Home Health

BUSINESS REPORT

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A WEEKLY REPORT ON NEWS, TRENDS & STRATEGIES FOR THE HOME HEALTHCARE EXECUTIVE

Caretenders sells its product operations to focus on adult day care

By MEREDITH BONNER
***HHBR* Editor**

Caretenders (Louisville, KY) has decided to get out of the home care business and focus solely on its more lucrative adult day care services unit.

The company sold its product operations, which include its infusion therapy and respiratory and medical equipment business, to **Lincare Holdings** (Clearwater, FL) for $14.5 million and is also pursuing strategic alternatives for its visiting nurse operations. Caretenders Chairman/CEO William Yarmuth said the company is looking at "a full range of possibilities, from shutting the operations down to selling (the unit)."

Before the sale of the product operations unit, Caretenders had about 3,500 workers. The vast majority of those product workers now work for Lincare, the company said, while the visiting nurses will continue at Caretenders until the fate of that unit is decided.

Caretender's home care operations have been hit hard by the Medicare reimbursement cuts, as have home care operations throughout the industry.

The company reported a net loss in 2Q99 of $4.8 million, $1.53 per share, compared to a net loss in 2Q98 of $156,133, 5 cents per share. But the loss includes a one-time, net-of-tax charge of $5 million, $1.60 per share, which was incurred as a result of the operational separation. Excluding the product operations and visiting nurse unit, the company's day care operations brought in net operating income of $199,388, 6 cents per share, in 2Q99. In 2Q99 ended Sept. 30, Caretenders saw total revenues of $11.1 million, compared to 2Q98 revenues of $9.9 million.

CFO Steve Guenthner told the *Courier-Journal*, of Louisville, that the "improvement year to year is really being driven by increased occupancy" in the day centers. The occupancy rate improved from 69% in 2Q98 to 74% in 2Q99. And the day care center operations have grown from

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MedPAC outlines its many concerns about upcoming PPS transition

By MATTHEW HAY
***HHBR* Washington Correspondent**

WASHINGTON - Members of the **Medicare Payment Advisory Commission** (MedPAC; Washington) raised a series of concerns about the **Health Care Financing Administration**'s (HCFA; Baltimore) proposed regulation for the home health prospective payment system (PPS) at the commission's public meeting here on Nov. 18. Among the concerns raised by various MedPAC commissioners were the 60-day episode, outliers, and several other components of the proposed system.

Perhaps most significantly, the commission decided to study whether there are any administrative or legislative issues that would be raised by a transition that used costs as the base to transition from as opposed to the interim payment system. That decision was based on anticipated difficulties with the agency's proposal to transition without any phase-in. While MedPAC has no formal impact on changes to the proposed regulation, its views typically carry significant weight with HCFA.

"Right now, as it's proposed, what we're talking about is no transition from the interim payment system," said MedPAC Chair Wilensky. "I personally would rather have a transition from the IPS than no transition."

Several other concerns were also raised. MedPAC Vice Chairman Gary Newhouse noted that HCFA says it will institute medical review if there is a spike in the number of visits. "But it's not clear to me that we have such well-defined criteria for review that we can say the fifth visit was or was not necessary in the same sense that we could say an extra day in the hospital was or was not necessary," he argued.

Newhouse said he is also concerned about incentives to stint at the high end. "Again, HCFA says they are going to monitor quality and outcomes, but I just don't think our ability to monitor quality and outcomes is really good enough to rely on making this no marginal revenue for another service," he said.

Wilensky said she was concerned with the 60-day

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episode proposed by HCFA. "The concern I had," she said, "is that that is such a big unit in what seems to be a pretty amorphous type of service distinction, unlike for example hospital admissions or discharge for very specific DRGs where you have a much more defined activity that is being done.

"I am uncomfortable in the aggregated grouping of something like a 60-day episode," Wilensky added. She said it is unclear whether it can be defined what is reasonable in that episode and whether or not something substantially smaller might be more appropriate.

Commissioner Carol Newhouse, who represents the home health industry before MedPAC, countered that it will provide home care providers a different way of looking at patient care. She argued that the 60-day episode matches both current practice, which requires recertification after 62 days, and the OASIS system, which is supposed to be completed every 60 days.

In addition, Raphael pointed out that the largest proportion of patients are in home care for 30 days or less. "The you have another very substantial consumer of resource group that's at the tail end, that stays probably for two or more episodes," she added. "I don't yet understand how this system deals with those two key groups which are very disparate in their needs.

