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Statement of
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Before the

Subcommittee on Federal Financial Management,
Government Information, and International Security

Committee on Homeland Security and Government Affairs
United States Senate

RE: An Overview of the Competitive Effects of Specialty
Hospitals

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Dirksen Senate Office Building, Room 562

Dr. Coburn and Members of the subcommittee, my name is Dr. Stan Pelofsky. I am a practicing neurosurgeon in Oklahoma City and a physician-owner of the Oklahoma Spine Hospital. On behalf of our community, our spine hospital and the patients that we serve, I appreciate the invitation to appear before your subcommittee to set the record straight about specialty hospitals.

Why Specialty Hospitals?

Specialty hospitals developed for many reasons. As community hospitals became larger and more cumbersome, many physicians found it increasingly difficult to navigate the complex governance structures, budgetary processes, and operating room scheduling systems, which often created intra-hospital conflicts between the different specialties and hospital administrators. In an effort to put themselves in the healthcare delivery driver's seat, physicians turned to the concept of specialty hospitals so they, themselves, could make all the decisions involved in providing the best and most technologically advanced care for their patients. By focusing on targeted specialty care areas, such hospitals can provide superior services, with lower costs, fewer complications, and greater economy and efficiency of scale -- all of which lead to higher quality and excellent patient satisfaction.

Specialty hospitals are therefore clearly an important marketplace innovation, providing high-quality healthcare and presenting patients with additional choices for meeting their healthcare needs. Beyond their own walls, specialty hospitals also inject competition into the marketplace, forcing all the hospitals in a given community to become more efficient, while at the same time raising the quality bar. Such healthy competition benefits not only consumers and patients, but also employers, states and the federal government. When healthcare is delivered in an efficient, high-quality manner, consumers, payers and purchasers of healthcare all come out winners.

The Oklahoma Spine Hospital is clearly doing its part to meet all of these objectives, and we are doing so in an exemplary fashion.

What is the Oklahoma Spine Hospital?

Let me take this opportunity to tell you about our specialty spine hospital. Oklahoma Spine Hospital is the nation's first physician-owned and operated specialty surgical spine hospital. It is a world class facility owned by 21 doctors who had a dream, had a mission and had the courage of their conviction to take the risk and establish a facility that focused on quality of care, access to care, efficiency, patient and patient family satisfaction and employee happiness. There are over 200 employees serving the needs of our patients. A totally licensed Medicare-approved facility, the hospital meets and/or exceeds all of the requirements for a hospital in the state of Oklahoma. Every physician at our facility is board certified and many are fellowship trained in the diagnosis and treatment of spine disease. Our facility owners are neurosurgeons, orthopedic surgeons, pain management experts, anesthesiologists and neuroradiologists. To ensure quality, the physician owners direct the administration and the daily operations of the hospital and oversee all aspects of patient care.

Our 62,000 square foot facility is state-of-the-art. The hospital features five large operating rooms; four major pain management procedure rooms; eighteen in-patient beds; fourteen pre-op and post-op outpatient beds; category IV emergency service; seven recovery room beds; MRI, X-ray, myelography and CT suites; laboratory services; respiratory therapy services; and a pharmacy. The hospital also owns and operates a 7,500 square foot off-site physical therapy

service. Patients suffering from diseases of the spine, and those with chronic pain conditions, are able to receive full-service advanced medical and surgical treatment at a single “one-stop shop” facility.

Why are Critics of Specialty Hospitals Wrong?

At the Oklahoma Spine Hospital, we have created a home where brilliantly trained surgeons and the most innovative new technologies have come together for the betterment of our patients. We are very proud of the value that we have brought to the healthcare market place, not only in Oklahoma, but also throughout the country. We have created a model that raises the bar of excellence in the treatment of the very devastating spine diseases that we see. This a model for the 21st century, although it is a model rejected by just about every large community hospital – nationwide and in Oklahoma City. Faced with this unwanted competition, and in an effort to maintain their dominance in the healthcare delivery marketplace, these so-called “full service” hospitals, and their professional associations, are seeking to put specialty hospitals out of business through federal and state legislation and regulation (and in some reported cases, by intimidation).

