



Sisters of Charity of St. Augustine Health System



INAUGURAL ISSUE

This is the inaugural issue in a series of occasional papers which will explore the implications for Catholic healthcare (religious, ethical, economic and operational) partnerships with an investor-owned healthcare system.

In November, 1995, the Sisters of Charity of St. Augustine Health System formed several partnerships with an investor-owned healthcare corporation, Columbia/HCA. At the time it was one of the first major joint ventures between a Catholic system and an investor-owned system.

In this and future issues, "The Mission Forum" will be an arena in which to explore the vitality of our mission and the possible implications of these Partnerships and others, for the delivery of Catholic healthcare.

We invite you to learn with us how these Partnerships are structured, how they have been implemented and how they continue to provide Catholic healthcare.

Constancy Through Change

"...TO SEE CHRISTIAN LOVE AS THE ANIMATING PRINCIPLE OF HEALTHCARE; TO SEE HEALING AND COMPASSION AS A CONTINUATION OF CHRIST'S MISSION..."

—from the Ethical and Religious Directives for Catholic Health Care Services of the National Conference of Catholic Bishops, 1995

On the edge of the 21st century, how does a nearly 150 year-old Catholic congregation of women religious, whose very existence reaches back to the compassion of Jesus Christ and the traditions of Catholic healing, sustain its mission in the rapidly changing healthcare environment?

For the Sisters of Charity of St. Augustine, the answer has been three Partnerships with a secular and investor-owned health system, Columbia/HCA. The Partnerships include hospitals in Cleveland and Canton, Ohio and in Columbia, South Carolina.

Few Catholic organizations have ever tried working with a proprietary hospital system this way. For the Sisters of Charity of St. Augustine Health System (CSA Health System) this arrangement has allowed it to sustain the charitable mission, assuring Catholic identity and revitalizing the economic basis of the institutions' service to the communities.

These Partnerships position the Sisters' healthcare ministry with the goal of long-term financial strength and operational sophistication. They also strengthen their ministry's future, expand its reach and improve the Sisters' ability to help those who have been abandoned to the edges of America's prosperity.

Yet questions about such an unusual venture are legitimate: How can a historically not-for-profit organization join with an investor-owned corporation? Can a Catholic system work successfully and mutually with a secular, publicly traded company?

At the core of the Partnerships are a set of inviolate, non-negotiable principles. For the Sisters of Charity of St. Augustine, the Partnerships' indispensable requirement is a continuing commitment by Columbia/HCA to maintain the essence of Catholic healthcare: a commitment to compassionate healing, to the dignity of each patient and to the healthcare needs of the poor and the underserved.

**"HE TOOK AWAY OUR INFIRMITIES
AND BORE OUR DISEASES."**

—Matthew 8:17

Seeking True Choices

If the world had stayed the same as it had been for most of the post-World War II decades, the need for such special preconditions might never have arisen. But, in fact, the world of the Catholic hospital has changed.

The Partnerships are a response to new realities in American healthcare – as well as to some old realities the Sisters face every day. Those old realities are hospitals in inner city neighborhoods serving poorer, often sicker and generally older patients. Those were, of course, the very people whom the Sisters of Charity of St. Augustine were called to serve in the first place.

But new realities have made that mission and its healthcare ministry increasingly perilous. Healthcare costs have risen in some years to frightening degrees; the need for hospital beds has plummeted and revenues, consequently, have fallen. Nor have they been projected to increase to a sufficient degree in the years ahead.

In addition, insurance companies and the new managed care providers have been limiting reimbursements. They have increasingly sought contracts only with hospitals who offer broad, one-stop-shopping networks of services and have sufficient purchasing power and market clout to stand against aggressive competitors.

Indeed, every year more not-for-profit, and especially religious-sponsored, hospitals have been absorbed by for-profits, while others have cut back on indigent care or compromised missions to the point where only a close look at the documents of incorporation would tell one they were “not-for-profit.”

The Sisters of Charity of St. Augustine have been surrounded by this downward spiral’s same hard choices.

Yet, how could one ever imagine that, after nearly 150 years of devotion to the poor, of commitments of generations of lives to the Church and to easing life’s travails for the poor, that these religious women would abandon their calling?

