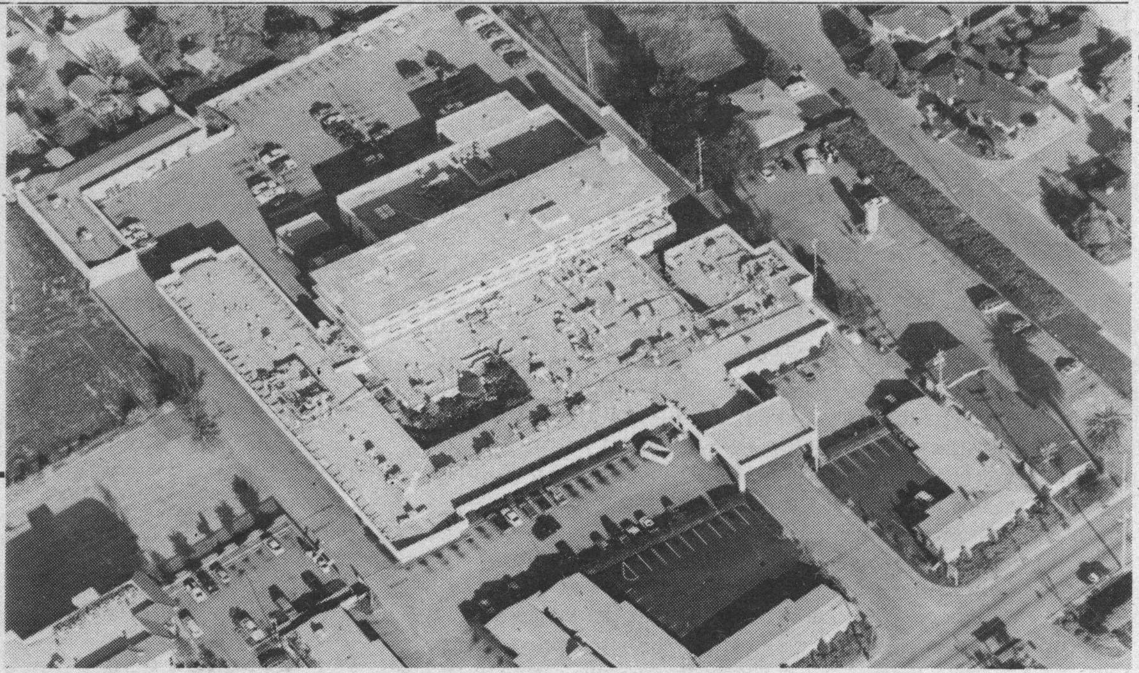
HOSPITALS - PURCHASE

The Story Behind Dominican's Purchase of AMI's Community Hospital

A LOOK AT LIFE AS A MONOPOLY



Ken McGrath

Community Hospital was privately owned by AMI until March, 1990, when Dominican bought the rival facility.

by Mary Bryant

Monopoly. It's the popular game where every player starts out with the same amount of money and one lucky contender wins by collecting all the property on the board. The entire contest usually takes no more than a few hours. But reality rarely mirrors life, or at least it takes a lot longer to work itself out.

In March of last year Dominican Santa Cruz Hospital purchased American Medical International (AMI'S) Community Hospital.

In many ways this should have been more the end of the game than the beginning, or at least this may have been what Dominican's administrators and board members might have thought.

In fact, the script may have gone something like this:

One determined and successful hospital had managed to gain the lion's share of the market, and consequentially found its weakened foe heading to the auction block.

Wishing to swiftly end the costly decades of competitive struggle, the local health care giant bid for and bought the rival institution. Now fully occupying the North County's acute care service industry for the first time in the organization's history, Dominican could move forward in implementing its ambitious plan.

Where once inflated expenses were necessary to maintain duplicated efforts for both Dominican and Community hospitals, savings, gained by streamlining certain departments, could be applied to offering new services—an especially stunning achievement considering that both private insurance carriers and governmental agencies were not only containing but also cutting back revenues to all hospitals.

In an era when most hospitals would have to get by with less money, Dominican could actually expand using the dollars they had found by eliminating excessive costs, and still save patients their hard-earned dollars.

Everyone would be very happy. Everyone would like Dominican Hospital very much for having been so smart and so insightful. Everyone would appreciate a winner. But everyone was in for a big surprise.

What seemed obvious for some was less clear for others. Santa Cruz county residents have never been very big on big things, and Dominican was not going to be any exception.

Charges that the hospital schemed to unfairly monopolize the health care dollars of county residents, gave way to cries that choices were too limited for women.

Take-over activities and consolidation efforts between existing departments, which seldom go well, were scrutinized for big and little mistakes.

Dominican, which once considered a benevolent neighbor, had turned overnight into a feared tyrant, at least by some. Notably those most outraged were doctors who had supported Community Hospital over the years, employees of Community Hospital that believed their failed struggle to remain competitors was righteous, women's groups who were concerned at the lack of available hospital sterilization procedures for north county patients, and the county government who itself relied on Dominican to care for their indigent patients.

It's easy to understand why all of these people have a stake in the fight, but what might not have been most expected was the renewed concern about religious based health care and the accusations of price fixing. After all, as Catholic hospitals go Dominican has never been stereotyped as "very" Catholic, and a locally based non-profit agency has little advantage in overpricing services. Right?

Well maybe not according to the Federal Trade Commission (FTC). And a year later, while the FTC is still investigating, Dominican continues to battle public opinion. In some sense, it appears that Community Hospital may have been less of a serious challenge to Dominican before its acquisition. But who is right and who is wrong? Let's begin by separating some fact from fiction.

