

Trying to attract paying customers

NATIVIDAD TRAILS RIVAL HOSPITALS IN COMPETITION FOR FULLY INSURED PATIENTS

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Putting everything else aside, Natividad Medical Center's main problem through the years comes down to one awkward fact: It doesn't attract enough patients — especially the fully insured kind.

Without enough revenue from paying patients, hospital executives and consultants say, all the penny-pinching in the world won't make it succeed.

"Anyone can cut a budget," said Alan Samuels, former head of a regional health-planning agency. "The focus must be to increase revenue."

That's difficult if the patients don't come. Hospital officials say a healthy hospital needs to have 75 percent to 80 percent of its beds occupied on average. Natividad has seldom come close.

Under-capacity

In 1975, Samuels' Mid-Coast Comprehensive Health Planning Association warned of Natividad's "declining utilization." In five years, its occupancy rate had dropped from 61.4 percent to 49.5. In 1999, occupancy had shot up to 66 percent, but that's because the county had built a new hospital and it had fewer beds, 159 compared to the old facility's 211. This past January, it was housing an average of 97 inpatients each day — 59.5 percent occupancy. The hospital was staffed, however, for 112 patients — 69 percent occupancy.

For this year, occupancy has averaged just 52 percent.

Occupancy "is not where we've wanted it to be," said Susan Matcham, a member of the hospital's Board of Trustees.

Poor mix of patients

In the hospital industry, not all patients are created equal.

There are the coveted ones who carry private insurance that can pay top dollar. Then there are the seniors covered by the federal Medicare program, which generally pays less. Then there are the poor, generally covered by the state's Medi-Cal program, which pays even less.

And then there are the "medically indigent," usually the working poor, too poor to afford private insurance but too well off to qualify for Medi-Cal. For them, the county picks up the whole tab.

How many of each type a hospital treats is called its "patient mix." Natividad has always longed for a richer mix, with more of the privately insured and the Medicare patients. Natividad Chief Financial Officer

Tim Nguyen said that for privately insured patients, the hospital receives an average of 27 cents to 30 cents of each dollar billed. Medicare pays about 31 cents on the dollar and Medi-Cal pays only 13 cents.

Reimbursement rates vary widely depending on the hospital, case and procedure.

Still, "the feeling is that the more people (on Medi-Cal) you treat, the more money you lose," said Dr. John Clark, Natividad's chief of staff. Medi-Cal also requires heavy paperwork — requiring more clerical staff — and is slow to pay.

Poor go to Natividad

Physicians and administrators at other hospitals get worked up when anyone accuses them of "dumping" Medi-Cal patients and the uninsured on public hospitals such as Natividad. The process of funneling poorer patients to Natividad isn't that straightforward.

Generally, most Medi-Cal patients turn to Natividad for care because they can't find a doctor willing to accept that program's low reimbursement rates. And unlike Monterey County's two other major hospitals, Salinas Valley Memorial and Community Hospital of the Monterey Peninsula, Natividad maintains clinics staffed by general practitioners who will treat the patient, no matter the insurance, or send them to specialists employed by the hospital.

Under the state-mandated Medically Indigent Adult program, the county is also required to treat patients with no ability to pay.

To be sure, Salinas Valley Memorial and Community Hospital do treat Medi-Cal patients and the indigent — just in much lower proportions. Their emergency rooms will treat urgent cases. And they'll handle cases — such as those requiring neurosurgery — that Natividad isn't equipped to handle. But in many cases, once the patient is stabilized, those hospitals ship him back to Natividad.

Salinas Valley Memorial Hospital and Community Hospital get only 7 percent to 10 percent of their billed revenues from Medi-Cal. Natividad, on the other hand, gets 53 percent — up more than a quarter since 1999.

Indigent burden

Covering costs for the medically indigent technically rests with county government, not the county-run hospital. Even so, the hospital loses money. Between 1994 and 2001, the hospital's expenses for treating the

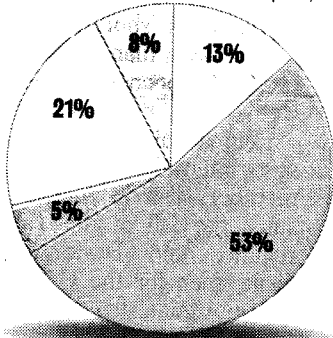
**NATIVIDAD:
Condition Critical**



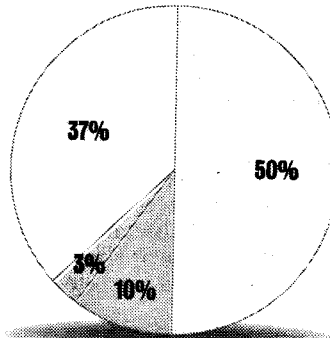
Natividad Medical Center's emergency room fills up one afternoon in August. Natividad relies on a patient base that is predominantly poor, uninsured or underinsured. ORVILLE MYERS/The Herald

Patient mix 2003

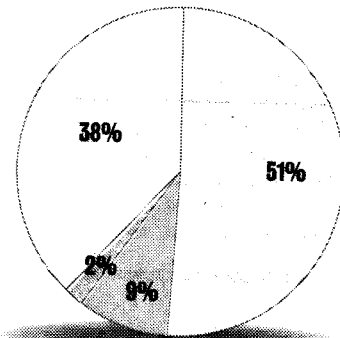
A look at how patients pay for their medical care at three Monterey County hospitals. Patients in the Medically Indigent Adult Program are uninsured and have their bills paid by Natividad and the county.



