

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**Resolution No. 2005-14**

**Request of the Service Employees International Union for the  
California Health Facilities Financing Authority to support a request for the  
Attorney General's Office to investigate Sutter Health's requirement of the  
Pass Through Savings**

**August 31, 2005**

**PURPOSE OF REQUEST:**

The Service Employees International Union ("SEIU") is claiming that Sutter Health is in violation of Section 15438.5(a) of the California Government Code (the "Authority's Act") namely, that it pass on to consumers the savings from its tax-exempt Authority bonds by lowering hospital prices or contain the rate of hospital price increases. The SEIU is seeking support from the Authority to adopt a Resolution for the Attorney General's Office to investigate Sutter Health's requirement for the Pass Through Savings as described in the Authority's Act.

**BACKGROUND:**

The Authority's Act states: "...that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates....."

In Sutter Health's most recent application submitted to the Authority in 2000, there was no savings associated with this financing since the issue refinanced variable rate debt with fixed rates. In its 1998 and 1999 application, Sutter Health described meeting the pass through savings requirement as:

"Sutter Health's fundamental mission is to enhance the health and well-being of the people in the communities we serve through compassion and excellence. Sutter Health's affiliated physician organizations, hospitals, home care and other programs provide many services to those in need of care, regardless of their ability to pay. Private, not-for-profit healthcare systems such as Sutter Health operate solely for the benefit of the communities they serve. If there are any revenues in excess of expenses, they are not paid out as dividends to share owners because there are no share owners. Any net income is reinvested in Sutter Health's fundamental non-profit mission to enhance access to health care services and improve the health of the communities we serve. The savings resulting from the proposed tax-exempt bond financing will enhance Sutter Health's ability to fulfill this mission and enhance community benefit services (including charity care) in an increasingly competitive health care environment."

The following is a summary of Sutter Health's estimated costs of providing services to the poor and broader community (dollars in millions):

	Years Ended December 31,	
	<u>2004</u>	<u>2003</u>
Services for the poor and underserved	\$330	\$288
Benefits for the broader community	<u>484</u>	<u>361</u>
Total unsponsored community benefit expense	<u>\$814</u>	<u>\$649</u>

Services for the poor and underserved include services provided to persons who cannot afford health care because of inadequate resources and/or uninsured or underinsured, as well as the unpaid costs of public programs treating Medi-Cal and indigent beneficiaries. Cost is computed based on a relationship of cost to charges. It also included the cost of other services for indigent populations, and cash donations on behalf of the poor and needy.

Benefits for the broader community include unpaid costs of providing the following services: treating the elderly, health screenings and other health-related services, training health professionals, educating the community with various seminars and classes, the cost of performing medical research and the costs associated with providing free clinics and community services. Contributions Sutter Health makes to community agencies to fund charitable activities are also included.

Since 1981, the Authority has issued \$1.567 billion in revenue bonds for the benefit of Sutter Health. As of June 30, 2005, Sutter Health has \$596,722,518 in bonds outstanding with the Authority.

### **ISSUE:**

The SEIU is charging that Sutter Health is not in compliance with the Authority's Act citing increased pricing in recent years leading to higher than statewide consumer prices throughout the Sutter hospital system. Further, the SEIU references the California Public Employees Retirement System dropping 12 Sutter hospitals from its Blue Shield HMO network for high costs and failure to meet quality standards.

The SEIU is therefore requesting that the Attorney General's Office investigate if Sutter Health is meeting the requirements of the Authority's Act and provide a legal opinion as to any violations, and further seeks the Attorney General's Office guidance on actions available to the Authority in order to remedy any such violations. See Attached Memorandum for additional information from the SEIU.

### **RECOMMENDATION:**

Staff recommends that the Board seek advice from the Attorney General's Office about what findings the Authority would need to make to find any borrower out of compliance with the Authority's Act pass through savings obligation, what process it needs to follow to make such findings, and what remedies exist in law if a borrower is found to be out of compliance.

## MEMORANDUM

TO: CHFFA Board Members  
FROM: Service Employees International Union  
DATE: August 15, 2005  
RE: SUTTER HEALTH'S VIOLATION OF "SAVINGS PASS-  
THROUGH" REQUIREMENT OF CHFFA ACT

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Sutter Health is violating a key requirement of the CHFFA Act – namely, that it pass on to consumers the savings from its tax-exempt CHFFA bonds by lowering hospital prices or containing the rate of hospital price increases.

### Requirements of CHFFA Act Regarding Consumer Pricing:

"It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates. It is not the intent of the Legislature in enacting this part to encourage unneeded health facility construction."

*California Government Code Section 15438.5(a)*

Furthermore, CHFFA's "Bond Financing Program Application" requires applicants to describe how they will fulfill the "savings pass-through" requirements of the CHFFA Act: "Tab 5. Passing Through Savings: Section 15438.5 of the California Government Code requires savings resulting from the proposed tax-exempt bond financing be transferred to the public via lower costs for delivery of health services. Describe how you intend to pass on the savings." (page A-5 of the August 2005 edition of application)

### Sutter's Outstanding Bond Debt Issued through CHFFA:

Sutter Health is the second-largest holder of CHFFA bond debt, with \$597 million in outstanding CHFFA bond debt.<sup>1</sup> Sutter accessed the bulk of this bond debt during the late 1990s and 2000, and used much of it to merge and acquire independent hospitals. According to state data, a number of these hospitals sharply increased prices following their acquisition by Sutter.

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<sup>1</sup> California Health Facilities Financing Authority, List of 15 Hospitals and Hospital Systems with Largest Amount of Outstanding CHFFA Bond Debt as of May 26, 2005, Provided via correspondence from Jack Zorman, CHFFA General Counsel, June 1, 2005.

## **Sutter's Track Record on Consumer Prices:**

Rather than using its tax-exempt CHFFA bond debt to hold down consumer prices, Sutter Health has sharply increased its prices in recent years. Sutter's prices have now reached levels that far exceed those of other California hospitals.

