

✓ THEY'RE BACK Capitola Health Center PART II Developers Return For ANOTHER SPIN AT THE WHEEL

Making Sense of NONSENSE

by Mary Bryant

It doesn't add up. The numbers don't match. The figures don't make sense. The odds are stacked against them.

But despite the uncertainties and apparent discrepancies in their plan to open a small hospital in Capitola, proponents of the proposed Capitola Health Center remain loyal to the project. Granted, most of these folks are local doctors who have reportedly collectively invested more than \$500,000 in the deal to date, which is to say that at least for some this remains a very important matter.

It is these guys and gals who will go before Capitola's City Council once again on November 12, 1992 to petition council members to grant them a permit to build a small health care center on the bank of Soquel Creek just south of Highway 1.

But what is a health care center? What exactly what is it they want to open along Capitola's busy Bay Avenue corridor?

Changes in the Project Design

In its heyday the proposal called for the construction of a health care campus.

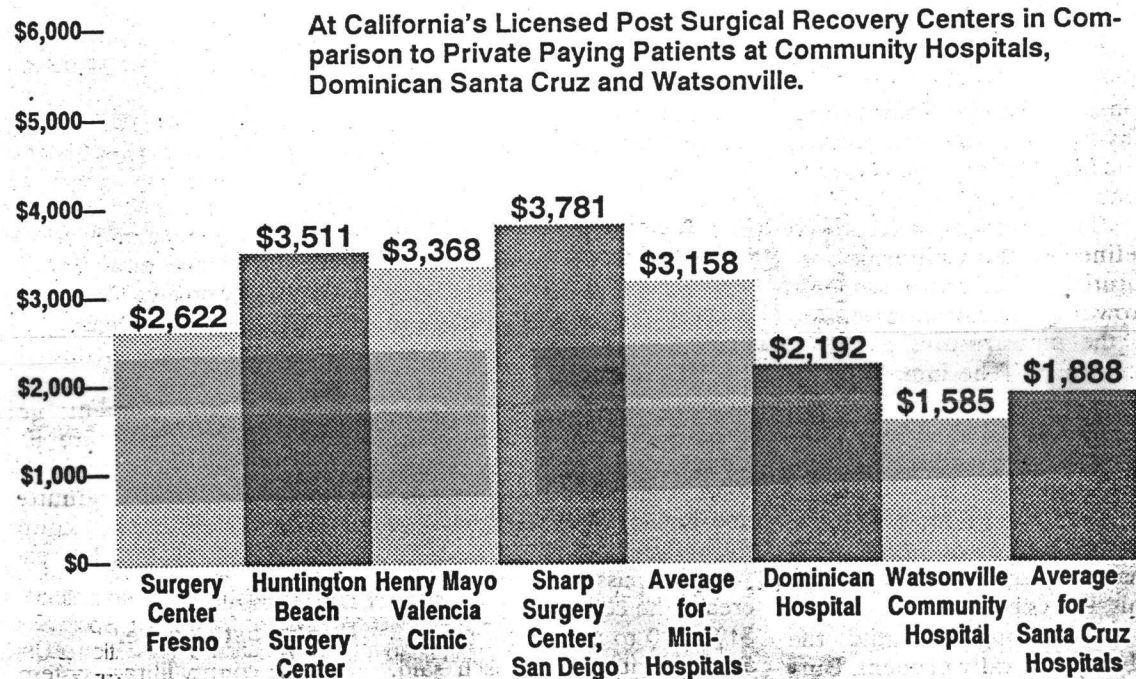
There would be a hotel-styled lobby entrance, operating suites, an imaging center, a medical library, hospital rooms overlooking the Creek, physician offices and a restaurant. There was more.

The Center was also to be the hub of an innovative "well" care program designed to enroll employers into managed care programs to provide low cost benefits to their employees, a program which in theory would resemble a HMO insurance plan.

But this is only what it was supposed to be.

Now the imaging center is going to be constructed and run by others. According to one of the Center's developers, Doug Byrd: "The imaging

Do Mini-Hospitals Save Money for Patients? 1991 Revenue Per Case and Per Day



companies we are talking with will provide their own imaging equipment... If I were a betting man, I'd put money on [the wager that] one of the radiology groups that we're talking will end up by getting approved by the City of Capitola in some space near our center... There's all kinds of empty space."

