

## AO-SH-2005-04-03

[Name redacted]

Dear [Name redacted]:

We are writing in response to your request for an advisory opinion concerning the 18-month moratorium on physician self-referrals to specialty hospitals in which they have an ownership or investment interest (the “specialty hospital moratorium”).<sup>1</sup> Specifically, you seek a determination that [name redacted] (the “Hospital”) was “under development” as of November 18, 2003, thereby making the specialty hospital moratorium inapplicable to the Hospital.

You have certified that all of the information provided in your request, including all supplementary materials and documentation, is true and correct and constitutes a complete description of the relevant facts. In issuing this opinion, we have relied solely on the facts and information presented to us. We have not undertaken an independent investigation of this information. If material facts have not been disclosed or have been misrepresented, this advisory opinion is without force and effect.

Based upon the facts certified in your request for an advisory opinion and supplemental submissions, we conclude that the Hospital was “under development” as of November 18, 2003 and is therefore exempt from the specialty hospital moratorium. We note that, although the Hospital is exempt from the specialty hospital moratorium, a referring physician’s ownership or investment interest in the Hospital must comply with the remaining terms of the hospital ownership exception, as set forth in section 1877(d)(3) of the Social Security Act (the “Act”), as interpreted at 42 C.F.R. § 411.356(c)(3).<sup>2</sup> We express no opinion regarding compliance with this exception.

The arrangement you described in your advisory opinion may raise potential issues under the anti-kickback statute in section 1128B(b) of the Act (42 U.S.C. § 1320a-7b(b)). Issuance of this CMS advisory opinion is not intended to, and should not be construed to, address the propriety of the Hospital’s arrangement under the anti-kickback statute. The Office of the Inspector General (OIG) is the agency with authority to issue opinions on the application of the anti-kickback statute. For additional information on the OIG’s advisory opinion process, you may wish to consult its website (<http://oig.hhs.gov/fraud/advisoryopinions.html>).

This opinion may not be relied on by any individual or entity other than the party that requested it. This opinion is further qualified as set forth in section IV below and in 42 C.F.R. §§ 411.370 through 411.389.

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<sup>1</sup> Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Pub. L. No. 108-173, § 507.

<sup>2</sup> Based upon the location of the Hospital, the rural provider exception (section 1877(d)(2) of the Act, 42 C.F.R. § 411.356(c)(1)) is not applicable.

## **I. STATUTORY BACKGROUND**

### **A. The Physician Self-Referral Prohibition**

Under section 1877 of the Act (42 U.S.C. § 1395nn), a physician cannot refer a Medicare patient for certain designated health services (“DHS”) to an entity with which the physician (or an immediate family member of the physician) has a financial relationship, unless an exception applies.<sup>3</sup> Section 1877 also prohibits the entity furnishing the DHS from submitting claims to Medicare, or billing the beneficiary or any other entity for Medicare DHS that are furnished as a result of a prohibited referral. Inpatient and outpatient hospital services are DHS. A financial relationship includes both ownership/investment interests and compensation arrangements. The statute and regulations enumerate various exceptions, including exceptions for physician ownership or investment interests in hospitals and rural providers. Violations of the statute are subject to denial of payment of all DHS claims, refund of amounts collected for DHS claims that are the subject of prohibited referrals, and civil money penalties for knowing violations of the prohibition. Violations may also be pursued under the False Claims Act, 31 U.S.C. §§ 3729-3733.

### **B. Medicare Prescription Drug, Improvement, and Modernization Act of 2003**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the “MMA”) amended the hospital and rural provider ownership exceptions to the physician self-referral prohibition. Prior to the MMA, the “whole hospital” exception allowed a physician to refer Medicare patients to a hospital in which the physician (or an immediate family member of the physician) had an ownership or investment interest, as long as the physician was authorized to perform services at the hospital and the ownership or investment interest was in the entire hospital and not merely in a subdivision of the hospital. Section 507 of the MMA added an additional criterion to the whole hospital exception, specifying that for the 18-month period beginning on December 8, 2003 and ending on June 8, 2005, physician ownership and investment interests in “specialty hospitals” would not qualify for the whole hospital exception. Section 507 further specified that, for the same 18-month period, the exception for physician ownership or investment interests in rural providers would not apply in the case of specialty hospitals located in rural areas.

For purposes of section 507 only, a “specialty hospital” is defined as a hospital in one of the 50 States or the District of Columbia that is primarily or exclusively engaged in the care and treatment of one of the following: (i) patients with a cardiac condition; (ii) patients with an orthopedic condition; (iii) patients receiving a surgical procedure; or (iv) patients receiving any other specialized category of services that the Secretary designates as being inconsistent with the purpose of permitting physician ownership and investment interests in a hospital. The term “specialty hospital” does not include any hospital determined by the Secretary to be in operation or “under development” as of November 18, 2003 and for which (i) the number of physician investors has not increased since that date; (ii) the specialized services furnished by the hospital

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<sup>3</sup> In 1993, the physician self-referral prohibition was made applicable to the Medicaid program. 42 U.S.C. § 1396b(s).

has not changed since that date; and (iii) any increase in the number of beds has occurred only on the main campus of the hospital and does not exceed the greater of five beds or 50% of the beds in the hospital as of that date.

