The Bush mob destroys America's psychiatric hospital system

by Richard Freeman

Part 2 in a series on Republican Presidential pre-candidate George W. Bush and his financial backers. Part 1, "How George W. Bush Got Rich Through Graft, Kickbacks, and Family Connections," by Scott Thompson, appeared in last week's issue.

On Jan. 27, Charter Behavioral Health Systems, the nation's largest chain of psychiatric hospitals, announced that it would close or consolidate 33 psychiatric facilities, and fire 4,800 workers. Last September, Charter Behavioral closed 18 facilities. Only three years earlier, in 1997, the Alphareta, Georgia-based Charter had 90 operating facilities, across 27 states; this has now been reduced to 37 facilities, a cut of 59%. In 1997, Charter provided care for more than 8,000 patients, many of them children. Though Charter will not provide firm figures, it is estimated that Charter has dumped approximately 4-5,000 patients from the provision of needed psychiatric care. Many have been returned to families which do not have sufficient ability to provide for them. Some patients who cannot be properly attended to, will be more or less permanently drugged. It is not clear where they will all end up, but some will join the ranks of the homeless.

Then, less than three weeks later, on Feb. 16, Charter Behavioral Health Systems filed for Chapter 11 bankruptcy.

Financier Richard Rainwater, of Fort Worth, Texas, caused the collapse of Charter Behavioral. Rainwater took control of Charter in 1997, using his real estate investment trust, Crescent Real Estate Equities. Rainwater, who owns and runs gambling casinos in Las Vegas, and who made money working on deals with Michael Milken of Drexel Burnham Lambert in the 1980s, has an important distinction: He is a business partner and financial angel of Texas Gov. George W. Bush, and his Wall Street assignment was to supply Bush with money. During the 1990s, Bush earned greater income from Rainwater ventures than any other source. Rainwater got Bush the sweetheart ownership stake in the Texas Rangers baseball team—Bush acquired the stake for half a million dollars in 1989 and sold it for $14.9 million in 1998.

Bush and Rainwater work closely together, and they share a fundamental belief in "shareholder value": the idea that one should loot and asset-strip companies and infrastructure, to boost stock prices and provide income streams for wealthy families. Bush has invested in several of Rainwater's money-making speculative vehicles. Bush owned stock in Crescent Real Estate Equities—the vehicle that Rainwater used to loot and destroy Charter Behavioral Health Systems—and its predecessor companies, for most of the 1990s. By 1998, Bush's stock in Crescent was worth $1 million.

Rainwater is also a founder and owner of Columbia/HCA, the world's largest private for-profit hospital chain (mostly non-psychiatric hospitals), with 225 hospitals in the United States, which Rainwater and his banker associates have also looted, firing doctors and nurses and reducing medical services to the bone.

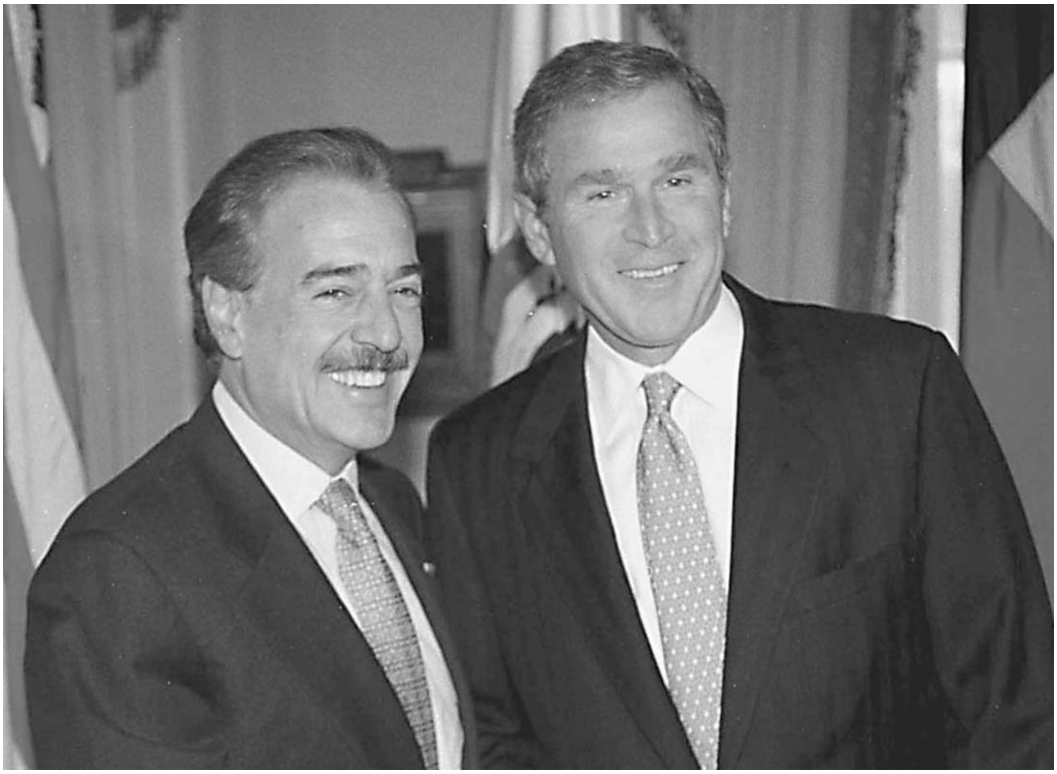
In the mid-1990s, the United States had 590 psychiatric hospitals (11 run by the Federal government); Charter Behavioral owned 90 psychiatric hospitals, or 15.3% of the total, making it the largest chain in country. Now, a good portion of this is ruined.

