

Watsonville Hospital Leaders Endure a Year of Making Difficult Decisions

by Mary Bryant

[Editor's Note: At the beginning of 1992, The Post published a comprehensive three-part series chronicling the challenges ahead for the South County's only acute care hospital. The ensuing article follows the progress Watsonville Community Hospital leaders have made over the past six months since the series and outlines some of the challenges still ahead for the institution's workers.]

It's been a busy year. And if the number and complexity of Watsonville Hospital's adventures through the first half of 1992 are any measure for the months to come, then the second half of the year will have to be monumental just to keep pace. In brief, hospital leaders have a lot of news to report. Some good, some bad, and some which leave questions yet to be answered.

Union Contracts Resolved, Layoffs Announced

Projected revenues didn't keep pace with expenses again in 1992, which is not to say the hospital didn't make some money. It is instead to suggest hospital leaders had anticipated earning greater profits than they now expect to report. And at the end of the current fiscal year, in an attempt to gain more control over escalating labor costs, directors announced recently the layoff of 15 workers at the end of June.

But this still leaves hundreds of union and non-union employees working in a variety of jobs to provide quality health care to thousands of county residents.

And, some of these workers hired under union contracts, after many months of heated debates, did finally find common ground and settled on an agreement for new union contracts for non-nursing hospital staff. Union representatives had attempted to gain parity with substantial wage increases given to nurses in a two-year contract signed last July. More simply, workers in two unions, Local 250 and the Teamsters, ratified the two deals only after making substantial concessions, providing workers a four percent raise this year, a five percent increase next year, and a four percent gain the following year.

But while settling protracted labor disputes were good tidings for hospital managers, this was little to compensate for the bad news that arrived last month.

Hospital Leaders Set Sights on Federal Lawmakers and Await Decision from State Legislators

It is now speculated that directors of the FEMA Region 9 office are likely to turn down the hospital's request for money to purchase land to rebuild the facility damaged by the 1989 Loma Prieta earthquake.

It also seems there are few dollars to be found to bridge the ever-growing gap between the relief dollars already approved, some \$40 million, and the cost of new construction and land acquisition estimated at more than \$70 million.

This is not to say that hospital administrators are ready to accept less than what they imagine is necessary to construct a modern medical facility to meet the needs of a growing population into the next century.

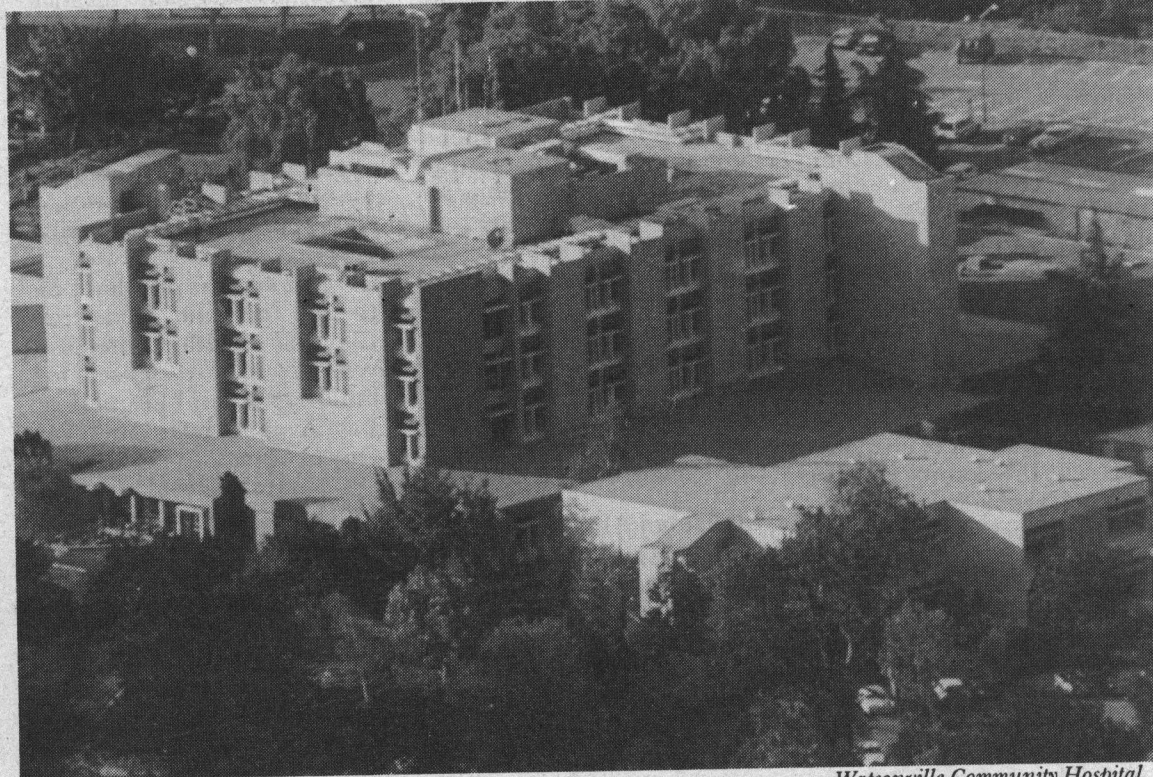
Lawyers for the South County's 100 year old, non-profit hospital are beginning to prepare appeals to the nation's capitol.

