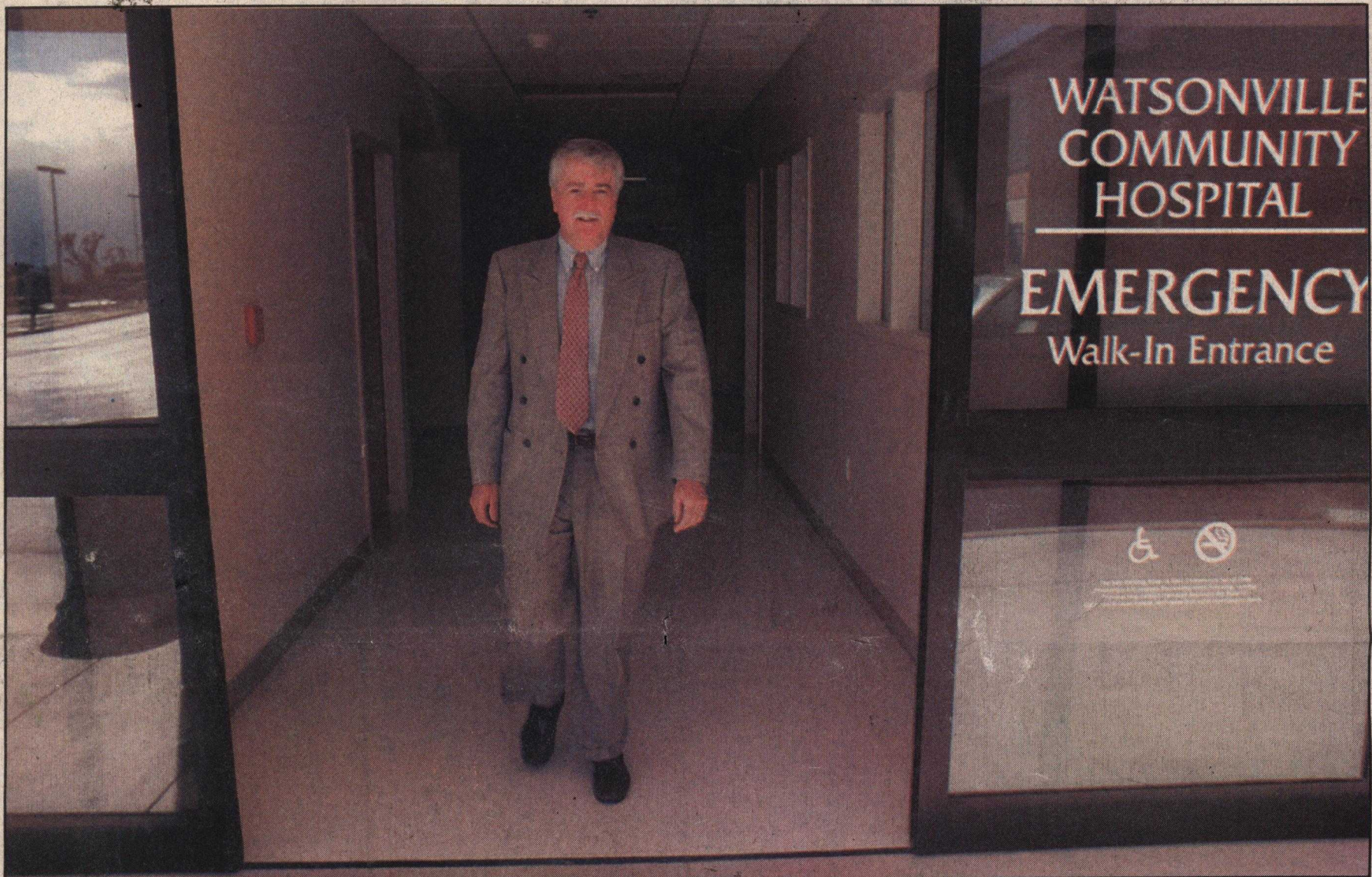


PREPPED AND READY

As buyout deal looms, Watsonville hospital moves to new site



Hospitals - Watsonville Hospital

Decade-long plan comes to fruition

By DONNA KIMURA
Sentinel staff writer

WATSONVILLE — A new Watsonville Community Hospital will open its doors this month to the ailing, recovering and expecting.

