Care Hospitals	4	24
Specialty Hospitals	8	6
Ambulatory Surgery Centers	44	177
Total	312	431

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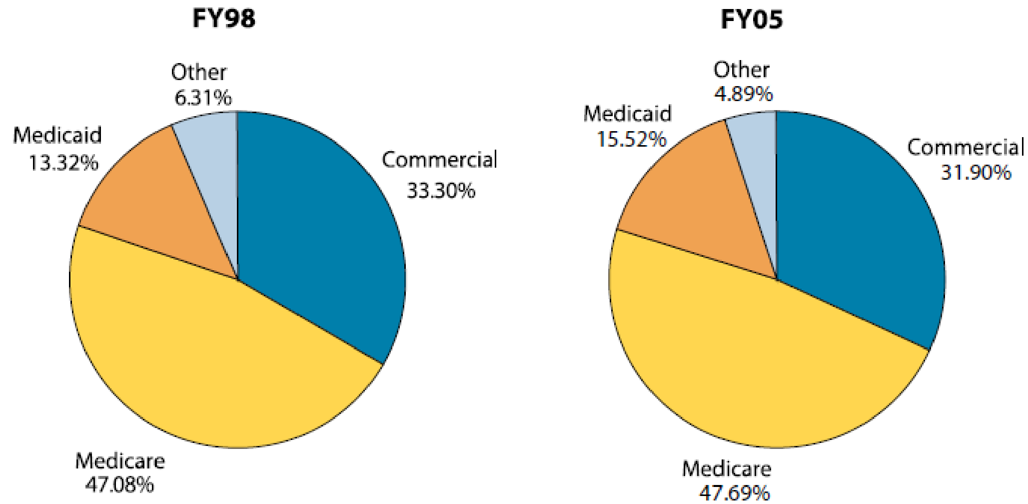
Pennsylvania CON

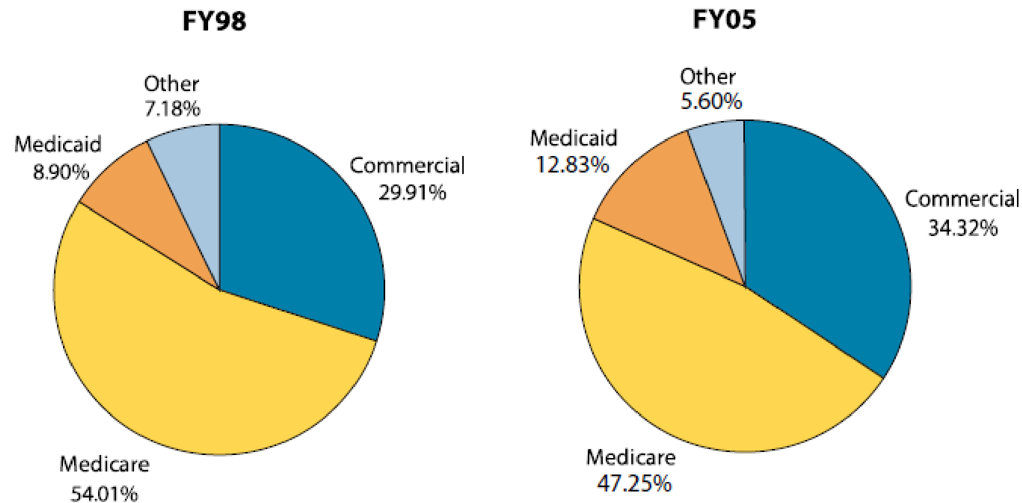
Average Age of Plant (Years) - Pennsylvania GAC Hospitals

	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
PA	9.2	8.2	9.6	9.3	9.7	10.0	10.6	11.0	11.3	11.5	12.0
U.S.	8.8	8.9	9.2	9.3	9.2	9.4	9.7	9.8	9.8	9.8	9.8

