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State board reversal: Advocate Aurora, Atrium get more time on merger

The board voted to reconsider a morning vote and then voted to postpone, rather than reject, consideration of Advocate Aurora's request for change-of-ownership exemptions.

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UPDATE: The Illinois Health Facilities & Services Review Board voted to reconsider this morning's vote against Advocate Aurora's change-of-ownership exemptions. The board then voted to postpone, rather than reject, consideration of Advocate Aurora's request.

The vote will allow staff to talk to the applicant about the additional information board members are requesting, board administrator John Kniery said.

Kniery said that without the vote to postpone consideration of Advocate's request, the health system would not have the right to reapply for the change-of-ownership exemptions.

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"We wanted to give the applicant every opportunity, without having to refile, and pay a new fee and all the time that it would take," Kniery said.

While the next scheduled board meeting is not until Dec. 13, Kniery said the board is looking at what options it has to get more information from Advocate and get an approval of the change-of-ownership exemptions.

He said they were looking to see if reconvening the board is "absolutely necessary."

"State statute requires the review board to approve all certificate of exemption applications that staff have deemed complete," an emailed statement from Advocate Aurora Health said. "Our application was deemed complete last month, thus, we were surprised by today's delay and will work with the review board to address their questions. Please know we continue to work with other appropriate regulators and remain confident our combination is still on track to close by the end of the year."

EARLIER: The Illinois Health Facilities & Services Review Board has denied the change of ownership request that would allow Advocate Aurora Health and Atrium Health to merge.

Advocate Aurora and Atrium had sought to complete the change of ownership by Sept. 30. But the motion to grant the change of ownership failed in a 3-2 vote today.

Board members said they were not given enough details about operational matters and the controlling interests of the new entity, the board said at the hearing today.

The ruling puts Advocate's merger timeline in question, as the next scheduled meeting of the regulatory board is Dec. 13.

The statute requiring health systems to apply for a change of ownership states "the board shall approve it. But there doesn't appear that there is a mechanism for what would happen if they don't approve it," said Juan Morado Jr., partner at law firm Benesch.

State statute dictates that the board "shall establish by regulation the procedures and requirements regarding issuance of exemptions. An exemption shall be approved when information require by the Board by rule is submitted."

A change of ownership is eligible for an exemption, rather than a permit, the statute said.

Morado said he was previously general counsel for the board.

In voting no, board member Dr. Sanda Martell said she had "grave concerns" that the board had enough information "to ensure an orderly transfer" of ownership.

She said there was a framework, but it wasn't fully thought through.

Advocate Aurora Chief Operating Officer Bill Santulli told the board the health systems would work to get it more detailed information about post-merger operations and control.

Santulli told the regulatory board that, should the new jointly operated health system want to add a hospital in Illinois, the local board would first have to approve it. But ultimately, the full organization's board would have to approve such a move.

He noted that 50% of the new organization's board would be from Advocate Aurora.

Advocate Aurora and Atrium Health first announced their intent to merge in May, a plan that includes naming the combined entity Advocate Health. Advocate Aurora CEO Jim Skogsbergh and Atrium CEO [Eugene Woods](#) would serve as co-CEOs for the first 18 months, with Skogsbergh eventually retiring, at which point Woods, who is based in Charlotte, would become the sole CEO.

Advocate Aurora [previously told Crain's](#) it expected the merger with Atrium to save anywhere from \$100 million to \$300 million annually by 2027. Advocate Aurora said at the time it could reduce operating expenses through group purchasing for medical and pharmacy supplies and combining consumer-facing digital infrastructure.

Ahead of today's decision by the state board, industry experts [voiced concerns](#) with the merger, saying a combined Advocate Aurora and Atrium could wield too much bargaining power in its negotiations with multi-state insurers and employers. Payers in both Illinois and North Carolina are dominated by Blue Cross & Blue Shield health plans.

Advocate Aurora's bargaining power was already called into question in a [lawsuit](#) filed earlier this year by a Wisconsin self-insured pharmacy that claimed Advocate Aurora uses its size to pursue "all-or-nothing contracts."

Advocate Aurora reported 2021 revenue of \$14 billion, and operates 27 hospitals and more than 500 sites of care. Atrium Health, with 2021 revenue of \$13 billion, operates 40 hospitals and more than 500 care sites across North Carolina, South Carolina, Georgia and Alabama.

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