Located at Airport Boulevard and Neilson Street, it replaces the old earthquake-damaged hospital on the other side of town.

"We built it the way people want health care," said John Friel, hospital president and chief executive officer.

The new hospital is big on private rooms, separating in-patients from out-patients and bringing together services to one area.

An opening ceremony and public tours will be today. The hospital is expected to open at the new \$73 million site next Sunday for patients.

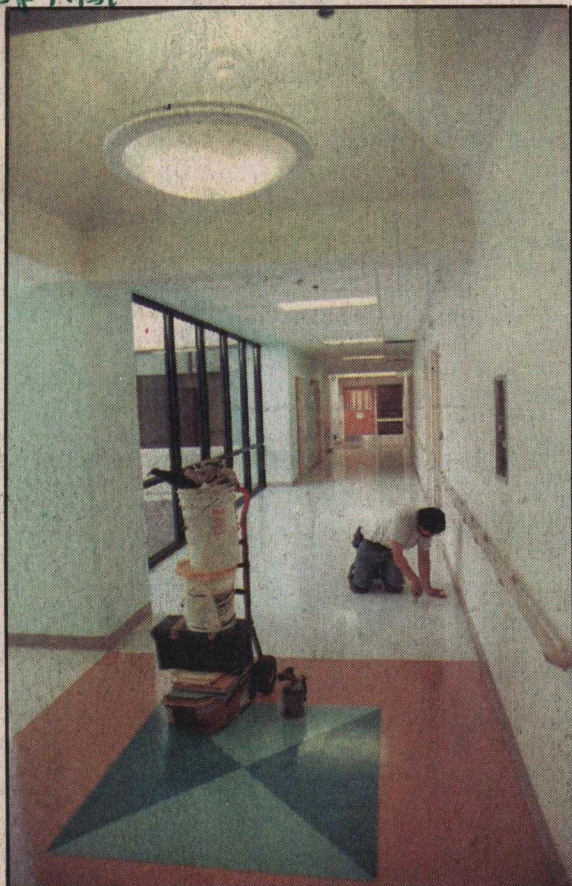
The move ends years of searching for a location and then building the three-story hospital to the toughest of seismic standards. Hospitals are expected to stand through disasters.

The move came about because the 1989 earthquake severely battered the hospital on Green Valley Road, causing \$50 million in damages.

There were thoughts of repairing the existing hospital, but it would have still left an aging 30-year-old building. News laws are also requiring hospitals across the state to go through seismic improvements or even replace buildings.

In 1994, Watsonville Community announced its decision to buy 27 acres that once housed Seagate Technology Inc. The firm planned to assemble disk drives there, but never used it to its full capacity. Employment targeted to reach 1,500 to 2,000 never materialized when Seagate moved most of its assembly operations overseas.

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Shmuel Thaler/Sentinel photos

'We built it the way people want health care,' says hospital CEO John Friel, top. Above, Mike Himbing puts finishing touches on the vinyl flooring.

■ Hospital builds on its second century — Page A12

Cash-rich suitor seen as hospital's savior

By JENNIFER PITTMAN
Sentinel staff writer

WATSONVILLE — A handful of Watsonville physicians in surgical greens are running a gurney today from the old Community Hospital to a new facility two miles away.

It is a symbolic, celebratory gesture for the grand opening of a state-of-the-art facility — a rarity in these days of out-moded hospitals and shrinking health-care funds.

As a police motorcycle escort guides them through an audience to a stage of local dignitaries, there will be some noteworthy people in attendance — namely a trio representing the prospective new hospital owners.

Officials from Community Hospital Systems Inc., a Tennessee-based hospital chain, are perched to consummate a \$50 million-plus deal with the Watsonville hospital board of directors.

From offstage, they will hear local politicians and hospital officials hail the new medical campus, the result of long bureaucratic toiling. They will be in the background, however, shaking hands and leaving the public celebration to the locals.

Until a deal is completed between the local, non-profit board of

directors and the national for-profit, 40-hospital chain, Watsonville's hospital is still its own.

"Everything that's been done to date is the work of others," said Michael Portacci, group vice president of CHS and a key player in discussions to buy the hospital. "When we get through with all of this (negotiating) I'm sure there will be enough media attention."

Many of the details of the deal are still confidential and won't be made public until it is submitted to the state Attorney General's Office for review. That could be as early as this week.

