

Breaking Ground in South County

Watsonville Community Hospital Officials Announce Start of New \$68 Million Acute Care Facility on Former Seagate Site Near Highway One & Airport Blvd.

"I do want to say congratulations. We got some applause up here, but I just want to say to everybody who is out there [in the audience] that I know every one of you have worked for this for a long time. I think you should look to your right and look to your left and say thank you. I want to applaud you for a job well done."

California Assembly Member
Bruce McPherson

"I would like to recognize Seagate Technology. They are the people who made this possible. This

was their building. It is now our building. We finally closed escrow after two years and they were just great to work with. ... On behalf of my colleagues on the Board of Directors, we pledge our commitment to continue to meet the health needs of our patients."

Gene DiCicco, President
Watsonville Community Hospital
Board of Directors

"It is you and your local leaders who have worked through the growing issues, the land use planning issue, the health and safety issue, and

all of the issues that must be taken into consideration when a community is recovering from a devastating earthquake. I understand that through your cooperative effort you will have a building that is larger, more modern, better equipped to meet industry standards, and more favorably located to meet your community's needs."

Harvey Ryland
Deputy Director, Federal
Emergency Management Agency

"Over this past five years since the earthquake, many physicians

have worked very closely with the board. ... This ground breaking today marks the next most exciting phase of this project which is the realization of our vision that we have worked on for so long. Even though there is going to be more hard work and dedication needed before we can accomplish that, I am sure that we all look forward to the challenge."

Dr. Fred Chen
Chief of Staff & Member of the
Board of Watsonville Hospital

"The new hospital site will draw new physicians, new employees and

patients to our community, and is a positive sign that Watsonville continues to move into the 21st century. It is important to recognize the city's assistance and cooperation in working with the hospital. As we continue to build our city for a stronger and more prosperous future, the hospital's move to the corner of Airport and Highway 1 will help the city establish its identity to those presently living here and those coming to Watsonville. It gives us the opportunity to provide the quality health care that this community truly deserves."

Tony Campos
Mayor, City of Watsonville

by Mary Bryant

Amid a crowd of about 600 onlookers on a blustery spring day, officials from Watsonville Hospital and around the state and nation made speeches and turned soil to celebrate the start of construction of Watsonville Hospital's \$67.4 million acute care facility to be built near Airport Boulevard and Highway One. The new facility is expected to be finished within 22 months, and will replace the hospital's present facility located a few miles east of the former Seagate site at the intersection of Green Valley Road and Airport Boulevard.

Hospital administrators also announced that prior to the ground breaking on May 11, an \$18.93 million escrow with Seagate was closed to purchase the hospital's new site, complete with about 14 acres of useable parcels. Included in the sale price was an existing disc drive manufacturing plant, which as part of the construction project will be turned into offices, a cafeteria, out-patient and home health facilities and a pharmacy.

Like the non-profit institution's present facility, a significant portion of the funding to build the facility will be coming from federal dollars.

Watsonville Hospital has received a not-to-exceed grant of \$43 million from the Federal Emergency Management Agency (FEMA) to construct a hospital to replace the current facility. Other funding includes a \$17.9 million bond sale to be insured by California health funds, a \$2.1 million advance from FEMA to be repaid upon the sale of the hospital's current facility, and a \$4.4 million state disaster grant.

Among the uses of the existing hospital property cited by federally contracted appraisers was develop-



Members of Watsonville Community Hospital's Board of Directors Take Turns "Breaking Ground" at the Hospital's Future Home near Highway One at Airport Boulevard. The New Hospital is Expected to Take 22 Months to Construct and Cost \$68 Million to Complete and Equip.

ment of low-density residential housing. Appraisers determined that housing promised the best resale value for the land, and the higher the appraised value the more FEMA would advance the hospital. Last year, Friel had said he believed the appraisal would fetch a \$10 million loan based on the value of the property, however later he settled for the smaller \$2.1 million loan. The hospital's current facility was damaged in the Loma Prieta earthquake, and repair of the facility was estimated to cost at least half of the estimated construction cost of a new facility.

Watsonville Hospital president John Friel denied recently published reports in one local daily newspaper that the facility was operating with a temporary license, and was under order to vacate the current facility by 1998.

A Future Home

The new state-of-the-art facility to

be constructed will include 100 private rooms, a new birthing center and an expanded outpatient surgery unit.

While the current facility is presently licensed for 130 beds, less than 100 beds are presently available, mostly in semi-private rooms. More than a quarter of the hospital's patient mix is indigent, with about 80 percent of the hospital's deliveries being paid for from state funds for women living in poverty. Hospital president Friel has said he hopes a new facility will draw a larger percentage of privately insured patients from North County.

What is certain is that the new hospital will be larger, with the to-be-refurbished Seagate structure already occupying 200,000 square feet, and another approximately 100,000 square foot facility will be constructed alongside the existing structure to house the hospital's acute care departments.

With future plans for a 300,000

square foot medical campus in mind, hospital officials have been careful to note that the construction will occur in phases and the new campus will someday also house private physician practices, primary care clinics and the like. Instead of just a hospital, they say, the new Watsonville Community Hospital facility will be an integrated medical campus.

