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Tenet Tangles With Locals on Cutback Plans

By [Melissa Davis](#)

TheStreet.com Senior Writer

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The hospital closest to Los Angeles International Airport -- labeled California's No. 1 terrorist target by government officials -- has already suffered a near-death experience of its own.

Before **Tenet** (THC:NYSE) bought it, Daniel Freeman Marina Hospital enjoyed celebrity status as the rehab center of choice for movie stars such as Melanie Griffith and Robert Downey Jr. The hospital's plastic surgeons lifted decades from superstar faces. Its emergency staff treated bloody victims hurt during the riots that followed the beating of Rodney King.

These days, however, the hospital itself seems lifeless. The wards that once housed movie stars have fallen silent, bare floors and empty filing cabinets visible through dimly lit windows. The rest of the facility, forced to remain open because of public outcry, treats just a few dozen patients in acute-care units dominated by vacant hospital beds.

Ambulance sirens sound almost foreign in the warm Marina air.

Tenet has a long history of buying, and then closing, hospitals just like Marina. In the past, the company has frequently eliminated its competition so it could dominate the markets -- and raise the prices -- in the areas where it operates. And it has executed its strategy right under the noses of government authorities charged with protecting the public.

In Los Angeles, where Tenet owns nearly half the hospitals in one section of town, community activists last year warned of serious risks.

"We are becoming increasingly concerned about the financial stability of the corporation, possible violations of the asset sale agreement in the purchase of area hospitals and the impact of any reduction of hospital services in our community," the Los Angeles Community Health Councils wrote in a November letter to the state attorney general -- who approved Tenet acquisitions -- and to some other government agencies as well. "Our communities rely heavily on access to these Tenet facilities."

The council urged government officials to host a meeting, with senior Tenet executives present, to address its concerns before the end of the year.

"We got no response," marveled Laurie Sobel, a staff attorney at the watchdog group Consumers Union, who signed off on the letter.

The attorney general's office says it did, in fact, intervene by preserving cardiac services offered at Marina's sister hospital. But that victory would soon look hollow. The following month, Tenet laid out plans to shed 19 Southern California hospitals -- including both Daniel Freeman facilities -- in a desperate attempt to regain profitability.

Sobel, for one, worries that Tenet will struggle to find takers for some of the Los Angeles hospitals and wind up closing them instead. If so, entire neighborhoods could be left scrambling for ready access to health care. And the government may have little power to intervene.

"Tenet doesn't believe they can be touched," one L.A. physician noted. "Their feeling about the government is: 'You can investigate us, interrogate us, regulate us -- but you can't make us stay in business.'"

Tenet failed to respond to questions for this story. The company's stock, hammered for more than a year over allegations of corporate fraud, slipped 14 cents Thursday to \$11.02.

Con Game

Tenet wound up with Marina, together with sister hospital Daniel Freeman Memorial, after a competing bid fell through three years ago.

Local doctors, worried about Tenet dominating the area, had sought to buy the hospitals for themselves instead. But they unknowingly hired a con artist -- working for a firm with past ties to Tenet -- as a lead negotiator.

Jon Craig had racked up 15 criminal charges when he surfaced in Southern California with a "plan" to save the Daniel Freeman hospitals in the spring of 2001. In his bio for MedSector, a start-up health care acquisition company, Craig portrayed himself as a world-renowned man of finance who had negotiated major transactions on at least three different continents.

But a documentary later aired by the *Discovery Channel* exposed Craig as a charismatic crook who stole large sums from his wife, her foreign grandmother and several other relatives. Craig ultimately pleaded guilty to three charges of securities fraud -- and landed in a Utah jail -- just months after collecting \$5,000 checks from Marina doctors who pinned their hopes on his firm.

But Craig's background is simply the most troubling of the lot. MedSector CEO Garth Hogan portrayed his first start-up, Medical Realty Corporation, as "the leading medical real estate company in the state of California" in a cached Web page that seems to be the only remnant of the corporation. He also pointed to Tenet, MedSector's rival bidder, as one of his recent clients.

Ron Messenger, listed as Craig's fellow "managing director" at MedSector, actually spent time as a top executive -- pursuing hospital acquisitions -- at Tenet predecessor National Medical Enterprises. Even a competing firm, seeking to replace MedSector at the time, wound up with ties to Tenet as well.

And Tenet, as the only viable bidder left standing, got both hospitals for a song.

Property Dispute

A flashy brochure, printed just a few months after the acquisition, advertised the Marina hospital as an "excellent" real estate investment. "Ideal for high-rise, multifamily, office or mixed-use development," it suggested.

The company could have spewed obscenities and offended some people less. Tenet had just broken a big promise in the wrong community. After swooping in to save the hospital -- and assuming control of the only emergency room for miles -- Tenet seemed to be killing the facility instead.

Local strategist Julie Inouye went straight to work. Early in her career, before landing roles in the *Rocky* and *Free Willy* sequels, Inouye had trained under senior executives on the cutthroat business side of the entertainment industry. She later used her corporate smarts to help win a multimillion-dollar land dispute -- blocking a housing development on the Marina wetlands -- against top Wall Street banks. But she now faced her toughest fight ever.

