The price is right?

Felsenthal is a living legend in the appraisal game

The spacious room in the swanky Chicago law office is crammed with lawyers, bankers, realtors and hospital executives dressed in expensive suits. They're gathered for a hospital auction, huddling in small groups, connected by cell phones to distant partners and financiers.

An older man with unruly white hair, glasses and eyebrows that look like two sleeping caterpillars wanders in. Dressed casually in a polo shirt, slacks and a windbreaker on this steamy August morning, he looks like he might have stumbled in accidentally en route to the racetrack. His arrival sparks a buzz throughout the room, and the group part to let him pass through the crowd of healthcare movers and shakers. But he doesn't get far. One by one the players step over to pay their respects, greeting the man warmly. A visiting politician? A prominent executive?

No, David Felsenthal, making an appearance.

Des Moines lawyer Robert Baudino, who handled the August 2002 sale of the former Grant Hospital in Chicago, says he has witnessed what he calls "the Felsenthal effect" for years. "You see Dave walk into a conference or a gathering of healthcare people and it's like watching a celebrity enter a place," says Baudino, who's known Felsenthal for 20 years. "Everybody rushes to shake his hand. He immediately starts ribbing you about things and you've got to laugh, because when he knows you, he will rib you unmercifully. He's a fun guy to be around and it's a lot better than a dry conversation about EBITDA."

Felsenthal, a principal with Chicago-based Wesspring Valuation, isn't well-known outside the financial side of the hospital industry. But within it he is an icon who has participated in hundreds of hospital sales, appraised more than 1,500 hospitals and locked up a little-known healthcare niche: hospital valuations. Now approaching 90, Felsenthal is a healthcare pioneer who continues to be a player both locally and nationally. Those who know him say he single-handedly created an industry that he has dominated for more than half a century.

Felsenthal says those valuations are key to obtaining financing and must be completed before a sale or merger can take place. Hospital valuations may take two to three months, depending upon the size of the hospital and its holdings, to produce a complete appraisal of assets.

He says that after receiving a list of assets being sold or appraised, which can include medical office buildings, surgery centers, land, the hospital facility and equipment, his team searches for recent sales of comparable land, conducts inventories of equipment and determines the value of all components. In addition to the valuation services, Felsenthal is frequently called as an expert witness to validate his firm's appraisals.

"I have confidence in what I know and I also know what I don't know," he says. "I'm pretty straight with people. If we can't help them, we walk away from a deal. Occasionally a client has a number in mind that is out of reach. And when you know the property's value and you can't get the numbers they're looking for, there's no sense in spinning your wheels. If you only have $2,500 to spend for a car, you don't walk into a BMW dealership."

An only child whose father was a Chicago car dealer and whose mother was a Republican precinct captain, the World War II Army veteran, who served in Europe, graduated in 1948 from the Illinois Institute of Technology with a degree in fire protection and safety engineering.

"I was pretty good with numbers, but I didn't know what I wanted to do at the time," he recalls, noting in his last semester IIT added an appraisal course he found interesting. Although Felsenthal
has served the healthcare industry for more than 50 years, he’s only worked for three companies.

In his last semester at IIT he went to work for the Chicago office of Marshall & Stevens, a Los Angeles-based appraisal firm, where he learned to perform insurance appraisals. He began working with hospitals in 1951 and performed his first appraisal at Chicago’s Presbyterian Hospital, now part of 703-bed Rush-Presbyterian-St. Luke’s Medical Center. He continued working for the firm until 1970, when he co-founded Valuation Counselors. He served as president until it was sold to Laventhal & Horwath in 1983. He remained managing director but was forced into mandatory retirement six years later at age 65. He remained a senior consultant even after it filed for bankruptcy in 1990, staying through its reorganization until 2001 when he joined Chicago-based hospital turnaround company Wellspring Partners and its principal and chief executive officer, David Shade, to found Wellspring Valuation.

