McLean-AMI Agree on Joint Venture

One of Harvard's principal psychiatric hospitals forms new company with American Medical International

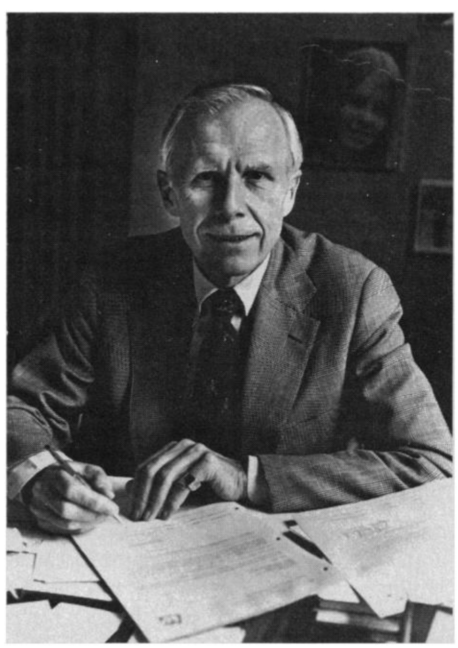
McLEAN Hospital, one of Harvard Medical School's leading psychiatric institutions, has just secured its economic future by joining forces with one of the country's largest for-profit health enterprises. McLean and American Medical International, with headquarters in Beverly Hills, have signed an agreement to do business together through a newly created company called McLean Medical Services, Inc. The deal involves neither the sale nor lease of the hospital to AMI; rather, it provides a profit-making opportunity for each party through its participation in the joint venture, which seems to be basically a consulting firm.

McLean Medical Services was created with capital from both McLean Hospital and AMI—$4 million from the hospital and $9 million from the corporation. The new firm then promptly gave McLean Hospital $11 million to complete its needed $41-million portfolio for capital improvement of the hospital's aging buildings. Francis de Marneffe, general director of McLean, says the $11-million capital "gift" from the joint venture firm amounts to a "goodwill" gesture for the purchase of McLean's name, which is well recognized in psychiatric circles.

McLean Medical Services, incorporated in Massachusetts, will be physically resident on the hospital's grounds. Governed by an eight-man board of trustees, with four appointees from McLean and four from AMI, de Marneffe has been named president. The new venture is likely to have its own business staff in the future, but there is no expectation that it will ever have a very large psychiatric staff of its own.

In addition to the one-time $11 million for the building fund, the deal with AMI guarantees that McLean will always have at least $2.5 million a year for its research and teaching programs. After that, both parties are counting on McLean Medical Services to turn into a profit-making venture that will enrich both McLean Hospital and AMI. According to the agreement, any profits will be divided 50-50; although there are provisions allowing either side to terminate if unresolvable conflicts develop, it is anticipated that this will be a long-term partnership.

Several possible activities are envisioned for McLean Medical Services, the idea being that McLean will provide medical advice and AMI will supply the marketing know-how. AMI, for instance, is anxious to create psychiatric units in some of its general hospitals. The corporation also sees profitable potential in community residences or halfway houses. "McLean has been operating half a dozen community residences for the past 15 years," says de Marneffe. "Our people have a lot of experience in this area and even now some of them are asked to be outside consultants to states or cities that want to establish them. What might happen now is that the consulting would be done through the new joint venture company. Our only concern is that our faculty not consult too much for McLean Medical Services." (There is also some concern that faculty might be subtly pressured to consult for MMS as loyal members of the McLean team, since the company's success will benefit the hospital.)



Francis de Marneffe, *president of the new McLean-AMI joint venture.*

At present, McLean, which is doing well financially, is able to take $2.5 million from its general revenues to support or supplement research and teaching. However, if federal and state reimbursement policies that now cap fees for general hospital patients are extended to psychiatric patients (as is likely), McLean may find itself strapped for extra dollars. In that case, McLean Medical Services will make up the difference from its profits if it has any. If it does not, AMI itself has agreed to be the banker of last resort and contribute the money from its own revenues, which last year totaled more than $2.6 billion. Thus, the novel McLean-AMI deal offers McLean a certain measure of security but hardly makes a dent in the coffers of the giant health care enterprise, which owns more than 100 hospitals here and abroad, as well as medical insurance companies, ambulatory care centers, a company that makes home health care equipment, and other related health businesses.

McLean, founded in 1811 as the first psychiatric hospital in New England, is owned by the Massachusetts General Hospital and governed by the MGH board of trustees. For the past few years, the trustees have been anxious to strike a deal between McLean and one of the big, expansionist for-profit hospital corporations, their reasons being two. First, a deal would secure for McLean much needed resources for capital improvement and research. Second, it would thereby relieve the trustees of their fund-raising obligations to McLean and leave them free to concentrate on Mass General, whose deteriorating buildings need to be renovated or replaced. Francis H. Burr, a Boston lawyer, is chairman of the board. "My real concern for MGH," he says, "is bricks and mortar. We've got to do something about MGH now that McLean is taken care of."

A couple of years ago, Burr, who negotiated the joint venture with AMI, presented McLean with what he still considers an even better deal. MGH would sell McLean outright to the Hospital Corporation of America which was (and still is) acquiring numbers of private psychiatric hospitals to add to its chain. In the world of HCA, McLean would be the elite centerpiece hospital. HCA would buy McLean, which would continue its affiliation with Harvard, for somewhere between $40 million and $60 million, and provide professorships and annual research funds as part of the bargain (*Science*, 2 March 1984, p. 909). But Harvard faculty opposition killed that plan.

