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HEALTH | HEALTHCARE

A Bat Infestation, Postponed Surgeries and Unpaid Bills: A Hospital Chain in Crisis

Steward Health Care had gone on a dealmaking spree involving a big hospital landlord and a private-equity firm

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Last spring, a nurse found a live bat clinging to a curtain in the intensive-care unit of Florida's Rockledge Regional Medical Center.

Steward Health Care System, which operates the hospital, brought in a pest-control company, which discovered another 3,000 or so Brazilian free-tailed and evening bats in the building. "That's been a known issue," said retired nurse Vonnay Norbury, who used to see bats in the hospital's stairwell.

The hospital evacuated the floor, and the bat-removal workers came in. Last fall, Rentokil North America sued Steward for \$1.6 million of allegedly unpaid bills, including \$936,320 for the bat removal.

Steward, which operates 31 hospitals in eight states, is in a deep cash crunch. At its Florida hospitals, vendors who haven't been paid have stopped delivering artificial knees and other supplies, causing some surgeries to be postponed. Garbage collectors cut off one hospital there over unpaid bills, causing trash to pile up and state regulators to issue a warning. Traveling nurses left jobs at Steward hospitals after the temporary agency that dispatched them said it hadn't been paid.

This isn't a good way to run a hospital company. Suppliers who haven't already cut off Steward routinely demand cash up front. Every Tuesday, the heads of Steward's eight Florida hospitals join a call with Daniel Knell, its top executive in the state, to request the cash and supplies needed to get through another week. Knell said he then asks headquarters to prepay

certain vendors. Sometimes, hospitals have to swap equipment and supplies among themselves to fill the gaps.

“We always found the money,” said Ronald Bierman, president of Sebastian River Medical Center in Sebastian, Fla. “I don’t know if they were doing car washes. I don’t know what they were doing.”

Steward recently hired restructuring advisers. If it goes bust, it would be one of the biggest bankruptcies of a hospital operator in decades.



A pest-control company found about 3,000 bats at Rockledge Regional Medical Center. PHOTO: TIM SHORTT/USA TODAY/REUTERS

Steward announced a plan last month that it said would ensure there wouldn’t be any interruption to medical care across its operations. Steward said it is using a \$150 million loan to pay down bills, and that it would sell assets to raise cash. “First and foremost, we want to continue to do the right thing for patients, our staff and our communities,” said Dr. Michael Callum, a Steward executive.

Knell, the Florida executive, said he had no record of bats before their discovery last spring. Steward is contesting the bat-removal company’s lawsuit.

Steward’s shaky finances have focused attention on the role played by Medical Properties Trust, the nation’s largest hospital landlord. In 2016, MPT began providing capital to Steward, helping to fuel its rapid growth through acquisitions of other hospital operators. MPT bought the hospital buildings, many from Steward itself, then leased them to Steward, its largest tenant, generating hundreds of millions of dollars of annual revenue. All told, MPT has poured billions of dollars into Steward and the hospitals it operates.

In January, MPT said Steward owed \$50 million in overdue rent. Steward also faced claims for more than \$200 million in unpaid bills of other sorts.

Massachusetts has sent monitors to each of Steward's nine hospitals in that state. Steward said it is working with state officials to ensure its Massachusetts hospitals have necessary staff and supplies. "Steward has no plans to close any hospitals in Massachusetts," said company spokeswoman Josephine Martin.

MPT spokesman Drew Babin said the company's business model gives hospital operators access to capital for expansion, new technology and other improvements, and that resulting rental payments "represent a fraction of a hospital's revenue." He said MPT was "not aware of any hospital closure in our portfolio where the elimination of rental obligations would have changed the outcome."

Steward, a for-profit company, was created in 2010 when private-equity firm Cerberus Capital Management bought a struggling chain of nonprofit Catholic hospitals based in Boston. After MPT got involved, it funded deals that allowed Cerberus to take money out of Steward and eventually to cash out its investment.

Over the years, Steward paid \$2 billion to MPT, mainly for rent. MPT also began supplying cash to cover Steward's increasingly frequent financial shortfalls.

In Washington, MPT is one of the subjects of a Senate committee's bipartisan investigation into the impact of private-equity ownership on hospitals. The committee has focused on examples unrelated to Steward or Cerberus. MPT's spokesman said the company is cooperating fully with the investigation.



