

Which health system would make the best partner for Indian River Medical Center?

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(Photo: GEORGE ANDREASSI/TCPALM)

The heart of Indian River County's health care for 85 years faces dramatic changes in the next several years as its leaders seek a partnership with a larger health system.

Indian River Medical Center is owned by county taxpayers and leased to a private, nonprofit corporation that operates the hospital. It stands alone while its closest competitors, Sebastian River Medical Center and Lawnwood Medical Center, are part of large hospital chains with far greater negotiating power and economies of scale.

Remaining independent is the most dangerous strategy for Indian River Medical Center's long-term survival [because of its deteriorating finances \(/story/news/investigations/2017/05/09/indian-river-medical-centers-future-uncertain-amid-red-ink/100951052/\)](/story/news/investigations/2017/05/09/indian-river-medical-centers-future-uncertain-amid-red-ink/100951052/) and the disruptions confronting the U.S. health industry, several consultants have told hospital leaders this year.

"The status quo is an inherently risky, untenable option," health industry consultant Jeff Sommer told hospital leaders July 6.

The other options include:

- Selling the hospital to a nonprofit or a for-profit health system
- Leasing the hospital to a for-profit or a larger nonprofit health system
- Collaborating with nearby hospitals, such as Martin Health System and Jupiter Medical Center, to pool resources and enhance purchasing power

Indian River's hospital leaders will meet Aug. 23 to review a request for proposals that will be sent to 10 to 20 hospital systems that operate in Florida or want to expand into the state. The search is focused on [partnering with a large nonprofit health system \(/story/news/2017/06/15/should-indian-river-medical-center-affiliate-nonprofit/400084001/\)](/story/news/2017/06/15/should-indian-river-medical-center-affiliate-nonprofit/400084001/), but no options have been ruled out.

Identifying potential suitors, selecting the best match and negotiating a deal is expected to take 12 to 18 months. **(See timeline below.)** Any deal would need the approval of:

- Indian River County Hospital District, which owns the hospital, funds indigent care with taxpayer money, governed by voter-approved board
- Indian River Medical Center Inc., a private nonprofit corporation, leases and operates hospital, governed by appointed board

Sommer has advised hospital leaders to invest \$235 million in a new main building, power plant and computer and medical technology in the next several years to keep the institution viable. Since the philanthropic foundation can be expected to raise about \$50 million of that, the hospital should partner with a larger health system willing to [invest the other \\$185 million. \(/story/news/2017/06/15/should-indian-river-medical-center-affiliate-nonprofit/400084001/\)](/story/news/2017/06/15/should-indian-river-medical-center-affiliate-nonprofit/400084001/)

Surrender control?

To obtain that level of investment, hospital leaders must be willing to cede control over operations and finances, several health industry experts have said. But it might be difficult for hospital leaders to let go of their longstanding authority and autonomy.

It also might be traumatic for the community to cope with changes that are likely if a health system assumes command, several health industry experts said. A new health system would phase in its own business practices and might cut jobs and services.

The hospital board in April suspended its search for a new CEO, pending completion of the partnership process. Longtime CEO Jeff Susi [announced his retirement in January \(/story/news/local/shaping-our-future/2017/01/26/jeffrey-susi-retiring-indian-river-medical-center-end-year/97086836/\)](/story/news/local/shaping-our-future/2017/01/26/jeffrey-susi-retiring-indian-river-medical-center-end-year/97086836/), just days after the hospital disclosed a \$4 million loss between Oct. 1 and Dec. 31.

A TCPalm investigation found [\(/story/news/investigations/2017/05/09/indian-river-medical-centers-future-uncertain-amid-red-ink/100951052/\) the medical center lost \\$45 million during Susi's 18-year tenure as CEO, including \\$2.4 million in 2016.](/story/news/investigations/2017/05/09/indian-river-medical-centers-future-uncertain-amid-red-ink/100951052/)

The hospital affects the lives of virtually every county resident, offering free indigent care and less expensive health care than nearby for-profit hospitals. It is the county's third-largest employer, providing 1,600 jobs that paid \$45.5 million in wages and benefits in 2016.

The hospital has undergone more than \$70 million worth of expansion in the past 10 years. The private fundraising foundation paid for the Welsh Heart Center, the Scully-Welsh Cancer Center and the Health and Wellness Center.

Market value

Selling the hospital would require establishing a price. However, it is difficult to determine the precise value of the land, buildings and equipment associated with the 36th Street campus in Vero Beach. Here are four different estimates:

- \$86 million for the land and facilities as of Jan. 1, according to the Indian River County property appraiser
- \$140 million as of June 2016, according to Vero Beach real estate appraisal and consulting firm Boyle & Drake's report to the Hospital District
- \$151.6 million as of 2016, according to the hospital's latest annual financial report
- Between \$250 million and \$400 million, according to advisers of ophthalmologist and hospital watchdog Dr. Val Zudans, he told Hospital District trustees July 20

No matter the price, nationally renowned hospital expert James Orlikoff admonished hospital leaders to [find a cash-rich partner as soon as possible \(/story/news/local/indian-river-county/2017/03/10/indian-river-medical-center-may-split-hospital-district-politics/99010594/\)](#) because they are sitting on a "decaying asset" that never will be worth more than it is today.

"Imagine the hospital isn't a tenable business model going forward," Orlikoff told hospital leaders March 10. "The problem is: No one wants to be there when the thing crashes and burns."

To sell or not to sell

Several hospital leaders said they are not interested in selling.

"We are not looking to sell the hospital," said Dr. Hugh McCrystal, a current board member who has held a variety of leadership positions there in the past 50 years.

But selling is the recommendation of Dr. Les Beitsch, a health care expert at the Florida State University College of Medicine.

The economic and civic disruption might be worth it in the long run because proceeds could pay for primary care, outpatient surgery, preventative care and other initiatives that promote public health, such as nutritional and exercise programs, he said.

"What I'm suggesting is very possibly politically untenable. ... I think there would be this big human cry if the hospital suddenly collapsed," Beitsch said in a July 26 interview. "But trying to prop up a failing institution by a (Hospital) District may be far less effective than letting happen whatever happens and then purchasing services from others throughout the community."



Dr. Les Beitsch, MD, is a health policy expert at Florida State University's College of Medicine (Photo: Florida State University)

Alternatives

Technological and economic initiatives could render the hospital industry business model obsolete, Orlikoff told hospital leaders March 10.

Two of the most successful health systems — Giesinger Health System in Pennsylvania and Kaiser Permanente in California — are phasing out hospitals in favor of outpatient surgery centers and even home-based hospital services.

Indian River Medical Center should consider such alternatives as they try to determine how best to deliver health care, Orlikoff and Beitsch agreed.

Hospital leaders, in fact, have suspended the development of a proposed \$100 million "bed tower," fearing it could soon become obsolete.

But replacing the 40-year-old main building is at the top of Sommer's list of \$235 million in investments. Beitsch said that's probably not a wise investment at this point.

"What's happening here is this historic opportunity to let the hospital just go and focus on all the things it takes to keep people healthier by keeping them out of the hospital in the first place," Beitsch said. "The Palm Beach County Health District originally owned no buildings. They used the taxpayer resources to purchase services. In my view, that was the best, leanest, most efficient model."