



CEO Lex Reddy says administrative efficiencies only go so far and describes how his team focuses on clinical processes to turn hospitals around.

Prime Healthcare Services

Strength in Numbers



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Better healthcare through greater efficiency is the goal of Prime Healthcare Services Inc., a company that has prospered, since its founding in 2001, into an eight-hospital chain poised for additional growth.

The for-profit company, based in Victorville, Calif., operates in one of the toughest markets for healthcare, said Lex Reddy, president and CEO. "Reimbursement rates have not increased the revenue stream or the top line," Reddy said. "If anything, reimbursements are down because Medicare, state Medicaid funding, and insurance companies have slashed reimbursements over the past 10 years while expenses, such as labor costs, unions, HIPAA, and technology requirements, are going up."

Four out of five California hospitals have not kept pace with technology over the past decade and are dealing with outdated equipment, outdated systems, and inefficiencies, Reddy said. Looming changes in the state seismic codes in 2013 will cause further upheaval, since Reddy estimates that 90% of hospitals currently don't meet the stringent new codes.

Prime Healthcare Services specializes in buying troubled community hospitals in strategically important areas, investing millions to update technology and infrastructure, and earning profits through greatly increased efficiency. The company's focus is on Southern California. "Our keys are physician-driven management, patient-focused and outcome-oriented operations, and a cash infusion into every facility we purchase," Reddy said. Updating needed diagnostic equipment and patient monitoring systems are top priorities, and Reddy estimates the company spends \$15 million for every 100 hospital beds.

Decreasing ED wait times

"Most of our patients are acutely ill," Reddy said. "Elective surgeries are going to surgery centers, and diagnostics are going to diagnostic centers, so our primary focus is on keeping EDs open at all times." Even though this policy results in an increased number of uninsured/indigent patients seeking care at Prime hospitals (from an average of 7% to more than 20%), Reddy said the company is committed to keeping its EDs open as a gateway to its hospitals and a life-saving service to those who rely on them.

For example, a company report on performance improvement indicators for February for its three-hospital Orange County region shows a decrease in ED saturation hours for the quarter from 47 hours to 4.5 hours per quarter. At West Anaheim Medical Center, saturation decreased from 126 hours in January 2006 to 14 hours in January 2007. The time to see a doctor in the ED decreased to 23.3 minutes, compared to a national average of 47 minutes. At the same time, hospital core measures from CMS improved in the fourth quarter 2006.

"When a hospital doesn't have the money to invest in infrastructure and equipment, it'll have inefficiencies," Reddy said. "A hospital has to have someone confident enough to invest the money and provide quality care to patients." That quality care includes increasing human resources staffing to improve patient flow and integrating administrative and clinical efficiencies. Most hospitals don't focus on the latter area, which Reddy said is a mistake, because administrative efficiency can take a facility only so far.

Desert Valley Hospital, the flagship facility of Prime Healthcare Services, has been named a Solucient 100 Top Hospitals National Benchmarks for Success winner three times since 2003. Hospitals are compared with like facilities across the country using such criteria as patient outcomes, patient safety, and efficient care at a reasonable cost.

The hospital has embarked on a major expansion that will increase capacity from 83 beds to about 150 beds. The project starts this summer with an ED expansion. In January, Desert Valley Hospital is scheduled to break ground on a 50,000-square-foot wing that will add 53 patient rooms, 12 intensive care unit rooms, two cardiovascular cath labs, an open-heart surgery center,





and a cardiology nuclear medicine diagnostic system.

Growing through acquisition

In addition to the expansion of existing facilities, Prime Healthcare Services continues to grow through the acquisition of hospitals that fit the company's core operating philosophies. In February, Prime bought Paradise Valley Hospital in San Diego County for \$30 million. The corporation is waiting to finalize its purchase of Anaheim Memorial Medical Center, which California Attorney General Jerry Brown must approve.

The company also offered to buy three facilities from Valley Health System: Moreno Valley Community Hospital, Menifee Valley Community Medical Center, and Hemet Valley Medical Center. It is competing with other hospital companies for those facilities. In 2004, it acquired Chino Valley Medical Center through US bankruptcy courts and quickly turned around the hospital's operations, which emerged out of bankruptcy well ahead of its first year anniversary and paid creditors 100 cents on the dollar.

Excluding planned purchases, Prime owns eight Southern California hospitals that have a combined 1,256 beds. Other hospitals within the company include Huntington Beach Hospital, La Palma Intercommunity Hospital, Montclair Hospital Medical Center, Sherman Oaks Hospital, Grossman Burn Center, and West Anaheim Medical Center.



The company was founded by Dr. Prem Reddy, a board-certified physician in internal medicine and cardiology, who has a long history of entrepreneurship in the healthcare industry. He serves as chairman of the board, while Lex Reddy, his brother-in-law, is president and CEO. The two have worked together for more than two decades to improve the quality of health-care wherever they've been.

Lex Reddy said the biggest challenge facing Prime is the continuing decline in reimbursement rates, especially managed care health plans, which not only hampers patient care but demoralizes the staff and managers who provide that care.

"Show me a hospital that's grown top-line revenue in the past 10 years without adding services," Reddy said. "The turnover of management talent is a problem because people are tired of dealing with this never-ending problem. We as hospital executives should be at the forefront of the reimbursement issue, not to complain, but to bring about change to help hospitals cope."

Despite the tough hospital environment, Reddy said the company will continue investigating other underperforming hospitals to add to the Prime portfolio. "We dedicate all of our resources to turning around every facility we acquire," Reddy said. "But those acquisitions have to make strategic sense and be needed in the community to provide services in the long run." ■

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