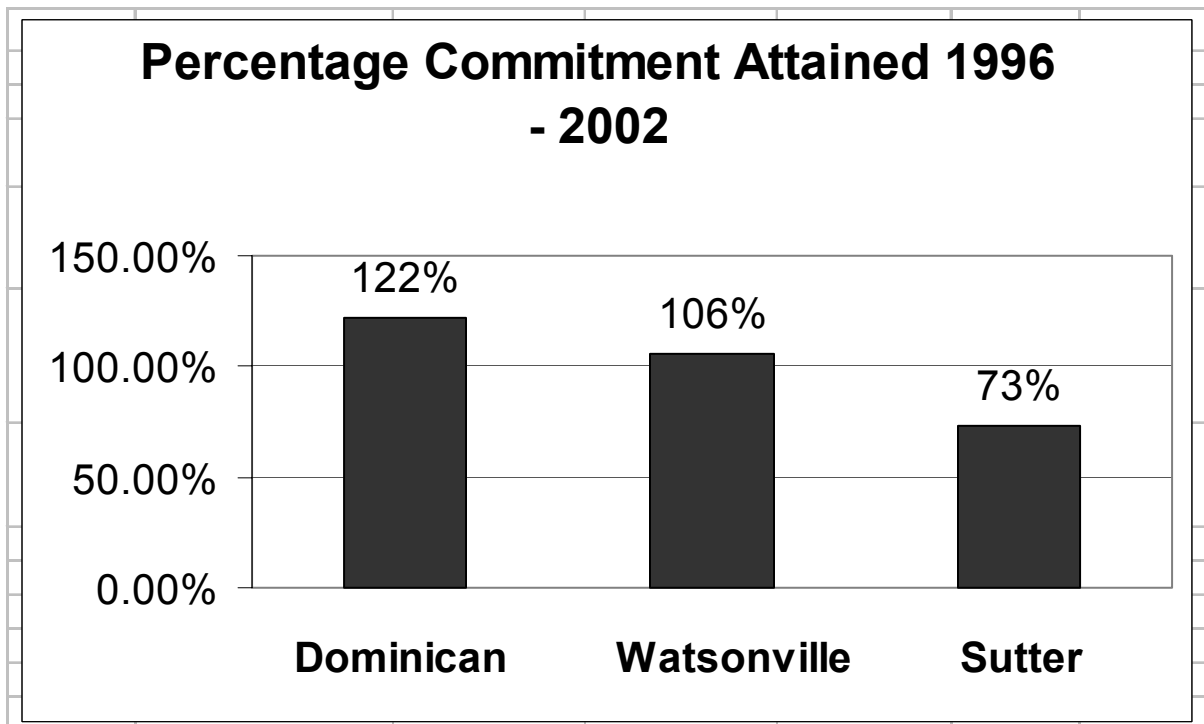


Hospitals and Charity Care in Santa Cruz County

Synopsis

Santa Cruz Dominican Hospital (Dominican Hospital), the Santa Cruz Maternity and Surgery Center (Sutter Hospital) and Watsonville Community Hospital (Watsonville Hospital), signed an Access to Medical Care Agreement (AMCA) with Santa Cruz County (SCC) to equalize the charity and bad debt provided by each hospital. Only one hospital, Sutter Hospital, has consistently failed to comply with the intent of the AMCA. As private institutions, the hospitals are not ordinarily under the Grand Jury's purview. However, they came under scrutiny because the county contracts with them to provide public health services.



Definitions¹

Bad Debt: Care rendered to patients who are able, but fail to pay for services.

¹ Janet P. Sutton, Meredith Milet, and Bonnie Blanchfield, "The Role of Private Hospitals in the California Healthcare Safety Net: A Comparison of Charitable Contributions Reported by For-Profit and Non-Profit Hospitals in 1998," California Healthcare Foundation, 3 (June 2002): 2.

Charity: Care rendered to patients who are unable to pay for services and for which there is no expectation of payment from public or private sources.

Uncompensated Care: The sum of charity care and bad debt.

