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## To Survive, Medical Companies in New Jersey Are Building New Hospitals

By RONDA KAYSEN

HOPEWELL, N.J. — The dazzling new hospital that will open here on Sunday looks more like a five-star resort than a medical center. It may also be the best hope for survival of its corporate parent, Capital Health, a nonprofit company that operates three health care facilities in New Jersey.

The \$540 million hospital is set on a pastoral campus with a weeping fieldstone wall fountain, all private rooms, an Italian limestone staircase and amenities like a spa for cancer patients. It will replace Capital Health's Mercer campus, a 19th-century medical center in nearby Trenton that has dingy, crowded waiting rooms and triaged gurneys lining the emergency department hallways.

Hospital administrators say they hope the new facility will better position the company to attract insured patients from the area's wealthy Philadelphia suburbs and lure top physicians with advanced technologies. In the intensive care unit, for example, equipment can attach to columns suspended from the ceiling and move freely around the room.

Administrators invested in a costly new hospital because they worried that their organization, which today is in sound financial condition, would have eventually been dragged down by the burden of sustaining an aging, outdated building in a community that does not have enough paying patients to support it.

In-patient volume at Mercer has dropped by 30 percent since the company acquired it in a 1997 merger. Hospital administrators attribute the decline to Trenton's own falling population, which is now about 85,000 people.

"It was a matter of survival," said Al Maghazehe, the chief executive of Capital Health. "It was either this or we would have had to close down one of our hospitals. We would have been basically out of luck."

He expects the new medical center to bring 8,000 more hospital admissions a year, increase emergency department and outpatient visits by 30 percent, and deliver \$130 million in additional revenue. The patients who relied on Mercer will most likely turn to one of the two remaining Trenton hospitals.

Central New Jersey is seeing something of a hospital building boom. Less than half an hour to the east in Plainsboro, a \$523 million hospital is to open next spring, replacing the University Medical Center at Princeton, which was built in 1919. An hour south in Voorhees, Virtua replaced its 38-year-old hospital with a \$463 million facility that opened in May.

"We're playing catch-up," said Elizabeth A. Ryan, the president of the New Jersey Hospital Association. "There's a pent-up need to invest in new physical plants, because we've just not been able to keep up."

New Jersey has the oldest hospitals in the country, according to the association. In 2005, the average age for a hospital here was 13.4 years, a full 30 percent higher than the national average of 10.2 years, according to a 2008 report by the state.

And there are too many of them. In the last 20 years, 25 hospitals have closed in the state, 11 of them since 2007. In the last four years alone, six hospitals have filed for bankruptcy. (The new hospitals do not add a significant number of beds to the existing stock because they are each taking an old hospital out of commission.)

Because hospital revenue is generally based on the number of patient visits, the new facilities all invested heavily in creature comforts to attract insured patients who have time to shop around. Typical amenities include private rooms, rooftop gardens and comfortable waiting areas.

But all these hospitals are making a risky investment, banking on an increase in patient volume at a time when people are delaying hospital visits, a trend that is expected to continue in the weak economy.

"They are trying to position themselves in a market where you're offering the shiny new store down the street," said Farzan Bharucha, a health care specialist with Kurt Salmon, a consulting firm. "You're offering patients a new experience."

Virtua, which delivers 5,600 babies a year at Voorhees, invested heavily in its maternity department, building a neonatal intensive care unit with private rooms for newborns and a separate entrance for labor and delivery. The 680,000-square-foot hospital is on a 125-acre campus with features like healing gardens, walking paths and meditation spaces.

"We had a crowded situation at our old Voorhees in labor and delivery and we needed more space," said Richard P. Miller, the chief executive of Virtua, a nonprofit company. The new hospital delivered 45 babies in its first two weeks in operation and was full by July, months ahead of schedule.

The arrival of three new hospitals is a coincidence of timing. All have been in the works for years, but their parent corporations were facing a similar choice: invest heavily in new infrastructure in a difficult economic climate or risk failure.

New Jersey's hospitals have an operating margin of just 1.7 percent, ranking 43rd in the country in 2009, well behind the national average of 4.4 percent, according to the American Hospital Association.

The hospitals struggle here because they must keep up with costly technological advances at a time when patients spend less time in hospitals than they used to. Their facilities are aging and regularly need costly improvements, draining limited resources. The ranks of the uninsured are leaving bills unpaid, and in New Jersey Medicaid reimbursements are among the lowest in the country, according to the New Jersey Hospital Association. Ambulatory care facilities compete for paying patients, and the state requires that hospitals provide complete care to all patients. So, if a patient is admitted to a hospital and needs major surgery, the hospital must provide it, regardless of his ability to pay.

"It's a very tough environment and hospitals are fighting to survive by investing in their facilities," said Ms. Ryan of the state hospital association.

Princeton HealthCare is moving from a 92-year-old hospital in a residential Princeton neighborhood to a 171-acre campus less than three miles away along Route 1 in Plainsboro. The 630,000-square-foot building will have computers in every treatment and patient room, the latest radiation therapy equipment and 600-square-foot operating suites with technologies like robotics.

"If we had not built this hospital, at some point in the future we would have had to close," said Barry Rabner, the chief executive of Princeton HealthCare System, a nonprofit company. "If we were not able to keep up with changes in technology, people would not have continued to come here."

Despite Mr. Rabner's concerns about his company's financial health, Princeton HealthCare is currently in good financial shape, with an operating margin of 4.3 percent last year. Capital Health and Virtua also turned a healthy profit last year, with operating margins of 4.4 percent and 5.6 percent respectively.

But all three companies saw their aging facilities as liabilities that could eventually undermine their long-term stability. Unlike their competitors in worse financial shape, they were in a position to attract investors and raise capital.

The federal government underwrote Capital Health's mortgage, which was then sold to investors. Virtua turned to the bond market to finance its project and recouped the \$100 million it put up in capital. And Princeton HealthCare drew on its pool of wealthy donors, so far raising \$133 million from philanthropy.

"Princeton is unique in that there are a significant number of people with wealth in the area who are very generous," Mr. Rabner said. "I don't know if we would have been as successful if we were somewhere else."

Location is a prime reason that hospitals like Princeton's and Virtua's have been so successful. Their local clientele tends to be privately insured — so-called commercial patients — and the population is growing. By moving just seven miles, Capital Health is now also poised to reach a desirable, privately insured market.

"They're all making plays to reach more commercial patients by building new facilities," said Mr. Bharucha of Kurt Salmon. "But the financials only work if you can grow more volume and specifically more commercial patient volume."