Of course they would not. The question has been how can one control costs, increase revenues and still be effectively passionate about Christ’s mission and Catholic healthcare?

AMONG CHILDREN WITH A PARENT WORKING FULL TIME DURING THE ENTIRE YEAR, APPROXIMATELY 25% OF THESE CHILDREN LACKED PRIVATE INSURANCE.

– Source: Access to Healthcare, No. 1

A Different Solution

The solution came from an unexpected direction. Over several years the Sisters searched for the right Catholic partner, but without success. They expanded the quest to not-for-profit alliances. None, however, met the Sisters’ Catholic strategic requirements.

In 1995, the Columbia/HCA possibility arose. Not an obvious first choice, Columbia/HCA agreed to respect the Sisters’ mission, abide by the tenets of Catholic healthcare and strengthen the hospitals in their communities.

IN FORMING THESE PARTNERSHIPS, COLUMBIA/HCA AGREED:

- That each of the hospitals and affiliates will operate according to Catholic principles;
- That each will implement the Ethical and Religious Directives for Catholic Healthcare Care Services;
- That each will continue the Sisters of Charity of St. Augustine’s binding, ongoing commitment to the poor and others without financial means to pay for their healthcare services;
- That each employee is treated with dignity and justice;
- That the Sisters’ through the governing board of the Partnership will have equal governance control of the Partnerships;
- That the terms of the agreement require continued indigent care, open emergency rooms and community outreach;
- That the Sisters have the right to terminate the Partnerships if Columbia/HCA violates the faith or charity obligations.
- Other agreements require fully staffed and funded pastoral counseling programs.
- The Partnerships’ agreements also require annual “Mission and Ministry Audits” to monitor and evaluate Columbia/HCA’s compliance.

THE PARTNERSHIPS AND THE MISSION

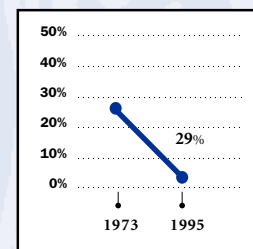
Two years into the Partnerships, the Catholic Mission continues. In fact, not one indigent care policy has been altered. The first annual “Mission and Ministry Audit” found high levels of satisfaction with the continuing care for those unable to pay. In short, compassionate healing and the poor have been protected. In addition, this mission has been expanded to include Saint Luke’s Medical Center, an inner city tertiary care hospital with over 400 beds.

It’s not a perfect marriage; each partner is still learning to adjust to the style and operations of the other. These Partnerships have also been challenged by the issues facing Columbia/HCA. But despite these many issues, the mission of the Sisters of Charity of St. Augustine continues to be delivered daily in each of these hospitals.

America needs fewer hospitals... but the underserved need more healthcare.

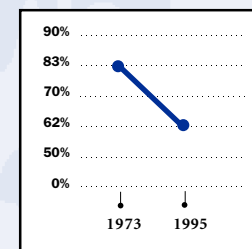


INPATIENT DAYS NATIONWIDE



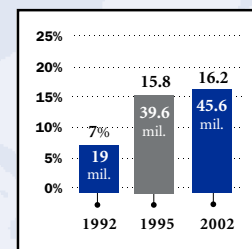
INPATIENT DAYS HAVE DECLINED 29% IN 20 YEARS.

HOSPITAL OCCUPANCY RATES NATIONWIDE



HOSPITAL OCCUPANCY RATES HAVE DECLINED ALMOST 20% IN 20 YEARS.

UNINSURED PEOPLE NATIONWIDE

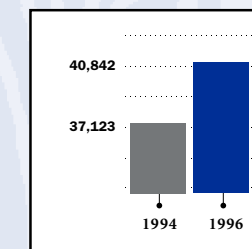


THE PERCENTAGE OF THE UNINSURED POPULATION HAS MORE THAN DOUBLED SINCE 1992.

Finding a Solution Through Partnership...

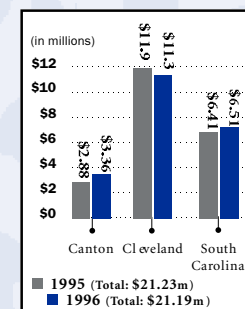


INCREASED ADMISSIONS



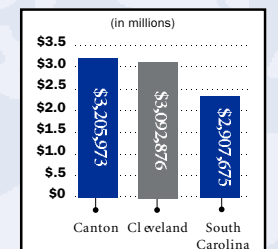
ADMISSIONS TO THE HOSPITAL HAVE INCREASED.

