

Sutter Health's CEO Pat Hays Resigns

by Mary Bryant

Many of the pieces lie scattered on Sutter Health's big corporate game board, large multi-specialty physician clinics, massive regional hospitals, a health maintenance organization, small acute care facilities, a new headquarters building, home health service organizations and congregate living centers. Someday, somehow these parts of a large puzzle are to fit in place and Sutter Health will rival organizations like Kaiser Permanente in the high stakes game to build the best and biggest statewide integrated health care system. However, the mastermind who was to lock the pieces together is planning to leave, and his notice of resignation is quite the talk of the town in the state's capitol city, where competition among health care corporation is fervent.

"In recent years I've frequently commented, half in jest, that perhaps I have been here long enough to become part of the problem, rather than part of the solution," wrote Sutter's President and Chief Executive Officer Patrick Hays in a press release. "A major reason for my decision is what I perceive to be an erosion, in recent months, of Board confidence in my leadership. Whether or not that is true, it is time for me to move to another organization where I feel my skills can be useful. The Board and I recently discussed it and reached consensus that it might be time for a change."

Hays resignation will be effective January, 1995, according to Sutter Vice President Steve Heath. As an interim step, member's of Sutter's Board of Directors announced the appointment of the Sacramento-based non-profit system's Senior Vice President and General Counsel Gary F. Loveridge. Loveridge, 51, will serve until a nation-wide search produces an heir to the Hays legacy.

"I can tell you that the Board, the management team and I are committed to keeping the Sutter system moving ahead while a search is conducted for Pat's successor," said Loveridge in the same press release. "Sutter remains committed to its fundamental strategies and its long-term vision, and will continue its aggressive evolution to an integrated system with pluralistic physician and payor relationships."

Separating Hays from the Sutter vision may require major surgery, since the two have been fused as one for nearly 15 years.

Hays came to Sutter during some of the institution's darkest times since its inception in 1921. Rocked by scandal when one of its doctors was accused of sexually assaulting patients in the operating room and administrators charged with attempting to cover-up the crimes, board directors were at wits end when Hays stepped into the boardroom.

In 1980, when Hays took the reins, Sutter Health consisted of two Sacramento hospitals and a pile of bills. Most of the bills were past due, and state regulators were days from shutting the doors and pulling the facility licenses.

By the late 1980s, the memory of "bad" times was faded and Sutter's CEO had charted a course for his organization that few would have dared.

Before taking the job at Sutter, Hays had run a large Kaiser Permanente Hospital in Southern California, learning to appreciate the appetite Californians had for abundant and affordable health care.

Hays would hone his reputation by

turning around Sutter's Memorial and General Hospital in downtown Sacramento. With a steady, sometimes gushing, stream of revenues from the two growing acute-care facilities, Hays sold his sterling touch to the directors of smaller hospitals. After a year under a management contract, most hospital boards were so grateful to the polished Sutter team that affiliation with the Sutter system was the only natural consummation to the courtship period.

Not that everyone appreciated Hays reputation as a fine suitor. Board directors at Watsonville Community Hospital rejected Sutter's management offer in 1990. But, this was only a small set back for Sutter officials, who were already making plans with officials at the Santa Cruz Medical Clinic.

A stock deal with Foundation Health resulting in a \$21 million profit in the early 1990s from the sale of Sutter's shares, increased Hays capital with the bond underwriters and his board of directors. These were capital monies he would quickly spend, buying among other assets Sutter's own HMO plan, known as Onmi Health Plan (the only one of 12 licensed HMOs in the state to lose money in 1993 according to reports compiled by the California Medical Association).

The nasty '90s have also been less than kind to Hays in other ways. Despite his growing collection of prestigious awards, he has had to battle to justify his aggressive habit of pursuing and purchasing doctor groups around the state, as profits have thinned-out from flagship institutions and demands for dollars have increased to bolster the start-up losses of many ventures. As an example, the purchase of the esteemed Palo Alto Medical Group by the Sutter Foundation came with the price tag of \$100 million in new facilities for the physicians, financed in part by a \$116 million bond issue.

In Santa Cruz County, Sutter Health currently owns one-third of the assets holding company that controls the Santa Cruz Medical Clinic, the area's largest established multi-specialty clinic. Sutter officials, with Hays in attendance, recently broke ground on a \$20 million small acute-care maternity and surgery hospital, near the Clinic's newest office complex in Mid-County.

"The very clear direction from the board is that we move ahead," said Heath, referring to the construction of the local facility.

As to why Sutter's Board Directors and Hays parted company, no one is evidently saying. Speculation in the Sacramento press has revolved around theories that Hays was either not returning the wagers he was placing around the state on time, or had moved the institution into the big leagues faster than directors were prepared to follow or cash was on hand was available to meet commitments. Among the members of the small board, one of Hays closest allies, Dewey Lowe, passed away last year, leaving what some described as a "vacuum" among board leadership.

What is certain is Hays will not be forgotten, having set a pace for Sutter Health and the hospital industry in Northern California that few could match.

"I am saddened by the departure of Pat Hays, flattered by the confidence expressed in me by the Sutter Health Board, and more than a little humbled by the task ahead of me," said Loveridge. □