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## \$1.5 BILLION FOR NEW DMC

# 'LIKE NOTHING THIS CITY HAS EVER SEEN'

**DMC'S MIKE DUGGAN:**

Among 'biggest investments ever in the city of Detroit'

**DMC'S STEPHEN D'ARCY:**

'Extraordinary vote of confidence in the city'

**ROGER PENSKE ON JOBS:**

'A Christmas tree full of opportunity'



An artist's rendering of a proposed expansion of Children's Hospital of Michigan. Plans are for the hospital to get more than \$208 million worth of work.

**More inside**

**OPTIMISM:** Leaders see positive impact on metro area. 13A

**VANGUARD:** What analysts say about the health-care giant. 12A

**EMPLOYMENT:** Detroit officials hope deal will bring new jobs. 13A

**Q&A:** Details about the deal. 12A

**EDITORIAL:** DMC plan is good Rx for Detroit's health. 5A

**FREEP.COM/DMC:** See a photo gallery of the changes, video of the announcement and all the documents released Friday.

By PATRICIA ANSTETT  
FREE PRESS MEDICAL WRITER

In a stunning announcement that would bring Detroit one of its biggest investments ever, the Detroit Medical Center on Friday announced plans to use its \$1.5-billion deal with a Nashville, Tenn., health care company to transform its aging facilities into two of the nation's medical destinations, drawing both Detroiters and patients from afar.

"This is like nothing this city has ever seen," CEO Mike Duggan said.

He said the DMC has made money for six years, but banks and investors have balked at lending the non-profit money for new projects, given the DMC's \$639 million in bond and pension debt, hefty losses carrying the poor as Michigan's largest safety net provider and the challenges of the recession.

Vanguard Health Systems, an investor-owned company, plans to invest \$850 million at DMC facilities, including a new cardiovascular Institute and significant expansions at its Children's Hospital of Michigan, projects stalled for years by lack of financing. The two hope to complete the purchase by June.

Wayne County Executive Robert

Ficano said the deal is bigger than the investments in Ford Field, Coleman Park and Campus Martius combined. Civic booster and DMC board member Roger Penske called the deal a home run.

Blue Cross Blue Shield of Michigan CEO Dan Loew said he hoped the deal would not compromise care to poor people. "We encourage careful consideration and review of this transaction," he said.

■ HOPE IS TO LURE MORE PATIENTS. 12A

12A WWW.FREEPRESS.COM SATURDAY, MARCH 20, 2010

## COVER STORY

## Q&amp;A

**What does this mean for DMC's future?**

By PATRICIA ANSTETT  
FREE PRESS MEDICAL WRITER

Here are answers to some key questions about the purchase of the Detroit Medical Center by the for-profit Vanguard Health Systems:

**QUESTION: Why is DMC doing this?**

**ANSWER:** The DMC says that while it has made money for seven years, it can't attract donor or investment money for key projects it needs to renovate its aging facilities or to build new ones, such as a Cardiovascular Institute or expansion of Children's Hospital of Michigan. As a result, 40% of the people who live near the DMC campus or near its Sinai-Grace Hospital in northwest Detroit leave for care in the suburbs — even though the DMC has some of the state's top-ranked physicians.

**Q: Will it close any hospitals?**

A: Vanguard signed a commitment to keep all the hospitals open for 10 years.

**Q: What will happen to the DMC's longtime commitment to provide care for poor people?**

A: Vanguard is committed to maintain the system's charity care policy. It also expects to continue to receive enhanced Medicaid reimbursement to care for poor people.

**Q: What happens after the 10-year commitment on keeping hospitals open ends?**

A: The DMC, though DMC and Vanguard said each organization has a strong commitment to the historic mission to serve the poor and train doctors at the DMC.

**Q: Will DMC continue to train all the WSU doctors it does now?**

A: Yes. Vanguard said it will retain all specialty training programs with Wayne State University School of Medicine.

**Q: How soon will the improvements begin?**

A: The DMC said groundbreaking will be no later than June for its new outpatient pediatric center, if the deal is approved.

**Q: Will the state approve this?**

A: The DMC researched the legal history of purchases of nonprofits by private companies and is confident Michigan's attorney general will approve the deal.

**Q: Will this happen at other hospitals?**

A: That's possible. One in five U.S. hospitals is investor-owned, though few are in Michigan. But as many nonprofit hospitals struggle to survive, more hospitals could go in this direction as they look for new revenue.