Still, even if hospital directors and attorneys are successful in what would be precedent-setting and extraordinary efforts to establish new interpretations for long-established federal policies, they still may get caught in the state's budget fiasco. Legislation to allocate California tax dollars to make up the shortfall, some \$8 million, between the state's share of 25 percent of the current relief funding allocation under FEMA law and the state's spending limit of \$5 million, hasn't found support.

And in a last ditch bid, Senator Henry Mello introduced legislation that, if passed, might allow the facility's administrators to borrow the amount of shortfall from state disaster relief reserves, should reserves be considered adequate to provide loans.

But even this option would not address the bigger picture. There are not any provisions for more emergency relief funding from the state should federal lawmakers concur with hospital lobbyists sometime in the future that construction costs will run above earlier agreed-to estimates. As a result, in appeals to national leaders the hospital will incorporate a proposal for the federal agencies to provide 90 percent of the funding instead of 75 percent as presently mandated under law.

And, while South County



Watsonville Community Hospital.

health care leaders have been attempting to address critical issues, some have also been imagining ways for outside investors to help shore up the troubled hospital's future.

New Partnership Being Considered While Replacement Hospital Planning is Completed

Several physicians, in partnership with developers planning to build a mini-hospital in Capitola (that likely would compete with Watsonville Hospital), opened a new round of talks with hospital leaders a few months back in hopes of reaching a joint venture agreement. Discussions included moving the proposed facility to land the hospital owns in Aptos and changing the scope of plans by reducing the proposal from a mini-hospital to a free-standing maternity and surgical center.

Disagreements, however, continue and progress to reach an accord has been slow.

Others, in a number of meetings over almost a year's time, have been considering how to design a very different kind of health care center.

A committee of hospital workers and community members was formed to plan a new integrated medical campus to replace the existing facility, even though work to secure new funds have so far proven unsuccessful.

The group first settled on a 260,000 square foot facility after an exhaustive review of current and proposed opera-

tions. The plan was ultimately scaled back, after great debate, to 190,000 square feet.

The current hospital activities are presently housed in a 145,000 square foot structure and there has been little discussion on how to pay for the additional construction expenses that won't qualify for relief funding, some of which is not currently accounted for in cost projections.

But what happens if all else fails?

New Plan in Place

A five year plan setting new rates and establishing new cost control policies was just unveiled by the Board and administrators to try to restore millions in losses posted over the past few years, and to reestablish the hospital's ability to issue bonds down the line to raise needed capital.

And, while expectations remain high for this plan, health care dollars from the state are likely to be cut back and new federal rollbacks are anticipated to hit over the next few years.

But is there more than just the headlines? How do all these facts and figures tie together? And what's in store for the future of Watsonville Community Hospital?

Planning for the Decade Ahead

It's difficult to imagine

that even the most casual observer wouldn't notice the astonishing changes in medicine over the past 50 years.

