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Doctor-owned Hospitals Worried Reform Will Cripple Them

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Cheryl Clark, for HealthLeaders Media, December 17, 2009

There's not much love between physician-owned surgical facilities and the mainstream hospitals against which they compete. But now the long-time tension and rancor are turning especially nasty.

Provisions in both House and Senate versions of health reform bills would restrict doctor-owned hospitals' ability to expand, prompting the two groups to go at each other again.

In the latest round, officials with Physician Hospitals of America, a coalition of 235 doctor-owned surgical facilities, says that if these restrictions on their growth potential take effect, most if not all doctor-owned facilities will be relegated to use outdated technologies. They wouldn't be able to attract physicians or patients, pay off loans or get credit.

"Imagine what it would be like if you can't add a bed, or bring in MRI services or operating or procedure rooms," says Randolph Fenninger, PHA's Washington lobbyist.

"As soon as this passes, the value of these facilities drops to zero," he adds. "And in four or five years, virtually none of these facilities will remain, because none can meet the criteria to be allowed to grow. Eventually, there will be the withering and dying of all of them."

In effect, the House and Senate bills would eliminate a current practice that allows physicians to self-refer patients to facilities in which they have a financial interest.

Fenninger blames the American Hospital Association and the Federation of American Hospitals for leaning on Sens. Charles Grassley and Max Baucus and U.S. Rep. Pete Stark to move the provisions through health reform. If this takes effect, many smaller communities that rely on physician-owned surgical centers would suffer, claims Molly Sandvig, PHA executive director.

Physician-owned hospitals now employ 70,000 workers nationwide in 35 states, but especially in California, Louisiana, and Texas. They pay $2.575 million on average in annual taxes, much of which would be lost, PHA officials say.

On the other side, the AHA isn't shy about expressing its concern that physician-owned surgical centers hurt them by skimming the cream of the crop of privately insured patients, rather than those with Medicaid or no coverage, acknowledges AHA spokesman Matthew Fenwick.

Fenwick issued a statement Wednesday saying the AHA "is very concerned that the growth of limited-service providers, if left solely to market forces, will undermine access to healthcare services for communities across this country.

"The AHA supports a physician self-referral ban with limited exceptions for existing facilities that meet strict investment and disclosure rules. Eliminating physician self-referral will benefit both patients and communities, because it saves taxpayer money, ends a serious conflict of

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interest and, above all, allows full-service community hospitals to provide vital care for all those in need.

"Although a congressional moratorium and subsequent Department of Health and Human Services' administrative action generally held physician-owned hospitals in check from late 2003 to 2006, the practice is on the rise again," he added.

"Limited-service providers, also known as 'niche' or specialty providers, are not new, but the nature and pace of their growth is... The last decade has seen explosive growth in both inpatient and ambulatory limited-service providers, increasingly owned, at least in part, by the physicians who refer patients to them," he said.

According to the PHA, health reform proposals would allow physician-owned hospitals to grow only if they meet four or five criteria, which they say would be impossible.

The criteria include:

- They must be located in a county where population increased at a rate that is at least 150% of the state's population increase.
- They must have a share of Medicaid admissions equal to or greater than the average percentage for all hospitals located in the county.
- They must be located in a state with a state average bed capacity less than the national average.
- They must have an average bed occupancy rate that is greater than the state average bed occupancy rate.
- In the House version, they also must have the most Medicaid admissions in that county for the previous three cost reporting periods.

"Not a single physician-owned hospital would qualify for growth," the PHA says.

Congress needs to "understand the chaos these provisions will cause," Sandvig said in a statement.

One facility administrator who worries about the bill's impact is Doug Johnson, who runs Stanislaus Surgical Center in Modesto, which he says was one of the first doctor-owned facilities in California. The 23-bed center competes with Memorial Hospital, a 275-bed facility; Tenet-owned Doctor's Medical Center, which has 462-beds, and the brand new Kaiser Permanente Medical Center, with 112-beds.

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For now, Johnson says, the 25-year-old facility has no plans to expand. "But in the long run, what these bills would do is take out a physician's ability to compete and allows [mainstream] hospitals to behave like the monopolists they have been in many communities for a long time," Johnson says.

Like many doctor-owned surgical centers, Stanislaus was launched by doctors who weren't happy with leadership in the facilities where they had staff privileges, he says.

"They wanted to control their own surgical experience, to choose the staff that assists them, the tools they use, and the facilities in which they practice. Philosophically, we don't like monopolist [hospitals] that are arrogant and unresponsive."

Johnson says many of the 175-doctors now practicing at Stanislaus just got "tired of hospital executives saying 'I don't need to listen to you about needing new equipment. I don't care about remodeling the operating room or buying new instrumentation. And if you can't get your cases done until 10 p.m., I don't care.'"

Having centers that allow surgeons to work independently has also been a recruitment draw for an area that has an acute physician shortage, Johnson says.

Cheryl Clark is a senior editor and California correspondent for HealthLeaders Media Online. She can be reached at cclark@healthleadersmedia.com.

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