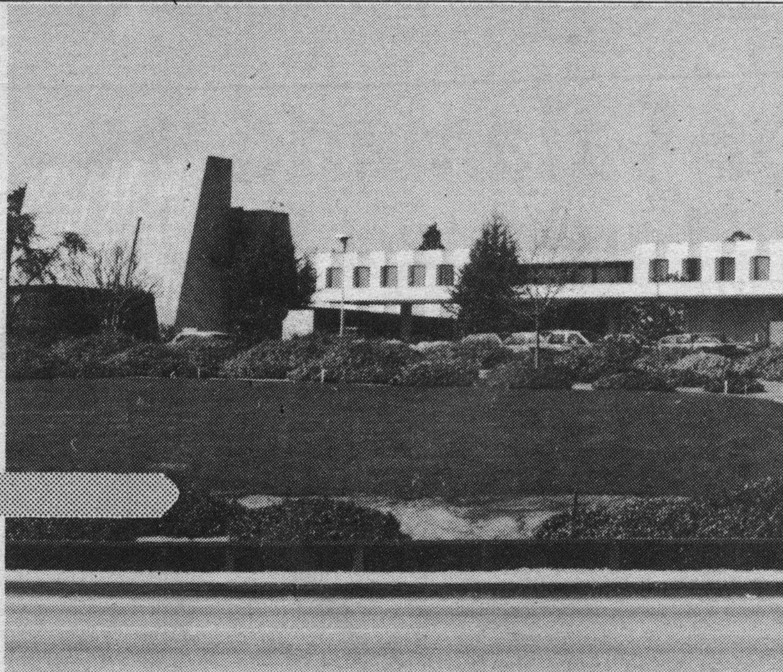
Hospitals-Purchase

The Story Behind Dominican's Purchase of AMI's Community Hospital

LIFE AT THE TOP

Is It All It's Cracked Up To Be?

— part 2 —



Mid-County Post

Dominican Hospital

by Mary Bryant

More than a year after Dominican Santa Cruz Hospital bought AMI's Community Hospital and merged the two institutions, questions remain that the county's largest health care provider is still attempting to answer.

Is bigger better? If so, who benefits? Did an ambitious expansion plan prove to be too much too soon? Did the hospital capture too large a market in the estimation of federal regulators? And, last but certainly not least, can Dominican win back the trust of county leaders and certain segments of the community?

In the first part of the series, The Story Behind, *The Post* examined the history of the North County's rival hospitals, the losses Community Hospital had accumulated over the years, and how Dominican had grown through 50 years of service to dominate the market.

In this edition, the story continues with a look at how the deal was done, how much savings Dominican gained from the merger and who gets to keep it, the county's role in the game, who is still upset, and whether change has made the organization more viable in today's competitive market.

Planning The Deal

The buy-out of American Medical International Inc. in July, 1989 by IMA Holdings (a company formed by Harry Gray, Mel Klein and Partners L.P. and First Boston Investments Inc.), had many in the market conjecturing that this might mean Community Hospital would eventually go up for sale. While Community's president, Ann Klein, speculated at the time that this would not be the case, it was less than six months later that the new parent corporation announced it would accept bids.

Having kept an alert posture from the time of IMA's successful takeover of AMI, Dominican had already been intently considering the possibilities such a purchase might offer. And, one month later, in January, the church-owned non-profit organization made its own disclosure.

Making headlines in both the county's daily newspapers, Dominican's Sister Julie Hyer, president and chief executive officer, disclosed that the hospital's board of directors was not only studying the prospect, but also measuring the community's response.

The statement was greeted with mixed reaction. Those in favor were, for the most part, either not quoted in the press or quiet, while those in opposition received lots of attention.

The loudest voice of disagreement came from Wayne Boss of the Santa Cruz Medical Clinic, the county's largest and most influential independent group of physicians. Boss, who was also working with a group of Community Hospital's employees and doctors in hopes of purchasing the facility, declared that a successful bid by Dominican would create a health care monopoly and leave North County residents with little choice about where to go for care.

In a recent interview with *The Post*, Boss suggested that the only right thing Dominican could have done was to not compete for the institution.

Boss's comments, however, apparently fell on deaf ears, or were at least discounted by Dominican officials. After all, competitors and employees facing the loss of their jobs don't represent the community. Or do they? But first let's look at the actual deal.

The Deal

By January, with the first announcement of intentions to buy Community Hospital, Dominican was already well on the road with the goal firmly in place.

According to Hyer, at the insistence of First Boston, the investment group managing the sale, Dominican entered into a confidentiality agreement with AMI prior to negotiations. This meant that any discussion of sale terms was expressly forbidden—before and after the deal was done.

