

The Boston Crisis Deepens

In April 1999, we published a report on the bankruptcy at our medical facility in Greater Boston (*Boston Regional Medical Center Closes [WM—875]*). However, in October the situation became even worse. This was partly because of a court decision, and partly due to new revelations published in what is probably the largest newspaper in New England.

1 - BACKGROUND

On April 28, 1899, a charter was obtained to set an Adventist health institution in the country near Boston. This was in accordance with Spirit of Prophecy directions, which stated that our sanitariums should be located in the country, but within traveling distance from the large cities. (For much more on this aspect of the blueprint, see our *Medical Missionary Manual*, which is a compilation of Spirit of Prophecy principles dealing with various aspects of our health and medical work.)

It was named the New England Sanitarium. In March 1967, the name was changed to New England Memorial Hospital, and in 1995 to Boston Regional Medical Center. Like all our other denominational hospitals, because it had abandoned the Spirit of Prophecy blueprint for restoring people to health, it faced the stiff competition of being a drug and surgery facility, like the other ones down the street.

2 - THE COURT ORDER

On Tuesday, October 26, a lawsuit began which, a few days later, ended disastrously.

For a number of years, Adventist Church leaders knew that the Boston Regional Medical Center (BRMC) was not doing well, financially. But they dallied and did not take decisive measures. Due to mismanagement and inflated administrative salaries and expenses, BRMC was permitted to gradually spiral downward—with no thought as to ultimate consequences.

But when BRMC closed its doors in April, church leaders finally awoke to the fact that they were about to lose more than merely our oldest hospital in the East, and largest above Washington, D.C.,—they were going to lose a full-size academy and the New England Memorial Seventh-day Adventist Church as well.

The primary bondholder was claiming not only the 45-acre hospital property,—but also the academy and church as well. That is understandable, since

they were on the same property and the same deed. In spite of the increasing financial crisis at BRMC, church leaders had permitted that situation to continue. Now the day of reckoning had come.

On the opening day of the trial, expensive attorneys hired to defend the church contended that, in 1963 when the school was moved to the hospital campus, they contended that it had been mutually agreed that the school would only be located there but would not become part of the medical institution. “This is one big happy family,” said the attorney. “This is the way things are done in the church.”

On Wednesday, the attorneys for the church presented their final witnesses.

Then attorneys for the creditors presented their arguments. On Friday, the jury decided in favor of the creditors; and the judge ruled that both Greater Boston Academy and the New England Memorial Church were now the property of the creditors.

3 - NEW DISCLOSURES

The chief bondholder has about \$39-\$40 million in BRMC bond issues. The best offer is \$25 million to buy the property. But there is about \$60 million in BRMC debt.

Saxon-Goldman, the chief bondholder, is so upset about this matter that it is threatening to sue the Seventh-day Adventist denomination in order to recoup part of its immense loss.

To make matters even worse, on October 25 the *Boston Globe* published a significant article which unveiled to millions of people, in the Northeast, some of the reasons which led to the collapse of the medical center.

Here is the whole mess in one paragraph:

“Stories of hospitals closing, merging or otherwise falling victim to the increasingly competitive and rapidly changing health care industry are becoming common, but this one is different. A *Globe* investigation into Boston Regional found the hospital took a different route to oblivion; a decade of questionable financial and property transactions, all-expenses-paid trips to Hawaii and abroad for top executives and church members, transfers of millions of dollars to related church entities, multiple mortgage refinancings, and an unusual last-ditch scheme to keep the hospital operating until its prospective buyer, Doctors Community Healthcare Corp., completed its too-good-to-be-true investment offer.”—*Boston Globe*, “Financial Mis-

takes were Fatal for Hospital," October 25, 1999.

The *Globe* was kind. In the above paragraph, it did not mention the sky-high salaries the BRMC executives were receiving.

The whole thing is a tragedy. More than a thousand people lost their jobs; a community lost its hospital and largest employer; and the denomination lost a major hospital, a large Academy, and an important suburban church building.

