



Chris Carothers/Sentinel

By KAREN CLARK
Sentinel staff writer

THE EYES of the nation's health-care industry are focused on Santa Cruz County, where the opening of a unique specialty hospital may presage the way most hospitals will look in the 21st century.

And that's not good news for traditional, full-service hospitals like Dominican, which may be forced to make radical changes to survive.

When the not-for-profit Sutter Maternity and Surgery Center opens in March, it will be the only specialty hospital of its kind in the United States. The 30-bed facility on Chanticleer Avenue and Soquel Drive will offer only maternity and in-patient/out-patient surgical services.

"The idea of a big, old hospital is disappearing for those needing wellness care," said Celeste Phillips, president of Phillips and Fenwick of Scotts Valley, a nationally recognized consulting firm on women's health care. "What you are seeing here you will see all over the United States in the future."

SPECIALTY hospitals, also known as a mini- or designer hospitals, eschew the full-service philosophy that marks traditional facilities. They do not take care of critically ill or injured people, so they don't have to operate expensive emergency rooms or intensive-care units.

State regulators do not track the number of specialty vs. full-service hospitals, so it's impossible to quantify what some are calling a trend in the making.

But it's clear that about half of the state's traditional, full-service hospitals are having financial problems. According to the Monthly Labor Review, the cost of hospital care rose 135 percent between 1982 and 1992.

"When hospitals are being built in California today, and it's rare, they tend to be specialty hospitals," said David Langness, a spokesman for the Healthcare Association of Southern California. "The prospect of opening a full-service hospital with an emergency room is very daunting because most are operating in the red."

IN 1995, said Langness, 51 percent of the hospitals in California lost money. That's a dramatic increase since 1980, when only 19 percent were in the red. The reason is three-fold: Insurance companies and the government are reducing reimbursement rates and focusing on managed care, there are more uninsured patients, and the

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Dominican, Sutter offer competition choices,

By KAREN CLARK
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THE LOCAL battle over the future face of hospitals is no David-and-Goliath mismatch. It's more of a Goliath-and-Goliath slugfest.

The soon-to-be-opened Sutter Maternity and Surgery Center is owned by Sutter/CHS, a health-care system with \$2.4 billion in assets that is Northern California's second-largest behind Kaiser. Since 1988, Dominican has been part of Catholic Healthcare West, which operates 22 hospitals in California. With assets of \$3.26 billion, it



Boss



Hite

ranks second in size behind Kaiser in all of California.

According to Debbie Cantu, a spokeswoman for Catholic Healthcare West, the corporation has no plans to follow Sutter into the specialty-hospital market.

It was the corporate backing of Healthcare West that enabled Dominican to buy Santa Cruz's old AMI/Community Hospital for about \$11.25 million in 1990, and then shut it down.

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Healthy Competition?

National care industry casts watchful eye toward Santa Cruz and the birth of a specialty hospital



Sutter Director Iris Frank stands before the facility in Santa Cruz.

Bill Lovejoy/Sentinel

Choices compete

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Wayne Boss is president of Dominican's most dogged rival since the Community Hospital buyout: the for-profit Santa Cruz Medical Clinic. The clinic is made up of an influential group of doctors that has had financial ties to Sutter/CHS since 1992, when Sutter bought a minority interest in the clinic's parent company, Derjian Associates.

Sutter's cash infusion allowed the clinic to build offices in Watsonville and on Chanticleer Avenue in Santa Cruz across from the new hospital, said Boss. In return, Sutter hospital won't have to duplicate certain support services and infrastructure that already exist in the clinic, which reduces overhead.

Boss said the uniqueness of the new hospital poses a risk, although it's balanced by the consumer outcry in the North County to have a choice in hospitals.

"Any time you have something that's new in a changing market it has a risk to it," said Boss. "This is going to be unique in the United States for awhile. My hope is it won't be unique for long. Sutter in two communities in the Sacramento area are waiting to see how this facility operates."

SUTTER surveyed North County residents before committing to coming to the area, said Boss. Officials discovered maternity, and in-patient and out-patient surgical services as alternatives to Dominican's were the ones most desired.

"The community was used to choice, and most people intuitively understand the benefit of competition," he said.

Competition also will be good for insurance companies and managed-care groups, which may be able to negotiate better hospital contracts when more than one exists.

Boss said Sutter doesn't expect to break even on its Santa Cruz center for the first three years as it recoups its \$23 million investment.

Sutter does, however, expect to make a significant dent in Dominican's virtual monopoly on the North County baby

market, said Boss. Projections are that in its first year of operation Sutter will deliver between 500 and 600 of the on-average 2,000 babies born at Dominican annually.

