



## COUNTY OF DEL NORTE BOARD OF SUPERVISORS

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December 12, 2017

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Assemblyman Jim Wood  
State Capitol  
P.O. Box 942849  
Sacramento, CA 94249-0002

### Re: Sutter Health/Sutter Coast Hospital Concerns

Dear Assemblyman Wood,

The Del Norte County Board of Supervisors is writing to request your assistance in addressing a number of concerns regarding Sutter Health and Sutter Coast Hospital in Del Norte County. Sutter Coast Hospital has been a vital community asset for many years; however decisions made in recent years have resulted in negative outcomes that have had a significant effect on our residents and community. Below is a list of concerns, and attached to this letter is a detailed description of the issues:

- 1) Sutter's exorbitant charges as compared to nearby hospitals;
- 2) Sutter's out of "network" contract with EmCare/Envision providing physician staffing for the Sutter Coast Hospital emergency room;
- 3) Sutter's lack of public disclosure, closed meetings, and refusal to release financial and meeting records when requested by Del Norte County and the City of Crescent City;
- 4) Sutter's tax exempt status as a non-profit operating for public benefit.

As you are aware the Del Norte County Board of Supervisors, our partners and residents have voiced concerns in the past in an effort to ensure our community and region enjoy affordable, comprehensive healthcare, and we wish for a collaborative relationship with Sutter Health/Sutter Coast Hospital. We are requesting your assistance in addressing the issues outlined above, and we are prepared to provide you with any additional information and/or answers to questions you may have. We are available to meet at your convenience.

Sincerely,

Chris Howard, Chair  
Board of Supervisors  
Del Norte County, California

Cc. Senator Mike McGuire  
Scott Kernan, CDCR Secretary  
Mitch Hanna, Sutter Coast CEO  
Sarah Krevans, Sutter Health President and Chief Executive Officer  
Michael R. Gaulke, Sutter Health Board of Directors Chair  
Xavier Becerra, California Attorney General

## Summary of Concerns with Sutter Health and Sutter Coast Hospital

Background: In 1985, Sutter Health was invited into Del Norte County by the Del Norte Healthcare District to manage the District owned hospital, with the provision that the hospital be governed by a local Board, even after a new hospital was built. In 1992, Sutter Health arranged the financing to build a new hospital, locally owned and paid for by the newly formed corporation of Sutter Coast Hospital, and governed by a local Board. The land for the new hospital was donated by a local resident, under the stipulation the land be used for an acute care hospital in Del Norte County. For 26 years, the community enjoyed a collaborative relationship with Sutter Health and Sutter Coast Hospital.

In 2011, without any public notification or input, a Sutter Health attorney re-wrote the bylaws of Sutter Coast Hospital. The attorney wrote more than 1300 changes into the hospital bylaws, transferring significant authority from the corporation of Sutter Coast Hospital to Sutter Health (a separate corporation). The new bylaws were the model for Sutter Health's new corporate merger plan, known as "Regionalization," whereby community owned Sutter affiliate hospitals were merged into multi-hospital corporations, entirely controlled by Sutter Health—a fact which the Sutter Health attorney neglected to mention to the Sutter Coast Hospital Board. In 2011, Sutter Health attempted to merge Sutter Coast Hospital into the regional corporation. The Del Norte Healthcare District sued Sutter Health, and was granted a Preliminary Injunction blocking the merger, providing time for other elected officials and thousands of residents to organize additional opposition against the transfer of hospital ownership. In 2013, Sutter Health "postponed indefinitely" its effort to regionalize Sutter Coast Hospital.

In 2013, behind closed doors, Sutter Health executives and the majority of the Sutter Coast Board voted to downsize Sutter Coast Hospital, to qualify for higher Medicare payments under the federal Critical Access Hospital program. A lawsuit opposing Sutter's decision was filed by the widow of the man who had previously donated his land to Sutter Coast Hospital. Elected officials and thousands of residents opposed Sutter's Critical Access decision, because Medicare patients would face triple out of pocket charges under Critical Access, and patients would be required to transfer to other hospitals whenever the Critical Access bed limit was reached. Sutter Health claimed Critical Access was a financial necessity. Following settlement of the lawsuit, and after a newspaper reported Sutter Coast's 2014 profit of \$10.8 million (without Critical Access), Sutter Health withdrew the Critical Access application.