"Contributing [to the final collapse] was a decade of hospital assets treated like an office slush fund and a bailout for poor investment deals, according to hospital officials familiar with the years of poor management and a review of financial documents."—*Ibid.*

Eleven years earlier, in 1988, BRMC transferred \$3 million to a related church entity for 21 parcels of real estate, much of which was then mortgaged over and over and finally sold in 1997, to help pay millions in loans as they came due. Those loans had been secured by the property itself. That three million was handed over to NEMA (Northeast and Mid-America/AHS), based in Kansas, to help pay debts it had incurred by its own extravagant living.

Then there was an additional \$14 million which BRMC had poured over a six-year period into a physician practice (called Boston Regional Medical Associates). At a time when other hospitals were pulling out of deals involving buying doctors' practices, BRMC kept dumping money into this pet project.

"It just doesn't seem right. How does a hospital close in three weeks after being here 100 years?" asked Diana Gould, who ran Boston Regional's development office and was one of the hospital's chief community fund-raisers. "Unbelievable devastation was done."—*Ibid.*

There were reasons.

Among them were the high times enjoyed by certain top conference and hospital officers. They needed a luxurious mansion on the coast in which to entertain their guests. So they laundered money through a related church medical entity for this purpose.

"In 1990, a related hospital entity purchased a Cape Cod home from the wife of a hospital physician for \$175,000, according to property records and those familiar with the transaction. The house was extensively remodeled and primarily used for personal and entertainment purposes by then hospital Chief Executive Francisco J. Perez and former top-ranking church official Charles Case, according to sources familiar with the transaction. It was sold at a loss of more than \$40,000, not including the renovations, in 1995."—*Ibid.*

During those years, Perez was the top man at BRMC. Who was Charles Case? We encountered him when we were reporting on the strange situation of the Southern New England Conference (SNEC) attorney who stole over a hundred thousand dollars,

in order to meet gambling debts. Charles Case was the president of that conference. Perez and Case were very important men, wielding immense power in our church in the Northeast. At the time, they were the two most powerful Adventists in Massachusetts. They should have been faithful to the duties devolving upon them, but apparently they were not.

The same year in which the Cape Cod mansion was purchased, what appears to be another sweetheart deal was entered into. An expensive condominium was purchased by the church, and five years later sold (to a friend?) for much less.

"Also in 1990, the same hospital-related entity purchased a Medford [Massachusetts] medical condominium from a hospital physician for \$125,000, which the hospital converted into a residential unit and sold in 1993 for \$55,000, even though it was appraised at close to \$100,000, according to property records and sources familiar with the transaction."—*Ibid.*

It is an astounding fact that certain men destroyed the hospital in slightly more than ten years!

"A little more than a decade ago, the hospital's liabilities totaled just \$5 million, and as recently as 1992 it had net assets of about \$25 million, according to financial records."—*Ibid.*

Amazing! BRMC only owed \$5 million in the late 1980s! But high-flying executives and their comrades had a great time. We might inquire, why was not all this caught by church auditors? I have been personally told by someone who is an expert on the subject, that when General Conference auditors would discover such problems, their warnings were generally disregarded. Buddies had to be protected, whether they were in California, the mid-west, or on the East coast. It is for such reasons that the General Conference fears what the David Dennis lawsuit could reveal, if it ever comes to trial.

A combination of incompetent management and high-paid executives destroyed the Boston Regional Medical Center. Yet I still wonder: Why do we pay such exorbitant salaries to men who are not competent enough to manage a chicken shed?

Later in this report, we will learn that, in 1997 alone, the CEO at BRMC received a salary of \$354,839.

"A \$36 million bond issue secured in 1993 to help pay for such things as a new emergency room; years of operating losses reaching millions of dollars; more recent loans and lines of credits to help fund the Doctors Community deal; millions of dollars more in unpaid bills owed to, among others, the Internal Revenue Service and the town of Stoneham [the suburb in which BRMC was located], helped bring the hospital's debt to \$60 million today—or \$15 million more than its net worth."—*Ibid.*

Five million to \$60 million in liabilities [debt] in about 12 years. Is that what those men were paid to

do? We surely have capable business executives running things. And it all happened under just two extremely high-paid chief executive officers: Francisco J. Perez and Charles Ricks.

