

Weathering a “Perfect Storm” in Health Care

A New Partnership Enables a Rural California Hospital to Remain Catholic

In the 2000 movie *The Perfect Storm*, George Clooney portrays a determined commercial fishing boat captain in the North Atlantic. Clooney’s boat is threatened by severe weather fronts converging directly on the return path to its home port. Faced with running safely from the path of the building storm (thereby losing their abundant catch), on one hand, and returning home through the storm (thereby saving the catch), on the other, Clooney and his crew make a fateful choice. They choose the latter, are capsized by a monster wave, and lose their lives.

In 2006, St. Joseph Hospital, Eureka, CA, which is part of St. Joseph Health System (SJHS), Orange, CA, faced a brewing “perfect storm” fueled by nine converging conditions:

- The hospital served the residents of Humboldt County, CA, a geographically isolated coastal area five and a half hours north of San Francisco; in its service area, median family income was \$33,281.
- The hospital’s monthly operating losses were \$500,000.
- The hospital’s operating cash fund was depleted; its officers had no choice but to draw \$4 million from a \$10 million line of credit that had been extended by SJHS.
- The hospital had \$71 million in long-term debt. An additional, projected \$86 million was needed to construct a new patient tower in order to comply with California seismic safety requirements.
- The hospital had declining inpatient and outpatient volumes, as well as a payer mix heavily

weighted toward Medi-Cal (California’s Medicaid program), self-pay, and other low-reimbursement programs.

- The hospital needed to make significant workforce reductions and implement productivity standards in order to bring the facility in line with industry staffing benchmarks and help stem the financial hemorrhaging.

- The hospital, which was conducting negotiations with its nurses, faced the threat of a strike.

- The hospital was experiencing a mounting bad-debt picture as area employers increasingly shifted to higher co-pay and deductible plans for their employees.

- The hospital’s sponsorship was in question because a proprietary hospital system had expressed its intention to enter into due diligence with SJHS to evaluate purchasing St. Joseph Hospital.

These storm-fueling conditions posed a serious threat to the hospital’s viability and to the coastal region’s economy as well. Fortunately, however, SJHS’s “captain,” President and CEO Deborah Proctor—together with the sponsoring congregation, the Sisters of St. Joseph of Orange—was able to take bold leadership action, partnering with local board, physician, executive, and community leaders to make sure the Eureka hospital did not sink.

INCLUDING THE COMMUNITY

The challenge for all concerned was quite clear—how to sustain a vital health care ministry on California’s North Coast region in light of a most challenging set of circumstances. The fundamental question that system and congregation leadership wrestled with was: “If not St. Joseph Health System, then what?”

This question was especially poignant because the Sisters of St. Joseph of Orange had begun their



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health care ministry in Eureka 86 years before, opening St. Joseph Hospital in response to a 1920 flu epidemic. Since then, the facility had become an integral part of the community: the primary health care provider, the second-largest employer, and a significant supporter of community programs for the poor and vulnerable.

Clearly, decisions concerning the hospital's future would have significant consequences for the community. Because that was so, congregation and system leaders invited community members to participate as active partners in a strategic ownership assessment process.

On April 29, 2006, a retreat was convened to discuss the ownership options under consideration. The participants included the hospital's board members and its executive team, physician leaders from its medical staff, the general superior of the Sisters of St. Joseph of Orange, the chair of the SJHS board, SJHS executive team members, and hospital foundation leaders. Participants agreed that the Humboldt County community was an essential stakeholder and must be actively engaged throughout this process. Although adopting such a strategy had risks, the participants agreed that the mission and values of the organization made it the right thing to do.

THREE OPTIONS

Subsequently, in June 2006, John Gierak, chairman of the hospital's board of trustees, formed a Strategic Ownership Options Task Force and named Jack Irvine, MD, a highly respected internist and community leader, as its chairman.

The task force comprised representatives of SJHS; the local board, executive team, and medical staff; and the local business community. Its charge was to develop a white paper detailing the pros and cons of three different ownership options and present it to the local board. Upon receiving the white

paper, the board would review the pros and cons of the various options and submit a report (with its deliberation notes) to SJHS. The three options were:

- To sell St. Joseph Hospital to a third party. In December 2005, a company called Hospital Partners of America had expressed interest in conducting a due diligence assessment as a step toward the possible purchase of the Eureka hospital from SJHS. Limited due diligence (an exchange of electronic data files only) was conducted, with the understanding that the local community's views would be considered.

