

# Minnesota Hospital Public Interest Review:

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Proposal for a New Inpatient  
Facility in Cass County,  
Minnesota

Minnesota Department of Health

**April 2006**



Office of Health Policy, Statistics and Informatics  
Health Economics Program  
PO Box 64882  
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As required by Minnesota Statute 3.197: This report cost approximately \$10,000 to prepare including staff time, printing and mailing expenses





*Protecting, maintaining and improving the health of all Minnesotans*

April 25, 2006

The Honorable Linda Berglin  
Chair, Health and Human Services  
Budget Division  
Minnesota Senate  
Room 309, State Capitol  
75 Rev. Dr. Martin Luther King Jr. Blvd.  
Saint Paul, Minnesota 55155

The Honorable Becky Lourey  
Chair, Health and Family Security  
Committee  
Minnesota Senate  
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The Honorable Fran Bradley  
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The Honorable Jim Abeler  
Chair, Health Care Cost Containment  
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To the Honorable Chairs:

Minnesota Statutes §144.552 requires that any hospital seeking to increase its number of licensed beds or an organization seeking to obtain a hospital license must submit a plan to the Commissioner of Health. The Commissioner is required to review each plan submitted under Minnesota Statutes §144.552 and issue a finding on whether the plan is in the public interest. The law requires that the Commissioner provide a copy of the finding on whether the plan is in the public interest to the chairs of the House and Senate committees having jurisdiction over health and human services policy and finance.


In March 2006, the MDH received a proposal from the Cass County Board of Commissioners seeking approval for the construction of a new hospital near the city of Walker, Minnesota. The County is seeking legislative approval for the construction of a hospital as one component of a health care campus to be located at the site of the current Ah-Gwah-Ching Center, a state-owned psychiatric nursing home that is scheduled to close in 2007.

The enclosed report on the public interest review conducted by MDH pursuant to Minnesota Statutes §144.552 finds that it is in the public interest to construct a hospital in Cass County. MDH found that the Cass County area is relatively unique in Minnesota in having a sizable

population that lacks access to inpatient hospital services within 30 miles. Because of the long distances currently traveled by Cass County area residents to receive hospital services, MDH found that the construction of an inpatient hospital would improve area residents' access to timely hospital services.

I look forward to working with you to address any questions or concerns that you may have regarding this public interest review.

Sincerely,

*for*   
Dianne M. Mandernach  
Commissioner

P.O. Box 64882

St. Paul, Minnesota 55164-0882

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# Table of Contents

1. Hospital Public Interest Review Process	1
2. Proposed Hospital in Cass County	3
3. Evaluation of Cass County Proposal in Relation to Statutory Review Criteria	10
4. Discussion and Finding	22
Appendix 1: Methodology	24
Appendix 2: Copies of Comments on the Proposal	27





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## Section 1. Hospital Public Interest Review Process

Since 1984, Minnesota law has prohibited the construction of new hospitals or expansion of bed capacity of existing hospitals without specific authorization from the Legislature (Minnesota Statutes §144.551). As originally enacted, the law included a few specific exceptions to the moratorium on new hospital capacity; other exceptions have been added over time, and there are currently 20 exceptions to the moratorium that are listed in the statute. Many of these exceptions apply to specific facilities, but some define an exception that applies more broadly (for example, an exception that allows for the relocation of a hospital within five miles of its original site under some circumstances).

The moratorium on licensure of new hospital beds replaced a Certificate of Need (CON) program that provided for case-by-case review and approval of proposals by hospitals and other types of health care providers to undertake large projects such as construction and remodeling or purchases of expensive medical equipment. The CON program was in effect from 1971 until it was replaced by the hospital moratorium in 1984. The CON program was criticized for failing to adequately control growth, but at the same time there was substantial concern among policymakers about allowing the CON program to expire without placing some other type of control on investment in new capacity.

At the time the hospital moratorium was enacted, policymakers were concerned about excess capacity in the state's hospital system, its impact on the financial health of the hospital industry, and its possible impact on overall health care costs. According to a 1986 Minnesota Senate Research Report on the hospital moratorium, "Declining occupancy has resulted in thousands of empty hospital beds across the state, in financial difficulty for some hospitals, and in efforts by hospitals to expand into other types of care. In spite of the excess hospital capacity in the state, hospitals continued to build and expand until a moratorium was imposed...."<sup>1</sup> The moratorium was seen as a more effective means of limiting the expansion of hospital capacity than the Certificate of Need program it replaced. One drawback of the moratorium, however, has been that there is no systematic way of evaluating proposals for exceptions to the moratorium in terms of the need for new capacity or the potential impact of a proposal on existing hospitals.

In 2004, the Legislature established a new process for reviewing proposals for exceptions to the hospital moratorium (Minnesota Statutes §144.552). This "public interest review" process requires that hospitals planning to seek an exception to the moratorium law submit a plan to the Minnesota Department of Health (MDH). Under the law, MDH is required to review each plan and issue a

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<sup>1</sup> "Hospital and Nursing Home System Growth: Moratoria, Certificate of Need, and Other Alternatives," Minnesota Senate Research Report, by Dave Giel and Michael Scandrett, January 1986.

finding on whether the plan is in the public interest. Specific factors that MDH is required to consider in the review include:

- Whether the new hospital or hospital beds are needed to provide timely access to care or access to new or improved services;
- The financial impact of the new hospital or hospital beds on existing acute-care hospitals that have emergency departments in the region;
- How the new hospital or hospital beds will affect the ability of existing hospitals in the region to maintain existing staff;
- The extent to which the new hospital or hospital beds will provide services to nonpaying or low-income patients relative to the level of services provided to these groups by existing hospitals in the region; and
- The views of affected parties.

Finally, the law requires that the public interest review be completed within 90 days, but allows for a review time of up to six months in extenuating circumstances. Authority to approve any exception to the hospital moratorium continues to rest with the Legislature.

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## Section 2: Proposed Hospital in Cass County

### Background and Project Description

In March 2006, the Cass County Board of Commissioners requested that MDH perform a public interest review of a proposal to construct a hospital in Cass County. The proposed hospital is part of the county's plan for re-use of the site of the Ah-Gwah-Ching Center, a state-owned psychiatric nursing home in Shingobee Township (near the city of Walker) that is scheduled to close in 2007. Other components of Cass County's re-use plan for the Ah-Gwah-Ching site include the addition of ambulatory care services and a senior housing and services facility with 60 long-term care beds, 30 assisted living beds, and 30 independent living units. The proposed hospital is the only portion of the County's plan that is within the scope of MDH's public interest review under Minnesota Statutes §144.552.

Cass County's proposal for an exception to the hospital moratorium is for the Legislature to grant an exception for a hospital with up to 25 beds to be built in Cass County, within a 20-mile radius of the Ah-Gwah-Ching facility. The entity that would hold the hospital license would be selected and approved by the Cass County Board. Currently, the County Board is working with the Benedictine Health System as the lead provider for the hospital project, but the County anticipates conducting an additional open process after the moratorium exception is granted before making a final selection of the provider or providers to be included in the project. The estimated cost to build the proposed hospital is about \$28 million, excluding the cost of land acquisition, demolition of current facilities at the site, and construction of the ambulatory care and senior housing facilities. The hospital construction would be financed through private sources.

According to the County's application for public interest review, the hospital will provide general medical inpatient and swing bed/transitional care services, with the potential addition of surgical inpatient services as the medical community in the area grows. The hospital's services will also include a 24-hour emergency room, with a level IV trauma designation.<sup>2</sup> Although it would be licensed for up to 25 beds, the hospital is expected to begin operations in 2010 with 12 to 14 staffed beds. Based on the County's analysis of demographic projections, the hospital would likely operate with this number of staffed beds for 10 to 20 years before an increase could be necessary.

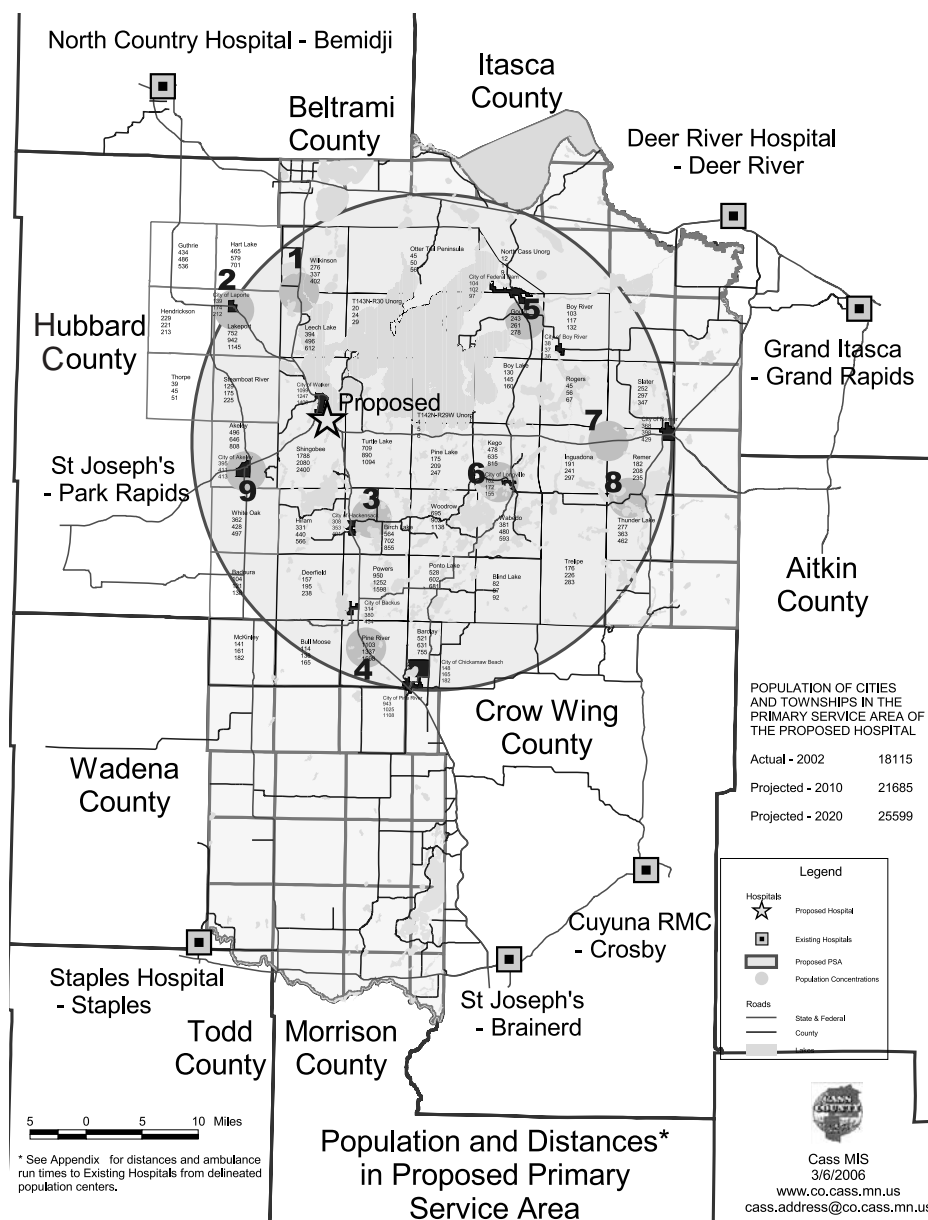
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<sup>2</sup> As defined by the American College of Surgeons, a level IV trauma center provides advanced trauma life support prior to patient transfer in remote areas in which no higher level of care is available. The key role of level IV trauma centers is to resuscitate and stabilize patients and arrange for their transfer to the closest, most appropriate trauma center level facility. (Source: MacKenzie EJ et al., "National Inventory of Hospital Trauma Centers," *Journal of the American Medical Association* 289(12), March 26, 2003.) Also see: "Minnesota Comprehensive Statewide Trauma System Plan," December 2004, <http://www.health.state.mn.us/traumasystem/plan.html>

The primary service area for the proposed hospital, as defined by the Cass County Board of Commissioners, is shown in Figure 1. It includes most of central and northern Cass County, as well as the northwest corner of Crow Wing County and parts of western Hubbard County.<sup>3</sup> Figure 1 also shows the locations of existing hospitals that serve patients from this area.

