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Why Erlanger turned to Prisma after going private

July 25, 2026 by Elizabeth Fite



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Three years ago this month, Erlanger leaders gathered amid blue and gold balloons to celebrate what they hoped would secure the health system's future.

After more than a century as a public hospital, Chattanooga's safety-net health system had become a private nonprofit. The move freed Erlanger from government procurement rules, open meeting requirements and other restrictions that executives said had left them at a competitive disadvantage.

"Now we can focus on operations and get back to business," CEO Jim Coleman told employees and community leaders at the July 20, 2023, celebration.

By most measures, the transition worked, according to hospital leaders. With those long-standing operational hurdles lifted, Coleman said Erlanger cut supply costs, negotiated better contracts and strengthened its financial footing.

But another, far more expensive challenge came into focus.

By last summer, Erlanger's board had begun asking how the health system could find roughly \$750 million over five years to modernize aging facilities, replace outdated equipment and build infrastructure beyond its traditional hospital walls -- investments leaders say are essential to keeping pace with healthcare today.

The question became more urgent as a series of policy and market changes converged, said Dr. Christopher Poole, an Erlanger board member and immediate past chief of the hospital's medical staff.

New federal Medicaid funding reductions, approved in 2025 and set to deepen over the next decade, threatened to squeeze safety-net hospitals already operating on thin margins.

At the same time, Tennessee lawmakers voted to phase out a state requirement that healthcare providers demonstrate a need for certain facilities before they

could be approved to open, including acute-care hospitals beginning in 2030, opening the door for new hospitals and outpatient facilities to enter the Chattanooga market more easily.

Poole described what comes next as a "capital arms race."

"Who has the capital to beat you at the arms race?" he asked. "The for-profit hospital."



BEHIND THE CURVE

Much of Erlanger's physical infrastructure dates back decades, requiring expensive upgrades simply to maintain current services.

"It's so old and has been deferred and not replaced," Coleman said.

Healthcare increasingly revolves around outpatient surgery centers, imaging facilities and technologies that allow patients to receive care outside the hospital.

"Chattanooga, in general, has been behind the curve on that," he said.

Because those settings often cost less, insurers increasingly steer patients there when it's safe to do so. That means hospitals have had to rethink where and how they deliver care, Coleman said.

Last summer, Erlanger's board quietly began exploring whether partnering with another health system could be part of the solution. Coleman said the board did not publicly solicit partners because "that was not a chosen path at that point in time."

"We knew we probably needed one, but we didn't know if we would actually do it," he said. "And so we wanted to be much more selective and not do a blast across the eastern United States that Erlanger was for sale, because it really wasn't."

The nonprofit conversion had given Erlanger the flexibility to compete, board members concluded. What it hadn't provided was enough capital to move quickly. Remaining independent meant relying more heavily on bond financing to fund Erlanger's strategic plan, a slower, riskier approach, Coleman said.

"Status quo, it might be doable in 10 years, but probably would hit a couple hiccups somewhere in the first few years," Coleman said. "Then who knows what after that?"

On Wednesday, Erlanger announced plans to pursue a partnership with South Carolina-based Prisma Health, a deal designed to give the organization access to \$2 billion in capital over 15 years to modernize facilities, expand outpatient services and invest in new technology.

([READ MORE: Erlanger seeks to join South Carolina health system in proposed \\$2 billion deal](#))

Coleman said the decision isn't a sign the 2023 transition failed. Rather, he said, going private gave Erlanger the flexibility to compete and reach a place of stability. Now, the health system is in a position of strength that makes it an attractive partner.

"This will enable us to hit the ground running probably the first part of next year with some of these projects," Coleman said.

The investment schedule is expected to total roughly \$750 million over the first five years, another \$750 million over the following five years and \$500 million during the final five years, though Coleman said the health systems have discussed that the timeline could be adjusted if priorities or policies change.

Erlanger, Prisma co

	Erlanger
Hospitals	6
Employees	8,000+
Licensed beds	About 1,000
States served	Tenn., N.C.
Children's hospitals	1
Trauma center	Level I
Residents & fellows	215

MORE PARTNERSHIPS

Across the country, hospital executives have been rethinking their strategies as the industry continues to shift and financial uncertainty mounts.

For safety-net hospitals like Erlanger, those pressures are especially acute because they care for larger shares of uninsured patients and those with Medicaid, which generally reimburses hospitals at lower rates than other insurance.

Concerns intensified last year after Republicans in Congress passed their tax-and-spending law. Analysts project it will reduce Medicaid spending by roughly \$1 trillion over the next decade while increasing the number of uninsured Americans by about 10 million, placing additional strain on safety-net hospitals.

Erlanger officials estimate the law will reduce the health system's revenue from Tennessee's Medicaid program, TennCare, by about \$46 million in fiscal year 2025.

Erlanger isn't alone. Those same pressures are fueling hospital mergers nationwide, research has found.