“Under the two subsequent CEOs, Perez and Ricks, debt mounted, the health care reimbursement system changed dramatically, and questionable financial and property transactions occurred, according to financial records and sources familiar with the hospital’s dealings.”—*Ibid.*

One might ask, “Who owned Boston Regional Medical Center during all those years?” You will recall our 1980 reports on the \$1- and \$2-billion debts rung up by our Adventist Health Systems. Those reports clearly revealed that the denomination owns it all—past and present. Church leaders could have stopped this waste.

Until recent years, AHS controlled our hospitals (although they do not now manage them all). Yet both AHS and the hospitals are under denominational ownership. The General Conference owns AHS, and the union conferences own the hospitals which are not now under AHS. —Yet, quite consistently, the General Conference and the unions let AHS and the hospitals do whatever they like, without any practical oversight or higher controls.

When it appeared that trouble was coming, Charles Ricks, the head of BRMC, decided to work out a deal with Doctors Community, a privately held for-profit health management firm based in Arizona. It had ostensibly outbid Winchester Hospital (a nearby Massachusetts facility) which had offered \$37 million, and for-profit Tenet Healthcare Corporation of California, which had bid \$39 million. Both wanted to buy the hospital outright.

Kim O’Neil, a former hospital trustee, resigned over the matter and later told the *Boston Globe* that “he never got details about any of the other bidders. Other former hospital trustees and officials agreed” (*ibid.*).

Here is a brief overview of the Doctors Community deal which lasted from October 1997 to February 1999—at which time BRMC went into bankruptcy. See if you can figure it out:

“The president of Doctors Community, Bryan Breckenridge, was himself an Adventist who had managed Adventist hospitals across the country.

“But between the time Doctors Community and Boston Regional signed an interim agreement in October 1997 and the day the deal fell apart in February, Breckenridge left the company, and the hospital’s financial condition had worsened. Adding to its woes was a stipulation in the papers it signed with Doctors Community in which the hospital agreed to borrow heavily from a Doctors Community-affiliated financing company in order to stay afloat until the deal closed. The loans of up to \$16 million were to be repaid at the closing or as-

sumed by the newly formed hospital partnership.

“Doctors Community itself was borrowing up to \$37.5 million from that same financing company, National Century Financial Enterprises, to pay for its investment in Boston Regional.

“When this financial house of cards fell in February, Boston Regional found itself without a financial partner but on the hook for millions borrowed from Doctors Community. Too late to revive the previous offers, the 195-bed hospital fell into bankruptcy court.”—*Ibid.*

“Doctors Community arranged a last-resort mechanism of selling Boston Regional’s accounts receivables at a discount, so that the hospital could get cash in exchange for turning over its right to insurance reimbursements, and it promised to keep Ricks on as hospital president. Even before the agreement was finalized, the hospital began paying \$50,000 a month in management fees [!] to Doctors Community last year.

“‘The deal was built on sand, and now what is the community left with?’ said a source familiar with the unsuccessful attempt by Winchester Hospital to buy the property for about \$37 million last year.”—*Ibid.*

All the while, the administration of the hospital was busily helping to bury the facility in additional mountains of expenses.

“With its finances faltering, the hospital continued to spend millions of dollars on medical facilities and services that it may not have been able to afford but were deemed necessary to stay competitive. The hospital renovated a maternity wing and a surgical care unit, established a new breast care center, including a mammography machine.”—*Ibid.*

Then there was all the money flowing into Ricks’ pocket each month. As do all our denominational hospital executives in the U.S., Charles Ricks was doing very well for himself.

“According to records, Ricks’ compensation in 1997 totaled \$354,839, including bonus, country club fees, automobile allowance and paid leave. That represented a 9 percent increase over the previous year, even as the hospital went into technical default on its bonds and slipped in its bond rating under his watch, according to the most recent public filings available.”—*Ibid.*

Although probably not intentional, Ricks made more money by running the hospital into bankruptcy than if Doctors Community had taken over.

This is what Ricks got when BRMC folded:

“Severance benefits under Ricks’ contract amount to about three years’ salary, based on his length of service with Adventist institutions. He also has an interest-free loan serving as a second mortgage on his house, as part of his compensation package.”—*Ibid.*

This is what he would have gotten if Doctors Com-

munity had taken over:

“Under the deal with Doctors Community, Ricks was to get \$280,000 base salary, plus a bonus of up to 20 percent of base salary, with a termination amount equal to six months’ salary.”—*Ibid.*

Charles Ricks is now relaxing in his home in the coastal resort town of Kennebunkport, Maine, with little to do but decide how to spend his more than \$300,000 a year salary. For some, it pays to be an Adventist executive.