In determining whether a specialty hospital was “under development” as of November 18, 2003, section 507 directs us to consider whether the following had occurred as of that date: (i) architectural plans were completed; (ii) funding was received; (iii) zoning requirements were met; and (iv) necessary approvals from appropriate state agencies were received. A specialty hospital’s failure to satisfy all of these considerations does not necessarily preclude us from determining that a specialty hospital was “under development” as of November 18, 2003. In addition, we may consider any other evidence that we believe would indicate whether a hospital was under development as of November 18, 2003.

## **II. FACTS**

The party requesting this advisory opinion is [name redacted] (the “Requestor”), which is the general partner of [name redacted] (the “Hospital Partnership”). Both the Requestor and the Hospital Partnership were formed in June 2002 for the purpose of operating the [name redacted] (the “Hospital”). The Requestor is owned by 23 physicians; one non-physician investor; and [name redacted] (the “Management Company”), an affiliate of [name redacted], which is a national health care management company specializing in the development of ambulatory surgery centers and specialty hospitals. The Hospital Partnership is owned by the same physician and non-physician investors in Requestor, and by [name redacted] (the “Requestor”). [Name redacted] (“Real Estate Company”) was created in January 2003 to develop and construct the medical office building in which the Hospital will be located. One of the physician investors in the Requestor and Hospital Partnership is also an investor in Real Estate Company, and originally owned the land on which the medical office building and hospital will be built. The physician investor sold the land to the Real Estate Company in August 2003. The Hospital Partnership will lease the Hospital from Real Estate Company, and Management Company will manage the Hospital’s daily operations.

The Requestor certified that the Hospital will focus almost exclusively on surgical procedures. All physician owners of the Requestor and Hospital Partnership will be members of the Hospital’s active medical staff and regularly perform services at the Hospital.<sup>4</sup>

### **A. Architectural Plans**

Requestor has certified that all architectural, mechanical, electrical, and structural plans were completed by the end of September 2003.

### **B. Funding**

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<sup>4</sup> We express no opinion regarding any indirect financial relationship that may exist between the Hospital and any referring physician who has a financial relationship with the Management Company or Real Estate Company.

The Requestor certified that a substantial amount of funding had been received before November 18, 2003. For example, as of August 2002, the Hospital Partnership had raised over \$1.2 million in capital contributions for the development and operation of the hospital. As of August 2003, Real Estate Company had raised over \$2.3 in capital contributions to fund the purchase of land and construction of the medical office building in which the Hospital will be located and obtained a construction loan in the amount of approximately \$17 million for the project.

### **C. Zoning Requirements**

In February 2003, the local jurisdiction rezoned the property on which the Hospital will be located for use as a hospital facility. The Requestor has certified that no other zoning approval was necessary to construct the Hospital on the chosen site.

### **D. Regulatory Approvals**

The state in which the Hospital is located does not require a certificate of need review prior to development or construction of a hospital. Applicable state law requires new hospitals to submit preliminary and final architectural plans and specifications to the state agency for plan review and approval before construction begins. The state agency conducts intermediate and final inspections to verify compliance with approved construction documents and applicable rules and standards. Successful completion of the plan review process is required to obtain hospital licensure.

Requester has certified that the final plan review documents were submitted to the state agency in October 2003.

## **III. CONCLUSION**

Based on the facts certified by the Requestor, we determine that the Hospital was “under development” as of November 18, 2003. Accordingly, the specialty hospital moratorium set forth in section 507 of the MMA does not apply to the Hospital.

## **IV. LIMITATIONS OF THIS OPINION**

The limitations that apply to this advisory opinion include the following:

- This opinion shall be without force and effect if the Hospital fails to (i) satisfy the definition of “hospital” in section 1861(e) of the Act; (ii) comply at the condition level with the requirements set forth in 42 C.F.R. Part 482; or (iii) obtain or comply with the terms of, a hospital provider agreement.
- This advisory opinion and the validity of the conclusions reached in it are based upon the accuracy of the information that you have presented to us.
- This advisory opinion is relevant only to the specific question(s) posed at the beginning of this opinion. This advisory opinion is limited in scope to the specific facts described in this

letter and has no application to other facts, even those that appear to be similar in nature or scope.

- This advisory opinion does not apply to, nor can it be relied upon by, any individual or entity other than the Requestor. This advisory opinion may not be introduced in any matter involving an entity or individual that is not a requestor to this opinion.

- This advisory opinion applies only to the statutory provisions specifically noted above in the first paragraph of this opinion. No opinion is herein expressed or implied with respect to the application of any other Federal, State, or local statute, rule, regulation, ordinance, or other law that may apply to the facts, including, without limitation, the Federal anti-kickback statute (42 U.S.C. § 1320a-7b(b)).

- This advisory opinion will not bind or obligate any agency other than the U.S. Department of Health and Human Services. Under 42 C.F.R. § 411.382, CMS reserves the right to reconsider the issues posed in this advisory opinion and, where public interest requires, rescind or revoke this opinion.

- This opinion is limited to the proposed arrangement. We express no opinion regarding any other financial arrangements disclosed or referenced in your request letter or supplemental submissions. Moreover, we express no opinion regarding whether a referring physician's financial relationship with the Hospital satisfies the criteria of any exception under section 1877 of the Act or its implementing regulations.

- This advisory opinion is also subject to any additional limitations set forth at 42 C.F.R. § 411.370 et seq.

Sincerely,

Herb B. Kuhn  
Director  
Center for Medicare Management