Rainwater's looting of Charter Behavioral is a classic case study of how the financier oligarchy takes over medical facilities, strips them of everything, and leaves them a shell. If the process is not stopped, America will not have a medical infrastructure.

Rainwater takes over Charter

Charter Behavioral Health Systems was founded in 1969. It was never a great company, but some of its hospitals were well-run.

In the 1990s, the Columbia, Maryland-based Magellan Health Services, Inc. owned Charter Behavioral. In 1995, Rainwater and his wife, the banker Darla Moore, bought a 12.3% ownership stake in Magellan, paying $69.3 million. In 1997, Rainwater used Crescent to buy the land and physical hospitals of the 90 hospitals in the Charter Behavioral system from Magellan, although not the operating-management systems. Crescent essentially became Charter's landlord. Also in 1997, Rainwater used a spin-off company from Crescent Real Estate Equities, Crescent Operating, to buy 50% of the operating-management system of Charter Behavioral from Magellan (Rainwater also owned and was chairman of the board of Crescent Operating).



George W. Bush's business partner and financial backer, Richard Rainwater, looted the nation's largest chain of psychiatric hospitals, Charter Behavioral Health Systems, to the point of bankruptcy. The "compassionate conservative" Bush (right) is shown here with Colombian President Andrés Pastrana, in Austin, Texas October 1999.

When the dust had settled, Rainwater's Crescent Real Estate Equities owned 100% of the land and physical hospitals of Charter Behavioral, Rainwater's Crescent Operating owned 50% of the operating-management system of Charter Behavioral, and Magellan Health Services owned the other 50% of the operating-management system. Rainwater had a tight ownership vise over Charter.

Rainwater then used "lease payments" and "franchise fees" to loot Charter Behavioral. In 1997, Rainwater proposed to lease back the entirety of the land and facilities of Charter Behavioral that he owned, to Magellan and Crescent Operating (the operators-owners of Charter Behavioral), for $41.5 million per year, which would increase 5% each year. Thus, this was a paper maneuver: Rainwater owned Crescent Real Estate Equities, and also Crescent Operating and 12.3% of Magellan, which would be making the payments to Crescent Real Estate Equities. The only place that Magellan and Crescent Operating would get the $41.5 million, was to extract it from the cash flow—and, thus, the ability to operate—of Charter Behavioral. That was the start of Charter's problems.

In 1997, Rainwater's Crescent Operating and Magellan decided to charge Charter $78 million annually in franchise fees.

Thus, Charter had to generate $119.5 million per year from its cash flow, in order to pay the $41.5 million in lease fees plus the $78 million in franchise fees. The $41.5 million in lease fees was subject to a contractual claim to be paid first over other fees. The $119.5 million was on top of Charter's routine operating expenses—wages for doctors and nursing staff, medical insurance, and debt service.

The consequences were predictable. The $119.5 million broke the back of the already crippled company. John Lutzius, an analyst with Green Street Advisors in Newport Beach, California, reported, "Between the franchise fees and the rent, Magellan and Crescent were sweeping all the cash flow from Charter."

In June 1997, the Federal government cut back hospital reimbursements, which reduced payments to Charter Behavioral and other hospitals.

