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# Health systems play long game with bets on new hospitals in tough financial times

DUSTIN WALSH

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Henry Ford Health is planning a new \$1.8 billion hospital tower across the street from its current flagship hospital.

The rise of medically complex patients is presenting opportunity for Michigan health systems willing to bet on the future of hospitals even as they struggle through tough financial times now.

Henry Ford Health **announced this week** a planned \$2.2 billion investment in the city of Detroit, including a new hospital tower and a research and innovation center with Michigan State University.

The project is an update and replacement of HFH's 108-year old hospital in the city, a much-needed expansion on several levels. But the investments come at a time when hospital financial margins have all but evaporated under inflation and rising labor costs.

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The health system, and some of its competitors, are betting on the rise of complex care and are making investments in the face of crushing financial realities to gobble up as much market share for these patients as possible.

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future sustainability, and we have to plan tomorrow's health care while balancing all of today's challenges," Bob Riney, president and CEO of HFH, said in a statement to Crain's. "It's imperative we invest in the future of Henry Ford Hospital and all who provide world-class care at that campus."

### More complex patients

Hospitals are seeing more patients who are very ill with complex ailments, something providers attribute to delayed and avoided care during the COVID-19 pandemic. Many people avoided seeking care for chronic conditions during the height of the pandemic, which has led to long-term deterioration of their health.

The length of hospital stays, a measure for patient acuity, for non-COVID patients has increased 10 percent since 2019, according to a report by the American Hospital Association.

But the level of complexity in patients has been increasing for years and trends in care have gone with it. Providers are more interested in preventive care and treating the multiple conditions most patients suffer from than the single most pressing issue at a time. All of which is further complicated by those afflicted by the unknown long-term impacts of COVID-19 infections and an aging population.

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For example, the prevalence of strokes is projected to rise 21 percent by 2030, and 1.2 million Americans are projected to develop Parkinson's Disease as Americans live longer and the population skews older.

The rise of medical complexity among patients is a major driver in University of Michigan Health's \$920 million investment into a new patient tower and its acquisition of Lansing-

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lives because of the success of our treatments to people in their 50s, 60s and 70s. So now we're doing more complex procedures and surgeries that provide a better quality of life than in the 1980s and 1990s. It's great that we have these capabilities but we're struggling for space."

The new UM hospital tower is projected to open in fall of 2025.

### **A new kind of competition**

HFH's planned new hospital, which is expected to open in 2029, is intended to propel its efforts to grow into a destination health center from a regional system.



HOK

A rendering of the University of Michigan's planned new hospital, to be called the D. Dan and Betty Kahn Health Care Pavilion and set to open in 2025.

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Crain's. "It sees its key competitor as the University of Michigan health system, which has spent more than a billion dollars to replace and expand its Ann Arbor campus and is acquiring hospitals in the Lansing area. Henry Ford needs to make its facilities brighter and shinier and more appealing to both patients, doctors and researchers. It could make small investments and incremental improvements or it could swing for the fences."

HFH chose to go for the home run. But the timing is difficult.

The health care industry faced its first real recession during the COVID-19 pandemic. Many health systems were propped up in 2020 and 2021 by massive government relief and stimulus investment, which filled financial gaps in soaring care costs from overrun emergency rooms and filled beds.

But 2022 proved a sobering reality. Labor costs rose exponentially due to staff burnout and nurses abandoning hospital employment for lucrative travel contracts.

Even today, contract nursing costs remain at least 60 percent higher than pre-pandemic levels. Nationwide, 53 percent of hospitals were projected to lose money in 2022, according to a report by consulting firm Kaufman Hall.

Riney said the hospital is confident in its fundraising abilities and its portfolio provides excellent ability to leverage funds. The project will also likely be supported by yet-to-be-determined public funding and tax dollar support.

"A project of this magnitude will require multiple funding sources, including our own capital investment" Riney wrote in a statement. "Additionally, we're seeking financial support from the generous donors and community who share in our mission and vision. We'll also explore opportunities for grants and other appropriate funding sources."

Laura Appel, executive vice president of government relations and public policy at the Michigan Health and Hospital Association, compared health care investing to other public goods that must be completed regardless of current financial pressures.

"Regardless of the financial situation in the state, we're always working on the roads. You

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community, said Alex Calderone, president of Birmingham-based turnaround and consulting firm Calderone Advisory Group.

"I think this is good for the state, city and region, in general," Calderone said in an email to Crain's. "The local residents will have access to a world-class facility and its operations will draw more people downtown whose dollars will spill over into other businesses. The infrastructure is aged and in need of replacing and to some degree we are capacity constrained. The research facility is also likely to attract top medical and scientific talent to the area. With that being said, time will tell if there will be a dollar-and-cents return on investment."

Henry Ford and most Michigan health systems are nonprofits and have a community obligation as well.

Recall that the primary goal of health care, at least from the perspective of the community it serves, is not necessarily to rake in the cash," Calderone said. "It's to keep our communities healthy and treat sick patients, and that's why a substantial portion of the project will be financed through philanthropic efforts."

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