Although merger activity got off to a slow start early in 2025 as the new federal administration took office, it accelerated after Congress approved sweeping Medicaid funding reductions later that year. Consultants at Kaufman Hall said more health systems are pursuing partnerships to strengthen outpatient capabilities, improve financial resilience and position themselves for long-term growth.

"Health systems are no longer simply reacting to market pressures," Courtney Midanek, managing director and coleader of Kaufman Hall's mergers and acquisitions practice, said in a July report. "They are proactively pursuing partnerships to drive capability-driven growth and long-term sustainability."

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Coleman said Prisma stood out because it had already built many of the outpatient facilities, clinical programs and infrastructure Erlanger hopes to develop. That head start becomes especially valuable before Tennessee's rules around demonstrating need before opening medical facilities are phased out, Coleman said, in part because Prisma has already been preparing for the same policy change in South Carolina.

Rather than designing those systems from scratch, Coleman said, Erlanger can adapt a model that has already been tested.

"They're about five years ahead of us," he said. "They've been basically implementing a strategy that I want to implement here in Chattanooga."

A decade from now, Coleman said he pictures easy access to Erlanger services through modern, neighborhood facilities across the region.

He also envisions a smaller downtown campus alongside a significantly expanded Erlanger East hospital, where there will be more specialists and services near Chattanooga's fast-growing suburbs. Erlanger East is already adding a 24-bed tower designed to accommodate future expansion, expanding its emergency department and increasing cardiac and interventional radiology capacity.

"We've already got the team, we just need the tools," Coleman said. "We'll see bigger rooms, more comfortable rooms, digital rooms, all those things."



WHAT COMES NEXT

Dr. Michael Sigsworth has watched this story unfold before.

Sigsworth was in the middle of psychiatry residency in Columbia, South Carolina, when that hospital system, Palmetto Health, announced it would merge with Greenville Health System to form what became Prisma Health.

"Many people were apprehensive when the announcement was made," he said.

Sigsworth said he recalls "only good things happening" after the systems joined.

(READ MORE: Hamilton County leaders optimistic about Erlanger deal, want local oversight preserved)

Although he enjoyed his time at Prisma, Sigsworth said he always planned to return home to Chattanooga, where he and his wife have family.

Today, he's medical director of child and adolescent psychiatry at Children's Hospital at Erlanger on the same Third Street campus where he was born.

"There are many opportunities for us to grow the care that we provide for our kids in our community," he said.

When Erlanger announced plans to join Prisma, Sigsworth said the pairing immediately made sense.

"In my mind, I had never imagined them together," he said. "But when it was announced, my thought was, this is a perfect match."

In terms of being ahead of Erlanger, when it comes to pediatric behavioral health, Sigsworth said one example is a partial hospitalization program for children with mental health needs -- a service Prisma offers that Erlanger does not.

"It would fill a gap," he said, helping children spend less time in the emergency department while providing a bridge between inpatient hospitalization and returning home.

Sigsworth also sees an opportunity to establish a psychiatry residency in Chattanooga like the one that trained him.

"Both systems are known for residency programs that are hidden gems," he said.

Sigsworth said he understands why some employees and community members are anxious about the change.

"It's been protective for us for centuries that we resist change because change can mean that there's danger," he said.

The partnership still requires approval from Hamilton County commissioners, regulators and governing boards, and some employees and community members have questioned whether Erlanger can preserve its local identity -- something Sigsworth said he hopes remains intact.

"I hope that we continue to provide the care that I choose for my family," he said, "and that local leaders continue making local decisions."



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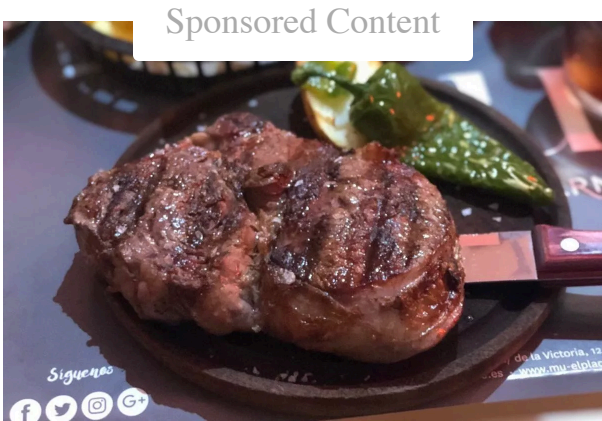


Elizabeth Fite is the healthcare reporter for the Chattanooga Times Free Press. She covers rural healthcare, hospitals, health insurance, public health and health policy, with a focus on explaining and investigating how healthcare systems and safety-net programs work — or don't — for the people who depend on them. She joined the paper in 2017 after earning a master's degree in Health and Medical Journalism from the University of Georgia.

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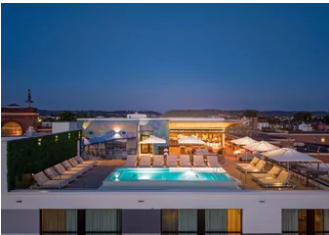


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