Natividad Medical Center

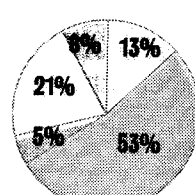
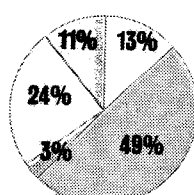
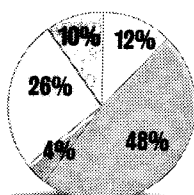
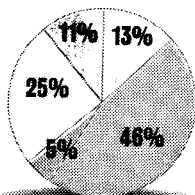
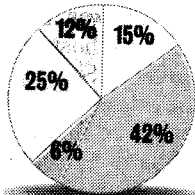


Salinas Valley Memorial Hospital



Community Hospital of the Monterey Peninsula

Patient mix Natividad Hospital '99-'03



medically indigent were \$19 million more than the county provided.

That's due in part to what hospital officials called "mission creep." Health-care workers have been committed to serving all who show up requiring help, so they have relaxed residency requirements.

Because Natividad is stuck with such a patient base, it receives grant funding from the state and federal governments. But that income is unpredictable, leaving Natividad's budget people constantly guessing.

So the key is getting more patients who are privately insured or, to a lesser extent, on Medicare.

Insured go to Salinas Valley

That has been tough. Despite the county's effort to upgrade Natividad by building a whole new hospital in the 1990s, the relatively well-heeled patients of the Salinas Valley flock instead to Salinas Valley Memorial Hospital.

Why? The county hospital stigma, primarily.

Despite marketing initiatives, medical awards and a beautiful new building, it continues to suffer from the outdated image of a crowded, chaotic, substandard facility.

It's a stigma that's largely undeserved. Natividad has received top accreditations, and

local doctors say it is highly respected for its solid medical care.

The county tried to help its own cause by creating a health plan for its own employees that offered deep discounts for those treated at Natividad. But many county workers have opted for a more expensive program that allows them to pick their own doctors and hospital. The county dropped the discount plan in 2001.

Doctors refer to Salinas Valley

"The key to attracting private pay patients is the physician — not the patient," a county committee accurately concluded in 1990. "In the overwhelming majority of cases, patients are admitted to the hospital recommended by their physician."

Most physicians want to work close to home, and many find it too inconvenient to be fully affiliated with more than one hospital — making two runs of rounds, attending two sets of meetings, and so on.

So they are attracted to hospitals with modern equipment, enough nurses and strong support services. And they want amenities for the patients, too. In each category, Salinas Valley Memorial and Community Hospital hold the edge.

"Because of under-funding and under-capitalization, we have less of the

physician-friendly services that make it convenient to perform," said Chief of Staff Clark. "Natividad has up-to-date, modern equipment, but it may not be cutting edge. And . . . if the doctor is hearing that there are billing problems for the patient, he's likely to go to a hospital that's better at it."

Creating a market

Faced with so many variables beyond its control, Natividad has been struggling to do the one thing it can to gain new patients: introduce services no other area hospital offers.

That has been tough in the past because of lack of capital and a cumbersome bureaucracy.

But Natividad recently opened the county's first rehabilitation and nuclear medicine units, and is pushing to upgrade its neonatal intensive care unit, which would allow it to care for sick babies who otherwise might be sent out of the county.

But there's no guarantee, of course, that other area hospitals won't follow suit.

The rival across town

Faced with so many problems, it's no wonder hospital employees keep a close eye on the goings on at the rival Salinas Valley Memorial, better funded with a richer patient base and more connections to local

doctors.

Salinas Valley Memorial is technically a public hospital. It collects about \$2.6 million in property taxes each year from the people in its district, which accounts for almost 1 percent of its net operating income. It operates, however, more like the relatively well-endowed, community-supported nonprofit institution that it is.

Salinas Valley Memorial's 15th anniversary party last month — which shuttled guests to a swanky buffet with free alcohol, live music and prizes — irked Natividad staffers. While they were having to cut budgets and knock on doors to support the Measure Q sales-tax measure, their rich neighbor was living high.

It wasn't so much envy as resentment over the view that Salinas Valley's success comes at the expense of Natividad. It can cherry-pick the wealthier patients and let Natividad care for those unable to pay.

"The reason they're so successful is because we take the non-profitable patients that their doctors can't afford to see," said Natividad's Clark.

In its defense, according to figures from the Hospital Council Monterey Bay Section, Salinas Valley Memorial last year provided \$11.7 million in charity care — such as treatment for those who have no insurance and patients in the Victims of Crimes Program. That's a bit below the \$18 million in charity care Natividad provides, but above the \$8.5 million at Community Hospital and the \$7 million from little Mee Memorial in King City.

And Salinas Valley officials say that in the past few years, they have written off \$674,000 in treatment it has given to patients Natividad referred because it didn't have the specialists to treat them. And in the past few years it has supplied \$300,000 in consulting help to Natividad and has collaborated with Natividad on a number of projects throughout the years.

"We're very complementary to them," said Liz Lorenzi, vice president of physician and business development for Salinas Valley.

Natividad doctors say they do appreciate the help. And they say they don't mind taking Salinas Valley's problematic cases. But in their struggle to get Measure Q passed, they want acknowledgment that Natividad's willingness to care for those unable to pay is an important factor in making Salinas Valley a success.

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