

**PREPARED STATEMENT OF  
THE FEDERAL TRADE COMMISSION**

**Before the**

**STANDING COMMITTEE on HEALTH, EDUCATION & SOCIAL  
SERVICES**

**of the**

**ALASKA HOUSE OF REPRESENTATIVES**

**on**

**House Bill 337, "An Act establishing the Alaska Health Care Commission  
and the Alaska health care information office; relating to health care  
planning and information; relating to the certificate of need program for  
certain health care facilities; and providing for an effective date."**

**February 15, 2008**

## I. Introduction

The Federal Trade Commission (FTC) is pleased to have the opportunity to discuss health care competition, Alaska's certificate of need (CON) laws, and Alaska House Bill 337 (H.B. 337), which would modify certain of Alaska's CON laws.<sup>1</sup> The Commission believes that CON laws such as Alaska's can be a barrier to entry to the detriment of health care competition and health care consumers, and that the legislature should consider their repeal. The Commission's conclusion is based on the joint FTC/Department of Justice (DOJ) report, *Improving Health Care: A Dose of Competition* (Report or FTC/DOJ Report),<sup>2</sup> its underlying research, and recent work by FTC staff and the staffs of our sister agencies, such as DOJ and the Centers for Medicare & Medicaid Services (CMS) of the Department of Health and Human Services. As noted in the FTC/DOJ Report, "[t]he Agencies believe that, on balance, CON programs are not successful in containing health care costs, and that they pose serious anticompetitive risks that usually outweigh their purported economic benefits."<sup>3</sup>

Congress has charged the Commission with preventing unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce.<sup>4</sup> Pursuant to its statutory mandate, the FTC seeks to identify business practices and regulations that

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<sup>1</sup> The FTC initially was invited to submit testimony regarding H.B. 337, as introduced on January 22, 2008, which would have repealed Alaska's CON requirements generally; a more recent committee substitute draft also before the relevant Alaska house committee (but not yet available publicly) would repeal only certain of Alaska's CON requirements, but leave others – such as those regarding nursing homes – intact.

<sup>2</sup> FEDERAL TRADE COMMISSION & THE DEPARTMENT OF JUSTICE, *IMPROVING HEALTH CARE: A DOSE OF COMPETITION* (July, 2004) [hereinafter "IMPROVING HEALTH CARE"].

<sup>3</sup> *Id.* at Executive Summary, p. 22.

<sup>4</sup> Federal Trade Commission Act, 15 U.S.C. § 45.

impede competition without offering countervailing benefits to consumers. For several decades, the FTC and its staff have investigated the competitive effects of restrictions on the business practices of health care providers.<sup>5</sup> Included in that general body of health care competition work have been hearings, studies, and reports addressing issues raised by CON laws.

Specifically, the FTC/DOJ Report discusses critically the role of CON laws in health care competition, both as a distinct policy issue and as an important component of other health care competition issues, such as entry problems in hospital markets. The Report broadly examined the state of the health care marketplace and the role of competition, antitrust, and consumer protection in satisfying the preferences of Americans for high-quality, cost-effective health care. The Report was based on, among other things, joint FTC/DOJ hearings that took place over 27 days from February through October 2003, following a Commission-sponsored workshop on health care issues in September 2002. The FTC and DOJ heard testimony from about 240 panelists, including representatives of various provider groups, insurers, employers, lawyers, patient advocates, and leading scholars on subjects ranging from antitrust and economics to health care quality and informed consent. Together, the hearings and workshop elicited written submissions from interested parties. Almost 6,000 pages of transcripts of the hearings and workshop and all written submissions are available on the Commission website, [www.ftc.gov](http://www.ftc.gov). In addition, FTC and DOJ staffs undertook independent research for the Report.

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<sup>5</sup> See Federal Trade Commission, *FTC Antitrust Actions in Health Care Services and Products* (Oct. 2003), available at <http://www.ftc.gov/bc/hcupdate031024.pdf>.

In this testimony, the Commission focuses specifically on a few of the issues discussed in the Report that address CON laws and new entry into competition among health care facilities. Three main points require attention:

- First, vigorous competition among healthcare providers, such as hospitals, clinics, and nursing homes, usually benefits consumers through better and more varied services and, in some cases, lower prices. CON laws were designed to create barriers to entry for new healthcare facilities or providers to contain the costs of healthcare services. CON laws, however, have not been particularly effective in controlling healthcare costs, while posing significant risks to competition. In particular, CON laws can retard the entry of firms that could provide higher quality services or lower prices than those offered by incumbents, depress consumer choice between qualitatively different treatment options or settings, or reduce the pressure on incumbents to improve qualitative aspects of their own offerings. Policymakers would be wise to consider reviewing all of the actual costs, benefits, and consequences – intended and unintended – of a regulatory system when assessing that system’s future.
- Second, the CON regulatory system creates both the incentive and means by which an incumbent healthcare provider can use the regulatory system itself to delay effective competition, independent of the demand for additional healthcare services. This additional loss of competition is another regulatory cost that must be weighed in the balance when assessing the public interest.