Technology now allows doctors to make diagnoses that would have, just decades ago, required either extensive exploratory surgery or guesswork. Modern surgical techniques and instrumentation permit physicians and nurses to not only save and extend a patient's life better than ever before, but advancements in new drug therapies allow for gains in the quality and rapidity of an individual's recovery and convalescence.

But there's a price to pay. As costs of care have soared, the consumer's ability to pick up the tab for health care has dropped to an all-time low. It has been estimated that upwards of 30 million people are uninsured in the nation. This figure does not take into account the millions who are under-insured or moreover, the millions who rely on government programs to access care. These are the same government plans, like Medicaid and Medicare, that doctors and hospital administrators alike complain aren't often paying the costs of providing services, much less the charges health care workers would like to collect.

And while debate is certain to continue on a national level for years to come about just how to restructure the world's biggest and most modern health care industry,

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workers at Watsonville Community Hospital are busy trying to survive the changes that abound.

"I think ultimately what we are going to see is fewer dollars spent for health care," reported John Friel, Chief Executive Officer and President of Watsonville Community Hospital. "I don't think there is anyone in the country who doesn't believe that health care reform, in a big way, is going to come down the pike in the next six to eight years, if not sooner."

But how does all the work being undertaken at the hospital now reflect those changes? And will the county's oldest hospital be able to survive the next decade?

Surviving Difficult Times

These questions are more necessary for Watsonville Hospital to address than for other similar institutions.

Other acute-care institutions have had the good fortune of bracing for the storm of health care reform for many years. Watsonville Hospital has not been so lucky.

While other hospitals, like Dominican Santa Cruz Hospital, were busy establishing outside ventures like outpatient surgical and advanced radiology centers with physicians, Watsonville Hospital has just begun "vertically integrating" into the community by marketing home health care services during the past few years.

While other hospitals have been constructing medical office buildings to form ongoing partnerships with physician groups, Watsonville Hos-

pital has yet to make any firm plans on how to develop the two significant parcels of land the hospital owns.

And while other hospitals have been able to use reserves to help keep operations stable and buy new technology even during periods of federal and state cutbacks, Watsonville Hospital has had to spend money to repair the existing structure and make plans for the replacement of the hospital after the facility experienced some \$30 million in damages from the 1989 earthquake.

In other words, Watsonville Hospital hasn't caught many breaks lately. This fact means that virtually every decision South County health care leaders make is pivotal.

Decisions Ahead

Choosing, for instance, to build a surgical center in Mid-County, with or without the cooperation of the developers of the Capitola Health Center, would mean their new hospital in Watsonville might not need to be as large.

But what the Aptos or Mid-County venture would offer, some would like to speculate, might be a chance to gain relief from the existing South County market that consists of more than 45 percent of the entire county's Medi-Cal population base.

"The whole subject of Capitola is being studied by us... I don't want to say too much at this point, but I think the interesting component... is an opportunity to do something with several other physicians that are on our staff," Friel said. "[This could be] an opportunity to penetrate a market that we don't get

much of now... Mid-County and North County."

What Friel is referring to is the concept that physicians who refer patients to Watsonville Hospital could gain entrance to a better-paying mix of patients by establishing offices and an outpatient surgery center in the Mid-County area. Then, instead of referring acutely ill patients to Dominican Hospital, the very sick would be admitted to Watsonville Hospital.

But what would happen to the current plans the Capitola Health Center developers have proposed for building a mini-hospital at Bay Avenue near Highway One in Capitola?

What the hospital might contribute to the deal is its piece of property in Aptos. Friel suggested that with plans for development of residential units and office building already underway at that site, certain hurdles might be avoided for the Capitola group.

Friel also speculated that while the idea of constructing recovery rooms for short-stay patients would be abandoned, the surgical component would likely be built with six labor/delivery rooms. The ownership of the facility would be a for-profit venture between the existing Capitola investment group and the hospital, with the hospital angling for a controlling interest but at the same time leaving the current general partners, Chuck Madden and Doug Byrd, in place.