- At CalPERS's request, Blue Shield conducted a 2004 analysis of more than one million paid claims and determined that Sutter hospitals charged prices 80 percent higher than the statewide average, and 60 percent higher than the Northern California average. Moreover, Blue Shield found that Sutter hospitals were seven of the ten most expensive hospitals in Northern California when adjusted for patient acuity.<sup>2</sup>
- Blue Cross identified a similar pattern in its 2004 analysis covering approximately 280,000 patients who are participants in CalPERS' Blue Cross PPO plans. The average cost of paid claims at Sutter hospitals was 73 percent greater than the average cost of all other CalPERS paid claims in the state.<sup>3</sup>
- A more recent Blue Cross analysis of paid claims data from all of Blue Cross's large employer groups found similar patterns. Covering the 12-month period ending April 2004, the analysis found that 71 percent of the Sutter facilities examined were more expensive than nearby hospitals selected by Blue Cross for comparison purposes. "In some cases, Sutter facilities charged two and even three times more than the comparison hospital for comparable admissions. The acuity-adjusted cost of Alta Bates Medical Center was nearly 200 percent higher than the comparison facility while Marin General Hospital's performance was 136 percent higher."<sup>4</sup>
- A 2005 report by the California Health Care Coalition described the results of an outside analysis of gross charge rates at Sutter hospitals. "The California Works Foundation purchased an analysis by Massachusetts-based MediQual, a national health data analysis firm, which used state hospital discharge data to compare the severity-adjusted cost performance of 19 Sutter hospitals with all other Northern California hospitals. In the aggregate, the analysis shows that these Sutter facilities charged more and that the difference was statistically significant. MediQual estimated the excess charges for all discharges assessed at the 19 Sutter hospitals to equal \$758 million, or 13 percent higher than expected, based on the severity-adjusted performance of non-Sutter hospitals in Northern California."<sup>5</sup>
- In 2005, CalPERS eliminated 22 hospitals – 12 of which were Sutter hospitals – from its Blue Shield HMO network, citing high costs and the hospitals' failure to meet

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<sup>2</sup> Blue Shield of California 2004 CalPERS Pricing Presentation, May 8, 2003, p. 31.

<sup>3</sup> May 27, 2004 letter from Steven S. Scott, General Manager, Blue Cross of California, Public Entities Large Group Division to Jarvio Grevious, Assistant Executive Officer, Health Benefits Branch, CalPERS, Re: Sutter Health Hospitals.

<sup>4</sup> California Health Care Coalition, "High Prices, Questionable Quality: A Program to Put Patients First in California Hospitals," April 2005, pp. 7-8.

<sup>5</sup> California Health Care Coalition, "High Prices, Questionable Quality: A Program to Put Patients First in California Hospitals," April 2005, p. 8.

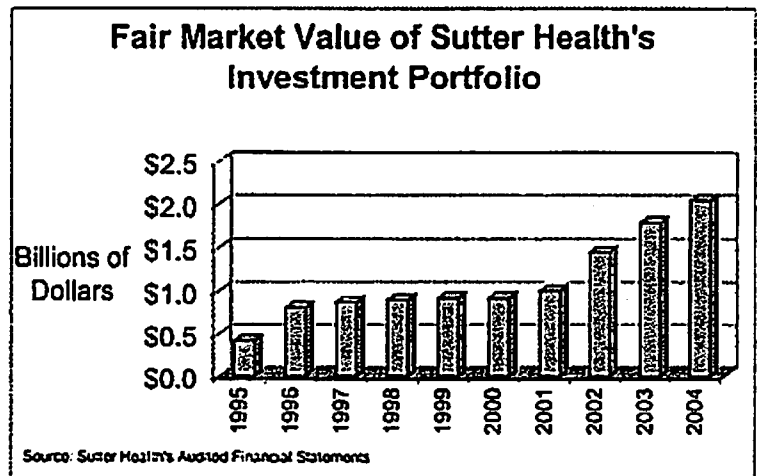
quality standards. CalPERS estimates that its elimination of the Sutter hospitals will save approximately \$36 million to \$50 million in annual health expenditures. In explaining its action, CalPERS reported that hospital prices were the biggest driver of CalPERS' skyrocketing health insurance premiums, which increased 55 percent during a three-year period and jeopardize the health coverage of 1.1 million state employees, retirees and their dependents. According to CalPERS, Sutter's pricing practices were particularly egregious. CalPERS eliminated more hospitals from Sutter than from all remaining California health systems combined.

While records indicate that Sutter's prices for insured patients are exceedingly high, the prices it charges to uninsured patients are even higher.

- Court records indicate that Sutter hospitals have routinely forced uninsured patients to pay prices that are 300% higher than those paid by insured patients for the same exact services.<sup>6</sup> For example, court records indicate that Sutter's California Pacific Medical Center charged one uninsured patient \$9 for a single aspirin.<sup>7</sup>
- In 2004, Sutter patients filed three class-action lawsuits against the company for price-gouging uninsured patients and subjecting them to aggressive debt collection practices, which included suing uninsured patients in Superior Court, seizing money from their bank accounts and threatening to place liens on their homes.<sup>8</sup> While overpricing uninsured patients, Sutter spends far less than the average private hospital in California on charity care. In 2002, Sutter hospitals spent only 0.6% of its net patient revenues on charity care, substantially less than the statewide average of 1% spent by private hospitals.

### Sutter's Track Record on Profits:

As a result of these sharp price increases, Sutter has experienced record profitability, earning nearly \$1 billion in profits during the past two years. In 2003, Sutter hospitals together earned an operating profit margin of nearly 10 percent, approximately eight times the statewide average. In 2002, profit margins reached a stunning 33 percent at Sutter Tracy Community Hospital and nearly 20 percent at California Pacific Medical Center,



<sup>6</sup> Health Access and SEIU Local 250, "Your Money or Your Health: Discriminatory Pricing and Aggressive Debt Collection Practices by Sutter Health in San Francisco," May 2004, p. 5.