And, hospital officials add that more than just a hospital-backed integrated medical campus, the new Watsonville Community Hospital will someday be the hub of a medical community delivering simple to advanced medical care within a region that spans much of the Central Coast and serves an immediate population of 115,000 people.

Five Years To Make The Numbers Work

While thousands of hours have been dedicated to the job of defining, designing and detailing Watsonville

Community Hospital's new campus, many more years have been spent trying to figure out how to pay for it all.

When John Friel was hired as president of Watsonville Community Hospital in 1991, former hospital president Paul Estess had just signed an agreement with FEMA to provide \$36 million towards construction of an acute care hospital to be built on the hospital's present site. About \$1 million in equipment costs was later added to this initial estimate.

Five years later, Friel has been successful in securing about \$6 million more in funds for the project. However, paying for the construction costs remains problematic with the cost of the project jumping by about \$19 million during the same period.

According to FEMA's project director for the Watsonville Hospital disaster grant, the federal disaster funds can only be used for con-

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WATSONVILLE HOSPITAL

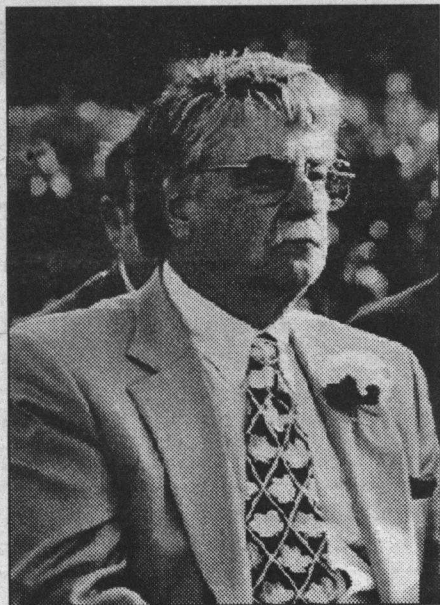
HOSPITAL

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structing the portion of the new facility that replaces the existing structure. According to FEMA, the total replacement structure should not to exceed 161,202 square feet between the space occupied in the refurbished plant and the new building. FEMA's Chris Doyle said that any cost beyond the replacement costs would have to be independently paid for by the hospital, and the hospital would have to document their records to account for the different phases of the project and the additional facilities built "independently" of the replacement project. Also, Doyle noted that FEMA will only pay 75 percent of approved spending, and said that his estimate of construction and engineering costs to replace just the portion of existing hospital damaged in the disaster were firm. Doyle added that should the hospital not spend the



Watsonville Hospital President John Friel looks on during the ground breaking ceremonies of the hospital's new facility being built to replace the existing structure damaged in the 1989 earthquake. FEMA is contributing up to \$43 million towards the construction of part of the new hospital, a project expected to cost about \$68 million. Friel has been instrumental in driving the multi-year project to completion and securing more funds.



entire \$58 million on that portion of the project that FEMA has approved for construction and equipment purchase, then FEMA

is not obligated to reimburse their entire 75 percent share of project costs (\$43 million). He reiterated that the \$43 is a

not-to-exceed spending level for only a portion of the costs of constructing facilities at the new medical campus.

Issuing a new series of insured bonds for \$17.9 million will allow the hospital to almost pay for the Seagate property at \$18.9 million. While hospital directors had originally agreed to purchase the property from Seagate for \$22 million, Seagate officials have accepted about \$3 million less for the site. Friel said he appreciated the disk drive makers patience, however noted that there hadn't been a long line of investors attempting to purchase the property during the multi-year escrow.

Additional funds to help bridge the gap in federal and bond funding include a \$2.1 million advance from FEMA to be repaid by the sale of the hospital's existing property and a \$4.4 million grant from the state. The

hospital reported net revenues after expenses of about \$2 million last year.

Of the project costs, the hospital does not break out the replacement facility separately from the total project costs in reports to the press. As stated by the hospital, the total project cost will be \$67.4 million (\$36.2 million in construction, \$18.93 million in land, \$4.5 million in equipment, \$2.5 million in architects and engineers fees, \$5.3 million in consultant and building permit costs). The new funding package that is now complete replaces previous funding proposals. As a result of finally concluding the agreements with federal and state officials, Friel said that a previously advanced loan of \$8 million from the state will be returned to the state, and is not included in the present funding or expense package.

Friel also confirmed that as part of the agreement with the state's health bond guarantee agency CalMortgage, the agency that will insure the hospital's new bond issue of about \$18 million, hospital officials agreed to take a very serious look at merging the hospital with a large, multi-hospital health care system. Sutter Health officials have acknowledged that they are among the health systems currently discussing a future alignment with Watsonville Hospital, although Friel stated that the hospital's agreement with CalMortgage did not specify any particular health system for hospital officials to consider. Sutter Health of Sacramento broke ground on a 30-bed hospital in north county last September and is expecting to open the Sutter short-stay hospital near the end of this year. □