**Q: What's it for Vanguard?**

A: The company is buying DMC for less than the value of DMC's buildings and equipment. A large hospital system, like Vanguard, can buy expensive hospital equipment at lower prices than DMC.

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# DMC leaders see rosier future with investment

Hope is to lure patients back from suburban hospitals

By PATRICIA ANSTETT  
FREE PRESS MEDICAL WRITER

Five years from now, the Detroit Medical Center hopes, an infusion of \$1.5 billion will turn it into a premier medical center, such as the Cleveland Clinic.

DMC CEO Mike Duggan said 40% of the system's potential customers bypass its Detroit hospitals for suburban facilities with more modern amenities. He hopes to lure them back with world-class facilities at the DMC.

The proposed deal with Tennessee-based Vanguard Health Systems provides \$850 million for new investments,



Dr. Lorna Thomas, chairwoman of Detroit Receiving Hospital's board, and Trip Pilgrim, chief development officer and senior vice president of Vanguard Health. Thomas called the deal "a marriage made to happen."



Conrad Mallett Jr., president of DMC's Sinai-Grace Hospital, speaks about the benefits of Vanguard Health Systems taking over his hospital.

The improvements proposed for the DMC's Midtown campus, north of Detroit's downtown, promise to boost medical and bioscience research already there with millions in investments, bring as many as 5,000 new construction jobs and trigger other new business, leading to a "multiplier effect," he said. "The real effect, I believe, will be a lot larger than the actual Vanguard investment," said Stephen D'Arcy, DMC board chairman.

Other plans call for business as usual: The DMC hospitals will retain their names; Duggan and other executives will remain in their jobs, and residency programs that train thousands of doctors in specialty care will continue with the Wayne State University School of Medicine.

**Approvals needed**

The purchase must be approved by Michigan Attorney General Mike Cox. It also requires that the DMC obtain status as a Renaissance Zone, a tax incentive that gives corporate tax breaks, even to citizens in the zones, in exchange for investments in depressed neighborhoods.

In a statement, Cox said his office "has an obligation to look at issues related to charities, and we will conduct a review as more information becomes available." The new partners set June 1 as a deadline to complete the deal.

Wayne County Executive Robert Ficano said he wants to

purchase by a for-profit, or investor-owned company, because, even though it made money for six consecutive years, "the nonprofit model is killing health care in the city of Detroit."

**Old debts blamed**

Today, Duggan has only six hospitals, four of them run by the DMC, far fewer than in 1987, Duggan said.

He said he had tried and failed to find investors to non-

profit hospitals and construct new facilities.

"I've been to Wall Street for six years," Duggan said. "They won't lend the DMC a dollar now and they won't for several years" even though the system has made money since 2004, including \$4.7 million last year.

Duggan blamed old debts from previous acquisitions for problems he inherited.

Vanguard will assume \$450 million in bond debt and another



Wayne County Executive Robert Ficano

**Concerns raised**

The news stunned Michigan health leaders and caught many by surprise.

While it brought cheers on the DMC campus, it raised concerns from some community and business leaders in a state where most hospitals are nonprofits. Nationwide, one in five hospitals are owned by for-profit health company leaders.

Sister Mary Ellen Howard, a nationally known health reform advocate and director of Detroit's Cabrini Clinic, the oldest free clinic in the U.S., said she also shared concerns because "the mission of for-profit companies is to make a profit for their investors."

She added that the DMC board saw purchase by a for-profit as its best option, then "the financial situation at the DMC" must be worse than we led to believe."

Vanguard said it has signed a letter of intent in which it promised to keep all DMC hospitals open and maintain its charity care policies for 10 years.

DMC's board also will take over the administration of \$140 million in previously donated funds, to see that the money is spent as intended. DMC and Vanguard may set up a nonprofit foundation to take over the job. Now donations are overseen by a hospital board and its medical staff and members of the DMC board.

During the DMC's CEO, Robert Ficano said he wants to purchase by a for-profit, or investor-owned company, because, even though it made money for six consecutive years, "the nonprofit model is killing health care in the city of Detroit."

Duggan blamed old debts from previous acquisitions for problems he inherited.

Vanguard will assume \$450 million in bond debt and another

**What's next**

Here is what the Detroit Medical Center and Vanguard Health Systems need to do by June 1:

■ DMC must apply for a Renaissance Zone grant, a state program that provides 12 years free of local and state taxes for companies that have developed projects in depressed communities. Taxes are paid on a graduated basis in future years.

■ Wayne County and Detroit must approve the grant before it is considered by the state.

■ Michigan Attorney General Mike Cox has to approve the deal. He will review whether the charitable mission of the DMC still will be served under the new for-profit structure.