Background

Americans established the first hospitals during the eighteenth century to treat the poor and the insane of any socioeconomic group.² During the late nineteenth century, paying surgical patients entered hospitals as the knowledge of the importance of sterility measures necessitated hospitalization. Throughout the twentieth century the number of reasons for hospitalization escalated. The county public hospitals continued the tradition of caring for the poor. Private hospitals, many of which were affiliated with religious groups, also provided uncompensated care as part of their charitable mission. With the advent of private medical insurance in the 1930s, hospitals became more profitable. Although private for-profit hospitals existed, they constituted a small minority. The majority of private hospitals chose to be classified as non-profit and provided charity care in return for not paying taxes.

Section 17000 (1933) of the California Welfare and Institutions Code required counties to provide an indigent healthcare system. County hospitals and outpatient clinics provided the bulk of these services for the poor. In 1966 with the advent of Medicare and Medicaid, the poor who qualified for these programs could choose to utilize private hospitals. Since the federal and state governments promised to reimburse hospitals for the full cost of health services provided to Medicare and Medicaid patients, private hospitals welcomed these patients. They would now be fully compensated for patients formerly written off as charity cases. As the poor qualified for Medi-Cal (the Medicaid program in California) and Medicare, the number of patients utilizing the Santa Cruz County General Hospital declined. In 1973 the Santa Cruz County Board of Supervisors, with the approval of the local medical society and the three private non-profit hospitals, (Dominican, Community and Watsonville) decided to close County Hospital. The Supervisors contracted with Dominican Hospital to care for the poor who did not qualify for Medi-Cal or Medicare. The two county outpatient clinics continued to see the poor. The Supervisors also established the Medical Care Program. It paid the hospitals and physicians for emergency medical services for the poor who did not qualify for or opted out of Medi-Cal (undocumented persons, transients, and inebriates). The Medical Care Program also paid for the maternity care of undocumented women.

As the costs of the state- and federally-funded Medicaid program escalated, federal and state governments cut Medicaid reimbursement rates and no longer paid the full cost of services provided by the hospitals. In the 1980s the federally funded Medicare hospital

² Santa Cruz County built its first county public hospital during the late nineteenth century.

program followed with similar cuts. In 1982 California increased the requirements for Medi-Cal eligibility and only those persons on welfare could qualify for Medi-Cal. Thus, the state transferred to the counties the responsibility for the healthcare of the uninsured working poor who had been classified as medically indigent. In exchange the state promised to help fund 70% of the program for the medically indigent.

In 1983 the county established the Medi-Cruz program to replace the Medical Care Program for the poor. Despite the escalating costs of medical care, the Santa Cruz County Board of Supervisors has not increased Medi-Cruz funding since its inception in 1983.

In the early 1990s the state changed the source of healthcare funding for the medically indigent. The Realignment fund, which consisted of sales taxes and vehicle licensing fees, now funded Medi-Cruz and other social programs. The state also allowed the counties to enact utility taxes and jail booking fees to be used for the same purposes. Over the next 17 years, a total growth of less than 1.5% in Realignment funding occurred. In 2002 the unincorporated areas of the county repealed the utility tax, which decreased funding for social programs. The Health Services Agency (HSA) responded to the increased cost of providing healthcare by restricting eligibility and benefits for Medi-Cruz patients.

Medicare and Medicaid initially proved to be a financial windfall for private hospitals. This resulted in the increase of for-profit hospitals, but more importantly the non-profit hospitals received government funds for medical services they previously had written off as part of their community responsibility for charity. After the federal and state governments realized that they could no longer afford to pay for the full costs of providing medical insurance, they decreased reimbursements. Private non-profit hospitals convinced state governments to allow them to write off “losses” of the governmentally insured programs, as well as charitable care, in exchange for their tax-exempt status.

