Impact of Healthcare Reform on Specialty Hospitals

The proposed healthcare reform bills, titled the Patient Protection and Affordable Care Act (H.R. 3590), and the Health Care and Education Reconciliation Act of 2010 (H.R. 4872), were recently enacted amid heated political debate. An issue of contention, particularly for medical societies opposed to this legislation is the effect it could ultimately have on physician-owned specialty hospitals. Specifically, H.R. 3590 Section 6001 and H.R. 4872 Section 1106 outline new requirements for specialty hospitals, stating that those under development must obtain Medicare Certification by December 31, 2010 (amended from H.R. 3590, which set the certification deadline to August 1, 2010). 1 Existing physician-owned hospitals would be eligible for some “grandfathering” benefits. However, they would still be restricted from increasing physician ownership or expanding services. New physician-owned hospitals now being built could also be adversely affected. 2

One of those groups opposed to the legislation, the Physician Hospitals of America (PHA), had lobbied to remove the provision from various healthcare proposals, asserting that the bill would limit or deny access to care for patients. 3 Molly Sandvig, Executive Director of PHA, states that “the legislation virtually destroys over 60 hospitals that are currently under development, and leaves little room for the future growth of the industry.” 4 The American Hospital Association (AHA), meanwhile, has fully supported the provision throughout the debate, arguing that physician-owned specialty hospitals drive up health costs and impede access to high-quality care. 5 Other proponents of the restrictive measures for physician-owned hospitals claim that these hospitals are “cherry pickers” of services yielding higher profits and better-paying patients. 6 Critics have also alleged that physicians profit from referring patients to physician-owned hospitals, creating a conflict of interest. 7

The reform provisions could have significant effects on physician investment time horizons and the valuation of surgical and specialty hospital enterprises. Specifically, the provisions may obviate the economic ownership interests of physicians in legally held property under the valuation standard of Fair Market Value and the valuation premise of value-in-use as a going concern, resulting instead in lower values under the premise of value-in-exchange through forced liquidation (in contrast to orderly disposition) because of the insufficient exposure to market due to the eighteen (18) month compliance period. For further information on this, see “The Valuation of Physician-Owned Hospitals in a Changing Reimbursement and Regulatory Environment,” authored by Robert James Cimasi in the Winter 2007/2008 edition of PHA Pulse.

2 “Bill to Affect Physician-Owned Hospitals” by April Wilkerson, The Journal Record, (March 23, 2010), p. 3
5 “Bill to Affect Physician-Owned Hospitals” by April Wilkerson, The Journal Record, (March 23, 2010), p. 3

© HEALTH CAPITAL CONSULTANTS

(Continued on next page)
Robert James Cimasi, MHA, ASA, FRICS, MCBA, AVA, CM&AA, serves as President of Health Capital Consultants (HCC), a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Intuition of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: “The U.S. Healthcare Certificate of Need Sourcebook” [2005 – Beard Books], “An Exciting Insight into the Healthcare Industry and Medical Practice Valuation” [2002 – AICPA], and “A Guide to Consulting Services for Emerging Healthcare Organizations” [1999 John Wiley and Sons].

Mr. Cimasi is the author of numerous additional chapters in anthologies, books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious “Shannon Pratt Award in Business Valuation” conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows.

Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the Senior Vice President of Health Capital Consultants (HCC), where he focuses on the areas valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician integration and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; overseen the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia, and is a Fellow of the American College of Healthcare Executives. He has co-authored “Research and Financial Benchmarking in the Healthcare Industry” (STP Financial Management) and “Healthcare Industry Research and its Application in Financial Consulting” (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser’s Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.

Anne P. Sharamitaro, Esq., is the Vice President of Health Capital Consultants (HCC), where she focuses on the areas of Certificate of Need (CON); regulatory compliance, managed care, and antitrust consulting. Ms. Sharamitaro is a member of the Missouri Bar and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as an editor for the Journal of Health Law, published by the American Health Lawyers Association. She has presented healthcare industry related research papers before Physician Hospitals of America and the National Association of Certified Valuation Analysts and co-authored chapters in “Healthcare Organizations: Financial Management Strategies,” published in 2008.