Source: Detroit Free Press

\$189 million in pension contributions, DMC board member Roger Peacock said. "This is a very strict budget." Haapaniemi said a tour of Vanguard's Baptist Health System in San Antonio convinced him to approve the deal.

"When I started here, most of our DMC hospitals were old at that time," Haapaniemi said, drawing laughs after noting he's been a doctor in the city for 30 years. He said he expects Vanguard to do for DMC what it did for Baptist.

"It was very impressive. Vanguard had taken this system of five hospitals and taken tired old buildings and transformed them to state-of-the-art hospitals."

**Suburban competition**

Duggan said he expects to win back Detroit patients who bypassed his hospitals for ones further away in the suburbs.

While the DMC has top care, its facilities can't compare to ones like the new Henry Ford West Bloomfield Hospital, a jaw-dropping facility with posh shops and gourmet food offerings that celebrated its first anniversary Friday.

"We've had to sit by and watch as Wayne, West Bloomfield and Novi and Auburn make huge investments in modern new hospitals and we've been frustrated we can't do the same in the city of Detroit," Duggan said. "Now we can. Detroit will no longer take a back seat to anyone in the quality of our hospital facilities."

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## Vanguard Health Systems

# Analyst: Buyer 'lives on the edge'

Tennessee firm has \$1.8 billion in debt

By KATHERINE YUNG  
FREE PRESS BUSINESS WRITER

The for-profit company proposing to take over the Detroit Medical Center is a relatively small hospital operator backed by high debt.

For the privately owned Vanguard Health Systems of Nashville, Tenn., buying the nonprofit DMC and its eight hospitals would be its biggest acquisition in its 13-year history. The deal would instantly give it control of a company about two-thirds its size in terms of revenue.

Vanguard owns and runs 15 hospitals in San Antonio,

off its investments in a hospital system it bought in Chicago. "Almost all of Vanguard's revenue growth has come from the ramp up of new facilities and new contracts at its health plan segment, which has offset otherwise tepid core results," she wrote in a recent report.

Besides the 15 hospitals, Vanguard owns three managed health care plans in Arizona and Illinois and two surgery centers in Orange County, Calif. It employs slightly more than 19,000 workers.

Vanguard has made no secret that it is seeking new sources of revenue in urban markets with aging populations. Like other hospitals, it hasn't been immune to the re-

cession. "We continue to experience limited volume growth due to stagnant demand for inpatient healthcare services and increased competition for available patients," the company said in its most recent quarterly earnings report.

This is diversifying, from a little-known company a little over a year ago, to one of the world's largest private equity firms, the New York-based Blackstone Group.

Some analysts have speculated that Blackstone may soon take the company public or sell it because private equity firms usually don't hold their investments for many years.

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## THE NEW AND IMPROVED DMC

Vanguard Health Systems has signed a letter of intent to buy the Detroit Medical Center; assume \$639 million in debt and pension contributions and another \$850 million in capital improvements. Here's how the money would be spent, some \$1.5 billion in all.

