

# Modern Healthcare

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STATE AND FEDERAL REGULATORS SCRUTINIZE ACCRETIVE HEALTH COLLECTION TACTICS

## PAYBACK

*Growing controversy threatens to taint reputations of prominent not-for-profit system clients*

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An investigation by Minnesota Attorney General Lori Swanson found examples of aggressive attempts to collect on medical bills before and during treatment.

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Finding value in proposed PPS regs / Page 8

Liability projects start taking shape / Page 17

Tracking infections with the CDC / Page 30

MIDWEST >> Beth Kutschera

## Alegent expands its clout

### Creighton deal swells Omaha's dominant system

**W**ith a deal in place to acquire nearby Creighton University Medical Center, Alegent Health could soon increase its dominance in the Omaha, Neb., market.

The takeover would consolidate four major hospital players into three and give Alegent roughly half of the adult acute-care market.

Alegent, part of Catholic Health Initiatives, announced last week that it was acquiring the medical center from Creighton University and Tenet Healthcare Corp., Dallas. A Tenet news release said the sale transaction price is expected to be about \$63 million, and the deal is expected to close in the second quarter.

Publicly traded Tenet has held a 74% stake in a limited liability company that operates 334-bed Creighton University Medical Center

since 1995. Creighton University holds the remaining 26%. Both parties are selling their stakes in the limited liability company.

"The university will no longer be in the hospital business," said Kim Manning, a spokeswoman for Creighton, who noted that the university's health sciences schools will continue to manage academic components. The primary teaching sites for those programs will be at Alegent.

Alegent will also take over operations of Creighton's physician group, Creighton Medical Associates, and plans to integrate them into Alegent Health Clinic.

Creighton University and Alegent will make matching contributions to a strategic investment fund, and Alegent will also make an annual financial contribution to

Creighton's health sciences schools.

Alegent is the dominant player in Omaha with roughly 44% of the adult acute-care market, according to John Holdenried, a healthcare attorney at Baird Holm. It operates 305-bed Bergan Mercy Medical Center, 113-bed Immanuel Medical Center and 157-bed Lakeside Hospital. Creighton has about 6% to 7% of the market, he noted, and the remainder is shared by 460-bed Methodist Hospital and 531-bed Nebraska Medical Center. The 202-bed Omaha VA Medical Center also takes a share of the city's patients.

Yet Carl Bowman, a healthcare attorney at Stinson Morrison Hecker, noted that the deal combines Creighton's emphasis on specialty care with Alegent's focus on primary care. Alegent could also expand Creighton's teaching program to the rural populations it treats in the state.

"Omaha has always been very competitive in terms of healthcare," Bowman said. "I think it would be difficult for Alegent to gain enough market share to be anti-competitive."

The Federal Trade Commission has challenged three hospital deals in the past 15

months, recently prompting two systems to abandon a merger in Rockford, Ill. (April 16, p. 8). Kelly Grinnell, a spokeswoman for Alegent, said the Creighton acquisition does not meet the threshold for premerger antitrust review by the FTC under the Hart-Scott-Rodino Act.

The deal also comes at a time when Nebraska has been tightening its belt; the state's biennial 2011-13 budget included a 2.5% rate cut to Medicaid providers. According to Tenet's 2011 year-end financial report, its Medicaid-related patient revenue for the year declined to \$22 million in Nebraska from \$24 million in 2010. For 2012, Tenet said it expected the hospital, its only facility in the state, to break even with about \$190 million in revenue.

"As Omaha has evolved and changed over time, we find ourselves faced with many chal-

lenges that are impacting healthcare and academic organizations across the country," said Gary Honts, president and CEO of Creighton

University Medical Center, in a statement. "For this hospital and our patients, the best course of action is to become part of an integrated regional system, and we believe Alegent is the right partner."

Manning noted that work groups will meet in the coming weeks to make decisions about governance and operational issues.

Ties between Creighton and Tenet date back to 1984, when American Medical International, now part of Tenet, paid \$100 million to acquire St. Joseph Hospital and the St. Joseph Center for Mental Health; St. Joseph Hospital changed its name to Creighton University Medical Center in 2002. A legal dispute more than a

decade later ultimately led to the creation of the limited liability company and the current deal structure. <<



Alegent President and CEO Richard Hachten and the Rev. Timothy Lannon, president of Creighton University, shake on the deal.