Sources: PHC4, American Hospital Association

Pennsylvania CON – Cost Shifting

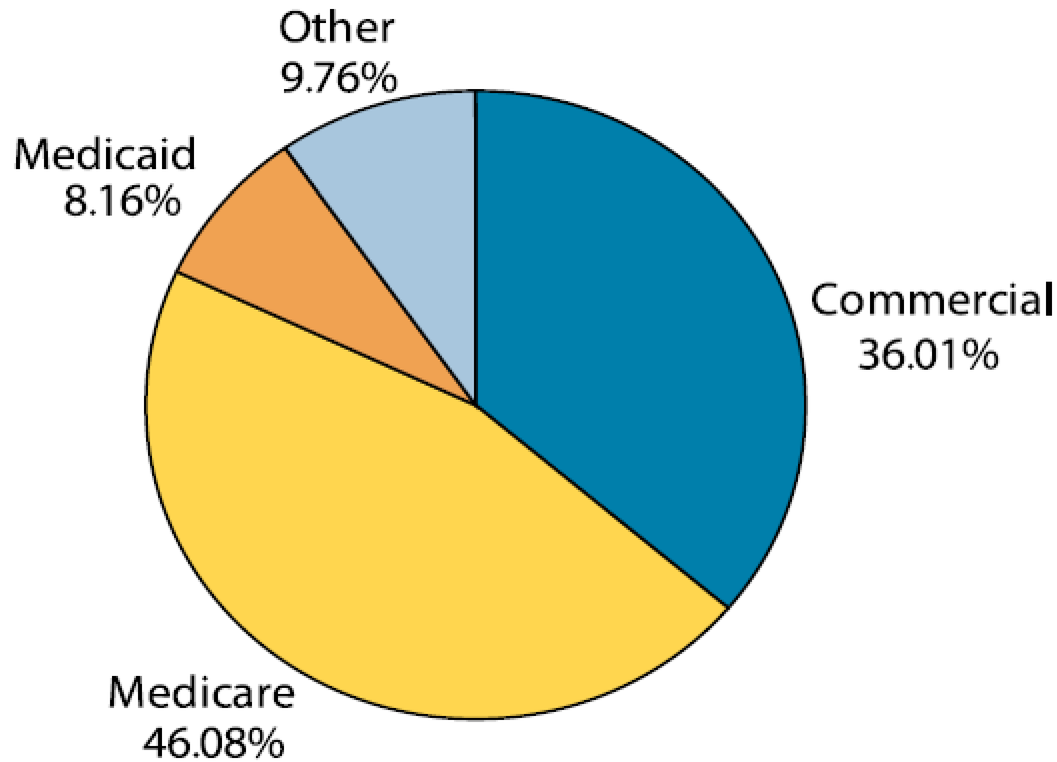




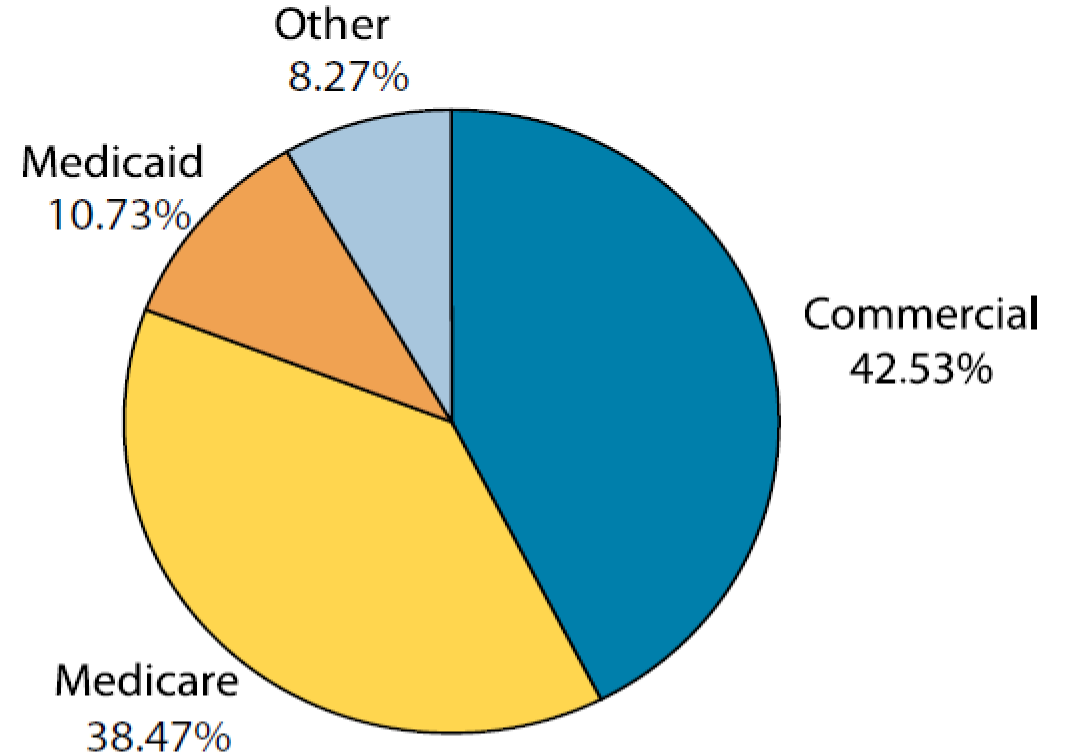
Pennsylvania CON

Statewide Net Patient Revenue by Payor - GAC Hospitals

FY98



FY05



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Pennsylvania CON – Summary

- Pennsylvania hospital operating margins that had averaged 2.5% over the prior four years before CON sunset dropped to 1.05% in 1998, a ***negative*** (0.27)% in 1999, to 0.89% in 2000, and 2.00% in 2001. It wasn't until 2005 that the operating margins recovered to pre-CON sunset levels.
- In 2004 there were 182 general acute care hospitals in Pennsylvania. 120 of these hospitals (or 66%) had a 3-year negative average total margin at some point from 1998 through 2004.
- Uncompensated care (charity and bad debt) to gross patient revenue was 4.69% in 1997 and dropped to 2.10% by 2005.
- Charge levels and charges billed to patients, employers, and payors increased dramatically. In 1997 the ratio of charges to operating expenses was 215%. By 2005 this had ballooned to 337%.
- Obvious cost shifting occurred post CON in Pennsylvania to the employers/commercial carriers.
- There were 21 hospitals that converted from not-for-profit to for-profit status through acquisitions from 1999 through 2005.
- There were also service impacts seen post CON.
  - In 1995, Pennsylvania had 43 hospitals that offered open heart surgery. The volume averaged 600 cases per center annually. Average charges per case ranged from $27,500 to $106,000.
  - In 2003, Pennsylvania had 63 hospitals that offered open heart surgery. The volume averaged 390 cases with the lowest center completing 98 cases. Average charges per case ranged from $39,000 to $369,000.
  - In 2003, PHC4 findings showed that surgeons who performed higher numbers of procedures (200+) had patients twice as likely to survive after open heart surgery when compared to surgeons with less than 100 procedures per year. In 2003, 65 physicians were listed as performing less than 100 open heart procedures in Pennsylvania.