**Cerberus saw loss in first year with Steward, Mass. AG says**

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Cerberus Capital Management's investment in Boston's Caritas Christi Health Care, which created the Steward Health Care System, failed to yield a profit in its first year running the hospitals, according to the Massachusetts attorney general's office.

Steward reported a $14.6 million operating loss in fiscal 2011, ending Sept. 30, despite an operating revenue increase of 8%, or $108 million, compared with the previous year, according to [**an attorney general's report (PDF)**](http://www.mass.gov/ago/docs/nonprofit/interim-steward-report.pdf) released Thursday. Operating expenses rose by 11%, or $149 million.

The lack of profitability in its first year was planned, said system spokesman Chris Murphy. Steward officials devised a seven-year plan and expected to struggle in the first year, he said. Murphy added that the report shows Steward's willingness to be transparent and suggested other healthcare systems submit to the same process.

Cerberus bought the six-hospital Catholic system in 2010 and [**agreed to submit (PDF)**](http://www.mass.gov/ago/docs/nonprofit/caritas/statement-of-the-attorney-general-caritas-christi-transaction.pdf) to five years of annual monitoring by the attorney general as part of the acquisition. The new report is the first in the series. Massachusetts Attorney General Martha Coakley expressed concern at the time that Steward, as a for-profit entity, might raise healthcare prices and cut services.

Cerberus officials told the attorney general they planned on creating a community-hospital system that could manage risk, provide high-quality, accessible care and stanch the flow of patients leaving their communities for care at higher-cost hospitals. The report concluded that Steward is “striving to meet its stated objective.” Prices were competitive with other state hospitals. However, Coakley reserved judgment: “One year of mature performance information does not provide a reasonable basis to predict or draw conclusions about Steward's ongoing performance or whether it will continue to meet its stated objective,” she wrote.

Steward has [**acquired two hospitals**](http://www.modernhealthcare.com/article/20110503/NEWS/305039967) from for-profit Essent Healthcare and signed contracts to [**acquire two more.**](http://www.modernhealthcare.com/article/20110703/NEWS/307039999) Two of its ten hospitals posted a profit in fiscal 2011. St. Anne's Hospital, Fall River, Mass., reported income of $12.7 million, while 190-bed Good Samaritan Medical Center, Brockton, Mass., earned $107,824. St. Elizabeth's Medical Center, a 338-bed hospital in Brighton, Mass., reported the largest loss at $20.9 million, which the report attributed in part to shifting some managed-care contracts from to its new parent.

The report cites increased labor costs as driving the system's loss. The number of full-time employees increased system-wide by 3% in fiscal 2011 compared with fiscal 2010. Physician employment rose nearly 30%—to 2,135 from 1,652—at the six Caritas Christi hospitals. “While the system would still have reported a loss without these expenses, it would have generated a positive cash flow from operations,” the report stated.