SOUTH

**SAN ANTONIO**—Christus Santa Rosa Health System received approval from the board of 19-hospital Christus Health to go ahead with a \$1.35 million renovation project to transform its downtown San Antonio campus into a free-standing children's hospital with up to 275 beds. Christus Santa Rosa had been working with the University Health System on such a project, but their letter of intent to do so was terminated March 1. According to a Christus Santa Rosa news release, the new project will be "a financially viable, privately and philanthropically funded, separately licensed, freestanding children's hospital in the heart of downtown San Antonio."

Contractors for the 800,000-square-foot project are set to be in place in 60 days and work is expected to be finished in two years, the release says. "By utilizing our current campus in the heart of downtown, we take advantage of a solid infrastructure with twice as much space at one-third of the cost to build a completely new building," Pat Carrier, Christus Santa Rosa president and CEO, said in the release. Adult services currently offered at the downtown campus will be transferred to the four other locations operated by Christus Santa Rosa in the San Antonio area.



The new Christus Santa Rosa Children's Hospital of San Antonio is expected to be ready in two years.

**ATLANTA**—The records of 315,000 patients at Atlanta's Emory Healthcare over a 17-year period went missing from a storage location. The security breach involved 10 backup discs containing the records of surgical patients treated between September 1990 and April 2007 at Emory University Hospital, Emory University Hospital Midtown (formerly known as Emory Crawford Long Hospital)

and the Emory Clinic Ambulatory Surgery Center, according to a statement on the system's website. The discs were removed from storage between Feb. 7 and Feb. 20 this year, the statement said. The records included the patients' "names, dates

of surgery, diagnoses, procedure codes or the name of the surgical procedures, device implant information, surgeon names and anesthesiologist names." About 228,000 of those records also contained the patients' Social Security numbers, according to the statement. "We are moving forward expeditiously with providing all affected patients, at our cost, access to identity protection services, including credit monitoring," Emory Healthcare President and CEO John Fox said in the statement. The system started notifying affected patients of the breach by letter April 17.

NORTHEAST >> Jaimy Lee

## Westerly draws suitors

### Nine offers made to acquire ailing R.I. hospital

**A**t least nine healthcare organizations, including six out-of-state hospitals, have made bids to acquire a small, struggling hospital in a beachfront Rhode Island town.

Westerly (R.I.) Hospital, a 100-bed facility, is under receivership. Lawrence & Memorial Hospital, a 252-bed in New London, Conn; South County Hospital, a 77-bed hospital in Wakefield, R.I.; and Westerly Hospital Holdco confirmed that they have submitted bids for the hospital.

Westerly Hospital Holdco shares "some common ownership" with the owners of Bayonne Medical Center and Hoboken University Medical Center, both in New Jersey, according to a spokeswoman.

Mark Russo, a lawyer in Providence, R.I., and the hospital's special master, said in an April 24 e-mail that nine hospital systems have provided confidential offering memorandums. Of the nine organizations, three have submitted preliminary proposals. Russo declined to provide additional information about the bidders, although

he said that six of the nine are not based in Rhode Island. According to bond documents, the deadline to submit letters of interest is June 1.

"We are at the beginning stages of a very rigorous and transparent bidding process," Russo said. "With the level of activity that we have enjoyed, we are confident that we will receive credible proposals."

Westerly Hospital filed for receivership protection in December. In a February ratings update, Moody's Investors Service cited the hospital's very weak cash position, with less than 11 days' cash on hand and an operating loss of \$5.8 million through 10 months of fiscal 2011.

Westerly announced last year an exclusive nonbinding letter of intent with Lawrence & Memorial Hospital. At the time, Westerly officials said they had been searching for a partner for four years. "Our preliminary proposal shows the significance of our interest in Westerly Hospital," a Lawrence & Memorial spokesman said.

Westerly Hospital isn't the only Rhode

Island hospital generating interest from neighboring states.

Steward Health Care System is pursuing the acquisition of the 133-bed Landmark Medical Center in Woonsocket. The Boston-based for-profit health system is also seeking changes to legislation that currently limits for-profit companies from buying more than one hospital in Rhode Island every three years. The state Senate passed the bill this month that would amend the Hospital Conversion Act (April 23, p. 17).

However, the bill includes provisions that would also benefit state providers, such as requiring local government boards, restricting financial incentives to patients who receive care outside of Rhode Island, and reducing the application and review process for all deals.

Moody's noted last week that the legislation, which it expects to pass, "would be a credit positive for Rhode Island's struggling small community hospitals, but a credit negative for the larger not-for-profit providers in the state."

In a news release announcing its discussions with Westerly Hospital, South County Hospital President and CEO Louis Giancola emphasized the need for "healthcare that is non-profit, community-based, high quality and affordable." <<