CF Hospital - Watsonville Hospital
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Watsonville Hospital Leaders Announce Plans to Break Ground on New Facility

by Mary Bryant

Watsonville Community Hospital executives are reportedly within days of closing escrow in what will be one of the county's largest land purchases in recent years, and within months of breaking ground on what will be the county's biggest ever hospital construction project. When complete, hospital directors will have spent at least $67 million to buy industrial land and build an acute-care hospital to replace their existing facility damaged in the Loma Prieta Earthquake.

Advancing the plans, in a five to two vote, Watsonville City Council members issued local building permits that should allow hospital contractors to break ground this Spring.

Cory Allen of Watsonville Community Hospital said that contractors hoped to break ground by April or May with the first phase of construction, and acknowledged that final building approval for a licensed acute care facility awaited approval from the state architect's office in Sacramento.

"Keep in mind that breaking ground is breaking ground for the remodeling phase, not for the new hospital phase," said Allen, adding that construction plans of the hospital complex included refurbishing a portion of the former manufacturing plant building currently occupying the site which will someday be home to a new medical campus. "What we expect is that construction, start to finish, would be approximately 22 months. We would expect [to open the center] in summertime 1997, assuming that nothing gets in the way or slows us down."

Allen said the total project is expected to cost $67.4 million, including $19.6 million to purchase Seagate's property on Airport Boulevard at Highway 1. She said that a final grant had been released from FEMA of $43 million to cover construction costs, with the remainder coming from a FEMA loan of $9.3 million, an advance from FEMA of $2.1 million on the anticipated sale of the hospital's current facility and land, and an existing grant from the state of $4.4 million. Allen added that to make up the total funding, a loan of $8.6 million had been negotiated with Seagate Technology.

Where The Money Is Really Coming From

Last summer, as part of final negotiations with officials from the Federal Emergency Management Agency, federal regulators withdrew an offer to loan the hospital part of the funding necessary to complete the project.

Chris Doyle, FEMA's project administrator in Washington D.C., said the funding was withdrawn because Governor Pete Wilson refused to request the loan on the behalf of the applicants, a technical requirement of the federal law that permits FEMA to loan money to disaster grant recipients when the federal grant amount falls short of the expected costs of repair or facility replacement. In the case of Watsonville Hospital, Doyle said the grant amount of about $40 million fell very short of the $67 million estimated construction cost, and the proposed FEMA loan would have only made up for part of the missing funds. He did not know about the announcement expected next week from the California Office of Statewide Planning and Health Development (OSPHD).

"We didn't insure the entire loan that they had originally requested. ... A commitment letter has not been issued as yet, but what the Advisory Loan Committee discussed was a $20 million insured loan versus something a little bit more," said CalMortgage's Assistant Director Dennis Fenwick of the state office that is responsible for insuring bond issues for the state's health related non-profit and community organizations. Hospital administrators had previously said they would consider state bond financing once a FEMA grant had been approved.

"Their last request was $21,785,000. The committee recommended that the office insure a loan of $20 million," Fenwick added.

Hospital bonds sell quickly on the bond market, if insured. Without state backing, bonds are generally rated at "junk" grade. At current interest rates the hospital will pay about $1.6 million a year in interest and principle payments on the bond issue, that is in addition to the costs of carrying the existing bond debt of about $18 million. Apparently, it was the existing bond debt that assisted hospital administrators in convincing state officials of the need to finance additional debt for the hospital.

"If there's a primary directive [for CalMortgage], it is to provide health care to under-served communities," said Fenwick. "What we're looking at here is ... that they've got a hospital that's been [in need of extensive repairs], and our belief is that they have demonstrated a need in the past and they continue to demonstrate a need to have a hospital in the community."

With the building needing permanent repairs, federal and state officials estimated the total worth of the hospital's present facility and land to be appraised at about $2 million, the same property and land that is presently securing the state's existing bond debt of $18 million. With a new bond issue and a new facility worth at least $50 million, the state will have a total outstanding bond debt of $38 million once the new bonds are issued. That is state bond underwriters will have extended $38 million in bonds secured by a project valued at $50 once the project is complete, instead of remaining in the position of having $18 million in bond debt secured only by a facility they refer to as in need of extensive repairs. Although, even with the math Fenwick said the decision to insure the bonds was a close one.

"Needless to say [in considering whether to underwrite the bonds] some stuff we give a lot more weight to than other things," said Fenwick. "It was significant to us that FEMA was going to contribute the $43 million. If they had not done that, I can't tell you whether we would have done the deal or not. ... Because that would have meant ... we would have had to insure a larger loan."

While Watsonville Hospital's Allen said she did not have information available other than that the hospital was sticking to its original financing proposal, the new bond sale should mean easier going for what would have otherwise been a complex financing arrangement of a short-term loan to the federal government and a longer term loan to Seagate. However, with profits barely sufficient to cover the additional loan costs, hospital administrators will have to watch their already tight construction budget.

FEMA's Doyle said the $39.5 million advanced for disaster repair was a final figure, including the costs of architecture, the loan on the existing site of $2.1 million, construction expenses and inflation costs. He said he could not confirm but believed that the remainder of the federal grant total of $43.5 million that hospital administrators quoted reflected a grant from the regional FEMA office. This would be a grant in addition to the $39.5 facility replacement grant, a grant approved to replace equipment damaged in the earthquake. If so, the $4.15 million grant for equipment will cover the $4.5 million hospital administrators have calculated spending on equipment as included in the total construction estimate.

Allen would not confirm the breakdown of the two FEMA grants approved to rebuild the soon-to-be 100-bed hospital in South County. ❐