Capitola Health Center

The Numbers...

Will the Capitola Center Make Money by Discounting Services?

A few years ago it was nursing homes; now hospitals are all the rage. Not that either of the industries are all that glamourous, but they both have the allure of high profits on secure investments.

The letter about the Capitola Health Center that has been sent out by Sherman and Boone Realtors, on behalf of the developers, to attract potential investors to their presentations states, "Cash on Cash: 17% average annual return over the 15 year period. In years 10 through 15 this return increases to 24%, which equates to a $6000 per year cash distribution for each $25,000 investment. (Distributions are projected to start in 1994 or 1995.) Total projected return: return including equity build-up, is projected in excess of 37% per annum at maturity."

Should then the only question be, why are you here reading this article when you could be out signing-up today? No, there are in fact, other questions.

The developers hope to sell a maximum of 300 shares (at $25,000 per share) to local people wanting an investment for their pension funds and other cash savings. This means, on the average they need to make at least $1.8 million in profits a year to meet their projected returns. This is in addition to the $1 million they must make each year to pay interest on the money they borrow to build the facility. In a sense, the Capitola Center will have to clear $2.8 million annually before they can meet their projected return to investors. All of which suggests a closer look at the numbers.

While *The Post* does not suggest that we are accountants by any means, some questions are raised just by comparison with other facilities.

Dominican last year spent 35 percent of its gross revenues on labor costs. The Capitola Center, on the other hand, will only be spending 28 percent the first year, and by year five will have reduced the figure to 25 percent. Will they be this much more efficient? Maybe, but let's look at this further.

Utility costs are going to run a quarter of those at Dominican, when compared on a square footage basis (Capitola will spend $67,000 a year, while Dominican spent $1.1 million in 1990). The Center's developer, Chuck Madden, suggests again their facility will be more efficient, especially since it will only be one story instead of three.

Their purchased services (laboratory work, special radiology (MRI's), lawyers and accountants) will also run one percent less than Dominican's, even though they will purchase lots more. Madden indicates they will only have the basic lab services in house and won't be buying an MRI. Dominican does have a full lab and its own MRI.

But then again Capitola will be more efficient. Right?

On the positive side, malpractice insurance per procedure did run about what Watsonville Hospital pays and the one percent bad debt allowance might be explained by the fact that they plan to get paid in advance of doing the work.

But where's the food?

Dietary services run just under $900,000 at Watsonville Hospital. And, what about all those expensive pieces of hospital equipment.

The Center believes that they can equip a hospital for $2.3 million. While prices certainly can vary, it seems just the basic stuff would run that alone, so where are the entertainment centers—not to mention the laboratory or birthing room equipment or wheel chairs? Madden suggests they might equip only three of the four surgical suites initially. But maybe they're not buying new. Who knows? Let's look at it a different way.

To get to that magical $2.8 million return on income we have have to move to year five, which pictures the center making $2.4 million. Close enough at least, to $2.8 million, but what percentage profit will they be making? A little over 20 percent?

Let's look at all the quarterly reports for the last quarter of 1989 from all the state's licensed hospitals (excluding psychiatric centers and skilled nursing homes). Of the 358 accute care hospitals there are only nine that show a 20 percent profit level, and only one, Humana in San Leandro, is in Northern California.

OK, maybe we've been a bit hard. Maybe the Capitola Center will do much better and maybe there are lots of unlicenced facilities doing really well. Maybe they will be very efficient. Maybe they can open the facility on budget. Maybe they can capture a large market share. Maybe they can save us money to boot. And maybe we shouldn't ask: Is it too good to be true? ❑

If You Thought Surgery Was Expensive, Wait Until You Check Out the Equipment

The following is a list of just a sampling of equipment developers plan to purchase for the Capitola Center. Their total budget for all "equipment purchased" is $2,300,000. This list, by no means, represents all equipment necessary for a hospital.

Type of Equipment	❑ Cost of Equipment Recently Purchased by Dominican	* Independent Source Estimate
CT Scanner	$1.2 Million	$750,000
Mammography Unit	$133,625	$100,000
Radiographic/ Flooroscopic Room	$325,000	$300,000
Ultrasound	$150,000	$150,000
4-Suite Surgery	$600,000	$600,000
Laser	$130,000	$130,000
Patient Beds @ $300/bed	$103,200	$103,000
Wheelchairs	$900ea.	$900ea.

Capital Expenditures: Dominican /$2.7 million in 1990 & Watsonville $1.97 million in 1990

❑ *Source:* Dominican Hospital * *Independent Industry source working outside of Santa Cruz County.*