- Finally, Alaska currently has one of the most stringent CON laws in the United States. House Bill 337's proposed amendment of this law would eliminate or reduce barriers to entry for a broad range of healthcare service providers, including small entities that might then be able to thrive as never before.

These points are addressed more fully, below.

## **II. Discussion**

**A. Provider Competition Generally:** Competition has important benefits in health care services markets, just as it has in the multitude of markets in the U.S. economy that rely on competition to maximize the welfare of consumers. Competitive pressures can lead hospitals and other entities to lower costs, improve quality, and compete more efficiently. In particular, competitive pressure may spur new types of competition. In some hospital markets, new entrants specialize and provide only a limited portion of the in-patient and out-patient services that general hospitals tend to provide.<sup>6</sup> Elsewhere, health care services once delivered only in large hospitals – and requiring overnight stays – may be performed more conveniently and less invasively, at lower cost, in outpatient settings. In addition, both traditional providers and new entities have explored new means to expand access to basic health care by, for example,

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<sup>6</sup> See generally *Prepared Statement of the Federal Trade Commission, Before the S. Subcomm. On Federal Financial Management, Gov't Information and Int. Security of the S. Comm. on Homeland Security and Governmental Affairs, on New Entry Into Hospital Competition* (May 24, 2005) (regarding, e.g., new specialty hospital entry), available at <http://www.ftc.gov/os/2005/05/052405newentryintohospitalcomp.pdf>; see also UNITED STATES DEPT. OF HEALTH AND HUMAN SERVICES, FINAL REPORT TO THE CONGRESS AND STRATEGIC IMPLEMENTING PLAN REQUIRED UNDER SECTION 5006 OF THE DEFICIT REDUCTION ACT OF 2005 (2006) [hereinafter "HHS FINAL REPORT"], available at [http://www.cms.hhs.gov/PhysicianSelfReferral/06a\\_DRA\\_Reports.asp](http://www.cms.hhs.gov/PhysicianSelfReferral/06a_DRA_Reports.asp).

establishing limited service clinics that can provide more convenient and lower cost care and bring more consumers into contact with the larger health care system.<sup>7</sup>

Although new strategies for lowering costs and enhancing quality are emerging, competition is not as effective as possible in most health care markets, because the prerequisites for competitive markets are not fully satisfied. Of particular concern for today's purpose is the extent to which state regulations can create barriers to entry in health care markets, without conferring countervailing benefits in quality of care or cost containment.<sup>8</sup>

At the same time, the empirical evidence generally does not indicate that CON laws control health care costs.<sup>9</sup> Recent broad studies analyzing both national and state

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<sup>7</sup> See, e.g., FTC Staff Comment Before the Massachusetts Department of Public Health Concerning Proposed Regulation of Limited Service Clinics, 1-2 (Oct. 2007).

<sup>8</sup> In discussing competition concerns raised by CON requirements, the Commission does not mean to suggest that state CON regulations are the only regulatory impediments to competitive forces in health care markets. For example, in testimony before the House Committee on Energy and Commerce on May 12, 2005, Mark McClellan, then Administrator of CMS, reported that CMS, following its own study of specialty hospitals pursuant to congressional direction, would analyze and reform its payment rates "to help reduce the possibility that specialty hospitals may take advantage of imprecise payment rates in the inpatient hospital prospective payment system" and "to diminish the divergences in payment levels [for ambulatory surgical centers] that create artificial incentives for the creation of small orthopedic or surgical hospitals." *Testimony of Mark B. McClellan, M.D., Ph.D., Administrator, Centers for Medicare & Medicaid Services, Before the H. Comm. on Energy and Commerce Hearing, "Specialty Hospitals: Assessing Their Role in the Delivery of Quality Health Care,"* (May 12, 2005), available at <http://www.hhs.gov/asl/testify/t050512.html>; see also *Testimony of Mark B. McClellan, M.D., Ph.D., Administrator, Centers for Medicare & Medicaid Services, on Physician-Owned Specialty Hospitals Before the S. Finance Comm.* (May 17, 2006), available at <http://www.hhs.gov/asl/testify/t060517b.html>.