But for the common folk among us, there are many sorrows.

“According to church members, no other Adventist health care facility—not even the well-known Loma Linda University Medical Center in California—is as significant to the medical missionary history of the church, which began more than a century ago in New England and now has 10 million members worldwide.

“ ‘This was our birthright, it couldn’t be sold. Here it was cast away,’ said Dr. Will Horsley, who was chief of ophthalmology at Boston Regional and is one of the many Adventists who worked there. In addition, he said, ‘They lost a church and an academy, and they got less than zero.’ ”—*Ibid.*

The *Boston Globe* interviewed several former BRMC trustees and board members. As the mismanagement and wastage of funds accelerated in the 1990s, they saw what was happening but were unable to be heard,—so they quit.

“A too-close relationship with the church, and the lack of business expertise among church officials on the board, helped lead to Boston Regional’s undoing, say some trustees and other officials, some of whom are Adventists.”—*Ibid.*

“Dr. Glen A. Dixon, an obstetrician/gynecologist, said he resigned from the hospital board in 1995 after he became frustrated with Ricks and his predecessor, Perez, and the way board business was conducted.

“ ‘The hospital had extremely high traveling expenses,’ including the all-expenses-paid trips to Hawaii and elsewhere in the 1990s, he said. ‘When I raised questions, they really never got answered,’ said Dixon, who acknowledged he went on some of those Hawaii trips but refused to go after he realized how poorly the hospital was doing financially. More time was spent socializing with other Adventists at the [Hawaii] conference or playing golf than attending meetings, said Dixon, who grew up an Adventist.

“But the transaction that perhaps most reflected the cozy relationship between the church and the hospital, and the poor business sense, was the transfer of millions of dollars to a related church

entity beginning in 1988 by Perez. That transaction helped pay for money-losing investments made by the now-defunct regional Adventist health system in the Midwest, according to former church and hospital officials familiar with the transaction.”—*Ibid.*

The high-paid men in charge of our Adventist Health Systems spent their time in the 1980s running up debts, wildly buying facilities, remodeling others, and voting themselves ever higher salaries. All this was done with the full approval of N.C. Wilson and key General Conference and union conference leaders personnel. The favor would be returned by later hiring the sons of many of those leaders as high-salaried AHS workers or putting the leaders themselves into lucrative positions, when they retired or found themselves disgraced by other improprieties. Over the years we reported on some of this.

The leadership of NEMA (Northeastern and Mid-America/AHS) was especially adept at running itself into massive debt. It was their urgent demands on their member hospitals to contribute millions to bail out NEMA, which led, not only to the beginning of the end for Boston Regional Medical Center, but resulted in the Kettering lawsuit, which we earlier reported on at some length.

BRMC filed for chapter 9 bankruptcy, because it was too overloaded with debt for a chapter 11 restructuring. It just closed its doors. Before the late 1980s, no Seventh-day Adventist denominational entity had ever defaulted on bonds or filed for bankruptcy. Now it is happening at an ongoing rate. Soon Atlantic Union College, not far from BRMC, will probably collapse.

Charles S. Ricks is now doing fine at his Kennebunkport hideaway. As for Francisco J. Perez, he was rewarded for his part in the mansion and condominium purchases—by being transferred to another Adventist hospital, which he is now managing!

“Perez, who now heads another Adventist hospital system in Ohio, did not respond to phone calls or a fax seeking comment. One of the church leaders at the time, [Southern New England Conference president] Charles Case, who shared use of the Cape Cod home with Perez, refused to come to the phone when a reporter placed a call to his Tennessee home.”—*Ibid.*

Frank J. Perez is now president and CEO of Kettering Medical Center, in Kettering, Ohio. (Ron Wisbey, who helped launder the money for the salaries of Folkenberg and McClure’s wives, is chairman of the board at Kettering.)

We will never learn our lessons, as long as we so handsomely reward those who cause our problems.

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