

# Land Sale Announced

**Watsonville Hospital President Also Updates Business Leaders  
On Progress of New South County Hospital Construction**

*Hospital - Watsonville Hospital*

by Joel Moreno

A vacant lot in Aptos purchased by Watsonville Hospital in 1988 for the construction of medical office space and a long term skilled nursing facility will probably be sold to a Dublin-based developer for an undisclosed sum.

Watsonville Hospital president John Friel announced the sale to a capacity crowd at the Aptos Chamber of Commerce's monthly breakfast meeting on January 10. The property, located on Soquel Drive behind Kelly's Bakery and diagonally across from the Aptos Library, is still in escrow, but Friel said he expects ownership to change hands by the end of the month. The hospital has a \$2.5 million note due on the property that comes due at the end of March.

The DeSilva Group of Dublin, a land development and construction management company, has been negotiating with hospital representatives to purchase the property. DeSilva Group spokesman Jim Summers said his company

intends to develop commercial office space and single family homes on the site. The approved plan for the acreage allows for the construction of 60 new homes and 30,000 square feet of medical office space on the 12-acre site of a former Aptos nursery.

"It's an attractive piece of property in a good location with convenient access to the on- and off-ramps," Summers said.

Summers declined to say whether the company planned to develop the property to the full extent permitted in the General Plan, but clearly the lobbying by Watsonville Hospital's board of directors to achieve a change in the zoning codes for this property greatly impressed Desilva's representatives, Friel said.

"One of the things they were interested in was that we had the General Plan amendment changed so residential properties could be developed on the site," Friel reported.

Watsonville Hospital purchased the site in 1988 for slightly more than \$3.5 million, Friel said. The county Assessor's

Office placed the value of the undeveloped land at \$170,940 in 1996. Although both partners in the real estate negotiation are tight-lipped about discussing the sale price, Watsonville Hospital press secretary Ann Marie Brazil confirmed it would be at least enough to cover the \$2.5 million note that is due.

"If everything goes as planned, we will cover all the debts incurred from the original purchase of the property," Brazil said.

When questioned further about what constituted the existing debt that would be erased with the sale of this property, Brazil responded, "To my knowledge, the original loan was it."

In addition to the original loan, the hospital has paid \$906,000 in interest costs since 1992, and spent an undisclosed amount in development expenses.

The decision to sell the property was made by Watsonville Hospital's board of directors more than a year ago, Friel said.

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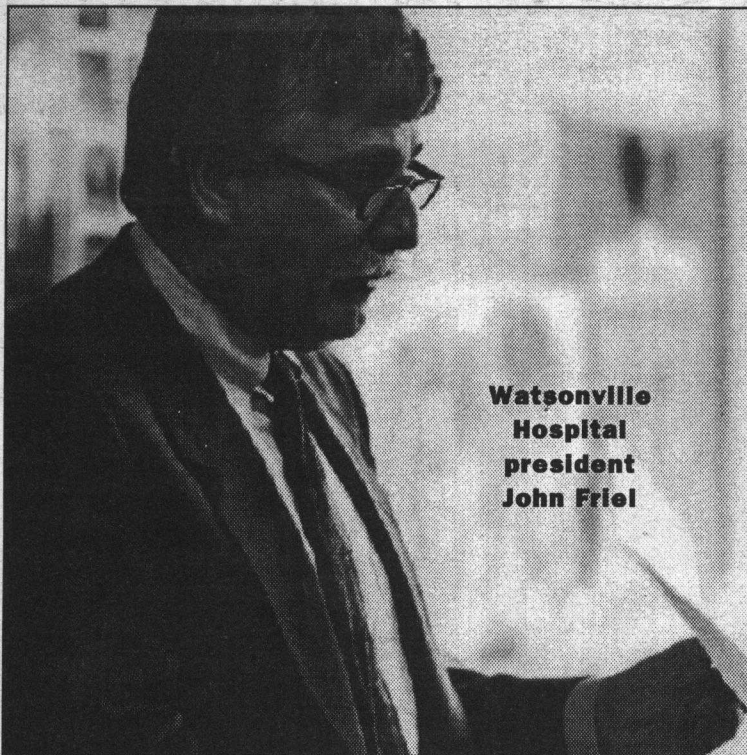
## Land Sale

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Originally hospital administrators wanted to enter a joint venture agreement to co-develop medical office spaces and as many as 65 single-family dwellings. The 1989 Loma Prieta earthquake jolted these plans off track as most of the hospital's resources went to shore up the South County facility. Now that the hospital's financial situation is on more "stable" ground, administrators re-evaluated present realities and decided the need for a long term care facility in the county was less critical.

Friel said that as hospital administrators prepare to sell one property they also look forward to the completion of a new hospital at another site. The current hospital on Green Valley Road was severely damaged in the 1989 Loma Prieta earthquake and engineers do not believe it can withstand another earthquake of similar magnitude, according to Friel.

Hospital administrators have since focused their attention on constructing a new hospital on a 26-acre site in Watsonville formerly owned by Seagate



**Watsonville  
Hospital  
president  
John Friel**

Technology.

Construction of a 100,000 square foot, 90-bed acute care facility is about 15 percent completed, according to Friel. He estimates staff will move into a fully operating facility by July 1997.

The total project is estimated to cost \$67 million. The hospital has secured \$49 million from federal and state grants, Friel

maintained. However, in past interviews, federal regulators have asserted that the grant is not a lump sum, and only covers the costs of replacing the original facility. Federal regulators have reported the land cost of about \$20 million and the additional facilities planned at the new site will be the responsibility of the hospital.

Friel said his estimate of the

shortfall was only \$18 million, and that amount would be made up through borrowing.

One of the major differences between the new hospital and the old is there will be fewer beds. The new hospital will have 90 beds whereas Watsonville Community currently is licensed for up to 130, although only about 100 beds are kept ready. This down-scaling reflects an industry-wide change as health care providers move away from in-patient services to offer more out-patient services, Friel said.

"There's no question our industry has been going through a revolution," he said. "The dependence on acute care hospitals is no longer there."

The rising cost of healthcare has made business leaders look harder than ever at entering into health maintenance organizations. Stellar growth has occurred in both the HMO marketplace in this county and throughout the state, Friel added. By the year 2000, medical industry analysts predict 70 percent of the population will be in some sort of managed care program, he said.

To follow those changes

Friel said the hospital is taking on greater financial risk for their patients by adopting a new capitated billing rate. The hospital's new payment method takes care of a patient's medical needs for a set monthly price, leaving it up to hospital staff to establish efficiency of care standards, Friel said.

However, Friel said that the independent standing of Watsonville Community Hospital might likely change.

Given all the mergers in the healthcare industry Watsonville Community Hospital has shown itself to be uniquely immune to the trends. To date it is one of only five hospitals in the state that has not aligned with any of the health care groups spreading across California. Friel said hospital directors may change their position on whether to align with any industry groups in the future but they will always abide by certain conditions.

"As part of our criteria we want to maintain autonomy within the Watsonville region that we serve to maintain local governance and local control," he said. □