Long History of Competition

None of what has occurred happened overnight.

The Adrian Dominican Sisters first came to Santa Cruz in 1941 to re-open the once private Hanley Hospital, which soon became known as Sisters Hospital. Through purchase and expansion, the privately owned non-profit organization has created what is now known collectively as the Dominican Santa Cruz Hospital campuses.

Medical office buildings, vacant commercial land, an interest in the county's oldest out-patient surgery center, a retirement home and the former Community Hospital has been added over the past 50 years to the Catholic Order's list of assets.

In fact, it seems as if the only substantial competitor Dominican has ever faced was Community Hospital. But that's understandable, since Community Hospital was opened in 1959 as a 49-bed acute care hospital by Harold Sundean, loosely associated with the Seventh-day Adventist church, to offer "alternative care" to Dominican's services.

It was not until July of 1978, after completing expansion operations in the mid-1960s allowing for a total of 180 beds and being turned over to the non-profit Sundean Foundation in 1960, that Community Hospital was sold to AMI for about $8 million. The for-profit international corporation then invested many more millions of dollars, including the immediate enhancement of emergency services, before AMI itself was bought out by a subsidiary of IMA Holdings Corporation. It is these corporate adventures that are blamed for finally prompting the sale of the local hospital.

Still, it seems as if Community Hospital had not fared the long struggle with Dominican without paying the price. The operating revenues were not keeping pace with the costs of capital dollars.

Granted the investment dollars through the parent corporation were costly ones *(see related article)*, the other measures of an institution's success were also dismal.

In simple terms, for whatever reason, people liked going to Dominican better than Community.

Ken McGrath

Dominican Hospital from a recent bird's eye view.

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DOMINICAN

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Losing the Battle

Much more attention has been given publicly to Dominican's bouts with governmental agencies and its own image, than has study been focused on reasons why Community Hospital did not sustain its market share. Of those people who are in a place to speculate, few will do so "on the record," and even fewer agree.

However, among the industry there is much talk. Some believe that the original founder, Sundean, was too careful in making improvements and applying capital dollars.

Others suggest that the facility was poorly designed, and did not inspire confidence with consumers. And even though the birthing and heart surgery centers were modern and kept a respectable pace with Dominican, doctors seemed less likely to admit patients for other procedures.

And, still a few others suggest that patients might have convinced their physicians that they wanted to go to Dominican's more congenial facility, which is plausible since many North County doctors were associated with both institutions and could offer the choice.

In the end, most believe it wasn't one thing but everything—even if it might have been saved, it was just mismanagement that through the years caught up with the operation.

Another way to look at the same picture might be what Dominican did better. During the critical years when profits were evaporating from the health care industry, Sister Josephine Sullivan, the past president of Dominican, was busy tying-in various community groups to hospital activities.

The county, for one, contracted with the non-profit hospital, but it wasn't the only one. Other providers combined to form a substantial volume to keep Dominican moving forward, while Community struggled to maintain the status quo.

The current president, Sister Julie Hyer, may have also provided her own brand of magic. Dominican's purchase of medical office centers and subsequent contractual resell to doctors provides an example of the kind of incentives for physicians to keep coming to Dominican's trough.

In terms of specific events, if there are to be two decisive moments, then they occurred some 15 years apart.

In 1973, the county closed its facility and transferred its state allocation of beds (not the real things but the permission to keep open rooms then required to be cleared through the state) to Dominican. This allowed the hospital to expand at a time it was still profitable to do so, even if the new patients were sponsored by the state.

It was 1989 when the second blow may have landed.

In 1988, Community Hospital opened a heart surgery center, admidst speculation over whether any local hospital could afford such a department. And just as the program was in its infancy, Dominican announced its own plans for a similar center.

Opening in 1989, Dominican's own heart surgery unit may have just taken the last wind out of the sails of Community Hospital. Even if both centers would lose money, Dominican could afford the hits better than Community could at the time.

This moment also signaled Dominican's first open falling-out with the public at large.

At the Heart of the Matter

To Dominican's credit, it is suggested that they may have been planning a surgery center right along with Community, and there is some reasonability to the notion that if such an expensive operation is to exist, it should be open at the hospital with the most market share.

But regardless, the fact remains, that even though Community was losing money before either center was open and the ultimate sale was spurred by an international buy out of AMI, Dominican from that moment on was no longer considered a friendly rival but, instead, a fierce and ruthless competitor.

And with image an issue, it wasn't long before the tables would again turn. Late in 1989, it was announced that Community Hospital was on the market. And before the ink could dry on the daily papers, Dominican announced that it was considering purchasing the hospital.

The final decision was not to come until almost three months later, but this gave plenty of time for opposition to the idea to form.

Whether detractors had their own motives or not, or even actually represented a majority of the medical community, it was clear that Dominican had a very real fight on their hands.

From a financial perspective, Dominican could afford to pay the most for Community and still remain profitable. Had Dominican not bought the property, it is likely that Community's owners would have to have accepted less from an outside company, who would have factored in losses and stiff competition in the market to the final price.

Dominican also had the most to gain. By combining administrative costs, emergency room and intensive care services, accounting departments and the like, Dominican could stand to make money off the deal. It would also give them more room to expand quickly, and offer them a fresh new market.

But how were they to make the plans and who had the final say? How much did it cost, where did they get the money, and has the community benefited from the deal? And what does this all mean for the future of local health care?

These questions, among others, will be answered in the next edition of *The Post*. But read on.

In the issue, *The Post* asks Dominican's president Sister Hyer her thoughts about the purchase and the battle scars Dominican still bears, along with a look at the numbers that kept Community Hospital in the red. ☐