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Health, Insurance and Employee Benefits

Hospitals in pain

Some East Bay institutions face serious difficulty with finances

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The East Bay, which boasts hospital success stories like **Kaiser Permanente**, **Washington Hospital Health Care System** and **John Muir Health**, also is home to some of the region's most financially challenged facilities, including **Doctors Medical Center**, St. Rose Hospital and **Children's Hospital & Research Center Oakland**.

All three — along with other hard-pressed facilities such as San Leandro Hospital, which owner **Sutter Health** is trying to close and transfer to Alameda County, and **Alameda Hospital**, which lost a \$10 million-per-year Kaiser contract in early 2010, causing it to scramble to make ends meet — are stand-alone hospitals in a Northern California market dominated by giant hospital groups.

Most are also safety net hospitals in an era when no one is willing to pay them full freight for caring for the uninsured or under-insured.

Children's Hospital has lost \$69 million on operations in recent years and is projecting a cumulative \$36 million in losses this year and next. Doctors Medical Center, in San Pablo, may be forced to close as early as next year if an additional parcel tax measure fails in November. Even if the measure passes, huge challenges abound.

And Hayward's St. Rose, in the midst of a drastic cash flow crisis that led it to need an emergency \$3 million loan in July, is laying off 10 percent of its already-reduced workforce.

Nearly 1 in 8 of St. Rose's patients can't pay. That helped lead to a spooky couple of weeks in July when the hospital had to borrow money to meet payroll, said CEO **Michael Mahoney**. "We're still in a hole, but it's not getting any deeper."

At least not right away. But the former Catholic hospital — now an independent private facility — is still on a financial precipice. And since disaffiliating with the Via Christi Catholic system in 2005, it's been on its own.

"Without subsidies, or being part of a larger system, they're just stuck," said **Rich Gianello**, president of Oakland's HFS Consultants, which has been hired to explore problems and potential solutions at St. Rose. Stand-alone hospitals don't have the economies of scale that systems have, can't get the best rates on supplies or managed-care contracts, don't have the access to debt markets that bigger players do and have a harder time attracting physicians, according to HFS, which works with many of them.

Optimists, including **Alex Briscoe**, director of the Alameda County Health Care Services Agency, hope that some, if not all, of the inner East Bay's most troubled hospitals can be integrated into some sort of sustainable partnership with existing public systems.

But just stumbling along won't be an option, especially when President Obama's health reform kicks in, in January 2014. "Safety-net hospitals (in the East Bay) will have to look at converged operational models" to be sustainable, Briscoe said. That means finding new revenue streams, becoming more efficient and better managed, and likely linking up with larger entities if they're to compete with others in a post-reform marketplace.

Pessimists, such as longtime local hospital observer **Wanda Jones**, wonder if they have a long-term future.

Jones, who heads San Francisco's nonprofit **New Century Healthcare Institute**, said the East Bay's most troubled hospitals share a number of characteristics, including locations in low-income neighborhoods, lots of Medi-Cal enrollees, older physical plants that are "unable to fund their capital costs," historically weak management, dependence on state subsidies, "unorganized" doctors, and "better alternatives within a short driving distance."

It's a combination that could be fatal in the near future, which Jones sees "as an expected event in the life cycle" of the Bay Area's hospital base.

Looking for a way out

Briscoe, meanwhile, said many of the troubled hospitals are in talks with Alameda County, just as Doctors Medical Center is at the center of talks involving Contra Costa County supervisors, its public health system and private players like Kaiser and John Muir, which have pumped millions of dollars of subsidies into Doctors in recent years.

John Gioia, the Contra Costa County supervisor who chairs the hospital's governing board, believes its immediate cash crunch can be ameliorated if a \$47 parcel tax passes in November, which he expects to happen. Polls show that 73 percent of voters support the parcel tax, which would raise about \$5 million annually, on top of an earlier hospital parcel tax passed in 2004.

Longer term, it might make sense for the county and Doctors to look at other options, including “partnership, joint purchasing and joint management,” Gioia said. But such a relationship isn’t in the cards right away.

“If it leads to something more, that would be a progression down the road,” he cautioned, noting that many fear that Doctors would be a continuing drain on county resources.

So what’s next? Short-term, these hospitals each need an immediate survival strategy. But by 2014 they’ll be facing reduced Medicare and Medi-Cal reimbursements, as well as the strong possibility that rival facilities will be fighting them for patients who are now uninsured but are expected to have coverage under national health reform.

As for Children’s, “the only way this hospital is going to be here for the long term is to be sustainable on operations,” hospital spokeswoman **Cynthia Chiarappa** told the Business Times last month.

Affiliation talks between Children’s Oakland and Stanford’s Lucile Packard Children’s Hospital ended earlier this year without going anywhere, and it’s unclear if Children’s Oakland can find a partner to help sustain it long term.

St. Rose, meanwhile, hopes to work something out with Alameda County and the Eden Township Healthcare District, which used to run Eden Hospital and is seeking another raison d’être now that Sutter Health owns Eden.

“I’m cautiously optimistic we can meet these challenges,” Mahoney said. “We need to tighten our belts and make some very hard decisions.”

Chris Rauber's beats include health care, insurance and the wine industry for the San Francisco Business Times.