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New Models for Community Hospital Joint Ventures

By Barry Sagraves
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Joint venture with an investor-owned company? Maybe the time has come.

Joint ventures between investor-owned and nonprofit health care organizations are not new; in fact, they have occurred for at least 25 years. Until recently, nonprofits were employing this type of transaction to address their need for capital without "selling out" and losing control over a vital community asset. The joint venture structure provided nonprofits with an influx of capital while allowing them to retain both a governance role and an economic interest.

In the past few years, however, two new growth-oriented models have appeared. In these models, the nonprofit partner is involved more as a buyer-partner than a seller.

Joint Venturing a Referral Network

Over the past 18 months there has been a significant increase in interest by both investor-owned firms and nonprofits in jointly developing outlying markets that serve as referral sources for the nonprofits. Many urban markets have become concentrated, and new participants — nonprofit or investor-owned — find trying to enter them "late" unattractive. In addition, many successful urban nonprofits have no intention of selling or sharing ownership. So, a joint approach to developing an outlying network can help the nonprofit develop its system without diluting its capital resources.

From the outlying community hospital's point of view, these transactions can be more attractive than simply merging with the nonprofit. Unlike many nonprofit transactions, which take the form of a cashless membership substitution or merger (the community hospital gives itself away), these transactions usually involve a purchase price and capital commitment, and often result in a community foundation. In addition, because the investor-owned firm owns a portion of the rural hospital (but does not have any ownership of the urban one), its interest in maintaining services in the community aligns with the local board's and discourages the "hollowing out" that many smaller sellers fear in joining up with a larger urban hospital nearby.

These are the factors at play in recent transactions including Saint Thomas Health (Ascension Health) and Capella Healthcare in and around Nashville, Tenn.; Integris Health and Health Management Associates Inc. in central Oklahoma; and LHP Hospital Group Inc. and Sacred Heart Health System Inc. in the Florida Panhandle. These types of joint ventures also have been used to build new hospitals in a nonprofit's referral area, as the Seton Family of Hospitals and LHP have done in Austin, Texas.

Using the Academic Brand

The second new development is the joining up of major academic medical centers with investor-owned companies, two institutions that just a couple of years ago would have been considered strange bedfellows indeed. Duke LifePoint Healthcare, a joint venture between Duke University Health System and LifePoint Hospitals Inc., a publicly traded company with 51 hospitals, has announced five transactions in just over a year.

In contrast to its first four deals, which were all near Duke's home in Durham, N.C., it is now clear that Duke LifePoint, and Duke as an academic center, have national ambitions. On Sept. 1 Duke LifePoint completed its acquisition of Marquette General Health System. (Juniper Advisory advised Marquette on this transaction.) Marquette, the major hospital in the Upper Peninsula of Michigan, was looking for a partner due to extensive capital requirements and its need to accelerate its physician recruitment and integration efforts. A number of interested parties explored teaming up with academic centers to make a proposal, but Duke LifePoint's track record and reputation encouraged the Marquette board to select it.

Duke LifePoint has received the most press recently, but it is not the only example of investor-owned facilities joining with academic-oriented nonprofits. For example, Health Management Associates has completed or announced joint ventures with Shands HealthCare (University of Florida) and the University of Mississippi Medical Center.

In these arrangements, the academic partner can forgo the capital expenditure required to develop its referral network and avoid having to manage the acquired hospitals. In addition, at very little cost, the academic partner achieves greater scale as well as a broader teaching and research environment. The primary risk to the nonprofit has to do with its initial partner selection: Will the investor-owned company be able to meet the financial and contractual commitments that it makes to the nonprofit seller as part of the deal (such as commitments to charity care, employees, pension funding and restrictions on transfer of its interest)?

The benefit to the investor-owned is largely one of branding. The big challenge many investor-owned organizations face when pursuing transactions with nonprofit sellers is the perception that profits take priority over quality. Being able to say, "We have capital, operating expertise — and Duke (or another academic partner)!" is a persuasive combination.

Is a Joint Venture Right for You?

To know whether a joint venture with an investor-owned company is beneficial, an organization must be able to specify the problem(s) it is facing and to assess impartially its ability to address them. It is crucial to have an open mind: It could be that working with an investor-owned partner is the best solution to its particular situation.

Partnering with an investor-owned company is certainly not right for every organization or in every situation. But these new models of working together may open up opportunities for many nonprofits to continue and even extend their missions in ways not thought possible until now.

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