



## Acquisitions of distressed Catholic hospitals by non-sectarian hospitals

### *First Case Study: Bronx, NY*

When Our Lady of Mercy Hospital (OLM), a Catholic hospital in the Wakefield section of the Bronx, began to incur significant financial losses, local leaders feared that the community of 150,000 would be stranded without a nearby health care facility. Recognizing the potential gap in health care services, New York State Department of Health officials approached leaders of Montefiore Medical Center (Montefiore) and asked them to consider acquiring OLM. Founded by Jewish philanthropists in 1884, Montefiore is the next closest facility to OLM and one of the largest hospitals in New York City. Montefiore's CEO and Board agreed to integrate OLM into Montefiore and offer the community the best health care services, including comprehensive reproductive health services which were offered across the Montefiore system, but had not been offered at OLM due to Catholic ethical restrictions.

When Our Lady of Mercy Medical Center was built in 1958, the Wakefield section of the Bronx was home to many Catholic Irish and Italian immigrant families.<sup>1</sup> Over the last several decades, the demographics of the area have shifted dramatically.<sup>2</sup> Today the borough's population is mostly Hispanic (53%) and African-American (36%)<sup>3</sup> with less than 5% of the population of Irish or Italian decent.<sup>4</sup>

Just as the surrounding community changed over the years, so did the staff and physicians of OLM. Many of the physicians who received their Graduate Medical Education at OLM were originally from India and established their medical practices in the Bronx after they completed their training.<sup>5</sup> The 2,000 employees and 500 voluntary doctors were dedicated to their patients and loyal to the facility, but as OLM began to financially decline, job security became a principal concern, according to Montefiore's CEO Steven Safyer, M.D.

As the sole sponsor of OLM, the Archdiocese of New York recognized the fragility of Our Lady of Mercy as it considered its options. The hospital was burdened with more than \$50 million in debt at the height of the economic recession, and the Archdiocese, struggling to manage a network of Catholic nursing homes,<sup>6</sup> was in no position to offer OLM the financial support it needed.<sup>7</sup> According to Dr. Safyer, the Archdiocese understood it was in everyone's best interest to find OLM a new sponsor if the facility was going to survive as a community hospital.

Nearby Montefiore Medical Center was the most obvious option. When Montefiore expressed interest in acquiring Our Lady of Mercy, without the commitment to adhere to religious restrictions in

perpetuity, the Archdiocese agreed to the transaction.<sup>8</sup> As part of the agreement, Montefiore honored the Archdiocese's request that OLM adhere to the Catholic principles for a few years as part of the initial affiliation agreement. Dr. Safyer recalled, "I felt like it was totally right to respect the Catholic principles during a transaction."<sup>9</sup> Montefiore and OLM signed this agreement in early 2006, which gave Montefiore the ability to appoint the OLM Board, approve its annual capital and operating budgets and make changes to its management team.

The fate of OLM's Catholic status was determined by three key factors: 1) the Archdiocese of New York's desire to extract itself from the hospital and its long-term debts<sup>10</sup> 2) the shifting identity of both the patient and provider populations in the hospital and 3) Montefiore's stronger economic position. These circumstances made it feasible to discontinue the use of Catholic health care restrictions at Our Lady of Mercy once it was acquired by Montefiore. Dr. Safyer recalled, "It was good for the State, good for the Cardinal, good for Montefiore and for Our Lady of Mercy employees who were concerned about their jobs and the future of the hospital."<sup>11</sup>

The New York State Department of Health was very supportive of preserving the hospital in a seamless manner. According to Dr. Safyer, one particular official, Dennis Whalen, the Department of Health's Executive Deputy Commissioner, made the transition process smoother because he was equally committed to preserving hospital services for the community and respecting the Archdiocese of New York's wishes. Dr. Safyer stressed that having an invested champion at the State level helped make this acquisition a reality.<sup>12</sup>

At the onset, Montefiore made significant improvements to the facility's infrastructure by modernizing the interior lighting and upgrading the hospital's clinical information systems.<sup>13</sup> The response was overwhelmingly positive, Safyer recalled. "They saw us first as preserving their jobs, preserving their mission. I think people felt lifted."<sup>14</sup> He added, "If this was a hostile takeover of a Catholic institution, I think it would have been very different."<sup>15</sup>

