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Senate Panel's Provision Would Aid Some Doctor-Owned Hospitals By Drew Armstrong, CQ Staff

A handful of physician-owned "specialty hospitals" that serve the home states of four Democratic Senate appropriators would benefit from an amendment to keep the hospitals eligible for Medicare and Medicaid reimbursements worth hundreds of millions of dollars.

The amendment was added at the lawmakers' request during the Senate Appropriations Committee's May 15 markup of the emergency war spending bill (HR 2642).

The specialty hospital section, in its original form, put strict restrictions on the reimbursement rights of so-called "specialty hospitals."

Specialty hospitals are physician-owned facilities that sometimes specialize in one line of care, such as surgery, cardiac care or orthopedics. The hospitals, which often focus on the most profitable specialties, have been accused of siphoning profitable patients from general hospitals.

In some cases — particularly the several facilities affected by the loosened rules — those hospitals offer a range of services similar to regular hospitals, though they are still heavily or entirely owned by physicians.

The more lenient provision would benefit hospitals serving residents in the home states of four Appropriations Committee Democrats: Patty Murray of Washington, Herb Kohl of Wisconsin, Tom Harkin of Iowa and Ben Nelson of Nebraska.

The original language would have excluded many existing or planned specialty hospitals from the Medicare program or forced the physician owners to sell off part of their shares. Participation in Medicare is considered vital to almost any hospital's financial viability.

Senate Democrats hope to include the Appropriations Committee version of the bill in the final product but face an uphill battle against Senate Republicans, who desire a smaller package.

Under the new language — part of a manager's amendment by Appropriations Chairman Robert C. Byrd, D-W.Va. — several existing specialty hospitals would be grandfathered in under more generous terms and allowed to keep expanding.

The more lenient grandfather clause has a cost. The original, stricter language would have saved taxpayers \$1.6 billion over 10 years. Allowing the looser rules cuts \$300 million from that savings, largely via Medicare and Medicaid payments.

Murray spokesman Matt McAlvanah confirmed that Murray had sought the changes, to protect a physician-owned hospital in Washington: Wenatchee Valley Medical Center. A loosening of the grandfather clause will allow

the Wenatchee's physician-owners to maintain their 100 percent stake in the hospital, as opposed to being forced to sell part of it.

"We're very appreciative," said Mall Boyd, Wenatchee's marketing director. The hospital offers a range of medical services but is completely physician-owned.

Spokesmen for Nelson and Harkin also confirmed their senators' roles in getting the language changed. Nelson spokesman David DiMartino said some Nebraska hospitals with 100 percent physician ownership would otherwise have been forced to divest.

Under the old language, physicians would not have been allowed to own more than a 40 percent stake in the hospitals. "We were concerned that forced divestiture would cripple the marketplace," DiMartino said.

Kohl spokesman Rohit Mahajon could not confirm the senator's involvement in getting the provision changed but did not deny it.

In Kohl's home state, physician-owned Aurora BayCare Medical Center would benefit from the looser rules.

Jay Faherty, Aurora's vice president of corporate affairs, said the rewriting of the language would allow the hospital to expand its services.

"The language . . . really allows us to meet what we would consider the growing health care needs from our health care community," Faherty said.

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