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Lee hospital chief sees double profit in HCA deal

Nathan tells symposium system can net 4.5 percent

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Lee Memorial Health System was at a turning point: It was struggling to maintain a 2 percent profit margin as it cared for more patients and received smaller reimbursements from Medicare, Medicaid and private health insurance.

But the system's profit margins — money left over after expenses are paid — should more than double to about 4.5 percent with the acquisition of its two main competitors, Gulf Coast Hospital and Southwest Florida Regional Medical Center, Jim Nathan, the health system's president, told a crowd attending a symposium Tuesday in Bonita Springs.

"We believed so strongly that this was the answer to the health-care needs of our community," Nathan said.

But by 2010, the system's profit margins will be back to about where they are now — without the addition of both hospitals, according to projections Nathan presented.

The health system's board of directors approved a budget with \$678.5 million in revenues and \$660.4 million in expenses for the fiscal year that will start Oct. 1 and end Sept. 31, 2007.

Those figures do not include the deal with Hospital Corporation of America.

That's a profit of \$18.1 million.

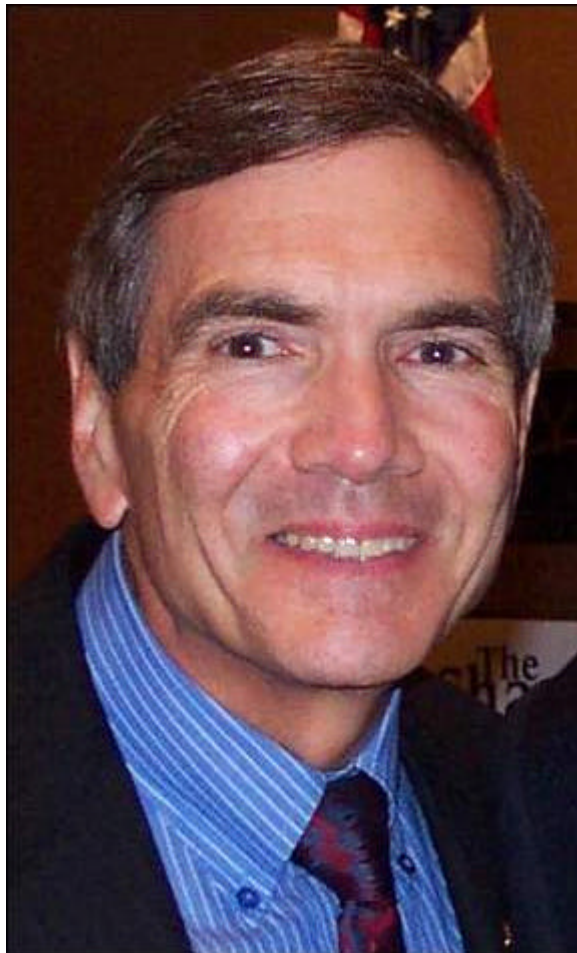
The health system's profit margin is \$13.9 million as of Aug. 31 for the 2005-06 fiscal year.

The purchase of Gulf Coast and Southwest Regional from parent company HCA in Nashville, Tenn., would essentially make Lee Memorial the only health-care system in the county.

So the health system, a public entity, would be taking on most of Lee County's health-care needs, including the indigent.

Still, Nathan said the merger will help keep profitability up and costs down.

He said the two systems together will have "a stronger bottom line."



Jim Nathan

BY THE NUMBERS

- 117,000: Emergency and trauma visits in 2005.
- 900: Doctors who have privileges in the system.
- 365,000: Patient visits to physicians and convenient care.
- \$75.8 million: Money put into the community by the system, after subtracting a \$20 million tax break.
- 21.7 million: Amount spent on indigent care.

The HCA hospitals have an annual profit of \$30 million, Nathan has said. The deal — \$250 million for the two hospitals and \$285 million for the expansion of Gulf Coast Hospital — is expected to be finalized by Oct. 31.

But long-term financial stability is still questionable.

“HCA did not leave this market just because they wanted to,” said Nathan Kaufman, senior vice president of the medical consulting firm ACS Healthcare Solutions, who also spoke at the symposium. “They left this market because it was not a lucrative market.”

Kaufman said hospital systems with more than 100 beds — Lee Memorial system has 1,010 — should have a 5 percent profit margin, meaning the entity should earn 5 percent more in revenues than expenses.