Figure 1

### Map of Proposed Service Area



<sup>3</sup> The service area includes 14 zip codes, 10 of which are in Cass County. The remaining four zip codes cover portions of Crow Wing, Itasca, and Hubbard counties.

Cass County has indicated that obtaining designation as a critical access hospital (CAH)<sup>4</sup> is a key element of the proposal. This designation enables a hospital to receive cost-based reimbursement from Medicare. Currently, 80 hospitals in Minnesota are designated as CAHs. Under current rules, the proposed hospital would need to be at least 35 driving miles from the next closest hospital in order to qualify for CAH designation. Because the Ah-Gwah-Ching site is only 32 miles away from the next closest hospital in Park Rapids, Cass County is currently pursuing two alternative strategies that would qualify the proposed hospital as a CAH. The first is to obtain Congressional approval of an exception to the 35-mile requirement; alternatively, the County could choose a different site nearby that would meet the 35-mile requirement.

## Health Care Services Currently Available

Currently, when residents of the proposed hospital service area need to be hospitalized, they travel long distances to reach a hospital. Six existing hospitals in the North Central region of Minnesota account for most of the hospitalizations among people living in the proposed hospital service area.<sup>5</sup> Table 1 provides information on the capacity, occupancy rates, profitability, and uncompensated care at these hospitals in 2004, the most recent year for which data is available. Three of these hospitals – Cuyuna Regional Medical Center, Deer River HealthCare Center, and St. Joseph's Area Health Services – are critical access hospitals. In addition, an Indian Health Services hospital in Cass Lake provides services to Native Americans and their descendants.

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<sup>4</sup> Critical access hospitals must have no more than 25 beds, have an average length of stay of 4 days or less, participate in a rural health network (primarily for the purpose of arranging patient referral and transfer), and provide 24-hour emergency services. Critical access hospitals have more flexibility in staffing requirements than other hospitals. (Minnesota Department of Health, Office of Rural Health and Primary Care, "Critical Access Hospital Eligibility Information," <http://www.health.state.mn.us/divs/chs/rhpc/cah/CAHeligible.htm> )

<sup>5</sup> MDH does not have data on hospitalizations of Minnesota residents in other states – for example, area residents who may be referred to hospitals in Fargo for more complex services than are available locally.

Table 1

## Hospitals Serving Cass County Area Patients: Capacity and Financial Indicators for 2004

Hospital	City	Driving Distance from Walker, MN	Licensed Beds	Available Beds	Occupancy Rate (as % of available beds)	Net Income (\$ millions)	Net Income as % of Revenue	Uncompensated Care (\$ millions)	Uncompensated Care as % of Operating Expenses
Cuyuna Regional Medical Center	Crosby	66 miles	42	30	47.6%	\$2.8	10.0%	\$0.4	1.5%
Deer River HealthCare Center	Deer River	61 miles	20	20	21.6%	\$2.0	18.9%	\$0.3	3.8%
Grand Itasca Clinic and Hospital	Grand Rapids	66 miles	95	49	41.5%	\$1.3	2.7%	\$0.6	1.4%
North Country Health Services	Bemidji	41 miles	116	116	55.1%	\$2.8	4.6%	\$1.4	2.4%
St. Joseph's Area Health Services	Park Rapids	29 miles	50	47	53.5%	\$3.1	10.0%	\$0.5	1.8%
St. Joseph's Medical Center	Brainerd	61 miles	162	153	47.6%	\$9.0	11.1%	\$1.4	2.0%
Total, Hospitals Serving Cass County Area Patients			485	415	48.4%	\$21.1	8.0%	\$4.7	2.0%
Comparison: All Minnesota Hospitals			16386	11718	59.0%	\$615.7	6.6%	\$151.3	1.8%

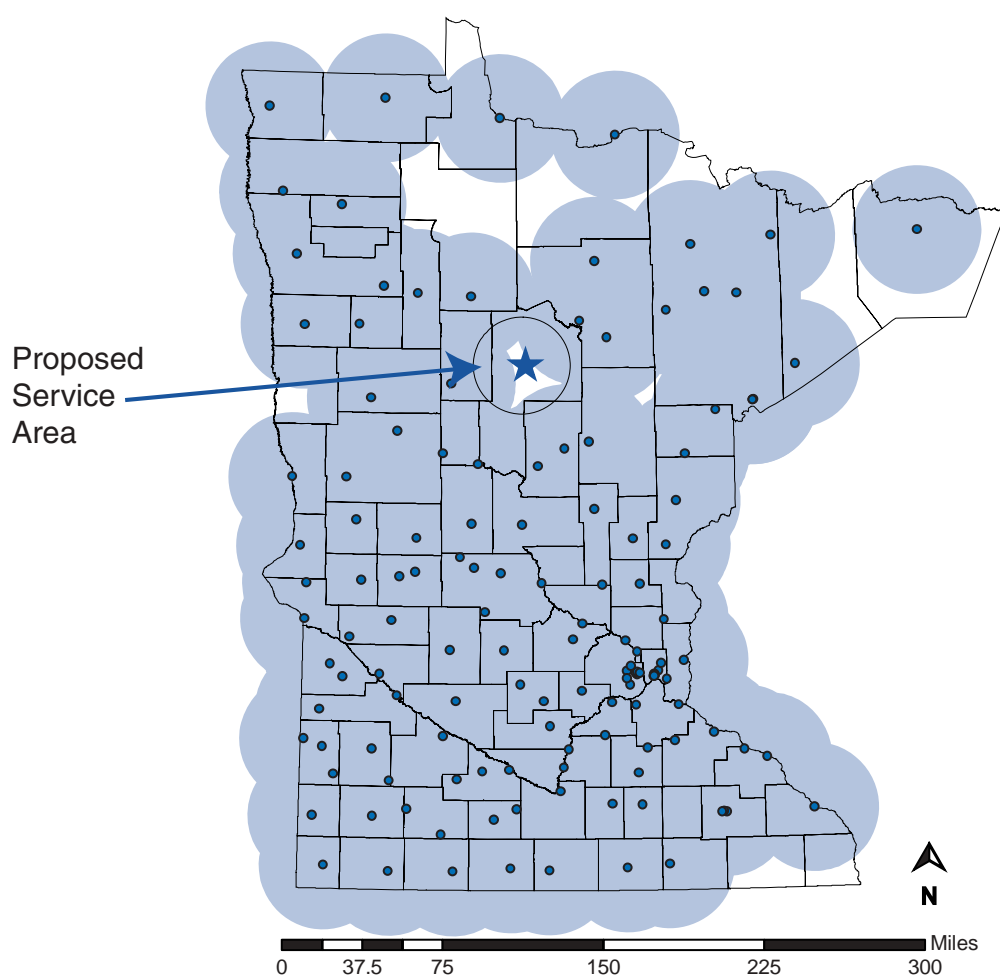
Source: MDH, Health Care Cost Information System; driving distances from MapQuest.

Notes: 1) For purposes of this report, "Cass County Area" includes the area defined as the service area for the proposed hospital by the Cass County Board of Commissioners. 2) Uncompensated care is the sum of charity care and bad debt, adjusted by a ratio of hospital costs to charges. 3) In mid 2004, Cuyuna Regional Medical Center converted to a critical access hospital. In late 2005, St. Joseph's Area Health Services also converted to a critical access hospital. As critical access hospitals, both of these facilities are now limited to 25 beds.

Cass County is relatively unique in Minnesota in having a sizable population that lacks access to nearby hospital services. The map in Figure 2 shows a 30-mile radius around each existing hospital in Minnesota. As illustrated by the map, there are very few areas of Minnesota that have significant population that are not within 30 miles of a hospital. The large area to the north of Cass County (in Beltrami and Koochiching Counties) that is outside of the 30-mile radius from any hospital has very little population, as do the areas in the northeastern corner of the state that lack access to a hospital within 30 miles. Much of the population that is not within 30 miles of a Minnesota hospital on the western and southern borders of the state has access to a hospital across state lines within 30 miles.

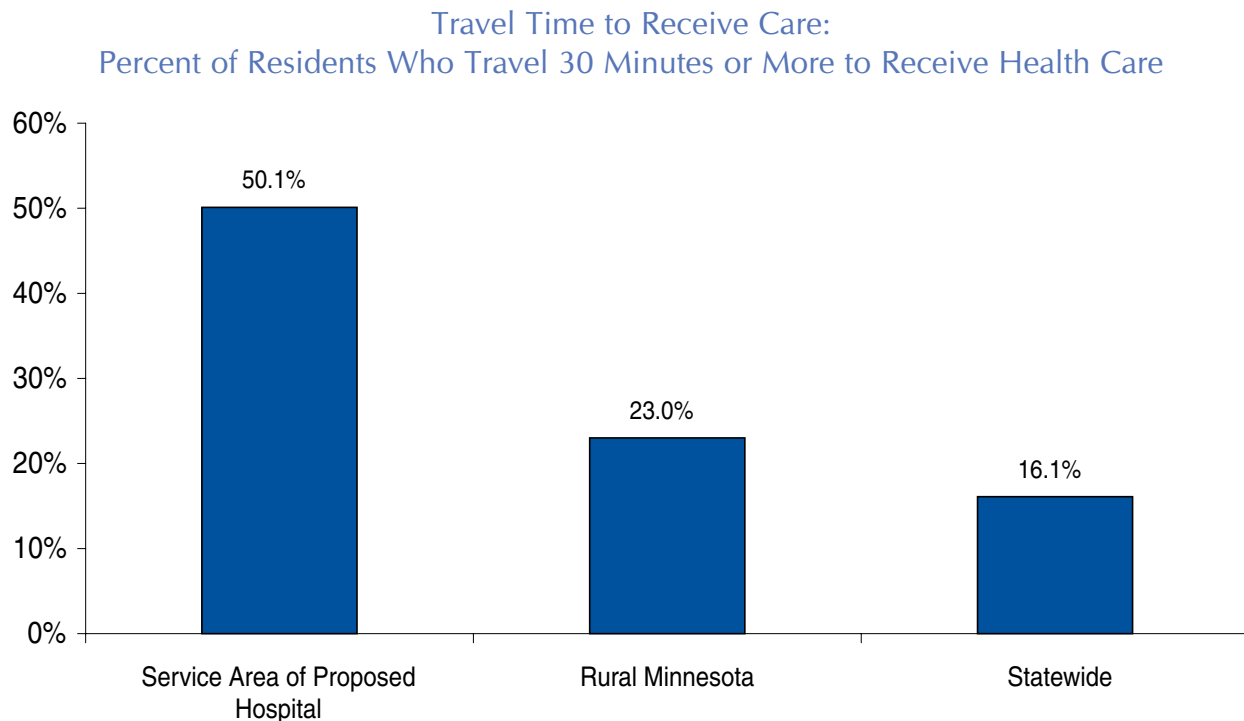
Figure 2

### Regions Within 30 Miles of a Hospital



In addition to traveling long distances to access hospital services, Cass County area residents also travel farther than other Minnesotans to receive routine care. As shown in Figure 3, an estimated 50 percent of residents in the service area of the proposed hospital travel 30 minutes or more to their usual source of health care, compared to 23 percent in rural Minnesota and 16 percent of all Minnesotans.

