Healthcare giant Steward Health Care files for bankruptcy

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10 May 2024

On Monday, the Massachusetts-born and Dallas-based healthcare giant Steward Health Care filed for bankruptcy citing challenges in reimbursement from government payers while rising labor costs, inflation and ongoing expenses associated with the pandemic have hampered its ability to remain solvent.

However, behind the scenes, the real issues that have driven the chapter 11 proceedings have been the predatory and parasitic financial deals that have enriched venture capitalists, shareholders, and the executives of the largest physician-owned hospital chain in the country to the tune of over $1 billion, while it owes $300 million in unpaid compensation and $558 million to its non-insider creditors that include the Center for Medicare and Medicaid Services.

Court documents filed by Steward attorney Ray Schrock show the health company has over $9 billion in total liabilities, including $1.2 billion in loans, and nearly $1 billion in unpaid bills from medical vendors and suppliers. Because of its longstanding incestuous relationship with Medical Properties Trust (MPT), an Alabama-based real estate investment trust that invests in healthcare facilities, Steward owes $6.6 billion in long-term rent obligations.

In 2021, "MPT owned 425 properties in nine countries, with 51 operators in both for-profit and non-profit health care entities," according to Rosemary Batt and Eileen Appelbaum in their working paper, "The role of public REITs [Real Estate Investment Trusts] in financialization and industry restructuring," from July 2022. Though MPT claims it is highly diversified, its investments are heavily concentrated in two health systems—Steward and Prospect Medical Holdings.

Steward currently operates 31 hospitals and around 400 facilities across eight states which have now been put up for sale. They also provide healthcare to more than two million people and employ 30,000 people of whom 4,500 are physicians. Although Schrock told US Bankruptcy Judge Chris Lopez, who is overseeing the bankruptcy proceedings, "Our goal remains that there are zero hospitals closed on our watch," it is precisely such a calamitous development that is posed. A bankruptcy could leave millions of people without healthcare and thousands of workers scrambling to seek employment. In addition will be the long-term economic impact these closures will have on their communities.

Its multi-millionaire CEO, Dr. Ralph de la Torre, who makes $16 million per year just in salary and purchased a $40 million yacht in 2021, has attempted to calm fears in the mainstream press that hospitals will close. But yesterday's report that paychecks for Steward employees had been delayed due to processing errors by Bank of America sent a shudder among workers.

During a virtual hearing, Schrock explained, "We've got a June 25 deadline and option for all hospitals other than Florida, and then a sale hearing. We'll see how the timing goes. We'll see whether or not this is revisited." Steward will hold auctions for its hospitals outside of Florida on June 28 and then on July 30 for its nine Florida-based facilities.

In a lengthy report detailing Steward's financial relationships with private-equity firms Cerberus and real estate giant MPT, *Business Insider* writer Bethany McLean provides a clear analysis of these predatory relationships that have seen a cascade of failing health systems that have been gutted, leaving low-income communities hollowed out while investors gorge on the plunder.

About these struggling hospitals that had to shut down their operations, McLean said, "They were all owned at various points by for-profit investors, including leading private-equity firms like Cerberus, Leonard Green, and Apollo. And in a move that stripped the hospitals of one of their prime assets, the owners had sold the land beneath the facilities to a little-known real-estate investor called Medical Properties Trust. MPT, which has purchased some $16 billion of hospital real estate over the past two decades, now bills itself as one of the world's largest owners of hospital beds."

She added, "For many hospitals, the deal proved disastrous. Once their real estate was sold to MPT, they were forced to pay rent on what had always been their own property. That added to the massive debt burdens already placed in the hospitals by their for-profit owners, deepening their financial woes. It also deprived Americans of desperately needed healthcare and put lives at risk—all while enriching some of the world's wealthiest investors."

The idea behind MPT's operations is simple. In a process known as "sale-leasebacks," the real estate trust fund purchases hospital properties and lands, then leases them back to the health systems at an exorbitant price and uses the profits to enrich their investors.