Tenet planned to shut the Marina hospital in a matter of weeks and accept final bids on the building just four days later. The company portrayed Marina as an underused facility that was bleeding incurably. But Save Our Marina Hospital, a huge activist group founded by Inouye, soon diagnosed the wounds as self-inflicted.

"They moved lucrative units to another Tenet hospital," Inouye determined. "They began to refuse contracts with private insurance companies like Blue Cross and Blue Shield to show a loss on their books. They even revoked their state Medi-Cal license."

For the record, state documents show that Marina's Medi-Cal revenue strangely rocketed, tripling historic levels, shortly after Tenet took over. But revenue across the board had plunged -- pushing Medi-Cal business into the red -- by the third quarter of 2002, when the hospital was slated to close.

Daniel Freeman Timeline

1954 Daniel Freeman Memorial opens as a Catholic hospital.

1980 Daniel Freeman expands by acquiring a second hospital in Marina del Rey.

January 1997 Tenet becomes a dominant force in Southern California by purchasing OrNda in its second-largest acquisition ever.

1997 The Daniel Freeman hospitals post losses that begin to grow significantly following Medicare cuts in the late 1990s.

Early 2001 Both Daniel Freeman Hospitals go up for sale.

Spring 2001 Local doctors try, but fail, to purchase the Daniel Freeman hospitals in an effort to block a Tenet monopoly in the area.

December 2001 After paying \$55 million for both Daniel Freeman hospitals, Tenet controls more than 40% of the hospital beds in southwest Los Angeles.

2002 Tenet begins directing lucrative cardiac business away from Daniel Freeman Memorial to its nearby Centinela Hospital Medical Center in Inglewood. Daniel Freeman, once a far busier cardiac hospital than Centinela, performs 93% fewer catherizations than Centinela that year.

May 2002 Tenet announces plans to close the Marina hospital and seeks bidders for the valuable property.

Fall 2002 Occupancy at the Marina hospital plummets to half the rate posted when Tenet first took over.

Year-end 2002 Tenet's stock has tanked following a raid of its Redding Medical Center -- later fined for performing unnecessary heart surgeries -- and exposure of the company's aggressive pricing strategy.

April 2003 After months of public outcry, a scandalized Tenet agrees to keep the Marina hospital open.

December 2003 Tenet starts cutting additional heart programs at Daniel Freeman Memorial. Since acquiring the facility in 2001, the company has yet to file a single state-mandated utilization report summarizing care provided at the hospital.

January 2004 Tenet announces plans to shed 19 California hospitals -- including both Freeman facilities -- in an attempt to pare underperforming assets and return to profitability. Nearly half of the hospitals are former OrNda facilities.

February 2004 Los Angeles doctors, led by a busy cardiac group under possible investigation, reportedly hatch plans to buy five Tenet-owned hospitals. Tenet, meanwhile, fails to acknowledge a bid submitted by community activists for the Marina hospital they helped save.

March 2004 Tenet says buyers have expressed interest in all 27 of its hospitals up for sale, including underperformers in California, but has yet to announce any sales. It expects to collect just \$600 million -- much of it in tax benefits -- by trimming its asset base by nearly one-third.

After operating Marina in the black for just one quarter, Inouye said, Tenet had a losing hospital on its hands.

"The loss suddenly increased from \$3 million to \$13 million," she said. "And this was Tenet. This was a multibillion-dollar company that knew how to make money."

Heart Failure

By the time local activists won their fight in early 2003, securing Tenet's promise to keep Marina open "indefinitely," the hospital looked to some eyes like a clear victim of neglect.

Over the course of nearly two years, state records show, Tenet invested just \$50,000 in the Marina hospital. It went entire quarters without spending a dime on hospital upgrades.

In contrast, the cash-strapped nuns who ran Marina previously allotted \$400,000 for improvements during the hospital's final year under Catholic ownership.

"Tenet bought the Daniel Freeman Marina Hospital intending to sell it for land value," Inouye explained simply. "They never put their name up anywhere on the hospital -- only a banner for a short time."

Tenet finally shelled out some real money to repair Marina's damaged roof late last year. But the company had already pulled a knife on Marina's sister hospital in nearby Inglewood. It was slashing the popular cardiac program at Daniel Freeman Memorial and sending the lucrative business to another Tenet-owned hospital just a few blocks away.

It pulled the plug on Memorial's thriving congestive heart failure clinic altogether.

"It was very successful at keeping people out of the hospital," one physician said of the clinic. "And preventive medicine is not what Tenet's in the game for."

Tenet also laid out plans to shut Memorial's cardiac rehab program -- shown to have lower death rates among heart attack victims -- along with a unique fitness center utilized by hundreds of area residents. But an outraged public managed to save the latter program.

"People in wheelchairs and walkers use this fitness center," Elaine Modieste said in a December press release issued by the Community Health Councils. "It's not like going to the Y. ... This is the only place I can get care like this."

Days after the health council published its release, urging the state attorney general to intervene, Tenet dropped plans to close the fitness center and agreed to accommodate cardiac rehab patients at its booming hospital down the road.

