SUPREME COURT OF THE UNITED STATES

Syllabus

THOMAS JEFFERSON UNIVERSITY, DBA THOMAS JEFFERSON UNIVERSITY HOSPITAL *v.* SHALALA, SECRETARY OF HEALTH AND HUMAN SERVICES

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

No. 93–120. Argued April 18, 1994—Decided June 24, 1994

Medicare reimburses provider hospitals for the costs of certain educational activities, including the cost of graduate medical education (GME) services furnished by the hospital or its affiliated medical school, 42 CFR §§413.85, 413.17(a). However, reimbursement of educational activities is limited by (1) an ``anti-redistribution'' principle, providing that the Medicare program's intent is to support activities that are ``customarily or traditionally carried on by providers in conjunction with their operations,'' but that the program should not ``participate in *increased costs* resulting from *redistribution of costs* from educational institutions . . . to patient care institutions, §413.85(c) (emphasis added); and (2) a ``community support'' principle, providing that Medicare will not assume the cost for educational activities previously borne by the community, *ibid.* Petitioner teaching hospital, a qualified Medicare provider, sought no reimbursement for its nonsalary-related (administrative) GME costs before 1984, and those costs were borne by its affiliated medical college. In fiscal year 1985, the fiscal intermediary disallowed the hospital's claim for reimbursement for such costs, but the Provider Reimbursement Review Board reversed in part, allowing reimbursement. Respondent Secretary reinstated the fiscal intermediary's ruling, concluding that reimbursement for the nonsalary GME costs borne in prior years by the medical college would constitute an impermissible redistribution under §413.85(c). As an independent ground, she concluded that the community-support principle also barred reimbursement. The District Court and the Court of Appeals affirmed.

Held: The Secretary's interpretation of the anti-redistribution

principle is reasonable. Because its application suffices to deny reimbursement of the disputed costs in this case, there is no need to decide the validity of the Secretary's interpretation of the community support language. Pp. 7–13.

(a) As petitioner's challenge is to the Secretary's interpretation of her own regulation, the Secretary's interpretation must be given controlling effect unless it is plainly erroneous or inconsistent with the regulation. Broad deference is all the more warranted here because the regulation concerns a complex and highly technical program in which the identification and classification of relevant criteria require significant expertise and entail the exercise of judgment grounded in policy concerns. Pp. 7–8.

(b) The meaning of §413.85(c)'s relevant sentence is straightforward: Its first clause defines the scope of educational activities for which reimbursement may be sought, and its second clause provides that the costs of such activities will not be reimbursed if they result from a shift of costs from an educational, to a patient care, facility. The Secretary's interpretation of the anti-redistribution principle gives full effect to both clauses, allowing reimbursement for costs of educational programs traditionally engaged in by a hospital, while denying reimbursement for costs previously incurred and paid by a medical school. It is not only a plausible interpretation, but also the most sensible interpretation the language will bear. The Secretary's reliance on a hospital's and medical school's own historical cost allocations is a simple and effective way of determining whether a prohibited redistribution has occurred. Pp. 8–10.

(c) Petitioner's argument that §413.85(c) prohibits the redistribution of activities, not costs, ignores the second clause of the critical sentence, which refers on its face to the ``redistribution of costs.'' Moreover, the term ``costs'' is used without condition. Even if the Secretary's interpretation were not far more consistent with the regulation's unqualified language, her construction is a reasonable one which must be afforded controlling weight. Petitioner has presented no persuasive evidence to support its second argument, that the Secretary has been inconsistent in applying the anti-redistribution principle. Petitioner's argument that the regulation's language is ``precatory'' or ``aspirational'' in nature, and thus lacking in operative force, is also unpersuasive, since the anti-redistribution clause lays down a bright line for distinguishing permissible from impermissible reimbursement. Pp. 10–13.

993 F. 2d 879, affirmed.

KENNEDY, J., delivered the opinion of the Court, in which REHNQUIST, C. J., and BLACKMUN, SCALIA, and SOUTER, JJ., joined. THOMAS, J., filed a dissenting opinion, in which STEVENS, O'CONNOR, and GINSBURG, JJ., joined.