### Children's Hospital new outpatient center



**1** More operating room capacity. Expanded intensive care. 175,000-square-foot tower.

### Children's Hospital new tower

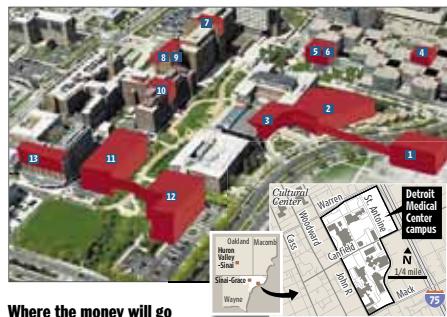


**2** About 30% more floor space. Larger inpatient rooms. Would have five floors and new patient beds.

### Harper's new Cardiovascular Institute



**11-13** Bathrooms to meet Americans with Disabilities Act standards. New nursing areas.



### Where the money will go

Project	Hospital	Estimated Cost	Total
1 Pediatric specialty center	Children's	\$33,000,000	
2 Children's new tower	Children's	\$170,000,000	
3 Clinic building backfill	Children's	\$5,200,000	\$208,200,000
4 Patient care unit renovations	Detroit Receiving	\$20,000,000	
5 Pre/post op space enhancement	Detroit Receiving	\$2,000,000	
6 Emergency dept. renovations	Detroit Receiving	\$4,400,000	\$28,800,000
7 Surgical services renovation	Harper/Hutzel/CVI	\$20,000,000	
8 Lobby expansion/renovation	Harper/Hutzel/CVI	\$10,000,000	
9 Ground floor redesign	Harper/Hutzel/CVI	\$20,000,000	
10 Inpatient unit renovations	Harper/Hutzel/CVI	\$11,250,000	
11 Cardiacvascular Institute & Outpatient Specialty Bldg.	Harper/Hutzel/CVI	\$75,140,000	
12 Rebuilding Mack parking deck	Central Campus	\$35,300,000	\$35,300,000
13 Sixth floor renovation	Rehab Hospital	\$2,850,000	\$2,850,000
14 Emergency dept. expansion	Sinai-Grace	\$33,000,000	
15 Facade/front entrance	Sinai-Grace	\$10,000,000	
16 Outpatient Ambulatory Bldg.	Sinai-Grace	\$25,500,000	
17 Radiology relocation	Sinai-Grace	\$5,000,000	
18 Private room renovation	Sinai-Grace	\$42,000,000	\$77,700,000
19 ICU bed expansion Huron Valley	Huron Valley-Sinai	\$4,000,000	\$10,800,000
20 Routine capital expenditures	Huron Valley-Sinai	\$350,000,000	\$350,000,000

Note: No funds designated for DMC Surgery Hospital, Madison Heights

### Harper/Hutzel new entrances



**8** Larger, more welcoming patient lobby. Easier floor plan for patients to navigate hospital.

### Sinai-Grace Hospital's expanded ER



**14** More space to treat trauma patients. Safer, more private environment.

### Huron Valley-Sinai room upgrades



**19** ICU would expand by six beds. About 40 new private rooms.

**\$850,400,000**

**Fewer hospitals**  
In 1867 there were 18 safety net hospitals in Detroit. Today, there are only six, with four run by DMC.  
● Existed in 1867  
● Existed in 1995  
● Exists today

MT. CARMEL MERCY  
DETROIT OSTEOPATHIC  
SINAI-GRAVE  
NORTHWEST DETROIT GENERAL  
DETROIT RECEIVING HOSPITAL  
HARPER/HUTZEL  
CHILDREN'S  
ST. JOHN DETROIT  
HOLY CROSS  
DETROIT MEMORIAL  
HOLY NAME  
DOCTORS  
SOUTHWEST DETROIT  
ST. JOHN MERCY  
SARATOGA

**Vanguard Health**  
Vanguard is the eighth-largest investor-owned hospital system in U.S. and will be fifth largest with DMC merger.  
**\$3 billion | 20,000**  
IN ANNUAL REVENUE

**C by the numbers**  
Became a nonprofit in 1985 from a cluster of Detroit hospitals that date back more than 100 years. Includes eight hospitals and the Kresge Eye Institute in Detroit, Madison Heights and Commerce Township.

<b>6.9</b>	<b>\$69 million</b>	<b>\$4.7 million</b>	<b>1,734 LICENSED BEDS</b>
<b>12</b>	<b>FREE CARE</b>	<b>UNCOLLECTED PATIENT DEBTS</b>	<b>13,940 EMPLOYEES</b>
<b>3</b>	<b>DIACID BASES</b>	<b>3,000 DOCTORS</b>	

Sources: Detroit Medical Center and Vanguard Health Systems

## Reaction

### Many see cause for optimism

BY TAMMY STABLES BATTAGLIA,  
JOHN WISELY and  
PATRICIA ANSTETT,  
FREE PRESS STAFF WRITERS

The potential sale of the Detroit Medical Center to Tennessee-based Vanguard Health Systems was met with optimism in metro Detroit on Friday, particularly the company's promise to invest \$850 million in improvements in the DMC.

"Any investment in these facilities is positive," said Dr. Valerie Parisi, interim dean of the Wayne State University School of Medicine, the DMC's longtime clinical partner.

Parisi said she hopes the ownership change will "strengthen the relationship" between the school and the DMC.

Brenda Hillock, a nurse at DMC's Children's Hospital of Michigan since 1990, said she hopes for better facilities, including a helipad at Children's that would allow critically ill children to be flown there instead of nearby Hutzel Hospital.

"They've got the money to spend; we need it," Hillock said.

"We would be state of the art," added Lori Dolay, a registered nurse at Children's. "You know the mecca over there in Ann Arbor?" she asked, referring to the University of Michigan Health System. "We'd be up there with them."

Government officials saw positives with the region.

### What they said

"We were being choked to death by the non-profit model."

Mike Duggan, CEO of the Detroit Medical Center

"Investment is what we needed; we have the human capital."