- To sell the hospital to the community itself. The task force weighed the pros and cons of creating a hospital tax district that would help underwrite the operating expenses of a community-owned hospital.

- To continue the hospital's sponsorship by SJHS and the Sisters of St. Joseph of Orange. This would necessitate significant philanthropic support from SJHS, including help with the seismic safety requirements, and possible tax support from Humboldt County.

Task force members were promised that all relevant data (other than confidential contractual agreements) would be made available to them as they considered the ownership options. In conducting their financial feasibility and seismic assessments, task force members were provided financial and market data by the hospital's chief financial officer, Harold R. Tool. Dennis Leonardi, chairman of the local board's finance committee, said, "Tool served on the task force and was a valuable, highly credible resource to the group as we studied St. Joseph Hospital's forecasted operating performance through FY 2013, targeted revenue enhancements, and cost saving initiatives." The seismic safety requirement was a difficult issue, Leonardi explained. "Our seismic compliance capi-



tal challenge to fund the construction of a new patient tower projected at \$86.4 million, on top of St. Joseph Hospital's current long-term debt of \$71.8 million, was a major threat to the hospital's long-term financial viability," he said.

The task force obtained input from three key advisory groups in conducting its pro/con assessments on each ownership option. The advisory groups were the Community Health Alliance, comprising health care providers and elected officials in Humboldt and Del Norte Counties; the Physician Advisory Group, comprising doctors in Humboldt County; and the Faith Communities Forum, comprising religious and lay representatives of church congregations in Humboldt County. All told, 76 people participated in this highly inclusive, grassroots assessment process.

FROM SKEPTICISM TO CONSENSUS

As the task force members began their work, fear, anxiety, and skepticism surfaced in their deliberations.

David Ploss, MD, a cardiologist and member of the hospital's Medical Executive Committee, later described his experience serving on the task force. He said, "I was incredibly skeptical, and determined to find out if this grassroots process was real—if, that is, the system and the sisters *really* had no predetermined outcome regarding the future of St. Joseph Hospital. I was certain that a decision had been made to sell the hospital because of its operating losses, damaged relationships (arising, in part, from the purchase and sale of physician practices), and seismic capital needs.

"As our meetings progressed," Ploss said, "it became apparent that the process was open and real. I felt hopeful about our opportunity to influence SJHS' and the sisters' eventual ownership decision. In the end, we arrived at a consensus and forwarded our white paper to the local board for its consideration."

Johnny Cox, RN, PhD, a task force member (and former vice president for mission integration at the hospital) also spoke highly of the process. "It was truly amazing working through the uncertainty," he said, "because our questions far outnumbered readily available answers in weighing the ownership challenges and options. We worked through the typical 'forming, storming, and norming' group process stages in a most extraordinary time. It was an honor and privilege to work with such dedicated, passionate, and committed persons in completing our daunting charge."

Task force members were well aware of what was at stake—the continued access by approximately 150,000 people in Humboldt, Del Norte, and

Trinity counties to both high-quality acute care services and good-paying jobs, jobs that are vital to the regional economy. Task force members persevered through their initial skepticism and mistrust of the process, as well as through the long hours of discussion and debate and next-steps work that were necessary in reaching a consensus.

In the end, the task force arrived at the consensus that only one of the three options was viable over the long term: continued sponsorship by SJHS and the Sisters of St. Joseph of Orange. The task force included this recommendation in the white paper it presented to the hospital's board of trustees. The board adopted the white paper and its major recommendation because it felt compelled to do so. Indeed, board members found the task force's argument so persuasive that, they decided, failing to adopt it would be irresponsible. The board then forwarded the white paper to the SJHS board, together with its own recommendation that the system maintain ownership of the Eureka hospital.

PASSION, COMMITMENT, AND PURPOSE

Proctor invited Irvine, the task force's chairman, task force member Karen Brandvold, and the author of this article to present the local board's endorsement of the white paper directly to the SJHS board at its September 2006 meeting in Orange. In doing so (rather than making the presentation herself), Proctor showed that she understood something very important—that it is vital to assess the passion, commitment, and competence of local leaders in a health care ministry before weighing in on a decision that will, over many years, affect thousands of lives. Simply assessing numbers, constraints, and opportunities is not enough. Proctor knew that St. Joseph Hospital and local leaders would have to partner in new, interdependent ways to keep the mounting "storm conditions" from capsizing the "ship."

THE SJHS CEO FORUM

Before the September 2006 SJHS board meeting, Proctor consulted the CEOs of SJHS' hospital ministries regarding the system's continued sponsorship of St. Joseph Hospital. She made it clear that, if the SJHS board were to approve the white paper's recommendations, *their* hospitals would probably be asked to take on a proportionate share of the financial support that the Eureka hospital would require.