THE OLD Community Hospital used to deliver about half the North County babies, according to Boss. In some years, that figure even dipped closer to 40 percent.

Sutter also expects to accommodate some 2,500 out-patient surgeries and between 800 and 1,000 in-patient surgeries in its first year, said Boss.

Dominican's decision to swallow Community played a large role in attracting Sutter to Santa Cruz County. Boss, who was Dominican's chief operating officer until he resigned in 1983, was critical of the Catholic hospital's action. He spearheaded the medical clinic's effort to bring a new hospital to the area as competition to Dominican.

"The bad feelings (between the clinic and Dominican) are very, very exaggerated. There are differences," said Boss. "People don't make big decisions based on bad feelings anyway."

ROGER HITE, Dominican's chief operating officer, said the existence of the new hospital offers a chance for peace with Dominican's anti-monopoly detractors.

"At least it puts to rest that criticism," said Hite, whose hospital still faces an antitrust violation lawsuit filed by the Medical Clinic 2½ years ago. The suit came on the heels of a Federal Trade Commission ruling that Dominican's purchase of Community Hospital probably broke laws prohibiting unfair competition, but that no action would be taken except to require Dominican get FTC approval before buying any other hospitals.

(The clinic's lawsuit against Dominican is expected to be heard in Federal Court in San Jose beginning on Feb. 20.)

JOHAN PETERSDORF, Dominican's chief financial officer, said about one-fourth of the patients at Dominican are admitted by Medical Clinic doctors

(there are a total of 380 doctors on the hospital's staff). Although some of those patients still will be admitted to Dominican for certain procedures, administrators expect most to switch to Sutter.

"We don't know how quickly the drop-off will be," said Hite. "When the volume changes, we'll need fewer employees."

As a result, the hospital has been watching its pennies in the past year. Hite said temporary employees have been hired in positions that may be cut when the patient load drops, and there has been "a small adjustment in the rest of the hospital overhead. ... We have been trying to be as light-footed as we can."

Iris Frank, administrator of Sutter Santa Cruz, said she received more than 300 applications for the 80 staff positions even before she started advertising the jobs. "A lot of people want to work here," said Frank, former emergency room manager at Dominican.

GREGG SCHNEPPLE, executive director of the Hospital Council of Northern and Central California, said the area will benefit from a second hospital, and not only because it will provide a choice.

"I think it will spur the other hospital to consider what's good about the model and replicate it," said Schnepple.

Dominican already is responding with a \$600,000 remodeling of its labor, delivery and recovery rooms. The renovation includes private patios outside every labor room, and a tub-sized spa for expectant mothers. The new Sutter facility offers balconies in every room and several tub-sized spas, including a few in patient rooms.

Ed Fayen, vice president at Dominican, called the maternity project a routinely scheduled improvement, but he acknowledged a desire to be competitive with the Sutter facility. "To say we're operating in a vacuum is not an accurate statement," said Fayen.

Dominican expects its renovation to be finished by mid-February, several weeks before Sutter opens its doors.

Sutter health facility

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number of alternative outpatient facilities is mushrooming.

Dominican, which has a \$115 million annual budget, continues to operate in the black. In 1994, Dominican ended up with excess revenue amounting to \$4.5 million, which came on the heels of a \$5.5 million surplus in 1993.

Dominican is a tax-exempt, non-profit hospital, so the profits are plowed back into the facility. Annual renovations typically run as much as \$6 million, according to Vice President Ed Fayen.

Medical advances and the need to lower health-care costs — which increased 109 percent between 1981 and 1991 nationwide, more than twice the 50-percent rise for all other items on the government's price index — are driving the growth of these outpatient surgery centers.

BUT SUTTER Santa Cruz is taking that philosophy a step farther by adding in-patient surgery and maternity services to its specialty-hospital menu.

"It's a little too early to call it a major trend, but clearly there's a move toward out-patient care," said Gregg Schneppe, executive director of the Hospital Council of Northern and Central California. "It's clear these hospitals have cost



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— Sister Julie Hyer, Dominican CEO

advantages in that they don't have the burden of overhead costs that a full-service hospital would have."

Sister Julie Hyer, Dominican's chief executive officer, doesn't believe the spurt of specialty hospital constitutes a system-altering trend.

"Everyone has theories on everthing," said Hyer. "We don't know what's the future of health care. It's in utter turmoil."

But she believes managed-care insurance providers will want to contract with one hospital that can do everything, rather than splitting contracts between several facilities in one area.

