Hospital draws up debt plan

-- SAN PABLO: Doctors Medical Center managers plot way to cut annual obligation from $25 million to $6 million

By Tom Lochner

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The consultants who manage Doctors Medical Center San Pablo have drafted a business plan that would chop an annual $25 million-plus structural deficit down to $4 million to $6 million a year by the end of 2009.

That would put the hospital within striking distance of sustainability, said the chairman of the joint powers board that oversees the hospital.

For the plan to work, the hospital would need to make about $19 million in capital expenditures through 2009, some of which could be financed, and secure about $12 million in operating cash during that period, according to a report presented by interim CEO Tim Weis, who heads a team from Wellspring Management Services LLC that runs the bankrupt hospital.

The pared-down structural deficit and the immediate need for cash could be backfilled by a combination of philanthropic grants; intergovernmental transfers similar to the $20 million bailout devised last year that involved federal, state, county and West Contra Costa Healthcare District funds; better payer rates; funds from other health care providers; and perhaps a small, temporary increase in the parcel tax paid by homeowners in the health care district, said Doctors Medical Center Management Authority board Chairman John Gioia, who also is a Contra Costa County supervisor.

"The short-term need for cash and the significantly reduced structural deficit are surmountable," Gioia said.

The current $52-a-year parcel tax raises about $6 million a year.

The health care district owns the hospital, which filed for bankruptcy protection in October. The joint powers board has seven members -- four from the county and three from the health care district.
Weis outlined several initiatives to improve the bottom line by more than $14 million a year, some of which already are under way. Wellspring has flagged $2.5 million in claims for payment that were denied or underpaid and has already collected $1 million of that total, he said; improvements in collections, with the help of collection agencies, will yield $1.5 million a year, he said.

Wellspring seeks to qualify Doctors San Pablo as a "Disproportionate Share Hospital," a designation that refers to the share of MediCAL and uninsured patients, which could yield annual funding of $1.6 million. Weis also cited efficiency measures and labor cost reductions that could save $4.6 million a year, as well as another $1.6 million a year in savings on supplies and contracted services. Better managed care rates could yield another $2.9 million a year, he said.

Synergies between Doctors San Pablo and Contra Costa Regional Medical Center in Martinez could save another $2.7 million a year, Weis said, adding that the number is conservative.

Weis singled out Doctors' Cancer Center as a major potential moneymakers for the hospital. The cancer center, which is projected to make a small "contribution margin" -- that's net patient revenue less direct expenses -- of about $375,000 in 2007, could make more than $2.75 million in each of the next three years, according to the draft business plan. That would require more than $4.3 million in capital investment, mostly for a new linear accelerator and radiation therapy improvements, Wellspring found.

Obstetric nurses and their union want Doctors to revive its obstetrics unit to satisfy a community need; the unit closed last year. But Gioia said obstetrics is not a financially viable option in the near-term, although it might be in the future.

Wellspring also studied the feasibility of moving some or all of Doctors' operations to the closed Pinole satellite campus, which is owned by a group of investors. But the consultant found that regulatory issues and the amount of immediate capital investments that would be required would make it prohibitive to reactivate the Pinole campus.

Gioia said updated profit-and-loss figures will be available in June that, combined with public input, will help determine the fate of several of Doctors' programs and services. Decisions and actions need to be taken soon to stop the hemorrhaging of cash, he said.

"For the first time, we can see light at the end of the tunnel," Gioia said.