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Calendar

September 8-9

Second Annual Mhealth Networking Conference. Town and Country Hotel, San Diego. A discussion of how mobile applications are changing healthcare. \$695.

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<http://www.mobih.org/meetings/>

September 19-21

HFMA California Fall Conference. Long Beach Hyatt. Updates on DMHC, healthcare stimulus. \$695-\$795.

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September 22-24

Medical Development Specialists Annual Healthcare Conference. Encore at Wynn Hotel, Las Vegas. Discussion of how reform will affect the evolution of the hospital and physician business models. \$695-\$1,195.

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Brotman Purchase May Signal Trend

Deal Could Portend Revived Hospital M&A Activity

The pending sale of **Brotman Medical Center** and four other Los Angeles-area hospitals suggest the mergers and acquisitions market in California may be perking up again after 18 months of stillness.

Culver City-based **Prospect Medical Holdings** announced this week it would be acquired by Los Angeles-based investment firm **Leonard Green & Partners, L.P.** for \$205 million in cash and the assumption of \$158 million in debt. Leonard Green offered to pay the shareholders of Prospect \$8.50 per share, a 39% premium over the trading price of Prospect shares in recent days.

"We are pleased to have reached an agreement that will enable us to deliver significant and certain value to our stockholders," said Prospect board member **Glenn Robson** in a prepared statement.

Neither Prospect nor Leonard Green official returned repeated phone calls seeking comment.

Along with Brotman, which Prospect acquired a majority stake in last year, it owns four smaller facilities: 50-bed **Norwalk Community Hospital**; 100-bed **Hollywood Community Hospital**; 130-bed

Los Angeles Community Hospital and 59-bed **Van Nuys Community Hospital**, a psychiatric facility. It also has a medical group arm that manages more than 170,000 lives in Southern California.

The acquisition is a departure for Leonard Green, an investment firm which focuses on such consumer businesses such as the **Claim Jumper** restaurant chain and the **Container Store** home furnishings retailer.

The company will be acquiring properties that may pose a challenge for a healthcare novice to manage. Although Brotman is Prospect's flagship, it filed for bankruptcy protection in 2005, faces a seismic retrofitting bill in the tens of millions of dollars and has trouble filling its beds. The addition of Brotman into Prospect's portfolio helped dragged down its overall occupancy rate more than 27% during the first six months of this year, according to recent filings with the **Securities & Exchange Commission**.

In mid-2009, one of Prospect's lenders asserted the company had defaulted on its loans, although the

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In Brief

California Launches Telehealth Network

California unveiled a sophisticated telehealth network this week, funded by \$30 million from the **Federal Communications Commission**, the **California Emerging Technology Fund**, the **California Health Care Foundation** and several other parties.

Managed by the **University of California at Davis**, the network currently has just 50 participants using peer-to-peer sharing of x-rays and other tests on a broadband network. However, the network is expected to connect 900 healthcare facilities statewide by 2011. The resolution of videos and photos through the network will be clear enough for physicians to consult remotely, according to network officials.

"Through a simple broadband link, this state-of-the-art system will save lives by instantly connecting people from across the state, including underserved and rural areas, with the best and brightest doctors," said **Gov. Arnold Schwarzenegger**.

Study: Palliative Care Patients Live Longer

Terminally ill cancer lung cancer patients who undergo palliative care in tandem with oncology treatments immediately after diagnosis not only enjoy a higher quality of life than patients who undergo traditional treatments, but also live nearly three months longer.

The study of 151 patients over three years at **Massachusetts General Hospital** found that patients undergoing palliative care suffered

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Prospect (Continued from Page One)

assertions were later waived after negotiations. However, the company has been profitable this year, reporting net income of \$8.3 million on revenues of \$349.7 million for the first nine months of 2010.

Although the deal is not a big-bore transaction, some industry observers believe it may signal the return to the state of hospital mergers and acquisitions. The last one to occur in Southern California took place in February 2009, when Manhattan Beach-based **Avanti Hospitals** acquired two small facilities from **Health Plus**, according to **Irving Levin & Associates, Inc.** a New Canaan, Conn.-based firm that monitors healthcare transactions.

