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The Future of Healthcare in Rural California

the Sutter Health's "Regionalization" Plan

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In rural California, a David vs. Goliath battle over the future healthcare is in its final stages. The story began in 2009, when Sutter Health Corporation, a multibillion dollar healthcare management firm affiliated with 24 locally owned hospitals, acted to transfer ownership of the hospitals into regions, a process which Sutter Health termed "Regionalization." Under the plan, local hospital Boards of Directors were dissolved and replaced with Regional Boards, appointed by Sutter Health. So far, 22 local hospital Boards in Northern California were convinced to transfer hospital ownership to Sutter Health, although in Santa Rosa, the local hospital did so in exchange for guaranteed representation on the Regional Board. In Crescent City, Sutter Health executives are attempting to transfer ownership of Sutter Coast Hospital ("SCH") to Sutter Health's West Bay Region. Sutter's tactics, and their plans for Sutter Coast Hospital, have united the community in opposition.

During their attempt to convince the local hospital Board to transfer hospital ownership to Sutter Health's West Bay Region, seven executives of Sutter Health provided demonstrably false information to the hospital Board, County Board of Supervisors, hospital employees and physicians, and the community at large. For example, when asked if local representation could be guaranteed, Sutter West Bay Region President Mike Cohill stated to the SCH Board that local representation was never provided to local hospitals. Mr. Cohill neglected to mention the guarantee of local representation to Sutter Medical Center of Santa Rosa, even though it is a matter of public record that Mr. Cohill arranged guaranteed local representation, and the paperwork bears his signature.

Sutter Health also provided one attorney, an employed executive of Sutter Health, to provide legal advice to two different corporate entities (Sutter Health and Sutter Coast Hospital), as the SCH Board was deliberating whether to dissolve themselves and transfer hospital ownership to Sutter Health. This attorney also wrote over 1300 changes into the bylaws of SCH, which strengthened the powers of Sutter Health at the expense of SCH, and were approved by the SCH Board in a single meeting, following minimal discussion. Thus, one attorney represented two parties during the bylaws re-write and the transfer of ownership of SCH, without explaining his employment relationship to the SCH Board, nor obtaining their consent to simultaneously represent two parties during an asset transfer. The office of the California Attorney General is currently reviewing that information.

If Sutter Health succeeds in their effort to take ownership, all decision making authority of SCH will be made in San Francisco, 350 miles away. The first decision facing the SCH Board is whether to downsize the hospital by 50% to qualify for increased Medicare reimbursement

under the federal “Critical Access” program. Critical Access was funded by Congress to maintain access to care in rural areas, but Sutter Health’s intended use of the program will increase costs to patients and to Medicare, while decreasing access to care. Sutter Health’s own consultant estimated 247 patients would have required emergency transfers out of Crescent City in 2011, had Critical Access been implemented. Due to SCH’s remote geography, patients are nearly always transferred by fixed wing aircraft, the cost of which averages over $40,000, and is borne by the patient.

Sutter Health claims Critical Access is necessary to stem for financial losses, but for 24 consecutive years, SCH was profitable. SCH only began reporting losses two years ago, after Sutter Health fired the hospital CFO. For over two years, SCH has operated without a CFO, in violation of the California Corporations Code and the hospital bylaws, which require SCH to employ its own CFO. In 2012, Sutter Health declared net profits of $735 million.

Every elected body in Del Norte County, including the County Board of Supervisors, City Council, Sheriff, United Indian Health Service (representing seven local Native American tribes), and over 3,000 local residents have provided written opposition to Sutter Health’s plans for their community. Nevertheless, Sutter Health refuses to listen. Despite formal requests from the Board of Supervisors, Sutter Health refuses to release SCH meeting minutes or financial data. Instead, Sutter Health arranged a “strategic options” study for SCH, and invited 15-18 local residents to participate on a confidential steering committee for the study. Despite community calls for transparency and inclusion, the steering committee composition, meeting times, places, and content, all remain confidential.

Sutter Health claims they implemented Regionalization to make their health care system “more flexible and efficient for patients,” yet Sutter Regional President Mike Cohill has been unable to offer any examples of how Regionalization improves efficiencies—Regional supply chains and centralized work centers already exist, without Regionalization. In fact, Regionalization transfers all decision making authority away from local communities and eliminates the right of local hospital Boards to negotiate management contracts with companies other than Sutter Health. Thus, Regionalization empowers Sutter Health at the expense of the hospitals Sutter has long advertised, and sought donations for, under the banner of “community based.” By eliminating choice among local Boards, Regionalization also increases Sutter Health’s control over patient care. According to healthcare attorney John Harwell, Esq., Regionalization violates California law protecting physician autonomy and self-governance. For Sutter Health, Regionalization brings control, not efficiency, over healthcare markets and patients.

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