Figure 3



Source: MDH and University of Minnesota, 2004 Minnesota Health Access Survey. Travel time refers to the survey respondent's usual source of health care. The estimate for the service area of the proposed hospital is significantly different from rural Minnesota and the statewide estimate at the 95% level.

Existing physician clinics serving area residents include two clinics each in Walker and Cass Lake (one of which is an Indian Health Service clinic), along with clinics in Longville, Pine River, and Remer. Most of these clinics are very small, with only one or two physicians, or only physicians who rotate among locations.

Cass County has been designated a Health Professional Shortage Area (HPSA) for primary care services. Designation as an HPSA is based on a ratio of an area's population to the number of full-time equivalent primary care physicians practicing within 30 minutes' travel time from the area. In addition, Cass County has been designated a Medically Underserved Area (MUA), which is determined based on a combination of the following factors: the ratio of primary medical care physicians per 1,000 population; infant mortality rate; percentage of the population with incomes below the poverty level; and percentage of the population aged 65 or older.



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## Demographic Trends

Cass County has a population of approximately 28,000 people. The service area for the proposed hospital includes approximately 32,000 residents of Cass, Crow Wing, Hubbard, and Itasca counties.<sup>6</sup> Between 1990 and 2004, Cass County's population grew by 30 percent, compared to 16 percent growth for Minnesota as a whole.<sup>7</sup> In addition, Cass County's growth was nearly four times the rate of growth for all rural counties in Minnesota.<sup>8</sup> The Cass County area also attracts a large number of seasonal residents in the summer. According to information provided in the public interest review application, the population of the area nearly doubles during the summer months.

Over the next decade, the service area of the proposed hospital is projected to experience faster population growth than the state as a whole. Between 2005 and 2015, population growth in this area is projected to be 18 percent, about four percentage points higher than the projected statewide growth rate.

Compared to the state as a whole, the service area of the proposed hospital has a substantially higher share of the population that is age 65 or older (20 percent in the hospital service area compared to 12 percent statewide). Because growth among this age group is projected to be faster in the hospital service area than statewide, this difference is expected to increase slightly between 2005 and 2015.

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<sup>6</sup> Although some of these areas are outside of the service area shown in Figure 1, we include all residents of the zip codes that are part of the service area because our analysis is done at the zip code level.

<sup>7</sup> Calculations based on estimates from the U.S. Census Bureau.

<sup>8</sup> Rural counties are counties that are not part of a Metropolitan Statistical Area (MSA).

## Section 3: Evaluation of Cass County Proposal in Relation to Statutory Review Criteria

This section of the public interest review evaluates the proposal to build a new hospital in Cass County in light of each of the five factors specified by Minnesota Statutes §144.552.

***Factor 1: Is the hospital or are the hospital beds needed to provide timely access to care or access to new or improved services?***

### Ability of Current System Capacity to Meet Demand

As noted above, one of the reasons for the original enactment of the hospital moratorium was that there was perceived to be a significant amount of excess capacity in Minnesota's hospital system. Hospital occupancy rates vary widely across Minnesota. When calculated on the basis of "available beds",<sup>9</sup> the statewide hospital occupancy rate was 59 percent in 2004, ranging from a low of 26 percent in the Southwest region to a high of 70 percent in the Twin Cities Metropolitan region. (In the Central and Northwest regions, which include the hospitals that currently serve residents of the Cass County area, the occupancy rates in 2004 were 50 percent and 37 percent, respectively.)

Future need for hospital services will be influenced by many factors. Population growth will continue to play an important role, and aging will begin to be a more important factor as the baby boom generation reaches the age at which use of hospital services begins to increase sharply. In addition, technological advance will continue to be a very important determinant of future use of hospital services, with some new technologies likely increasing the use of inpatient services and others decreasing the use of services. Changes in the prevalence of disease (for example, due to rising rates of overweight and obesity) and other factors that affect medical practice patterns are also likely to play a role.

According to MDH estimates, population growth and the changing age distribution of the population are expected to result in an overall 37 percent increase in inpatient hospital days statewide between 2000 and 2020. As shown in Figure 4, this estimated increase varies by region: with 53 percent, growth in the Central region is expected to be strongest. As a result, if the number of available beds were unchanged, hospital occupancy rates would rise as well. The highest projected occupancy rates in 2020 are for the Metropolitan region (93 percent), Southeast region (85 percent) and Central region (76 percent), compared to a statewide average of 77 percent (see Figure 5).

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<sup>9</sup> The definition of "available beds" is the number of acute care beds that are immediately available for use or could be brought on line within a short period of time.

Figure 4

## Projected Growth in Inpatient Days by Region, 2000 to 2020

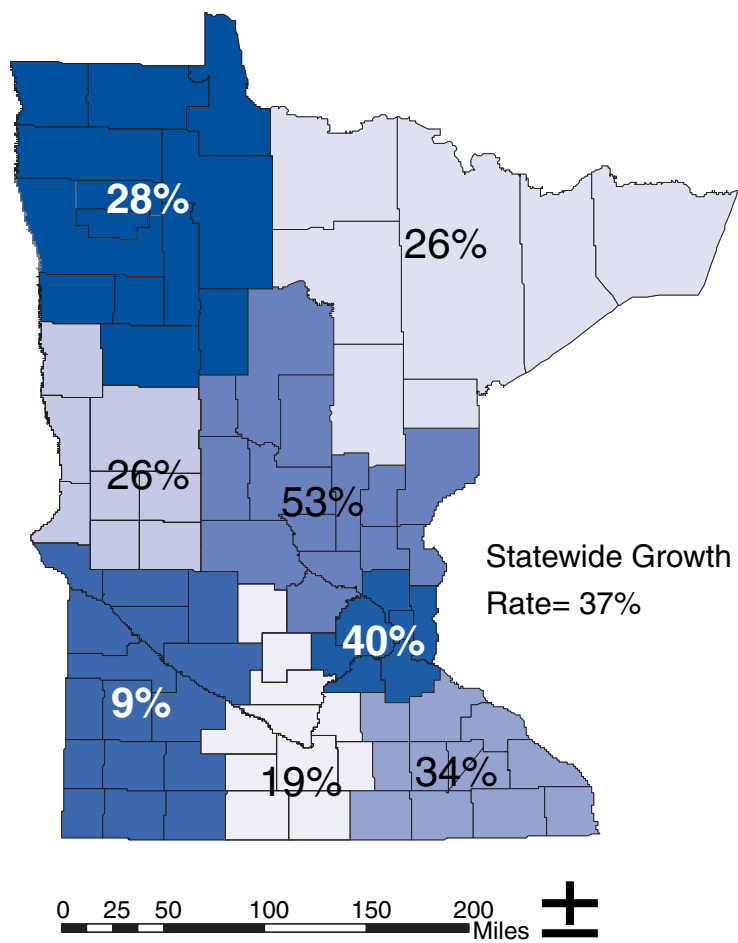
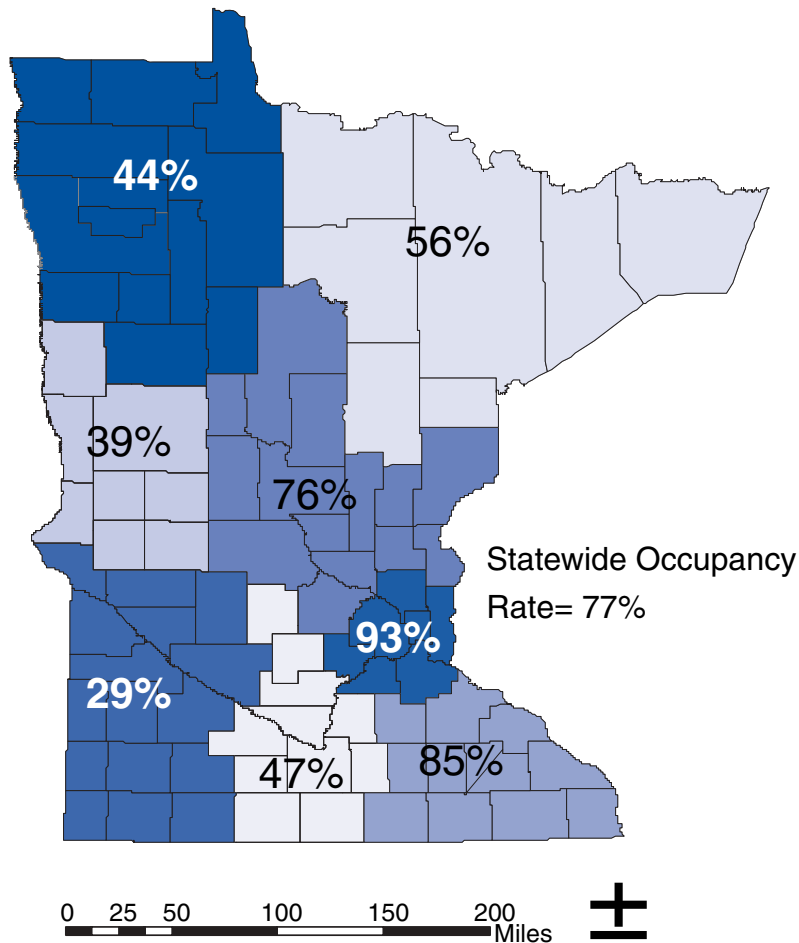


Figure 5

## Projected Occupancy Rates as % of 2004 Available Beds by Region, 2020



Among the six hospitals that currently serve most patients living in the service area of the proposed Cass County hospital, the occupancy rate was about 48 percent in 2004, as shown in Table 2. This table also shows recent trends in the number of hospital admissions and inpatient days. Compared to statewide trends, hospitals currently serving residents of the Cass County area experienced slightly higher growth in the number of hospital admissions (16 percent compared to 12 percent) and inpatient days (6 percent compared to 5 percent) over the past five years.

Table 2

## Utilization Trends for Existing Hospitals Serving the Cass County Area

	1999	2000	2001	2002	2003	2004
Available beds			390	391	393	415
Inpatient admissions	17,296	17,865	18,913	19,310	19,436	20,102
Inpatient days	69,083	73,280	76,825	78,497	77,855	73,287
Occupancy Rate*	48.4%	51.3%	54.0%	55.0%	54.3%	48.4%

\*Occupancy rate is calculated based on available beds. For 1999 and 2000, calculation is based on 2001 available beds (data were not collected in 1999 and 2000).

Source: MDH, Health Care Cost Information System.

