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March 14, 2022

The Honorable Senator Click Bishop  
Co-Chair, Senate Finance Committee  
State Capitol Room 516  
Juneau, AK 99801

The Honorable Senator Bert Stedman  
Co-Chair, Senate Finance Committee  
State Capitol Room 518  
Juneau, AK 99801

Electronic Letter

RE: Providence Alaska Opposes Senate Bill 26: REPEAL CERTIFICATE OF NEED PROGRAM

Dear Senators Bishop and Stedman:

Providence Alaska has set the standard for modern health care in Alaska for more than 100 years. Today we remain the state's largest health care and behavioral health provider, and the largest private employer, with nearly 5,000 caregivers across Alaska. As the CEO of Providence Alaska, I write in strong opposition to Senate Bill 26 and the repeal of the Certificate of Need (CON) program.

I appreciate and applaud the ongoing dialogue about reducing health care costs while increasing health equity. However, CON repeal is not the solution and in fact, can make finding affordable health care even more challenging for many Alaskans. Repealing CON will place additional strain on community hospitals, just as we begin our own financial recovery from multiple years of a global pandemic.

### **Repealing CON creates inequitable regulatory and reimbursement environments**

A free-market system is based on transactional relationships and the principles of eliminating government intervention. Health care is not a market and does not respond to free-market economic pressures. Government not only plays a direct role in creating and enforcing the regulatory and legal framework for hospitals, but it also determines how much we will be reimbursed for a majority of our services.

At Providence Alaska, government sets the rates for roughly 75 percent of our patient volume. In some service lines, that number increases even higher. (Mother-baby and maternal services can reach nearly 90% government payor patient volume.) These patients include Medicaid, Medicare, and Tri-care recipients. They are new mothers and infants, our parents and grandparents, and veterans. This means that government sets the amount that we are compensated for three out of four patients at-

or-below our actual costs. Under CON repeal, hospitals would be required to compete for financial viability with specialty facilities that do not have to serve this same government payor population.

CON repeal would further an inequitable regulatory framework where hospitals would be subject to legal requirements that the newly formed specialty facilities would not be required to follow. Through federal requirements like the Emergency Medical Treatment and Active Labor Act (EMTALA), hospitals are legally and ethically required to stabilize and treat patients, regardless of their ability to pay. Hospitals will be left to care for the most vulnerable with little ability to cover costs and fewer resources for community investments.

### **Providing comprehensive care, not just the most profitable services**

Providence Alaska aims to provide as comprehensive care as possible. Some service lines are profitable while others are heavily subsidized; together they fit as a whole. Make no mistake, any standalone specialty or boutique facility will not work to serve the whole. In order to control the flow of patients admitted, these facilities often siphon off the least complex and most profitable cases. There is a strong incentive to eliminate as much risk as possible and to avoid government payors and the uninsured or underinsured patients.

Previous testifiers who support the full repeal of CON often use the example of increased access or the need for additional emergency services. The painful reality is that these are not the services that will expand into our communities, at least not without a premium. Unfortunately, in health care, those costs can be quantified by lives. Medicare recipients may have even fewer options in the race to chase the most profitable services.

### **Improving Certificate of Need through the existing regulatory framework**

The CON program is not perfect. However, hospitals have come together to agree that CON is the compromise we are willing to make to ensure Alaskans have access to as broad and as affordable of a continuum of care as possible.

Roughly four years ago, there was a series of stakeholder meetings with a list of recommendations to improve the CON program that included addressing the equitable application of the program and adjusting capital thresholds for inflation. This list had broad stakeholder agreement and the suggested improvements can be accomplished within the existing regulatory framework. The roadmap for change is there. Providence Alaska encourages working within the existing public process to address barriers and concerns within the program.

### **Working together to reduce health care costs**

It is worth noting that the hard work to reduce health care costs for Alaskans is beginning to deliver real results. Much of the credit goes to the Alaska Legislature and the comprehensive SB 74, passed in 2016. That legislation set the framework for true health care reform and launched efforts to reduce costs through coordinated care demonstration projects, bundled payments, incentivizing

quality health outcomes, and global payment models. Alaska's Medicaid program now serves more people for fewer state general fund dollars.

Providence Alaska partnered with the state on a Medicaid demonstration project and has begun implementing some of the system changes in our own operations, including orthopedic bundled payments. We pledge our ongoing partnership in continuing to reduce the cost of health care while improving health outcomes.

The good news is that by many accounts, Alaska no longer has the highest cost health care. A Kaiser Family Foundation study<sup>1</sup> looked at hospital adjusted expenses per patient day over time. The cost per patient day in Alaska has gone from 18<sup>th</sup> in the U.S. in 2016 to 30<sup>th</sup> in 2019. Declining costs reflect a more efficient system and translates to reduced patient charges.

Another major step was the implementation of Alaska's reinsurance program in 2017 and the subsequent approval of a 1332 waiver. Once the state with the highest health insurance premiums in the country, our percentage of rate increase now continues to be lower than the national average. In 2021 the average premium decreased in Alaska, for the fourth year in a row.<sup>2</sup> There are now a handful of states with higher premiums than Alaska.

There remains opportunity to do more and to continue to ease the economic burden on individual Alaskans and our business community. But together we are doing the hard work and are on the right track. Introducing this level of uncertainty and destabilizing Alaska's health care system at this time would be devastating, especially for many of our smaller, community-based hospitals.

I strongly oppose SB 26.

Sincerely,

A handwritten signature in black ink, appearing to read 'P. Simmons', with a long horizontal flourish extending to the right.

Preston M. Simmons, DSc. FACHE  
Chief Executive, Providence Alaska

Cc: Jared Kosin, Alaska State Hospital & Nursing Home Association

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<sup>1</sup> [Hospital Adjusted Expenses per Inpatient Day | KFF](#)

<sup>2</sup> [Alaska health insurance marketplace: history and news of the state's exchange - healthinsurance.org](#)