Sandy Steever, who edits an **Irving Levin** publication that follows healthcare M&A, observed that deal-making in California has been stilled by a

combination of factors: a difficult operating environment, strong labor unions and a lack of capital driven by the steep recession. "M&A hit its lowest mark in about a decade last year, although it should slowly improve," Steever said, adding that many would-be buyers are sitting on large amounts of capital.

Nationwide, there were only 80 hospital deals in all of 2009, compared to 246 in 2006. There were 50 through the first half of this year.

In the meantime, a fight could be looming over the Prospect deal: at least a half-dozen law firms have announced they were launching investigations into the proposed transaction, suggesting Prospect's shares were underpriced.

Both parties may entertain other offers until late September, according to SEC filings.

FTC Follows DMHC Crackdown Feds Clamp Down On Discount Health Plans

A crackdown on deceptively marketed healthcare discount plans launched by the **Department of Managed Healthcare** earlier this year has prompted the **Federal Trade Commission** to target such operations nationally.

On Aug. 8, the FTC forced **HealthCare One LLC** into receivership, effectively shutting it down. Although based in Phoenix, it was owned by Corona Del Mar resident **Michael Jay Ellman**. The FTC also sued **HealthCare One** in order to return premiums it collected from customers.

"Victims don't know they've been ripped off until after they've tried to use the service

and paid their bill," said **David Vladeck**, which heads the FTC's office of consumer protection, in a prepared statement. Altogether, the FTC took actions against three discount plans earlier this month.

In February, the DMHC issued a cease-and-desist order against **HealthCare One** and its affiliates, claiming it had marketed itself as a health plan, but was instead charging \$69.95 a month for discount services. In many instances, users received no discounts at all.

"We worked closely with the FTC on this case, and provided them with information that helped their actions," said

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In Brief

fewer bouts of depression and other issues such as nausea and decreased mobility. The patients also lived a median of just under one year after diagnosis, compared to nine months among patients who underwent chemotherapy and other aggressive treatments without palliative care.

The study's authors suggested the findings may rebut fears that palliative care may be equated with "death panels" in terms of dealing with end-of-life decisions.

Such research could also greatly affect healthcare financing, given that the majority of healthcare dollars are spent on the last few months of a patient's life. Medicare only covers hospice care – which provides most palliative care to terminal cancer patients – if the patient foregoes other treatments and is certified by at least two physicians of having less than six months to live.

The findings were published in the most recent issue of the *New England Journal of Medicine*.

Sun Nets \$224.8M In Public Offering

Irvine-based **Sun Healthcare Group** has netted \$224.8 million in a public stock offering of 30.7 million shares of common stock at \$7.75 a share. The sale included more than 4 million shares offered as an over-allotment.

"We are pleased with the response to the equity offering," said Sun Chief Executive Officer **Richard Matros**.

Sun, which operates nursing homes and skilled nursing facilities, said it would use the proceeds to pay down its indebtedness. The company also announced it would separate its real estate and nursing businesses.

FTC (Continued from Page One)

DMHC spokesperson **Lynne Randolph**. She added that the agency was working with the FTC regarding other deceptively marketed discount plans. Since 2004, the DMHC has ordered 18 discounters to obtain licenses to sell insurance or cease operations.

According to FTC documents, HealthCare One continued to debit users' bank accounts for months after they had asked to cancel their membership, making it virtually impossible to cancel their

memberships. In the rare instances when it did cancel an account, the company charged steep processing fees in order to do so.

Meanwhile, the DMHC has drafted new regulations requiring all discount plans to be licensed in California and do not engage in deceptive marketing practices. The regulations are currently in the second public comment period. They could be implemented later this year, Randolph said.

SB 1383 May Strain Some Hospitals Smaller Facilities Could Have Trouble Paying Fee

The planned imposition of a fee on hospitals designed to draw down extra Medi-Cal funds could prove to be a financial imposition on smaller hospitals, some industry observers claim.

SB 1383, signed into law by **Gov. Arnold Schwarzenegger** late last year, would impose about \$2 billion in fees on California's hospitals later this year, based on the volume of Medi-Cal patients they treat. The money would be used to draw down an additional \$2.5 billion matching funds from the federal Medicaid program.

