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Great Bend hospital rivalry

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Reform debate targets physician-owned hospitals

By **Dave Ranney**
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TOPEKA — If you can't beat them, join them. Or buy them.

Some general hospitals in Kansas now own stakes in the doctor-owned, specialty hospitals they once criticized for "cherry picking" the most profitable patients, leaving them to handle costly charity and emergency cases.

The state's largest health care provider, Via Christi Health System, now owns 49 percent of the Kansas Heart Hospital and 56 percent of the Kansas Surgery and Recovery Center. Both are specialty-care facilities in Wichita that began as fully doctor-owned operations. The Kansas Surgery and Recovery Center specializes in orthopedic surgery.

In Kansas City, St. Luke's Health System owns 40 percent of the Kansas City Orthopedic Institute.

Likewise, Salina Regional Health Center, the city's general hospital, owns 50 percent of the Salina Surgical Center.

"Quite frankly, it's better to have 50 percent of a successful operation like that than it is to have nothing," said Randy Peterson, a Via Christi senior vice president who helped negotiate the Salina hospital's stake in the surgical center. Salina Regional Health Center is a Via Christi affiliate.

"If you can find a way to work together, it can be a very beneficial relationship," he said.

Hard to argue

"What's happening, I think, is that people are starting to recognize the excellent level of care that's provided in these (specialty) facilities," said Scott Chapman, administrator at the Manhattan Surgical Center, a physician-owned hospital.

"There are still people out there who think we ought to be run out of business and legislation passed to keep us from ever coming back," Chapman said. "But it's getting harder and harder for them to argue with our patient-satisfaction rates, our low infection rates, and our nurse-to-patient ratios. We feel like our case has been made."



Via Christi Health System, now owns 49 percent of the Kansas Heart Hospital and 56 percent of the Kansas Surgery and Recovery Center, both of which are on Webb Road in Wichita. (Mike Shields/KHI)

KHA statement on hospitals and health care reform
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Feedback to KHI

A couple of years ago in the Kansas Legislature, [a bill was debated](#) that would have narrowed the legal definition of a hospital, excluding facilities that didn't have an emergency room or treated a narrow range of medical problems.

"Often we have lost patients to specialty hospitals, in many cases the higher-profit patients," a Wesley Medical Center executive told legislators then.

Wesley is owned by the for-profit HCA hospital chain. It is in Wichita.

Federal focus

That bill never passed and the debate over specialty versus general hospitals seems to have subsided in Kansas, especially now that general hospitals are claiming ownership stakes in their former rivals.

But while the controversy has receded in Kansas, it's been ratcheting up in Congress where it's long been argued that physician-owned hospitals promote overutilization while robbing full-service hospitals of the revenues they need to offset charity care.

Earlier this month, health reform initiatives in both the House and Senate proposed a ban on Medicare payments to physician-owned specialty hospitals that are not yet up and running. The proposals also would restrict expansion of existing facilities.

Physician-owned hospitals oppose the proposed legislation. Their national association, Physician Hospitals of American, calls it "...a desperate move aimed at reducing competition."

Full-service hospitals, including those in Kansas, [support the legislation](#).

"The Kansas Hospital Association is pleased to see the proposed restrictions on physician self-referral to hospitals in which they have an ownership interest," said Cindy Samuelson, a spokeswoman for the association, in an e-mail to KHI News Service.

'Broken, fragmented system'

"The unchecked referral of patients to facilities owned by the referring physician is detrimental to the health care delivery system," Samuelson wrote. "This practice inequitably shifts patient care away from community hospitals and endangers the safety net for our nation's most vulnerable populations."

Via Christi supports the federal proposals even though it has invested in specialty hospitals, said Lynnette RauvolaBout, a senior vice president for Via Christi.

"We believe that the proliferation of these facilities is a symptom of a broken and fragmented system," she said. "We value our ability to partner with physicians in ways that enhance quality of care, improve and enhance patient satisfaction, and help contain or reduce costs. But there's a flip side.

"These facilities take revenue from health care organizations like Via Christi, and those revenues are what enable us to cover the costs that aren't covered by the applicable reimbursement or that come with caring for the uninsured and underinsured."

Negligible consequences

The proposed legislation's effect on the 12 specialty hospitals in Kansas remains to be seen, but some here said it wouldn't be much.

"For us, the effects of this legislation would be negligible," said Dr. Gregory Duick, co-founder of the Kansas Heart Hospital. "But it is anti-competitive in nature, so, ideologically, I'm opposed to it. I hear the general hospitals saying this will level the playing field. Well, I don't believe you level the playing field by eliminating the competition."

"Why the federal government would want to do away with a health care option that patients have consistently said they want and are satisfied with just doesn't make any sense to me," said Chapman, leader of the Manhattan specialty hospital.

The proposed restrictions on growth, he said, would harm Manhattan Surgical Center.

"With all the expansion that's going on at Fort Riley and with the new NBAF (National Bio and Agro-Defense Facility) facility that's going in at K-State, we're anticipating a huge increase in demand for health care services," Chapman said. "Obviously, we hope we would not be restricted in our ability to respond to that demand."

Difficult to gauge

In Kansas, the bickering over physician-owned hospitals led to a 2006 report by the Kansas Department of Health and Environment and the Kansas Health Institute that found that while physician-owned specialty hospitals were highly profitable, their effect on the larger hospitals' bottom line was difficult to gauge.

"In some areas and for some types of care, there was no question that specialty hospitals were having a profound effect on general hospitals," said Sheldon Weisgrau, who conducted the analysis. "You could see that when a specialty hospital began doing a certain type of surgery, there was a corresponding decline at the general hospital.

"But the general hospitals didn't just sit there and let themselves be driven out of business," Weisgrau said. "They went out and, in some cases, invested in the specialty hospitals; they opened specialty lines of their own; or they did other things to cut costs or increase revenue. So it's really difficult to tease out just what the financial impacts were."

The Kansas Health Policy Authority in 2007 reached a similar conclusion and agreed to monitor the specialty hospitals' impact "on the quality and cost of care in Kansas."

Reduce Medicare payments

Since then, in an effort to curb specialty hospitals' growth, Medicare reimbursements have been reduced for the many of the orthopedic, cardiac and surgical procedures that generate much of the income for the doctor-owned hospitals.

"The specialty-hospital issue is mainly a federal issue now," said Andy Allison, executive director at the health policy authority. "It remains an important issue since Kansas has so many of these facilities, but at the moment we are focused on the larger questions of federal health reform, and addressing the state's continuing budget issues."

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