<sup>7</sup> Health Access and SEIU Local 250, "Your Money or Your Health: Discriminatory Pricing and Aggressive Debt Collection Practices by Sutter Health in San Francisco," May 2004, p. 5.

<sup>8</sup> Jef Whitehead v. Sutter Health, Superior Court of San Francisco County, Case No. 04434647, September 14, 2004.

Sutter's largest hospital and one of the largest hospitals in California.<sup>9</sup>

Sutter's extraordinary profits have allowed it to assemble a massive \$2 billion investment portfolio. During the past three years alone, Sutter's operations have produced so much cash that it purchased nearly \$1 billion in investments.<sup>10</sup> In 2003, Sutter Health paid record compensation of \$2.3 million to its CEO Van Johnson – a 62% increase from the prior year. His compensation package included two bonuses totaling more than \$900,000.<sup>11</sup>

### **Sutter's Description of How It Passes on Savings from CHFFA Bonds:**

CHFFA requires applicants for bond financing to respond to the following question:

"Section 15438.5 of the California Government Code requires savings resulting from the proposed tax-exempt on financing the transferred to the public via lower costs for delivery of health services. Describe how you intend to pass on the savings."

The following is Sutter's response to this question as contained in its application for Series 1998A Bonds (\$175 million).<sup>12</sup> Sutter used identical language in responding to the same question for its Series 1999A Bonds (\$138 million).

"Sutter Health's fundamental mission is to enhance the health and well-being of the people in the communities we serve through compassion and excellence. Sutter Health's affiliated physician organizations, hospitals, home care and other programs provide many services to those in need of care, regardless of their ability to pay.

"Private, not-for-profit healthcare systems such as Sutter Health operate solely for the benefit of the communities they serve. If there are any revenues in excess of expenses, they are not paid out as dividends to share owners because there are no share owners. Any net income is reinvested in Sutter Health's fundamental non-profit mission to enhance access to health care services and improve the health of the communities we serve. The savings resulting from the proposed tax-exempt bond financing will enhance Sutter Health's ability to fulfill this mission and enhance community benefit services (including charity care) in an increasingly competitive health care environment." *Source: Sutter Health Application for Financing to CHFFA for "Series 1998A Bonds," January 1998, p. 33.*

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<sup>9</sup> Office of Statewide Health Planning and Development, Hospital Annual Financial Data, 2002 & 2003.

<sup>10</sup> Ernst & Young, "Sutter Health: Audited Financial Statements," years ended 2001 through 2004, p.5.

<sup>11</sup> Sutter Health, IRS Form 990 for FY 2003.

<sup>12</sup> Of the \$166.5 million in bonds proceeds, Sutter planned to spend \$65.6 million for the purchase of Eden Medical Center. Following Sutter's acquisition of the Eden Medical Center (EMC), consumer prices at EMC increased sharply.

**Proposed Resolution for CHFFA Board:**

**REQUEST FOR CALIFORNIA ATTORNEY GENERAL'S GUIDANCE ON SUTTER HEALTH'S COMPLIANCE WITH "SAVINGS PASS-THROUGH" REQUIREMENT OF CHFFA ACT**

WHEREAS, a central goal of the California Health Facilities Financing Authority is to enhance the health and wellbeing of California residents by providing taxpayer-subsidized financing to nonprofit and public health care institutions to meet public health needs;

WHEREAS, Section 15438.5(a) of the CHFFA Act states that it "is the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates;"

WHEREAS, CHFFA's "Bond Financing Program Application" requires applicants to describe how they will fulfill the "savings pass-through" requirements of the CHFFA Act: "Tab 5. Passing Through Savings: Section 15438.5 of the California Government Code requires savings resulting from the proposed tax-exempt bond financing be transferred to the public via lower costs for delivery of health services. Describe how you intend to pass on the savings." (page A-5 of August 2005 edition of application);

WHEREAS, Sutter Health is the second-largest holder of CHFFA bond debt, with \$597 million in outstanding CHFFA bond debt as of May 26, 2005;