Table 3 describes the results of MDH's analysis of what would happen to occupancy rates at existing hospitals serving the Cass County area in the absence of the proposed new hospital. These estimates incorporate projected changes in population and demographics (including aging) in the market areas served by these hospitals. Because of uncertainty in projections of future demand, the table shows a range of estimates for future demand.<sup>10</sup>

As shown in Table 3, the occupancy rate for the six hospitals included in this analysis was 49 percent of available beds in 2004.<sup>11</sup> The occupancy rate is projected to increase to 58 percent in 2010, and 64 percent in 2015 (assuming no increase in available beds). Taking uncertainty about future levels of demand into account, the occupancy rate for the group of hospitals currently serving the Cass County area is projected to be between 57 percent and 70 percent in 2015.

<sup>10</sup> More detail on the methodology we used to create the baseline estimates is included in Appendix 1. This discussion of the results of our analysis does not identify individual hospitals because the data we used to perform the analysis were collected under MDH's authority provided by Minnesota Statutes §62J.301, and Minnesota Statutes §62J.321 Subd. 5(e) prohibits the release of analysis that names any institution without a 21-day period for review and comment.

<sup>11</sup> This figure differs slightly from Table 2 because it is based on analysis of hospital discharge data instead of aggregate utilization data used in Table 2.

Table 3

## Projections for Hospitals Currently Serving the Cass County Area

	2004 Actual	2010 Projected	2015 Projected
Number of discharges	19,523	21,451 Range: 19,306 to 23,596	23,658 Range: 21,293 to 26,024
Number of inpatient days	70,701	77,956 Range: 70,160 to 85,751	86,248 Range: 77,623 to 94,873
Occupancy rate: (2004/2005 available beds)	48.7%	57.7% Range: 52.0% to 63.5%	63.9% Range: 57.5% to 70.3%

Source: MDH Health Economics Program. Data sources include Minnesota hospital discharge database, Health Care Cost Information System (HCCIS), and population projections from Claritas, Inc.

## Distance to Existing Hospital Services

Although the total capacity of hospitals that currently serve residents of the Cass County Area is likely sufficient to meet growing demand in the next decade, the fact that Cass County area residents currently must travel long distances to receive inpatient hospital services is also an important consideration in evaluating the proposal to build a new hospital in Cass County, because timely access to services is also a component of evaluation of need under Minnesota Statutes §144.552.

As described earlier (Figure 2), the Cass County area is relatively unique in Minnesota in having a sizable population that lacks access to a hospital within 30 miles. Although there is no established standard for what distance should be considered “too far” in terms of a population lacking adequate access to hospital services, two commonly used benchmarks are 1) a distance of 30 miles or more; or 2) travel time of 30 minutes or more.<sup>12</sup> Current Minnesota law regarding standards for access of health maintenance organization (HMO) enrollees to hospital services requires that:

“Within the health maintenance organization’s service area, the maximum travel distance or time shall be the lesser of 30 miles or 30 minutes to the nearest provider of each of the following services: primary care services, mental health services, and general hospital services.” (Minnesota Statutes §62D.124)

Because the law allows for exceptions to the 30 mile/30 minute requirement if it is not feasible in a particular service area, it does not absolutely require that every HMO enrollee have access to a hospital within 30 miles or 30 minutes. To the degree that the state of Minnesota has established

<sup>12</sup> See, for example: Marianne Miller and Michelle Casey, “Access to Hospital Services in Rural Minnesota,” *Minnesota Medicine* January 1990; Edward M. Bosanac et al., “Geographic Access to Hospital Care: A 30-Minute Travel Time Standard,” *Medical Care*, July 1976.

standards, however, the standards that it has are consistent with the 30 mile/30 minute benchmarks discussed above. As noted earlier, a standard of 30 minutes' travel time is also used in the designation of Health Professional Shortage Areas.

As part of the review of this proposal, MDH conducted a review of published research on the impact that distance and/or travel time to a hospital have on health outcomes. Although it is well documented that residents of rural areas travel farther to receive care and have lower use rates for some services,<sup>13</sup> we found no published research that examined the possible effect that long distances traveled by residents of remote rural areas to access hospital services may have on health outcomes, such as mortality rates from conditions where timeliness of care is critically important (for example, heart attacks). Although some researchers have found evidence that increased distance to the nearest hospital is associated with higher mortality from emergent conditions such as heart attacks and unintentional injuries,<sup>14</sup> their study involved hospital closures in a large urban area where travel distances to a hospital are substantially shorter than in the Cass County area.

With regard to timeliness of care, it is important to note that distance to a hospital is not the only issue to consider — other factors, such as emergency medical services (EMS) response times and capabilities to provide advanced life support, also play an important role. According to information provided by the Cass County Board of Commissioners, there are two ambulance services that currently operate in the service area of the proposed hospital. Walker Ambulance Service is a volunteer emergency medical service that operates three ambulances and provides advanced life support<sup>15</sup> services. The average total time per call for Walker Ambulance Service in 2005 was over 2 hours. Longville Ambulance Service, which serves the eastern half of the proposed hospital service area, is a volunteer ambulance service that operates two ambulances. Longville Ambulance Service does not provide advanced life support. The average response time per call in 2005 was 76 minutes.

Because the proposed Cass County hospital would not be designed to provide a high level of specialty care or complex services such as advanced trauma services, it is likely that many residents of Cass County who need to be hospitalized will still need to travel to regional centers capable of providing more complex services. By providing access to basic inpatient hospital services that are not currently available to Cass County area residents except by traveling long distances, however, the proposed hospital would likely improve timely access to care for area residents. In addition, plans to include the proposed hospital in the state's coordinated trauma system as a Level IV Trauma Center may also improve outcomes for trauma cases originating in the service area where patients could be stabilized soonest at the proposed hospital before transfer to definitive care.

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<sup>13</sup> See, for example, Leighton Chan et al., "Geographic Access to Health Care for Rural Medicare Beneficiaries," *The Journal of Rural Health*, Spring 2006.

<sup>14</sup> Thomas C. Buchmueller, Mireille Jacobson, and Cheryl Wold, "How Far to the Hospital? The Effect of Hospital Closures on Access to Care," National Bureau of Economic Research Working Paper No. 10700, August 2004.

<sup>15</sup> Ambulance services that are licensed to provide advanced life support services are authorized to provide advanced airway management, manual defibrillation, and administration of intravenous fluids and pharmaceuticals in addition to basic life support services. (Minnesota Statutes §144E.101)

***Factor 2: What will be the financial impact of the new hospital or hospital beds on existing acute care hospitals that have emergency departments in the region?***

To analyze the financial impact of a new hospital in Cass County on existing hospitals in the region, MDH used hospital discharge data to analyze and project hospital discharges, inpatient days, and occupancy rates for the proposed Cass County hospital and the six hospitals providing the majority of care to residents in the proposed Cass County hospital service area. MDH does not have any data that allows us to translate the impact of a new hospital on the volume of services provided into an estimate of the specific financial impact of a new hospital on existing hospitals in the region. If a hospital loses patients that it would have served in the absence of a new hospital, it not only loses potential revenue but also avoids costs (such as staffing and supplies) that it would have otherwise incurred. Given that MDH does not have information available to allow us to calculate the net financial impact of the proposed hospital on existing hospitals in the region, this section focuses instead on changes in the volume of business for the six hospitals in the region resulting from a new hospital in Cass County.

The impact of a new hospital in Cass County on service volume at surrounding hospitals would be limited, but could potentially impact some hospitals more than others in the region. The proposed Cass County hospital is anticipated to staff 13 beds at the outset, and potentially increase the number of staffed beds to a maximum of 25 after 10 to 20 years of operation. Even with full operation of 25 beds, the service capacity of the proposed hospital would be small in comparison to the overall hospital capacity available in the region. Based on the operation of 13 beds, we estimate that the proposed hospital would absorb up to 3 percent of the service volume provided at the six surrounding hospitals in the region.<sup>16</sup>

Although the proposed Cass County hospital would take some service volume away from surrounding hospitals, projected population growth and aging in the region are estimated to result in increased inpatient utilization over the next ten years. Assuming that a new hospital is constructed in Cass County, we estimate that all of the six hospitals currently serving the majority of residents in the proposed hospital service area would still experience growth in inpatient utilization over the next decade, although the growth would be at a slower rate than would have occurred in the absence of a new hospital.

Three additional factors may be important in analyzing the potential financial impact of the proposed hospital on existing hospitals that currently serve residents of the proposed Cass County hospital service area:

- First, the impact is likely to vary by type of service. Because profitability varies by type of service, this is a consideration. We did not attempt to specifically estimate the impact on existing hospitals by type of service. Given that the hospital in Cass County is proposed to

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<sup>16</sup> As described in Appendix 1, these estimates of potential impact on existing hospitals should be considered upper-bound estimates of the likely impact.



be a critical access hospital (CAH) providing Level IV trauma services, this facility would most likely provide general medical and emergency services. Therefore, it is unlikely that the construction of a hospital in Cass County would affect specialized medical and emergency services currently provided to residents of the proposed hospital service area at larger hospitals in the region and throughout the state.

- Second, there is significant uncertainty about how physician referral patterns may change as a result of the new hospital, associated physician clinics, and provider affiliations. Even if the proposed hospital does not directly provide specialized services, its association with a hospital system could have an impact on referrals to non-system affiliated hospitals. Our analysis does not incorporate this possible change, but instead uses the information that we have on current travel patterns of patients from the proposed Cass County hospital service area.
- The third area relates to patient preference. A common theme seen in comments from the public was the desire of the community for nearby hospital services. Since patients prefer hospitals closer to home when alternative choices are available, this factor may also influence future hospitalization patterns in the area.

In summary, MDH's analysis finds that the proposed hospital would absorb a small percentage of the inpatient service volume that is currently provided by the six hospitals providing the majority of care to residents of the proposed Cass County hospital service area. Even with the construction of a new hospital, inpatient utilization would grow over time for hospitals serving this area due to population growth and demographic change. However, the growth in utilization would generally be at a slower rate than would have occurred in the absence of a new hospital in Cass County, with some hospitals affected more than others. The impact of a new hospital will likely vary by service type, but it is unlikely that the proposed hospital would affect specialized medical and emergency services provided to residents of the service area at larger hospitals in the region and throughout the state. Other factors, such as provider affiliations and patient preferences, are also likely to influence utilization patterns in the region.

### ***Factor 3: How will the new hospital or hospital beds affect the ability of existing hospitals in the region to maintain existing staff?***

Cass County anticipates little or no impact of a new hospital on staffing at existing hospitals in the region. The proposal estimates that much of the staffing for the new hospital will come from staff currently employed at the Ah-Gwah-Ching long-term care facility. With regard to physician staffing, Cass County anticipates that physicians from surrounding physician groups will be available as needed or that additional physicians can be recruited into the area.

Although the impact of the proposed facility on staffing at existing hospitals in the region is expected to be small, there are some workforce issues that should be considered. The extent to which Cass County can utilize physicians from the area or recruit physicians will determine whether or not the proposed hospital can be adequately staffed. Comments on the proposal submitted to MDH by St. Joseph's Area Health Services in Park Rapids raised concerns about the

ability of a new facility in the region to recruit and retain emergency physicians and ancillary staff, such as imaging, laboratory, and respiratory positions. This situation is not unique to Cass County, as many rural facilities currently have difficulty in the recruitment of physicians and technical staff. As noted earlier, Cass County has been designated as both a health professional shortage area and a medically underserved area.