After the acquisition was completed in July 2008, OLM's religious statues, crosses and artwork were transferred to Catholic parishes in the Bronx, and the hospital's name was changed to the North Division of Montefiore Medical Center.<sup>16</sup> The doctors who had admitting privileges at OLM were provided with the opportunity for similar privileges to all Montefiore hospitals. With the exception of abortion, all restrictions on health services were lifted after the transition period.<sup>17</sup> Once comprehensive reproductive health services such as sterilization, family planning services and counseling were introduced to the facility, several providers from the Department of Obstetrics & Gynecology and Women's Health at Montefiore began bringing patients to the North Division for obstetrical and gynecologic services. The local community was notified of the changes at their neighborhood hospital through meetings with key community leaders as well as written communication with elected officials and OLM's key constituents. Two years after the acquisition was completed, Montefiore reported that the North Division's volume of patients had increased, efficiency had improved, jobs had been preserved and operating targets had been met.<sup>18</sup>

### *Second Case Study: Schenectady County, NY*

In Schenectady County, non-sectarian Ellis Hospital took over two other local hospitals: non-sectarian Bellevue Women's Hospital and Catholic-affiliated St. Clare's Hospital. Because of the financial circumstances leading up to the transaction, the acquisition took place without the need for complicated

accommodations to preserve reproductive health services at one of the non-sectarian facilities. Instead, this transaction provides a model of how a financially stronger non-sectarian hospital can absorb an ailing Catholic facility.

Located 15 miles northwest of Albany, the City of Schenectady was once a vibrant and growing community anchored by two large manufacturing employers, General Electric and American Locomotive Company. Like many cities in the northeast, Schenectady changed dramatically after manufacturers relocated. After General Electric moved most of its manufacturing jobs out of the area and ALCO closed its plant, Schenectady's population dropped by a third and the local economy suffered.<sup>19</sup>

At its peak, Schenectady supported three hospitals: St. Clare's Hospital, a 200-bed independent Catholic hospital; Ellis Hospital, a 368-bed private hospital, and Bellevue Women's Hospital, a 40-bed maternity hospital just over the city line.<sup>20</sup> By 2006, Bellevue and St. Clare's were both financially fragile, with occupancy rates of less than 50 percent.<sup>21</sup> Both hospitals provided maternity care but reproductive health care options were limited at St. Clare's due to its Catholic affiliation. Bellevue Hospital was the only local hospital provider of key reproductive health services, including post-partum tubal ligations and abortions. Ellis had closed its maternity ward eight years earlier.<sup>22</sup>

Recognizing that Schenectady County no longer needed three hospitals to serve its declining population, Ellis Hospital officials had considered merging with each of the other nearby hospitals over the years. However, talks repeatedly stalled over financial concerns and differences in health care policy. Both Bellevue and St. Clare's were burdened with unresolved long-term financial obligations. St. Clare's carried unfunded pension obligations amounting to approximately \$34 million,<sup>23</sup> and Bellevue held unpaid bonds.<sup>24 25</sup> Ellis Hospital officials were worried about their own facility's financial stability if it became responsible for either of these obligations.

The Berger Commission recommended that St. Clare's and Ellis hospitals create a "common governance and a common administration," and recommended that Bellevue close entirely.<sup>26</sup> If Ellis and St. Clare's failed to form a partnership by December 2007, the Berger Commission stated that one must close.<sup>27</sup>

The Schenectady community and Bellevue's physicians, however, protested the idea. At the time, Bellevue was delivering 1,700 babies a year – far more than St. Clare's, which was delivered 800 babies a year in its 12-bed maternity ward. Bellevue was also the only local provider for pregnancy terminations that require hospitalization. About 180 abortions were performed at the hospital in 2006.<sup>28</sup>

A community campaign to save Bellevue was launched. "Bellevue was by reputation, one of the finest women's hospitals in the capital region," recalled James Connolly, CEO of Ellis Medicine. "It had a reputation in the state. [When you have] a resource, sort of a jewel; you kind of keep it intact."<sup>29</sup>