"This is very important because I'm trying to move away from incentives which are tied to how many visits and how many hours," she argued. "I'm looking for some movement to a system that will in fact reward and encourage efficiency and will in some way discriminate among those people who enter based on what their real acuity and need level is."

Raphael also expressed concerns about how the new system will be monitored and administered. She noted that under the PPS demonstration there was 100% medical review at the outset but that it was dropped to 25% because the fiscal intermediaries could not sustain that level. "But even 25% medical review is quite a high level of medical review to sustain in this system," she argued. "I think we need to pay more attention to what this really would require on the part of most fiscal intermediaries and HCFA to monitor and make sure there are not poor incentives driving behavior here."

Newhouse also asserted that under the PPS the physician is "much more centrally involved" in the decision about whether to have one or more home health visits. "It seems to me one of the consequences of this will be to potentially increase the burden on physician certification, which I'm not sure physicians are prepared to cope with," he argued.

Commissioner Judith Lave noted that for outliers, there are a significant number of cases with five or fewer visits. "What's not clear to me is why those cases would not define a case-mix group," she asserted. "The definition of the group seems to be a little strange." She argued that if the expected number of visits was four, that should define the group as opposed to an outlier status.

Lave also raised a concern with regard to the services that are bundled into the cost of care that are supposed to be paid for under the case-mix system. "Basically, the system is not making the same kind of change with respect to what home health agencies are responsible for as the skilled nursing facility PPS did with respect to what SNFs were responsible for."

Commissioner Peter Kemper raised concerns regarding the quality of services provided under PPS. He argued it might be necessary to build in a refinement that he said was not just a re-basing but an assessment of the system at a defined point even though HCFA opted not to phase-in the PPS. "I think it is very important to have one and as part of that to collect the data that you would need to refine it," he said. "I don't know what the bright line is, but it's something we need to look at."

Commissioner Long questioned the use of a calendar period of time as the basic unit for episodic events within that period of time that do not in any way relate to what is typically considered a continuous event. "I think we have the potential of creating some sort of extraordinary burden on the physician who is constructing the plan," he said. "I can see them evolving perhaps to specifying exactly the frequency and number of visits and the services within each one." ■

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COMPANIES IN THE NEWS

Coram debtholders agree to waive payments

Coram (Denver) principal debt holders agreed to forego interest payments totaling up to $13 million on the company's series A and series B notes. Coram will not be required to pay interest on the notes from Nov. 15 until either May 15 or the final resolution of Coram's litigation with **Aetna U.S. Healthcare** (Blue Bell, PA), whichever comes first.

Coram said its debtholders have also waived any non-compliance with certain financial covenants set forth in the company's senior credit facility for the period ending Dec. 31. The waivers demonstrate a commitment on the part of its debtholders to a management plan for restoring profitability, Coram said.

In addition, Coram Executive Vice President/CFO Wendy Simpson resigned, effective Nov. 26, after playing an integral role in achieving the concessions from debtholders. The company said it has begun a search for a new CFO.

GF gets downgrade from Moody's

Graham-Field Health Products' (GF; Bay Shore, NY) $35 million senior secured revolving credit facility due 2000 has been downgraded to Caa1 from B2 by **Moody's Investors Service** (New York). The rating outlook is negative, Moody's said.

"The rating action follows Graham-Field's recent announcement that it is out of compliance with its senior credit agreement as of Sept. 30 and that it doesn't expect to be incompliance as of Dec. 31." Moody's added that while the company is seeking a waiver of the covenant default and is pursuing alternative financing sources, lenders have the right to require immediate payment of all borrowings. The agency said if such a demand for payment is made, it would trigger a cross default under the subordinated note indenture, and GF would likely see Chapter 11 bankruptcy protection.

HAHI sees increased sales in 1Q00

Help At Home (Chicago) reported 1Q00 ended Sept. 30 sales of $7.9 million, compared to 1Q99 sales of $6.7 million. The company posted a net income in 1Q00 of $111,000, 6 cents per share, up from a net income in 1Q99 of $101,000, 5 cents per share.

Horizon Pharmacies makes acquisitions

Horizon Pharmacies (Denison, TX) signed a letter of intent to acquire an independent chain of four retail pharmacies and one home medical equipment provider in Indiana. Combined annual sales for the independent chain is $13 million for FY98.

Horizon's strategic plan, said President/CEO Rick McCord, is to create the total healthcare concept, offering one-stop shopping to customers.

The letter of intent is non-binding and is subject to the negotiation and execution of a definitive contract between the two parties.