<sup>9</sup> IMPROVING HEALTH CARE, *supra* note 2, at C. 8, at pp. 1-6. Although the larger body of CON literature – including anecdotal reports and small, uncontrolled studies – presents somewhat mixed conclusions on cost savings, the conclusions of the FTC/DOJ Report and staff research have substantially been borne out by more recent, sophisticated large-scale data analyses and literature reviews: "[O]n balance, the most methodologically sound studies have found that CON has no effect or actually increases both hospital spending per capita and total spending per capita." CHRISTOPHER J. CONOVER & FRANK A. SLOAN, EVALUATION OF CERTIFICATE OF NEED IN MICHIGAN, CENTER FOR HEALTH POLICY, LAW AND MANAGEMENT, TERRY SANFORD INSTITUTE OF PUBLIC POLICY, DUKE UNIVERSITY, A REPORT TO THE MICHIGAN DEPT. OF COMMUNITY HEALTH, 30 (May 2003) (reviewing literature and discussing national and Michigan-specific material regarding acute care [hospitals, MRI services, cardiac services] CON laws) (hereinafter "CONOVER & SLOAN, REPORT TO MICHIGAN"); WASHINGTON STATE JOINT LEGISLATIVE AUDIT AND REVIEW COMMITTEE (JLARC), EFFECTS OF CERTIFICATE OF NEED AND ITS POSSIBLE REPEAL, 1 (Jan. 8, 1999) ("The study found that CON has not controlled overall health care spending or hospital costs.

data reveal “little evidence that CON results in a reduction in costs and some evidence to suggest the opposite.”<sup>10</sup> Studies also fail to show any consistent increase or surge in health care spending when states remove or modify their CON requirements.<sup>11</sup>

Barriers to entry can affect qualitative competition as well. As the Report noted, state CON laws can retard the entry of firms that could provide higher quality services than those offered by incumbents.<sup>12</sup> That may tend to depress consumer choice between qualitatively different treatment options or settings,<sup>13</sup> or it may reduce the pressure on incumbents to improve qualitative aspects of their own offerings.

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The study generally found either conflicting or limited evidence about the effects of CON on the cost of non-hospital services, and on the quality and availability of the various health care services.”) DANIEL SHERMAN, FEDERAL TRADE COMMISSION, THE EFFECT OF STATE CERTIFICATE-OF-NEED LAWS ON HOSPITAL COSTS: AN ECONOMIC POLICY ANALYSIS, iv, 58-60 (1988) (concluding, after empirical study of CON programs’ effects on hospital costs using 1983-84 data on 3,708 hospitals, that strong CON programs do not lead to lower costs but may actually increase costs); MONICA NOETHER, FEDERAL TRADE COMMISSION, COMPETITION AMONG HOSPITALS 82 (1987) (empirical study concluding that CON regulation led to higher prices and expenditures); KEITH B. ANDERSON & DAVID I. KASS, FEDERAL TRADE COMMISSION, CERTIFICATE OF NEED REGULATION OF ENTRY INTO HOME HEALTH CARE: A MULTI-PRODUCT COST FUNCTION ANALYSIS (1986) (economic study finding that CON regulation led to higher costs, and that CON regulation did little to further economies of scale). *But c.f.*, COMMONWEALTH OF VIRGINIA, REPORT OF THE JOINT COMMISSION ON HEALTH CARE, HOUSE DOC. NO. 82, STUDY OF VIRGINIA’S CERTIFICATE OF PUBLIC NEED (COPN) PROGRAM PURSUANT TO HB 1302 OF 1996 (1997), (“There is little evidence of significant COPN impact on aggregate health expenditures, but there is evidence of savings for specific services covered by COPN”). *Id.* at 1, available at [http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/HD821997/\\$file/HD82\\_1997.pdf?bcsi\\_scan\\_129F6A3CD B83467E=xLesgwMDZ3sPV18TFUnlHEQAAAD+Q30W&bcsi\\_scan\\_filename=HD82\\_1997.pdf](http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/HD821997/$file/HD82_1997.pdf?bcsi_scan_129F6A3CD B83467E=xLesgwMDZ3sPV18TFUnlHEQAAAD+Q30W&bcsi_scan_filename=HD82_1997.pdf) (last checked 1/31/08).

