Who will own KershawHealth?

Duke LifePoint, Capella to present 'partnership proposals'

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One of two for-profit hospital companies may become KershawHealth's partner as the county's non-profit hospital seeks to offset current and future multi-million dollar losses.

Following a more than two-hour executive session Monday night, KershawHealth Board of Trustee member Derial Ogburn motioned to invite Capella Healthcare of Franklin, Tenn., and Duke LifePoint Healthcare of Brentwood, Tenn., to make "presentations ... in support of their prospective proposals." Board Chair Karen Eckford clarified immediately after the meeting that Duke LifePoint and Capella would be presenting "partnership proposals."

In an unusual move, Ogburn asked that the vote be taken by roll call, requiring Eckford to call each trustee's name in turn and ask for their "yes" or "no" vote. In turn, each of the nine trustees answered "yes."

The call for "strategic partnerships" came earlier this year as part of KershawHealth's strategic plan, which the board unanimously adopted in April. During an in-depth interview following the plan's adoption, Eckford and interim KershawHealth CEO Terry Gunn said nothing is off the table when it comes to strategic parternships. In a press release at the time, Eckford said those opportunities "might include leveraging local ownership" of KershawHealth.

During the April interview, Gunn said such opportunities could "include a strategic partnership for the entire healthcare system," but that "it doesn't mean what it used to mean, where you just sell the hospital. It's a whole lot more complex." Gunn said then, based on stakeholder feedback, the board and administration would consider larger partnership and even merger options, because of the economies of scale involved, best practices those potential partners have seen and "access to capital because, clearly, we can't implement this plan for free."

What such a relationship -- and the deals to make them happen -- may look like might depend on which company, if either, the board decides to take on as a partner. Both are for-profit healthcare systems. One is a joint venture between a leading academic health system and a hospital system with more than 60 campuses across the country. The other has a vision of providing clinical, operational and financial expertise to community hospitals.

Duke LifePoint

In early 2011, Duke University Health System Inc. and LifePoint Hospitals entered into a joint venture "designed to strengthen and improve health care delivery" primarily in North Carolina. While Duke's own facilities are centered in the Durham area, with one location in Danville, Va., LifePoint maintains additional facilities in a long list of states stretching west from the Mid-Atlantic states to Nevada and north to Michigan.

Among those, the Duke LifePoint joint venture runs 11 hospitals in North Carolina, Tennessee, Virginia, Michigan and Pennsylvania.

While the Duke side of the venture, also known as Duke Medicine, is academically oriented, LifePoint is a publically traded company, established in 1999 with stock listed on the NASDAQ as LPNT ($67.36 as of Monday afternoon).

The Duke LifePoint joint venture appears to function in a hybrid fashion. According to its website, Duke LifePoint "will acquire hospitals, as well as enter into shared ownership and governance agreements and joint ventures with medical facilities and health providers."

Since forming in 2011, Duke LifePoint has purchased several hospitals, entered into joint ownership agreements with others, and formed joint ventures with others. It most recently purchased Conemaugh Health System in Johnstown, Penn., a city of approximately 21,000 people east of Pittsburgh. As part of the agreement, finalized in September, Duke LifePoint agreed to invest $425 million into Conemaugh's facilities during the next 10 years. Conemaugh considers itself the largest health care provider in west central Pennsylvania with more than 4,500 employees and more than 350 physicians.

Wilson Medical Center (WMC) in Wilson, N.C., south of Rocky Mount, N.C., near the intersection of I-95 and I-795 might be a better comparison to KershawHealth, despite the fact that Wilson has an estimated 2013 population of more than 49,000 people. With 1,300 employees and 294 beds, it is -- somewhat -- comparable to KershawHealth's approximately 900 employees and 121 acute care plus 96 long-term care beds.

Duke LifePoint finalized a joint venture with WMC early this year, taking over operation of the facility in March. The joint venture committed to making a minimum of $120 million in capital investments at WMC during the next decade.