The hospital lobby justifies the need to thwart the ongoing development of specialty hospitals by spinning a fantastic tale that simply belies the facts. Our experience in Oklahoma City clearly demonstrates that the critics of specialty hospitals are just dead wrong. Both our own findings, and those of numerous governmental and other studies, have confirmed the beneficial effects of specialty hospitals.

Oklahoma Spine Hospital Does Not “Cherry-pick” its Patients. The hospitals have argued that specialty hospitals cherry-pick the most profitable patients by avoiding low-income populations, offering the most profitable services and serving less sick patients within case types. At the Oklahoma Spine Hospital we absolutely do not cherry-pick our patients, although we do cherry-pick our doctors, nurses, scrub techs and employees to ensure that we have the best and most qualified team of medical professionals to treat our patients. At our hospital we have our own “Patients’ Bill of Rights” and the first “right” on the list states that “individuals shall be accorded impartial access to treatment or accommodations that are available or medically indicated, regardless of race, creed, sex, national origin, or *source of payment*” [emphasis added]. Our payer mix breaks down as follows: private health insurance 42%; workers compensation 33%, Medicare/Medicaid 17%; and self-pay/charity/other 8%.

Oklahoma Spine Hospital Has Level IV Emergency Medical Facilities and Provides Full ED Coverage at a Tertiary Care Community Hospital. Critics of specialty hospitals argue that patients have less access to emergency and trauma care because physicians practicing at specialty hospitals no longer cover community hospital emergency departments and/or the specialty hospitals provide only limited or no emergency services. Contrary to these assertions, the Oklahoma Spine Hospital is a Level IV emergency medical facility that is open at all times. From November 1999 through April 2005, our specialty hospital served 144 patients with emergency medical conditions. In addition, the physicians in my practice cover the emergency department of one of the largest community hospitals in Oklahoma City, Mercy Hospital, twenty-four hours a day, seven days a week, three hundred and sixty-five days a year. Our practice is absolutely committed to meeting this obligation, and we have been leaders in working with the city and state to develop a local and state-wide trauma system, of which we are a part.

Oklahoma Spine Hospital is a True Hospital. Some have suggested that specialty hospitals are not “real” hospitals because they do not treat a full array of diseases and disorders. While it is true that our hospital focuses primarily on treating spine disease, this does not in any way mean that we are not a hospital. On the contrary, the Oklahoma Spine Hospital is indeed a true hospital. It is not an ambulatory surgical care center. It is officially certified by the state’s health department and we are a dues paying member of the Oklahoma Hospital Association and the American Specialty Hospital Association. Over 95% of our patients stay over night (from November 1999 through April 2005 our average length of stay was 1.64 days) and many stay two, three and four days following complex spine surgery. Our hospital also provides a variety of outpatient services, similar to most community hospitals. And as mentioned above, we have a fully staffed 24-7-365 emergency room.

General Hospitals Have a Healthy Bottom-Line. The hospital lobby would have policymakers believe that they are financially devastated because specialty hospitals are zapping needed and essential financial resources away from community hospitals. Hospital financial statements, however, tell a very different story. Let me give you a few examples. HCA has a joint operating agreement with the Oklahoma University Medical Center. It was reported that last year HCA had a \$47.3 million bottom line net profit from that arrangement. Its profit margin was reported to be 11.1%, which might be the highest in the state for any large community hospital. This is from our so-called “safety net” hospital, where most of our indigent patients are taken. Interestingly, little of this \$47 million seems to flow back to the medical center, and in fact HCA threatened to close down the Level I Trauma Center because of loss of money. Despite these huge profits, the state continues to subsidize the trauma center to the tune of about \$5.7 million each year. The for-profit hospitals are not alone in reaping huge profits. It is my understanding, based on their IRS Form 990 filing, that in 2003 non-profit Integris generated over \$50 million in profit. It is therefore absolutely disingenuous for these community hospitals to assert that an 18-bed facility in the heartland is leading them to the brink of financial ruin. Unlike HCA and Integris, which are subsidized in one way or another by the state and federal governments through tax breaks and other financial assistance, the Oklahoma Spine Hospital contributes a significant amount of its income to the state, local and federal governments. Last year we paid the following taxes: federal income tax \$4,495,000; state income tax \$770,000; sales tax \$860,000; and property tax \$225,000 and these monies, in part, go to fund numerous state and federal healthcare programs.