Eventually, the Berger Commission clarified its recommendation for Bellevue, and stated that it was only requiring Bellevue to surrender its separate operating license, not ordering the facility to close.<sup>30</sup> Ellis then announced a plan to partner with Bellevue, which surrendered its operating license to Ellis and promised to keep the Bellevue campus open, at least for the time being. Meanwhile, St. Clare's slid into bankruptcy. Four months after assuming operation of Bellevue Hospital, Ellis signed an agreement to take over St. Clare's.<sup>31</sup>

Bellevue and St. Clare's transferred their physical assets to Ellis in exchange for the state providing the hospitals with HEAL grants.<sup>32</sup> Bellevue hospital received \$22 million to cover its transition costs, and St. Clare's and Ellis jointly received an additional \$50 million to cover the reallocation of departments between Ellis Hospital and the former St. Clare's site.<sup>33</sup> The state took over the long term debt of Bellevue and St. Clare's, after they applied short term assets cash and accounts receivable to their outstanding debt.<sup>34</sup> Ellis received the hard assets of both facilities – the buildings and property – at virtually no cost and avoided being saddled with their debts.<sup>35</sup>

Once St. Clare's surrendered its license, the facility went through a Catholic "de-commissioning" process. Its name was changed to Ellis Health Center and its religious artifacts and paintings were removed. Its personnel became employees of Ellis Medicine. The only Catholic-based restriction that remains at the former St. Clare's campus is an abortion ban. Ellis chose to honor the request by moving the bulk of in-patient services, including gynecology and obstetrics, off that campus. Re-training St. Clare's physicians to operate in a non-Catholic environment was not necessary, Connolly said, because most of them had privileges at Bellevue already and thus were accustomed to providing care in a non-sectarian environment.<sup>36</sup>

Today, Ellis Medicine has one operating license and three campuses, including its newest divisions at Bellevue and St. Clare's. According to Connolly, the consolidation immediately had a financial impact. "We did almost a \$15 million swing in one year, from losing almost \$7 million collectively to making almost \$8 million collectively in Schenectady."<sup>37</sup> Ellis was able to maintain healthy gains in 2009, but Medicaid cuts and state budget cuts have taken their toll for the past two years.<sup>38</sup>

In the end, comprehensive reproductive health services in Schenectady have remained intact. Bellevue Women's Center of Ellis Medicine remains the only provider in the Schenectady area that offers in-hospital abortion services and family planning services, in addition to the 2,400 births and 3,000 general surgeries it provides every year.<sup>39</sup>

Reflecting upon the outcome for reproductive services in the Schenectady County hospital consolidation, Connolly noted, "I think the reason why it turned out fine...is that the resulting service was so much better. You have a nicer campus where everything was focused, and you have more space. You have a dedicated staff. You have a dedicated OB/GYN [staff], anesthesiologists and neonatologists available 24/7. Family practice residents are now having a robust OB experience. You have a lot of things from the consolidation that benefit the clinicians, nurses, patients and the community. It is sort of a win, win, win."<sup>40</sup>

### *Lessons Learned from the Bronx and Schenectady*

When a financially-distressed Catholic hospital is acquired by a stronger non-sectarian hospital or health system, what happens to the hospital's historic Catholic identity and ethical policies? Two recent transactions in New York State provide models in which Catholic hospitals were "de-commissioned" as religious facilities following their acquisition, opening up the possibility of introducing previously prohibited reproductive health services. Several conditions were necessary to bring about this outcome.

First, local Bishops with authority over the Catholic facilities in their dioceses had to approve termination of these hospitals' Catholic affiliation and identity. In both of these cases, the local diocese did not have the resources to cope with the financial challenges facing their hospitals. In the Bronx, the Archdiocese of New York was already struggling with a failing hospital and nursing home system and therefore was in no position to assist Our Lady of Mercy with its debt of \$50 million. In Schenectady, St. Clare's held an unfunded \$34 million pension plan. Church officials faced with potential closure of Catholic hospitals chose to approve their acquisition, even with the understanding that the facilities' religious identity would cease and its ethical policies would change.