Now the out-patient surgery center will be built with the venture capital of an out-of-state surgery center chain. According to Byrd: "There are a couple of companies interested in buying into the project... There are six different companies. Three [are listed] on the stock exchange. They want to do out-patient surgery... They are looking at the whole facility as are the other companies. Surgical Care Affiliates, [one of the companies considering the venture] is used to [operating] out-patient centers. Their stock just recently took a big hit. The reason for that was because they're just another out-patient center [company]. They hadn't grouped physicians around the facility. They hadn't done a good job of integrating into a health system."

And what about the integrated health system? Now the 24-bed hospital may be a six to eight-bed hospital. Again, according to Byrd who could not estimate a date when the rooms would first be added-on after the initial project "broke ground" in the Spring of 1993: "What we

are talking about now is phasing in the beds, building six or eight beds that makes sense for coverage... The idea of offering the services [when] we think we can provide choice to people in the community. We can provide it for a lot less money than what the community is currently paying."

Confused? Let's step back

for a moment and consider the alternatives in designing a modern health care center.

Hospitals by Design

The health care industry is presently in the grips of an extraordinary movement to consolidate resources, curtail excessive utilization, and cap the

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What's In Store For The Future Of One Of Capitola's Busiest Corridors?

I think you got to look at environmental considerations in many ways, including the environmental impact just on people," Capitola council member Margaret Fabrizio said.

Specifically Fabrizio is concerned with the traffic the proposed Capitola Health Center will generate should developers gain the approval of the council to build the facility.

The facility is currently proposed, albeit this is likely to change, to comprise: a 19,500-square-foot medical office building with suites for between six to eight physicians and space for hospital administrative offices, rehabilitation facilities, a cafeteria, a Health Resource Center, a small retail pharmacy and a day-care center; and a 37,643-square-foot ambulatory center with four surgical suites, 24 in-patient beds, a nursery with ten bassinets, full laboratory service and a full imaging department.

The 4.77 acre project site is located on Bay Avenue to the north of the Nob Hill Shopping Center. As currently planned the health care center would cover most of the available acreage.

Fabrizio also said she was concerned about the impact on Soquel Creek considering the close proximity of buildings to the shoreline and the ever-present concern hazardous materials used in health care delivery, especially imaging centers, might someday pose a danger to the creek.

But back to traffic. The clearest indicators that skeptics of the proposed center have been wrong and the project is a success, will be added congestion to the already crowded Bay Avenue corridor.

Generally when a project is added to an area where traffic is a problem, developers of the project will be required to

mitigate the excess flow of vehicular trips by improving local thoroughfares. In the case of Capitola Health Center, however, there is only so much that can be done.

Developers will be responsible for purchasing and installing a new signal light on Bay Avenue, obtaining an easement from neighboring properties and constructing a loop road for better interior lot circulation, and making improvements to Bay Avenue lanes.

The project will also not be allowed to open until CalTrans finishes work on the Bay Avenue interchange at Highway 1, a project that is presently slated to begin in spring of 1993 and projected to take two construction seasons to finish.

Still, even with this done, it will continue to be slow going for motorist traversing Bay Avenue.

And this is the point in the environmental review process when elected leaders must decide if a new hospital for Capitola is worth the added congestion and potential danger to the creek.

In the lingo of environmental planners, to approve the project the council must state that there are overriding considerations and benefits the project will bring to the city that are worth accepting the unmitigable impacts the project is likely to create.

"They don't come up with specific points about overriding considerations," said Susan Westman, Capitola Planning Director. What they say is they feel the project generally meets the requirement of the city and that they feel in favor of the project... They understand that there are some negative impacts but as long as they understand that then they can say we want to go ahead and approve the project."

Making this decision on

November 17, 1992 at the regularly scheduled council meeting will be four council members. Council member's Bob Bucher's wife has been involved advancing the project and, as a result, Bucher must abstain from casting a vote.

But what if the skeptics are not wrong. What happens if the project gets underway and is either not completed or closes after a short time?

In Rancho Cucamonga in Southern California, Continental Health began a project to build a 54,000-square-foot ambulatory care facility on four acres. This complex included a three-story, 49 bed recovery unit. Construction began in 1988.

The building still sits idle. According to Steve Hayes, a planner for the city: "The city was not aware of internal problems until they started to happen."