Byrd, while acknowledging ongoing talks with Watsonville Hospital, suggested that with so much progress already made on developing a plan for the Capitola property, that he couldn't imagine a scenario that would move the project south to Aptos.

But finding the money for this project, along with funds to advance the construction of a replacement hospital, is still an unanswered question. "That's again part of the issue. If we are going to do this, where are we going to get the money to do it? And then, how much of it needs to be capitalized?" Friel said.

Finding Money

At the present time Friel said that Watsonville Hospital was unable to borrow funds having already reached a maximum level of debt based on current operations and assets.

And until financing or additional federal funding is secured, both new investment projects, plans to purchase land nearer the highway to accommodate a new hospital, and the construction work on the new hospital, will have to wait.

All of which still begs one question. Even if hospital lawyers are successful at convincing federal government decision makers that disaster relief funds should be provided for additional construction costs, there will still be years of agreements to reach on what can and can't be reimbursed under law. Considering that federal rules only provide for the exact replacement of a facility, albeit one built to current codes, there are still many concerns to work out. The hospital, for instance, wants to expand outpatient services, convert semi-private rooms to private rooms and provide more space for physical therapy units.

And while these are all good examples of plans designers would push for in a hospital for the future, it is likely that federal regulators are not going to be moved far from their commitment to replace a hospital just like the one built in 1967.

This point, of course, brings us back to the need for the hospital to find working capital. But where?

Five Year Plan and Other Choices

The five year plan announced this month to "reshape" hospital operations is one option.

By cutting back staff, 15 workers presently for a combined savings of \$570,000 to the hospital next year, hospital leaders can contain some expenses. This savings may be augmented by plans implemented a few months ago to cut the \$1 million in overtime salaries paid to workers, along with \$750,000 paid to provide "registry" or temporary nursing staff, this year, a plan Friel reported is working well so far.

At the same time as the hospital scales back the workforce, directors intend to increase revenues. Friel reported that hospital leaders expected to see a few more patients admitted to the facility next year and had elected to increase rates by ten percent.

Friel did, however, recognize that with 25 percent of hospital revenues from Medi-Cal and another 40 percent from Medicare—contracts whose prices won't be affected—and after considering other contracts already in progress with insurance carriers; that the new rates will only affect approximately 13 percent of the hospital's revenue base. More simply, new rates won't make a big difference.

But while more income may be necessary for long range goals, some headway has been made. Friel does believe that at the end of this fiscal year the hospital will still be able to

show a modest profit. Estimating a net profit of about \$500,000, Friel noted the hospital had hoped to reach a more acceptable profit standing of \$1.6 million this year. But progress is progress, especially considering the millions in losses the hospital has incurred during the past three years.

And making money now is key, not only in order to allow the hospital to keep pace with changing technology and to improve its standing in the bond market, but also to open up one other alternative Friel suggested hospital leaders might again be reviewing.

"We are one of a few free-standing hospitals in Northern California. I think there are 15 of them," he said.

What Friel is referring to is the fact that most hospitals are affiliated—Dominican Hospital is linked to Catholic Health Care West—with organizations known as health systems. Watsonville Hospital has no such affiliation.

It is instead a private, non-profit agency providing services for area residents and concerned directly with caring for its community.

In good times this means all profits are kept by and returned directly to the community. When times are tough, however, this means there is less access to capital and financing mechanisms.

But is Watsonville Hospital in a good position for an alliance or merger with a health care system?

"I think we are moving in that direction... I don't think it's been [that way] in the last three years," Friel said. "I think it's better today than it was a year ago, only because of those profit numbers that we have been able to boast."

Friel was chosen over a year ago to take charge of the hospital by board members who at the time rejected proposals for merger. But if a merger could still be in the horizon, what does Friel think are important factors to look for in choosing a health system to "parent" the hospital?

"I think a system that has a strong reputation for good quality care. A system that allows our facility to maintain its community autonomy. A system that has some financial resources to help new [members] to continue to thrive and grow... One that would position the hospital well to succeed in a managed care environment," Friel responded.

But whatever the future may hold for Watsonville Community Hospital, it's a safe bet more changes lie in store and greater challenges ahead. □

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