The CEOs appreciated the opportunity to review the white paper and weigh in on its implications. They expressed concern about how such a decision would be received by their own local

boards and executive teams. On the other hand, they also noted that supporting a vital local ministry like the Eureka facility was a ministry calling—a call to support critical mission work in an area of uncommon need.

Larry Ainsworth, CEO of St. Joseph Hospital, Orange, said, “This is part and parcel of who we are and what SJHS and Sisters of St. Joseph of Orange stand for. Yes, it was a challenge presenting the eventual SJHS board decision to our local hospital and foundation boards—we needed to simultaneously assure them that locally raised philanthropic gifts would be maintained in local ministry markets and also that we needed to step up to help one of our ministries in its time of need. Its survival was at stake—and so was the community’s access to quality health care.”

THE SJHS BOARD’S DECISION

Financial considerations weighed heavily in the system board’s discussions. However, strategic mission-effectiveness considerations and the Eureka hospital’s leadership commitment to sustaining its mission carried the day. The SJHS board, in a unanimous vote, decided to:

- Continue sponsorship of St. Joseph Hospital in a new relationship with key constituencies in the region to sustain a vital health care delivery system in Humboldt County

- Take St. Joseph Hospital’s debt, which, as of August 21, 2006, was \$71.8 million, off the hospital’s books and redistribute it among SJHS’ hospital ministries in southern California, west Texas, and eastern New Mexico

- Establish a “challenge” grant in which SJHS promises to match up to \$12.5 million raised by the Eureka hospital and community leaders, the total to be applied toward a projected \$150 million new patient tower, including construction of the tower, equipment, and furnishings

Gierek said he was stunned by the commitment shown by the SJHS board’s decision. “I continue to stand in awe of the SJHS board’s commitment to mission, and, specifically, its willingness to commit the entire system to the support needed to give our local ministry the opportunity to secure its future as a high-quality, mission-driven health services provider and major employer for the North Coast.”

BACK IN EUREKA

“You can’t imagine how incredibly uplifting the news was,” Gierek said. “There were tears of joy and laughter—it really hit home how far we had come in the face of our ‘perfect-storm’ conditions.”

Proctor shared the system’s expectations with the Eureka hospital’s board at its October 2006

board meeting. She made it very clear that the decision for continued SJHS sponsorship of the hospital depended on how well hospital leaders partnered with physicians, elected officials, and community leaders to raise the necessary funds and make good use of them to improve health care service delivery in Humboldt County. In effect, construction of the new patient tower, a new patient rehab unit, and new telemetry-bed wing will bring the hospital campus into full compliance with California’s seismic safety requirements.

What the SJHS board expected as the return on its investment, Proctor said, was responsible stewardship of the gift bestowed on the community. She encouraged the board to continue commissioning strategic task forces to evaluate all clinical service lines at the Eureka hospital and to investigate possible collaboration with Redwood Memorial Hospital in Fortuna, CA, another Humboldt County facility, to integrate service delivery and streamline operations. “At the end of the day, each task force may arrive at consensus recommendations that will be supported by our local and system boards,” Proctor said. “In those cases where consensus cannot be reached or supported by our boards, we will have nevertheless provided a transparent, inclusive process for local community leaders to weigh in with their input and concerns.”

“NEW COVENANT” CEREMONY

On December 18, 2006, a special ceremony marking the new partnership involving the hospital, the community, and other key partners was held at the Eureka facility. Representatives of the Sisters of St. Joseph of Orange; the SJHS board and executive team; the Eureka hospital’s board, medical staff, executive management team, and employees; and the community gathered for a signing ceremony and candle-lighting ritual. The document they signed was called the “New Covenant.” In putting their signatures on it, the various representatives pledged to work together to secure the hospital’s future and the health care future of the community.

The first challenge for all the New Covenant’s signers will be raising the \$12.5 million in philanthropic gifts, grants, and state and federal assistance needed to match the \$12.5 million “challenge” grant from SJHS. But the hospital’s leaders and their partners feel confident that this can be done. Nearly 90 years ago, the Sisters of St. Joseph of Orange bestowed a great gift on Humboldt County by building St. Joseph’s Hospital. The community will now return the favor by helping to make sure that the hospital remains viable for decades to come. ■

JOURNAL OF THE CATHOLIC HEALTH ASSOCIATION OF THE UNITED STATES

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