KentuckyOne Health CEO says everything on table to close $218 million deficit

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The chief executive officer of KentuckyOne Health wouldn't rule out the possibility of closing hospitals as the company struggles with a $218 million deficit in a rapidly changing healthcare environment.

"I'm not taking anything off the table right now," Ruth Brinkley said at a meeting of The Courier-Journal's editorial board Wednesday. "I'm not saying yes or no."

Despite the deficit, however, she said the company will meet its financial and legal obligations to its partner of 10 months, University of Louisville Hospital, in a deal that calls for KentuckyOne to invest $543.5 million into UofL health operations during the first five years, eventually reaching $1.4 billion over 20 years.

"We will live up to our agreement ... ," she said. "Not one payment has been missed."

Earlier this week, The Courier-Journal reported that Brinkley recently appeared in a YouTube video warning employees of cuts and possible layoffs, saying the company must "improve our performance by $218 million before the end of fiscal year 2015." That's about 10 percent of the company's $2.5 billion budget.

She provided no new details Wednesday on where cuts will be made, saying leaders have not made those decisions. But she said they could come from workforce reductions, consolidation and realignment of services and additional revenue from areas such as outpatient care.

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The company, which calls itself the largest health system in Kentucky, has nearly 15,000 employees in Kentucky and Southern Indiana and more than 200 locations, including hospitals, physician offices, clinics, primary care centers, specialty institutes and home health agencies.

Brinkley attributed the coming changes largely to a trend away from sick care, which revolves around hospitals, to a greater focus on wellness and disease prevention. She said this trend preceded the Affordable Care Act, but is reinforced by the federal law.

She said hospitals are also facing declining reimbursements from Medicare and Medicaid, and a payment model built around keeping people well rather than providing incentives for more hospitalizations and procedures. Combined with the focus on less lucrative outpatient care, she said the financial outlook is uncertain.

Brinkley said these shifting sands have affected hospital systems across the nation. She pointed to a recent article in Becker's Hospital Review, which said Louisiana State University Health Care Services Division laid off 2,340 employees in its 2012-13 fiscal year, for example, and Vanderbilt University Medical Center planned to lay off more than 1,000 employees by the end of 2013 to help cut $250 million from its operating budget over the next two years.

As an industry, Brinkley said, "we have to become really nimble" to adjust to emerging trends more quickly. She said one way KentuckyOne is doing that is to focus more on telehealth, care provided remotely using Skype and similar technology.

In addition to the changing national landscape, Brinkley said mergers always bring redundancies in services and staffing, often leading to consolidations.

"We don't need two of everything," she said. "We will reduce redundancies," including people, places and equipment, she said, while continuing to provide quality care and service to improve the health of one of the unhealthiest populations in the country.

Sheila Reynertson, advocacy director of the New York-based MergerWatch project, a patients-rights group that tracks secular-religious hospital mergers, said such "contractions" are common — as is the tendency to cite the ACA as one of the major reasons for changes and reductions such as layoffs.

"There's a lot of rhetoric saying health care reform is the reason to consolidate hospitals to get a better economy of scale. It's something we see commonly used as a reason to consolidate," Reynertson said. "Some of it is ACA-related. But some of it is just a business-oriented model (Catholic Health Initiatives, KentuckyOne's majority owner) is operating."

KentuckyOne was formed in 2012 by the merger of Jewish Hospital & St. Mary's HealthCare and St. Joseph Health System of Lexington, which united after Gov. Steve Beshear rejected a proposed merger that also would have included UofL Hospital, citing church-and-state issues and the loss of a public asset. The subsequent partnership with UofL Hospital turned over management of most of the hospital to KentuckyOne, but kept the facilities under public control.

The latest changes "seem like another chapter of a not-very-transparent process. This merger was put together behind closed doors," Reynertson said. "The public really cares about (UofL) hospital."

Some of the controversy surrounding the merger has centered around how changes at UofL Hospital could affect the poor, since it serves as the region's safety net hospital. For example, mental health advocates recently expressed concern about potential changes to psychiatric care at UofL hospital, saying the poor could be hardest-hit.

But Brinkley said KentuckyOne is committed to UofL Hospital's mission as a safety-net hospital. She said the system as a whole is just as passionate about charity care, providing $126 million in indigent care in Fiscal Year 2013, not including what was provided at university. She said any perception the company isn't serious about indigent care "is an insult."

She said a large court settlement announced this week does not compound KentuckyOne's $218 million deficit revealed this week. The company's St. Joseph hospital in London has agreed to pay $16.5million to the federal government to resolve civil allegations that it submitted fraudulent claims to the Medicare and Kentucky's Medicaid programs for unnecessary heart procedures.

"We knew that was coming," Brinkley said, adding that they had set aside money for it.

Dr. Peter Hasselbacher, UofL emeritus professor of medicine and president of the nonprofit Kentucky Health Policy Institute, who has researched that case, said KentuckyOne could be on the hook for more money since "they haven't even faced off with the malpractice attorneys out there."

Hasselbacher, who has raised concerns about the merger and partnership with UofL, said he is not confident that KentuckyOne will live up to its promises to UofL. But he said he's not sure about whether closing hospitals would be harmful or beneficial.

"It depends on which hospital. In the big picture, maybe we do need to close hospitals or move them around," he said. "I'm OK with closing hospitals if it's accompanied by appropriate outpatient centers and affiliations with centers of excellence."

Brinkley said she wants the public to understand that KentuckyOne will live up to its obligations and do all it can to improve the health of Kentuckians.

"Public-private partnerships can work," she said. "Give us a chance to do what we say we're going to do. It's 10 months (since the partnership), not 10 years."

Reporter Laura Ungar can be reached at (502)582-7190. Follow her on Twitter @lauraungarcj.