

Business

Hospital's fiscal resuscitation

Watsonville Community operates in the black

By GUY LASNIER
Sentinel business editor 3-13-99

WATSONVILLE — As Watsonville Community Hospital approaches the most profound changes of its history administrators are feeling in the pink.

That's a lot better than the red in which the non-profit community hospital languished for two years when it lost more than \$2 million between 1989 and 1991.

The hospital is poised to build a state-of-the-art facility to provide health care for the 21st century and it is running profitably.

Watsonville Community reported a profit of \$1.3 million for the year ended June 30 and is running about \$1.4 million ahead today, said Chief Financial Officer John Nacol.

The operating profit has come despite a growing gap between services billed and receipts collected.

John Friel, the president and chief executive now entering his fourth year in Watsonville, said strict cost control is responsible for the financial turnaround.

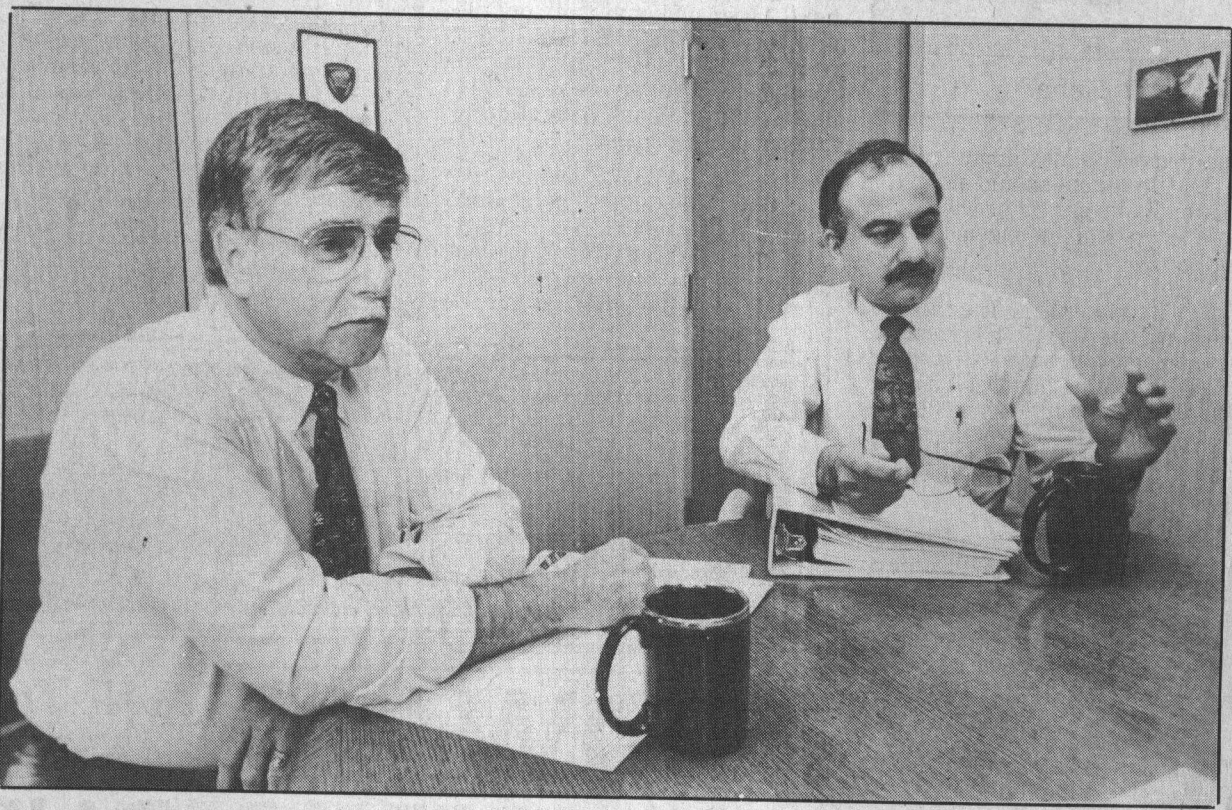
The hospital cut overtime by 60 percent from \$1 million to \$400,000 a year, and slashed another \$1 million in charges for outside on-call nurses. Controlling inventory helped free up cash.

"We are trying to position ourselves to survive under reform," Friel said in an interview last week.

Layoffs in 1990, the year before Friel and Nacol came on board, cut 85 people from the payroll. Current staffing is about 700 people filling 557 full time equivalent jobs.

The hospital's ambitious plans to relocate, forced by the 1989 Loma Prieta earthquake, will cost \$67.4 million. The largest share is a \$43 million grant from the Federal Emergency Management Agency. But Watsonville Community will also have to increase its debt from \$27 million this year to about \$34.5 million to complete the project.

The hospital has agreed to buy 27.5 acres and a 200,000-square-foot building from Seagate Technology just west of the freeway near Airport Boulevard. Seagate is lending \$8.6 million at 7 percent to close the gap. The deal is scheduled to close when the hospital obtains a use permit from the city. That could happen later this month. The project is scheduled to be



John Friel, left, and John Nacol discuss the hospital's recent financial turnaround. Dan Coyro/Sentinel

complete in mid- to late 1997.

Long-term debt has risen from \$20.3 million in 1990 to \$27.2 million last June. The bulk is \$18 million in bonds used to build the 25 year-old hospital building at Green Valley and Holohan roads. Bond payments are \$2 million a year and cannot be refinanced until 1996, Nacol said. They are due in 2012.

The hospital must reimburse FEMA a \$2.1 advance five years after it moves.

The additional debt will add \$1.4 million to annual debt service payments, Nacol said. That prospect has worried some longtime hospital backers.

Friel and Nacol insist that as long as operating costs are kept lean the debt can be serviced.

One disturbing trend is the growing distance between services billed and revenues collected. In 1990, the hospital billed \$50.3 million and collected \$34 million. The gap of \$16.5 million came from Medicare and insurance company discounts and uncollectable accounts and amounted to almost 33 percent.

Three years later the gap has grown to 42 percent and shows no sign of reversing.

"Every hospital provides a lot of care that never gets paid for," Nacol said.

For the year ended June 30, the hospital billed \$77.8 million and

collected \$45.5 million. Billings increased 16.3 percent over 1992 and 55 percent over 1990, a reflection of the escalating cost of health care.

But payers — Medicare, insurance companies and health maintenance organizations — negotiate reduced payment agreements.

"It's going to get worse for all hospitals," said Friel. "Managed care is driving the cost," he said.

Cost control means a new kind of health care, more out-patient services, fewer days in the hospital. The new three-floor acute care facility Watsonville plans to build at its Seagate site will have 100 beds to the current 130. The hospital now averages 75 patients a day.

Staffing levels will change and so will staff training. Friel said the goal is a "patient-centered" approach that will cut down on the

number of staff members a patient will see. Today a patient can see as many as 40 people in 24 hours.

With broader training nurses and other staff can perform more duties, Friel said. One problem the hospital has run into, however, is nurses on disability after injuring themselves lifting patients because fewer aides are on staff.