

AMI's Community at the crossroads

Community is a poor AMI relative

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SANTA CRUZ — The second-largest private hospital chain in the country, American Medical International Inc., enjoys a healthy share of the \$625 million in profits earned by the proprietary hospital industry.

But in AMI's corporate family of more than 100 hospitals, employing more than 27,000 persons in 500 communities at home

and abroad, Community Hospital of Santa Cruz is a poor relative, according to the picture being painted by past and present employees.

In 1983, Beverly Hills-based AMI chalked up net operating revenues of \$1.3 billion and net income, after taxes, of \$101.5 million.

Over the last several years, AMI has recorded steady revenue gains and dramatic profit increases. In 1981, the corporation reported \$913.5 million in net revenues and \$50.8 million in after-tax earnings. The following year, AMI's net operating revenues increased to \$1.2 billion, while its after-tax income soared to \$78.8 million.

In the business world, AMI is a comer, a hot commodity.

But on AMI's balance sheets, Community Hospital is what accountants like to call a "loss center."

Although it turned a profit last year, reportedly for the first time since its acquisition by AMI in 1978, Community is currently losing money, according to sources at the hospital. (Executive Director Jean Adams insists the hospital is still showing a profit.)

Business, measured in terms of the percentage of beds actually occupied at the 180-bed facility, is off, a reflection, in part, of competition from rival Dominican Hospital. Adding to Community's woes are changes in Medicare reimbursement procedures which promise to reduce revenues for many of the patients the hospital is still attracting.

Community employees' wages have been frozen since February, and the hospital is currently beset by layoffs. Since December, positions have been cut and employees let go, say insiders.

As Community prepares once again to push its controversial heart care center through a balky state health care bureaucracy — an "informal" hearing has been set for 10 a.m. Wednesday at the Santa Cruz Main Library — a picture is emerging of the AMI-owned hospital as an institution in crisis.

With several renowned cardiac surgery facilities less than an hour's drive away in the Santa Clara Valley, Community's proposed heart care unit may figure as little more than a convenience for local heart patients and their families.

But in the corporate scheme of things, the heart center may be a matter of financial life and death for Community Hospital.

The heart care center was identified two years ago in an internal AMI management study as vital to Community's continued financial health. And Community employees, including workers still on their jobs and employees who have been laid off, say that hospital officials are gambling that the open-heart surgery unit will revive the financially beleaguered medical facility.

As serious as Community Hospital's problems appear to be, there is some indication that the circumstances forcing the hospital's wage freeze and layoffs are not entirely of its own making. To some extent, they reflect the management strategy of Community's absentee corporate owners, who treat hospital care like any other business, seeking to maximize profits by slashing costs.

Community Hospital workers are not the only AMI employees whose wages are on ice right now. According to hospital sources, the wage freeze was imposed by AMI chainwide.

And layoffs have been occurring at other AMI hospitals. At three other AMI-owned facilities in the Central Coast area, 40 employees have been laid off in recent weeks, and others have had their hours reduced.

At French Hospital in San Luis Obispo, two nurses were recently fired, hours for 17 others were reduced, and seven other hospital employees were let go. An additional 31 workers were laid off at neighboring Sierra Vista and Arroyo Grande hospitals.

The wage freeze and wave of layoffs at Community and other AMI-owned hospitals were preceded by a major expansion of the AMI chain. About six months ago, AMI purchased Lifemark Corp., a chain of 25 hospitals and three alcoholism clinics in Texas.

The reported purchase price was \$1 billion.

Some Community Hospital employees now charge that AMI is seeking to finance its Texas purchase out of cutbacks at its other facilities.

Executive Director Adams insists otherwise. He said, "The Lifemark acquisition made AMI stronger. It will allow the hospitals (in the chain) not making money to be carried by the larger company."

Financial reports filed by AMI over the last several years indicate that the Southern California corporation's strategy

of profit maximization through cost cutting has been a smashing success.

Between 1981 and 1982, for example, the company's profits increased 55 percent, at a time when its revenues rose by less than half that amount — 23 percent. Between 1982 and 1983, revenues increased just 8 percent, but profits still rose 28 percent.

Community Hospital's financial performance, in the face of this rosy corporate picture, has not been the sort to warm an AMI stockholder's heart.

Although Community turned a profit last year, sources at the hospital say it has been losing money since January, posting a \$10,000 to \$12,000 loss in one month alone earlier this year.

Adams disputes that financial picture and insists the hospital made \$17,000 in April. "That's a 1.1 percent profit after taxes."

"That's not what he told department managers at a meeting," said a source. "He said we went in the red last month and we've got to cut costs." Other sources confirmed that statement.

Adams insists Community's financial situation is not the reason he is cutting costs — and workers. But he does say, "This institution has to have more money coming into its pockets than it has going out to keep operating."

Some of those who spoke with The Sentinel have worked for other AMI hospitals. Many were employed at Community for three years and longer, and say their main concern is in seeing the hospital remain a viable institution.

One insider said, "The employees are not doing this (talking to the press) because they want to see the hospital or AMI go down. They want to see a solid hospital able to deliver good service ... If Community closed, it would be the same old story of the only supermarket in town."

What has bothered many insiders is the administration's attitude toward the employees. "There was never a meeting with department managers to discuss what we could do to bring costs down," said one Community employee.