Rainwater's pound of flesh

As a result of Rainwater's looting, Charter Behavioral began to collapse. By 1998, it could not make payments on its franchise fees to Magellan and Crescent Operating. Rainwater began to cannibalize Charter's system.

At Charter's flagship hospital in Nashua, New Hampshire, as resources shrank, staff were fired, said Dr. Philip Santora, a former associate medical director at the unit. When experienced nurses and therapists quit, in response to deteriorating conditions, Rainwater replaced them with inexperienced recent graduates. In 1998 and 1999, Federal and New Hampshire regulators reported that they found unsupervised children engaging in sex or self-destructive behavior at the Nashua unit. Wards were understaffed. Suicide attempts were

More dastardly deeds by the 'Dubya' gang

On Feb. 15, lawyers for Hallwood Realty Partners, L.P., a Dallas, Texas-based publicly traded real estate company, filed a civil suit in U.S. Federal Court for the Southern District of New York, to block a consortium of companies, led by Gotham Partners, from an illegal hostile takeover.

Gotham Partners and several other companies named as defendants in the case are reported to be part owners of Crescent Properties, the Richard Rainwater-owned real estate outfit. Texas Gov. George W. Bush has been a $1 million stakeholder in Crescent as well. Rainwater, and the principals of Gotham, Interstate, and several other firms named in the suit, are all part of an intimate group of scoundrels and swindlers with long-standing business ties to G.W. Bush.

The lawsuit, filed by Chadborne and Parke, charges that Gotham, Interstate, and other allied firms violated Securities and Exchange Commission rules by concealing their coordinated takeover moves. The various firms, over several years, bought more than 40% of the shares in Hallwood, while failing to inform the SEC of their joint efforts, aimed at a hostile takeover and asset sell-off of the real estate firm.

Sources familiar with the suit have told *EIR* that the Hallwood case is the tip of the iceberg; that several scandals, all implicating "Dubya" and his gang of "business partners," may soon bubble to the surface, and put a crimp in his drive for the Republican Presidential nomination.—*Jeffrey Steinberg*

not recorded, and children were improperly restrained, according to the Feb. 16, 1999 *New York Times*. Dr. Santora, who quit as associate medical director at the Nashua unit in August 1999, said, "You can chip away and chip away, and sooner or later you reach a critical mass and a point of no return."

Cindy Musikantow, who had been in charge of Charter's Napierville, Illinois treatment center for adolescents, asserted, "Charter disintegrated to the degree that decisions were being made without regard for patients."

Earlier, Rainwater had placed two of his associates on Charter Behavioral's four-member governing board; Rainwater's chief associate, John Goff, was made chairman of Charter; thus, he controlled the board. Under Rainwater's direction, by 1999, Charter began a wholesale closing of psychiatric hospitals, dumping patients. In May 1999, Charter shut down a facility in Milwaukee, Wisconsin. In June, Charter started the close-down of its flagship unit in Nashua, New Hampshire. In September, Charter closed 18 "under-performing" facilities.

On Jan. 27, 2000, Charter announced the shutdown of another 33 facilities. A Charter spokesman told *EIR* that it takes approximately 30 days to close down a facility. By the first week of March, all 53 facilities on Charter's target list for closure, are scheduled to be shut down.

Charter claims that of the 53 psychiatric hospitals that it has closed, the picture is not so bleak, because other companies may buy some of them. But the sales could take months or years to complete. If the units reopen, they may not be able to survive financially. Other units may reopen with only a portion of the facilities that they previously used. Other hospitals will never reopen. The situation will not—and Rainwater does not intend it to—go back to the operating capacity it had three years ago. In New York State, for example, the number of patients in psychiatric hospitals was reduced from 90,000 in 1970, to 7,500 today. Rainwater has permanently reduced capacity.

Rainwater's cannibalization of Charter Behavioral produced dire consequences for its patients. In 1997, Charter had approximately 8,000 beds at its 90 facilities. That number has been reduced by 3-5,000—the number is not exactly known. The hospitals had also served thousands more on an out-patient basis. The hospitals were originally set up to serve those with mental illness, not to enhance the cash flow of Rainwater and the investors in his Crescent companies.

America has a few million people with serious mental illness, and the availability of treatment has been cut back. What becomes of those 3-5,000 dumped by Charter Behavioral? In many cases, their families do not have the ability to work with them adequately, and a severe strain will be put on the family. Many discharged patients will simply be dumped into a regime that involves heavy drugging.