Oklahoma Spine Hospital is Efficiently Operated. General hospitals argue that specialty hospitals are not more efficiently run. These hospitals obviously haven’t visited the Oklahoma Spine Hospital. Every aspect of our hospital’s operations and design is a paradigm of efficiency. Our physicians designed the layout of the hospital, its operating rooms, pre- and post-op areas, nursing stations, etc. to ensure that care is rendered in an efficient and high quality fashion. For example, each operating room is self-contained and fully outfitted with state-of-the-art equipment, eliminating the need to share equipment between operating rooms. This means there are no delays while one surgeon waits for another to complete an operation so he or she can use necessary surgical equipment. We also outsource many of our administrative functions. We do not employ hospital administrators or CEOs with their six or seven figure salaries. We do not spend any money on marketing or advertisements (other than to give each patient that leaves the hospital a pastel-colored tee-shirt of his or her color choice with our hospital logo on it). Our bottom-line profit is spent on developing and purchasing cutting edge technology, increasing employee salaries and benefits and staying way ahead of the technology and healthcare

curve. At the Oklahoma Spine Hospital, the physician owners can make major decisions concerning the purchase of new technology, new instruments, and change any hospital policy, literally overnight, without sitting through hours and hours of mindless hospital committee meetings. Our model of operations, administration and patient care delivery has allowed our physicians to be much more efficient and effective in their daily work. In fact, I have been able to increase my own personal productivity 33% and get home one hour earlier each day.

Oklahoma Spine Hospital Provides Higher Quality Care. Critics of specialty hospitals suggest that they do not provide higher quality of care than community hospitals. Once again, the data demonstrate just the opposite. Whether quality of care is based on measures such as mortality and infection rates, nurse to patient ratios or patient satisfaction indicators, Oklahoma Spine Hospital excels across all quality measures. Since we opened in 1999, we have had no deaths, the lowest infection rate in the city and the lowest re-admission rate for complex spine surgeries in the city. Out of the 12,383 surgical cases performed from November 1999 to April 2005, we have an infection rate of less than one percent (0.11%). According to the Centers for Disease Control and Prevention’s (CDC) National Nosocomial Infections Surveillance (NNIS) system, which monitors reported trends in nosocomial infections in participating U.S. acute care hospitals, 2 to 5% of operated patients will develop surgical site infections. These infections increase hospital length of stay by an average of 7.5 days, generating additional hospital costs in excess of one billion dollars. Our low infection rate record is clearly superior to the national average, saving the federal government and others significant money through reduced length of stay and low readmission rates.

Independent organizations have also confirmed the superiority of our hospital over others in Oklahoma City. For example, according to HealthGrades, a national organization that produces hospital quality reports for over 5,000 U.S. acute care hospitals, this year the Oklahoma Spine Hospital received the highest ratings for spine and neck surgery as compared with other rated Oklahoma City hospitals:

Rating System = * * * * * Best * * * As Expected * Poor

Back and Neck Surgery (spinal fusion):

Oklahoma Spine Hospital	* * * * *
Integrus Baptist Medical Center	* * *
Oklahoma University Medical Center	* * *
Bone and Joint Hospital	* * *
Mercy Health Center Inc.	*

Back and Neck Surgery (except spinal fusion):

Oklahoma Spine Hospital	* * * * *
Bone and Joint Hospital	* * * * *
Mercy Health Center Inc.	* * *
Integrus Baptist Medical Center	* * *
Oklahoma University Medical Center	* * *

Our excellent nurse to patient ratio also enhances our quality of care. At the Oklahoma Spine Hospital we have one nurse for every four patients, far exceeding national standards. And our nurses are highly trained and specialized in taking care of patients with spine disease and chronic pain. They are happy and love their jobs, so turnover is extremely low, saving us thousands of dollars in training costs each year, which we can spend on patient care.