Community members eyeing negotiations from afar, however, are already questioning the intentions of a national chain that specializes in sprucing up small rural hospitals for eventual sale on Wall Street.

"It's very hard for us to endorse without any reservations a deal we don't know for a fact is going to be for the benefit of the community and reserve all the existing services," said Carmen Figueroa, a labor representative for the California Nurses Association. Figueroa is also a member of the recently formed Pajaro Valley Coalition to Save Community Health Care, a

Please see HOSPITAL —A12

New site for hospital

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Officials have transformed the old Seagate building so it can be used for out-patient services, support programs and offices.

Critics wanted another high-tech company to move into the building instead of the hospital. In response, Friel points out that Seagate left the area and the building was sitting with limited use.

The location is also important to the hospital because it is close to the Airport Boulevard exit on Highway 1, a site that hospital officials say will aid patients especially those being transported by ambulance.

Attached to the old Seagate facility, a new 100,000-square-foot hospital has been built to house the critical care unit, emergency room, operating rooms, maternity ward.

Construction cost \$40 million. The land, fees and other costs put the project at \$73 million.

The Federal Emergency Management Agency provided \$45 million, the state \$5 million. The hospital is responsible for the remainder through tax-exempt bonds and reserves.

"We know it's a good thing," said Carmen Figueroa, a labor representative for the California Nurses Association, which represents the hospital's nurses. "We know a new building was needed."

It, however, comes at time when there are some mixed feelings, she said.

"On the other hand, we're monitoring the sale of the hospital very closely, what the change is going to be going from a non-profit to a for-profit and what it will mean for the community and employees," Figueroa said.

Watsonville hospital leaders have been negotiating a possible sale to Community Health Systems Inc., a hospital chain based in Tennessee.

Until a deal is made, the hospital will run as

always — just in a new, updated location.

Salud para la Gente, a low-cost health clinic in Watsonville, will continue to refer patients to the hospital for diagnostic services.

"We should feel proud we have a new hospital," said Arcadio Viveros, executive director of the clinic. "We hope the hospital will continue to serve the needs of all people in the Pajaro Valley area. They provide the medically indigent to those that can afford it."

When Santa Cruz County closed its county hospital years ago, there was an agreement that the other local hospitals would provide care for the indigent, said Dr. George Wolfe, county health officer.

Watsonville Community Hospital, he said, has done "a marvelous" job and will continue to provide that service.

The new hospital illustrates the changing face of health care.

For example, there will be 100 beds in the hospital, 30 fewer than at the existing facility. A hospital stay is probably three or four days now compared to 10 days several years ago, Friel said.

The hospital has been averaging about 65 patients so the reduced number of beds shouldn't be a problem, according to Friel. Even during the height of last winter's flu illness, the hospital didn't have to turn anyone away.

Ninety-six of the beds are in private rooms compared to just four private rooms in the old hospital.

When the hospital was being designed, Friel said he stressed one main point.

"We want it to be integrated," he said, meaning the goal is to turn the hospital into a one-stop medical center.

Friel hopes that offices for 30 to 40 doctors will be built next to the hospital in a year. This will make it convenient for both doctors visiting patients in the



Watsonville Community Hospital's move ends years of searching for a new location.

Shmuel Thaler/
Sentinel

hospital and patients who need to see their doctors and use hospital services.

The emergency room will have eight stations — the same size as the existing hospital.

"We didn't build to expand," Friel said. "We built to replace."

The ER is located on the first floor along with the critical care unit. There will also be a new observation unit. This will allow the medical staff to keep a close eye on a patient, who might not need to be admitted into the hospital, for 12 to 14 hours.

These three departments along with the operating rooms are all in the same area for efficiency.

The second floor houses the maternity department along with hospital beds.

Delivering babies is the biggest service of the hospital. Up to 150 little girls and boys are born a month in the maternity unit.

There are 18 labor, delivery, recovery and postpartum rooms. The mother can deliver her baby and recover in the same room.

The third floor features 51 more hospital beds. There are other little changes at the hospital that

most people probably won't even realize.

For example, there are separate entrances for an out-patient who has to come in for a procedure. This allows for added privacy.

Other things won't change. There are some new X-ray and other medical equipment, but much of it will just be moved from the old hospital.

The 700 people on the hospital's payroll will also remain the same.