Under the same vow of silence, Dominican's local board of directors would first approve the bid, then the decision would be affirmed by the board of Catholic Health West in San Francisco, a network management organization for several Catholic congregations, then reaffirmed by the board of the Adrian Dominican Sisters, the hospital's owners, in Michigan.

Finally, in March, came the news: Dominican had purchased Community Hospital. As if Dominican had not made their intentions clear, everyone seemed surprised, from county leaders to public health officials to local physicians. Had all these groups discounted Dominican's ability to put together the acquisition, or had they simply figured Dominican would not accept the risks?

Even with such doubts it should not have been much of a surprise. After all, Dominican had stated they were aggressively pursuing the transaction, they were in a position to raise the cash for the deal from commercial lenders, and they could pay more than any of the bidders—a reported $12 million if one believes the documents on file in the county recorder's office, although it is rumored that the actual price was more than half a million lower.

Dominican also had the most to gain. By combining many acute care and administrative departments, Dominican could attain substantial savings, theoretically more than enough to pay a fair price for the facility and still make money. Other bidders, who might need time to raise capital dollars and plan ways to compete successfully with Dominican, would not be nearly so well off.

According to Hyer, even at the top bid price Dominican got a deal. The appraised value of the hospital and the vacant commercial land that was part of the purchase was just over $18 million. In addition, the hospital also gained room to expand and achieve what has been estimated at $6 million in first year savings *(see related story this issue)*. But what was next?

With high hopes, Dominican now started forward for what would prove to be a rocky ride.

Merging Operations Amid Controversy

Combining the operations, facilities, equipment, employees, schedules, policies, records and services of two large organizations is difficult under the best of circumstances, and Dominican was certainly not working in the best of circumstances.

Almost immediately, controversy broke out in many parts of the community as a result of the purchase. It seemed as if everyone had something to say, even if they had been quiet before.

Women's groups were outraged that Dominican would not accept the role of a single care provider and change their policy on allowing in-patient tubal ligations.

County leaders were concerned the area's indigent

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SERVICE HOURS PER PATIENT DAY

With patient concerns going up right after the consolidation of departments, Dominican looked at the number of hours per patient days. While patient complaints have subsided substantially over recent months, Dominican has many reasons to always be watching service standards.

	TOTAL HOURS / PATIENT DAY		NURSING HOURS / PATIENT DAY (CRNs, LVNs and Aides)	
	1989/90 (FY ends 6/30)	1990/91 to date (FY 7/1-3/31)	1989/90 (FY ends 6/30)	1990/91 to date (FY 7/1-3/31)
Critical Care	20.82	20.09	18.48	18.42
Telemetry Care	8.21	9.08	7.62	8.32
Orthopedics	6.36	6.42	5.64	5.72
Oncology	6.71	6.90	6.10	6.29
Medical Neuro	6.15	6.05	5.32	5.47
Pediatrics	11.79	9.47	11.79	9.47
OB/GYN	6.14	5.76	5.24	4.83
Nursery	4.54	4.59	4.54	4.59
Level II Nursery	13.17	11.99	13.17	11.99
Weighted Average*	8.24	8.13	7.44	7.44

*The Weighted Average has been calculated by Dominican to adjust for total volume. Their premise is that the higher volume of patients they have seen this year spreads the "fixed" staffing ratios (e.g. desk nurses) lower without taking away from direct care hours for patients.

DOMINICAN

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population would suffer the consequences of limited services and residents would face increased costs for care.

Doctors and employees were fearful that the takeover would mean loss of continuity and control, if not in some cases jobs.

And some members of the community just didn't like the fact that availability of a choice in acute North County Hospitals was a thing of the past. Together, all the voices made for quite a clamor. On top of that, the Federal Trade Commission (FTC) had decided to look into the purchase.

Amid the confusion you can add another unforseen factor. AMI corporation wanted to get out of town quickly and quietly. And they were to be successful. Before news of the purchase hit, trucks from corporate headquarters had arrived and AMI's files, records, equipment and accounting registers were gone.

Dominican, on the other hand, had quite a number of concerns that appeared certain to stay around for a time. While most employees of Community were kept (only 40 layoffs were recorded), many did choose to quit rather than accept a new employer. Even if principle was not a concern, the loss of seniority might be.

Although Dominican offered employees of Community the chance to retain salary and benefits status (a point that should not go unnoticed since jobs are often terminated by the previous owners as part of the sales agreement) nurses, aids and service personnel would have to accept whatever work schedule was available.