Favored Few

For years, Tenet has been pumping huge sums of money into nearby Centinela Hospital Medical Center in Inglewood. State records show the company regularly spending millions -- sometimes in a single quarter -- on improvements at the facility.

But some insiders claim that Tenet's generosity doesn't end there. At least one local doctor claims that Tenet rewards Centinela's busiest physicians -- through paid directorships and lucrative relocation agreements -- as well.

"If you dig a little deeper, you'll see that these are little more than kickbacks," he said. "And the expectation of those doctors is: 'You better be doing a hell of a lot of procedures.'"

The doctor went on to say that a hospital administrator blew him off when he raised concerns about the favored physicians.

"I asked, 'Why are you crowning these guys kings? Their utilization is off the wall,'" the doctor stated. "And I was told: 'That's how Tenet likes to do things.'"

Tenet has already paid a record-breaking fine to settle allegations that the company profited from unnecessary surgeries, carried out by its busiest doctors, at Redding Medical Center in Northern California. It has also seen its Alvarado Hospital Medical Center in San Diego indicted for allegedly negotiating more than 100 doctor kickbacks since 1992. The hospital has pleaded innocent to the charges and is headed for trial in October.

Interestingly, both Centinela and Daniel Freeman Memorial -- now under government scrutiny for their own physician contracts -- employ CEOs who held top positions at Alvarado when some of the alleged kickbacks took place. Genevieve Clavreul, a hospital consultant with long ties to Tenet, claims that even corporate-level executives have engaged in such practices.

Before signing on as a consultant for Tenet in the early '90s, Clavreul made a name for herself by negotiating a major settlement between AIDS researchers in France and the U.S. Tenet then hired Clavreul to help lure two world-renowned AIDS doctors from France to its teaching hospital at the University of Southern California. But the deal started to unravel, Clavreul says, when current Vice Chairman Barry Schochet got involved.

"From the beginning, I told Schochet that I did not want the physicians to get kickbacks," Clavreul said. "And he kept saying they should. ... They always offer them."

Despite her track record, Clavreul suddenly found herself stripped of the power to negotiate two simple physician contracts. The AIDS project ultimately fell through, she said, and Tenet refused to pay her. A frustrated Clavreul then took her complaints to Christi Sulzbach, who resigned last year as the company's lead counsel. While meeting with Sulzbach, Clavreul says she threatened to take her labor case to state authorities and mentioned the doctor kickbacks as well.

"Of all the group, she was the smartest," Clavreul said. "Within 24 hours, I got my check."

Sulzbach could not be located for comment. But the federal government has already singled out Tenet's USC hospital -- together with Centinela and Daniel Freeman Memorial -- for a fresh round of questioning. The company said in October that federal authorities are primarily interested in "certain cardiac physician arrangements, coronary procedures and billing practices" at the three Los Angeles hospitals.

Booming Business

One Centinela practice, in particular, has publicly boasted about its booming cardiac business.

During a public hearing in late 2001, held as Tenet negotiated to buy the two Daniel Freeman hospitals, cardiologist Philip Frankel stressed the prominence of both himself and his partners. He held himself up not only as a board member of Centinela but also as a leader -- and former chief of staff -- at one of the Daniel Freeman hospitals Tenet hoped to buy. He then showcased his entire practice as a powerful group that endorsed the Tenet deal.

"When Tenet acquired Centinela Hospital, my group and I were asked to come over to enhance the program," Frankel explained. "Before that, it was a very small cardiology department doing very few cases. ... Centinela has completely revitalized the cardiology department."

State records confirm that Centinela's cardiac business has, in fact, rocketed. Five years ago, the hospital performed just 75 bypasses and 550 catherization procedures. Those numbers had jumped to 179 and 1,802, respectively, the year Frankel offered his testimony. Catherization numbers have since continued to climb.

Back in 2001, Frankel pointed to his own group as the driver behind that new business.

"My group and I have been responsible for the majority of the cardiac cases being done at both" Centinela and Daniel Freeman Memorial, he explained.

Two weeks ago, the *Los Angeles Business Journal* reported that federal prosecutors had launched an official probe of the high-profile cardiac practice. But the group, known as Apex Cardiology Consultants, could be aiming still higher. A local physician last month pointed to the Apex cardiologists as the "lead investors" hoping to buy Centinela, both Freeman hospitals and two other Tenet-owned facilities.

Another physician, who practices primarily at Daniel Freeman Memorial, isn't necessarily counting on conditions to improve.

"Change brings opportunity," he admitted. "But it depends on who comes in and purchases the hospitals."

If the buyer takes the same view as Tenet, he added, things will remain the same.

The Marina hospital, at least, has attracted an alternative bidder. The same group that saved Marina -- and now operates as We CAHRE, short for Community Action for Healthcare Reform and Education -- is trying to acquire the facility and transform it into a nonprofit resource for the community. But We CAHRE's leader is still waiting for Tenet to even acknowledge the bid. In the meantime, she marvels at all that has transpired.

"Hospitals are supposed to save people," Inouye stated. "Instead, we've got people saving hospitals. Tenet has a way of turning everything upside-down."