

## Los Angeles Times

<http://www.latimes.com/news/local/la-fi-hospitals3-2008jun03,0,6726126.story>

From the Los Angeles Times

HEALTHCARE

### Hospital juggernaut adding three properties

Rapidly growing Prime Healthcare will soon own 12 facilities in Southern California.

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June 3, 2008

A rapidly growing and controversial Southland hospital chain has bought one medical center and agreed to buy two more in Los Angeles and Orange counties, a move that would establish the company as a regional powerhouse with as many hospitals as Kaiser Permanente.

Prime Healthcare Services Inc., a Victorville-based chain headed by cardiologist Dr. Prem Reddy, agreed to buy hospitals in Encino, San Dimas and Garden Grove from Dallas-based Tenet Healthcare Corp.

Under the deal, Prime Healthcare would grow to 12 hospitals, the same number as Kaiser, the current leader in Southern California, though Prime has fewer total beds.

In a statement Monday, Reddy said, "We are pleased that Tenet selected Prime Healthcare to acquire these three underperforming hospitals in California. Prime Healthcare is poised to acquire more financially distressed and underperforming hospitals in the near future."

Over the last four years, Prime has launched an aggressive expansion program in Southern California. Many of its hospitals were facing severe financial troubles and several were at risk of closing before Prime bought them, the company said.

To increase the hospitals' profitability, the company often cancels most insurance contracts, allowing it to charge insurers higher, nonnegotiated rates. That also prompts many privately insured patients to seek care at other hospitals at a time when a growing number of medical centers around the region are reducing services or closing.

Critics say the fast-growing chain's business model puts profit above patients. But Prime Healthcare executives disagree and say they are rescuing the hospitals from financial collapse and ensuring that communities retain access to healthcare.

On Monday, Prime said it purchased the Encino campus of Encino-Tarzana Regional Medical Center, a 151-bed acute-care facility, from Tenet. It is considered one of the premier hospitals in the San Fernando Valley.

Separately, Prime Healthcare has entered into definitive agreements to acquire two other Tenet hospitals -- 167-bed Garden Grove Hospital and Medical Center and 64-bed San Dimas Community Hospital, a Tenet spokesman said.

No information was available about the sale price of the three facilities. Tenet's chief operating officer, Dr. Stephen Newman, said the company was selling the hospitals because of their recent poor financial performance.

"Garden Grove Hospital and Medical Center and San Dimas Community Hospital . . . were only marginally profitable in 2007, and neither had positive cash flow," Newman said.

Tenet previously announced its intention to sell Encino-Tarzana Regional Medical Center in 2004. The company said it was in separate negotiations to sell the Tarzana campus to another buyer.

The deals announced Monday are subject to regulatory approval and are expected to be completed in 30 days, the company said.

If the sales are finalized, Prime Healthcare will have acquired 11 of its dozen hospitals -- including Centinela Hospital Medical Center and Huntington Beach Hospital -- in the last four years.

The sales would push the number of Southern California hospital beds under the company's control to 2,007, compared with 3,615 beds for Kaiser and 1,655 for Tenet.

In recent months, the chain has also expressed interest in acquiring Brotman Medical Center of Culver City. Brotman filed for bankruptcy protection last fall.

With Monday's sale announcement, Tenet, once among the largest hospital operators in California, continues to reduce its footprint across the state.

At its peak, Tenet had 41 hospitals statewide; it will have 13 facilities in California, including eight in the Southland, once the sales are closed.

As Prime has grown quickly, its business activities have come under increased scrutiny by state officials, healthcare advocates and patients.

Because Prime Healthcare typically cancels its facilities' private insurance contracts, most patients arrive through the emergency room -- which is open to everyone regardless of financial status -- and, if needed, are admitted for longer stays.

Prime has also suspended some services at several hospitals -- including chemotherapy treatments, mental health care and birthing centers -- that provide relatively little income.

Such measures are key to what Prime Healthcare executives say is a profit margin of as much as 15% per hospital -- far above the industry average. Some of the company's hospitals, however, continue to lose money, executives said.

Prime maintains that its cost-cutting efforts are necessary to improve its hospitals' finances and to keep them solvent. Local healthcare experts are split on what effect the company's growing presence is having over the region's healthcare system.

"It's only a good thing that a company like Prime is willing to take on the risk and acquire hospitals that might not stay open otherwise," said Joel Bergenfeld, former chief executive of Century City Doctors Hospital.

But Kathy Ochoa, senior healthcare policy advisor for Service Employees International Union Local 721, said Prime Healthcare was taking advantage of struggling hospitals and the communities that rely on them.

"Although they may claim to preserve distressed hospitals and ER access, at what price does that come?" she said. "Their profits are coming on the backs of these communities at a time when patients are losing more access day after day."

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