

Hospitals - Watsonville Hospital

Hospital deal brews

Tennessee chain, Watsonville pursue sale

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WATSONVILLE — A Tennessee-based hospital chain is one giant step closer to buying Watsonville Community Hospital, paying off its \$35 million debt and, if promises are kept, streamlining the financially strapped nonprofit into a flush for-profit business.

In an era that is increasingly plagued with stories of financially troubled hospitals, hospital board members hailed their potential merger as a promise of redemption.

Other community members were more wary, promising to monitor any change-

over to for-profit status and any potential loss of community control.

But the Watsonville hospital board of directors, who have courted interested pursuers for more than two years, seemed pleased to announce Monday that they'd signed an exclusive letter of intent to be purchased by Community Health Systems Inc., a privately held company that owns and operates 38 acute care hospitals in 16 states.

Both parties declined to state how much CHS would pay, but the hospital's \$35 million debt would be paid off as part of the deal and "a significant amount of money" above and beyond the debt would be placed in a trust for use in the

community.

Both parties will proceed with further financial disclosures, and an intensive review by the state Attorney General's Office, which regulates the sale of nonprofits and the monitors management of assets.

Hospital board members and CEO and President John Friel say the sale would provide the troubled hospital with the capital necessary to pull it out of trouble.

The deal, they promised, would also allow local control. The ideals and philosophies of CHS are well-aligned with those of Watsonville Community Hospi-

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Watsonville Hospital CEO John Friel and Michael Portacci of Community Health Systems of Tennessee.

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Hospital

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tal, Friel said.

Friel said he would continue on as CEO under an acquisition and no restructuring would be immediately planned.

"We wanted a good fit psychologically," Friel said, noting South County's commitment to a full-service hospital with programs that serve the indigent. If the acquisition goes through, CHS would honor all pending labor and service contracts and continue to provide the same level of obstetrics, emergency room and home health-care services.

Friel and board members aren't expecting CHS to maintain the status quo, however. They expect CHS to expand services and bring them to more people, including Monterey County residents.

CHS specializes in rural hospitals in communities with populations between 20,000 and 75,000. Most of the hospitals in the chain are in one- or two-hospital towns in the South and Midwest. In 1995, CHS bought Barstow Community Hospital, its only California hospital, but CHS officials said negotiations with others are under way.

In 1996, Forstmann Little & Co., a well-funded New York investment firm, bought the CHS stock that was publicly held on the New York Stock Exchange for \$1.37 billion. CHS had increased its revenues from \$38 million in 1986 to \$631 million in 1996.

Forstmann buys and sells companies at a profit. Among its current holdings are Gulfstream Aerospace Corp, a seller of corporate jets; and a stake in General Instrument Corp, a producer of set-top cable TV boxes and other TV equipment. Forstmann sold Ziff-Davis Publishing Co. in 1995.

Ken Hawkins, CHS vice president of acquisition and development, said Watsonville would be a lucrative purchase because of its brand new facility on Highway 1.

The new 100-bed facility, which contributes \$20 million to the hospital's debt, is scheduled to open in February. Hawkins said state-of-the-art center would draw new business from Monterey County. "We're not planning to downsize it, we're planning to grow it," he said.

Efficient operations and increased marketing would make the hospital profitable, he said.

Friel said that after a \$6 million loss last year, the hospital was back in the black and expected to stay within its \$50 million budget for fiscal year 1998.

CHS mission statements claim a commitment "to retaining significant community involvement in its hospitals through local governing

boards that have meaningful representation and influence over the hospital's policies, budgets, staffing and governance."

Wayne T. Smith, CHS president and CEO, said, "Other than certain economies of scale we bring through purchasing contracts, information systems and other operational efficiencies, our philosophy is that health care is a local issue and should be managed locally."

Watsonville hospital officials apparently were pleased with their recent tour and reports of the CHS Barstow facility.

Omar James, an Aptos business lawyer with the firm of Johnson & James, was active with the hospital's affiliation committee. Discussions with administrators at other CHS hospitals showed that the company had successfully tracked its patients, increased patronage by recruiting physicians and investing in profitable programs, James said.

"I think CHS simply recognizes the business potential of the hospital," James said. "They're businessmen."

Russell Judd, the Barstow Community Hospital CEO, heaped praise on CHS and its management.

"Since CHS has acquired Barstow Hospital, it has been nothing less than excellent," Judd said. "I wish there was another word for excellent. They have come into the community and have really made the hospital the leading hospital in the area." A restructuring resulted in layoffs of about 1 percent of the hospital staff, he said.

"They brought over \$6 million in capital that was completely unavailable to this small community. ... They also brought some sophistication, especially when it comes to managed care."

In fact, Judd said his 56-bed hospital was ranked among the country's top 100 hospitals two years running, by Mercer Health Care and HCIA, national research and health care firms.

"Any time there's a change, there's tension," Judd said. "But in my opinion CHS will be very un-disruptive and very calm sailing."

Watsonville Hospital has had several other serious suitors as well, including Catholic Health Care West, which owns Dominican Santa Cruz Hospital; Sutter Health Care, which owns the Santa Cruz Medical Clinic and Sutter Maternity and Surgery Center; and Columbia HCA, the nation's largest health care chain.

Wayne Boss, Santa Cruz Medical Clinic chief executive officer, declined to comment on the pending sale.

Sister Julie Hyer, the chief executive officer at Dominican Santa Cruz Hospital, said she would have to wait and see what kind of impact the purchase, if it went through, would have on county residents.

Noting all hospitals face difficult financial challenges — none of the hospitals in the county made money from operations last year — she said she wondered how the new players would manage a profit.

Even if Watsonville succeeds in drawing Monterey County residents, the hospital had an occupancy rate of only about 50 percent.

Charles Moody, county of Santa Cruz Health Services' Agency administrator, said he was pleased that an outsider and not one of the existing hospitals in the county, has stepped up to buy the Watsonville hospital because it increases choice and a healthy competition.

James is one of the people who believes the purchase will result in a plush trust fund that will provide needed community health services.

"Consider the possibility of meaningful preventative medicine, for instance in prenatal care in the Hispanic community, the possibility of day care with a preventative aspect to it, birth control education ... Wouldn't it be great to do something?"

Increasing hospital patronage will be an uphill battle, however.

Jay Hudson, president and CEO of the Community Hospital of the Monterey Peninsula, noted that nearby hospitals are all struggling to meet budgets. For fiscal year 1997, the occupancy rate of Natividad Hospital was 30 percent, Salinas was 58 percent and the Monterey Hospital was 69 percent.

"I don't know where they would expect to pick up patients," Hudson said. Citing Watsonville's fairly low occupancy rate, its high debt and high indigent use rate which draws generally low reimbursement levels, he said, "I think they may be dreaming."

Charles Idelson, a spokesman for the California Nurses Association, said he knew little about CHS, but his organization takes a dim view of hospital mergers.

"We don't believe the corporatization of health care is positive for communities or for health care," Idelson said. "What they tend to do is reduce consumer choices and reduce community oversight."

The hospital plans to hold a public meeting about the sale within a month. The sale is scheduled to be complete March 31. Terms of the sale are expected to be disclosed at that time.