Kaufman said the health system will be in a prime spot to negotiate better health-care reimbursements — at least from private insurers — once it adds the two hospitals.

He said the increased market share will give them bargaining power to keep prices down and reimbursement rates up.

After the deal is completed, the health system will have 95 percent of the acute-care beds in the county.

“You’re in a position to get your fair share from Blue Cross,” Kaufman said, using Blue Cross as an example because it is one of the largest insurers in the area.

He quoted famous gangster Al Capone: “You get more from a kind word and a gun than from a kind word alone.”

Then he added: “The good news for you is that you just got a bigger gun.”

Kaufman said that the hospital system can force higher reimbursements or threaten to terminate the contracts with insurers.

“Those are ugly battles, and they are battles that you’re going to face and you’re going to win,” he said.

A few in the audience questioned Nathan about the benefit to local doctors who have expressed concern about a monopolized health care system.

“We’ve got to be competitive on wages and price,” Nathan said. “We can’t afford to run doctors out of town. We need them here.”

He said the system also has costs 32 percent lower than the average for Florida hospitals.

James Penuel Jr., a doctor of gastroenterology at

- 24.4 percent: Uninsured, of the total population in Collier, Charlotte and Lee counties. The only area with a higher uninsured rate is Miami-Dade County.

- 103: New physicians for the system in past year, although 35 left or resigned.

- 60 percent: Hospital revenues that come from Medicare, Medicaid and other government programs.

- \$633,583,000: Net revenue this year.

LEE MEMORIAL HEALTH SYSTEM

Lee Memorial was founded in 1916. The health system was formed in 1992. Cape Coral Hospital was founded in 1975 and was acquired by Lee Memorial in 1996. HealthPark Medical Center opened in 1991.

The system has 1,070 beds. It is the largest public, not-for-profit health system in Florida and is governed by a 10-member elected board of directors.

The hospital system is purchasing two hospitals, medical offices and 123 acres from Nashville, Tenn.-based Health Corporation of America for \$250 million, plus it will be responsible for the \$285 million expansion at Gulf Coast Hospital.

When Gulf Coast is finished, Southwest Regional Medical Center will close.

Lee Memorial also stopped the process for a surgical-tower expansion at the hospital that would have cost \$150 million or more.

- Cape Coral Hospital: 281 beds in Cape Coral

- HealthPark Medical Center: 362 beds, includes 75 beds from The Children’s Hospital, in south Fort Myers

- Lee Memorial Hospital: 427 beds, includes 60 beds of The Rehabilitation Hospital, in Fort Myers. Specialties include orthopedics, cardiology, cancer services, a diabetes center and sports medicine.

- HealthPark Care Center: 112-bed nursing home

- Outpatient Center at HealthPark Commons, which includes diagnostics and rehabilitation

- Lee Convenient Care, walk-in medical centers

- Lee Physician Group Offices, primary care physicians

- Riverwalk Professional Center, outpatient lab services and rehabilitation

- Southwest Florida Regional Medical Center has 400 beds and covers diagnostics, cardiovascular services a kidney transplant center and an orthopedic program.

- Gulf Coast Hospital has 120 beds and has departments on general medicine, surgery, obstetrics and pediatrics.

The expansion to combine the last two includes a 420,000-square-foot addition at Gulf Coast.

Digestive Health Physicians, said one of the more disturbing trends in the health-care market is hospitals fighting with doctors over outpatient care.

Imaging, diagnostics and some outpatient surgeries help hospitals make money to offset indigent care and other expenses, but some doctors have taken over some of those procedures in their own offices, also in a bid for more income.

Doctors who don't have an opportunity to make money off of these practices may not move here, Penuel said, especially because higher numbers of Medicare recipients and higher malpractice rates make the state "less than desirable" for doctors.

An example Kaufman used for hospitals to stay profitable is to work only with physicians who agree not to work in outpatient services outside of the hospital.

"The concern about a monopoly is that there is an opportunity for unfair competition," Penuel said.

Kaufman said having the market cornered is a good thing for the health system.

"You basically have a community-based system that can now just focus on the health-care needs of the community without looking over their shoulder," he said.

It is expected to cost \$285 million and will include 349 beds, a new 43-bed emergency room, 28 exam rooms, 10 observation rooms and 22 operating rooms. Plans are for a 2008 opening.

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