The Rockledge hospital also had problems with broken elevators.

Repair problems

As Steward labors to preserve cash, not everything is getting fixed right away.

In late 2023, the first two elevators stopped working at Rockledge Regional Medical Center in Florida. Steward's top Florida executive, Knell, said the hospital held off on repairs because the company was tight on cash and patient safety wasn't at risk.

More broke down, eventually leaving Rockledge with five to shuttle workers and patients between floors of the hospital. That's when Knell appealed to Steward for cash. Steward sent the money and Knell paid a local repair company in advance for the work, which now is under way.

Last month, an elevator breakdown at nearby Melbourne Regional Medical Center forced executives to declare a "Code D" to activate its "incident command system." Managers were summoned by overhead speakers to a command center, and nurses prepared to move intensive-care patients to the ground floor from the third so they could be evacuated in an emergency.

The repair company that the hospital had used before wouldn't come because of unpaid bills. Knell secured cash from Steward to hire another company, which quickly fixed the elevators,

according to that hospital's president. The company gives priority to spending related to patient care and safety, he said.

Overdue bills delayed other repairs at Melbourne. A vendor wouldn't service devices used in heart monitoring until Steward agreed to a payment plan. Some Steward hospitals in Florida fell behind on supplemental payments to surgeons and emergency-room doctors to be on call.

Aya Healthcare is one of several nurse staffing agencies embroiled in litigation with Steward over unpaid bills. The two companies sued one another, with Aya claiming it was owed more than \$40 million and Steward accusing Aya of price gouging. Each has denied the other's allegations.

In April 2021, Aya pulled nurses out of Steward hospitals. One was Carney Hospital in Dorchester, Mass. Steward struggled to fill vacancies, said someone who works in Carney's emergency room.

Carney's emergency room was short of medical staff on June 2, 2021, the day Gilberto Melendez-Brancaccio arrived. He was confused and paranoid.

Melendez-Brancaccio, 31, suffered from bipolar and schizoaffective disorders. In Carney's emergency room, he tried to escape and grew violent. Medical staffers tried to calm him with antipsychotic and sedative medications, known as chemical restraints, and repeatedly put his arms and legs in physical restraints. All told, he was sedated six times.

The hospital assigned a newly hired medical assistant to watch him. She later told state investigators she didn't recall being trained to monitor such high-risk patients and had never done so before. She also had two other patients to watch.

Hospitals typically assign high-risk patients their own monitors. Carney often didn't, another employee later told safety investigators.

Melendez-Brancaccio's heart rate soared, and his oxygen levels at one point fell to critical levels, according to a subsequent state investigation. That night, a nurse found him unresponsive, according to the investigation. Attempts to resuscitate him failed.

The investigation found that the emergency department had been understaffed with doctors and physician assistants, and had failed to train its staff for patients who needed restraints and close monitoring. Training lapses were a factor in Melendez-Brancaccio's death, the investigation found.



Gilberto Melendez-Brancaccio, shown at his 2009 high-school graduation, died in 2021 at a Steward hospital. PHOTO: CATHERINA BRANCACCIO

MPT paid nearly \$263 million for Carney’s buildings and grounds, and Steward began paying an undisclosed amount to rent the facility.

Babin, the MPT spokesman, said the 2018 purchase price reflected the property’s value at the time. He said the hospital was deeply unprofitable when Steward bought it in 2010, and that Steward assumed its liabilities and significantly invested in Carney afterward.

Carney told the Massachusetts Department of Public Health it would hire more emergency department staff, revise its policies for using medication to restrain patients and update employees on changes. State investigators visited the hospital in September 2021 and found it had fixed the problems.

Melendez-Brancaccio’s family has sued the hospital for wrongful death. Their law firm, Lubin and Meyer, confirmed he was the unnamed patient described in the state’s investigation. Steward declined to comment on the lawsuit.

In a March 7 letter to Steward, Massachusetts Sens. Elizabeth Warren and Edward Markey said Steward’s long-term lease obligations to MPT in that state have created debts that are “crippling the hospitals today.”