<sup>10</sup> CONOVER & SLOAN, REPORT TO MICHIGAN, *supra* note 9 at vii (discussing national and Michigan-specific material regarding acute care [hospitals, MRI services, cardiac services] CON laws); *id.* at 30-31.

<sup>11</sup> CONOVER AND SLOAN also report that, “[i]n most states that lifted CON, per capita spending on hospital and physician services (relative to the US) has remained below the U.S. average following removal of CON.”) *Id.* at 50; *see also* Christopher J. Conover and Frank A. Sloan, *Does Removing Certificate-of-Need Regulations Lead to a Surge in Health Care Spending?*, 23 J. HEALTH POL’Y & LAW 455 (1998) (“no evidence of a surge in acquisition of facilities or in costs following removal of a CON.”) 458.

<sup>12</sup> IMPROVING HEALTH CARE, *supra* note 2, at C. 8, p. 4 (citing Hosp. Corp. of Am., 106 F.T.C. 361, 495 (1985) (Opinion of the Commission) (stating that “CON laws pose a very substantial obstacle to both new entry and expansion of bed capacity in the Chattanooga market” and that “the very purpose of the CON laws is to restrict entry”).

<sup>13</sup> With regard to hospital markets, *see, e.g.*, HHS FINAL REPORT, *supra* note 6, at 10 (reporting “quality of care at least as good as, and in some cases better than, care provided at local competitor hospitals” for

**B. Incumbent Lobbying and Petitioning Protections:** When new firms threaten to enter a market, incumbent firms may seek to deter or prevent that new competition. Such conduct is by no means unique to health care markets; it is a typical reaction of incumbents to possible new competitors. In certain circumstances, such conduct may violate the antitrust laws.<sup>14</sup> Certain anticompetitive conduct may, however, be shielded from antitrust scrutiny. The *Noerr-Pennington* doctrine immunizes from antitrust liability conduct that represents petitioning the government, even when such petitioning is done “to restrain competition or gain advantage over competitors.”<sup>15</sup> Moreover, the state action doctrine shields from antitrust scrutiny many of a state’s own activities when a state government is acting in its sovereign, legislative capacity.<sup>16</sup>

In the context of health care competition, the combination of these two doctrines can offer antitrust immunity to providers that wish to lobby state officials to impede the entry of potential competitors, by denying or delaying the CONs required for operation. State CON programs generally prevent firms from entering certain areas of the health

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cardiac care, as well as “very high” patient satisfaction in cardiac hospitals and orthopedic specialty hospitals) (citations omitted). In addition, specialty hospitals appear to offer shorter lengths of stay, per procedure, than peer hospitals. See MEDICARE PAYMENT ADVISORY COMMISSION, REPORT TO THE CONGRESS: PHYSICIAN-OWNED SPECIALTY HOSPITALS, 15-17 (Mar. 2005) (hereinafter MEDPAC REPORT). MedPAC was directed to report to Congress on certain issues regarding specialty hospitals under the Medicare Prescription Drug, Improvement and Modernization Act of 2003. *Id.* at vii.

<sup>14</sup> See IMPROVING HEALTH CARE, *supra* note 2, at 15-16, ch.1, at 31-33, ch.3, at 22-27.

<sup>15</sup> *Andrx Pharm. V. Biovail*, 256 F.3d 799, 817 (D.C. Cir. 2001), *cert. denied*, 122 S. Ct. 1305 (2002). The doctrine is named for the seminal cases that treated it: *Eastern R.R. Presidents Conference v. Noerr*, 365 U.S. 127 (1961), and *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

<sup>16</sup> *Parker v. Brown*, 317 U.S. 341, 351 (1943). The state action doctrine also immunizes from antitrust scrutiny the actions of other entities and individuals if they are acting in furtherance of a clearly articulated state policy and are actively supervised by the state. See, e.g., *California Retail Liquor Dealers Assn. v. Midcal Aluminum*, 445 U.S. 97, 105 (1980).



care market unless they can demonstrate to state authorities an unmet need for their services. Because that demonstration can be time-consuming and costly, it may delay or, at the margin, prevent the introduction of certain needed facilities and services.<sup>17</sup> Indeed, limiting competitor entry and raising competitors' costs may both be incentives for incumbents to seek to abuse the regulatory process. The FTC/DOJ Report concluded that "incumbents can too easily use CON procedures to forestall competitors from entering an incumbent's market."<sup>18</sup> To the extent they are successful in doing so, incumbents may preserve their market shares and revenue streams without enhancing their own operating efficiency or providing health care savings to the state or its consumers.<sup>19</sup>

**C. The Scope of Alaska CON Law:** Alaska's current CON law is among the most stringent of such laws in the United States. Many CON programs trace their origin to a repealed federal mandate, the National Health Planning and Resources Development Act of 1974,<sup>20</sup> which offered states powerful incentives to enact laws implementing CON programs.<sup>21</sup> By 1980, all states except Louisiana had done so.<sup>22</sup>

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<sup>17</sup> See, e.g., IMPROVING HEALTH CARE, *supra* note 2, at C. 4, p. 25 (noting that approval of a CON "can take anywhere from 18 months to several years," and that regulatory delays from CON approval are in addition to those imposed by, for example, traditional licensing requirements).

