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Carroll Hospital looks for partner

By: Adam Bednar Daily Record Business Writer February 17, 2014

Anticipating future needs for capital and changes resulting from health care reform, Carroll Hospital Center announced Monday that it's seeking a partner to operate the hospital.

The nonprofit hospital, which employs 1,975 people, said it has started a regional search to help stay competitive.

"We see the direction that health care is going. We do think that size and scale will be a big part of how health care is delivered in the future, and so we want to explore what potentially partners can bring to add to our wonderful quality and the services that we provide our community," CEO John Sernulka told The Daily Record.

Sernulka said there's no preconceived idea among the community board of directors about the structure of a possible partnership and didn't rule out a merger or sale.

"I can tell you we are open to the full gamut of possibilities," he said.

Sernulka anticipates declining reimbursements in the future



Carroll Hospital Center has a budget of more than \$289 million. (Photo courtesy of Carroll Hospital Center)

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But a bigger issue for smaller independent hospitals in the future is the focus on population health, which will require them to operate at a larger scale to spread out some of the associated risks.

“With population health, payers and providers like hospitals are entering into risk-reward relationships where payers are shifting some of the risk of caring for a certain population to the providers,” Sernulka said. “And the providers, if they do well in managing chronic disease and keeping patients well, will financially benefit from managing those patients. But you need size to be able to spread that risk out.”

Tinglong Dai, an assistant professor of operations management at Johns Hopkins University Carey School of Business, said in an email response to questions that an independent general hospital such as Carroll has a much higher burden rate — defined as the ratio of overheads from medications and supplies to direct labor costs — than a higher-volume hospital. He said that forming an alliance with a larger health system would also allow Carroll to enhance its “brand value.”

And Carroll Hospital Center would be attractive to larger health systems because it is geographically and emotionally connected with many local residents, he said.

“For an expecting mom in Carroll County, it often does not make sense for her to give birth in larger hospital systems in Baltimore City,” said Dai. “But once your baby is delivered at Carroll Hospital Center, your whole family would end up returning to the same hospital for outpatient consultations, tests and procedures, for ER visits and for surgical operations because it has now occupied a special place in your heart.”

Sernulka, citing confidentiality agreements, declined to say whether Carroll Hospital Center has been approached or has a particular partner in mind as it begins the process.

“We have an idea of the kinds of organizations that we believe could make great collaborative strategies together, and we think they’ll bring the kind of values and so forth that we’re looking for in the way of mission-driven care and are supportive of community hospitals,” Sernulka said.

But Dai speculated that Johns Hopkins Hospital, which is already affiliated with Howard County General Hospital, may be the most logical partner. Carroll and Howard are of a similar size, with 253 beds at Howard and 193 at Carroll.

“I would naturally think that Johns Hopkins Hospital can find it attractive to form a partnership with Carroll Hospital Center, given that Johns Hopkins already has a local presence in the county,” Dai wrote “Its community physicians center in Westminster is just three minutes away from the Carroll Hospital Center.”

The hospital said it hopes to have a partner and the terms of the relationship hammered out between July and September. After that, there will be a three- to six-month period where each party will do its own due diligence before an agreement is official.

“We’re making this decision to explore identifying a partner, the right partner, at a time when we’re financially strong, that we have probably the best market share and relationship with our community, and it’s all about recognizing where health care is going,” Sernulka said.

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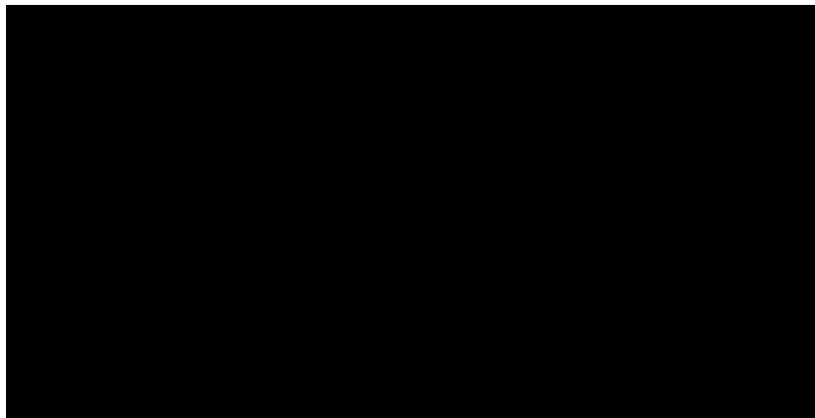


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