HEALTH

Lagging reimbursements from government may mean a merger or new partnership lies in Corvallis-based Samaritan Health's future

By **Mike Francis** (The Lund Report) and **Nick Budnick** (The Lund Report)
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The three-county system has not yet considered specific possibilities for its next move after possibly acquiring Santiam Hospital. But CEO Doug Boysen says 'all options are on the table' for Samaritan given a challenging financial landscape that's driving health care restructuring around the state.

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Corvallis-based Samaritan Health Services has formally notified its bank that it likely violated its bond terms last year due to losses. While CEO Doug Boysen downplayed the notice, he said the finances in Oregon health care appear untenable statewide and it's the system's "duty" to seek growth while contemplating possibilities such as a merger or one or more outside partners.

"All options are on the table," he told The Lund Report, adding that the system's overriding goal is to make sure residents in the region continue to have access to care.

"It's a really uncertain environment right now and we are looking at all different potential options to make sure that Samaritan is sustainable into the future," he said. He stressed that no specific plan has been adopted, and no specific conversations with other health systems or companies have taken place.

In a Feb. 25 letter to U.S. Bank, Daniel B. Smith, Samaritan's chief financial officer, wrote that Samaritan's final 2024 income likely won't meet its debt-service terms with the bank, and that would constitute "a nonpayment related default."

Boysen said the violation would be a technical one. He said the nonprofit system, which includes hospitals, clinics and a coordinated care organization under the Oregon Health Plan, has reserves and does not have a problem making payments.

That said, Samaritan's situation reflects what he's seeing and hearing all over the state, Boysen said, with payments under Medicare and the Oregon Health Plan remaining flat or even declining. Indeed, he echoes a common refrain among health care industry observers.

"I believe that health care is unsustainable right now in the state of Oregon," he said. "I do believe if it continues on this track in five to 10 years, the configuration of how health care systems are made up in the state are going to change dramatically."

Nearly 90,000 low-income residents of the region are served by the InterCommunity Health Network operated by Samaritan. Past sales of organizations overseeing care for the Oregon Health Plan have been controversial.

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For Samaritan, it likely makes sense to follow the "movement in the state" toward growth, which could include finding a larger partner, as he noted hospitals like Mid-Columbia Medical Center in The Dalles, Bay Area Hospital and Legacy Health have done.

"We believe that it's our duty to be thinking about that and talking about that," he said.

A myriad of factors challenge hospitals

Samaritan North Lincoln Hospital in Lincoln City is one of two critical care hospitals in the county, comprising a large portion of the rural health care safety net. According to figures reported to the Oregon Health Authority, Good Samaritan Medical Center, the flagship hospital in the Samaritan system, suffered an operating loss of $7.6 million last year, an improvement over the $28.5 million operating loss the previous year.
Courtesy Samaritan North Lincoln Hospital

Samaritan's notice to its bank cited "decreasing payments from health insurance companies, declining payor mix, and increased utilization on its health plans in excess of premiums received, as well as other industry-wide pressures on expenses, such as labor, supplies, and general inflation."

Under the terms of the bond covenant, Boysen said, Samaritan was required to hire a consulting firm to help it improve its financial picture. Samaritan hired Warbird Healthcare Advisors of Atlanta, a firm that advises health care organizations on everything from analyzing productivity of physician practices to negotiating sales of client organizations.

Samaritan is facing crosswinds that bedevil many rural and small regional health care systems. A February analysis by the Center for Healthcare Quality & Payment Reform said financial difficulties threaten to close more than 700 rural hospitals — about a third of all rural hospitals in the country — including seven in Oregon.

It said the primary driver of rural hospital financial problems is that they are losing increasing amounts of money serving patients with private insurance coverage. But hospital systems around the country also lament stagnant Medicaid and Medicare reimbursements even as care expenses continue to rise.

According to figures reported to the Oregon Health Authority, Good Samaritan Medical Center, the flagship hospital in the Samaritan system, suffered an operating loss of $7.6 million last year, an improvement over the $28.5 million operating loss the previous year. Samaritan also operates hospitals in Albany, Newport, Lebanon and north Lincoln County. It also operates two insurance plans.

Boysen said in December he would resign from his job as CEO this year, and that the company would recruit a replacement. He said this week the board has been evaluating candidates and he expects a decision will be announced within the next 45 days.

Since last year, Samaritan, which employs more than 6,000 people, cut 200 jobs systemwide and reduced hours for some employees and temporarily reduced executive pay. In a prepared statement, Samaritan cited pressures ranging from inflation to a national cyber incident caused it to lose money in 2024. Boysen said this week that the cost-cutting measures launched last August are already paying off.

“Our January financial metrics look like they’re heading on a much more positive pathway right now,” he said.

Santiam move shows push for growth

Boysen said the system's proposed absorption of Stayton-based Santiam Memorial Hospital, a financially challenged 40-bed hospital that serves Stayton and surrounding communities, reflects Samaritan's quest for "economies of scale."

Under the terms of the proposed acquisition, Samaritan said it would build a $15 million medical office building in Stayton and supply the smaller hospital with $10.5 million for capital expenses. It also said it would assume about $25 million of debt Santiam owes to the federal government and Key Bank.

While that purchase is not final, it would expand Samaritan's coverage area deeper eastward into Linn County and eastern Marion County, and buttress the system's already dominant market position in its core region of Lincoln, Benton and Linn Counties.

One concern raised publicly by commenters on the proposed acquisition is that the deal would mean Santiam patients who are covered by United Heallthcare insurance plans would no longer be in the Santiam network.

"After the merger, where will United Healthcare patients go for care?," asked Kristin Thompson in her communication with Oregon's Health Care Market Oversight program of the Oregon Health Authority.

As Samaritan weighs its options in the months ahead, Boysen said, it is conscious of the need to make sure residents have access to local health services, even if absorption by a larger partner means they are not provided under the name Samaritan.

"The core issue for us is that you have this hyper-rising inflation market where our supply expenses, pharmaceutical expenses, all our labor expenses have gone up exponentially over the last three or four years," he said. "Seventy-five percent of our revenue, our payer mix, is from Medicare and Medicaid (in which) we've seen hardly any increase to the revenue side.

"And there is a point where the math doesn't work."

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