Interwest receives provider agreements

Interwest Home Medical (Salt Lake City) has obtained assignment of all the provider agreements acquired with the **HealthCor Holdings** (Dallas) acquisition and a three-year, extended-term preferred provider agreement with **Altius Healthcare**. The provider agreements in Colorado represent the majority of the revenues acquired from HealthCor and were either amended or assigned to Interwest with the same conditions as the original agreements.

The Altius agreement replaces the previous provider agreement that was acquired by Altius through its acquisition of PacifiCare's Utah plans. Interwest has been Altius' primary provider of home medical equipment services for several years, the company said.

Invacare product receives FDA approval

Invacare (Elyria, OH) received **Food and Drug Administration** (Washington) clearance on the Invacare Venture HomeFill Complete Home Oxygen System, developed by Invacare in response to Medicare oxygen reimbursement cuts. The HomeFill system is an oxygen-filling system that works in conjunction with a specially adapted Invacare six-liter oxygen concentrator. The system allows a patient to fill his or her own high-pressure oxygen cylinders, eliminating time-consuming and costly service calls to the oxygen provider.

Option Care teams with Blue Cross of CA

Option Care (Bannockburn, IL) signed a home infusion therapy agreement with **Blue Cross of California**. Under the terms of the agreement, Option Care will provide alternate site and home IV therapy services to more than four million Blue Cross members throughout California. Option Care operates 12 franchised and owned IV pharmacies in California. ■

CORPORATE LADDER

• **Home Health Corp. of America** (HHCA; King of Prussia, PA) has appointed David Geller president/CEO. The company said the U.S. Bankruptcy Court entered an order approving the appointment. Geller was previously president and interim CEO. Michael Bellenghi, an outside director, will remain chairman, HHCA officials said. ■

Caretenders

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last year, when the company had 22 day care centers. As of March 31, the company had 25 day care centers. In contrast, the company had 43 home care units last year, and only 12 as of March 31.

Caretenders said proceeds from the sale are being used to repay obligations outstanding under the company's bank line of credit. Immediately after closing, $4 million remained outstanding on the line of credit. The company has retained certain assets and liabilities associated with the product operations, the liquidation of which is expected to generate additional proceeds of $3 million, thus reducing the company's bank borrowings to nearly zero. Borrowing capacity will then be available to the company to pursue further development of the adult day care business.

"We are very excited to now be able to focus our undivided energy on our adult day health services operations, and we are pleased that the product transaction will provide us with improved access to the capital we need to grow, "Yarmuth said. "We believe the opportunities available to us to maximize shareholder value are much stronger in adult day care that in the other divisions. This realignment will enable us to be almost entirely debt-free, have borrowing capacity available to fund growth, and deliver higher earnings per share to our shareholders."

According to Yarmuth, the company also believes opportunities for employees in the product and visiting nurse divisions will improve as a result of the realignment. "They will benefit from the dedicated focus on their specialty areas," he said. "We will continue to work diligently to ensure smooth transitions for employees, patients, and referral sources." ■

REGIONAL DIGEST

• **VNA Health Care** (Plainville, CT), a subsidiary of the **Hartford Health Care Corporation**, said its **Arrow VNA Home Health Center**, a home medical equipment supplier, and **CliniLink**, a home infusion therapy provider, will be acquired by the **AMHealth Group** (Stratford, CT). The transaction allows VNA Health Care, a non-profit home care and hospice agency, to focus on providing quality, cost-efficient home care, the company said.

• **Pulmonary Diagnostics & Consulting** (PDC; Waukesha, WI) has contracted with the **Cardio-Pulmonary Continuum** to provide portable sleep apnea testing services throughout Connecticut, New Jersey, and New York. The contract covers nearly 1 million people in the tri-state area, where there are an estimated 40,000 people who suffer from sleep apnea. Under the agreement, PDC will provide the equipment and screen patients in their homes for sleep apnea. ■

PPM/MSO NEWS

• **PhyCor** (Nashville, TN) has entered into a new affiliation with **Rockford Health System** (Rockford, IL), the largest vertically integrated healthcare delivery system serving northern Illinois and southern Wisconsin. Rockford has chosen PhyCor to lead the administrative restructuring at **Rockford Clinic**, the region's premier outpatient facility, PhyCor said. PhyCor will provide practice management services for Rockford Clinic using its resources and expertise to help the clinic improve operations and better enable physicians to focus their attention on patient care. In addition, PhyCor subsidiary **North American Medical Management** will provide support services to Rockford Health Plans. Mike McClintock, a vice president for PhyCor, will serve as interim executive director of Rockford Clinic.