State officials are continuing to negotiate with the **Centers for Medicare and Medicaid Service** to put a structure for the fee into effect, according to the **California Hospital Association**. A possible scenario is for the fees to be remitted to the **California Medical Assistance Commission**, which acts as the state's payment intermediary for CMS. CMAC would then return the fee – plus the additional Medi-Cal payments – to the hospitals.

A similar fee on California's nursing homes imposed on themselves in 2004 has helped draw down about \$500 million a year in extra federal revenue, and is credited for financially stabilizing that sector.

But the fee, which statewide averages about \$5 million per hospital, might be tough for some facilities to pay, observers say. Particularly vulnerable would be smaller community hospitals with large Medi-Cal populations but are tight on working capital and may have to resort to borrowing the funds.

"It is good-hearted legislation, with a good intent, but it may not have been crafted with the financial health of all of these hospitals in mind," said **Shane Passarelli**, senior vice president of **Healthcare Finance Group** in Los Angeles.

Healthcare Finance Group provides financing to hospitals – including loans that could cover the fee. However, Passarelli noted that some facilities may already have receivables and other assets already pledged to lenders, making it difficult to secure further lending. Passarelli believes a dozen or more such facilities statewide could fall into this category.

The fee has already generated some friction among California's hospitals. According to published reports, as many as 20% of the state's 430 hospitals may wind up paying more in fees than what would be returned to them in additional Medi-Cal funding.

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Unbundling The Task Of Bundling

Hospital Leaders Must Address Changes in Payments

The passage of healthcare reform helps bundled payments gain momentum as a viable reimbursement strategy. Rapidly following the lead of the **Centers for Medicare and Medicaid Services**, commercial payers are demonstrating heightened interest in bundling payments to providers to try and bend the cost curve. Here are six critical success factors to bundled payments that every "C-Suite" executive needs to consider:

1. Alignment with Your Physicians.

Creating a structure and financial relationship that assures alignment of the key physicians is critical to achieving the performance requirements for bundled payment. The alignment model must be designed to facilitate the achievement of consistently higher quality, lower lengths of stay, and lower cost per case.

2. Physician Accountability for Driving Quality, Efficiency, and Effectiveness.

Hospitals have worked under the operating assumption that physicians do not have time to own and lead care coordination. As a result, quality monitoring and improvement have largely been managed by nurses. In a landscape of accountable care, physicians must function as equal partners, with a clear line of sight for the care they deliver in an acute care episode.

3. Operations IS your Strategy. Silos and turf wars result in unnecessary readmissions and must be replaced with high-level integration. In order to succeed under bundled payment, a hospital's ability to approach care coordination strategically is vital. Engineering care delivery models that reduce or eliminate waste, minimize redundancy, and radically improve provider communication give hospitals strategic advantage with all payers by providing greater value.

4. Electronic Medical Records. While some may argue that an EMR is a

prerequisite to success under risk-based reimbursement and foundational to an environment of accountable care, that is not necessarily the case. For organizations that have not yet executed an EMR, now is the perfect time to engineer sustainable care pathways that will ultimately enable a smooth and successful transition to an electronic environment.

5. Clearly Defining The Role of Nurse Executives.

As we have seen in the past with the advent of diagnosis-related groups ("DRGs"), payment reform truly is "care delivery reform." Equally important to having physicians at the table and owning the outcomes of the care they deliver, nurse executives will need to drive the implementation of new care delivery models and understand the risks and

leverage points with bundled payments.

6. Careful Vetting Of New Technology.

In a bundled payment environment where value is paramount, acquisition and use of technology must occur only after careful value analysis. Hospital executives must make physicians their partners in the value analysis process to ensure capital decisions are made strategically based on value to the patient. Subspecialist competition for scarce capital resources should be resolved through the value analysis process with physicians leading peer discussion.

Healthcare reform both poses new challenges to healthcare executives and tremendous opportunities to be at the forefront re-engineering our healthcare delivery system.

Deirdre Baggot, M.B.A., R.N., is a vice president with The Camden Group, an El Segundo-based healthcare consulting firm.



By Deirdre Baggot

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