Second, the active involvement of New York State Health Department officials helped bring about workable solutions for all the stakeholders involved. State officials were either actively involved with negotiations between the two parties or helped to facilitate state grant monies for debt relief and to cover transition costs. During their interviews with our research team, CEOs of both the acquiring nonsectarian hospitals -- Ellis Medicine in Schenectady and Montefiore Medical Center in the Bronx -- stressed the importance of having a champion on the state level helping to make a smooth transaction possible. Dr. Safyer credited Dennis Whalen, the Executive Deputy Commissioner of the Department of Health, with helping Montefiore negotiate effectively with the Catholic Church. Mr. Connolly was grateful for how Jim Clyne, Deputy Commissioner for the Office of Health Systems Management, handled what was a delicate situation between three community hospitals.

Third, it was essential that both Catholic facilities undergo name changes and other measures to indicate publicly that they were no longer affiliated with the church. Our Lady of Mercy became the North Division of Montefiore Medical Center and St. Clare's became the Ellis Health Center. All religious artifacts and paintings were removed and donated to local churches.

How has the provision of reproductive health services changed at these two formerly-Catholic facilities? In the Bronx, Montefiore was free to introduce comprehensive reproductive health services to the maternity department at the new North Division campus without exception. However, abortions are not currently being provided there. In Schenectady, the only Catholic-based restriction that remains at the former St. Clare's campus is an abortion ban. Ellis moved the bulk of in-patient services, including gynecology and obstetrics, off that campus. Maternity care was consolidated at the former Bellevue Hospital, also now part of Ellis Hospital, which means that women who previously delivered babies at St. Clare's can now do so at a facility that would allow the choice of a post-partum tubal ligation. Retraining physicians to operate in a non-Catholic environment was not necessary in either case because most of them had privileges at a nearby nonsectarian facility already and thus were accustomed to providing comprehensive care. Finally, hospital personnel at the formerly Catholic facilities were offered contraception coverage as part of their new health insurance package.

Bolstered by the strength of their strategic partners and support from state health officials, both hospitals have improved financially in recent years and have provided an opportunity to protect or expand reproductive health services that had previously been restricted in their communities.

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<sup>1</sup> *Bronx Irish Americans: American Irish History in the Bronx*, Irish American Journey, available at, <http://www.irishamericanjourney.com/2011/09/bronx-irish-americans.html>.