Finally, patients love our hospitals. Our overall patient satisfaction rate is over 98%. Our January 2005 Inpatient Satisfaction survey found the following positive responses:

Would you return for other procedures?	99%
How was your overall experience at Oklahoma Spine Hospital?	99%
Were your questions answered?	99%
Were your discharge instructions easily understood?	99%
Was the seating comfortable?	97%
Did we meet your expectations?	96%
Was your room cleaned every day?	93%
Was the housekeeper courteous and friendly?	93%
Did the nursing staff keep you informed of your doctor's orders and what to expect following surgery?	99%
Were discharge instructions easily understood and questions answered?	99%
Responsiveness of the nurses to your needs.	99%
Was the nursing staff attentive to pain control needs?	99%
Waiting time (not having to wait over 15 minutes checking in and signing registration forms)	95%
Was our admission staff friendly and helpful?	100%

Physician Ownership in the Oklahoma Spine Hospital Does Not Influence Our Treatment Decisions or Treatment Location. Our critics have intimated in no uncertain terms that our prime interest is self-referral to our facility so we can perform complex surgical spine procedures and reap the financial benefits. I am here to tell this committee that nothing could be farther from the truth. It is an insult to me and my partners to suggest that economic motives dictate how we treat our patients. At the Oklahoma Spine Hospital our major emphasis is to exactly diagnose and pinpoint the source of trouble that is producing spine pain and disabling our patients. Once we accurately diagnose the disease state, our first, second and third goal is to treat the disease with aggressive medical management, including physical therapies, epidural steroid injections, selective nerve root blocks, pain management, exercise and weight-reduction programs, etc. Surgery is never the first, second or third choice. Let me say this again, at the Oklahoma Spine Hospital the physician owners perform surgery only as a last resort when our patients have failed aggressive medical management over an extended period of time and simply cannot continue to suffer in pain and agony. We are not “knife happy” and our surgical utilization rates are consistent with national rates of other neurosurgeons and orthopaedic surgeons, most of whom practice at general hospitals.

In addition, we do not perform all of our spine surgery at our specialty hospital and continue to treat patients with spine disease at Mercy Hospital as well. Although we perform between

five and ten cases per day at the spine hospital, we also perform between ten and twelve spine surgeries at our community hospital each week.

Physicians at the Oklahoma Spine Hospital Provide the Full Range of Neurosurgical Services at the Community Hospital. Contrary to some assertions, my partners and I provide the full range of neurosurgical services at our community hospital. In addition to spine surgery, we also treat patients with brain tumors, epilepsy, brain aneurysms, carotid artery disease, Parkinson's disease and many more neurologic conditions. We have established a Neuroscience Center in Oklahoma City and we have been involved in the training and teaching of medical students, interns and residents. Most recently, due to the collapse of Oklahoma University's department of neurosurgery (which is not attributed in any way to the existence of our specialty hospital), our practice has also been working collaboratively with OU to help take care of many of the university medical center's level II and level III trauma patients who are suffering from neurologic problems.

What Does the Future Hold for Specialty Hospitals?

Dr. Coburn and Members of the Subcommittee, the future viability of specialty hospitals rests largely within the control of the U.S. Congress and the Centers for Medicare and Medicaid Services. The current moratorium is scheduled to end in just a few short weeks, and on behalf of the Oklahoma Specialty Hospital and all other specialty hospitals now existing, and those yet to be developed, I strongly urge you to let this moratorium come to a permanent end. I also hope you will express your support of specialty hospitals to CMS Administrator, Mark McClellan, and encourage the agency not to impose further regulations that will, de facto, extend the moratorium beyond its current June 8, 2005 date and make it more difficult for outstanding facilities such as ours to maintain our Medicare hospital designation. Congress should support competition and innovation in healthcare and encourage new entities, like specialty hospitals, to enter and thrive in the marketplace.

Ultimately, the Oklahoma Spine Hospital is about the American dream; about entrepreneurship, where 21 doctors knew a better way to diagnose and treat patients with chronic spine disease. We spent our time, we risked our money, and with blood, sweat and tears, we made it happen. We conceived this baby, we birthed it, we grew it and we matured it and we will fight to protect it. Our community, our state and ultimately the healthcare of our country will be much better off. Do we want to go back to the status quo, and, in particular, have a few powerful hospital administrators controlling the fate of our healthcare needs, or do we want to continue with innovative and entrepreneurial ways to expand the horizons of medicine for the benefit of all patients?

Thank you for this opportunity to testify today. I would be pleased to answer any questions the Members of the Subcommittee may have.