

Key piece of DMC deal uncertain

By JAY GREENE

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With only six weeks left to gain Medicare billing approval, CEO Mike Duggan of Detroit Medical Center said he is confident there is enough time to complete the final step in the \$1.5 billion deal to sell the eight-hospital system to investor-owned Vanguard Health Systems Inc.

"We need to get the (Medicare) provider number now and are working hard to get it done," said Duggan in an interview with Crain's last week.

Provider numbers are assigned to hospitals to bill the government for Medicare and Medicaid patients.

Duggan and Trip Pilgrim, Vanguard's chief development officer, said they do not foresee any problems in meeting the Dec. 31 deadline for closing the deal.

DMC and Vanguard officials also said they will not close before gaining Medicare provider number approval. Medicare and Medicaid reimbursement accounted for 17 percent and 42 percent, respectively, of DMC's \$2 billion patient service revenue in 2009.

The deal also must close by Dec. 31 because tax breaks approved for DMC and Vanguard under a Renaissance Zone designation for the DMC campus downtown will expire.

But several experts familiar with Medicare reimbursement and the process DMC and Vanguard are going through to gain new Medicare provider numbers said the time is growing short to gain necessary regulatory approvals from the Centers for Medicare and Medicaid Services.

Asked to discuss the process to gain new Medicare provider numbers, Duggan said he wouldn't talk about regulatory issues.

Joshua Nemzoff, president of Nemzoff & Co., a New Hope, Pa.-based consulting firm, said it normally takes six to nine months from filing for a new provider number to get one issued.

DMC and Vanguard's June 11 purchase agreement called for the parties to seek new Medicare provider numbers.

"If DMC has filed for a new provider number and the Joint Commission has scheduled a survey, it is possible to get it done (by Dec. 31)," Nemzoff said.

A Medicare spokesman told Crain's three weeks ago that DMC and Vanguard had not applied for new Medicare provider numbers. The spokesman did not return calls and e-mails last week. However, a DMC official said the hospital system had filed "months ago."

Because of confidentiality restrictions, Ken Powers, a spokesman for the Chicago-based Joint Commission, the national hospital accreditation body, said he could not confirm that a site visit for an accreditation survey has been scheduled this year.

The Medicare provider number, also known as the CMS certification number, is required for hospitals and other facilities to participate in the Medicare program.

For example, to gain a Medicare provider number, hospitals must complete the Medicare enrollment application, Form CMS 855-A, and be certified as meeting Medicare health and safety standards.

Once the application is approved by CMS, the hospital must undergo and successfully pass the survey by the Joint Commission.

There are several ways to receive a Medicare provider number. One method most hospitals follow when they change ownership is to transfer existing Medicare provider numbers. DMC and Vanguard have chosen to instead seek a new one, according to the purchase agreement.

"It is extremely unusual to get a new provider number," Nemzoff said. "Nobody wants to do it because of the time it takes and the issues involved."

For example, Vanguard and DMC "could be having a disagreement with CMS over what the Medicare rates and disproportionate share payments should be," Nemzoff said. "This could be delaying provider number approval."

To seek new Medicare provider numbers, hospitals have two options. The first is to seek individual Medicare provider numbers for each of DMC's eight hospitals.

Under the second option, Medicare allows regional multi-hospital systems like DMC to enroll their hospitals as a single multi-campus hospital with a single Medicare provider number.

But in July, CMS changed rules governing hospitals that seek a single Medicare provider number for a multi-campus system.

For example, a hospital system like DMC must have one governing body, one unified medical and nursing staff for all campuses. And if non-compliance with the regulations is found at one campus, it affects others in the system as they participate in Medicare as a single hospital.

Nemzoff said most large hospital systems do not want to have a single Medicare provider number because an accreditation violation could affect the entire system.

A source close to the DMC board said Vanguard and DMC have been talking with Medicare officials about waiving some of the new regulations governing the multi-campus hospital provider number application approach.

But responding to a Nov. 1 article in Crain's that DMC would seek a single Medicare provider number, Duggan said: "We are not doing a single Medicare provider number."

One potential advantage for DMC and Vanguard with a single number is that it could receive higher Medicare disproportionate share (DSH) payments for treating low-income patients, Nemzoff said.

Under DSH rules, Medicare pays higher rates to hospitals that treat a larger percentage of low-income patients. It does so by paying a percentage add-on to Medicare diagnostic-related group rates of 5 percent to 25 percent more.

Payments are calculated based on a formula that includes number of beds, labor cost index, location of hospital and type of facility.

Last week, Attorney General Mike Cox conditionally approved the sale to Vanguard. The 85-page report concluded there are enough protections in the agreement to preserve DMC's charitable gifts and to ensure Vanguard lives up to its obligations. A 20-member legacy board will carry out those protections; it is chaired by Keith Crain, chairman of Crain Communications Inc.

Cox also found that Vanguard's total commitment of "approximately \$1.5 billion exceeds the highest estimate of DMC's value by independent analysts."