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- <sup>2</sup> Alex Kratz, *Remembering When the Irish Painted the Town Green*, Norwood News (Mar. 2007), available at, <http://www.bronxmall.com/norwoodnews/past/032207/news/N70322page2.html>.
- <sup>3</sup> *State and County QuickFacts: Bronx County, New York*, U.S. Census Bureau (Jan. 2012), available at, <http://quickfacts.census.gov/qfd/states/36/36005.html>.
- <sup>4</sup> *American Community Survey Profile: Bronx County, New York*, U.S. Census Bureau (2004), available at, [http://www.docstoc.com/docs/88574744/New-York-city\\_-Bronx-County-pt\\_-New-York](http://www.docstoc.com/docs/88574744/New-York-city_-Bronx-County-pt_-New-York).
- <sup>5</sup> MergerWatch Interview with Dr. Steven M. Safyer, CEO of Montefiore staff, Bronx, NY, (Aug. 2011), p. 5.
- <sup>6</sup> Sulmasy, Daniel, "Then There Was One," *America Magazine.*, (Mar. 2009).
- <sup>7</sup> Interview with Dr. Safyer, p.17.
- <sup>8</sup> *Id.*, p.7.
- <sup>9</sup> *Id.*
- <sup>10</sup> Sulmasy, "Then There Was One."
- <sup>11</sup> *Id.*, p.5.
- <sup>12</sup> *Id.*, p.15.
- <sup>13</sup> E.B. Solomont, "Montefiore Takes Over Our Lady Medical Center," *The New York Sun.*, (July 2008).
- <sup>14</sup> Interview with Dr. Steven Safyer, p.5.
- <sup>15</sup> *Id.*, p.9.
- <sup>16</sup> Solomont, "Montefiore Takes Over Our Lady Medical Center."
- <sup>17</sup> MergerWatch Interview with Richard T. Celiberti, Executive Director of North Division of Montefiore, (April 2012).
- <sup>18</sup> *Two years out, Montefiore says OLM's successful*, *Crain's Health Pulse* (Aug. 2010), available at, <http://www.craigslist.com/article/20100812/PULSE/100819938>.
- <sup>19</sup> *Population Trends in New York State's Cities*, Office of the State Comptroller: Division of Local Government Services and Economic Development, *Local Government Issue in Focus*, Vol. 1, No. 1 (Dec. 2004), also available at, [http://www.osc.state.ny.us/localgov/pubs/research/pop\\_trends.pdf](http://www.osc.state.ny.us/localgov/pubs/research/pop_trends.pdf).
- <sup>20</sup> Paul Vitello, *Used to Big Losses, Schenectady Is Hit Hard by Plan for Hospitals* (Dec. 4, 2006), available at, <http://www.nytimes.com/2006/12/04/nyregion/04schenectady.html?pagewanted=all>.
- <sup>21</sup> *Id.*
- <sup>22</sup> Cathleen F. Crowley, "Merger poses clash of values," *Times Union.*, (Dec. 2006).
- <sup>23</sup> Alan Wechsler, *St. Clare's Pension Issues Stall Merger: Health Department Official Says Aid Could Be Applied to Shortfall*, *Albany Times Union* (June 2007), available at, [http://www.redorbit.com/news/health/960000/st\\_clares\\_pension\\_issues\\_stall\\_merger\\_health\\_department\\_official\\_says/](http://www.redorbit.com/news/health/960000/st_clares_pension_issues_stall_merger_health_department_official_says/).
- <sup>24</sup> MergerWatch interview with James Connolly, CEO of Ellis Medicine, (Oct. 2011), p.3, 8.
- <sup>25</sup> *Northern Regional Advisory Committee Final Report*, NY Commission on Healthcare Facilities for the 21st Century (Nov. 2006), available at, <http://www.nyhealthcarecommission.org/docs/final/appendix2-northernrac.pdf>.
- <sup>26</sup> Interview with James Connolly, p.2.
- <sup>27</sup> Crowley, "Merger poses clash of values."
- <sup>28</sup> Alan Wechsler, *Abortion policy at Ellis in doubt*, *Red Orbit* (Aug. 2007), available at, [http://www.redorbit.com/news/health/1036101/abortion\\_policy\\_at\\_ellis\\_in\\_doubt\\_speculation\\_rises\\_as\\_merger/](http://www.redorbit.com/news/health/1036101/abortion_policy_at_ellis_in_doubt_speculation_rises_as_merger/).
- <sup>29</sup> Interview with Connolly, p. 11.
- <sup>30</sup> *Report on Implementation of the Report of the Commission on Health Care Facilities in the Twenty-First Century.*
- <sup>31</sup> Wechsler, *Abortion policy at Ellis in doubt.*
- <sup>32</sup> *Health Care Efficiency and Affordability Law for New Yorker's Capital Grant Program*, NY Department of Health, available at, [http://www.health.ny.gov/technology/efficiency\\_and\\_affordability\\_law/](http://www.health.ny.gov/technology/efficiency_and_affordability_law/).
- <sup>33</sup> *Report on Implementation of the Report of the Commission on Health Care Facilities in the Twenty-First Century.*

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<sup>34</sup> Interview with Connolly, p. 2.

<sup>35</sup> *Id.*

<sup>36</sup> *Id.*, p. 18.

<sup>37</sup> *Id.*, p. 8.

<sup>38</sup> *Id.*

<sup>39</sup> Lauren Stanforth, *Bellevue Braces for Big Change: Takeover of Operations By Schenectady's Ellis Hospital Set for Thursday* (Oct. 2007), available at, [http://www.redorbit.com/news/health/1121049/bellevue\\_braces\\_for\\_big\\_change\\_takeover\\_of\\_operations\\_by\\_schenectadys/](http://www.redorbit.com/news/health/1121049/bellevue_braces_for_big_change_takeover_of_operations_by_schenectadys/).

<sup>40</sup> Interview with Connolly, p. 18.