

Health center faulted

Study says Capitola project detrimental

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SANTA CRUZ — The proposed Capitola Health Center will not enhance competition by forcing existing hospitals to be more efficient and lower-priced.

Instead, according to a study released Friday, the 24-bed hospital and outpatient surgical center may have the opposite effect. It could cause existing hospitals to suffer deficits, forcing them to raise rates, cut programs, rely more on donations, and reduce services to the poor.

That is one of many findings in "The Capitola Health Center: A Study of Consequences, Costs and Benefits," released Friday. The \$20,500 study was prepared by consultant Lucy Johns, with health economist Thaine Allison, for the county Board of Supervisors.

It was partly funded by Dominican Hospital, Santa Cruz Medical Center and Watsonville Community Hospital. All three, along with the county, are worried about the impact a for-profit, limited-use, partly physician-owned hospital could have on local health services.

Developers of the proposed center were not available for comment Friday. They refused to participate in the study, predicting it would be biased.

The city of Capitola has yet to approve the health center, proposed for a vacant site at the intersection of Bay Avenue and Highway 1. An environmental study is in the works.

Johns, a private health care planning and policy consultant in San Francisco, said there will be several costs to the community from the building of the health center.

Among these costs would be deficits at Dominican and Watsonville Community hospitals. Johns estimated that in the first year of the health center's operation, Dominican would lose between \$3.6 million and \$3.9 million and Watsonville Community would lose

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between \$1.36 million and \$5 million, depending on the number of patients lost. This would put both hospitals in the red financially.

Health center proponents have argued that it won't have a negative effect on local hospitals' patient load because of its small size. But Johns noted that the health center plans to discharge up to 2,800 patients a year, or 70 percent of the existing market.

Proponents also have argued that the health center will be serving patients that now go out of the county. Johns, however, found that the type of patient who goes outside the county for care isn't the kind that will be served by the health center.

Johns reported that nearly 50 percent of those who go outside the county are either emergencies or

newborn children. Capitola Health Center will not have an emergency room or facilities to treat sick newborns.

Johns also found that the average stay of those going out of the county was seven days, indicating serious health problems.

Proponents, she noted, also argue that the health center won't take existing patients, but will create a new demand through marketing and lower prices. This, she stated, goes against the principles of managed health care (health maintenance organizations) that the health center is planning to establish.

Johns also questioned some of the financial information in the prospectus issued by developers Chuck Madden and Doug Byrd for potential investors.

The prospectus estimates operating costs for the first five years based on a labor expense of only 37

percent of total expenses, compared to 56.2 percent at Dominican, 48.6 percent at the former Community Hospital, and 52.6 percent at Watsonville Community, Johns pointed out.

If the health center's figures are recalculated to reflect a more typical labor expense, it would have to charge close to what Dominican and Watsonville hospitals do to maintain the developers' projected profit margin, Johns noted. Johns concluded that Capitola Health Center:

- To be considered beneficial overall, must enhance competition. This must be done without causing other hospitals to shift higher costs to the community, costs which would be greater than the price reductions the health center hopes to offer.

- Has a weakened potential to enhance competition because of several aspects, including its high

capital costs and "implausibly low" operating costs, which may cause higher prices than anticipated.

- Has the inherent potential of causing cost shifting by shifting the risky, costly patients to other hospitals.

- Will cause deficits at other hospitals, which will affect paying patients at those hospitals, the poor, and those who donate to those hospitals.

She added that there is a possibility for new entrants into the local health market to enhance competition. They could do so, she said, by assuming their share of the risks by taking all types of patients, treating the full range of problems, and offering cost-effective care.

Johns will present her findings to the Board of Supervisors Tuesday.