Trinity Health in merger talks with Chicago’s Mercy Hospital
By Kristen Schorsch
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Mercy Hospital & Medical Center, the 159-year-old birthplace of former Mayor Richard M. Daley, is in merger talks with Novi-based Trinity Health, the national Catholic health care chain that bought Loyola University Health System in July.

Mercy CEO Sister Sheila Lyne confirmed that the city’s oldest hospital is in a “friendly” stage of discussions with Trinity Health. She won’t say what type of transaction they’re discussing, but other sources tell Crain’s it’s a merger. Trinity Health declined to comment.

Combining with a larger operator would help secure Mercy’s future as consolidation sweeps the industry and health care reform alters hospital economics. Joining forces with a chain also would give the near South Side hospital access to deeper financial resources as it embarks on long-term renovations estimated to cost hundreds of millions of dollars.

“For anyone who’s a stand-alone in this day and age, if somebody comes and is interested, you’re going to talk to them,” said Lyne, who has run Mercy twice for a combined 25 years. “There was a time when people really weren’t interested in us.”

A deal could cap the career of Lyne, 75, who returned to the Catholic hospital about a decade ago to pull it back from the brink of closure. Mercy’s finances had deteriorated over the preceding decades as the middle class deserted much of the South Side, leaving behind a poorer population more likely to get health insurance from government programs such as Medicaid that pay hospitals less than private insurers. Some 75 percent of Mercy’s patients are on Medicaid or Medicare, compared with an average of 48 percent for Illinois hospitals overall.

Lyne nursed the hospital back to health through a combination of cutting costs, expanding cardiac and women’s health services and extending its network of clinics to the gentrifying South Loop neighborhood just north of Mercy. In 2010, the hospital had $248.2 million in operating revenue, up 40 percent from five years ago, and $7.0 million in operating income, state records show.

With 479 beds and 11 clinics, Mercy is now a linchpin of health care on the South Side. A Mercy spokeswoman said the closing of Michael Reese hospital less than a mile away in 2009 increased Mercy’s emergency-room visits by more than 10,000, a 23 percent jump.

“Since Michael Reese closed a few years back, (Mercy’s) relevance has become more and more important,” said Daniel Marino, CEO of Health Directions, an Oakbrook Terrace, Ill.-based consulting firm. “For Mercy not to be around would create a significant void in health care, definitely on the South Side.”
Health care reform, which aims to expand coverage under government programs, could push patient numbers even higher. The Obama administration also is working to reduce health care costs by rewarding efficiencies more easily achieved at larger hospital chains.

Already, those trends are spurring independent hospitals such as Mercy to seek merger partners. Maywood, Ill.-based Loyola chose Trinity, a 47-hospital chain that operates in 10 states, with $430.9 million in cash as of March 31 and access to a range of capital sources.

Linking up with a chain such as Trinity would give Mercy more resources to handle an influx of new patients and meet the cost-cutting standards of health care reform. Alone, Mercy will continue to grapple with the difficulties plaguing independent community hospitals.

“I think it’s hard to be a community hospital in the long run,” Mercy board Chairman John McCarthy said. “I think that we haven’t quite decided where the future lies. Certainly being part of a larger system may well be a pathway that we would take.”

A deep-pocketed merger partner also could help Mercy finance badly needed upgrades to its 43-year-old hospital complex. Mercy has outlined $263.2 million of renovations to be done over the next 15 to 20 years in a redevelopment agreement with City Hall. The extensive to-do list includes everything from reconfiguring parts of Mercy and replacing the roof to new equipment for physicians.

Unlike some other hospitals, Mercy lacks a cadre of wealthy donors to bankroll capital improvements. The hospital had $4.7 million in cash reserves as of June 30, 2010, and expects $38.0 million in city tax subsidies. There’s also a $65.2 million loan from the U.S. Department of Housing and Urban Development, more than half of which will be used to refinance existing debt. Mercy plans to cover the rest of the renovation costs with funds from its operations.

Changes coming to Mercy also could include the retirement of its longtime chief. Lyne won’t set a date but said she doesn’t expect to be in her current post five years from now.

“All I still like what I do,” she says. “I feel privileged to be doing it, but I also know that I don’t need to be doing it forever.”