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St. Joseph top bid for PVH

Health care district to study taking over hospital operations

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After nearly 20 years of operating the publicly owned Petaluma Valley Hospital, St. Joseph Health has emerged as the current front-runner in a bid to retain the helm under a new lease in January 2017.

The Petaluma Health Care District, the public entity that owns the hospital, has suspended closed-door talks with its second finalist, Prime Healthcare Services, to focus its energy on narrowing down the offer from St. Joseph, said Ramona Faith, district CEO.

Prime's bid will remain a viable fallback until those talks are finalized, she said, at which point the district will either resume engagement with Prime or go public with the offer it plans to place on the November ballot for voter approval.

The pivot to St. Joseph is the latest milestone as the multi-year bidding process over Petaluma's only acute care center approaches a public vote, but also comes as the district now looks to study a possible third option of abandoning outside operators altogether and taking control of the hospital themselves.

"We're really focused on the best option for Petaluma," Faith said.

The exact details of the bids will remain under wraps until negotiations are finalized, though Faith acknowledged that the potential disruption that could come from switching providers was one factor in the decision to focus on St. Joseph.

Based in Irvine, St. Joseph Health, a Catholic-based not-for-profit organization, has operated Petaluma Valley on a 20-year lease since 1997. The organization also operates the regional trauma center, Santa Rosa Memorial Hospital, as well as Napa's Queen of the Valley Medical Center.

Petaluma Valley was formerly operated by the district itself, an arrangement often seen in rural areas that desire a hospital but might otherwise fail to attract an outside hospital company. Such arrangements continue today in Sonoma County, where district-run hospitals operate in Sonoma, Healdsburg and Sebastopol.

Results of a district-funded study by consulting firm The Camden Group three years ago essentially dismissed the viability of resuming control of the hospital. Yet several members of the district's elected board noted during last week's meeting that much could have changed in the intervening years, and called for another study of the facility's finances.

“Camden is on record three years ago saying the numbers aren’t there, we can’t take this back. Given the numbers now, there’s a chance they could say, ‘Yes,’” said Robert Ostroff, a former emergency physician at Petaluma Valley and current board member who led a push for the new study.

Indeed, Petaluma Valley is the only district-owned hospital in Sonoma County that reported an operating revenue surplus in its most recent annual financial filing with the California Office of Statewide Health Planning and Development, or OSHPD. The report, which for Petaluma Valley reflects a 12-month period that ended in June 2015, showed that the hospital was self-sufficient in financially supporting its own operations through income from patient care.

Other district hospitals in the county significantly augment their income with money from parcel taxes paid by area residents, a common mechanism that does not currently exist in Petaluma.

Petaluma Valley’s recent financial results notably come as the facility has been under the management of St. Joseph, and not the district itself.

While a detailed analysis is needed to fully judge whether standalone operation could produce the same results, the likelihood seems slim at a time when smaller hospitals around the country have faced major pressure from larger regional facilities and from the expense of compliance with provisions of the Affordable Care Act, said Mark Knight, a Santa Rosa-based consultant for hospitals and other health care providers.

Despite those headwinds, Knight emphasized that it would be impossible to know whether the 80-bed Petaluma Valley could thrive as a solo operation without a hard look at the numbers.

“I myself personally would be shocked if the result of the study came back and said the idea is better to run this yourself instead of linking up with St. Joseph and Memorial, but I do think that’s part of due diligence,” said Knight. “I can see why they’re going through the process. I think they owe it to themselves, and the residents of the district, to look at all options now, before the lease expires.”

Not all members of the district board were as open to the study, describing it as an 11th-hour distraction that was unlikely to generate useful results. The district has indicated that it could move to temporarily extend the lease with St. Joseph in the event that a vote on its preferred option is delayed.

“Regardless of any outcome, of any business analysis, the odds against a stand-alone hospital, the way health care is being transformed, are so high. I can’t imagine a district running a standalone hospital unless it is the only option,” said board member Josephine Thornton, who added that such a transition has been previously estimated to come with a price tag around \$30 million.

The study itself will involve three consultants generating separate feasibility studies, a process that is expected to take one month. Faith said she plans to return to the board next month with the specifics of the plan, including cost. Even if the study continues to indicate that a stand-alone Petaluma Valley was not preferable, the information is likely to bolster the conversation over what the district could realistically expect from a future operator.

“We expect fair market value. But is there more that could be part of that partnership, and could a provider have the capacity to bring more services to our residents?” said Elece Hempel, board president.

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