"Quite honestly, the boutique hospital will not be the place of the

future," said Hyer, who nonetheless applauded Sutter for trying something new. "The fact that Sutter is experimenting is wonderful. ... They've got to try everything."

DR. DAVID Druker, chief operating officer of the Palo Alto Medical Foundation and president of Sutter's Peninsula Coast Region, which includes Santa Cruz County, agreed that specialty hospitals aren't going to wipe out traditional facilities, but big changes are afoot.

"I think it's a definite trend, and it's a good thing," said Druker. "More and more, what you thought of as a traditional hospital will be just a big intensive-care

unit. You'll see the sickest patients in there."

Druker said he believes Dominican will survive the competitive challenge with Sutter because it's the only full-service hospital in the North County and it's a well-run organization.

That's not the case in Santa Clara County, said Druker, where there are 12 hospitals in an area that probably only needs three. These hospitals would close even without the advent of specialty centers, said Druker, because of the huge increase in out-patient care.

Druker said the national average for the annual number of hospital-

bed days per 1,000 people enrolled in a health-maintenance organization is 400. In California, that average is 150.

"It's not that care's being held, it just that we're treating more on an out-patient basis," Druker. "I'm sure what we're seeing in California will spread across the nation."

DRUKER said specialty hospitals have a competitive advantage of a lower overhead because they're not burdened by higher-cost facilities.

Emergency rooms and intensive care units are among the most expensive departments in a hospital. On the other hand, hospitals have a sizable number of admissions from their emergency rooms.

John Petersdorf, Dominican chief financial officer, said 30 percent to 40 percent of the hospital's non-maternity admissions come through the doors of the emergency room.

"It all comes down to financing," said Petersdorf. "Are they going to be able to deliver it cost-effectively? ... If they are the wave of the future, there are so few in the country just as curious as everyone else about how it turns out."

Sutter: it won't look like a hospital

By KAREN CLARK
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SANTA CRUZ — Sutter's Santa Cruz center will look more like a hotel than a hospital, and that's no accident.

"It's just much more pleasant surroundings to help patients get better quicker," said Dr. David Druker, president of Sutter's Peninsula Coastal Region, which includes Santa Cruz County.

Here are some facts about the new hospital:

- The 63,000-square-foot, 30-bed facility is located on 3.8 acres on Chanticleer Avenue and Soquel Drive, just down the block from Dominican Hospital.

- Two-story building has operating rooms, support services, business office and physician offices on the first floor; maternity and overnight surgical-patient rooms on the second floor.

- There is space for family members to stay with the patient before and after surgery, and a private consultation room for doctors to tell family members how things went.

- The five over-sized operating rooms all have new, high-tech equipment, and windows placed high on the walls provide natural lighting.

- Each of the 18 private surgical-patient rooms include a private balcony, French doors, a sofa bed for family members, cable television, VCR and a refrigerator stocked with the patient's preferred beverages.

- The 12 rooms for expectant moms include either a birthing bed or, if preferred, a regular double bed.

- There is a tub-sized spa room, as well as private spas in four of the patient rooms.

- Patients may order room-service meals 24 hours a day. Other "extra touches" include bathrobes, over-sized towels and umbrellas at the door.

Dominican responds with new remodeling

By KAREN CLARK
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SANTA CRUZ — Dominican Hospital is in the midst of a \$600,000 remodeling of its maternity unit, a project spurred in part by the new competition down the street.

The project is part of a \$6 million set of renovations throughout the 280-bed hospital, including a new entrance with a huge revolving door and a nearby elevator to make it more convenient to get to the second floor.

The hospital recently finished a major renovation project on its main laboratory. It opened in July, and amounted to a doubling of space for lab workers and the new equipment, according to Dominican Vice President Ed Fayan.

Some of the changes in the maternity section include:

- Showers in all the labor/delivery-room bathrooms, which in the past have had only toilets and sinks.

- One bathtub-sized spa that all women in labor will be able to use.

- Fenced garden patios with furniture and flowers outside each of the 10 labor/delivery rooms.

- A bassinet in each room for parents who want to keep their babies nearby.

- An enlarged waiting area for family members not invited by the expectant mother to watch the birth.

- Double beds for women in their post-recovery rooms, which are different from the rooms in which they labor, deliver and recover. This policy is different from Sutter's, which keeps the women in one room throughout their stay.

According to charge nurse Greta Hill, the two-room policy is because some women who have already given birth find it difficult to sleep in the same area of the hospital where other women are in labor.

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