

## COVER STORY

# Losing the battle for independence

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Extinction may be just around the corner for independent rural and community hospitals.

The move by Batavia's United Memorial Medical Center to merge into the Rochester General Health System leaves the region with eight independent hospitals, half the total from five years ago.

Following mandates from the state's Commission on Health Care Facilities for the 21st Century, also known as the Berger Commission, many independents joined other hospitals and systems. One independent, Sheehan Memorial Hospital in Buffalo, closed in 2012 after years of financial woes.

The survivors include Jones Memorial Hospital, which has struggled in the last two years with lower occupancy rates, high-need patients and declining reimbursements; and Cuba Memorial Hospital, a tiny, six-bed site that finished 2012 \$1.5 million in the red. Both have turned to affiliation agreements with larger systems as a partial fix.

Four other rural hospitals signed affiliation agreements with larger health systems in recent years: Wyoming County Community Health System and Jones Memorial with the University of Rochester Medical Center (URMC); and WCA Hospital and Brooks Memorial Hospital with University of Pittsburgh Medical Center (UPMC) Hamot in Erie, Pa.

Closer to home, Bertrand Chaffee Hospital in Springville and Cuba Memorial have affiliation agreements with Catholic Health.

"I don't think you can survive as a completely independent," said Donald Eichenauer, CEO of Wyoming County Community. "If you look at how quickly health care is changing, I don't think any



JIM COURNEY

Don Eichenauer, CEO of Wyoming County Community Health System, said affiliation agreements are a necessity for smaller hospitals, especially independent facilities that lack access to capital and resources.

one facility the size of ours can have all of the experience and providers you need without additional resources."

#### First date

Though not every small site will end up merged into a larger system, hospital executives say affiliation and collaboration agreements provide a lifeline in the form of access to specialty care and capital, as well as economies of scale for purchasing and recruitment. In many cases, they also serve as a first date in the merger process.

Eva Benedict orchestrated the collaboration between Jones Memorial in Wellsville and URMC. She calls it a low-level affiliation agreement that focuses on efficiencies and access to specialty services, but without any financial or governance commitments, sort of a "getting to know you" arrangement.

"It's kind of like dating before you get engaged before you get married and to see if there's a good cultural fit," Benedict said. "You have to weigh the value of the collaboration. I think looking down the road, probably all institutions of our

size are going to have to be affiliated at a higher level."

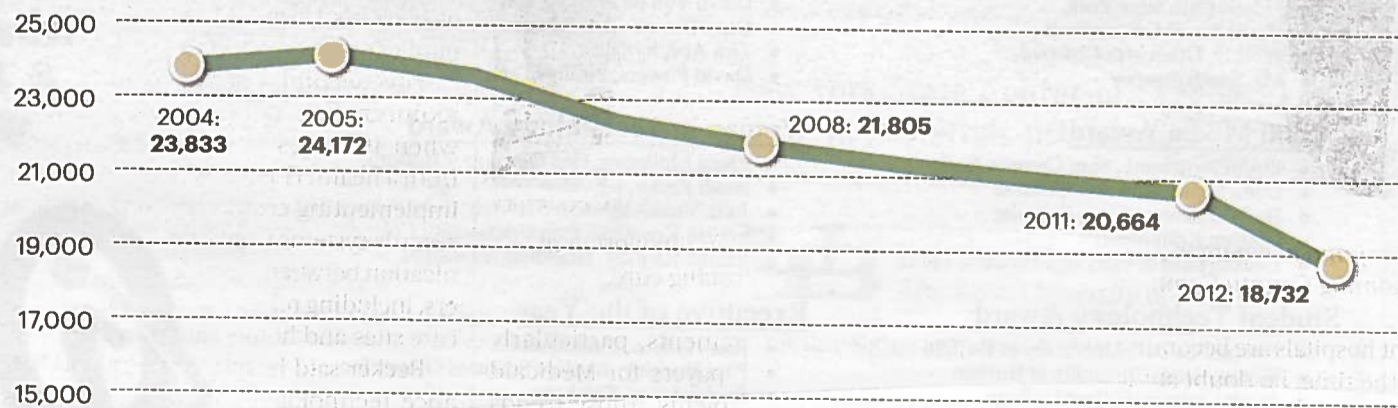
United Memorial CEO Mark Schoell said the hospital explored several options over five months before settling on an affiliation arrangement with RGHS. Advancing to a merger was the next logical step. Remaining independent, he said, simply was no longer an option.

"There probably are in certain circumstances independent hospitals that will stand alone and do well, but I think it depends on circumstances," he said. "It's clear that the number of indepen-

## ► NINE YEARS OF RURAL HOSPITAL ADMISSIONS

### ADMISSIONS DECLINING

Hospitals throughout the region are struggling to deal with diminishing reimbursements and declining admissions. And the hit is even worse at independent hospitals that don't have the additional resources often found at larger health systems. The numbers shown to the right represent inpatient admissions figures between 2004 and 2012 for 10 rural, community hospitals. All are either single or two-hospital systems located in the eight-county region, as reported to the New York State Department of Health. Complete data for the 2013 reporting year was not yet available.