What happened? Continental Health pulled out of the deal leaving the project to eventually change hands. But the new owners, Kajiuna Development, don't seem to be very anxious to bring the facility up to standards to meet city codes. "They haven't done anything about the outdoor plaza like they've said they are going to build, or show plans, or post bonds... We haven't heard from them in a couple of months," Hayes reported.

What does Center partner Doug Byrd think might happen if his venture is not ultimately successful? "Maybe it would become a UA theater. It's an 'I' occupancy type... Whatever the parking permits allow," Byrd said. This is not to say Byrd doesn't still have hope.

What does he hope for? "That [the project] provides a low cost, high quality alternative for the community." □

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continuing growth of the multi-billion dollar market.

Or more to the point, there are fewer ways than ever for providers to make money by offering more services to patients, a fact that is not welcomed by some corporations that have made substantial profits over the years.

These are the same companies, like Surgical Care Affiliates of Nashville, Tennessee, that are also losing what once was a foot-hold in the complex trade of delivering health care.

What we are referring to is the business of out-patient surgeries. In the early 1980s, two breakthroughs permitted physicians to dramatically reduce the affects of surgery on patients. One of these events was the development of laparocolostomy surgery which allows the surgeon to operate using a micro-video camera to guide his or her progress in an abdominal operation, like gall-bladder surgery, with little intrusion into abdominal cavity itself. With less intrusion into the cavity, there is less chance for infection and the patient recovers in record time.

And along with this heralded event, came discoveries about how to better administer anesthetics which permitted physicians to perform even more kinds of simple surgeries in a single day without admitting the patient into the hospital.

The trend continued. Soon, similar technology used in laparocolostomy operations was being used for a variety of procedures.

And, as one might imagine, the net effect was lots of doctors began to use operating rooms in hospitals for out-patient surgeries.

But operating suites in hospitals are often at the disposal of the hospital's emergency center staff, and scheduling short procedures can become inconvenient for both the patient and the surgeon.

As a result, centers sprung up to offer facilities just for out-

patient needs. And, many of these centers were privately owned by national for-profit chains specializing in the field. This was, however, to change.

It didn't take long for hospital administrators to catch on to the fact their easiest and most profitable work was being done by others in other places. In response, when possible, leaders formed partnerships with doctors and built their own centers.

This allowed the doctors an expanded role in the market. But this wasn't the biggest selling point.

"People are foolish to invest in these things today because within the next four years, if not sooner, there is not going to be the money there to run these things the way they need to be run and turn a profit."

—John Friel

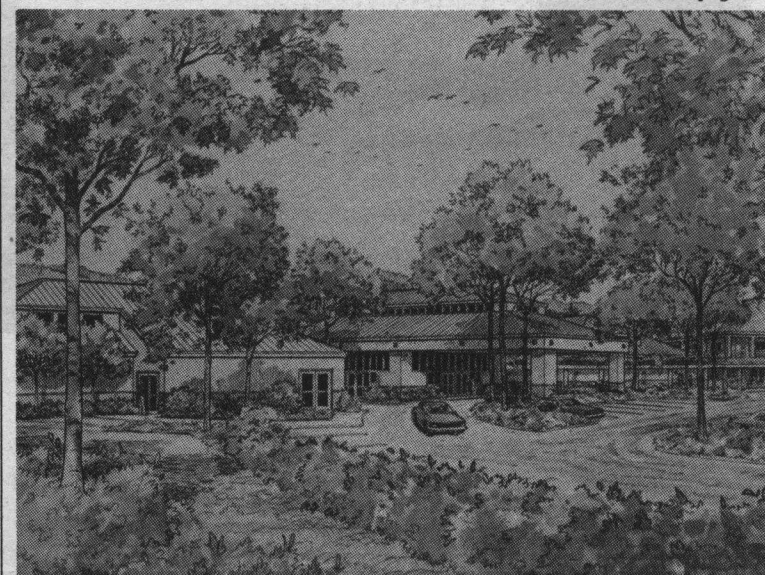
Since most hospitals had land near their primary campus that was suitable for expansion, the hospital-partnered facilities were generally much closer to the doctor's primary place of business, i.e. the acute-care hospital. And, as might be expected, the hospital-based surgery centers rapidly captured back the business, which left the new players in the market just a bit testy.

Out-patient surgery center directors have seen their stock drop and their industry begin to consolidate. The question remains: Will they go for yet another market?

The market in question would be that of an expanded out-patient surgery center, or a mini-hospital.