• **Birman Managed Care** (Cookeville, TN) reported a 1Q00 ended Sept. 30 net loss of $515,847, 19 cents per share, compared to a net loss in 1Q99 of $449,433, 17 cents per share. The net loss for the quarter was primarily from a decrease in revenue and gross margin from the Quality Management Program (QMP). ■

CALENDAR

• **Global Business Research**'s (Stamford, CT) conference *Prosper Under PPS: Successfully Balancing Finance and Clinical Operations* is Dec. 9-10 in Orlando, FL. The conference will address how to learn to live with PPS now. For more information, call (800) 868-7188.

• **Medtrade Europe**, the trade event in Europe that focuses exclusively on the home care market, has been postponed to 2001. The conference was scheduled for April 12-14, 2000. For more information on Medtrade Europe, call (800) 241-9034.

• The **California Association for Health Services at Home**'s (Sacramento) 2000 annual conference is May 17-19 in Pasadena. For more information, call (916) 554-6117.

• The **National Association for Home Care** (Washington) is offering a one-day workshop on the prospective payment system (PPS) to provide attendees with analysis and detailed information about how to successfully implement PPS. The next workshop will be in Las Vegas on Dec. 8. More locations will be announced. For more information, call (202) 547-7424.

• The **American Federation of Home Care Providers** will be conducting several one-day workshops on *Understanding and Managing Under PPS*. The first workshop will be Feb. 1 in St. Petersburg, FL. Other programs are in planning. For more information, call (800) 525-5577. ■

MANAGED CARE REPORT

• **Blue Cross and Blue Shield of Tennessee** (BCBSTN; Nashville, TN) lost nearly $10 million on its **TennCare** business in October, and it expects its losses to mount next year unless something is done to fix the program, reported the *Tennessean*. Some reasons for the loss include a rise in the cost of medical care nationally; growing numbers of TennCare patients with chronic, costly medical conditions; out-of-control drug costs; and, through the recent settlement of a class-action lawsuit, a dramatic expansion of the appeal of rights of TennCare patients who are denied medical services, the company said. BCBSTN currently covers about 639,000 Tennesseans, and by Dec. 1, will have 645,000 members – half of all TennCare enrollees and an eighth of the state's population, BCBSTN said. By law, it cannot accept any more enrollees, the *Tennessean* reported. The other eight companies that mange benefits for TennCare enrollees are having their own financial problems and are reluctant to increase their caseloads, state officials told the newspaper.

• **WellPoint Health Networks** (Thousand Oaks, CA) last week announced two key enrollment milestones signifying extraordinary growth for the company. First, WellPoint's California subsidiary, **Blue Cross of California**, has reached 5 million members. And second, individual membership among Blue Cross of California and WellPoint's national subsidiary, **Unicare Life & Health Insurance Company**, combined has now reached more than 1 million members. The milestones come on the heels of two prominent awards, WellPoint said, including *Fortune* magazine's 1999 pronouncement of WellPoint as the most admired healthcare company and the September announcement of CaliforniaCare, Blue Cross of California's HMO, being named Blue Ribbon HMO by the **Pacific Business Group on Health**.

• **Blue Cross and Blue Shield of South Carolina**'s (BCBSSC; Charleston, SC) HMO, HMO Blue, will take over the health insurance coverage of 6,300 people formerly covered by **HealthFirst** (Greenville, SC), which said last month it was going out of business. The conversion will take place Jan. 1. HealthFirst said in October it would cease operations because the healthcare market wasn't developing as planned. Also, its Medicaid HMO was hampered by changes in the Medicaid system. The deal will not include 11,000 employees of Greenville Hospital System, Anderson Area Medical Center, and Spartanburg Regional Healthcare System covered by HealthFirst, the company said. They will be covered by their hospitals' health plans beginning Jan. 1.

• **PacifiCare Health Systems** (Santa Ana, CA) said last week that its board approved a poison pill plan to protect the company from any hostile takeover bid. The plan would give shareholders the right to acquire shares of common stock or a new preferred stock at a discount if some person or group acquires a stake of 15% or more in the company, reported the *Los Angeles Times*. PacifiCare said the plan will help shield it from abusive takeover tactics, but was not adopted in response to any current proposals. The plan applies to shareholders of record Nov. 19 and expires after 10 years.

• **Aetna U.S. Healthcare** (Blue Bell, PA) said a federal court has dismissed claims of fraud and other allegations filed against the company by **Coram Healthcare** (Denver). The suit involved Coram's agreement to provide home healthcare services to Aetna U.S. Healthcare members. All claims have been dismissed, except breach of contract. ■