NJ SPOTLIGHT
NEWS, ISSUES AND INSIGHT FOR NEW JERSEY

# REVITALIZING NJ'S HEALTHCARE INDUSTRY, ONE HOSPITAL AT A TIME

**BETH FITZGERALD** | DECEMBER 5, 2011

Two bills under consideration in Trenton would use tax incentives to bring failed hospitals back to life and help smaller facilities expand.

*Muhlenberg Hospital in Plainfield*

A shuttered or downsized healthcare facility means much more than the loss of medical services. It means lost jobs, lost revenues, and lost taxes -- both on the local and the state level.

Two bills now wending their way through the Statehouse are meant to address this situation, using state tax incentives to spur investment in healthcare. Legislation sponsored by Sen. Robert Gordon (D-Bergen) focuses on redeveloping facilities that have gone dark. Meanwhile, Sen. Jim Whelan (D-Atlantic) has introduced a measure to help hospitals that have kept their doors open obtain capital to expand. Both bills have been approved by the Senate Budget Committee.

Gordon said his bill, S-3100, would use tax incentives to provide financing "for developers who want to recycle healthcare facilities that have ceased operation. There is a need for some additional incentives to really help developers take on these projects."

**RELATED LINKS**

Senate Bill 3100

Senate Bill 3077

Healthcare Drives Private-Sector Employment in Garden State

Beth Schroeder, chief of staff for Whelan, said S-3077 proposes making hospitals eligible for grants for up-front financing for expansion; the grants would be based on an estimate of the additional taxes the state expects to collect once the expansion is finished and the workers hired. "A lot of hospitals want to expand but they just don't have the wherewithal to do so, and we are looking to build our healthcare sector here," she said.

Hospital projects generate construction jobs and permanent jobs, as well as the economic stimulus provided by the hospital's investment in new equipment, Schroeder said. "Then the state gets the benefit of having people employed at a newer, bigger facility."

Gordon is a former trustee of Barnert Hospital in Paterson, which went bankrupt and was acquired in 2008 by a group of hospital developers who reopened it as a "medical mall," whose tenants include physician's offices and diagnostic imaging. State healthcare industry experts often point to Barnert as a model for hospital redevelopment. "I've seen the conversion of that property into a catalyst for economic activity in that section of Paterson," Gordon said.

What's more, the building would not have to provide healthcare services to be eligible for the tax incentives he proposes: the hospital could be redeveloped as an office building or for other nonmedical purposes. When considering a project, Gordon explained, "we would not do it unless there is a belief that there is a positive net benefit to doing this in terms of job creation, income creation and, as a result, tax revenue generation."

Right now at Barnert, "there is a lot of economic activity there, the building is being used for healthcare purposes, there are medical offices, outpatient facilities as well, and certainly there is a need in that community," for the services," Gordon said. "I see this as a way really to create incentives for redevelopment. In many cases the hospitals are the largest employers and have substantial physical facilities and we see a number of them are now underutilized. This is good public policy and a legitimate use for taxes incentives."

Barnert is owned and was redeveloped by Community Healthcare Associates (CHA) of Bloomfield. William Colgan, a principal of CHA, said he advocates legislation that creates financing for hospital development. The most effective program, he said, would be something similar to the urban transit hub tax credit program, in which the hospital or the developer could receive state tax credits and then sell the credits to a profitable corporation, thus generating cash to purchase and renovate a closed hospital.

Several hospitals have closed as full-service acute care hospitals, but continue to provide healthcare services. Muhlenberg Hospital in Plainfield closed as an acute care hospital in 2008 but still operates a satellite emergency department, a dialysis center, and a nursing school.

"We appreciate state legislators interested in creating incentives to help redevelop closed hospitals, such as Muhlenberg," said Adam Beder, vice president of government affairs for JFK Health System, Muhlenberg's parent. "We certainly would support legislation that provides economic incentives coupled with sufficient flexibility, so that the owners of closed hospitals can work with surrounding communities to foster redevelopment projects that are economically viable and address local needs and expectations."

Several of the state's surplus hospitals resulted from their being replaced by new hospitals. Virtua built a replacement hospital in Voorhees for its hospital in that town; Capital Health in November relocated Mercer Medical Center in Trenton to a new hospital in Hopewell.

A decade ago in Camden, Virtua pioneered the concept of replacing an acute care hospital with a facility providing medical and community services. Today, Virtua Camden houses a satellite emergency department, doctor's offices and a Camden charter school. Virtua CEO Richard P. Miller recently called Virtua Camden, "a model that we should see more of as healthcare changes."

Virtua Camden gets about 90,000 medical visits a year provides about 500 jobs, according to Virtua. Jersey City Medical Center moved into its new facility in 2004, and still owns the vacant Greenville Hospital. JCMC chief executive officer Joseph Scott has also spoken in favor of legislation to spur hospital redevelopment.

Community Healthcare Associates, which redeveloped Barnert, in October purchased Kessler Memorial Hospital in Hammonton, which closed in 2009; CHA is developing Kessler into a medical mall.

Colgan of CHA said the entire hospital industry could benefit from redevelopment financing. "We are not just dealing with hospital closures: the healthcare system at large needs some sort of incentive program to allow for the revitalization." New Jersey, he said has "an aging hospital system, and it is really a big problem. There need to be incentive programs that allow for revitalization -- whether it's the full transformation in the event of a closed hospital or the revitalization of an existing hospital. We need incentives that allow private developers to come in and work in partnership with nonprofit hospitals."

Colgan said Barnert was licensed for 300 acute care beds but was only using about 125 beds by the time it closed. Had an incentive program had been in place at that time, Barnert might have been able to downsize the hospital and lease the remaining space to medical mall tenants "and it would still be open today as an acute care hospital operating 125 beds."

Colgan said about 700 people now work at the Barnert Medical Arts Complex, which he said pays Paterson about $600,000 a year in property taxes. He said CHA is now negotiating with healthcare tenants to move into Kessler, which he said pays about $100,000 a year in property taxes. Kessler is smaller than Barnert and will probably create 250 to 300 new jobs when it is fully leased some time next year, Colgan said. "The key is to get people back to work, and healthcare is a big boost to our economy."

Randi Minniaer, vice president for policy and legislation for the New Jersey Hospital Association said "in some cases hospitals have closed and still have millions of dollars in debt" which poses an obstacle to redevelopment. "We appreciate the interest from the legislature and the administration to work with the industry to develop and redevelop closed facilities. What we want to do is to identify the most viable program to offer the most incentives to win in the market."

Colgan echoes Minniaer's concern about the amount of debt some closed hospitals are carrying. CHA paid about $2 million to purchase Barnert while it was in bankruptcy; another $25 million was invested in the property, by CHA and by the tenants, "to get it operational for new healthcare uses," Colgan said.

He stressed that CHA is not asking the state to use taxpayer money to subsidize hospital redevelopment.

Before the state provides financing, it performs a net benefit analysis, which is "a determination that if [the state] provides an incentive, it will have a greater financial benefit to New Jersey" from the taxes collected once the project is producing revenue, Colgan explained. The state won’t approve a project unless "At the end of day, there [is] more money in the state treasury as a result of revitalizing the building."

Colgan said redeveloping Barnert Hospital was not easy, and he doubts most hospital developers would take it on without tax incentives. "We fought a very hard battle at Barnert to largely break even."