Since 1971 the California Office of Statewide Health Planning and Development (OSHPD) has required non-profit hospitals to submit a variety of reports. The California Association of Hospitals and the California Association of Catholic Hospitals sponsored Senate Bill 697 (1994) to clarify the charitable requirement that non-profit hospitals were expected to provide. Non-profit hospitals also convinced the state to use the broader category of community benefit, instead of charity, to help fulfill their tax-exempt status. Community benefit included: charity (free care to those unable to pay), bad debt (those able to pay, but refusing), and other programs (such as healthcare education programs and free healthcare screenings). As a result of the bill’s passage, OSHPD requires all private non-profit acute care hospitals, including psychiatric hospitals, to submit yearly reports to document their community benefit and uncompensated care (bad debt and their

“losses” from the government insurance programs). However, problems persist because of a lack of consensus on how charity care is measured.³

In addition to the state’s requirement for community benefit documentation, in 1993 Santa Cruz County created its own requirement, the Access to Medical Care Agreement (AMCA), which will be in effect until 2010. In 1992 Sutter Health announced its plans to build a hospital in Santa Cruz. Dominican Hospital and Watsonville Hospital opposed the idea, primarily because they questioned the need for another hospital. They cited the lack of an emergency room and intensive care unit as an important concern for Sutter’s patients. The Sutter Hospital hearings before the Board of Supervisors occurred in 1993. According to the County Health Services Agency, the lack of an emergency room for Sutter Hospital was the impetus for the Access to Medical Care Agreements. The HSA was concerned that without such an agreement, Sutter Hospital would siphon off more than its share of paying patients and burden Dominican Hospital and Watsonville Hospital with more charity patients.⁴ Representatives of Dominican Hospital, Watsonville Hospital, and Sutter Health and the Board of Directors of Sutter Hospital each signed an agreement in 1993. The Santa Cruz County Board of Supervisors approved the plans for Sutter Hospital in 1994.

Terms of the AMCA

Unlike the state’s requirement for community benefit and the allowance of government insurance “losses” to be classified as uncompensated care, the AMCA substituted charity for community benefit and did not allow “losses” from government insurance plans. Hospitals had two options:

1. They could spend at least 5.5% of their net operating expenses as charity care, exclusive of the governmental supported insurance “losses.”
2. They could spend 7.0% of the hospital’s net operating expenses as uncompensated care, which included charity care and bad debts, exclusive of the governmentally supported insurance “losses.”

If hospitals did not meet the AMCA option for either charity or a combination of charity and bad debt, they had two ways to “cure the situation.”

³ Attempts (Assembly Bill 2276 in 2000 and the Attorney General’s Report in March 2001) have failed to determine standardized criteria for charity care. Janet P. Sutton, Meredith Milet, and Bonnie Blanchfield, “The Role of Private Hospitals in the California Healthcare Safety Net: A Comparison of Charitable Contributions Reported by For-Profit and Non-Profit Hospitals in 1998,” California Healthcare Foundation, 3 (June 2002): 2, p. 1.

⁴ Studies have demonstrated that almost 60% of charity care admissions take place through hospital emergency rooms. “Who Receives Inpatient Charity Care in California,” California Healthcare Foundation, (H Series) 3 (August 2003) p. 3.

1. They could make “a direct cash and/or in-kind contribution to a charitable, health related organization and/or medical services benefiting indigent and/or low-income county residents.”
2. They could document that “it has incurred direct costs associated with an on-going, non-charge charitable health or hospital service (American Institute of Certified Public Accountants defined), such as operating a ‘Free Clinic.’”

If the hospitals did not fulfill these requirements, they “shall pay to the County the difference between the total amount of Funds identified in the Plan and the actual amount of Funds spent. This amount shall be paid to the County no later than sixty days following the end of the Plan period established.” The deficit money was to be used by Santa Cruz County “to provide additional healthcare services for indigent patients.”

The hospitals’ AMCA report “shall be accompanied by a report from the hospital’s auditors.”