In contrast, Dominican Hospital instituted an employee contest a few years ago, which Community Relations Director Frank McGovern said saved the hospital \$76,000 the first year and \$40,000 the second year.

Community Hospital workers said first hints of trouble began in December when two administration-level employees were discharged. Then in February, Adams called a large meeting of the staff in the hospital cafeteria, announcing that wages

would be frozen and management rearranged.

At that time Adams reportedly promised there wouldn't be any layoffs.

"The February wage thing really angered people because of the way it was done," said one insider. "Once you lost your position, you were actually (moved) out of your office. They did that overnight and over the weekend so that by the time (workers) came back from the weekend, their offices were changed on them."

"Most of the people would have seen their demotions as being for the good of the hospital if it had been presented to them that way. It wasn't."

"It's a bad administration with very little support from down south," said another Community employee.

Insiders say employee morale is low. "Everybody feels so insecure. The feeling is, Who's next to go?" said an employee.

One person commented, "Fridays have become bad days, because that's when the layoffs have been done."

Said another person, "I was called in at 1 p.m. on Friday and told they were doing away with my position as of Monday ... It's difficult to believe they didn't know this more than four hours in advance."

The administration has axed employees from one department at a time. Layoffs have been across-the-board, hitting departments such as nursing, kitchen, central services, pharmacy, housekeeping and lately, the laboratory.

According to sources, the hospital is replacing trained medical technologists with lower-salaried laboratory technicians. Sources have said the administration originally called for seven lab techs to be laid off, but the chief of the department argued with Adams to keep three more on the payroll.

Sources also have said the hospital has been running "blind ads" in The Sentinel, asking that persons interested nurse's aide jobs at \$6 to \$7 an hour reply to a Sentinel post office box.

As one past employee said, "They (administration) never told us, but we suspect they are switching back to team nursing."

In the last three years, Community bucked the trend of other hospitals and employed only RNs and LVNs in its facility.

While some say the patient is better served by direct-care nursing, others agree that it's expensive and cuts into the time trained nurses can spend caring for the ill patients.

"It makes more sense to have aides take care of changing bed pans, so long as you have the right ratio of nurses to patients," an employee said.

Adams confirmed that the hospital is switching to the team approach as a "cost-efficiency" measure. He insisted that nothing will be done to jeopardize patient care.

"In all fairness to AMI, there's nothing wrong with (making a profit)," said one insider. "No hospital can operate on a loss."

On the face of things, it's hard to understand why Community is losing money, if in fact it is.

According to state figures, Community's costs are not out of line with other area hospitals. And, according to the same

figures, Community charges its patients more than any other hospital in Santa Cruz, San Benito and Monterey counties.

By the accounting of Friesen International Inc., an AMI-owned hospital management consulting firm which conducted an in-house study of Community's operations in 1982, "Community is the rate leader in Santa Cruz."

In the last quarter of 1983, according to the California Health Facilities Commission, Community's rates, measured in terms of charges billed per hospital stay, exceeded Dominican's by several hundred dollars. And it cost patients, on the average, \$1,300 more to be hospitalized at the AMI facility in Santa Cruz than at Watsonville Community Hospital.

Santa Cruz Community's reported costs, meanwhile, were just \$15 more per stay than Dominican's and \$574 more than Watsonville's.

One reason for Community's reported financial problems could be its failure to collect on a significant portion of its billings.

In the last three months of 1983, according to state figures, Community's costs

per hospital stay were \$3,490, but the hospital's actual revenues per stay were only \$2,877. Dominican, meanwhile, reported that it collected \$3,588 per stay, compared to costs of \$3,505. Watsonville Community Hospital reported costs of \$2,931 per stay and revenues of \$2,872.

Another problem plaguing Community of Santa Cruz is declining occupancy.

According to the Friesen study, Community's occupancy rate — the proportion of total beds actually filled — stood at 42 percent in 1981. But by 1982, according to state figures, occupancy at the 180-bed facility had slipped to 31 percent.

Hospital insiders say that is where it remains today.

The 1982 Friesen study concluded that most of Community's difficulties stemmed from "image" problems. The public, the AMI consultants reported following a survey of Santa Cruz residents, "consistently gave Community poor hospital ratings owing mainly to its perceived quality and reputation," and "expressed an overwhelming preference" for Dominican.

Friesen called for a "heavy marketing

program" to turn around Community's situation.

Among "strategies for the future" proposed by the management consultants were recommendations that Community revamp its obstetrics facilities and aggressively market a "discount birthing program with guaranteed admission," diversify its outpatient services and develop "selected centers of excellence."

"Cardiac catheterization and cardiac surgery" were identified as one such center by the consultants.

"Community," the Friesen study stated in 1982, "is at a crossroads."

"It is faced with the necessity of taking a series of important actions to insure its survival, while at the same time having a major opportunity to attain future growth. Its survival depends on minimizing the impact of Dominican's expansion program, while its future lies in the opportunity to differentiate itself in Santa Cruz by offering a product line (services) which will establish uniqueness."

Community's quest for "uniqueness," and its future, will be on the line this week.

Charges

Costs

Per stay costs — Billed charges Fourth quarter, 1983

Source: California Health Facilities Commission