<sup>18</sup> *Id.* at Exec. Summ., at 22.

<sup>19</sup> See, e.g., MEDPAC REPORT at 10-11 ("Some community hospital administrators admit that competition with specialty hospitals has had some positive effects on community hospitals' operations").

<sup>20</sup> Pub. L. 93-641, 88 Stat. 2225 (1975) (codified at 42 U.S.C. §§ 300k-300n-5), *repealed*, Pub. L. 99-660, § 701, 100 Stat. 3799 (1986).

<sup>21</sup> See JOHN MILES, 2 HEALTH CARE & ANTITRUST LAWS: PRINCIPLES & PRACTICE § 16:1, at 16-2 (2003) (noting that the federal Health Planning Act required providers to "obtain state approval – a 'certificate of need' – before spending set amounts on capital investments or adding new health care services.")

<sup>22</sup> See, e.g., *On Certificate of Need Regulation: Hearing on H.B. 332 Before the Senate Comm. On Health and Human Services* (Ohio 1989) (Statement of Mark D. Kindt, FTC Regional Director).

Congress repealed the federal law in 1986, however, and many states have repealed or revised their CON laws in the years since. Fourteen states have eliminated their CON requirements altogether<sup>23</sup> and, although a substantial number of states continue to maintain CON programs,<sup>24</sup> they do so “often in a loosened form compared to their predecessors.”<sup>25</sup> Remaining CON laws may address only specific types of health care facilities – such as hospitals or nursing homes,<sup>26</sup> – exempt certain types of health care facilities,<sup>27</sup> or apply broadly to health care facilities improvements of a greater magnitude.<sup>28</sup> In addition, certain CON laws may be pending repeal according to a sunset provision.<sup>29</sup>

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<sup>23</sup> See, e.g., National Conference of State Legislatures, *Certificate of Need: State Health Laws and Programs* (updated Nov. 2007) (CON laws repealed or not in effect in CA, AZ, NM, TX, KS, CO, UT, WY, ID, SD, ND, MN, IN, and PA), available at <http://www.ncsl.org/programs/health/cert-need.htm> (last checked 01/25/08).

<sup>24</sup> MILES, *supra* note 21, § 16:2, at 16-9 (stating that “CON laws remain in many states and the District of Columbia”). Quite recently, Florida exempted from CON requirements new adult open-heart surgery and angioplasty programs at general hospitals and the addition of beds to existing hospital structures. Fla. Bill SJ 01740 (effective July 1, 2004), amending FLA STAT. ch. 408.036, .0361 (2003).

<sup>25</sup> MILES, *supra* note 21, § 16:1, at 16-2 to 16-3. See also Len M. Nichols et al., *Are Market Forces Strong Enough to Deliver Efficient Health Care Systems? Confidence is Waning*, 23 HEALTH AFFAIRS 1, 11 (Mar./Apr. 2004) (noting that CON programs “eroded through the 1990s”).

<sup>26</sup> See, e.g., OAC Ann. 3701-12-05 (2007) (regarding only certain activities by “long-term care” facilities in Ohio); R.R.S. Neb. § 71.5829.03 (2007) (CON covers only certain activities related to long-term care and rehab beds in Nebraska); ORS § 442.315(1) (2005) (regarding “any new hospital or new skilled nursing or intermediate care service or facility” in Oregon, subject to certain exclusions).

<sup>27</sup> For example, Connecticut law exempts critical access hospital beds and related equipment from the State’s CON laws. See Conn. Gen. Stat. § 19a-487a (2007); see also Fla. Stat. § 408.0361 (2007) (regarding cardiovascular services and burn unit licensing), Fla. Stat. § 408.036 (2007).

