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The more the scarier?

Health care experts weigh pros, cons of consolidation

By Zach Hagadone
IDAHO BUSINESS REVIEW

When the bottom fell out of Clearwater County's lumber market in the mid- to late-1980s everybody was struggling – including the county-run Clearwater Valley Hospital & Clinics, which was supported by levying taxes on a community that could ill afford them.

By 1997 things were looking dire, and the board of directors at Orofino-based CVHC reached out for help from St. Mary's Hospital & Clinics, located in neighboring Idaho County.

Casey Meza, CEO of Cottonwood-based St. Mary's, said the board at CVHC was faced with raising taxes yet again or closing their doors. What they wanted was some kind of partnership.

"We quickly realized we had way more things in common than in competition," Meza said. "That's lesson number one: A lot of people like to maintain their autonomy and don't necessarily look for opportunities to work collaboratively."

Over the course of about six months the two hospitals sat down and hammered out a plan. The result was a unique system of shared management. Though still independent hospitals, St. Mary's and CVHC are today governed by a single board of directors under the Essentia Community Hospital & Clinics of Duluth, Minn.

Their departments are co-managed and employees are paid jointly. Neither are supported by tax dollars, and bearing costs together has driven down overhead.

"We don't do things based anymore on competition, we don't buy a bigger, better 'this or that' to compete with the other hospital," Meza said. "When one place is having more success in one area we have the ability to say, 'What are you doing better?'"

According to physicians and health care leaders around the state, the St. Mary's-CVHC partnership is a success story, but it's also part of a national

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St. Mary's Hospital & Clinics

trend toward health care consolidation that took place in past recessions and is picking up again in the current downturn.

The trend is in evidence here in Idaho, where St. Luke's Health System and Saint Alphonsus Regional Medical Center are the biggest players.

St. Luke's Health System was created in 2006 with the merger of its Boise, Meridian and Ketchum hospitals with the Magic Valley Regional Medical

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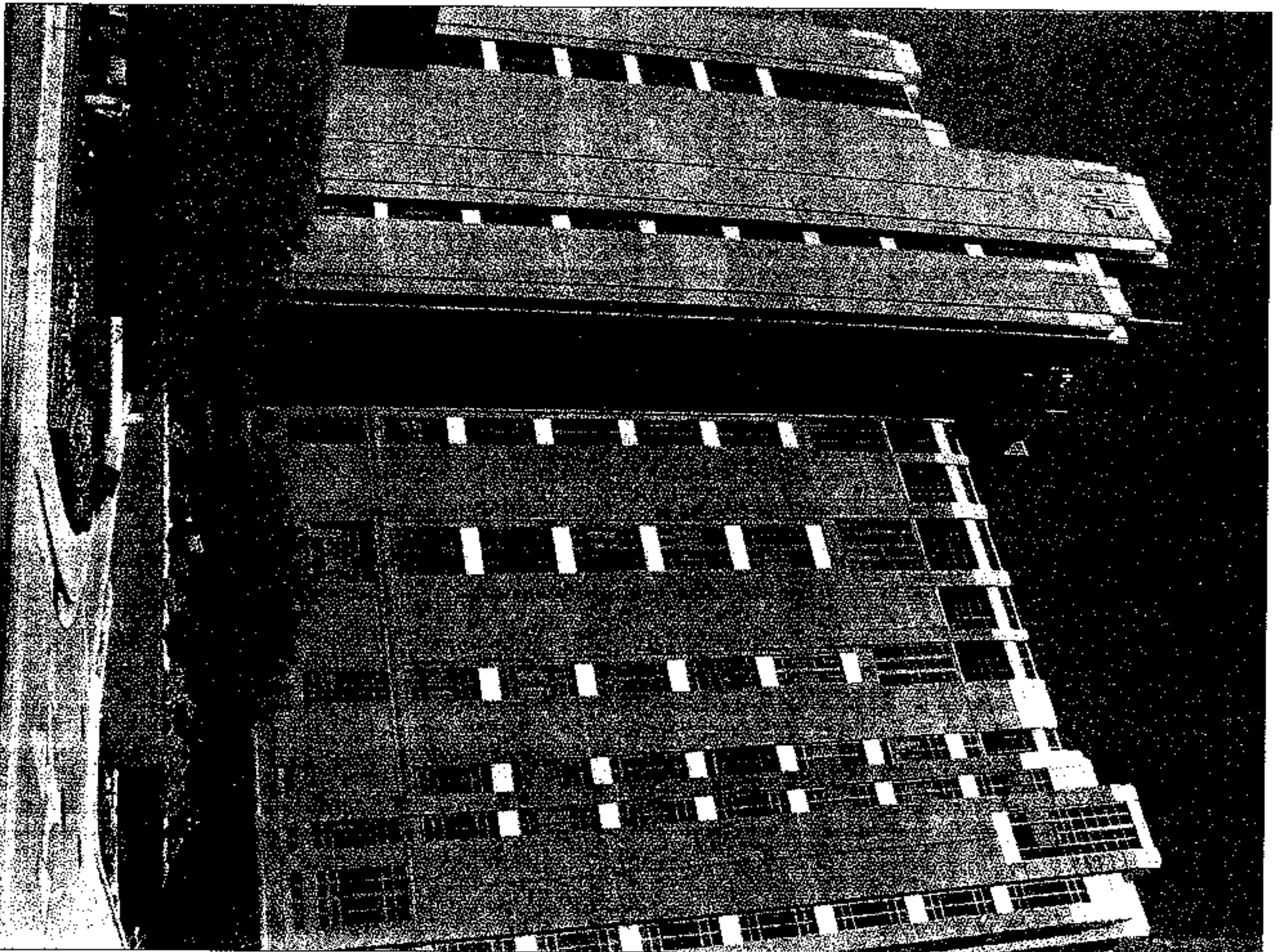
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Center in Twin Falls. Today it owns a constellation of clinics and physician practices.

