

Hospital's financial future rosy despite red ink

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Officials at Watsonville Community Hospital are encouraged by the hospital's financial performance, even though fiscal year 1991 ended with a loss.

The hospital, which had been doing poorly for some time, had an operating loss of \$689,000 for the fiscal year that ended June 30, 1991.

But, said Chief Executive Officer John Friel, there was a profit at the end of each month for the last half of that year, beginning in January 1991. While that gain wasn't

enough to pull the hospital out of the red, it did cut the year's loss to about half of what it had been the previous year — \$1,491,000.

Friel said the first six months of this fiscal year have also been profitable, and the hospital expects a profit at the end of this year, in June 1992. Because the hospital is non-profit, that money will be plowed back into the hospital, he said.

A summary of the hospital's financial report was published in the current issue of the hospital's publication, Health Watch. Friel said it was the first time the hospi-

tal has done that. He said he wanted to make sure the community, which has been aware of the hospital's financial troubles, was informed that things are improving.

There are several factors contributing to the hospital's financial recovery, Friel and Chief Financial Officer John Nacol said in an interview yesterday.

In September 1990, cost-cutting measures, including laying off 62 workers and cutting hours of another 24, were taken. Some of the departments were re-organized and made more efficient, Nacol said. He said that in re-organizing

the business office, for example, it was discovered that some accounts had not been followed up on, and the hospital had not collected money it was owed.

Despite the cuts, expenses were slightly higher in 1990-91. The cost of care that was not reimbursed by Medicare and Medi-Cal increased to 29 percent of the hospital's revenues in 1990-91 from 25 percent the previous year.

But the hospital's overall income was also higher in 1990-91, and was, in fact, the most significant between the two years. In 1990, revenue was \$50,314,000;

in 1990-91, it was \$57,372. Friel attributed the increase to higher rates and more services. That increased income was enough to offset the slightly higher expenses in 1990-91.

Other developments offer hope for continued recovery, Friel and Nacol said.

The hospital has renegotiated reimbursement rates with Medicare and Medi-Cal. Friel said the hospital is not allowed to say what the new rates are, but he did say the Medi-Cal reimbursement rate went up 6.5 percent. In 1989, the rate was 82.5 percent.

Friel said the hospital, which gave its nurses a pay increase last year, has also been more successful in recruiting nurses and is relying less on a costly registry program.

On the down side for finances, Friel said, the hospital has been seeing a steady increase in Medi-Cal patients, which he attributes to the recession. Since Medi-Cal doesn't fully reimburse health care providers, those patients represent a loss. Increasingly, private insurers are moving to "managed care"

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plans, which also pay less.

And even though Medicare has negotiated a higher reimbursement rate, the federal government is changing the way it compensates hospitals for capital costs. Over the next several years, those payments will be figured into regular reimbursements, instead of coming in specifically for capital purchases, and, Friel said, will be lower than they have been.

Nacol said the higher rates from Medicare and Medi-Cal don't match the rate at which expenses are increasing.

Friel also said the hospital faces competition for paying patients from two planned "mini-hospitals," one proposed for Capitola by a group of local doctors and one proposed by Sutter Health of Sacramento. Friel said he doesn't think those organizations will take their share of poor patients (although the Capitola doctors say they will), and will take patients from Watsonville who are fully paying.

In other hospital news, Friel said the hospital is continuing to negotiate for several sites in Watsonville for its new building.

He also said the hospital has asked FEMA to consider increasing the amount it has committed for constructing a new building for the earthquake-damaged hospital. FEMA has promised \$48.9 million, but Friel said land costs are higher than expected.