<sup>28</sup> For example, Connecticut health care facilities must obtain a CON prior to developing, expanding or closing certain services and expending more than \$3 million on a capital project. Conn. Gen. Stat. § 19a-638(a)(4) (2007); Delaware requires a CON for the establishment of a new facility, but only for capital expenditures by existing facilities in excess of \$5.8 million (or a higher amount based on inflation adjustments to the \$5.8 million baseline). See 16 Del. C. § 9304 (2007).

<sup>29</sup> See, e.g. 16 Del. C. § 9311 (2007) (sunset provision).

Alaska law requires a CON for any type of health care facility construction or improvement of \$1,000,000 or more, adjusted,<sup>30</sup> or the establishment of a nursing home facility independent of that cost threshold.<sup>31</sup> In so doing, it places significant regulatory burdens on the development or improvement of a very broad class of health care facilities – not just major hospital initiatives and expansions, which may be subject to long-term planning – but diverse outpatient clinic initiatives, which might otherwise develop dynamically in response to market needs. The scope of current Alaska law thus stands in contrast not only to the laws of those states that have eliminated their CON requirements altogether, but the laws of the many states that have more limited CON requirements. Alaska’s low CON threshold itself may be a special burden to the State’s health care spending, as low CON thresholds have been observed to increase costs – relative to higher thresholds – rather than decrease them.<sup>32</sup>

A degree of controversy may remain about particular issues addressed by certain CON laws. These include, for example, efficiency and possible conflicts of interest concerns about certain categories of physician-owned specialty hospitals and access issues for rural or other underserved areas.<sup>33</sup> However, the sweep of Alaska’s CON law

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<sup>30</sup> Alaska Stat. § 18.07.031(a) (2007). The statute contains an adjustment provision, whereby the \$ 1 million dollar threshold may be increased by \$50,000 per anum, between 2005 and 2014. *Id.* at § 18.07.031(d).

<sup>31</sup> *Id.* at § 18.07.031(b).

<sup>32</sup> See SHERMAN, *supra* note 9, at 58-60 (1.4 percent decline in costs associated with doubling of all thresholds).

<sup>33</sup> See, e.g., Testimony of Mark B. McClellan, M.D., Ph.D. (2005), *supra* note 8; Testimony of Mark B. McClellan, M.D., Ph.D. (2006), *supra* note 8 (regarding CMS studies of physician-owned specialty hospitals, implementation and termination of limited moratorium on new specialty hospitals). The Commission does not here intend to analyze the details of ongoing regulatory reform at CMS designed to address special concerns about certain limited types of specialty hospitals (and related physician self-referral issues) or the various bodies of research on which those reforms are based. The FTC notes, simply,

is much broader than required to address any of those more narrow and complex issues and is likely to be detrimental to Alaska’s health care consumers. The Commission recommends that Alaska carefully consider the evidentiary basis of these issues as they may relate to Alaska health care consumers. If the evidence and public policy considerations warrant some legislative action, the Commission recommends that Alaska consider regulation that is narrowly tailored to achieve focused health policy goals instead of broad regulation of entry into the market for health care facilities.

### **III. Conclusion**

CON laws were adopted throughout most states under particular market and regulatory conditions substantially different from those that predominate today and were intended to help contain health care spending. The best available research does not support the conclusion that CON laws actually reduce such expenditures. As the FTC and DOJ have said, “on balance, CON programs are not successful in containing health care costs, and ... they pose serious anticompetitive risks that usually outweigh their purported economic benefits.”<sup>34</sup> CON laws tend to create barriers to entry for health care service providers who may contribute to qualitative competition and provide consumers with important choices in the market, but CON laws do not, on balance, tend to suppress health care costs or aggregate health care spending. Moreover, CON laws may be especially subject to abuse by incumbent providers, who can seek to exploit a state’s CON process to forestall the entry of competitors in their markets.

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that most of the actual and potential health care entities subject to Alaska CON law are not such specialty hospitals and appear to fall outside the concerns driving those studies and reforms.

<sup>34</sup> IMPROVING HEALTH CARE, *supra* note 2, at Executive Summary, p. 22.

Alaska's current CON law – which House Bill 337 seeks to modify – is among the most stringent of such laws in the United States. As a consequence, Alaska CON law creates a barrier to entry for a very broad range of health care service providers, including small health care entities that may be ill-equipped to overcome it. The Commission believes that both the breadth of Alaska's CON law, and its low threshold, are of special concern, as they may work to the detriment of Alaska health care consumers. In the event that adequate evidence develops to support more narrow policy priorities, the Commission believes that Alaska should consider regulations narrowly tailored to meet those priorities, while minimizing the general costs to Alaska health care consumers.