In closing 33 hospitals and firing 4,800 employees, according to a Feb. 14 news release by Manisses Communications, Rainwater's Charter may not comply with a Federal law to give the fired workers 60 days of pay and benefits.

There is still more to the swindle. On Feb. 16, Rainwater forced Charter Behavioral Health Systems—all 90 units, the 53 that have been closed, and the 37 that are operating—into Chapter 11 bankruptcy. Under the reorganization plan, the assets of Charter's remaining 37 operating facilities are being sold off. Rainwater's Crescent Operating, which had owned Charter, has bid $24.5 million—a pittance—to take over Charter once again. If the bankruptcy court were to accept Crescent Operating's bid, it would re-acquire Charter Behavioral's 37 functioning units, but it would be free and clear of all prior liabilities and debts.

As part of the Feb. 16 bankruptcy filing, Rainwater's Crescent Operating has proposed to collect $20.3 million annually in leasing fees from Charter Behavioral. It was Rainwater's looting through these fees that drove Charter into bankruptcy in the first place. The conditions are being set up to kick off the looting cycle once again.

How Bush benefits

For more than a decade, George "Dubya" Bush has been a business partner of Rainwater, who was assigned to help make Bush millions. And Bush, as Texas Governor, advanced the interests of Rainwater.

Bush made money from Rainwater's looting investment vehicles: Bush had investments in Crescent Real Estate Equities, the vehicle which Rainwater used to take over and guide Charter Behavioral into Chapter 11 bankruptcy. In 1998, Bush's stock holdings in Crescent were worth $1 million.

In the 1970s and early 1980s, Rainwater got his start both as a major figure in the gambling business (Rainwater has been quoted saying, "People can't get enough of the thrill of betting"), and as a key financial manager for investment funds of the Bass brothers of Texas. During this time, Rainwater became heavily involved in junk-bond and leveraged buy-out operations with Michael Milken of Drexel Burnham Lambert, who later went to jail for his crimes. In 1984, Rainwater formed an investment vehicle with Milken, Drexel, Equitable Life Insurance, and the Bass brothers, called Bass Investment Limited Partnership, which participated in hundreds of deals, including investments involving MCI Telecommunications and Metromedia.

In 1989, Rainwater helped line up the financing for the purchase of the Texas Rangers baseball team. The purchase price was $86 million. Bush put up $500,000 (which he had borrowed). Originally, Dubya had only 1.8% ownership of the team, but eventually Rainwater and others increased Bush's share of ownership to 11.8% for "services rendered." In 1998, Dubya sold his share of the Texas Rangers for $14.9 million.

Rainwater had also helped create Columbia/HCA by taking over hospitals across the country. As part of "shareholder value," it fired doctors and nurses, reduced services, etc. In 1998, Rainwater's wife, Darla Moore, who manages many investments for Rainwater, had 8 million shares of Columbia/HCA. In 1995, as Governor of Texas, Bush vetoed a Patient Protection Act passed by the Texas state legislature, which spelled out the obligations of hospitals and health-care providers to those who need medical care. Bush complained that the Act "unfairly impacts some health-care providers while exempting others." While Bush was compelled to ask his Insurance Commissioner to implement some of the bill's provisions, he made a notable exemption of a provision that would have cut into the profits of Columbia/HCA.

In 1996 and 1997, also while Bush was governor, the Texas Teachers Retirement System, which manages the pension fund for the state's public school teachers, sold two office buildings and a mortgage on a third to Rainwater's Crescent Real Estate Equities, at a $70.4 million loss to the Teachers Retirement System.

According to an article in the April 22, 1997 *Houston Chronicle,* entitled "Tax Plan Would Help Top Bush Contributor," "Before he was elected governor in 1994, Bush owned shares in two other Rainwater partnerships [which he had acquired in the early 1990s], from which he reported earning $57,047 during the 1994 tax year." These two partnerships were merged into Rainwater's Crescent Real Estate Equities, and the investments were placed into a blind trust for Bush after Bush took office as Governor in 1995.

In 1997, Rainwater used Crescent Real Estate Equities and a sister company to take over Charter Behavioral Health Systems.

In 1998, Bush's stock holdings in Crescent Real Estate Equities were worth $1 million, according to a July 3, 1999 article in the *Dallas Morning News*. During 1998, Bush sold his stock in Crescent Real Estate Equities.

Clearly, Rainwater and Bush have the same Wall Street "shareholder value" outlook on America's health system, and have made millions by its destruction.