

Congress of the United States
Washington, DC 20515

August 6, 2004

Dear Colleague:

We have significant concerns with the proliferation of physician-owned limited service hospitals. This is not an issue of competition in the health care marketplace, which we support, rather our concern is these physician-owned limited service hospitals are engaged in behavior that distorts fair competition and threatens to erode our health care foundation. Citing these concerns, the Medicare Modernization Act of 2003 (MMA) enacted a moratorium on the growth of these facilities with respect to their physician self-referral practices.

Like many of you, we have heard from our local community hospitals about the cherry-picking activities these physician-owned limited service hospitals often engage in —this behavior is undermining our full-service hospitals' ability to provide needed care. The MMA required the Centers for Medicare and Medicaid Services and the Medicare Payment Advisory Commission to study this important issue and provide recommendations to the Congress. We look forward to their findings. However, as these studies are due in March, 2005, and the MMA's moratorium expires in June, 2005, it is imperative that the Congress be poised to address this issue early next year.

We invite you to sign the attached letter detailing our concerns on this topic, and signaling our shared interest in the Congress swiftly and appropriately addressing physician-owned limited service hospitals early next year.

Thank you for your attention to this matter, and we hope you can join us in signing the attached letter.

Please contact Aaron Sporck with Rep. Shelley Moore Capito at 5-2711, or Vickie Walling with Rep. John Tanner at 5-4714 to sign on.

Shelley Moore Capito

Joe Wilson

Zach Wang

Henry S. Brown

Tom Emmer

Mr. J. P. ...

Congress of the United States
House of Representatives
Washington, DC 20515-4802

July 27, 2004

Speaker J. Dennis Hastert
Office of the Speaker of the
House of Representatives
H 232 Capitol Building
Washington, DC 20515

Minority Leader Nancy Pelosi
Office of the House Minority Leader
H-204 Capitol Building
Washington, DC 20515

Dear Speaker of the House and House Minority Leader:

We are writing to express our concern about physician-owned, limited service hospitals.

As you know, Section 507 in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) is aimed at ensuring fair competition in the health care marketplace. MMA established an 18-month moratorium on physician's referring patients to limited service hospitals in which they have an ownership interest. This was a temporary solution aimed at addressing the investment model and referral behavior of physician-owned facilities while further studies are conducted. The moratorium reflects Congress' intent to reduce physician conflicts of interest.

In 2003, the General Accounting Office (GAO) published two reports on this issue. GAO raised significant concerns regarding certain aspects of these facilities' investment models and referral behaviors. According to GAO, "Concern exists with respect to specialty hospitals, that since they are usually much smaller in size and scope than general hospitals and closer in size to hospital departments, that their physician owners could influence their hospitals'--and therefore their own--financial gain through practice patterns and referrals." Other findings:

- **Physician-owned limited service providers avoid Medicaid and emergency department obligations.** GAO found them "*much less likely to have emergency departments [and] treated smaller percentages of Medicaid patients. . .*"
- **Physician-owned limited service providers are based on an investment model that relies on physicians referring patients to facilities they own.** Said GAO "*. . . 70 percent of specialty hospitals had some physician owners. Of the specialty hospitals with any degree of physician ownership, physicians' combined ownership shares averaged slightly more the 50 percent of the hospital.*"

- **Limited service providers “cherry pick” healthier patients for high reimbursement procedures, leaving sicker patients to go to the community hospital.** Said GAO, “*We found that patients at specialty hospitals tended to be less sick than patients with the same diagnoses at general hospitals.*” Further, “*Relative to general hospitals in the same urban areas, specialty hospitals...tended to treat a lower percentage of Medicaid inpatients among all patients with the same types of conditions.*”

Full-service hospitals are the backbone of America’s communities, treating all who come through their doors, all day, every day, regardless of financial status. From trauma patients to burn victims, full-service hospitals provide all services their communities need. GAO substantiated this fact when it found that acute care general hospitals provide 50% more care to Medicaid cardiac patients than limited service hospitals; 20% more care to Medicaid orthopedic patients than limited service hospitals; and 80% more care to Medicaid surgical patients than limited service hospitals. Their ability to meet these needs is jeopardized by physician owned limited service providers.

The MMA requires the Medicare Payment Advisory Commission and the Department of Health and Human Services to study this issue. We look forward to timely completion of this work so Congress can act swiftly to further address the rapid proliferation of physician ownership arrangements that present conflicts of interest early next year.

We look forward to working with you in the coming year to properly address this issue.

Sincerely,








