

## Hospitals Go Where The Money Is

INDIANAPOLIS — First came the four new heart surgery centers. Then came the new orthopedic hospital. Then two new general hospitals.

"Like a hospital hidden in a grand hotel," the local newspaper said about the newest facility, Clarian North Medical Center, which opened last month in suburban Carmel, Ind.

An additional \$1 billion in buildings is on the way: a children's hospital, a cancer hospital, a six-story tower of private hospital suites, and other projects.

Indianapolis is a part of a nationwide boom in hospital construction that is changing the nature of hospital care across the USA. Expensive, high-tech hospitals in the suburbs are replacing older, cramped buildings established mostly in downtowns during the 1950s and 1960s.

These grand new hospitals promise the most modern medical care, especially for the affluent and well-insured. Many have rooms as big as small studio apartments and sleep families, not just patients. They offer vastly expanded television choices, food service that is a step closer to room service and décor that resembles home or a nice hotel.

The economics of hospital construction has enormous implications for federal and state governments. Taxes pay for 46% of the nation's medical care, mostly through Medicare for the elderly and Medicaid for the poor.

The explosion in construction comes near the end of a sharp decline in hospital use that began in the 1980s. Although the number of hospital beds continues to fall, the number of hospitals and occupancy rates are rising. Hospital profits and revenue per patient visit are increasing, too, partly because of more generous Medicare reimbursements. That has made lenders more willing to finance big projects.

Hospital owners are optimistic about demand for their services.

"Retailers look at the number of rooftops to predict what demand will be in the future," says Daniel Evans Jr., chief executive of Clarian Health Partners, Indiana's largest hospital operator. "I look at busted bones and old hips and heart disease in old guys like me. I have to say, demand looks pretty good."

Profitable areas of elder care, such as heart surgery and orthopedics, have attracted much investment. But children's hospitals, which provide intensive, high-tech care, are booming, too.

At least 15 major children's hospital construction projects, worth more than \$5 billion, are underway or planned. Construction is especially hot in the industrial north where population growth is slow but competition between nearby cities for seriously ill patients is strong. Some big projects:

- **Pittsburgh.** The University of Pittsburgh Medical Center starts construction this month on a \$575 million, nine-story children's hospital.
- **Columbus, Ohio.** The city's Children's Hospital in October announced a seven-year, \$740 million expansion that will add 1 million square feet.
- **Ann Arbor, Mich.** The University of Michigan in April announced a \$498 million, 1-million-square-foot children's and women's hospital to replace construction from 1950 and 1969.

Indianapolis is an extreme example of the medical arms race underway across the country. It has its own children's hospital construction plans — \$500 million over 10 years, including a 10-story downtown hospital tower.

For many years, the city's four hospital operators stayed on their own turf. But Clarian Health busted out of its downtown territory and started building in affluent areas where other hospitals operate.

Evans says his system's two new suburban hospitals won't push medical costs higher. They will increase competition, and that should slow increases, he says.

The poor also will benefit, he says. His non-profit hospital system plans to use income from its new for-profit hospitals (jointly owned by physicians) to boost the finances of its downtown hospitals. "How do people think we subsidize the emergency department downtown?" Evans asks.

But William Corley, chief executive of rival Community Health Network, says the building boom will add to Indiana's already above-average health care costs.

"If this were a free market, competition absolutely would reduce costs," he says. "Health care doesn't work that way. The truth is, we make money on certain kinds of patients and lose money on others."

Hospitals compete by featuring profitable medical care — such as orthopedics, heart surgery and neo-natal care — while dumping unprofitable medical care on other hospitals and taxpayers.

Corley agrees that hospitals need to expand. Consumers expect private rooms today, he says.

His Community Hospital North is building a tower with 282 private guest suites that accommodate patients and families. His system's five hospitals are moving from 90% semi-private rooms 10 years ago to 90% private by 2010.

The move from inner cities to the suburbs threatens to reduce medical care for the poor. "How many of those folks can catch three buses and take an hour to get to a diabetes management class?" asks Robert Freund Jr., chief executive of the St. Louis Regional Health Commission, a private-public group working to maintain services in urban areas.

The new high-tech hospitals will cost insurers and taxpayers regardless of how much they are used, says Paul Ginsburg, an economist with the Center for Studying Health System Change, a non-partisan research group that tracks health care changes. "Unlike the telecommunications industry, where excess capacity leads to great prices for consumers," he says, "in health care, excess capacity often means the costs get folded into the rates everyone pays."

*Reference: USA Today, January 3, 2006, Section A, page 3.*