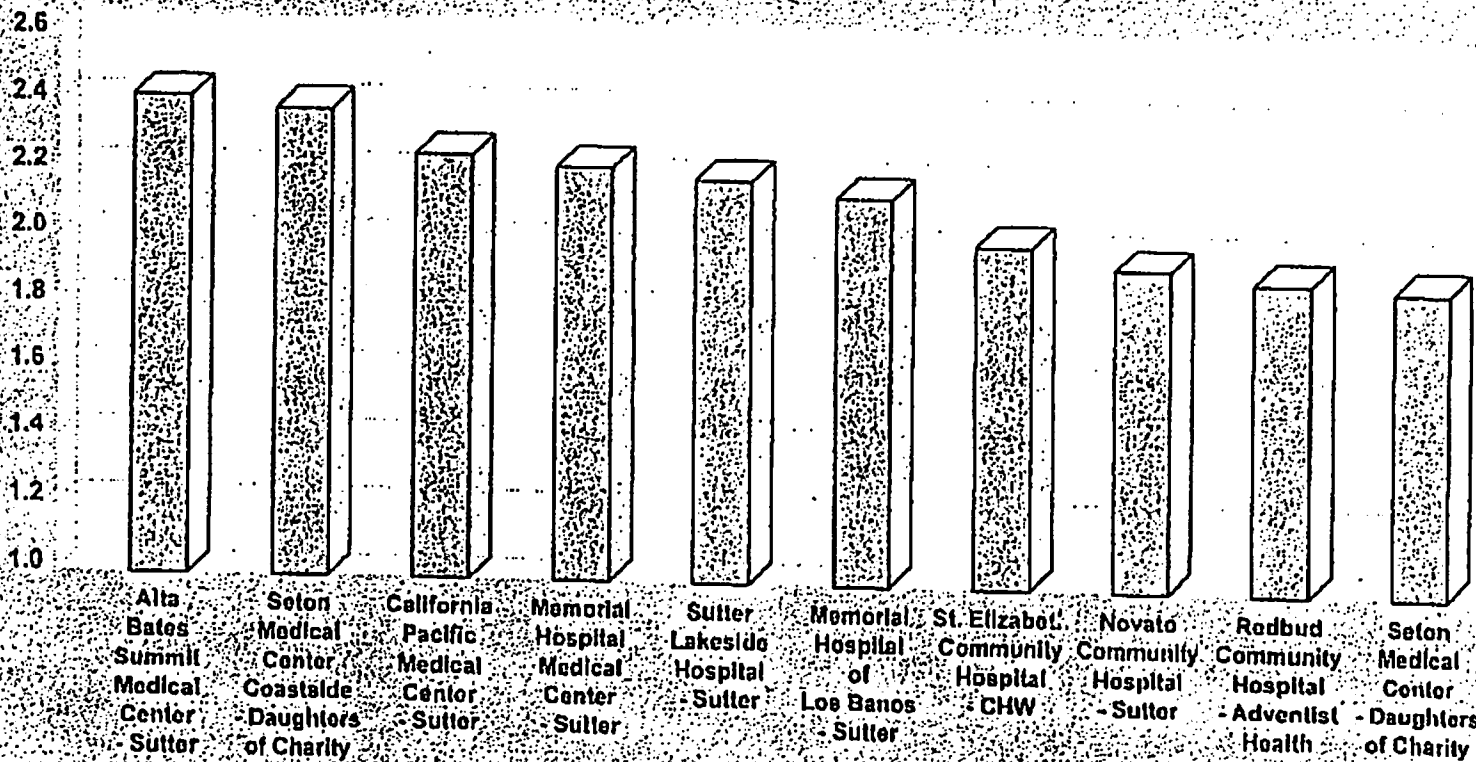
WHEREAS, numerous recent analyses of hospital paid claims data performed by Blue Shield California (on behalf of the Public Employees Retirement System) and Blue Cross indicate that Sutter Health hospitals charge prices 73 to 80 percent higher than the statewide average, and 60 to 62 percent higher than the Northern California average. Moreover, Blue Shield found that Sutter hospitals were seven of the ten most expensive hospitals in Northern California when adjusted for patient acuity;

WHEREAS, the California Public Employees Retirement System (CalPERS) – the largest purchaser of health care in California – recently removed nearly half of Sutter Health's hospitals from one of its health plans due to the Sutter hospitals' extraordinarily high prices and their failure to meet CalPERS quality standards. Due to high prices, more Sutter hospitals (12 facilities) were removed from the CalPERS health plan than were hospitals from all other California hospital systems combined (10 facilities);

WHEREAS, the CHFFA Board is duty-bound to enforce the provisions of the CHFFA Act by ensuring that savings are passed through to California consumers, especially in this era of skyrocketing health care prices that have left health care coverage beyond the reach of millions of Californians;

RESOLVED, that the CHFFA Board requests that the California Attorney General provide it with a legal opinion on whether Sutter Health's actions have violated the requirements of the CHFFA Act and furthermore seeks the Attorney General's guidance on the range of actions available to the Board in order to remedy any such violations.