Last year, the hospital laid off 72 employees to help cut \$6 million from its \$52 million budget. The move will not necessitate the hiring or laying off of more, according to Friel.

It could, however, increase the number of patients.

With a brand new building in town, the hospital hopes more people will use it than going to another facility.

"It's brand new, state of the art," Friel said. "It brings people comfort in health services."

An opening ceremony for the new Watsonville Community Hospital at 75 Neilson St. will be at 2 p.m. today. Public tours will be available 3-5 p.m.

Hospital

Continued from Page A1

watchdog group established last week.

"Everything they've said is very reassuring but it doesn't really mean anything until we know that is the intent in writing."

Watsonville business lawyer Omar James, who is heading up the hospital's small negotiating team, admitted trepidation at the beginning of discussions with CHS as well.

CHS, is owned by Forstmann Little & Co., a high-powered New York-based investment firm that boasts investment partners including former U.S. Sen. Bob Dole and U.S. Gen. Colin Powell. The company focuses on buying up small rural hospitals, shipping in management consultants, expanding facilities and market share. CHS hospitals are in 16 states, primarily in the South.

Barstow Community Hospital is the only California site — so far. In addition to Watsonville, the company is negotiating purchases of a hospital in Fallbrook, a community north of San Diego, and an undisclosed hospital in a small community north of San Francisco.

The company's biggest hospital is close to 200 beds. CHS targets the facilities that are struggling in the middle of nowhere to stem the out-migration of patients to distant, better-equipped facilities. All CHS hospitals are accredited and seven received commendation last year, according to Robert Hartison, CHP vice president of acquisition.

According to the Watsonville hospital board of directors, CHS offers a sweet deal for the community, a match without reproach, a promise of a future, where the small, independent hospital once saw none.

The hospital board needed resources and financial backing for their newly built facility, but they also wanted to retain a local identity, local control, along with its broad range of health services and a commitment to indigent care.

"They agreed to all of the things we wanted — charity care, (money for) recruiting doctors, spending more money on the facility, medical equipment," said Betsy Woolpert, chairwoman of the hospital board of directors. "They can do a much better job of recruiting physicians than we do. We expect that through them we will do even better."

CHS has committed to the creation of a local governing board. The only CHS representative on the board would be the hospital CEO. Hartison said the company intends to offer the position to John Friel, Watsonville hospital's current CEO.

The 100-year-old Watsonville hospital would keep its name, Hartison said. "We don't put our name on anything. ... We provide man-