A Historical Summary of the Hospitals in Santa Cruz County

1. Sutter Hospital:

Sutter Hospital opened in 1996 and is currently licensed for 30 beds. Sutter Hospital, the Santa Cruz Medical Clinic, and the Visiting Nurses Association constitute parts of the non-profit Santa Cruz Medical Foundation (SCMF). The SCMF in turn is part of the non-profit Palo Alto Medical Foundation (PAMF). The PAMF is affiliated with the non-profit Sutter Health, which is based in Sacramento. Sutter Health serves as the umbrella organization for a non-profit network of community-based health care providers in Northern California. Sutter Health “supports more than two dozen locally run acute care hospitals as well as physician organizations; medical research facilities; region-wide home health, hospice and occupational health networks; and long-term care centers.”⁵

According to the Santa Cruz Medical foundation, the Santa Cruz Medical Clinic physicians are independent contractors, and their income is determined as a percentage of the Santa Cruz Medical Foundation’s budget. The Santa Cruz Medical Foundation’s affiliation with Sutter Health also has financial benefits. “Sutter Health guarantees that money is available to fund the operating and capital budgets of its affiliates.” In exchange for affiliation, most Sutter Health affiliates pay “a flat fee and 1.57 % of expenses.” The affiliates also benefit through savings in medical professional liability premiums and the purchasing of supplies and equipment.⁶

⁵ Sutter Health, Santa Cruz Medical Foundation, Palo Alto Medical Foundation Web sites.

⁶ Marin General Hospital Web site.

2. **Dominican Hospital:**

Dominican Hospital currently has 375 licensed beds. In 1941 the Adrian Dominican Sisters arrived in Santa Cruz to start the 28-bed Sisters Hospital. In 1949 the Sisters established the 49-bed Santa Cruz Dominican Hospital on Soquel Avenue. In 1967 the 150-bed Dominican Hospital opened at its current location on Soquel Drive. In 1973 the Santa Cruz County General Hospital (despite its relatively new 1967 building) was closed (except for mental health patients) after a contract was negotiated with Dominican Hospital to take over the hospital needs of the medically indigent patients who traditionally utilized the county hospital. As part of the 1980s hospital trend to consolidate, Dominican Hospital joined Catholic Healthcare West in 1988 and shortly thereafter bought the Santa Cruz Community Hospital.

3. **Watsonville Hospital:**

Watsonville Community Hospital (WH) is currently licensed for 106 beds. The original non-profit Watsonville Hospital signed the AMCA in 1993. In 1998 the for-profit Community Health Systems (CHS) bought Watsonville Hospital. They agreed to comply with the AMCA as part of their purchase agreement.⁷ CHS is headquartered in Tennessee and currently owns 73 hospitals in 22 states. Their hospitals are primarily in rural areas, such as Watsonville.

Scope

The Grand Jury confined this study to researching and investigating how the hospitals in Santa Cruz County have complied with the county's Access to Medical Care Agreement.

Fieldwork

Sources

Interviewed:

Local healthcare administrators.
Local hospital administrators.

⁷ The Grand Jury asked for a copy of the purchase agreement, but was not able to obtain it.

Reviewed:

Charles E. Rosenberg, The Care of Strangers: The Rise of America's Hospital System, (The Johns Hopkins University Press, Baltimore, 1987).
Rosemary Stevens, In Sickness and in Wealth: American Hospitals in the Twentieth Century, (The Johns Hopkins University Press, Baltimore: second edition, 1999).
Robert and Rosemary Stevens, Welfare Medicine in America: A Case Study of Medicaid, (Transactions Publishers, New Brunswick: second edition, 2003).
"Charity Care and the California Healthcare Safety Net: Project Hope Center for Health Affairs," California Healthcare Foundation, (2003).
Hospital Council of Northern California (HCNC) Policy and Procedure Guidelines To "The Identification, Assessment and Reporting of Charity Care Services," (March 1989).
Report on the Uninsured and Access to Healthcare, (Prepared by the County of Santa Cruz Health Services Agency, January 23, 2001).
Budgets for the Santa Cruz County Health Services Agency.
Office of Statewide Health Planning and Development (OSHPD) Reports for Dominican Hospital, Watsonville Community Hospital, and Sutter Maternity and Surgery Center.
Access to Medical Care Agreement.
Access to Medical Care Agreement reports.
Miscellaneous Health Services Agency documents.
Miscellaneous Dominican Hospital documents.
Santa Cruz County Board of Supervisors minutes.