It also changes what was a public hospital -- similar to KershawHealth -- into a taxpaying organization.

According to the press release, governance of WMC is now "shared equally" between Duke LifePoint and the Wilson community through a 10-member board -- five Duke LifePoint members and five Wilson members. A separate board of trustees consisting of physicians, local community leaders and a Duke LifePoint representative has also been established.

Forming the joint venture with WMC involved a fairly lengthy process, according to articles published by The Wilson Times, the local newspaper. The process formally began in 2012 "in response to national health reform and the changing health care landscape." The articles do not, however, detail any specific financial difficulty on WMC's part.

In fact, in January and February, The Wilson Times reported Duke LifePoint's valuation of WMC was $70.3 million, "more than nine times earnings ($9.2 million)." It appears WMC sought the joint venture because earnings were beginning to decline due to reduced or even eliminated government reimbursements.

As a charitable organization, WMC was required to file Form 990s with the Internal Revenue Service, copies of which are available on the National Center for Charitable Statistics (NCCS) website. According to WMC's Fiscal Year (FY) 2011 Form 990, the hospital had just more than $142 million in revenue, had just a little less than $132 million in expenses for net income of more than $10 million.

On its FY 2012 Form 990, WMC listed total revenue of more than $165 million, with expenses of approximately $163.5 million for a net gain of approximately $1.7 million. The NCCS copy of the FY 2012 Form 990 included WMC's most recent audit at the time.

The reason for at least part of the more than $8 million drop in profit may be explained through a note to financial statements included in an audit of WMC's FY 2012 finances included with that year's Form 990. In it, the auditor's noted that WMC had, historically, received additional Medicaid reimbursements under the state of North Carolina's Medicaid Reimbursement Initiative. However, North Carolina eliminated the initiative in 2011, thereby eliminating the income from that program.

In any case, WMC apparently enjoyed profits in fiscal years 2011 and 2012. Although not explained by The Wilson Times, the $9.2 million figure could indicate that the hospital also saw a profit in FY 2013.

That has not been the case for KershawHealth. As of Aug. 31, FY 2014 to date, KershawHealth had suffered an operating loss of $3.1 million and is projecting another $2 million loss in FY 2015. It suffered a $3.6 million loss in FY 2013. Last June, the administration projected a $32 million accumulated loss by 2018, primarily due to South Carolina's decision not to expand Medicaid under the Affordable Care Act. North Carolina also decided not to expand Medicaid.

Last July, WMC announced its decision to partner with Duke LifePoint. According to The Wilson Times, WMC had "stood as a largely independent hospital since its inception in 1964." WMC's board "assumed full responsibility" for the hospital in 1988 following a restated charter agreement. Before then, it was "considered a public hospital," but a member of the Wilson County Board of Commissioners (similar to our county council) still retains a seat on the hospital board. In effect, the commission transferred ownership of WMC from the county to the hospital's board of trustees but, through a "reverter clause" that did two things: allowed the county to maintain an interest in the hospital and required the county's approval of any change in the hospital's structure. With the 1988 restatement, the reverter clause states that if the corporation is dissolved, "trustees shall ... dispose of the assets of the corporation ... to Wilson County."

In January, during what The Wilson Times said was a packed meeting with standing room only in an overflow area, Wilson County commissioners voted, 6-1, in favor of the Duke LifePoint deal. The vote focused on updating the reverter clause in favor of Duke LifePoint ... and a last-minute deal to include a county commissioner on the new Duke LifePoint-WMC board. Several people, including a prominent Wilson businessman and two former WMC trustees, opposed the deal on the grounds Wilson County would be forever losing control of the hospital.

The North Carolina attorney general's office disagreed, approving the deal because it would continue WMC's tradition of providing indigent care and the reverter clause "requires non-discrimination in serving the public ... and that the joint venture will not dissolve without a successor corporation to carry out" the hospital's mission.