Medicare is born

Before Medicare, Felsenthal conducted valuations that assisted hospitals in setting up property records and performed appraisals for insurance purposes, a business line he continues to mine. But healthcare finance experts say his role in the industry really took off after Medicare was enacted. He served as a consultant to the Social Security Administration and the authors of Medicare regulations about hospitals, advising them how to factor in depreciation in its newly introduced cost-based system for reimbursing hospitals. He says in the late 1960s hospitals were poised to lose money under the new Medicare reimbursement rules. “Historically hospitals kept lousy property records because they didn’t need to account for the costs of their land, buildings and equipment,” Felsenthal says.

But when Medicare began reimbursing hospitals for those costs, they had to find ways to record and accurately report their historic costs, which would require valuations of their assets to determine the amount of depreciation they could include on their Medicare cost reports. Felsenthal taught them how to do that, pioneering methodologies for capturing and trending those costs.

Keith Braganza, budget director for Bon Secours Health System, Marriottsville, Md., served from 1988 to 1992 on the Provider Reimbursement Review Board, an independent panel that hears and resolves financial disputes between healthcare providers and Medicare contractors, such as fiscal intermediaries.

“Dave would testify on valuation, how he came up with the value of buildings and other assets and the market comparisons and tools he used to perform those analyses,” Braganza says. “His knowledge and experience came across in the many times he testified. Dave’s contribution was that he made the industry aware so they could take advantage of depreciation and claim those costs. He helped write the rules on depreciation, and many hospitals made money as a result of his work.”

Felsenthal says that the hospital valuation sector is nearly immune to the economy’s vagaries. “Nothing has hurt this business,” he says. “It just keeps coming and if you’re smart you change with it. What we’re doing is not magic. Believe me, if we can do it, it’s not magic.”

Once a Medicare fiscal intermediary rejected the accounting of property records performed by another company for an Appleton, Wis., hospital, which later called Felsenthal to come up with a solution.

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— David Felsenthal

He’s probably done more than any other single person to help hospitals improve their accounting and financial reporting with regard to capital assets, and hospitals have greatly benefitted by millions of dollars in reimbursements.”

Sam Greco, president of Oklahoma Health Solutions, which now manages Physicians Hospital of Oklahoma in Oklahoma City, says Felsenthal “knows his business better than anyone else. If you mention an asset (hospital), he can tell you all about it, including its history. He not only has just a phenomenal memory but a commitment to the details of your business.”

Greco, former senior vice president of financial operations for HCA-predecessor Columbia/HCA Healthcare Corp., adds: “If someone does good work and you trust him and like being with him, then that’s somebody you want to do business with,” he says. “Dave will look you in the eye and have the confidence to tell you you’re full of it.”

Felsenthal has always worked both sides of the hospital ownership street. Early in his career he developed what would become a lifelong friendship and business relationship with another hospital industry legend, one of the most powerful and influential nuns in Catholic healthcare, Sister Mary Gerald Hartney. Now 92, Hartney was inducted last year into Modern Healthcare’s Health Care Hall of Fame (Feb. 18, 2002, p. 18) and was long considered the financial guru of the Catholic Health Association. Now living in a South Bend, Ind., convent, Hartney says she met Felsenthal in the early 1960s. She hired Felsenthal to study the land, buildings and assets of a Salt Lake City hospital sponsored by her order, the Sisters of the Holy Cross. He performed so well it opened the door to that order’s other hospitals and he found himself performing appraisals at other Catholic-owned systems.

“He made it possible for me to verify my costs and I never had a problem with fiscal intermediaries or the federal government in reviewing my billings,” Hartney says. “From that time on I didn’t do any more advertising. I just told everyone about Dave.”

Felsenthal’s memory is also legendary in the mergers and acquisitions business.

“He can recall almost every hospital valuation he’s done off the top of his head,” Baudino says. “It’s one of the most amazing feats of memory I’ve ever witnessed. You can call and ask him about a hospital in Yuma, Ariz., Bangor, Maine, or Atlanta and at some point he’s been acquainted with that hospital. He’s an incredible resource.”

Houston healthcare lawyer J.D. Epstein of the firm Vinson & Elkins says Felsenthal continues to have an impact on healthcare more than 50 years after he entered the field.

“He knows the market and can tell you if you have a dog right away,” Epstein says. “heck, he probably appraised it in the first place.”

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