Second, an analysis by the Minnesota Department of Employment and Economic Development on worker shortages for Northern Minnesota raises some general concerns about future workforce shortages. The analysis projects a long-term need for registered nurses (RNs), partly as a result of many RNs nearing retirement age.<sup>17</sup> There are also signs of a developing licensed practical nurse (LPN) shortage, which could pose a challenge for future RN supply in the region, as experienced LPNs form a portion of the pool from which RNs are recruited.

Given that the size of the proposed Cass County hospital is small in comparison to the overall hospital capacity in the region, along with the expectation that the qualifications of staff currently employed at the Ah-Gwah-Ching facility match the skill set for the majority of staff needed at an inpatient facility, MDH anticipates little impact of a new hospital on staffing at other facilities in the area. The ability of the proposed facility to be adequately staffed will depend on whether the hospital can recruit and retain physicians and technical staff, which is difficult for many rural facilities. Although the proposed Cass County hospital will face many workforce challenges, those challenges will be similar to those faced by other small rural hospitals and the construction of a Cass County hospital is not likely to cause significant additional staffing problems at existing facilities.

***Factor 4: To what extent will the new hospital or hospital beds provide services to nonpaying or low-income patients relative to the level of services provided to these groups at existing hospitals in the region?***

As shown in Table 4, residents of the proposed hospital service area are more likely to have health insurance coverage through Medicare or a state public program, and less likely to have private health insurance coverage than statewide averages. The rate of uninsurance for residents in the proposed service area is similar to that of other rural areas of the state and the statewide average. Cass County's economic conditions indicate that there is a need for free or discounted health care in the region. Per capita income in Cass County is significantly below the statewide average and the unemployment rate is almost twice as high as the state overall.

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<sup>17</sup> Minnesota Department of Employment and Economic Development, Labor Market Information System, "Worker Shortages for Health Care Occupations in Northwest Minnesota," Minnesota Employment Review, Sept. 2005

Table 4  
Sources of Insurance Coverage, 2004

	Service Area of Proposed Hospital	Rural Minnesota	Statewide
Public	<b>42.7%*</b>	31.9%	25.1%
Medicare	<b>21.7%</b>	18.4%	14.0%
Other Public	<b>21.0%</b>	13.4%	11.0%
Private	<b>50.7%</b>	60.2%	67.5%
Group	<b>46.9%</b>	53.9%	62.9%
Individual	3.8%	6.3%	4.6%
Uninsured	<u>6.7%</u>	<u>8.0%</u>	<u>7.4%</u>
	100.0%	100.0%	100.0%

Source: MDH/University of Minnesota, 2004 Minnesota Health Access Survey

Bold indicates statistically significant difference from Statewide estimate

\* Indicates statistically significant difference from Rural Minnesota estimate

In 2004, the six hospitals providing the majority of care to residents in the proposed Cass County hospital service area provided nearly \$5 million in uncompensated care (see Table 1).

Uncompensated care among these six hospitals represented 2.0 percent of operating expenses in 2004, which was higher than both the statewide average (1.8 percent) and the average for rural Minnesota hospitals (1.7 percent). The Cass County application anticipates that existing hospitals serving patients from the Cass County area may see a reduction in uncompensated care as low-income patients from the proposed service area choose to obtain hospital services locally rather than travel longer distances to surrounding hospitals.

Based on the demographic and health insurance coverage statistics for Cass County and the proposed hospital service area, MDH finds that the proposed facility is likely to provide uncompensated care at a level similar to existing hospitals in the region.

#### ***Factor 5: What are the views of affected parties?***

In performing this public interest review, the process that MDH used to solicit the views of affected parties included a letter to all hospital administrators potentially impacted by a new hospital in Cass County, a notice in the State Register, and a press release sent to newspapers in the Cass County area requesting public comment on the proposal to build a new hospital in Cass County. MDH also considered formal resolutions of support for the proposal that were provided by the Cass County Board of Commissioners, and information provided by the Cass County Board of Commissioners on focus groups conducted in October 2004 with residents of Cass County. Copies of comments submitted to MDH and letters of support provided to MDH by the Cass County Board of Commissioners are included in Appendix 2.

MDH has received mostly positive comments in support of the proposal to construct a new hospital in Cass County. Included with the application for public interest review, Cass County attached various resolutions in support of the proposal. Government entities that have signed resolutions in support of the proposal to build a new hospital in Cass County include the counties of Beltrami, Cass, Crow Wing, and Itasca, the Leech Lake Reservation Tribal Council, the city of Walker, and the townships of Shingobee, Pine Lake, and Leech Lake.

MDH also received a letter in support of the proposal from the Cass County Economic Development Corporation (EDC). A research study provided to MDH by the EDC estimated that the economic impact to the Cass County economy from constructing a hospital would be \$46 million during the construction phase and \$19 million annually when the hospital is operational.

Five private citizens from the Cass County area provided comments on the proposal to MDH. One of the comments submitted questioned how the decision was made to locate the proposed hospital in Walker, since this area “has already received a lot of county and state investment.” All five of the comments from private citizens supported the construction of a hospital in Cass County.

A letter received from St. Joseph’s Area Health Services hospital in Park Rapids acknowledged the need for expanded health care services in Cass County, due to the limited access to health care services and the area’s growing population. The letter expresses concerns about whether a hospital in Cass County could be financially viable unless it obtains designation as a critical access hospital, and points out that a new hospital in Cass County will likely face significant challenges in recruiting and retaining emergency physicians and key ancillary staff. St. Joseph’s Area Health Services also stated that even with critical access status, a new hospital in the area could struggle to be financially viable given uncertainty about the degree to which current referral patterns would change with the presence of a new hospital. More detail on how MDH incorporated these issues into its public interest review is included elsewhere in this report.

Finally, St. Joseph’s Area Health Services recommended that Cass County focus on strengthening the medical transportation systems and work with existing providers in the area to expand access to primary and urgent care services to have an immediate impact on health care access issues in Cass County. Given the relative lack of primary care and urgent care services, MDH concurs that these concerns should be addressed as well. However, they are somewhat outside of the scope of the public interest review under Minnesota Statutes §144.552.

During October 2004, focus groups were conducted by consultants hired by Cass County with residents from six communities in Cass County regarding health care access issues and reuse of the Ah-Gwah-Ching site. The results from these focus groups indicate that a majority of residents in the area are not satisfied with the current health care delivery system serving the residents of the county. Focus group participants identified a number of gaps in current health care service delivery for county residents, such as:

- No access to clinic services at night or on the weekends

- Long distance to travel to the nearest hospital
- Follow-up care is difficult and inconvenient due to long travel distances required to receive care
- No urgent care or emergency services are available in the county, which increases the use of ambulance services
- Ambulances cover a large geographic area and travel to six different hospitals depending on the nature of the problem and patient preferences
- Not enough health care providers in the area such as physician assistants and nurse practitioners

Focus group participants also identified many types of health care services that are currently available in the county on a limited basis that they would like to be more accessible, such as specialized physician services, physical therapy, rehabilitation, dialysis, chemotherapy, behavioral health and chemical dependency.

## Section 4: Discussion and Finding

The previous section of this report examined the Cass County proposal in light of the five specific factors that MDH must consider as part of the public interest review process. This final section discusses several other relevant issues, and describes the Department's finding on the proposal.

### Status as a Critical Access Hospital

As noted in Section 2, under current rules building a hospital on the Ah-Gwah-Ching site would not qualify the hospital to be designated a critical access hospital (CAH), because it is less than 35 miles away from the next closest hospital in Park Rapids. However, the Cass County Board of Commissioners has indicated that achieving critical access hospital status is considered important to the financial feasibility of the hospital.

Cass County is currently pursuing two alternative strategies that would qualify the proposed hospital as a CAH. The first is to obtain Congressional approval of an exception to the 35-mile requirement; alternatively, the County could choose a different site nearby that would meet the 35-mile requirement. In its initial submission for public interest review, the County indicated that "If County efforts to obtain critical access hospital designation... are not successful at Ah-Gwah-Ching, CAH qualifying sites are available within 20 miles of Ah-Gwah-Ching as proposed in the moratorium exception legislation." In a subsequent submission, the county indicated that other possible options if CAH designation is not obtained would include "establishing a hospital taxing district, or private donations." In the process of conducting the public interest review of this proposal, MDH assumed that the hospital will be a critical access hospital.

### Bed Types and Services Provided

In considering whether an exception to the hospital moratorium is warranted, another issue that is important is how well the proposed services match the types of services that are needed. This factor is important because some hospital services are more profitable than others due to differentials in payment rates. Over time, this can lead to a situation where Minnesota may have sufficient capacity or over-capacity for certain profitable services, and an undersupply of beds for services that are less profitable.

Because the hospital that is proposed to be built in Cass County would be very small (operating only 13 beds for at least the first decade), and because it would not be providing specialized services, this consideration is potentially less important for the Cass County proposal than it would be for larger-scale proposals. The proposed hospital would fill a basic need for hospital services in the area, but residents would still need to travel to more distant hospitals to receive highly specialized services. MDH finds that the bed types and services proposed to be provided are appropriate to meet community needs without resulting in an oversupply of certain types of services.

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## Potential Health Care System Costs

A third issue that is relevant to the question of whether an exception to the hospital moratorium should be granted is the issue of added cost to the health care system. Concerns about new capacity adding costs to the health care system were the reason for enactment of certificate of need laws in the 1970s, and also one reason why Minnesota's hospital moratorium was enacted when certificate of need was repealed. There are two main reasons for concern about the impact of new inpatient hospital capacity: first, hospitals are expensive to construct and operate, and those costs are built into hospital prices and eventually passed on to consumers in the form of higher health insurance premiums; and second, some people argue that duplication of services increases health care costs by inducing additional demand that would not otherwise have occurred.

Because Cass County area residents generally receive hospital services when they are needed, it could be argued that the proposed hospital represents a duplication of services. However, it is also true that county residents currently travel significantly longer distances to receive hospital care than most of the rest of Minnesota's population. From this perspective, the addition of basic inpatient services in Cass County would not really be considered a "duplication" of services. In addition, two area hospitals that recently converted to critical access hospital status (St. Joseph's Area Health Services in Park Rapids and Cuyuna Regional Medical Center) were required to reduce their staffed beds in order to obtain CAH designation. A CAH cannot operate more than 25 beds. Prior to converting to CAH status, St. Joseph's Area Health Services reported having 47 available beds, and Cuyuna Regional Medical Center reported having 30 available beds. Because both of these facilities needed to reduce their number of available beds in order to obtain CAH status, total inpatient hospital capacity at hospitals currently serving residents of the Cass County area has recently declined. Adding new inpatient capacity in Cass County would partially offset those recent declines.

While we did not attempt to estimate the specific impact that the proposed Cass County hospital would have on health care costs, it is likely that the construction of the new facility would add at least some cost to Minnesota's health care system. However, the impact is likely to be small, because the scale of the proposed inpatient hospital project is quite small relative to total hospital spending in Minnesota and overall health care spending.