Duke LifePoint paid $56 million for an 80 percent majority ownership in WMC, with the other 20 percent staying with what is now the WMC "legacy board." The county has, however, essentially, given up all interest in the hospital.

WMC had $100 million in reserves which did not go to Duke LifePoint; that money stayed with the legacy board. The deal assisted WMC in pay off $34 million of debt and $15 million defined benefit plan.

Like KershawHealth, WMC had a foundation supporting its charitable efforts. In

February, The Wilson Times reported that state regulators noted the deal did not affect the foundation and that WMC was unsure if the foundation would continue. If it were to be dissolved, however, the foundation's assets would be "donated to successor nonprofit charities."

Capella

"Seasoned healthcare professionals" founded Capella in 2005. In 2012, it entered into a joint venture with Saint Thomas Health to operate four hospitals in middle Tennessee and southern Kentucky." In addition, Capella itself has facilities in Arkansas, Missouri, Oklahoma, Oregon and Washington State.

The C-I discovered far less information about Capella than for Duke LifePoint. It's own website notes it is a "privately held company with significant resources" and has "earned a national reputation for identifying creative partnerships tailored to specific communities." Modern Healthcare magazine recognized Capella in 2012 and 2013 as one of the fastest growing healthcare companies in America. It claims to provide "strength" in its partnership opportunities -- the "strength to lead" and financial, management and community "strength." Capella's website states the company "focus(es) first on quality ... because it's the right thing to do. Without quality, nothing else matters."

Like the LifePoint side of the Duke LifePoint joint venture, Capells is a for-profit company, filing statements with the U.S. Securities and Exchange Commission (SEC) and publishing financial reports through press releases. While LifePoint Hospitals reported a 2013 year-end net operating profit of $537 million, Capella reported a $31.8 million loss for 2013. Capella's March 7 press release on its financial performance indicated the loss was "reflective of the sale of several assets, bad debt adjustment and (corporate support center) reorganization costs" in addition to staff training costs relative "meaningful use" criteria as well as the impact of the government's "two midnight" rule and government sequestration.

"Meaningful use" deals with a healthcare organization's use of certain technology investments; hospitals can be reimbursed for those investments by meeting certain requirements. The "two midnight" rule requires patients to spend two nights in a hospital to qualify for inpatient reimbursement rates. Patients seen for less than "two midnights" are considered "observation" patients, for which hospitals receive lower reimbursement.

Capella's nearly $32 million loss did not include its then-recent sale of Grandview Medical Center in Jasper, Tenn., to rival Hospital Corporation of America. An article on Becker's Hospital CFO website indicated Capella lost $14.1 million in 2012.

In 2013, Capella and another healthcare group, Mercy Health, decided not to go through with a partnership to operate two hospitals in Arkansas. One of the hospitals is owned by Capella, the other by Mercy.

At one time, Capella maintained a number of facilities in Alabama. Based on various news reports, Capella abandoned its Alabama operations during 2012 and 2013. In 2012, it closed a 150-bed hospital in Hartselle, Ala., after reporting that it was only seeing fewer than eight medical-surgical patients and between 13 and 15 psychiatric patients per day. Capella stated it had tried to keep the hospital open for some times prior to the closing, including through a joint management agreement with another hospital, but could no longer keep it open.

In January 2013, according to a Gannett news story, Capella finalized the sale of Jacksonville Medical Center to Northeast Alabama Regional Medical Center. The article stated the Jacksonville was the last of Capella's facilities in Alabama and that the company cited a "tough operating environment ... (with) the lowest Medicare reimbursement (rate) per hospital nationwide. During 2011-12, Capella sold off two hospitals in Morgan County, Ala., to Huntsville Hospital Health System, a non-profit.

