



July 26, 2007

The Honorable Michael Leavitt
Secretary
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, DC 20201

Dear Secretary Leavitt:

On behalf of the Nashville Area Chamber of Commerce and our member organizations, I am writing to express our concern about two provisions in the Centers for Medicare and Medicaid Services' (CMS) proposed regulation dealing with the Hospital Inpatient Prospective Payment System (IPPS).

The first provision would cut by 2.4 percent all Medicare-related, operating and capital inpatient payments in FY2008 and FY2009. This proposal would result in a nearly \$24 billion cut over the next five years. The second proposal would reduce payments to hospitals in urban areas for capital-related costs for inpatient hospital services, cutting payments by another \$1 billion over five years.

While not required to do so, CMS is opting to impose burdensome cuts based upon a flawed assumption that hospitals will alter coding practices (to the hospital's benefit) in response to the new medical severity DRG coding system. The net effect of the proposed "behavioral offset," as well as the additional cuts to urban hospitals, is to restrict beneficiary access including the nation's poorest populations to needed hospital services. Moreover, with regard to the behavioral offset, basic fairness argues against imposing such an offset in the IPPS regulation. There is no precedent in other payment systems for making a behavioral offset absent evidence of actual changes in coding.

With regard to the capital-related payment changes, these would adversely affect urban hospitals' ability to afford long-term capital investments. This means that hospitals will have difficulty in acquiring newer, advanced medical technology – including health information technology – that can improve outcomes and ultimately lower the cost of health care. Like many businesses, hospitals make long-term commitments to capital acquisitions. The proposed regulation could hinder their financial obligations to maintain and improve their physical facilities for the benefit of their patients.

More broadly, the payment reductions in the proposed regulation can be expected to increase costs in the private sector, as hospitals are forced to shift more of the cost burden to

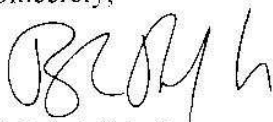
The Honorable Michael Leavitt
July 26, 2007
Page Two

private payors. This, in turn, is likely to increase the cost of private health insurance, and would further limit businesses' ability to offer more affordable coverage to their employees.

Finally, I would just highlight that the Nashville region is home to the largest health care services industry cluster in the country, with more than 300 companies based here that operate on a multi-state, national or international context. Nashville-based health care companies – which include several of the country's largest hospital management companies – have a very strong presence across the U.S. health care system, accounting for more than 2,400 operating sites (e.g., hospitals, outpatient surgery, imaging, and dialysis centers) that provide patient care outside the Nashville region. As such, we are particularly concerned about the impact of the proposed regulation.

We appreciate this opportunity to share our concerns with you, and would encourage you to eliminate both provisions when the final IPPS regulation is published in coming months. In addition, we understand that a large majority of House and Senate Members have already sent letters to CMS expressing their objection to both of these provisions.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Schulz".

Ralph J. Schulz
President and CEO