Web sites:

Sutter Health.
Santa Cruz Medical Foundation.
Sutter Maternity and Surgery Center.
Marin General Hospital.
Dominican Hospital.
Watsonville Community Hospital.

LexisNexis Search: Medical Foundations.

Deering's California Codes Annotated Avoiding the Legal Minefields of Integrated Systems" (Matthew Bender & Company, 2003).
Avoiding the Legal Minefields of Integrated Systems.
Medical Clinic Foundation.
Gorges, Gregory, Esq. State of California, Department of Consumer Affairs,
"Nonprofit Medical Foundations-A Corporate Practice of Medicine Problem?"

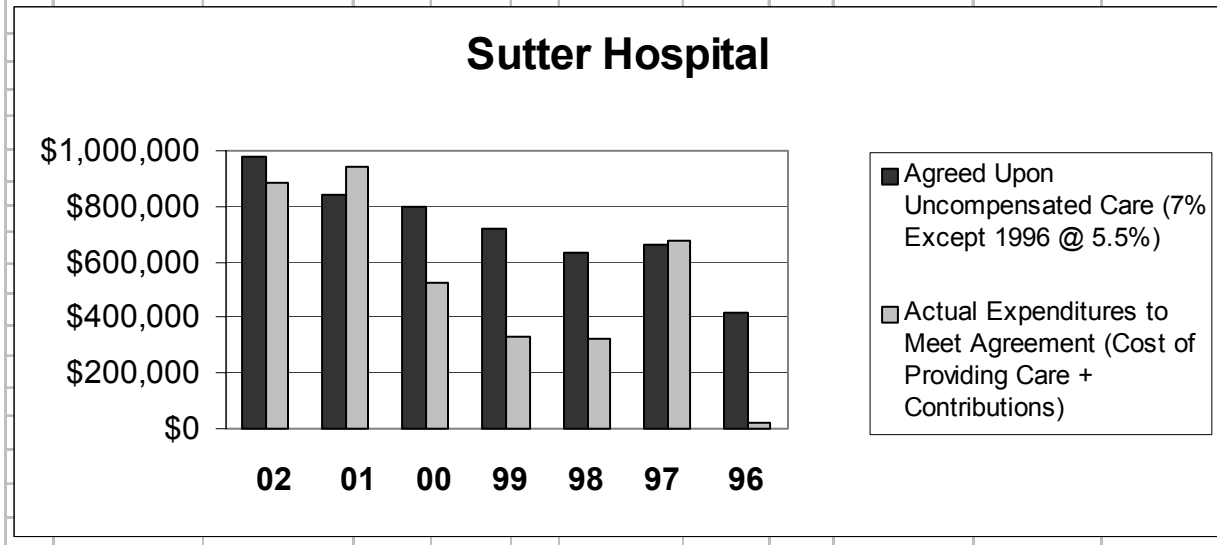
Findings

1. A Summary of the Access to Medical Care Reports:

Sutter, Dominican and Watsonville hospitals had to submit yearly reports to be in compliance with the Access to Medical Care Agreement. A summary of these reports follows in this section. The Grand Jury found most of the computational errors to be minor in the reports. However, some of these errors resulted in a deficit rather than an excess.⁸ The corrected figures were used in the charts. A more detailed listing of the financial data is in the Appendix.

Sutter Hospital

Sutter Hospital 1996 to 2002 Performance Summary	
Total Agreed Upon Uncompensated Care 1996 - 2002	\$5,052,356
Actual Expenditures to Meet Agreement 1996 - 2002	\$3,701,931
Percentage Attained 1996 - 2002	73.27%



⁸ See the Appendix.