# Most Expensive Northern CA Hospitals



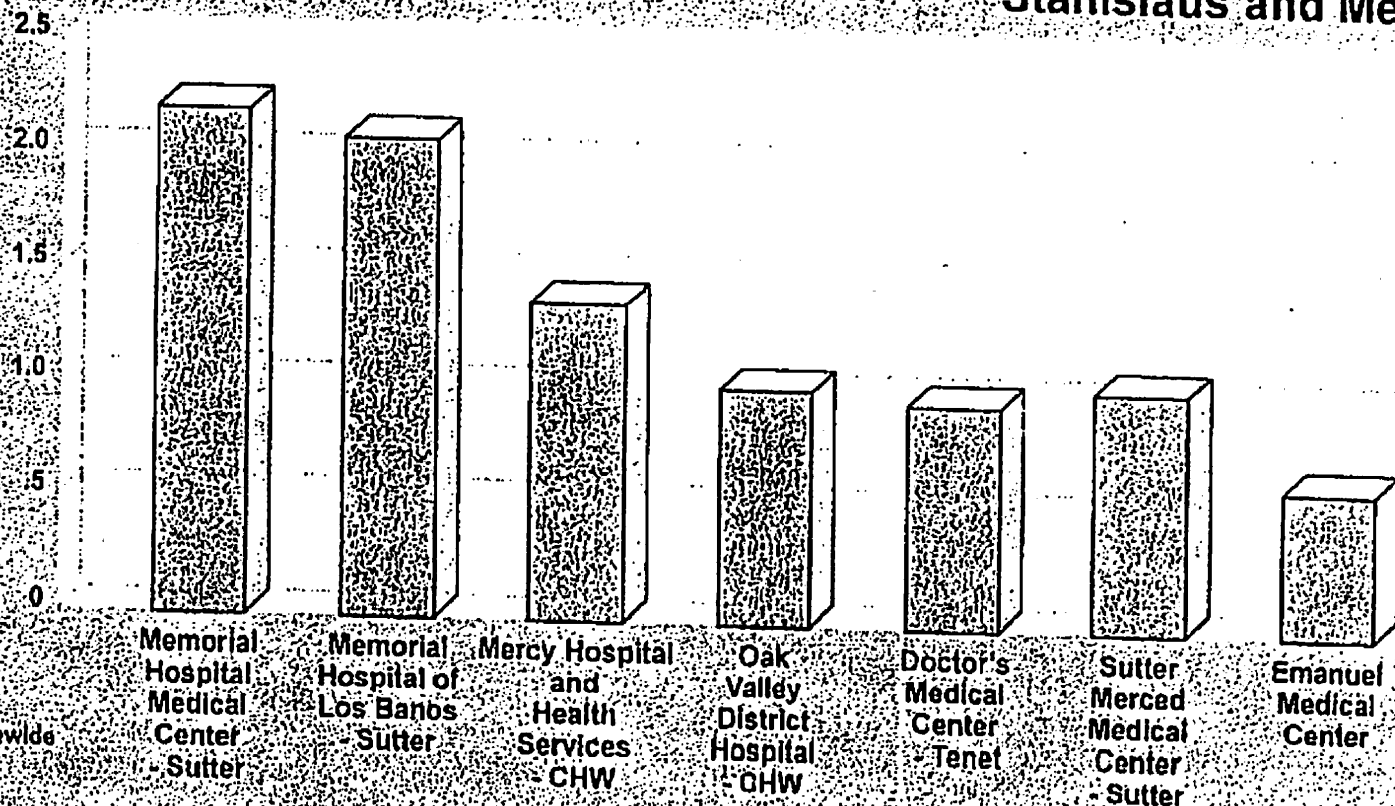
\* Based on statewide average of 1.0





# Variation of Hospitals within a Region

Stanislaus and Merced



\* Based on statewide average of 1.0





Steven Scott  
General Manager  
Public Entities, Large Group Division

May 27, 2004

Mr. Jarvio A. Grevious  
Assistant Executive Officer  
Health Benefits Branch  
California Public Employees' Retirement System  
400 P Street  
Sacramento, CA 95814

Re: Sutter Health Hospitals

Dear Jarvio:

This letter summarizes the results of an analysis we conducted to compare the average cost of hospital care incurred by the PERSCare and PERS Choice Preferred Provider Organization (PPO) plans at Sutter Health hospitals throughout California. The analysis is based on the inpatient and outpatient expenses of Basic plan participants. CalPERS members participating in Medicare supplement plans are not included in the analysis. The data summarizes the hospital expenses paid by the CalPERS PPO plans during 2003. The results shown represent the experience of the CalPERS population only, and do not make representations of the experience of other employer or individual health plans administered by Blue Cross of California.

The conclusions of our hospital cost analysis for the CalPERS population are:

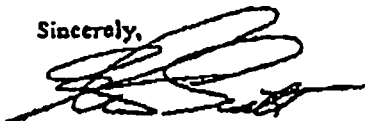
1. **Statewide Average** The average cost of claims paid for CalPERS PPO Basic plan participants at Sutter Health hospitals is 73% greater than the average cost of all other hospital claims paid on behalf of CalPERS PPO Basic plan participants in the State of California, excluding Sutter Health hospitals.
2. **Northern California Average** The average cost of claims paid for CalPERS PPO plan participants at Sutter Health hospitals is 62% greater than the average cost of all other hospital claims paid on behalf of CalPERS PPO Basic plan participants in Northern California, excluding Sutter Health hospitals.

Mr. Jarvio A. Grevious  
May 27, 2004  
Page 2 of 2

The CalPERS Board of Administration has elected to exclude a number of hospitals, and certain affiliated medical groups, from its network of facilities under the Blue Shield HMO plan effective January 1, 2005, for enrollees who are not covered by Medicare. The Board's decision secures the ability of CalPERS constituents to continue to have access to a health plan choice that offers comprehensive health care protection at an affordable price. The Board also recognizes that some CalPERS members will desire access to one or more of the facilities that will be excluded from the network of available providers. For that reason, the Board elected to continue to make available the full network of hospitals and physicians that are participating in the Blue Cross of California PPO network, under the PERSCare and PERS Choice health plan options. We offer our assurance to CalPERS and its constituents that our staff will be available to your members who change health plan options, to provide assistance throughout their transition to ensure that their access to health care facilities is made available without interruption.

Please do not hesitate to contact me should you have any questions.

Sincerely,



Steven S. Scott,



October 4, 2004

Sally Covington  
Director  
California Works Foundation  
600 Grand Avenue, Suite 140  
Oakland, California 94610

**Re: Sutter Health Hospitals**

Dear Sally:

Attached for your review is the analysis that was promised relative to the costs associated with Sutter facilities.

Of the list of Sutter hospitals, Sutter Memorial (003894), Laurel Grove (050095), California Pacific Medical Center (050208), Mills (050302) and Sutter Warrack (050728) have too small a case volume to provide a valid analysis, and have been excluded.

All this data is derived from our Hospital MCM system, which calculates hospital DRG case-mix adjusted performance measures for all BCC hospitals. This involves calculating the average cost per DRG for all our hospitals state-wide, and then comparing the weighted average cost per case for a specific hospital versus the state-wide average. The "Performance Ratios" we provide show the ratio of cost for the specific hospital to the "expected" cost derived from all other hospitals. A ratio higher than 1.0 indicates the hospital is more expensive than expected.

The attached spreadsheet has the following columns:

Sutter MedID

Sutter Facility (Hospital Name)

Sally Covington

-2-

October 4, 2004

**Sutter Performance Ratio (Payment Per Case).** For example, the first listed Sutter hospital (Peninsula Hospital) has a cost performance ratio of 1.46, which means average cost per case for this facility was 46% higher than we would expect based on the state-wide average for this exact mix of DRGs.

**Sutter Relative Weight.** This is an index of DRG case-mix severity provided by CMS as part of the DRG grouper/pricer. Higher numbers indicate more severe case-mix. For Peninsula Hospital, this is 1.13, indicating a severity higher than average.

**Other Performance Ratio.** In this example, hospitals in the same geography have a cost performance ratio of 1.64 which is higher than the Sutter facility. Note, however, that the Relative Weight for the other hospitals is also higher (1.52) indicating they have a more severe case mix of patients. (The DRG case-mix adjustment procedure is designed to account for these differences, but it is not perfect, and it is useful to understand the differences in case-mix of the comparison hospitals.)