## Finding

MDH finds that the Cass County area is relatively unique in Minnesota in having a sizable population that lacks access to inpatient hospital services within 30 miles. Although our projections of future demand for hospital services in the region suggest that existing capacity is likely sufficient to meet future needs, we find that the Cass County Board of Commissioners' proposal to build a new inpatient facility is in the public interest because it would improve area residents' access to timely hospital services.



## Appendix 1: Methodology

This appendix provides additional details on MDH's analysis of the application for public interest review. It describes the methods and data that we used to:

- Project future utilization and occupancy rates at hospitals currently serving residents of the Cass County area in the absence of a new hospital being built in Cass County; and
- Estimate the impact of the proposed Cass County hospital on existing hospitals that serve residents of the Cass County area.

### Projecting Hospital Use and Occupancy in the Absence of a New Hospital

This analysis focused on six hospitals that were identified as (a) holding a significant market share of the discharges from the service area for the proposed Cass County hospital (as defined by the Cass County Board of Commissioners); or (b) having a high dependency on patients from the Cass County area (even if the hospital does not have a large share of the total market, it may be very dependent on the Cass County area as a source of admissions).

The hospitals included in this analysis were Cuyuna Regional Medical Center, Deer River HealthCare Center, Grand Itasca Clinic and Hospital, North Country Health Services, St. Joseph's Area Health Services, and St. Joseph's Medical Center.

We used Minnesota hospital inpatient discharge data from calendar year 2004, excluding discharges of normal newborns. This data includes information on the patient's zip code and age. First, we calculated occupancy rates for each of the six hospitals and for the six hospitals as a group in 2004.

Next, we projected inpatient volumes and occupancy rates to 2010 and 2015. In order to take account of population growth and demographic change that may be occurring in a particular hospital's service area, we looked specifically at the zip codes from which most of the hospital's patients originate. We chose to define this area as the geographic area (group of zip codes) from which the top 75 percent of the hospital's discharges of Minnesota residents originated in 2004. For each of the six hospitals, we calculated hospital-specific and age-specific hospitalization rates for the population living in the geographic area as defined above. We used projections of future population (by age group) in the same geographic area to project future hospital volumes.<sup>18</sup> The geographic areas that comprised the remaining 25 percent of the hospital's discharges of Minnesota residents were treated as a group for the purpose of projecting future use of hospital services, and we assumed that the number of discharges of non-Minnesota residents would grow at the same rate as discharges of residents of the state.

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<sup>18</sup> Population estimates by zip code and age were obtained from Claritas, Inc. for 2000, 2005 and 2010. We projected forward to 2015 by applying the same average growth rate estimated by Claritas from 2005 to 2010.



The major assumptions that we made in this analysis are as follows:

- We assumed that hospitalization rates by age group would be the same as they were in 2004. To take account of potential future changes in hospitalization rates, we also created projections assuming a range of future use rates – either a 10% increase or 10% decrease in hospitalization rates for each age group. Factors that could cause future hospitalization rates to increase include rising levels of disease (for example, conditions associated with obesity) or technological change; on the other hand, technological change can also be a major driver of reductions in hospitalization rates. (Changes in overall hospital utilization due to the projected aging of the population are accounted for already by the fact that the analysis is done separately for each age group.)
- We assumed that the average length of stay would also be unchanged compared to 2004. Although the average length of a hospital stay declined in Minnesota from 5.1 days in 1993 to 4.2 days in 2004, the average length of stay has been stable over the past five years.
- We assumed that average annual population growth for the geographic areas defined for each hospital would be the same for 2010 to 2015 as projected by Claritas, Inc. for 2005 to 2010. To the degree that this method might overstate or understate actual population growth during this period, our estimates of future hospital use would also be overstated or understated.
- Finally, we assumed that the group of zip codes from which each hospital receives its core business (the geographic area accounting for 75% of discharges) would remain the same over time.

### Estimating the Impact of the Proposed Hospital on Existing Hospitals That Serve Residents of the Cass County Area

In order to calculate the impact of the proposed hospital on existing hospitals that serve residents of the Cass County area, we estimated the potential impact on discharges, inpatient days, and occupancy rates at each of the six hospitals. First, we calculated the total number of bed days that the proposed Cass County facility is designed to accommodate, incorporating information from the proposal on both the size of the facility and the expected occupancy rate. We calculated the impact on existing hospitals by assuming that the new facility would in fact provide the volume of inpatient services consistent with the proposed size and occupancy rate anticipated by the proposal. Our estimate of the impact of the facility is therefore a conservative estimate, representing an upper bound on the volume of inpatient services that would be shifted away from existing hospitals.

To estimate the impact on individual hospitals, we assumed that the hospital's market share of the services provided to Cass County area residents at hospitals other than the proposed new facility would be the same as its current market share among the group of six existing hospitals. Areas in the northeast corner of the proposed hospital service area were excluded from this calculation, because residents of those areas would be closer to existing hospitals than to the new hospital. Essentially, our analysis assumes that people who do not receive services at the proposed Cass

County hospital will maintain the same travel patterns that currently exist. As noted in the main text of the report, however, there is substantial uncertainty about how travel patterns may change. There are two main factors contributing to this uncertainty: first, the impact that other components of the proposed project (physician clinics and long-term care services) could have on physician referral patterns; and second, the possibility that a system-affiliated hospital in Cass County could affect the pattern of referrals to other hospitals for services not provided directly at the proposed Cass County hospital. For each hospital, we estimated the impact of the proposed Cass County hospital on existing hospitals as the difference between a) projected volumes in the absence of a new hospital and b) projected volumes incorporating the loss of volume from the addition of a new facility in Cass County.

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## **Appendix 2: Comments on the Proposed Cass County Hospital**

BOARD OF COUNTY COMMISSIONERS  
BELTRAMI COUNTY, MINNESOTA

DATE: September 20, -2005

RESOLUTION #05-09-32

MOTION OF COMMISSIONER: Fairbanks

SECONDED BY COMMISSIONER: Vene

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THE BOARD, AT ITS REGULAR MEETING AGENDA, APPROVED THE RESOLUTION  
REGARDING HEALTH CARE CAMPUS AT AH-GWAH-CHING, MINNESOTA, AS  
SUBMITTED

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WHEREAS, Numerous studies and comprehensive plans identify the need to improve health care access in the North-Central portion of Cass County, and

WHEREAS, The State of Minnesota plans to close Ah Gwah Ching after January 2007, and

WHEREAS, An inclusive public process has determined that an integrated health care campus at Ah Gwah Ching is an effective reuse and of regional economic significance, and

WHEREAS, Existing area hospital providers have indicated that designation by the State of Minnesota, as a "necessary provider" and exemption from the current hospital bed moratorium are essential to the reuse of Ah Gwah Ching as an integrated health care campus.

NOW THEREFORE, BE IT RESOLVED,

1. That we respectfully request the State of Minnesota to urgently consider:

- a. Exemption to the hospital moratorium for a project for the construction of a new hospital with up to 25 beds in Cass County at the site of the Ah Gwah Ching facility, provided that the project is approved by the Cass County Board of Commissioners.
- b. "Necessary provider" designation for a Cass County approved application for critical access hospital status.

2. That this resolution shall be effective upon its adoption and promptly forwarded to the Cass County Board of Commissioners.

State of Minnesota  
County of Cass

Resolution Regarding Health Care Campus at Ah Gwah Ching

**WHEREAS,**

Numerous studies and comprehensive plans identify the need to improve health care access in the North-Central portion of Cass County, and

**WHEREAS,**

The State of Minnesota plans to close Ah Gwah Ching after January 2007, and

**WHEREAS,**

An inclusive public process has determined that an integrated health care campus at Ah Gwah Ching is an effective reuse and of regional economic significance, and

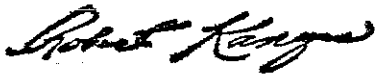
**WHEREAS,**

Existing area hospital providers have indicated that designation by the State of Minnesota, as a "necessary provider" and exemption from the current hospital bed moratorium are essential to the reuse of Ah Gwah Ching as an integrated health care campus.

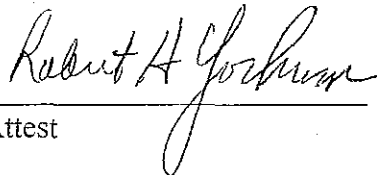
**NOW THEREFORE, BE IT RESOLVED,**

1. That we respectfully request the State of Minnesota to urgently consider:
  - a. Exemption to the hospital moratorium for a project for the construction of a new hospital with up to 25 beds in Cass County at the site of the Ah Gwah Ching facility, provided that the project is approved by the Cass County Board of Commissioners.
  - b. "Necessary provider" designation for a Cass County approved application for critical access hospital status.
2. That this resolution shall be effective upon its adoption and promptly forwarded to the Governor of Minnesota, Commissioner of Health, and local Legislative Delegation.

Adopted this 6th day of SEPT., 2005



Chairman



Attest

ZAZO

RESOLUTION

Commissioner Sluss offered the following resolution and moved its adoption:

Resolution Regarding Health Care Campus at Ah Gwah Ching

WHEREAS, numerous studies and comprehensive plans identify the need to improve health care access in the North-Central portion of Cass County, and

WHEREAS, the State of Minnesota plans to close Ah Gwah Ching after January 2007, and

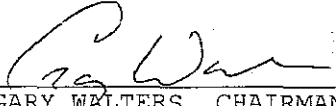
WHEREAS, an inclusive public process has determined that an integrated health care campus at Ah Gwah Ching is an effective reuse and of regional economic significance, and

WHEREAS, existing area hospital providers have indicated that designation by the State of Minnesota, as a "necessary provider" and exemption from the current hospital bed moratorium are essential to the reuse of Ah Gwah Ching as an integrated health care campus.


NOW THEREFORE, BE IT RESOLVED the Board of Commissioners of Crow Wing County, Minnesota, respectfully requests the State of Minnesota to urgently consider exemption to the hospital moratorium for a project for the construction of a new hospital with up to 25 beds in Cass County at the site of the Ah Gwah Ching facility, provided that the project is approved by the Cass County Board of Commissioners, and to urgently consider "necessary provider" designation for a Cass County approved application for critical access hospital status.

BE IT FURTHER RESOLVED that this resolution shall be effective upon its adoption and promptly forwarded to the Governor of Minnesota, Commissioner of Health, and local Legislative Delegation.

Which resolution being seconded by Commissioner Larsen was duly adopted, all members voted "AYE".

  
GARY WALTERS, CHAIRMAN  
BOARD OF COUNTY COMMISSIONERS  
CROW WING COUNTY, MINNESOTA

ATTEST:

  
ROY A. LUUKKONEN, COUNTY AUDITOR  
CROW WING COUNTY, MINNESOTA

Dated at Brainerd, Minnesota, this 27th day of September 2005.

RESOLUTION  
OF THE  
COUNTY BOARD OF COMMISSIONERS  
ITASCA COUNTY, MINNESOTA

Adopted October 25, 2005

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Commissioner Mandich moved the adoption of the following resolution:

Resolution No. 10-05-07 (Page 1 of 2)

RE: HEALTH CARE CAMPUS AT AH-GWAH CHING

WHEREAS, numerous studies and comprehensive plans identify the need to improve health care access in the North-Central portion of Cass County, and

WHEREAS, the State of Minnesota plans to close Ah-Gwah-Ching after January 2007, and

WHEREAS, an inclusive public process has determined that an integrated health care campus at Ah-Gwah-Ching is an effective reuse and of regional economic significance, and

WHEREAS, existing area hospital providers have indicated that designation by the State of Minnesota, as a "necessary provider" and exemption from the current hospital bed moratorium are essential to the reuse of Ah-Gwah-Ching as in integrated health care campus.