Then there was the question of where patients would be served. For 30 days nothing much changed. But after that, merger plans accelerated. Some have speculated that Dominican was attempting to head off a possible injunction prohibiting the integration of operations by the FTC. Dominican, however, has said that closing some departments at Community was the only choice and operational concerns the sole reason. Doctors were now admitting their patients to Dominican at an even faster pace, and keeping minimal services operations at Community was not only costly but could conceivably result in poorer care for the ill.

Whatever the case, for a combination of reasons, Community Hospital looked quite different after three months.

The Pros and Cons

Some fears were to come true and others would prove to be false.

Of positive note, the purchase of Community Hospital did allow Dominican to expand and the new services have been welcome in the community.

In addition, Dominican has kept down prices, which has proven to be something just short of a miracle for the county's indigent population. Dr. Ira Lubell, the county's public health officer, said in a recent interview than the county could now report "paying less for services at Dominican that we were paying at AMI." While this was also true before the purchase, the consolidation of costs at Dominican allowed the county to absorb normal inflationary costs without having to cut available services in the current year, even with unexpected losses during state and local budget hearings last summer, according to Lubell.

The sale may have also meant that Dominican did not suffer from even greater losses during this year's economic downturn, and achieved some sense of protection in a national health care market where dollars are shrinking and costs are expanding.

On the down side, however, Dominican still has not been able to answer concerns of North County women who had hoped the hospital would be now be offering a full range of reproductive care options. And employees have not adjusted to changes without some disagreement. In fact, it is probably fair to surmise that the current bid to unionize workers at Dominican can be tied in many ways to the merger.

But what about the most important part? Is care better?

According to Hyer, patient complaints increased right after the consolidation of departments, but have now decreased to lower levels. But what can't be fixed?

The one reality that continues to exist, outside of the continuing efforts to allow extended reproductive care services, is the unsteady health care market itself, which boils down to two questions: Will residents of North County Santa Cruz ever be able to choose from another acute care hospital other than Dominican, and is choice necessary for a healthy market?

The first is the most debatable. Dominican is not about to suggest, with the FTC still looking at the matter, anything other than that competition is not only possible but even likely in the future, but others disagree on this point.

Eli Hall, the director of the county's Health Services Agency, is one.

"I think trying to get a mass of physicians and insurers would be difficult unless there was vast dissatisfaction with Dominican, and even then, I think what's likely to happen is the kind of mini-hospital proposal we've been seeing, which doesn't really provide a full-service kind of competition."

While Hall is not altogether unhappy with the prospect, she pointed out that besides gaining a share of the market, a new facility would have to find a large piece of easily accessible land and then meet many use requirements.

Sister Julie Hyer.

But beyond this is the concern over paying back capital dollars.

Such a proposal would be very expensive. Watsonville Community Hospital's new building, presently in the planning stages, will cost over $50 million (this figure does not include equipment), and AMI has consistently lost money trying to support a facility with only $28 million in capital costs. In short, affording a new acute care facility would be very difficult for even the most expansive and established of organizations.

The second point, whether competition is important, is the most controversial. Competition is seen as the hallmark of a free and independent economy. But for an acute care hospital, the market is anything but free and independent. Hospitals, by law, must accept all comers if they operate an emergency/trauma department, and once admitted, an individual's use of services is not judged on their ability to pay but on their need for care. Furthermore, government agencies can not pay for what they use, and leave it to hospitals to shift the costs around to support the tab. But let's beg this question for now and look at the concerns in a different way.

For Santa Cruz county residents to have the broadest range of services, each dollar has to stretch the distance, meaning that choice or duplication of equipment and departments eats up budgets that could be applied to expanded services.

Again Hall suggests, "Personally I don't think our market is big enough to have two full-service hospitals compete with each other... If Community had been a little stronger, they both would have been more equal sharers in the market place, but I don't think Dominican would be as outstanding in [the] specialized kinds of services as they've been. They really are not very typical of a small-town hospital."

In some sense, to get more of the best, it may mean the sacrifice is choice. But this certainly is speculative at best, and should be left to the eye of the beholder and to federal regulators.

The Future

If another acute care facility is not in the future, then what is? How will federal regulators decide if big is too big? A look at how a religious medical institution is run will be the topics of the final part of the series, The Story Behind, in *The Post's* next edition. ❑

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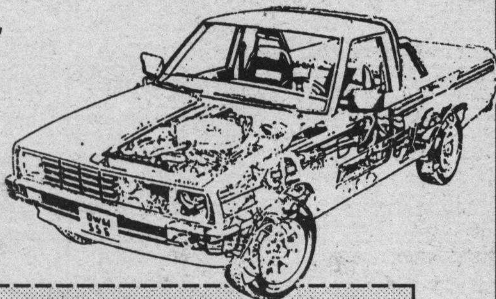

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