**Ratio of Sutter to Other Hospitals.** This is simply the Sutter Payment per Case Ratio divided by the other hospital Payment Per Case Ratio. If this is higher than 1.0, then the Sutter hospital is more expensive than the other hospitals. In general, these ratios are higher than 1.0, reflecting the high costs for the Sutter facilities.

Please let me know if you have any questions. My telephone number is (818) 234-2597.

Best regards,

Richard Mahoney  
Regional Vice President  
Labor Trust Funds

RM:tc

Enclosure

Sutter Medid	Sutter Facilities	Sutter Hospital Average Cost/Statewide average cost
050007	Mills PENINSULA	1.46
050008	CPMC - DAVIES	1.85
050014	SUTTER AMADOR HOSPITAL	1.70
050043	ABSMC-SUMMIT CAMPUS	1.45
050047	CPMC-PACIFIC	1.61
050055	ST LUKES HOSPITAL	0.96
050101	SUTTER SOLANO	1.39
050108	SUTTER GENERAL HOSPITAL	1.72
050131	NOVATO COMMUNITY	1.13
050264	SAN LEANDRO HOSPITAL	0.50
050291	SUTTER SANTA ROSA	1.29
050305	ABSMC-ALTA BATES/HERRICK	1.74
050309	SUTTER ROSEVILLE	1.85
050313	SUTTER TRACY	0.98
050360	MARIN GENERAL	1.62
050417	SUTTER COAST	1.06
050476	SUTTER LAKESIDE	2.15
050488	EDEN MEDICAL CENTER	1.17
050498	SUTTER AUBURN FAITH	1.18
050523	SUTTER DELTA	1.12
050528	MEMORIAL LOS BANOS	1.32
050537	SUTTER DAVIS	0.80
050557	MEMORIAL -MODESTO	2.02
050714	SUTTER MATERNITY	0.80
		1.37

**Marin Healthcare District**  
**Options for the Future of Marin**  
**General Hospital**

**Preliminary Strategic Assessment**  
**June 18, 2005**



# Financial ratios demonstrate Sutter's market leverage in Marin and elsewhere

	Fiscal Years Ended in Calendar Year				Change
	2000	2001	2002	2003	
<b>Gross Charges per Adjusted Day</b>					
MGH	\$ 5,592	\$ 6,266	\$ 7,399	\$ 9,392	68%
Districts	\$ 1,994	\$ 2,172	\$ 2,461	\$ 2,968	49%
California	\$ 3,903	\$ 4,565	\$ 5,326	\$ 6,161	58%
Sutter	\$ 4,760	\$ 5,851	\$ 6,861	\$ 7,650	61%
All Non Profit	\$ 4,425	\$ 4,636	\$ 5,390	\$ 6,232	41%
<b>Commercial Payment/Cost</b>					
MGH	1.30	1.14	1.39	1.42	9%
Districts	1.15	1.18	1.22	1.27	10%
California	0.99	1.15	1.20	1.26	28%
Sutter	1.08	1.23	1.39	1.58	45%
All Non Profit	0.96	1.14	1.20	1.26	32%
<b>FTEs per Adjusted Occupied Bed</b>					
MGH	6.00	6.58	5.82	5.99	
Districts	3.66	3.53	3.15	3.64	
California	5.25	4.94	4.41	5.09	
Sutter	4.64	4.84	4.26	4.94	
All Non Profit	5.77	5.26	4.68	5.38	
<b>Nurses per Adjusted Occupied Bed</b>					
MGH	1.65	1.88	1.73	1.58	
Districts	0.87	0.87	0.88	0.92	
California	1.31	1.26	1.26	1.31	
Sutter	1.22	1.31	1.33	1.34	
All Non Profit	1.47	1.34	1.33	1.37	



# YOU DON'T HAVE TO PAY SUTTER PRICES TO RECEIVE QUALITY CARE

## *Important Message to CalPERS Members*

**S**ure, Sutter Health provides a high quality of care. But we believe some of Sutter's prices for health care are higher than they need to be.

Sutter charged 60 percent more in 2003, on average, than comparable Northern California hospitals and 80 percent more than the statewide average.\* For example, Sutter Solano Hospital charges about \$2,500, on average, to treat chest pain compared with about \$1,400 at comparable area hospitals.

Hospital costs in California are rising at almost twice the average national rate.

### **Something has to be done. We are committed to:**

- Demanding better accountability and transparency – from providers, hospitals, doctors and pharmaceutical suppliers.
- Addressing chronic conditions like asthma, diabetes and heart disease that account for most of our total program cost.
- Exploring ways to deliver the most effective prescription drugs at market-beating prices.
- Engaging our members to have healthy lifestyles.
- Seeking national solutions to the health care crisis.



# CalPERS wrestles with Sutter

The pension fund and the hospital chain are debating several plans that could restrict access and cut fees.

By Lisa Rapaport  
BEE STAFF WRITER

Trustees of the California Public Employees' Retirement System said Tuesday they will move ahead with plans to restrict state workers' access to Sutter Health next

year unless the 26-hospital chain takes steps to reduce its fees.

CalPERS staff members said they had made "considerable progress in negotiations with Sutter" since last month, when the 1.2 million-member pension fund first unveiled a proposal to trim \$72 million from next year's premium costs by dropping coverage for state workers and retirees at 45 hospitals statewide.

The most savings — about \$53 million — would come from CalPERS' cutting ties with 15 hospitals owned by Sutter, includ-

ing four in the Sacramento area.

This plan, along with two others sketched out for the first time Tuesday, could be approved by CalPERS as soon as next month.

In the meantime, contract talks will continue among CalPERS, Sutter, and Blue Shield of California, the only statewide HMO plan offered by the pension fund as an alternative to Kaiser Permanente.

CalPERS hopes to use its leverage as the nation's third-largest purchaser of health benefits to lower its spending on hospital

care, which in recent years has become the biggest driver of steep HMO premium increases paid by CalPERS and other organizations that buy coverage for workers.