Saint Al's, which is owned by Michigan-based Trinity Health, is in the due diligence portion of a purchase that would net Nampa-based Mercy Medical Center and eastern Oregon-based hospitals Holy Rosary Medical Center and Saint Elizabeth Health Services. Like St. Luke's, Saint Al's also owns clinics and physician practices throughout the region.

Both nonprofits employ thousands of doctors, nurses and staff members and continue to aggressively pursue expansion of their programs – including, in Saint Al's case, collaborating with St. Mary's-CVHC on a telehealth program.

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MARTIN/BR
Health care consolidation is a national trend that is picking up steam during the current economic downturn. In Idaho, major players Saint Alphonsus and St. Luke's (above) are also merging with other health care facilities.

Some good, some bad in trend toward health system mergers

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While many tout such mergers as a way for health systems to integrate and streamline care among providers, others worry that the trend puts big health systems in the driver's seat at the expense of small practices.

"It's a symptom of a major problem in the health care system, and that is that private physicians' offices are struggling to continue as independent small businesses," said Dr. Ted Epperly, program director and CEO of Idaho Family Medicine Residency and president of the American Academy of Family Physicians.

"What is ideal in a health care system is a balance — between what the hospital does for the good of the community and what the physicians do for the good of the community."

Epperly is concerned that with an estimated 75 percent of Treasure Valley physician practices owned by one of the two major health systems, patient choice is stifled and private providers can easily become pawns in a larger competition between systems.

"If there's better coordination and teamwork, then ideally the patient will benefit from that. It may provide econo-

my of scale in being able to provide, say, telemedicine services, but what it does on the other hand is it sets up organizations competing with each other," he said.

That competition is likely to heat up if certain health care reform provisions are approved by Congress, he added, including increased payments to primary care practices and a scheme that would direct payments to clinics and hospitals in one bundle to be disbursed to individual providers.



Ted Epperly

"Hospitals, if they can buy up those practices, will be in a position to get that extra money," he said. "On one hand it simplifies payment. On the other hand, how that might get distributed to different members of the team can often hurt primary care doctors. After the trickle down occurs they may again be at the short end of the stick."

"It is not by mistake or by surprise that hospitals are buying up practices and controlling physicians," he continued. "If they do that then they control the money. I don't want to sound too harsh about that, but it's the absolute bottom-line truth. ... Hospitals and doctors and all of this should be about people's health, it shouldn't be about the business of health care."

Chris Roth, chief operating officer of St. Luke's, said consolidation of health care providers isn't the result of a particular strategy; rather, it's an out-

growth of the need to expand access and improve efficiencies.

"The fragmentation of health care nationally, where every provider has their own little niche in the health care environment and patients are left to find their way through the health care system, is inherently inefficient," he said. "On one hand it provides greater choice, so long as the insurance providers allow for or enable that choice, but it is inefficient, it is fragmented and it is frustrating."



Steve Millard

Like Epperly, he said small clinics and physician practices are suffering in the recession, and that's driving them into the arms of bigger systems.

"I would say that hospitals partnering with physician practices, and specifically becoming more integrated, has definitely accelerated in this community," he said in an interview.

"Health care has traditionally been more immune to recession. This past recession has been a different matter where health care has most definitely been impacted. As a result I believe organizations have come to look at things a little differently."

Roth also said that health reform efforts have made some physicians anxious as they contemplate a dramatic decrease in Medicare reimbursements at the same time expenses are increasing.

"It's created a very fluid environ-

ment where physicians are often taking the initiative in approaching hospitals and health systems to look at a different relationship that will ease some of those concerns," he said.

Epperly said he sees the same fluidity and added many physicians are so anxious they're trading their autonomy for security.

"Many are so uncertain and struggling so much right now that they're

saying, 'You know, it's better to be safe [and sell] rather than wait to see what happens,'" he said. "You have almost this perfect storm."

— Steve Millard

that kind of model is probably necessary if reform is to drive down costs.

"It's better for the doctor and better for the patient. It's making sure a person's needs are taken care of from the moment a patient enters the system to the time they leave," he said. "If the system can take a look at the whole person and all their needs at the same time, it's more efficient."

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