COVER STORY

FINANCIAL VIABILITY

# Small hospitals struggle to keep pace

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More than 60 miles separate Eastern Niagara Hospital's Newfane campus from TLC Health's Lake Shore Health Care Center in Irving.

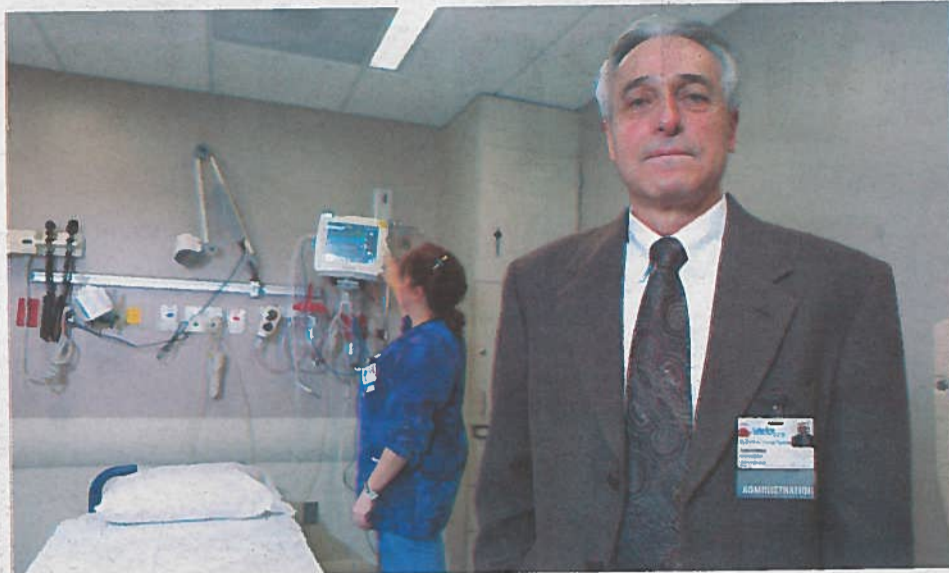
But the hospitals could be twins, considering both face the challenges of dwindling admissions and declining reimbursements. Both are rural and operate a nursing home. And they both are part of small, two-hospital systems that include a larger hospital.

The difference comes in how they are legally connected to their hospitals and the system. TLC Health, which filed for bankruptcy protection in December, is under the Lake Erie Regional Health System of New York umbrella, along with Brooks Memorial Hospital in Dunkirk. But the hospitals never merged when the system came together in 2008.

That's why Brooks Memorial is protected against the financial troubles that led to TLC Health's bankruptcy filing.

On the other hand, Eastern Niagara Hospital completed a full-asset merger in 2009, bringing together the former Inter-Community Memorial Hospital in Newfane with Lockport Memorial Hospital. Hospital officials have acknowledged in recent weeks that the site is in trouble, and they are doing all they can to keep both sites going: Financial troubles are shared in a full-asset merger.

"We are very concerned about the future of the whole system," said Bruce Popper, vice president of SEIU 1199 United Healthcare Workers East.



FILE PHOTO

John Galati, interim CEO at TLC Health's Lake Shore Health Care Center in Irving, said he's working on options to bring the hospital out of bankruptcy - and that includes possibly working with a partner or selling.

He has unique insight into both systems, having represented Brooks during the TLC merger.

"(Lake Erie Regional Health) firewalled financially the two places, but at Newfane-Lockport it's a full-asset merger," Popper said.

SEIU represents workers at both hospital systems. In Niagara County, the stakes are high as the union prepares to negotiate a new contract for several hundred employees.

But the concerns extend to all rural, community hospitals in the region. Popper pointed to last year's closure of Lakeside Memorial Hospital in Brockport, a site that was later purchased by UPMC's Strong Memorial Hospital and converted

into a freestanding emergency department and urgent-care facility.

"All of our rural hospitals are in a degree of jeopardy," he said. "It's very, very hard for a smaller hospital to make it these days. You can see evidence of it everywhere."

Though it could create a different set of issues or concerns, the solution could come in the form of an affiliation, collaboration or merger with a larger partner.

"A small hospital just can't keep up with that stuff. It's an impossibility," Popper said. "So that's what the larger places bring, if they merge the back of the house and the data and IT while they keep the front of the house customer-friendly and servicing the community. That seems to be the only way."

NATIONAL TREND

## AFFILIATIONS, MERGERS COMMON ACROSS THE U.S.

Western New York isn't the only place where independent hospitals are affiliating and merging into larger systems. It's something that is taking place across the country.

► **South County Hospital** in Wakefield, R.I., Rhode Island's only remaining independent nonprofit hospital, announced plans for an affiliation with Southcoast Health System of New Bedford, Mass. Southcoast, a nonprofit system, includes Charlton Memorial Hospital, St. Luke's Hospital and Tobey Hospital.

