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Tufts hospital seeking $11.2m from Lifespan

By Robert Weisman – June 11, 2011

Tufts Medical Center is seeking to collect an $11.2 million payment after a federal court ruled its former Rhode Island parent company, Lifespan, engaged in misconduct while investing the hospital's fees and was negligent in negotiating on its behalf with health insurers.

Among other findings, Judge Joseph Laplante, in US District Court in Concord, N.H., said that Lifespan put money from the Boston teaching hospital — then known as Tufts-New England Medical Center — into a risky financial product known as an interest rate swap while not disclosing that Lifespan's former chief financial officer had a close personal relationship with the Morgan Stanley derivatives broker he hired to handle the transaction.

"Their business relationship had developed into a friendship because of their mutual affinity for wine," the judge said in his decision. "They had gone to wine tastings together, bought dinner and wine for each other on numerous occasions, and stayed overnight at each other's homes."

The case dates to 2005, three years after Tufts severed its ties with the Lifespan hospital network, which is based in Providence and is Rhode Island's largest health care system.

As a new wave of consolidation rolls through the hospital industry, legal specialists said the Tufts case could create a national precedent by determining that corporate parents of nonprofit health care provider groups owe a fiduciary duty to their hospital affiliates.

"This ruling is going to put more pressure on health care systems that have come together and are having growing pains," said Michael W. Peregrine, a health care corporate lawyer for McDermott Will & Emery in Chicago. "When you have a federal case that's saying the nature of the relationship created a fiduciary responsibility, which Lifespan breached, that could destabilize [hospital] systems that are under stress — maybe blow them up."

Tufts attorneys filed a motion in federal court Thursday seeking $11.2 million in interest, deposition costs, and legal and expert fees, following the May 26 decision by Laplante that awarded Tufts $14.2 million for Lifespan's financial negligence when it owned Tufts between 1997 and 2002. Tufts had initially sought $135 million.

The court had previously ruled that Tufts owed $13.9 million to Lifespan under their disaffiliation agreement, so Tufts' net cash award under the ruling was $272,756.

Lawyers for Lifespan are opposing the Tufts motion to collect the interest and fees, but have yet to decide whether to appeal last month's misconduct ruling. "Lifespan is disappointed with the judge's ruling," said Jane Bruno, a spokeswoman for the company. "We're still determining if we're going to take any additional legal action."

Because executives at Tufts had set aside the $13.9 million owed to Lifespan while they pursued their counterclaim, the funds in that reserve will now be freed up for the hospital's use. That represents a pool of cash roughly twice as large as the $6.9 million the hospital reported in operating income last year.

Tufts chief executive Ellen M. Zane said the judge's ruling "is vindication for those who care about Tufts Medical Center and have worked tirelessly to make this organization strong again.'' Tufts had given up its rights to sue Lifespan under the disaffiliation agreement, but because it is organized as a nonprofit public charity in Massachusetts, the attorney general's office intervened in the case to protect state charitable assets.

"This is an important ruling and the first of its kind applying Massachusetts law,'' said Brad Puffer, a spokesman for state Attorney General Martha Coakley. "We believe it has national implications and will help protect charitable assets. The court has also made it clear that the attorney general can act to recover charitable funds whenever their loss becomes apparent — even many years later.''