

Mergers and Acquisitions

Partnerships Are Critical to Maintaining Independence, Hospital Leader Says

Marin General Hospital is bucking the hospital mergers and acquisition trend by forging strategic relationships that enable it to meet its commitment to operating as an independent community hospital.

MGH has established partnerships with physicians and academic medical centers that are “critical” to ensuring the publicly owned Northern California facility continues to provide excellent service in its community, Chief Executive Officer Lee Domanico told Bloomberg BNA.

The number of hospital mergers and acquisitions broke records in 2015 and 2016, and experts who advise the health-care industry on transactions activity don’t see the trend slowing down. It is unusual, and perhaps somewhat surprising in this consolidation-happy environment, to find a hospital that is able to retain its independence.

Hospital mergers are up, Bloomberg BNA’s transactions advisory board has said, because operating costs have gotten out of control. Large systems also are seen as being better positioned to take advantage of economies of scale to purchase expensive technology and to implement value-based payment initiatives.

Unique Characteristics. Greenbrae, Calif.-based MGH has unique characteristics that allow it to buck the merger trend, Domanico said. First is its geographical location north of San Francisco. The hospital’s Marin County, Calif.-home is bordered by mountains, the San Francisco Bay and California’s wine country, making it the dominant facility serving a population of about 250,000.

The hospital doesn’t have many competitors because the geography creates a barrier to entry for most medical systems, Domanico said. Hospitals considering mergers may be in much more highly competitive environments.

Second, the hospital is owned by a tax district and was able to raise \$400 million to build a new facility through a combination of a voter-approved tax and philanthropy. The new hospital is expected to be completed by early 2020 and open mid-2020, Domanico said.

The tax base serves as a revenue source that most hospitals simply don’t have, he said. Add in a large affluent population, and MGH is in a far better financial position than many other community hospitals.

The most crucial factor, however, may be the last: MGH has strong partnerships with other providers in its region.

Cooperative Community. Domanico said MGH benefits from having a cooperative medical community. It has professional service agreements with between 50 and 60 doctors and, unlike other hospitals, doesn’t have many “splitters,” e.g., doctors who have credentials at more than one hospital and split their time between facilities.

MGH is involved in joint ventures with providers operating outpatient centers in imaging and cardiac services, Domanico said. And it has clinical partnerships with two of the area’s academic medical centers, the University of California San Francisco Medical Center and Stanford University Medical Center.

MGH is able to cast a larger shadow because of these partnerships. Centers that otherwise would be competitors have become collaborators, enabling the smaller hospital to provide a range of sophisticated medical services in a variety of specialties.

The UCSFMC and Stanford partnerships, for example, bolster coverage for diabetes, vascular and newborn services, Domanico said.

Technology Partnerships. MGH also benefits from technology partnerships, Domanico said. For example, the hospital in 2016 entered into a 15-year agreement with Royal Philips, a leading health-care technology company, for enterprise managed services.

The “strategic partnership signals a growing trend within hospitals and health systems to better manage the cost and complexity of their technology investments, while expanding quality access to advanced medical care to improve patient outcomes,” a 2016 Philips press release announcing the agreement said.

The Philips-financed agreement gives MGH access to imaging systems, patient monitoring systems and other advanced technological services without the initial capital investment, Domanico said. The arrangement has helped smooth out cash-flow issues, he said.

Health information technology is “extremely expensive,” Domanico said. Large hospital systems benefit from economies of scale, as they can spread the cost of a standardized system among their hospitals.

To address the upfront costs, MGH is working on a creative solution with its medical center partners to develop a collaborative HIT system in which the partner hosts MGH’s information, Domanico said.

Why Independence? MGH has been an independent community hospital since 2010. The hospital needed a new facility, and it was able to galvanize community

support to finance the building. Prior to that, it was part of a hospital system.

There are two types of hospitals in large systems, Domanico said. There are hospitals that contribute cash, and there are hospitals that receive cash. MGH was always a “good performer” and a contributor, and it didn’t share in the system’s debt, so it didn’t get much benefit in return.

It doesn’t make much sense for a hospital that is making money to join a large hospital system, Domanico said. Marin benefited more by becoming independent, holding on to its profits and developing partnerships to maximize its ability to provide excellent care, Domanico said.

Other Options. Domanico said staying independent might not be the best course for some hospitals. Underperforming or distressed hospitals may need to explore other options. Similarly, hospitals in highly competitive environments may view a merger or sale as advantageous.

His advice for those providers is to “be innovative in thinking” about how to save the business. Consider ways short of a merger or sale—like partnerships—if possible, he said. Hospitals, however, should start thinking about these strategic moves while they are still strong.

A cooperative medical community also is invaluable to a hospital desiring to maintain its independence, Domanico said.

Above all, he said, “don’t give your hospital away.” If a sale is the only option, “try to get value out of the deal and use it to support charitable work in the community.”

Mergers or acquisitions often look more palatable than sales because systems offer board seats to the acquired organization as part of the deal. But that is “overplayed,” Domanico said. Eventually, the acquired hospital loses its influence, and the acquirer takes total control.

When that happens, the local board seats go away, and the hospital loses whatever independence and local flavor it had, Domanico said.

The type of transaction also depends upon the hospitals’ nature, he added. A nonprofit hospital can take over another nonprofit hospital, but there are limits on a for-profit hospital’s acquisition of a nonprofit.

Patient Population. MGH serves about 45 percent of the patient population in Marin County, Domanico said. About 40 percent of patients are insured by Kaiser Permanente, which has its own hospital. The remainder seek health care in nearby San Francisco.

Domanico views large San Francisco hospitals as MGH’s biggest competitors. The community hospital’s partnerships and physician recruitment activities means it is able to offer services in all medical specialties, so patients actually don’t need to go into the city to obtain care, but some choose to do so, he said.

Medicare pays the bills for much of the county’s affluent senior population, but MGH also is the safety net hospital for the region, Domanico said. There are pockets of indigent and underserved people in the county, and MGH serves about 80 percent of them. Medicaid picks up the tab for this group, Domanico said.

Serving the Medicaid population has been challenging, Domanico said, but California was one of the states that expanded its Medicaid program, known as Medi-Cal, under the Affordable Care Act. California also has an ACA insurance exchange, so many uninsured people have become insured as a result of the federal law.

Domanico told Bloomberg BNA he was pleased recent Republican efforts to repeal and replace the ACA didn’t succeed. Federal government cuts to Medicaid or policies that reduce the number of people able to buy insurance on the exchange would “have a negative impact” on MGH, he said.

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