It would be a facility that would not offer emergency or advanced services like an acute-care hospital. We call it a mini-hospital, others might refer to the same as a post-surgical recovery

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center with surgical suites.

The idea is to construct a miniaturized version of an acute care complex without the expensive departments, and without risking providing care to anyone in need of care regardless of their ability to pay for services. This is to point out that without an emergency department, mini-hospital administrators won't have to worry about patients showing up who can't afford to pay the bills. All surgeries and stays will be scheduled in advance.

This is the kind of complex, according to developers, that should save the patients money. How?

The first point generally made is that by eliminating expensive services, the overall price of care will drop. What isn't usually stated is that they also don't plan to give away care to those unable to pay. Nor do they plan to contract with the state to provide their share of care to state patients since the state program, Medi-cal, is notorious for paying only a fraction of the cost of care.

But don't Capitola's developers say they will take Medi-cal patients? They do. But they probably know something most others don't.

Their Center, should it be built, will be providing only scheduled or "elective" surgeries. Before any surgery is paid for by the state, according to the county's public health officer Ira Lubell, a surgeon must gain approval. Approval for "elective" surgeries are only rarely given by the state. Only emergency services are provided for under the Medi-cal plan, with few exceptions. Emergency surgeries, by nature, depend on an emergency center for admission. Which, when it comes to mini-hospitals that won't accept emergency admissions, makes the debate of whether or not developers will open the facility to Medi-cal patients mostly moot.

Mostly moot, because this explanation does not account for mothers, sponsored through the Medi-cal program, who deliver babies. But it might be fair to assume it is unlikely, even if Capitola developers were willing, that a poor mother from Watsonville would drive to Capitola to deliver.

But caring for the poor is only part of the deal of providing health care services. There are many patients and employers who pay for employee coverage that would like to spend less on care.

Can the Capitola Health Center offer the same services for less money?

Will Center Save Money?

Developers claim costs at

area hospitals are among the highest in the region. Not true. Or least not correct as stated.

It is true that the prices at area hospitals are in the range (see accompanying chart) with other institutions. It is just that this market remains a very competitive place to do business, despite claims to the contrary.

It doesn't, after all, matter what you charge the paying patient, it is more a matter of what you collect for the work you provide the paying patient.

The vast majority of Dominican's operations are either for governmental or private contractors, some 95 percent of the total billing.

When we remove the Medicare and Medi-cal patients

ber of full-time equivalent staff, this number has been adjusted for long-term and skill nursing services, that both local hospitals run lean. This is to say they don't hire as many people when compared to patient days in the other hospitals. They also don't make much money.

Watsonville Hospital has reported losses up to this year, and Dominican has kept profits low.

"We have been part of this community for 50 years. It is our intention to continue our work for this community," said Sister Julie Hyer, Dominican's president and chief executive officer. "We are a non-profit institution. There is little incentive for us to make profits beyond what we

a day... Dominican's plant is worth \$40 million. We serve 190 patients a day."

This is to suggest that even if some incremental costs are lower, the total volume will not support the expenses of a licensed hospital nor create any efficiencies in delivering care.

Do they have to be less expensive to gain entry into this market?

"Part of what they see is an opportunity here because of the fact that there is [only] one hospital serving most of the North County and having to bear a lot of the expense to provide everything from cardiac care to emergency care, and [the developers] believe that they can do what they are capable of doing in a cost competitive man-

dinosaur old model hospitals. I think that as technology advances that there won't be 265 beds," Byrd said.

The actual number of current available beds in the county is more than 400, but regardless, should either of the hospitals fail as a result of losing profitable procedures to a new competing facility, then the model might change, along with the way health care has been delivered for more than a hundred years in the county.

John Friel, president of Watsonville Community Hospital, said he believes the darkest times are now in the past for the South County facility and reported a modest profit from this year's operations of \$650,000 in comparison of losses from the past two years at a combined total of \$2.1 million. "I think it is mistake to bet Watsonville Hospital isn't viable... We have turned around," Friel said.

Would Friel invest in an out-patient surgery center that wasn't connected to his current hospital operations?

"People are foolish to invest in these things today because within the next four years, if not sooner, there is not going to be the money there to run these things the way they need to be run and turn a profit... This is one of the reasons why we decided not to get involved in the project," Friel said. "The other reason is we have a social contract, if you will, with the community to provide the community with its health care needs... The worry that I have is that outsiders will come into the market without that social consciousness and are going to create a proliferation of health care services... This is not going to help."

