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May 24, 2007

Leslie V. Norwalk
Acting Administrator
Centers for Medicare and Medicaid Services
Department of Health and Human Services
Attention: CMS-1553-P
P.O. Box 8011
Baltimore, MD 21244-1850

Dear Administrator Norwalk:

Physician Hospitals of America (PHA), representing the nation's physician owned hospitals, is pleased to offer comments on the proposed rule for the fiscal year 2008 inpatient prospective payment system (IPPS).

The key issues for our members are the adoption in fiscal year 2008 of severity adjusted DRGs; the proposed disclosure of physician ownership and 24/7 on-site physician coverage; and possible revision of regulatory standards for hospital personnel.

DRG Reclassifications

PHA has previously supported the recommendations of the Medicare Payment Advisory Commission (MedPAC) to revise the inpatient payment system to better align payments with true costs of care. In addition, PHA supported the previous CMS IPPS changes in 2007. PHA agrees that hospitals providing services to more complex patients should be reimbursed in a manner that reflects the nature of that care. While we do not want to see a payment system that rewards hospital inefficiency, it is a reasonable policy to make sure that services are appropriately compensated.

Over time some DRGs have become more profitable than others. Making adjustments in the rates to restore balance to the entire inpatient payment system is a needed step. We endorse the efforts of CMS to achieve these goals through adoption of hospital specific weights and severity adjusted DRGs.

DRGs: Hospital Acquired Conditions

Following Congressional direction, CMS is proposing to identify a number of preventable events (i.e. infections, pressure ulcers, object left in body cavity after surgery). If these events occur during a hospital stay, the hospital would not receive an extra DRG payment to cover the costs generated by the preventable error.

PHA shares CMS' concern about the quality of the hospital environment for many patients. This is one of the many reasons that physicians establish their own facilities, to gain better control over the quality of care, such as post operative infection and other conditions that can be prevented. PHA believes that hospitals today have too few incentives to create a safer patient care environment. The six conditions that have been identified represent important risks and their prevention will greatly improve patient outcomes. It is appropriate that CMS penalize the hospital by refusing to pay for the additional costs that result from preventable events. Unless hospitals are pressured in a significant way, there is no incentive for them to improve their behavior.

The hospitals in this country are too often filled with risks for their patients. Additional emphasis must be placed on patient safety and quality care. The CMS proposed penalty is a necessary first step in forcing improvement across all facilities.

Proposed Disclosure Rules

CMS has specifically looked at the need for disclosure of physician ownership, financial information, and physician on-site coverage relating to physician-owned hospitals. PHA has participated in that public process and believes that the recommended actions in the proposed rule strike the proper balance.

We are proud of our physician ownership and will not hesitate to disclose such to the general public. In fact, a majority of the hospitals represented by PHA are already disclosing their physician ownership. Likewise, PHA hospitals participated in the CMS survey, which included the release of their financial data, and are willing to participate on an on-going basis. Regarding the proposed disclosures, we simply ask that CMS require disclosure of financial arrangements and on-site physician coverage of all hospitals, whether or not physician-owned.

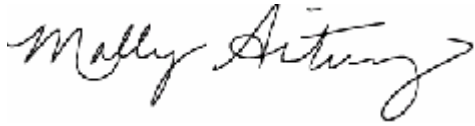
CMS asked for comment on whether or not the regulatory requirements that govern the type of clinical personnel and emergency equipment that must be present in the hospital should be strengthened. In the interests of patient safety, PHA would support a requirement that standardized the type and training of clinical personnel available in any Medicare certified hospital. Likewise we endorse setting minimum requirements for equipment as well.

We do not think a federal mandate on the hours that emergency rooms are open is needed. Such a requirement should come from the state or EMS district in which the hospital is located. The need for ER services varies greatly from one area to another and

we believe that state and local authorities are in a better position to properly judge the level of emergency care required.

We appreciate the opportunity to respond to the proposed rule.

Sincerely,

A handwritten signature in black ink, reading "Molly Gutierrez". The signature is written in a cursive style with a large, sweeping flourish at the end.

Molly Gutierrez
Executive Director