Steward bought Carney back in 2010 for \$12.5 million, property records show. Eight years later,



MPT paid nearly \$263 million for the buildings and grounds of Carney Hospital in Dorchester, Mass., according to property records. PHOTO: MADDIE MEYER/GETTY IMAGES

Private equity

Early on, Steward consistently reported net losses. In 2016, it stopped publicly disclosing financial information at all. Over the past several years, Steward has engaged in complicated deals involving MPT, private-equity firm Cerberus and Dr. Ralph de la Torre, Steward's chief executive and current majority owner.

MPT put \$1.2 billion into Steward in 2016 when it bought and leased back five of Steward's Massachusetts hospitals, and provided mortgage loans for four others. Several hundred million dollars of the proceeds from those deals went to Cerberus.

When Cerberus exited Steward in 2020, it lent money to a physician group led by de la Torre to buy a 90% stake in the hospital chain. In January 2021, MPT lent Steward another \$335 million, all of which went to repay the group's loan from Cerberus.

Cerberus declined to say how much cash it took out of Steward in total. "When our controlling interest concluded in 2020, Steward was financially healthy with substantial liquidity and in compliance with all its financial covenants," said Michael Sitrick, a spokesman for Cerberus.

That same year, Steward's rent expense was \$385 million, and it recorded a net loss of \$408 million, according to Steward financial data released by MPT. Its liabilities exceeded its assets by \$1.5 billion.

The following year, MPT received an \$11 million cash distribution from Steward based on its 9.9% ownership stake, implying that payments to Steward's other owners topped \$100 million. Later in 2021, de la Torre bought a \$40 million yacht.

In August 2021, MPT bought five Miami-area hospitals from Tenet Healthcare for \$900 million and leased them to Steward. Tenet and Steward soon were mired in litigation related to the deal, with Tenet so far winning almost \$48 million in judgments against the hospital chain.

At Palmetto General Hospital, one of those acquired in the deal, nurse Chardyne Thomany said her unit has been short-staffed and busier in recent months. She now cares for six patients at a time instead of four. Patients she watches over are often sicker than is typical for her unit.

“You have to prioritize,” Thomany said. It distresses her that she can’t quickly respond to everyone else. “Nobody wants their parents in a soiled diaper,” she said.

Steward said Palmetto General observation nurses may have more than four patients each because of changes in scheduling or numbers of patients, and that it is normal for the sickness of patients to fluctuate.

For MPT, much is riding on how Steward negotiates its financial crisis. Steward accounted for 19% of MPT’s assets and 20% of its revenue in last year’s fourth quarter. The hospital landlord’s shares have declined 82% since peaking in February 2020.

MPT has \$10 billion in debt, with \$1.9 billion due by the end of 2025 and \$3.2 billion due in 2026. To save cash, MPT has cut its quarterly dividend by almost half.

As Steward’s financial condition has worsened, MPT has continued to support it. MPT lent Steward \$373 million in 2022 and 2023, saying most of the loans were for “general working capital support.”



The office building housing MPT’s headquarters in Birmingham, Ala. PHOTO: ELIJAH NOUVELAGE FOR THE WALL STREET JOURNAL

During an Oct. 26 earnings call, MPT Chief Executive Edward Aldag Jr. said Steward's hospital operations "continue to perform well." MPT spokesman Babin said that since the call, "Steward's cash collection challenges have become significantly more pronounced."

This year, MPT has lent Steward \$97.5 million and reported \$714 million of write-downs related to Steward. Last month, Steward got some breathing room. It said it secured a \$150 million bridge loan from existing lenders, which included \$37.5 million of its borrowings from MPT. Steward also said it received forbearance from lenders through April 30.

It also said it was trying to sell assets. Those included two corporate jets, one of which had been owned by MPT.

In Massachusetts, where Steward accounts for about 7% of hospital beds, the company said it is working with the state to find new operators for its hospitals. Gov. Maura Healey has said the state won't bail out Steward.

In a Feb. 20 letter, Healey told the Steward CEO she wants the company to leave the state. "The time has come to move past our many months of discussions and begin executing a safe, orderly transition" of Steward's Massachusetts facilities "to new operators as soon as possible," she said.

Hospitals near Steward facilities in the state are preparing for a possible influx of patients.

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