But help what? What is the bigger picture? Is it possible to make sense of the nonsense?

"I believe it is essential that people in South County be able to depend upon their own hospital in their own community... As we can, Dominican leaders will support that goal... There are many decent doctors in the community who are worried about the future of their practices and, like many, would like to imagine there are quick and simple answers to big and perplexing problems," Sister Hyer said. "However, I do not believe we will find solutions by building more facilities, buying more equipment and having to support more health care resources. Instead I believe that providers and consumers must work together to find a common understanding of the community's needs, and then plan to provide the best and most affordable health care we can provide for everyone... Offering a few benefits for a few won't ever respond to the needs of the many." □

Do We Pay Too Much For Health Care? Local Hospitals Lowest in the Region

	Monterey County		Santa Cruz County		Santa Clara County	
	Salinas Valley Mem. Hospital (6/30/91)	Community Hospital of Monterey (12/31/91)	Dominican Hospital (6/30/91)	Watsonville Hospital (6/30/91)	El Camino (6/30/91)	Good Samaritan of Santa Clara (6/30/91)
Available Beds	256	195	294	144	388	478
Patients Seen Per Day	137	142	195	73	189	236
Medi-Cal % of Patients Days	8.49%	9.04%	13.85%	24.04%	2.33%	0.41%
Gross Revenues Per Day	\$2,312	\$2,099	\$2,192	\$1,585	\$2,350	\$1,912
Non-Government Collections/Patient Day	\$2,091	\$1,850	\$1,493	\$1,204	\$1,858	\$1,528
All Patients: Collections/Day	\$1,506	\$1,306	\$1,128	\$1,013	\$1,482	\$1,259
FTE's/Bed*	6.07	5.62	5.29	5.07	5.77	5.39
Net Profit Margin	13.65%	5.59%	1.58%	(-1.93%)	14.00%	5.67%

Note: The figures above do not include out-patient or emergency room visits.

Source: Office of State-Wide Health Planning Development

*Full-Time Equivalent units are used to measure the number of full-time employees hired per patient. It is a way to assess a hospital's operating efficiency.

from the mix, the private patient through negotiated contracts with insurance companies or large employers is paying a fraction of the price for care. Looking at the costs of care for these private paying patients we find Dominican Santa Cruz and Watsonville Community Hospitals provide acute care services for less than the hospitals in Monterey, and at very comparable rates to the big, and very competitive urban centers like San Jose.

It should also be noted that in Santa Clara and Monterey Counties there are government-owned county hospitals which take care of caring for the poor. So this particular comparison is even more remarkable since the urban hospitals aren't having to burden losses from indigent care by shifting some of the costs onto the paying patient to the same degree as local institutions.

How can the local hospitals remain so competitive? There are likely many reasons, but among the leading objective indicators efficiency stands out. Looking back at the chart we see when we measure the num-

need to keep our facility up-to-date and to provide care for those in need."

But this still leaves partially unanswered the question about whether a mini-hospital would save money.

To try and establish projected cost savings we looked to centers which were part of a state-wide pilot program to study the effects of short-stay hospitals on the market place.

In the case of all the operating facilities, each has substantially higher costs to private paying patients than our local hospitals (see chart this issue). But does this make sense? Why can't small hospitals deliver care for less?

"There is no doubt that their operating costs are less than what you'd see in a full service hospital," Dominican Chief Financial Officer John Petersdorf responded. "But this fact is more than compensated for by several other circumstances... The mini-hospitals that developers are proposing to build in Santa Cruz are \$20 million facilities that are projected to serve, on average, 15 patients

ner... There are other clinic options. In fact, Dominican has an investment in a clinic surgical center... In that regard some procedures done in the surgery center are done in a more cost effective way," said Bob Lee, Employee Benefits Coordinator for Seagate Technologies. "I would suggest that if they don't they won't exist."

This is, of course, the other point often made by developers. Private business is, after all, private business.

The response to this assertion is embedded in hypothetical economic theory. In a report last year for the County of Santa Cruz, an independent health care system's planner pointed out the fairly obvious fact: If a new health care center is to be opened and successful then everyone will pay in higher insurance premiums and expenses. Or at least this would be the case if all the current facilities open for business were to remain open for business.

Can the county support more than two hospitals?

"I hope that the community won't support two large, huge