For starters, the HCA negotiations were a carefully guarded secret, announced seemingly out of the blue on the first of August 1983, when most of McLean's psychiatrists were leaving for vacation. Many heard the news on the radio. The idea that McLean could be sold, or that Harvard's name could be bought, generated outrage. Said one McLean official at the time, "People started asking, 'Who in hell do the trustees think they are?' " A committee was formed to study the proposed sale and its implications for the academic independence of the hospital. Even though the agreement allocated control of teaching and research to the hospital, there was still concern about ownership by a corporation that was, after all, in business to make money. In the end, the HCA offer was rejected not on its merits but because opposition was simply too strong.

Burr said "The reaction against this was highly emotional," but acknowledged that the trustees had committed a major blunder by keeping the negotiations secret. Convinced that "maintenance of the status quo is not acceptable," he vowed not to retreat but to do it right next time. The talks with AMI were out in the open, draft agreements were made available to McLean faculty, and if there is any real opposition to the new joint venture, it has not been vocal. Both Burr and hospital director de Marneffe attribute this to the fact that McLean will remain essentially unchanged. It is still a nonprofit institution, still owned and governed by MGH, and participation by McLean faculty in the new McLean Medical Services is voluntary.

All of the for-profit health care corporations that increasingly dominate the medical scene are growth companies, interested in expanding their share of the market. American Medical International operates 105 general hospitals in the United States and four psychiatric hospitals. It sees its connection with McLean as an important part of its strategy for developing new businesses related to psychiatry—a profitable area of medicine because overhead costs tend to be low and patients who receive care in private hospitals or centers are almost all covered by insurance.

In addition to an interest in creating psychiatric units in its general hospitals and developing a business in community residences, other items on AMI's psychiatric expansion list include the development of employee assistance programs for persons with emotional problems, drug-screening and substance abuse programs, and programs for "impaired professionals." How consulting faculty will be compensated for their time if they do choose to work for MMS has not yet been worked out, according to de Marneffe. Staff for new programs developed under the auspices of MMS will be recruited from outside, though it is possible that as MMS takes shape, some McLean psychiatrists might opt to work directly for the new venture and do their consulting for McLean in reverse of the arrangement as it will be at first.

The need for financial stability, not to mention the opportunity for growth, lies behind many of the agreements that academic institutions have made with industry during the past several years. Fears that university-industry deals would become a growth industry in themselves have not materialized. The growth has been modest but steady instead. The agreement between McLean and American Medical International is a novel twist on the theme, one whose workability and financial value have yet to be tested. ■ BARBARA J. CULLITON

Briefing:

NIH Gets a Friendly Hearing on Capitol Hill

Sounding like a lawyer reluctantly representing a doomed and unpopular client, James B. Wyngaarden, director of the National Institutes of Health, made his annual trip to Capitol Hill last week to defend the Administration's budget request for NIH. To nobody's surprise, Senator Lowell P. Weicker (R–CT), the chairman of the Senate appropriations subcommittee that handles NIH's budget, promptly served notice that the cuts proposed by the Administration do not stand much chance of being approved by Congress.

Weicker began by asking Wyngaarden how much NIH originally requested for fiscal year 1987. Answer: $6.415 billion. How much did the Administration request? Answer: $4.936 billion. Along the way, the Public Health Service sliced off more than $300 million, the Department of Health and Human Services trimmed almost another $200 million, and the Office of Management and Budget hacked off nearly $1 billion. Well, said Weicker, noting that military programs are slated to get big increases, "I don't see the need to reduce your budget" when others are not sharing the pain.

The Administration's proposal is somewhat complex. For FY 1986, Congress appropriated $5.4 billion for NIH, but $236 million was automatically cut on 1 March under the terms of the Gramm-Rudman-Hollings deficit reduction act, and the Administration has proposed a further rescission amounting to $77 million. It then wants to trim another $131 million in FY 1987.

Congress is not expected to restore the Gramm-Rudman cuts, but the additional $77-million rescission is unlikely even to be considered. As for FY 1987, the Administration says the reductions are aimed at "stabilizing" the total number of NIH grants at 18,000. Since NIH is currently funding well in excess of 18,000 grants, it would have to fund fewer new awards next year to achieve "stability." According to Wyngaarden, only 5,140 new grants would be permitted.

Weicker, who was instrumental in getting Congress to approve a level of 6,100 new grants for FY 1986, was not impressed with the Administration's notion of stability. How much additional money would be required to fund 6,100 new grants in FY 1987? he asked. Wyngaarden was prepared for the question: $152 million for 1 year, or about $600 million over the lifetime of the awards. Weicker nodded.

Thus went the annual ritual in which the Administration proposes a parsimonious budget for NIH and Congress ups the request. This year, however, the environment has changed. With the political obsession over the federal deficit showing little sign of abating, and the threat of further automatic cuts under Gramm-Rudman in FY 1987 if the deficit is not reduced—and if the law is either unchanged or survives legal challenge—large increases for NIH may not be so easy to secure. ■ COLIN NORMAN

Congress Likely to Halt Shrinkage in AIDS Funds

Last December, Congress approved an appropriations bill for the Department of Health and Human Services that contained $234 million for research and education on AIDS in fiscal year 1986, more than double the amount spent last year.

The ink was barely dry on the legislation before the funds began to shrink, however. Some $10 million got wiped out in the automatic cuts required by the Gramm-Rudman-Hollings deficit reduction act. And the Administration has proposed reducing the total even further, to $193 million, by rescinding some of the appropriated funds. For FY 1987, the Administration has requested a modest "increase," to $213 million.

The appropriations committees must approve the rescissions before they take effect, however, and that is highly unlikely. Last week, Senator Lowell P. Weicker (R–CT), who chairs the key Senate appropriations subcommittee, said "I don't understand why