CalPERS saw an average 13 percent increase in premiums in 2003, following an average 25 percent increase in 2002.

"The option of the status quo with these hospitals doesn't solve anything," said Sidney Abrams, chairman of the CalPERS health committee. "If we don't solve this thing with Sutter now, all we're doing is

► CALPERS, page D2

## CalPERS: Pension fund should make decision soon

► CONTINUED FROM D1  
putting off the problem we're still going to face down the road."

While nothing is final, CalPERS staff members said Sutter has "agreed in concept" to permit Blue Shield to exclude 15 Sutter facilities from its HMO network available to CalPERS members next year — along the lines of the proposal unveiled last month.

In addition, CalPERS staff members suggested a new proposal Tuesday that would allow state workers and retirees to continue using all 26 Sutter facilities next year if the hospital chain agreed to discount its price to treat CalPERS members. Pension fund staff members said they had an "agreement in concept" with Sutter for a "scenario under which this might be possible."

CalPERS also said it had explored a third option, to which Sutter had not agreed, that might set up two separate Blue Shield HMOs for CalPERS members next year. One would exclude coverage for Sutter and have lower premiums, while the other would cost more but include all Sutter hospitals.

Sutter spokesman Bill Gleeson agreed that discussions with CalPERS were "progressing and would continue." But he also raised concerns about how many patients who are using Sutter doctors might need to switch to new physicians as a result of CalPERS' attempts to cut its premium costs.

"Clearly, our preference would be to keep the entire network of 26 hospitals intact for CalPERS members," Gleeson said. "We are working to achieve that. If we do not succeed, we believe a significant number of patients will be disrupted as a result."

If the pension fund decides to drop some, but not all, Sutter hospitals next year, local hospitals that might be off-limits to CalPERS members include Sutter Roseville Medical Center, Sutter Davis, and Sutter General Hospital and Sutter Memorial Hospital in Sacramento.

• If CalPERS decides to create a lower-priced HMO that excludes all 26 Sutter hospitals, some local patients also would lose access to Sutter Auburn Faith Hospital.

CalPERS must settle its talks with Sutter and firm up its list of covered hospitals before it can get final rate quotes from Blue Shield for its 2005 premiums. In order to approve HMO rates in May, pension fund trustees should make any changes in hospital coverage next month.

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The Bee's Lisa Rapaport can be reached at (916) 321-1005 or

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Section

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Oakland Tribune

# Hospitals' merger brings big hike in mammogram charge

**M**OST EVERYONE knows it's recommended that women over 40 have a regular mammogram. Just a few days ago we were reminded again of the benefits. This time Swedish researchers found the cancer screening procedure lowers the death rate of breast cancer by one-fifth.

Fortunately, usually there is some form of health insurance — either employer, Medicare or MediCal — that pays for all or part of the cost of a mammogram. The bigger problem is getting women to go for the screening.

But what is the actual cost of a mammogram? Leslie Jones of Oakland tried to find out, and frankly still isn't exactly sure despite weeks of in-

vestigating.

Her inquiry began non-eventfully when she went to Summit hospital for a mammogram, just as she has for several years.

The X-ray photos taken by the technician seemed fine and later she received a letter



confirming the initial screening.

Of course Jones was pleased, but what really caught her attention was the billing she got later.

The charge shown on her bill? \$926. Almost \$1,000. There had to be a mistake.

she thought. Actually there were many. She was told twice by Summit staff the billing of \$926 was correct but Jones continued to believe it had to be incorrect.

After making numerous phone calls to Summit she got a different story.

Some background: Alta Bates/Summit Medical Center is the official name of the merged hospitals, with two campuses,

Summit Campus, and Alta Bates Campus. The name changes took place when the hospitals merged.

Jones learned the merger had caused other changes as well.

But she didn't find out until she called Leslie Paine, di-

rector of the Summit's Marksstein Breast Center, that

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## Stinnett: Mammograms went from \$60 to \$226 in one year

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when the two hospitals merged they agreed charges should be the same at both campuses.

Since Alta Bates had a higher charge than Summit for a mammogram, the hospitals adopted Bates' higher charge. Why aren't we surprised?

So Jones asked the question she couldn't get an answer to before. What does a mammogram cost?

Paine told her the bill should have been \$226, not \$926, as she was initially billed. That was because of another mistake, she was told by another hospital source. It happened because a bundle of bills was mistakenly mailed out.

Jones wonders why — since they were known to be mailed

mistakenly — weren't new bills with the correct information sent immediately?

Still curious about the \$226 billing, Jones went to her personal 2001 medical file. There she found the Summit bill for her mammogram of 2001 when she had the same health insurance, the same screening mammogram, and the same X-ray equipment, as she did this year.

The total charge in 2001 was \$60. In one year, the charge more than tripled to \$226.

You may be thinking that since the mammogram came out fine and she was fully covered by health insurance what's her worry?

Jones worries because she sees how charges are rising astronomically, even as more

women are being urged to have mammograms.

The price does matter, even if most women are covered by health insurance of some sort. It matters because insurance is largely based on the charges made by the hospital. If charges go up, then the insurance plan will have to pay more.

If insurance costs get very high, then employers will have to pay more and employees will likely have to pay more of the costs. The same could happen with government health insurance plans such as MediCare and MediCal.

Mammogram charges shouldn't be based on mergers or similar circumstances, says Jones.

Charges should be based on

actual costs, and could go higher as technology advances and smarter radiology equipment becomes available.

It's difficult enough to get many women to get a mammogram. Let's not scare them away with excessive charges.

Email Peggy Stinnett at [pstinnett@ang-newspapers.com](mailto:pstinnett@ang-newspapers.com).

## Health coverage weighs heavier Unions unite for battling hospitals to help workers struggling with costs

By KEN CARLSON  
BEE STAFF WRITER

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Scott Stevenson said that only a few years ago his job gave him a decent wage, a pension and health benefits.

