

## Potential Impact of CHAMP Section 651 Provisions on Valuation

The July 2007 Federal reauthorization of the State Children's Health Insurance Program (SCHIP) under the Children's Health and Medicare Protection Act of 2007 (CHAMPS) passed by the US House of Representatives [Bill # H.R.3162] contained initiatives in Section 651 aimed at eliminating the *whole hospital exception*. Although these provisions were not included in the final legislation vetoed by President Bush, there are indications that Section 651 language will again be proposed and, if enacted as part of future legislation, these provisions would have significant effects on physician investment time horizons and the valuation of surgical and specialty hospital enterprises.

Specifically, the CHAMP Section 651 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 18 month compliance period.

***"CHAMP Section 651 provisions may obviate the economic ownership interests of physicians in legally held property"***

Additionally, CHAMP Section 651 provisions would put subsequent remaining physician investors' holdings in a minority position, resulting in an inability of physicians to control invested capital. The resulting lack of physician -investor control could affect investors' perceptions as to *risk* of the subject enterprise as related to future quality of care; convenience of provider and patient scheduling; and, the enterprise's ability to incorporate future technological innovations into the

venture. There is also the possibility of the loss of significant intangible asset value related to highly qualified, trained and assembled workforce in place, which physicians have excelled in developing, if physician participation in the surgical hospital investor pool is limited or prohibited, and general hospital systems or corporate buyers (to whom such workforce may be considered redundant) remain as the most probable owners.

With enactment of the proposed CHAMP Section 651 provisions, there may also be significant disruption of loan covenants guaranteed by physicians and their group medical practices which have invested in existing physician invested enterprises. This may have the unintended cascade-like consequence in visiting a catastrophic financial impact on the viability of those physicians' medical practices and may also result in personal loss of physician credit standing. Consequently, this may, in some cases, have an impact on the ability of physician owned facilities to maintain liquidity and, ultimately, creditworthiness and solvency, due to the disruption of working capital necessary to meet financial obligations, including the deleterious impact on the capital structure of physician invested hospitals resulting from the forced liquidations of physician equity which would change the balance of working capital and related lines of credit.

*It should be noted that, aside from the proposed CHAMP Section 651 provisions, several states are also now moving forward with their own initiatives to limit physician ownership in surgical hospitals and other specialty providers, through such means as Certificate of Need (CON) and State self-referral regulations.*



(800) FYI - VALU

*Providing Solutions  
in the Era of  
Healthcare Reform*

Founded in 1993, HCC is a  
nationally recognized healthcare  
economic financial consulting firm

- [HCC Home](#)
- [Firm Profile](#)
- [HCC Services](#)
- [HCC Experts](#)
- [Clients Projects](#)
- [HCC News](#)
- [Upcoming Events](#)
- [Contact Us](#)
- [Email Us](#)

**HEALTH CAPITAL CONSULTANTS (HCC)** is an established, nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, Missouri, with regional personnel nationwide. Founded in 1993, HCC has served clients in over 45 states, in providing services including: valuation in all healthcare sectors; financial analysis, including the development of forecasts, budgets and income distribution plans; healthcare provider related intermediary services, including integration, affiliation, acquisition and divestiture; Certificate of Need (CON) and regulatory consulting; litigation support and expert witness services; and, industry research services for healthcare providers and their advisors. HCC's accredited professionals are supported by an experienced research and library support staff to maintain a thorough and extensive knowledge of the healthcare reimbursement, regulatory, technological and competitive environment.



**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.

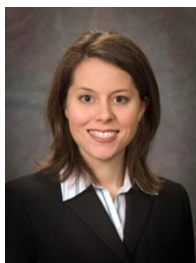
Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Intuition of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master 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.