

## Two doc-owned hospitals sell to not-for-profits

By: Michael Romano

Story posted: January 1, 2007

For physicians, the sudden spurt of specialty hospitals over the past few years seemed to be just what the doctor ordered. Offering high-margin services such as cardiac care and orthopedic surgery, these specialty hospitals were widely touted as a sure path to big profits for physician-investors hamstrung by flat reimbursements and the bureaucracy of big hospital systems.

Now, it appears, the bloom might be off the rose—at least in a couple of cases.

Last month, two investor-owned specialty hospitals—including one controlled exclusively by doctors—were purchased by local hospital systems and converted to not-for-profit status, raising some questions about the long-term financial prospects of the controversial business model.

The 40-bed Wisconsin Heart Hospital in Wauwatosa, the only cardiovascular specialty facility in the Milwaukee area, was sold just before Christmas to Wheaton Franciscan Healthcare, which had been a minority partner in the 3-year-old venture. After purchasing the 51% stake controlled by a group of local doctors and other community investors, the Catholic health system converted the 126,000-square-foot hospital to a not-for-profit.

Meanwhile, Mount Carmel Health System, Columbus, Ohio, purchased New Albany (Ohio) Surgical Hospital, a for-profit orthopedic facility that opened in 2003 with the financial backing of about 30 local doctors and Nashville-based Surgical Alliance Corp. The 42-bed facility in a Columbus suburb was converted to a not-for-profit hospital when Mount Carmel assumed control Jan. 1. While New Albany officials declined to provide financial data, the American Hospital Directory, an online hospital database, reported that the hospital earned net income of \$6.7 million on net patient revenue of \$59.4 million for the fiscal year ended Sept. 30, 2005.

The sale of New Albany was welcome news to supporters of community hospitals who have argued that specialty facilities skim the best and most-profitable patients, leaving not-for-profits struggling to underwrite such money-losing operations as emergency rooms and burn units.

“This is a development that we would view as very positive,” said Mary Yost, vice president of public affairs for the Ohio Hospital Association, a vocal foe of specialty hospitals. “It’s now going to become part of a not-for-profit health system in the Columbus area that has three hospitals and will be able to increase their opportunity to serve the community.”

Still, the demise of these two for-profits does not necessarily mean that storm clouds are hovering over the entire specialty hospital industry, observers note. Also, it is unclear what kind of a deal the doctors received, since financial details of the two transactions were not disclosed.

Indeed, the two facilities represent a tiny percentage of the estimated 125 to 130 specialty hospitals in the nation, most of which are owned in part by physicians. What's more, an estimated 30 additional specialty hospitals are in some phase of development, said Randy Fenninger, a Washington-based attorney and lobbyist who represents Physician Hospitals of America, the industry's trade group.

"I was a little surprised that both of them had been sold," Fenninger said. "It's certainly proof that specialty hospitals or the physician-owned model is not one that works to perfection in every situation or market. As far as I know, for the other (specialty) hospitals, financially, they are, if not wildly successful, then they are certainly holding their own. I think both of these situations are indicative of the particular market conditions rather than the model itself not being a good model."

Fenninger said the doctor-owners of New Albany reportedly were tired of battling with the local community hospitals, particularly OhioHealth, a seven-hospital system that barred doctor-investors in the specialty hospital from practicing at certain facilities. OhioHealth, which faced a lengthy legal challenge to those revocations, has decided to reinstitute those privileges in the wake of the sale of New Albany, which was the only for-profit hospital in the Columbus area and one of only two specialty hospitals in Ohio. "We think this is definitely a better fit for the community," OhioHealth spokesman Mark Hopkins said of the sale.

Mount Carmel—which also instituted a policy that could have barred any new physician-investors in specialty hospitals from working at its hospitals—will now welcome the former owners of New Albany to its staff. Those physicians also will "continue to play a lead role" in the operation of the hospital, whose name will change in the near future to reflect its affiliation with Mount Carmel.

Carl Berasi, a physician who is a founder and chairman of the New Albany hospital, said in a statement that he and his partners needed "the resources and strength of a top-notch health system" if the facility was to "grow and serve even more patients."

The Wisconsin Heart Hospital, meanwhile, has struggled toward profitability in a Milwaukee market dominated by a handful of large and powerful healthcare systems. It is expected to have made money in 2006 for the first time since opening in 2003, according to a spokeswoman for Wheaton Franciscan Healthcare, the new owner.

The specialty hospital market in Wisconsin's largest city has now undergone a couple of dramatic changes in recent years. In November 2004, MedCath Corp., Charlotte, N.C., bowing to stiff competition and other factors, sold its 32-bed Heart Hospital of Milwaukee to not-for-profit Columbia-St. Mary's, Milwaukee.