SOLID CHARITY CARE



CHARITY CARE EXPENDITURES HAVE STAYED THE SAME.

EXPANDED COMMUNITY PHILANTHROPY



OVER \$9.2 MILLION IN 1997 TO ALLEVIATE LOCAL POVERTY.

Highlights of the Partnerships

THE ADVANTAGES

- *Financially strong partner who will support charity obligations well into the future;*
- *Better cost control through group purchasing and sophisticated management;*
- *Faith and charity obligations maintained through legal agreements.*
- *Opportunity to learn about each other's values and approaches to healthcare.*

THE DISADVANTAGES

- *Loss of exclusive governance over the healthcare system;*
- *Immersion in a larger, and more complex corporate structure;*
- *Contending with new and stronger marketing opposition from competitors.*
- *Unrealized possibility of working with other Catholic healthcare systems.*

LEGAL GUARANTEES OF THE MISSION

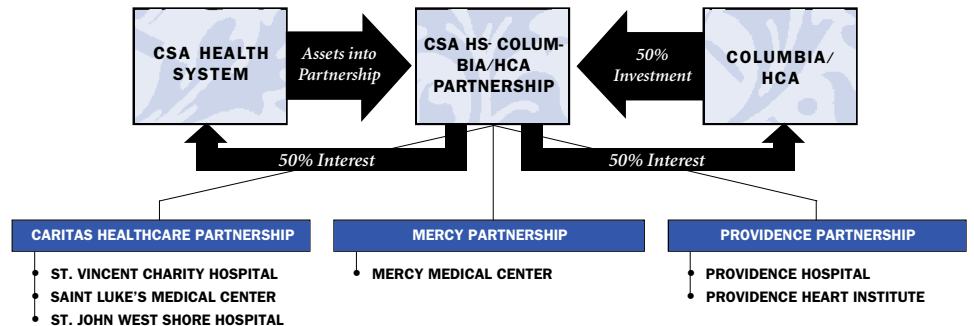
By their terms, the Partnerships' agreements require:

- Compliance with the Sisters of Charity of St. Augustine's faith and charity obligations;
- Annual Mission and Ministry Audits and a Vice President of Mission Services;
- Continuing collaboration with Diocesan organizations and initiatives;
- Adherence to the Ethical and Religious Directives for Catholic Healthcare Services;
- Each Diocesan Bishop has final authority to resolve any disputes over ethical, religious or mission issues;
- As long as the CSA Health System has at least 20 percent interest in the Partnership (we currently have a 50% interest), it will have special "super-majority" rights;
- The Sisters of Charity of St. Augustine have a right to terminate the Partnership if Columbia/HCA violates the faith and charity obligations.

THE RESULTS: SINCE 1995

- Indigent care polices have not changed;
- The amount of indigent care and the number of outreach programs continues at pre-Partnership levels.
- The Sisters of Charity of St. Augustine have established and funded three foundations to meet the needs of the underserved in each respective community.
- Revenues have increased 15%.

STRUCTURE



The Sisters of Charity of St. Augustine continue to own 50% of these healthcare organizations and are equal in governance and decision-making with Columbia/HCA.

THE FOUNDATIONS

The Sisters of Charity of St. Augustine formed three new charitable Foundations in the three Partnerships' geographical communities with funds made available from the establishment of the Partnerships. These philanthropies give the Sisters vital new resources and greatly expanded opportunities to alleviate poverty and nurture healthy communities.

- Collectively the Foundations have assets greater than \$230 million at the end of 1997;
- The Foundations have awarded over \$9.2 million in grants during their first funding year in the Canton, Cleveland and South Carolina communities;
- Foundations' projects reflect the needs of each community, such as combating homelessness or a lack of early childhood education; building community support systems; tackling substance abuse or insuring healthcare for the working poor and elderly.



Sisters of Charity of St. Augustine Health System

2351 E. 22nd St reet
Cleveland, Ohio 44115
(216) 696-5560
Susanna H. Krey
V.P. Corporate Development