Capella's joint venture with Saint Thomas Health made Capella the managing member and majority partner and also "the exclusive partner for Saint Thomas Health across a 60-county area of middle Tennessee and southern Kentucky." The Nashville Business Journal reported that one the four hospitals in the partnership, White County Community Hospital (now known as Highlands Medical Center) in Sparta, Tenn., would receive a $1 million investment to renovate the exterior and interior of the building.

Becker's reported in September 2013 that, according to a Reuter's article, Capella was working with a private-equity firm to search for potential buyers of the company. An alleged early short-list of buyers included LifePoint. Capella officers neither confirmed nor denied the search. The private-equity firm, GTCR, first invested in Capella in 2005. A Reuters report in November 2013 indicated two firms -- Apollo Global Management and Thomas H. Lee Partners LP were interested in buying Capella.

In April, Capella announced it would refinance $685 million in "senior debt," according to Dow Jones' equity and private capital website, but cancelled that decision in May. It was unclear at press time whether or not Capella was still seeking a buyer or had decided to restart the refinancing plan.

Unlike Duke LifePoint, Capella already has a toe in South Carolina's waters. Monday, Capella announced it has signed a "definitive agreement" to buy Carolina Pines Regional Medical Center in Hartsville, just 45 minutes away from

KershawHealth.

Carolina Pines is currently owned by Community Health Systems (CHS), which is selling the hospital in order to comply with U.S. Federal Trade Commission requirements in connection with CHS' own purchase of a company called Health Management Associates. The Hartsville Messenger reported Monday that the purchase agreement "includes a commitment from Capella to continue the employment of all employees who satisfy Capella's employment requirements." The Messenger also reported that there would be no changes or modifications of privileges to physicians on the medical staff. Carolina Pines is a 116-bed acute care hospital with an adjoining office buildings the primarily serves Darlington, Chesterfield, Lee and Marlboro counties.

Capella's interest in KershawHealth begs the question of whether it is looking to create a healthcare group in South Carolina. The same, however, could be said of Duke LifePoint. Duke already maintains a relationship with Lexington Medical Center, offering the services of a Duke Medicine-affiliated heart center.

KershawHealth and the county

KershawHealth attorney David Summer, of Parker Poe, said Tuesday that the board does not know when Duke LifePoint and Capella will make their presentations. He said a number of companies "raised their hands" to submit partnership proposals. Summer also said he expected the presentations to be made entirely in executive session.

"They all signed confidentially agreements," Summer said. "The board invited these two companies to discuss their proposals in more detail."

Those details, he said, would be revealed after a contract is signed.

Although Capella has a joint venture with Saint Thomas Health, Summer said at this time, Capella is making its proposal on its own. He said Capella is free to have a partner in the process.

Summer also made it clear that neither he nor the board see the Duke LifePoint and Capella invitations as choosing finalists in the process.

"These are two (the board) found interesting and want to get more information from. We don't see it as eliminating anyone," Summer said, agreeing that it was within the realm of possibility that any number of the other suitors could be invited to meet with the board.

The board invited Kershaw County Council Chairman Gene Wise and County

Administrator Vic Carpenter to be a part of Monday's executive session. Summer said the board views the county as a partner.

"They believe Kershaw County Council should be consulted with and kept informed of all the opportunities," Summer said.

Carpenter said the county has both a statutory obligation and financial responsibility to be part of the process.

"The county has a statutory obligation because Kershaw County Council appoints the board of trustees," Carpenter said. "The county also provided tax funds, by levying bonds, to build the (main) campus."

Although the original county hospital opened more than 100 years ago, it was not until 1952 and 1954 that the S.C. General Assembly passed several pieces of legislation creating the hospital's board. In 1952, county residents voted in favor of a bond question to build the new campus. In 1954, Kershaw County purchased the 13.18 acres upon which to build the campus.

In 1969, new legislation abolished the 1954 board, and transferred power to Kershaw County Council, which then appointed a new board of trustees.

http://www.chronicle-independent.com/section/47/article/34061/