### Current concerns with Sutter Coast Hospital and Sutter Health include:

- (1) **Sutter's high charges for care.** Sutter Coast Hospital, like other Sutter affiliates, charges "above market" rates for care. For example, charges at the closest hospital to Sutter Coast are roughly 50% lower than Sutter Coast's charges. Outpatient imaging tests are also roughly 50% lower at the three other imaging centers closest to Sutter Coast Hospital. All three centers are outside Del Norte County, forcing residents to travel as much as 90 miles for affordable care. Sutter Coast's charges for blood tests are up to 10

times higher than those at a reference laboratory in Crescent City. Sutter Health's charges for care have been featured in numerous articles on healthcare pricing, including a 2017 bestselling book on U.S. healthcare inflation.<sup>1</sup> Sutter is currently defending a lawsuit filed by self-funded health care trust funds, alleging antitrust conduct by Sutter Health. Sutter recently destroyed 192 boxes of evidence which had been requested by plaintiffs.<sup>2</sup>

- (2) **Sutter's exclusive contract with EmCare/Envision to provide physician staffing for the Sutter Coast emergency room.** In 2015, behind closed doors and without public input or notification, Sutter Health chose a new emergency room physician group ("EmCare" or "Envision") for Sutter Coast Hospital. EmCare/Envision's charges were roughly triple those of the prior ER physician group. EmCare/Envision did not accept most local insurance plans as "in network." Due to EmCare's high charges and "out of network" status, patients now routinely receive doctor bills exceeding \$2,000 for brief visits. In 2016, the Del Norte Healthcare District notified Sutter of its opposition to the EmCare contract. EmCare's high charges, out of network billing, and exclusive contract with Sutter Coast Hospital were featured in a 2017 article in the New York Times.<sup>3</sup> In 2017, city and county leaders issued a Joint Resolution to Sutter Coast Hospital, asking the hospital to terminate its EmCare contract.<sup>4,5</sup>
- (3) **Sutter's lack of public disclosure, closed meetings, and refusal to release financial and meeting records despite official public record requests.** The 2017 City/County Joint Resolution also asks Sutter Coast Hospital to release hospital meeting minutes and financial records for public review, and hold regular public meetings to allow for public input regarding hospital operations. A Sutter Health executive replied Sutter does not intend to release hospital meeting minutes or financial records, except as required by law, nor will the Sutter Coast Hospital Board commit to holding any public meetings.
- (4) **Sutter's tax exemption.** The tax code requires all non-profit corporations to operate exclusively for public benefit. Sutter's "above market" charges, closed meetings, refusal to disclose meeting records, attempt to cut beds while raising prices on Medicare patients, tripling of top executive salaries, and exclusive contracts with "out of network" providers such as EmCare, are of no public benefit. Sutter Health and Sutter Coast Hospital operate behind closed doors, as would a private corporation, but at the same time enjoy the privilege of a tax exemption, resulting in billions of dollars of uncollected revenue. A prior study determined the financial benefit to Sutter resulting from its tax exemption exceeds its charity care "losses" by nearly \$300 million per year.<sup>6</sup>

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<sup>1</sup> Elizabeth Rosenthal, M.D., *An American Sickness* (Random House, April, 2017) <https://tinyurl.com/y9rtvz9c>

<sup>2</sup> <http://beta.latimes.com/business/la-fi-sutter-health-destroys-evidence-20171117-story.html>

<sup>3</sup> <https://www.nytimes.com/2017/07/24/upshot/the-company-behind-many-surprise-emergency-room-bills.html>

<sup>4</sup> City of Crescent City Resolution No. 2017-13, adopted April 17, 2017 by unanimous consent

<sup>5</sup> County of Del Norte Resolution No. 2017-022, adopted April 25, 2017 by unanimous consent

<sup>6</sup> <https://www.beckershospitalreview.com/finance/benefits-to-californias-non-profit-hospitals-exceed-charity-care-by-18b.html>