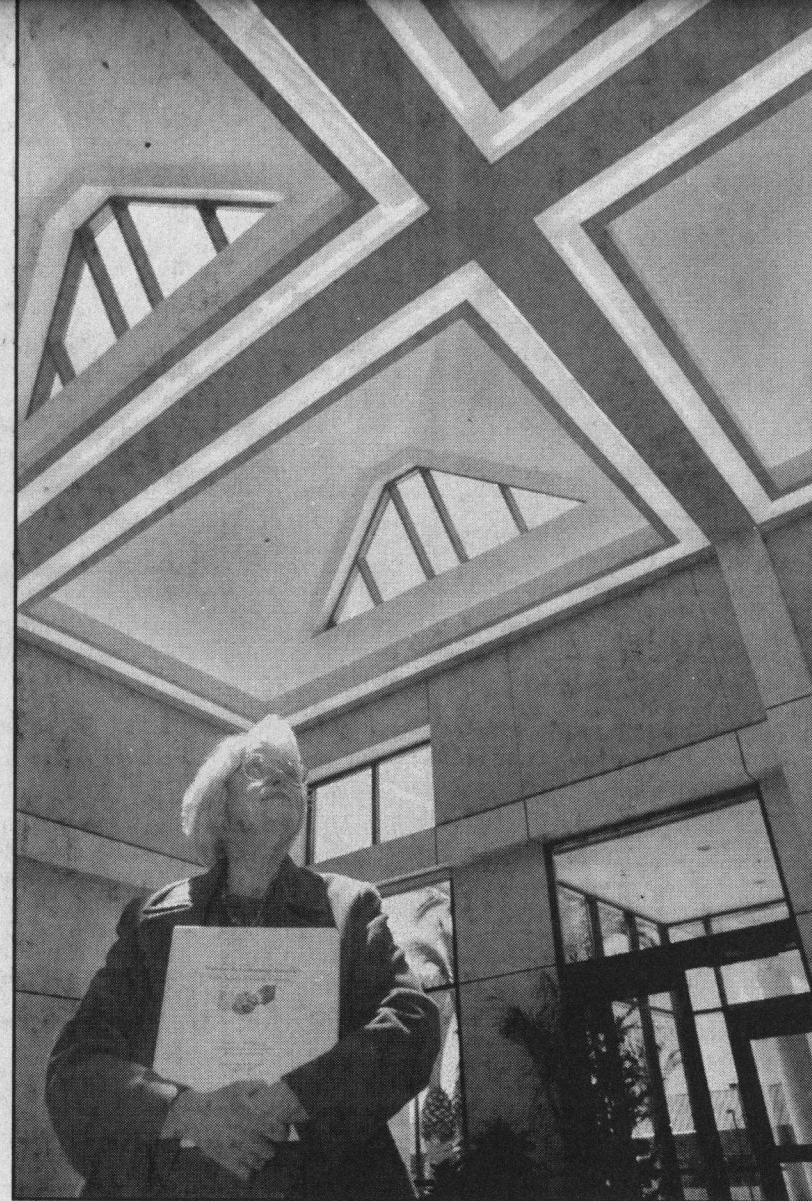


photo Tina Baine/Sentinel

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agement capital and expertise in managing hospitals."

Under the Watsonville proposal, CHS has promised to honor existing labor contracts and to support medical staff development by pledging "a considerable sum of money for physician recruitment," according to Stanley Hajduk, an emergency department doctor who is chief of staff at the hospital and serves on the negotiating team.

There is a commitment to create an adjacent medical office building and pour \$8 million into capital improvements in the next four or five years, said Hajduk.

The Attorney General's Office has up to 105 days to consider the proposal, which includes setting up a separate, locally governed community trust fund from the undisclosed proceeds of the sale to continue community health services in addition to running the hospital.

"At the end of the day we're going to have a war chest for the benefit of the community which is

really significant," said Chris Lynn, a hospital board member and executive vice president of Blast Deflectors Inc. in Watsonville.

"The thing that triggered our interest in CHS was the fact that their values matched so closely those in this community. ... I think we could have looked for a long, long time and not found a better fit for our community."

Last year, for the third time in 12 years, the hospital ran over budget, dipping \$6 million in the hole beyond its \$50 million operating budget. Hospital officials say they are back on track this year and with CHS's courtship, they envision abundance.

"With our new campus we have the potential to be the dominant hospital in the county," Hajduk said.

The new facility's proximity to Highway 1 may enable the hospital to increase its reach into the northern parts of Santa Cruz County, possibly extending its ambulance

territory to Rio del Mar and attracting coveted higher-paying patients.

About one-third of Watsonville's patients are indigent.

"We are not what you call the most favorable mix," Hajduk noted. But under the proposal, CHS would commit to continue indigent services at current levels, augmenting them annually according to changes in the U.S. Consumer Price Index.

Negotiations began last fall with a call to Woolpert from Ken Hawkins, a CHS vice president.

Watsonville, in need of new resources to survive, was interviewing potential affiliates and buyers. In an era of consolidation and lower reimbursement rates, the future of the small hospital — without some financial help — was uncertain at best.

Catholic Healthcare West, which owns Dominican Hospital, and Sutter Health Systems, which owns Santa Cruz Medical Clinic, were courting Watsonville along with the nation's largest for-profit hospital chain, Columbia/HCA Healthcare Corp. But they were all problematic suitors.

Any deal with CHW raised possible anti-trust issues and the specter of a local consolidation of services that concerned Watsonville board members.

"If you went with Dominican, you were basically creating a situation where we would lose our identity completely," James said. "You wouldn't have a whole lot of health care options in Santa Cruz County. Additionally, the proposed structure in the minds of some people removed control from the local area to a governing board outside the geographical area."

Sutter was undergoing administrative turnover in its headquarters and also raised some animosity with physicians still smarting from its aggressive early forays into establishing a managed care system.

And, Columbia discussions fizzled in a pile of federal grand jury criminal indictments levied against Columbia officials for Medicare fraud.

When CHS called, company representatives were attended by hospital administrators and doctors who gave glowing references.

Watsonville hospital officials traveled to Barstow and interviewed administrators and doctors in other CHS facilities.