Roger Penske, DMC board member

"It was a marriage made to happen."

Dr. Lora Thomas, a Detroit dermatologist and chairwoman of the board of Detroit Receiving Hospital, referring to what she sees as similar values between DMC and Vanguard

"We would be state of the art ... We'd be up there with them."

Lori Delay, a registered nurse at DMC, referring to the University of Michigan Health System

"I don't trust private organizations."

Mahmoud Subieh of Dearborn Heights, saying he's hesitant to believe Vanguard's promise to maintain and exceed services for needy patients

"We intend to work closely with the DMC during this transition to ensure our continued progress as one of the premier medical schools in the nation."

Wayne State University President Jay Noren, in an e-mail to employees Friday

"I think this is an extraordinary vote of confidence in the City of Detroit."

Stephen D'Arcy, chairman of the DMC board

"It's good for the city of Detroit and for all of Wayne County." said Wayne County Commission Chairman Edward Bolke, D-Taylor.

"I guess I'm excited," said Tom Zoner, supervisor of Commerce Township, where the DMC's Huron Valley Hospital is located. The change in

tax status would mean the township could collect taxes on the hospital property. But he said "it's way too early" to guess how much it would be appraised at other than to say it would be in the millions.

Gov. Jennifer Granholm

said in a statement Friday that the proposed purchase "has

the potential to stabilize the hospital's future in Detroit and could help strengthen the economic resurgence in the city and the surrounding area through investment and job creation."

She said she expects the DMC's history of providing care to the most vulnerable residents will remain unchanged.

"The future here was expressed by Karla Lafave, who has brought four of her five children to Children's for years for various conditions."

"As long as the service stays, it sounds like they're going to make some good changes," Lafave said.

Mahmoud Subieh of Dearborn Heights wasn't convinced. He said he's concerned about what would happen if taken over by a for-profit company.

"I don't like profitization," he said, visiting Children's Hospital for an appointment for his son Omar, 5. "Medical care should not be for-profit. Health care is not a privilege; it is a right."

But Kimmyata Cragmiles saw only positives for her daughter, who has had four operations at Children's and her desire to enter the nursing profession. She sees herself as a future DMC employee.

The sale, she said, "means more jobs for people that need them. That may mean an opportunity for me to get a job."

■ STAFF WRITER LORI HIGGINS CONTRIBUTED TO THIS REPORT

## In Detroit

### City officials hopeful deal will bring jobs

By NAOMI R. PATTON  
FREE PRESS STAFF WRITER

As details unfolded Friday

about the potential sale of the Detroit Medical Center to Vanguard Health Systems, City of Detroit officials said they are viewing the prospect of new jobs coming to the city.

"We are sending a message around the country that we as a city, are open for business," Mayor Dave Bing said at a news conference announcing the deal.

"This is an \$850-million investment in our city, in our neighborhoods and our future."

Later, Bing said he hopes the deal — estimated to bring 10,000 jobs to the city over the next five years — will bring other investment to Detroit.

The Detroit City Council and the Wayne County Board of Commissioners will need to approve Renaissance Zone tax abatements for the medical center.

The Renaissance Zone designation grants 100% tax abatements on city and state taxes for 10 years. The tax break drops to 75% for the 11th year, 50% for the 12th year, 25% for the 13th year, and full taxes due after that.

Bing administration officials said they have not determined the amount of taxes they would receive when the zone designation expires.

City Council President Charles Pugh said he was con-

### Renaissance Zones

Michigan lawmakers created Renaissance Zones in the mid-1990s to encourage redevelopment of distressed areas.

Within a designated zone, most state and local taxes are abated, including city taxes, state income taxes and the Michigan Business Tax. The tax breaks reduce the cost of doing business for companies located in the zones.

More than 150 areas in Michigan have been designated as Renaissance Zones. Some have had redevelopment spurred by the tax breaks. In others, the reaction to it has not been enough to spur development.

John Gallagher

concerned about access for care and Detroiters having access to the jobs created. "As we proceed, we're going to work out the details," he said.

County Executive Robert Ficano said the challenge now is to get all the permits and designations approved, something he promised the region can do within 60 days.

The deal's first stop for approval will be the council's Planning and Economic Development Committee. Staunton Jenkins, who chairs the committee, said she's still learning about the deal.

"We want to make sure that the investment remains in the city of Detroit," she said.

City Council President Charles Pugh said he was con-

cerned about access for care and Detroiters having access to the jobs created. "As we proceed, we're going to work out the details," he said.

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