



Hospital's new vision

Ownership change helps morale at Alvarado, but challenges are ahead

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As others toasted the dawn of a new year at the stroke of midnight Monday, Pejman and Pedram Salimpour roamed the halls of their newly acquired business, Alvarado Hospital.

In truth, the Los Angeles pediatrician brothers had effectively taken over operations at the hospital in San Diego's College Area neighborhood well before their investment group completed its \$22.5 million purchase of the facility from Dallas-based Tenet Healthcare on New Year's Day.

Now, they take on the tasks of distancing the 306-bed hospital from a pair of unsuccessful federal kickback prosecutions and finding ways to reverse Alvarado's financial losses, which totaled \$3 million in 2005 and \$1.8 million in the first six months of 2006.

The federal trials, which both ended in hung juries, alleged that relocation payments made to some doctors were actually kickbacks in exchange for referring patients to Alvarado. The investigations stained Alvarado's reputation and demoralized its 477 doctors and 1,000 employees. Tenet was forced to sell the hospital as part of a settlement with the government.

The final sale price was lower than the \$36.5 million price quoted when the deal was announced in late October and well below the reported \$50 million that Tenet originally sought for the hospital.

The price change reflected adjustments that were made for some liabilities assumed by the buyers and the removal of some nonhospital real estate from the final deal, Pejman Salimpour said. For the time being, the Salimpours and the staff are enjoying a honeymoon of sorts. The ownership change has provided a quick boost for the morale of hospital workers, who languished for the last three years under a cloud of suspicion and uncertainty.

"It's a glorious time at the hospital," said Dr. Shari Brazinsky, a pulmonary critical care physician and Alvarado's newly elected medical staff chief. "People are very excited.

"The Salimpours are nice guys. They are interested (in Alvarado). They are at the hospital. They are in the trenches trying to help," she said.

Perhaps the biggest challenge facing the Salimpours in their new roles as hospital operators is one that confounds hospital operators across the United States – negotiating insurance contracts that pay enough to cover the cost of caring for patients and leave something left over for profit.

Hospitals in Southern California, where health maintenance organizations dominate the market, have had a particularly tough time bargaining for more favorable reimbursement rates.

HMO contracts are especially critical to hospitals such as Alvarado that care for a disproportionately large number of patients covered by Medicare and Medi-Cal, the government health care programs that pay notoriously low amounts for hospital services.

HMO patients accounted for 24 percent of Alvarado's 8,362 discharges and 23 percent of patient revenue in 2005, according to the Office of Statewide Health Planning and



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Development. Statewide, HMO patients accounted for 61 percent of hospital discharges and 27 percent of patient revenue.

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Medicare and Medi-Cal patients at Alvarado accounted for 67 percent of discharges and 67 percent of patient revenue, while uninsured poor patients accounted for 3 percent of discharges and 3 percent of revenue. Other patients paid for care either through traditional insurance coverage or with cash.

Among all California hospitals, Medicare and Medi-Cal patients accounted for 25 percent of discharges and 59 percent of patient revenue; uninsured poor patients accounted for 4 percent of discharges and 3 percent of patient revenue.

With health care costs continuing to rise, the fight over patient dollars is intensifying, said Nathan Kaufman, a San Diego-based health care industry consultant.

“The health care insurance plans are not benevolent. This is basically a battle,” he said.

The Salimpours entered the fight weeks ago when they began negotiating new reimbursement terms on Alvarado's 16 largest HMO contracts after announcing that their newly formed company, Plymouth Health, would buy the hospital. The Salimpours, who have never owned or run a hospital, head an investment group that includes two principals of Beverly Hills venture capital firm Omninet who made their fortune in Qualcomm stock.

Pejman Salimpour said last week that new agreements had been reached with most of the HMOs, but he declined to discuss details. Talks were continuing with Blue Shield and HealthNet, suggesting the new owners were struggling to secure more favorable deals with two of the state's largest managed care providers.

As owners of a single, stand-alone hospital, the Salimpours likely have less bargaining power than Alvarado's previous owner, Tenet, which was able to leverage its ownership of more than 50 other hospitals in California and other states to secure better deals from insurers.

But that disadvantage could be buffered somewhat by relationships that the Salimpours already had built with many HMOs through CareNex, their Los Angeles-based firm that provides patient management services to hospitals and health insurers.

“We need managed care contracts that are fair and reasonable,” Pejman Salimpour said.

For the next four months at least, the hospital also will continue to benefit from a contract with the state Department of Corrections and Rehabilitation to care for prisoners in a secured, 14-bed wing on the hospital's fourth floor.

Seven other hospitals, mostly in northern California, operate prisoner wards for the department, with the largest being a 27-bed facility in Bakersfield.

The Alvarado contract, which has been in place since 1997, paid the hospital \$25.6 million between July 2005 and June 2006, said Dr. Peter Farber-Szekrenyi, the state prison system's chief of health services.

The contract has been transferred temporarily to the new owners but will be up for renegotiation in May, Farber-Szekrenyi said.

The prisoner wing contains 5 percent of the hospital's beds, but generated 14 percent of Alvarado's gross patient revenue in 2005, based on financial data from the Office of Statewide Health Planning and Development.

Salimpour said the state saves money by sending sick or injured prisoners to Alvarado because as many as 14 patients in the locked wing can be guarded by as few as three security officers. At other hospitals, at least two guards are needed for each patient housed in a regular hospital bed, he said.

Salimpour said the contract is profitable, but he would not say exactly how much income it generates.

The brothers have retained Alvarado's senior executive team, which includes Chief Executive Officer Harris Koenig, Chief Operating Officer Darlene Wetton and Chief Financial Officer Augustine Lopez. Pejman Salimpour wouldn't disclose terms of the executives' employment.

Koenig, who joined Alvarado's staff in October, served as chief operating officer of the hospital from 1995 to 1998 before leaving Alvarado for stints as the administrator of several other hospitals in California. He replaced former Alvarado administrator Mark Palmer, who left the hospital in October to become president and chief executive of Western Pennsylvania Hospital in Pittsburgh.

Wetton has been with Alvarado since 1983, and Lopez joined the hospital in 2002.

All of the hospital's departments, including the emergency room, will continue to operate, Pejman Salimpour said.

“We have no plans whatsoever to close anything down,” he said. “If anything, we are going to grow and expand. This is about serving more patients and more of the community's needs.”

The new owners plan to spend the next three months developing a priority list of renovations and equipment upgrades with the hospital's medical staff.

“We have a significant budget allocated – in the tens of millions of dollars – to make sure the hospital continues to have the upgrades that it needs,” Pejman Salimpour said.

One of their most costly investments likely will be the purchase of a computer network for viewing and storing X-rays and other radiological images on screens throughout the hospital, said Dr. Ted Mazer, president of the San Diego County Medical Society and a member of Alvarado's medical staff.

Brazinsky, the hospital's medical staff chief, said the Salimpours have spent the past week walking the halls of Alvarado, shaking hands with employees and asking for their thoughts about running the hospital. The brothers are fueling a sense of renewal and redemption, she said.

“They really want to know from the bottom up what makes this place tick. It's such a difference from what was happening before.”

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