NOW THEREFORE, BE IT RESOLVED, that the Itasca County Board of Commissioners supports Cass County and respectfully requests the State of Minnesota to consider:

- 1) "Necessary provider" designation for a Cass County approved application for critical access hospital status.
- 2) That this resolution shall be effective upon its adoption and promptly forwarded to the Governor of Minnesota, Commissioner of Health, and local Legislative Delegation.

Commissioner McLynn seconded the motion for the adoption of the resolution and it was declared adopted upon the following vote:

Yeas   5        Nays   0  

District #1   Y  

District #2   Y  

Other   N/A  

District #3   Y  

District #4   Y  

District #5   Y

State of Minnesota  
County of Cass

RESOLUTION 2005-05  
SHINGOBEE TOWNSHIP

Resolution Regarding Health Care Campus at Ah Gwah Ching

WHEREAS,

Numerous studies and comprehensive plans identify the need to improve health care access in the North-Central portion of Cass County, and

WHEREAS,

The State of Minnesota plans to close Ah Gwah Ching after January 2007, and

WHEREAS,

An inclusive public process has determined that an integrated health care campus at Ah Gwah Ching is an effective reuse and of regional economic significance, and

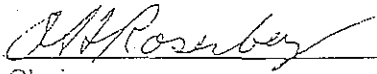
WHEREAS,

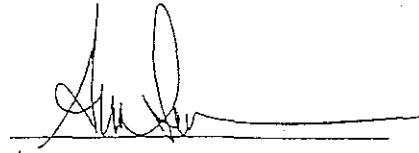
Existing area hospital providers have indicated that designation by the State of Minnesota, as a "necessary provider" and exemption from the current hospital bed moratorium are essential to the reuse of Ah Gwah Ching as an integrated health care campus.

NOW THEREFORE, BE IT RESOLVED,

1. That we respectfully request the State of Minnesota to urgently consider:
  - a. Exemption to the hospital moratorium for a project for the construction of a new hospital with up to 25 beds in Cass County at the site of the Ah Gwah Ching facility, provided that the project is approved by the Cass County Board of Commissioners.
  - b. "Necessary provider" designation for a Cass County approved application for critical access hospital status.
2. That this resolution shall be effective upon its adoption and promptly forwarded to the Governor of Minnesota, Commissioner of Health, and local Legislative Delegation.

Adopted this 14th day of September, 2005

  
Chairman

  
Attest



State of Minnesota  
County of Cass

PINE LAKE TOWNSHIP

Resolution Regarding Health Care Campus at Ah Gwah Ching

**WHEREAS,**

Numerous studies and comprehensive plans identify the need to improve health care access in the North-Central portion of Cass County, and

**WHEREAS,**

The State of Minnesota plans to close Ah Gwah Ching after January 2007, and

**WHEREAS,**

An inclusive public process has determined that an integrated health care campus at Ah Gwah Ching is an effective reuse and of regional economic significance, and

**WHEREAS,**

Existing area hospital providers have indicated that designation by the State of Minnesota, as a "necessary provider" and exemption from the current hospital bed moratorium are essential to the reuse of Ah Gwah Ching as an integrated health care campus.

**NOW THEREFORE, BE IT RESOLVED,**

1. That we respectfully request the State of Minnesota to urgently consider:
  - a. Exemption to the hospital moratorium for a project for the construction of a new hospital with up to 25 beds in Cass County at the site of the Ah Gwah Ching facility, provided that the project is approved by the Cass County Board of Commissioners.
  - b. "Necessary provider" designation for a Cass County approved application for critical access hospital status.
2. That this resolution shall be effective upon its adoption and promptly forwarded to the Governor of Minnesota, Commissioner of Health, and local Legislative Delegation.

Adopted this 13<sup>th</sup> day of Sept, 2005

Mary Nordeen  
Chairman

T.M. Miller

Daniel George

Thomas F. Sheiler  
Attest

State of Minnesota  
County of Cass

Resolution Regarding Health Care Campus at Ah Gwah Ching

WHEREAS,

Numerous studies and comprehensive plans identify the need to improve health care access in the North-Central portion of Cass County, and

WHEREAS,

The State of Minnesota plans to close Ah Gwah Ching after January 2007, and

WHEREAS,

An inclusive public process has determined that an integrated health care campus at Ah Gwah Ching is an effective reuse and of regional economic significance, and

WHEREAS,

Existing area hospital providers have indicated that designation by the State of Minnesota, as a "necessary provider" and exemption from the current hospital bed moratorium are essential to the reuse of Ah Gwah Ching as an integrated health care campus.

NOW THEREFORE, BE IT RESOLVED,

1. That we respectfully request the State of Minnesota to urgently consider:
  - a. Exemption to the hospital moratorium for a project for the construction of a new hospital with up to 25 beds in Cass County at the site of the Ah Gwah Ching facility, provided that the project is approved by the Cass County Board of Commissioners.
  - b. "Necessary provider" designation for a Cass County approved application for critical access hospital status.
2. That this resolution shall be effective upon its adoption and promptly forwarded to the Governor of Minnesota, Commissioner of Health, and local Legislative Delegation.

Adopted this 7 day of September, 2005

Pamela A. Robinson  
Chairman

Glenn M. Berg  
Attest

Leach Lake Township

State of Minnesota  
County of Cass  
City of Walker

**CITY OF WALKER**

Resolution 19-2005

**Resolution Regarding Health Care Campus at Ah Gwah Ching**

**WHEREAS**, Numerous studies and comprehensive plans identify the need to improve health care access in the North-Central portion of Cass County; and

**WHEREAS**, The State of Minnesota plans to close Ah Gwah Ching after January 2007; and

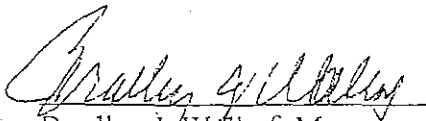
**WHEREAS**, An inclusive public process has determined that an integrated health care campus at Ah Gwah Ching is an effective reuse and of regional economic significance; and

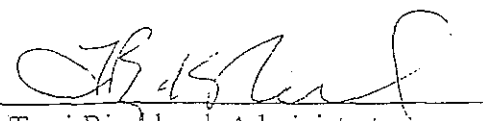
**WHEREAS**, Existing area hospital providers have indicated that designation by the State of Minnesota, as a "necessary provider" and exemption from the current hospital bed moratorium are essential to the reuse of Ah Gwah Ching as an integrated health care campus.

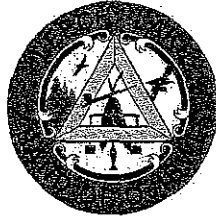
**NOW THEREFORE, BE IT RESOLVED,**

1. That we respectfully request the State of Minnesota to urgently consider:
  - a. Exemption to the hospital moratorium for a project for the construction of a new hospital with up to 25 beds in Cass County at the site of the Ah Gwah Ching facility, provided that the project is approved by the Cass County Board of Commissioners.
  - b. "Necessary provider" designation for a Cass County approved application for critical access hospital status.
2. That this resolution shall be effective upon its adoption and promptly forwarded to the Governor of Minnesota, Commissioner of Health, and local Legislative Delegation.

Adopted this 12<sup>th</sup> day of September, 2005

  
Bradley J. Walhof, Mayor

Attest:   
Terri Bjorklund, Administrator



**LEECH LAKE RESERVATION TRIBAL COUNCIL**

**RESOLUTION NO. 2006-25**

**HEALTH CARE CAMPUS AT AH GWAH CHING**

- WHEREAS,** the Leech Lake Band of Chippewa Indians is a Federally recognized Indian Tribe organized under the Indian Reorganization Act of 1934, and operating under the Revised Constitution and Bylaws of the Minnesota Chippewa Tribe; and
- WHEREAS,** numerous studies and comprehensive plans identify the need to improve health care access in the North-Central portion of Cass County, and
- WHEREAS,** the State of Minnesota plans to close Ah Gwah Ching after January 2007, and
- WHEREAS,** an inclusive public process has determined that an integrated health care campus at Ah Gwah Ching is an effective reuse and of regional economic significance, and
- WHEREAS,** existing area hospital providers have indicated that designation by the State of Minnesota, as a "necessary provider" and exemption from the current hospital bed moratorium are essential to the reuse of Ah Gwah Ching as an integrated health care campus.

**NOW THEREFORE BE IT RESOLVED,**

1. That we respectfully request the State of Minnesota to urgently consider:
  - a. Exemption to the hospital moratorium for a project for the construction of a new hospital with up to 25 beds in Cass County at the site of Aw Gwah Ching facility, provided that the project is approved by the Cass County Board of Commissioners.
  - b. "Necessary provider" designation for a Cass County approved application for critical access hospital status.
2. That this resolution shall be effective upon its adoption and promptly forwarded to the Governor of Minnesota, Commissioner of Health, and local Legislative Delegation.

## St. Joseph's Area Health Services

600 Pleasant Ave. Park Rapids, MN 56470  
Phone: (218) 732-3311 Fax: (218) 732-1368

March 31, 2006

Ms. Julie Sonier, Director  
Health Economics Program  
Minnesota Department of Health  
85 E. 7<sup>th</sup> Place, Suite 300  
St. Paul, MN 55101

Dear Ms. Sonier,

Per your request, I am writing to offer my comments on a proposed critical-access hospital in Cass County.

Let me begin by acknowledging the need for expanded health-care service in the Cass County area. Clearly Cass County is growing at a significant rate, and access to health-care services is a significant issue to support the needs of the existing population, as well as future growth. These challenges are magnified by the increase in summer population due to seasonal residents and tourists.

That being said, I do believe that a new hospital in Cass County would face substantial challenges to being successful, including recruiting and retaining qualified physicians and other clinical staff to provide the level of services necessary to sustain a 24/7 operation. Some specific areas of concern would be emergency physicians and key ancillary staff (imaging, lab, respiratory, etc.). The capital operating costs of building a facility and acquiring current technology would also create challenges for a new hospital. I do not believe that a new facility could be financially viable unless critical-access status is obtained, which to my understanding federal rules no longer allow within 35 miles of existing hospitals. Even with critical access, financial performance would be difficult and would be dependent on a significant portion of population utilizing the facility. This may be difficult to achieve, in particular for specialty services now transferring to Bemidji, Brainerd and to some extent Park Rapids.

Cass County is a very large geographic area, with the northern portion served by Bemidji and Park Rapids, and the southern portion traveling to Brainerd. One concern about placing a hospital in Walker is that the central and southern portions of the county's population would continue to travel to Brainerd because of established relationships and specialty services, making the viability of a new facility more suspect.

Prior to proceeding with the development of an additional hospital, I would first focus on strengthening medical transportation systems in Cass County to the highest possible level, and also work with existing providers in Walker (Dakota Clinic, MeritCare) to

expand access to primary-care and urgent-care services. These two areas would be much less costly and have a more immediate impact on addressing many of the access issues that exist in Cass County.

Thank you for the opportunity to share these comments.