"The doctors at Barstow said, 'Hey, this has only been good for us, and for the community,'" said Hajduk. "They have helped us recapture market share. They've invested capital for the building of a new emergency room' They said it was good."

A group flew to Tennessee and met Forstmann Little representatives.

Forstmann Little acquired CHS in 1996 for \$1.4 billion. In search of growth industries, the firm also invested in Cidco Inc., a Morgan Hill-based telephone equipment manufacturer that makes caller-ID prod-

Under the Watsonville proposal, CHS has promised to honor existing labor contracts and to support medical staff development.

ucts. The company had recently bought Ziff-Davis Publishing Co. for \$1.4 billion, selling it one year later for \$2.1 billion.

"You go into the situation with a certain degree of trepidation which is occasioned by the atmosphere that was left by Columbia," James said. "It created generally a feeling of distrust in the community and a perception by most people that for-profits were basically just going to consume not-for-profits without the slightest concern for ethical business practices."

But, James said "there didn't seem to be any hidden agenda. ... They're obviously extremely competent businessmen with a very sharp pencil. ... It didn't appear to me to be a group of people who are opportunists and here for the short run. They are here for the long-term and have the economic wherewithal to make it work."

In 1997, a Federation of American Hospital Systems national health care study of Barstow and nine other non-profit hospitals that went through conversions to for-

profit status found that there no dramatic changes for the communities. The federation represents for-profit hospitals.

CHS entered into a 10-year lease in 1993 to operate Barstow, a 56-bed facility. Since then, the hospital has received a new emergency department and capital improvements totaling more than \$6 million in the deal, according to its chief administrator. According to the study, there was no evidence of cuts in charity care.

"If Barstow is a good indicator of what they do and the kind of management that they bring in, I think they're running a tight ship there and the community is well-served," said Boyd Bauer, who served as vice president of the Inland Region for the Health Care Association of Southern California at the time of the Barstow conversion. "The management company puts a lot of effort into establishing relationships with physicians."

Since negotiations with Watsonville began last fall, CHS has pushed further west, buying a hospital in Pace, Ariz. and another in Roswell, N.M.

"When we buy a hospital, typically they're capturing less than half their potential market," said Portacci of CHS. "The win-win situation is to apply our resources, capital, support and ... grow that market share."

In Watsonville, the obstetrics unit is a key area targeted for growth, he said.

At the celebration that is scheduled to begin today at 2 p.m., however, the festivities will focus on the very tangible community work that made the new hospital a reality. Portacci noted that the baton has not been passed yet.

-on anything. ... We provide man- benefit of the community which is possibly extending its ambulance- tacter that makes caller-ID prod-

Watsonville hospital builds on its second century

Sentinel staff report

WATSONVILLE — As Watsonville Community Hospital builds on its second century of service as the primary health-care provider, its history is a genealogy of the Pajaro Valley.

Hospital founder Dr. P.K. Watters probably never thought his vision for bringing professional hospital care to the Pajaro Valley 102 years ago would survive and flourish for more than a century.

He came to the Pajaro Valley in 1895 along with his family and opened the first Watsonville Hospital next door to his home on East

Beach Street. It was a five-room "sanitarium," where his wife established a nursing school around the corner from the hospital on Carr Street.

A majority of his patients came from farming families as well as shopkeepers and tradesmen who provided their goods and services for the local community. The population grew, and so did the need for additional medical services and a larger hospital to fulfill those growing needs.

In 1938, the second Watsonville Hospital opened its doors on Prospect and Monte Vista streets, featuring 58 beds. A group of local

doctors were the driving force behind the new facility, eager to have a modern hospital equipped with the latest medical equipment.

The hospital remained at Prospect and Monte Vista streets for 31 years until the move in 1969 to the current three-story building on the corner of Green Valley and Holohan roads. One of the worst damaged buildings in the devastating 1989 Loma Prieta earthquake that left the community reeling was the hospital. Faced with the choice between a disruptive, five to seven year, \$50 million repair project, as compared to building a new Health Care Center, the board of

trustees elected to choose "new" over "repair."

After nearly eight years of planning and development, Watsonville Community Hospital today begins its new era of providing health care to Central Coast residents — from Watsonville, Freedom, La Selva Beach, Aptos, Aromas, Moss Landing to Prunedale.

Today's hospital employs more than 700 and has a medical staff of 75 physicians representing every medical specialty.

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