► **St. Mary's Hospital**, an independent, nonprofit community hospital in Passaic, N.J., signed a letter of intent to sell to Prime Healthcare Services, a private, for-profit California system that operates 23 hospitals across the country.

► **Saint Francis Hospital** in Poughkeepsie, an independent, nonprofit hospital that filed for bankruptcy protection in December, will be sold to Westchester Medical Center in Valhalla. Westchester Medical, also a nonprofit, includes University Hospital, Maria Fareri Children's Hospital and a behavioral health center.

► **Lakeside Health System** closed Lakeside Memorial Hospital in Brockport last year but later sold the site to the University of Rochester Medical Center's Strong Memorial Hospital. Strong has since converted the site into a freestanding emergency department and urgent-care facility.

- Tracey Drury



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An expanded emergency department was part of a \$30 million renovation at Wyoming County Community Health System aimed at improving care.

dent hospitals are becoming less and less all the time, no doubt about it."

**What's driving change?**

Driving the difficulties are reduc-

tions in reimbursements, particularly from government payers for Medicaid and Medicare recipients. Those trends then trickle down to the private, commercial insurance payers. And no matter

how many efficiency plans are put into effect, hospital officials say there's always a demand to become even more efficient and cut costs more.

Hospitals across the country are working to meet mandates to keep people out of hospitals altogether, which has resulted in significant declines in inpatient admissions. Every hospital in the region saw admissions drop in 2013 compared to 2012. Some declined as much as 20 percent.

"This is completely a national phenomenon," said Scott Becker, publisher of Becker's Hospital Review, a national publication.

The second part is meeting the requirements of health care reform when it comes to managing patients from a health IT perspective. That means implementing costly electronic medical records systems to ensure good communication between physicians and providers, including rehab facilities, long-term-care sites and home-care providers.

Becker said hospitals struggle to balance technology demands, as well as making their numbers for patient cases and recruitment and retention of physi-

cians, especially specialists.

"A lot of these small hospitals don't have enough money to reinvest in their facilities, and it's harder and harder to attract physicians to their communities," he said.

Third, and probably most important, is access to capital. That includes funding to pay off debt and support capital projects.

**Size matters**

It's not just single sites that are hurting: Even two-hospital systems are struggling. Eastern Niagara Hospital has spent recent weeks on the defensive, responding to questions about the future of its Newfane hospital. Though no decision has been made on a closure, hospital officials acknowledge both Newfane and the Lockport site are struggling.

"In order to remain viable, it is imperative that the hospital proactively examine opportunities to reshape the organization and utilize its resources in the most efficient manner possible," said Carolyn Moore, director of community relations. "Change is a constant for

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health care institutions today.”

Then there's Lake Erie Regional Health System of New York (LERHSNY), which split operations in the fall in the midst of a fiscal crisis. In the months since, TLC Health/Lake Shore Health Care Center in Irving has filed for bankruptcy protection while Brooks Memorial Hospital has reaffirmed an affiliation agreement with UPMC Hamot, part of the University of Pittsburgh Medical Center system.

Most hospitals know the stand-alone model is not feasible for the future, said J. Gary Rhodes, interim CEO of Brooks Memorial.

“The larger hospitals – the tertiary care centers doing the high-end care – are going to continue to do that. But the small, community hospitals are going to struggle to continue to be in the inpatient business,” he said. “We're going to have to focus on primary care and wellness and the outpatient side.”

Leaders of Lake Shore Regional Health know that, too, which is why they're working with potential buyers or partners to craft a plan that provides care via partnerships with other providers, such as Erie County Medical Center.

John Galati, interim CEO of TLC Health, said Lake Shore Regional Health won't survive on its own.

“TLC is not large enough to remain independent,” he said. “It's hard for small, community hospitals to remain



JIM COURTNEY

Dr. Benjamin Newman examines a patient at Wyoming County Community Health System, which operates eight remaining independent hospitals in the region scrambling to solidify partnerships and affiliations to survive.

independent. You need to have affiliations whether it's a merger, collaboration or joint venture.”

**Benefits for both sides**

For the larger systems, the benefit can come in the creation of a hub-spoke system where smaller hospitals send business to the larger systems for higher levels of care or surgeries. That has benefits for both sides.

“Smaller hospitals are doing this to stay open,” Becker said. “The bigger place doesn't want to own another hospital there but needs another vehicle for contracting and to compete with others.”

That's why ECMC is reaching out to TLC Health. Though the primary reason is to make sure the community receives the health care services it needs, such relationships strengthen ties between institutions, said Jody Lomeo, CEO of ECMC and interim CEO of Kaleida Health.

Expanding the existing system to include rural providers has benefits for the larger hospitals – patients may stop leaving the Buffalo region for Pittsburgh, Cleveland or even Rochester for care.

“We're not big enough to go it alone, not in this changing health care world,” Lomeo said. “We need our partnership with Kaleida, we need our partnership with the university, and we need community physicians to support us and we need to support the community physicians. It's got to be that spirit, that win-win vs. ‘I need help, give me money.’”

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