According to Batt and Applebaum, “The tenant pays rent and bears all additional costs, including maintenance and repairs, utilities and taxes. Leases are long term—typically 10 to 20 years in the US … 99 percent of its leases have inflation-based or fixed annual rent escalators.” They also added, “In addition to sale-leaseback payments, MPT also makes money from interest income from loans to tenants and other facility owners, and from profits or equity interests in some its tenants’ operations.”

In particular, MPT told their shareholders in their 2020 annual report on how they target investment deals, “We always address two primary questions when underwriting an investment—(1) is this hospital truly needed in the market and (2) would the community suffer were the hospital not there. We believe answers to these two questions provide significant insight on whether or not to move forward with a particular investment.”

The expansion of REITs into hospital property ownership grew with the penetration of private equity investments with the passage of the Affordable Care Act in 2010. The promise of a dramatically expanded insurance pool and improvements in hospital margins brought the Wall Street venture capitalists to the business of healthcare.

However, the failure of these promises that also included reductions in Medicaid and Medicare reimbursements meant private equity firms were left with outsized investments. This was the case with Cerberus after it “acquired non-profit Boston-based Caritas Christi’s six hospitals and affiliations in 2010 for $895 million and created Steward Health Care,” according to *Hospital CFO Report*.

In 2016, Steward and Cerberus entered into a $1.25 billion deal with MPT, which bought up all of Steward’s properties and took a five percent ownership in the company. This allowed Steward to pay back Cerberus’ 2010 investment and the firm obtained the capital to pay back all of its $400 million in debt. Closer analysis found that much of the funds went to the acquisition of other hospitals (including their outsized debts) and investor dividends, while the hospitals themselves received little to assist them with their operations as they were being saddled with higher rent payments.

Steward hospitals in Massachusetts had fallen into deep financial troubles and were the worst performers. They had the highest level of debt. Hospital performance metrics showed that they also had the highest rates of hospital-acquired infections and readmissions.

Richard Mortell, managing partner of Third Coast Real Estate Capital, said of these deals, “I estimate that less than 10 percent of the money has actually been reinvested into the hospital systems. The vast majority was either distributed to owners or used to repay debt taken out to distribute money to owners.”

By 2017, Steward had acquired 36 hospitals with an estimated $8 billion in revenue. The following year the organization moved its top management to Dallas, Texas. In June 2020, CEO Dr. del la Torre acquired 90 percent of the company after borrowing $335 million from MPT and bought out Cerberus.

But behind these transactions, in the intervening six years since MPT entered the picture, the real estate trust had “acquired a net $3.3 billion in real estate underlying 34 Steward facilities,” according to Business Insider. Steward was now burdened with an annual rent of close to $400 million.

In reviewing the experiences with MPT and Steward, Batt and Applebaum wrote:

Who were the winners and losers in these transactions? Clearly patients, healthcare workers, suppliers, and communities lost out. In the tension between making ever increasing rent payments that reduce hospitals’ net revenue and improving hospital technology, processes and wages, rent payments took precedence. Cerberus walked away with an estimated $700 million, which it could not have done without the critical role played by the REIT, Medical Properties Trust.

And what about MPT? It had invested $4.5 billion in the Steward System and owned 36 facilities, according to its Investor Presentation in June 2021. In response to a question from reporters for the Wall Street Journal *in February 2022, MPT said that since 2016, Steward has paid MPT roughly $1.2 billion in rent and mortgage interest. Its CEO, Edward Aldag Jr., earned $16,857,637 in total compensation in the 2020 pandemic year.*

The promised congressional oversight into the role of private equity’s influence in healthcare will decide, like the investigations into banking practices that led to the 2008 financial calamity, that these investors are “too big to fail.”

The jobs cut massacre in healthcare continues as health systems and hospitals attempt to fend off financial and operational challenges. Clearly the case of Steward Health Care and MPT provides important insights into these ongoing developments and demonstrates the disastrous outcome of the financialization of healthcare.