This year, however, the Pittman High School custodian gave up the family health coverage offered by his employer. The premiums were costing him \$800 a month, he said, because the school district today covers only a small percentage of the cost.

Stevenson, 33, enrolled his two daughters in Healthy Families, the state's health plan for the working poor. But it doesn't cover an operation his 5-year-old needs to remove enlarged tonsils, and he said he can't afford to pay for the surgery.

His wife has no coverage at all.

Stevenson said he is one of many school employees overwhelmed by health care costs.

"We have a lady in our office who has to take the insurance because her daughter has a rare disease," he said. "She can't go anywhere else to work because she has a pre-existing condition."

Stevenson's union

representatives will continue to haggle with the district over how much of the premiums come out of employees' pockets and how much from district coffers.

But the union also is taking another tack it hopes will be more effective in reining in costs. It has joined a coalition of labor organizations that intends to take a stand against hospitals it believes are overcharging.

"We know that employers are getting hurt as much as the unions are," said Rose Roach, field director at the California School Employees Association office in Stockton.

"We have full-time workers who can't afford to buy insurance through their school districts."

The CSEA is part of the newly formed California Health Care Coalition, an assortment of union groups representing more than 500,000 school employees, carpenters, ironworkers, operating engineers and other workers.

The coalition says costs of hospitalization are a big reason for health care's soaring price tag, and it hopes to contain costs through negotiations with Sutter Health and other hospital groups.

"There is strength in numbers," said Carl Goff,

treasurer of Operating Engineers Local 3. The union instituted copays last year to shore up a deficit in its health fund, he said.

The coalition's strategy is similar to that of the California Public Employees Retirement System. Last year, CalPERS dropped 38 hospitals from its largest managed care plan in an effort to contain costs. Thirteen were Sutter hospitals.

Trustee cites 40% increase

Geraldine Senack, a trustee for the United Food and Commercial Workers national health fund, said its costs increased 40 percent after it included Sutter's Memorial Medical Center in its Modesto-area preferred provider network. The union health fund covers thousands of winery employees in the Northern San Joaquin Valley.

As an example of overpricing, she said, Sutter charges about \$6,300 for a cancer drug that usually costs \$350.

"We made the decision to drop Sutter from our program, and we are now back down to single-digit increases," she said.

The union health fund, which has also battled Tenet Healthcare's Doctors Medical Center over what it considered excessive billings, was able to negotiate a lower-

cost deal with DMC, representatives said

Besides the pricing issues, the coalition says it will require hospitals that care for its members to meet quality standards.

The unions cite poor quality ratings given to some Sutter facilities by independent monitoring groups. As an example, Memorial of Modesto received a poor rating for coronary bypass operations from HealthGrades.com because of the number of deaths after surgery.

Bill Gleeson, a spokesman for Sutter, the nonprofit health system based in Sacramento, countered that its charges are in line with competitors based on a study it commissioned.

"Our organization needs to achieve a (profit) margin of 5 percent in order to keep pace with technology," he said. "Despite labor costs and other expenses, we have been fortunate to have achieved our goal the last couple of years."

Evaluation may not have all data

Memorial issued a statement in response to the HealthGrades evaluation. The statement said the Web site uses hospital-generated data for 2001 through 2003 and it might not consider contributing causes for the deaths, such as patients who had illnesses besides heart disease.

Since its own reporting can influence the grades it receives, the hospital started last year giving more attention to documenting cases, the statement said

The coalition's executive director, Sally Covington,

said it will look at other hospital groups besides Sutter. But she doubted that Sutter will be easily coaxed to the bargaining table.

"All I know is they were intransigent in their negotiations with CalPERS," she said. "They were not willing to justify their costs."

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# CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

Philip Angelides, Chairman  
*CA State Treasurer*



## Bond Financing Program Application



TAX-EXEMPT FINANCING FOR  
PUBLIC AND PRIVATE, NON-PROFIT  
HEALTH FACILITIES

915 Capitol Mall, Suite 590  
Sacramento, California 95814  
Phone: (916) 653-2799  
Fax: (916) 654-5362

**TAB 5.**

**CONTRACTS AND LICENSES**

- A. Provide a general discussion of your health facility's (or health system's) contracting with Medi-Cal, Medicare and significant private payers.
  
  
  
  
  
  
  
  
  
  
- B. Provide the following contractual information for each health facility being financed:
  - 1. Medicare contract expiration date \_\_\_\_\_  
Medi-Cal contract expiration date \_\_\_\_\_
  - 2. Describe services provided for Medicare and Medi-Cal.
  
  
  - 3. If the health facility does not have a Medi-Cal contract, provide an explanation (e.g. currently in negotiation, non-contracting area, etc.). If the contract has expired, provide a brief statement on the status of negotiations to renew the contract.
  
  
  
  
  
  
  
  
  
  
- C. List the type(s) of licensure of the health facility(s) to receive financing.

**PASS THROUGH SAVINGS**

Section 15438.5 of the California Government Code requires savings resulting from the proposed tax-exempt bond financing be transferred to the public via lower costs for delivery of health services. Describe below how you intend to pass on these savings.

**Sutter Health  
California Health Facilities Financing Authority  
Application for Financing  
January 1998**

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**13 Passing on Savings**

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Sutter Health's fundamental mission is to enhance the health and well-being of the people in the communities we serve through compassion and excellence. Sutter Health's affiliated physician organizations, hospitals, home care and other programs provide many services to those in need of care, regardless of their ability to pay.

Private, not-for-profit healthcare systems such as Sutter Health operate solely for the benefit of the communities they serve. If there are any revenues in excess of expenses, they are not paid out as dividends to share owners because there are no share owners. Any net income is reinvested in Sutter Health's fundamental non-profit mission to enhance access to health care services and improve the health of the communities we serve. The savings resulting from the proposed tax-exempt bond financing will enhance Sutter Health's ability to fulfill this mission and enhance community benefit services (including charity care) in an increasingly competitive health care environment.