

Condition Critical: Care New England Hospital Group Plagued by Increased Competition, Uncertainty of Obamacare, Losses at Memorial

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Two top executives of Care New England spoke with the Providence Journal shortly after its rival Lifespan - Rhode Island's largest nonprofit health-care system - proposed building its first obstetrical unit down the block from Care New England's birthing hospital, Women & Infants Hospital. Dennis D. Keefe, CNE's president and chief executive officer, has said if state regulators approve Lifespan's proposed 31-bed obstetrical unit at Rhode Island Hospital, it will be "destabilizing" for CNE.

Keefe and Joseph Iannoni, chief financial officer of the state's second-largest hospital network, spoke with a Journal health-care reporter. (Some responses to questions during the 45-minute interview have been paraphrased for clarity and brevity.)

If the state approves Lifespan's project, what will it mean to Women & Infant's market share and its financial health?

Keefe: One estimate was that Rhode Island Hospital would take 25 percent of Women & Infants' market share. Taking that kind of hit in market share would be destabilizing, there's no question about it.

Iannoni: It would mean a loss of tens of millions of contributions or revenue.

Keefe: For Women & Infants specifically, it would be more expensive to make a margin on the business because there would be more competition for nurses and physicians. So the actual cost of providing the care without any improvement in quality would be more expensive.

One of the biggest drags on Care New England's balance sheet is Memorial Hospital, which reported operating losses of about \$32.8 million for fiscal 2016 - up from the \$27.6 million loss in fiscal 2015.

Iannoni: We wrote off \$5.4 million in intangible assets on the balance sheet in fiscal 2016, which was a one-time event. So without that the loss was very similar to fiscal 2015.

What is Care New England doing to turn around Memorial Hospital?

Keefe: We've invested millions of dollars in Memorial to try to turn it around as a medical surgical hospital. The market has become hugely more competitive. We don't really feel there's really a revenue solution to making it a performing asset. That's why we hired SOLIC Capital, which specializes in distressed assets, to develop recommendations for our board of directors. Everything is on the table, from Memorial's closure, to sale, to any number of things in between. But closure probably is not realistic because of the community's health-care needs. The bottom line is we cannot continue to absorb these losses. This is something that we have to solve this year. And we will.

If it were just up to you, what would you do with Memorial?

Keefe: Transition Memorial from a full-service medical surgical hospital to an ambulatory program (meaning only out-patient services) that served the community really well.

Is part of the consultant's evaluation to look at whether Care New England is a viable health-care company on its own?

Keefe: I wouldn't describe any health-care system today in Rhode Island as financially healthy. But we certainly would be holding our own without Memorial.

Iannoni: We lost \$68 million (in operations) for fiscal 2016 versus a \$2-million operating loss fiscal 2015. But that \$68 million loss included \$55 million in one-time items: \$20.3 million for debt refinancing; \$29.5 million in restructuring charges and a \$5.4 million write-off on Memorial's intangible assets. So when you take the one-timers out, it's like a \$13-million loss overall.

What about Care New England's credit ratings, which also were downgraded?

Iannoni: Fitch's rating went from a BBB to a BBB- which is still investment grade. Standard & Poor's held our rating to BB, but it's a non-investment grade rating. They changed our outlook from negative to positive, so that improved.

What would the biggest, most immediate financial impact be on Care New England if lawmakers dismantle the Affordable Care Act, known as Obamacare?

Keefe: A lot of the funding for the implementation of the Affordable Care Act came on the backs of hospitals. In return for covering 20 million uninsured people nationwide, hospitals had to agree to a series of rate decreases in Medicare and Medicaid reimbursements that help hospitals which serve a disproportionate area of low-income patients. The reductions in these so-called disproportionate share dollars (DSH) amounts to billions and billions in lost reimbursements. So if the ACA is repealed and the cuts are not restored it could be a total disaster for the health-care industry.

Any idea how much your uncompensated care would go up?

Iannoni: It would be north of \$10 million a year for us. But that's without a replacement or without some reasonable compromise.

Keefe: I'm extremely concerned about moving the Medicaid program to a block-grant program. One out of three Rhode Island residents are now covered by Medicaid. Under the current program, 50 percent of the costs are borne by the state and 50 percent by the federal government. But with block grants, the annual increases in Medicaid dollars might be limited to the rate of inflation.

Under Obamacare, Rhode Island's Medicaid enrollments have climbed 48 percent, to 11th highest in the country. Does that make R.I. uniquely vulnerable?

Keefe: Yes. Any state that has really gone out of its way to expand coverage to allow for more people to have access to health-care services is particularly vulnerable. That's sort of the irony of it. So the (Medicaid) block grant would be even lower than it has been historically because there's a reallocation politically as well. These are the

things that keep us up at night. There will be less revenue for health-care organizations to divvy up in Rhode Island. And those cuts could drive more mergers.

Are you actively looking for merger partners?

Keefe: When we stopped the merger with Southcoast Health System, of New Bedford, Massachusetts (in October 2016), as a courtesy I notified Lifespan, Partners HealthCare of Boston and Prospect Medical Holdings (which owns Roger Williams Medical Center). All three had responded to our Request for Proposals. There has been a lot of interest by those same companies as well as regional and even national interest. People recognize the phenomenal assets we have with Women & Infants and Butler (Hospitals) in particular.

Lifespan CEO Dr. Timothy J. Babineau recently expressed continued interest in a merger with Care New England in an email to The Journal. Are you still open to a merger with Lifespan?

Keefe: It's the first time I've seen him publicly express interest in a merger of Care New England and Lifespan. We will be talking to Lifespan. Whether the Federal Trade Commission would approve a merger remains a hurdle. A merger would be a really good Rhode Island solution to reducing the expense of health care. But it also would mean a significant loss of jobs.

Have you spoken to Babineau since he made those comments?

Keefe: No, but I will.

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