Sincerely,

Peter Jacobson  
President & CEO  
St. Joseph's Area Health Services



245 Barclay Avenue, Suite 101 P.O. Box 709 Pine River, MN 56474  
Phone: 218-587-8287 Fax: 218-587-8282 [www.co.cass.mn.us](http://www.co.cass.mn.us)

March 27, 2006

Ms. Julie Sonier  
Director, Health Economics Program  
Minnesota Department of Health  
85 E 7<sup>th</sup> Place, Suite 300  
St. Paul, MN 55101

Dear Ms. Sonier,

We are pleased and supportive of the efforts of Cass County in proposing a hospital. Improved access to healthcare is a quality community amenity as well as an economic advantage for Cass County residents.

The Cass County Economic Development Corporation (EDC) has supported the effort by coordinating the Master Plan for the reuse of the Ah-Gwah-Ching (AGC) facility. As the economic development arm to the county, we worked closely with the community and many developers in identifying options for the site. Development of a healthcare facility was embraced by both groups as the best alternative.

The proposed hospital will impact the Cass County economy immensely, according to an economic impact report prepared by the University of Minnesota Duluth in September of 2005. A \$30 million hospital employing 95 will actually bring \$46 million to the economy during the construction phase and \$19 million annually during the operations phase. The report indicates that nearly 600 employees will be needed for construction and another 121 will be needed for operations. This proposed healthcare facility will supply the high quality jobs that our economy needs.

We ask that the MDH carefully consider this economic impact and the loss of \$5,745,000 in annual AGC wages, when making a decision on hospital and bed licensure. This is a critical decision for our Cass County economy.

Sincerely,

Cy Struss, President  
Cass County EDC



**Labovitz School**  
**OF BUSINESS AND ECONOMICS**  
Bureau of Business and Economic Research

**Economic Impact of Critical Access Hospital**

Near Walker, Minnesota  
September 29, 2005

Prepared by:

James A. Skurla, Acting Director

Bureau of business and Economic Research

19 School of Business and Economics

University of Minnesota Duluth

Duluth, MN 55812-2496 (218) 726-8614

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**Impact Procedures and Input Assumptions**

**IMPLAN Models**

There are two components to the IMPLAN system, the software and databases. The databases provide all information to create regional IMPLAN models. The software performs the calculations and provides an interface for the user to make final demand changes.

Comprehensive and detailed data coverage of the IMPLAN study area by county, and the ability to incorporate user-supplied data at each stage of the model building process, provides a high degree of flexibility both in terms of geographic coverage and model formulation, in this case definition of the Cass county study area, and the definition of specific models for construction and operations.

*Bureau of Business and Economic Research  
Labovitz School of Business and Economics  
University of Minnesota Duluth*



## Data

IMPLAN data files use federal government data sources including:

- US Bureau of Economic Analysis Benchmark I/O Accounts of the US
- US Bureau of Economic Analysis Output Estimates
- US Bureau of Economic Analysis REIS Program
- US Bureau of Labor Statistics Covered Employment and Wages (ES202) Program
- US Bureau of Labor Statistics Consumer Expenditure Survey
- US Census Bureau County Business Patterns
- US Census Bureau Decennial Census and Population Surveys
- US Census Bureau Economic Censuses and Surveys
- US Department of Agriculture Crop and Livestock Statistics
- US Geological Survey

IMPLAN data files consist of the following components: employment, industry output, value added, institutional demands, national structural matrices and inter-institutional transfers.

Impacts for this model use the most recent IMPLAN data available which is for the year 2002. The impact is reported in 2004 dollars (given the data year of inputs supplied to the Bureau of Business and Economic Research) and calculated with the built-in deflators of the modeling software.

Economic impacts are made up of direct, indirect, and induced impacts. The following cautions are suggested assumptions for accepting the impact model:

- IMPLAN input-output is a production based model
- Local or export based purchases that represent transfers from other potential local purchases are not counted.
- The numbers (from U.S. Department of Commerce secondary data) treat both full and part time individuals as being employed.
- Assumptions need to be made concerning the nature of the local economy before impacts can be interpreted.
- The IMPLAN model was constructed for the year 2002 (most recent data available). 2004 dollars are estimated by the model.

## Definitions used in this report:

### Measures

- **Gross Output** represents the value of local production required to sustain activities.
- **Value Added** is a measure of the impacting industry's contribution to the local community; it includes wages, rents, interest and profits.
- **Employment** is fairly self-explanatory. Part time individuals are counted as being employed. This means that the employment estimates are not in terms of full time equivalents.

*Bureau of Business and Economic Research  
Labovitz School of Business and Economics  
University of Minnesota Duluth*

### Effects

- **Direct** – For each dollar outlay for a given industry that amount used for purchase of goods and services from each industry sector model
- **Indirect** – The inter-industry effects of input-output analysis

## Findings: Construction Impacts and Operations Impacts

### Construction Impacts

The construction impact findings below are reported by study area, by year, by measure, and by effect.

#### Study Area: Cass County

The following table, Table 1 shows Output, Employment, and Value Added impacts on Cass County from construction of the Critical Access Hospital in 2007. These estimations of approximate additions to the region's Gross Domestic Product are reported in terms of the direct effect (for each dollar outlay the amount used for purchase of goods and services from each industry sector); and the indirect effect (inter-industry effects).

From construction of the Critical Access Hospital, there will be \$5.7 million additional inter-industry spending in the county on top of the direct \$30 million of expenditures to construct the hospital. The additional output will also create 79 additional jobs in Cass County due to the 519 direct construction employment.

**Table 1: Economic Impact of Hospital Construction  
(2004 Dollars)**

	Direct	Indirect	Total
Output	\$29,991,316	\$5,750,518	\$35,741,834
Employment	519.3	79.1	598.4
VA	\$7,719,846	\$3,326,009	\$11,045,855

Source: IMPLAN

Note: Part time individuals are counted as being employed. This means that the employment estimates are not in terms of full time equivalents. These estimations of employment are reported in terms of the direct effect (for each dollar outlay the amount used for purchase of goods and services from each industry sector); and the indirect effect (inter-industry effects).

## Operation Impacts

The operation impact findings below are reported by study area, by year, by measure, and by effect.

### Study Area: Cass County

The following table shows Output, Employment, and Value Added impacts on Cass County, for the first year of operation, 2008. These estimations of approximate additions to the region's Gross Domestic Product are reported in terms of the direct effect (for each dollar outlay the amount used for purchase of goods and services from each industry sector); and the indirect effect (inter-industry effects).

From initial operations of the Critical Access Hospital, there will be \$2.1 million additional inter-industry spending in the county on top of the direct \$11.7 million of expenditures. The additional output will also create 26 additional jobs in the county due to the 95 direct employment to operate the hospital.

<b>Table 2: Economic Impact of Hospital Operation (2004 Dollars)</b>			
	Direct	Indirect	Total
Output	\$11,728,037	\$2,112,109	\$13,840,146
Employment	95	26.2	121.2
VA	\$4,791,101	\$1,271,367	\$6,062,468

Source: IMPLAN

Note: Part time individuals are counted as being employed. This means that the employment estimates are not in terms of full time equivalents.

## Special Considerations

Readers are encouraged to remember the Bureau of Business and Economic Research was asked to supply an economic impact analysis only. Any subsequent policy recommendations would best be based on the "big picture" of total impact, which must include environmental, social, and governmental impacts among others.

**Julie Sonier - Cass County hospital**

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**From:** "julie" <pawlak@strato.net>  
**To:** <Julie.Sonier@state.mn.us>  
**Date:** 4/5/2006 2:10 PM  
**Subject:** Cass County hospital

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We feel that with the population growth and the size of Cass County, a hospital is something that we not only desire, but desperately need. Just imagine if it was one of your loved ones that was injured or sick in northern Cass County and had to go to an entirely different county for treatment. It's not only a matter of emergency treatment, but take into consideration the older age of the majority of Cass County residents. A hospital near Walker should be feasible since the land and some buildings are already available.

Ron and Julie Pawlak  
Hackensack, MN

**From:** miriam lo <losavage@yahoo.com>  
**To:** <Julie.Sonier@state.mn.us>  
**Date:** 3/29/2006 10:56:54 AM  
**Subject:** The proposed hospital for Cass Cty

Dear Julie:

My husband and I welcome the news on the proposed hospital for Cass County because, as residents of the county, we know that there is a critical need for a hospital. We are, however, a little disturbed that the proposed site of the hospital is in the Walker area, an area that has already received a lot of county and state investment.

We have two specific questions:

1. how was the decision made regarding the proposed site of the hospital?
2. how concerned citizens of the county can participate in the public interest review process other than emailing or sending you hard copies of our comments?

Thank you.

George and Miriam Humphreys, Hackensack, Cass County

**CC:** Gary Dietrich <garydietrich@tds.net>

**From:** <kamenoman@tds.net>  
**To:** <Julie.Sonier@state.mn.us>  
**Date:** 3/23/2006 8:59:17 AM  
**Subject:** Hospital at Ah-Gwah-Ching in Walker

Better access to health care facilities for north central Cass County is a well recognized demand. The new hospital proposed for Ah-Gwah-Ching in Walker is advantageous for multiple reasons:

- (1)there are no hospitals located within Cass County; we live in Longville and drive well over an hour and 50 miles to get to the nearest hospital;
- (2)our population is growing rapidly and we have a substantial population spike during the summer months;
- (3)the majority of existing residents are seniors;
- (4)there are minimal medical office services available, very little in the way of procedures or pharmacies, and absolutely no evening or weekend services of any kind.

Reuse of Ah-Gwah-Ching, as a hospital site and health care campus will have a major impact on our ability to access improved medical care.

Kathy McMenoman  
Longville, MN

# In-Fisherman®

I am writing this note in regards to the hospital that is being proposed for Walker Mn.

I think this would be of great value to the area. The average distance from the area is close to 60 miles anyway you want to go to see that area. If you were having a heart attack or reaction to a deadly bee sting this would be much closer for many people in the area. This will also shorten time for any critical situation in health.

My vote because I am moving to the area is definitely for a closer facility.

Thank you for your (over) time.

Dean Moore

7819 Highland Scenic Road | Baxter Minnesota 56425 | 218.829.1648

We will be living in the  
Hackensack area permanently  
after May 15, 2006.

Address

Darold & Ilean Moore  
4711 Twin Pines Trail  
Hackensack MN 56452

before May 15  
15204 Highview Cir  
Brainerd, MN 56401



April 3, 2006.

Dear Mr. Sonier,

This letter is to request your support for a critical care hospital in the Backus area.

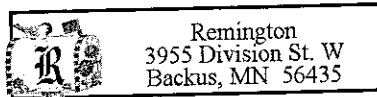
We are senior citizens and my husband has a heart problem. Closer critical care would be very good for our area. Medical care is not available after 5:00 PM or on week-ends in our area.

I would feel much relieved if we had something closer than an hour's drive to get medical care in an emergency.

Your support for a Critical Care Hospital is appreciated.

Thank you,  
Catherine Remington  
Frank Remington

218-947-3346.





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To obtain additional copies of this report,  
please contact:

**Minnesota Department of Health**  
Minnesota Health Information Clearinghouse  
P.O. Box 64975  
St. Paul, Minnesota 55164-0975  
(651) 201-5178; (800) 657-3793  
TDD (651) 215-8980

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