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Sutter Hospital Yearly Performance 2002 through 1999				
Fiscal Year (Ending Dec 31)	2002	2001	2000	1999
Gross Revenue	\$39,850,799	\$31,564,372	\$31,818,412	\$30,779,800
Net Operating Expense	\$13,966,391	\$12,070,278	\$11,451,133	\$10,255,111
Agreed Upon Uncompensated Care (7% Except 1996 @ 5.5%)	\$977,647	\$844,919	\$801,579	\$717,858
Actual Uncompensated Charity	\$54,208	\$66,996	\$122,582	\$75,195
Actual Uncompensated Bad Debt	\$842,506	\$998,947	\$240,585	\$308,146
Uncompensated Care Write-Off (No Clarification)	\$0	\$0	\$0	\$0
Actual Uncompensated Total (Bad Debt + Charity+ Other Uncompensated)	\$896,714	\$1,065,943	\$363,167	\$383,341
Cost to Charges Ratio	45.96%	49.29%	46.17%	44.12%
Cost of Providing Care (Cost Ratio X Actual Uncompensated Total)	\$412,130	\$525,403	\$167,674	\$169,130
Contributions to Exempt Organizations and Community	\$469,528	\$415,600	\$358,754	\$163,299
Actual Expenditures to Meet Agreement (Cost of Providing Care + Contributions)	\$881,658	\$941,003	\$526,428	\$332,429
Commitment Excess (Deficit)	(\$95,990)	\$96,084	(\$275,151)	(\$385,429)

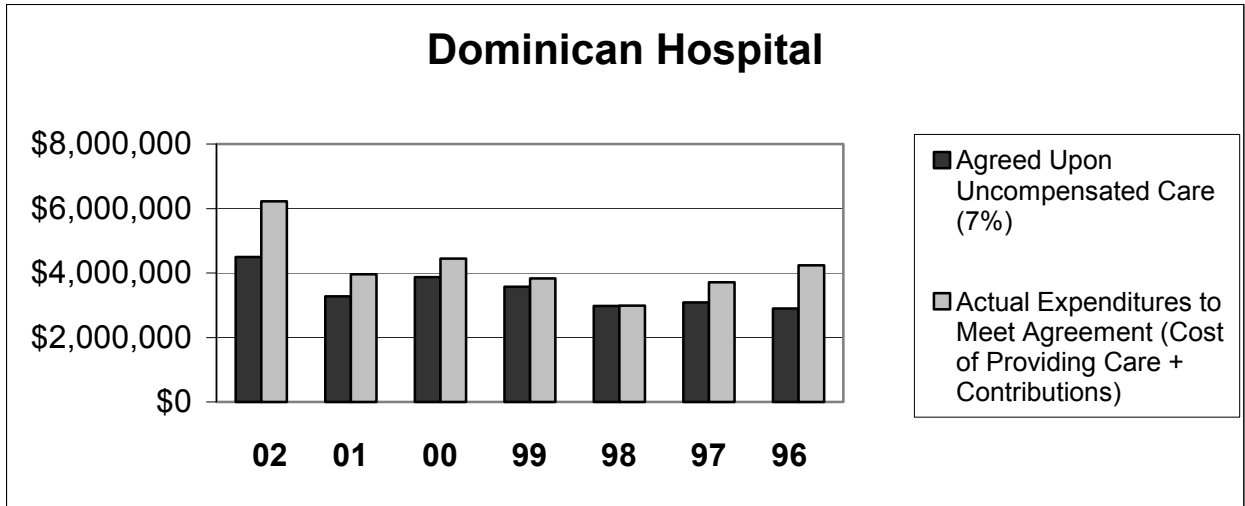
Sutter Hospital Yearly Performance 1998 through 1996 & Total				
Fiscal Year (Ending Dec 31)	1998	1997	1996	2002 to 1996 Totals
Gross Revenue	\$22,705,186	\$18,005,934	\$11,165,252	\$185,889,755
Net Operating Expense	\$9,017,921	\$9,422,345	\$7,627,871	\$73,811,050
Agreed Upon Uncompensated Care (7% Except 1996 @ 5.5%)	\$631,254	\$659,564	\$419,533	\$5,052,356
Actual Uncompensated Charity	\$75,031	\$38,314	\$22,525	\$454,851
Actual Uncompensated Bad Debt	\$478,579	\$406,580	\$0	\$3,275,343
Uncompensated Care Write-Off (No Clarification)	\$49,460	\$537,955	(Note 1) \$0	\$587,415
Actual Uncompensated Total (Bad Debt + Charity+ Other Uncompensated)	\$603,070	\$982,849	\$22,525	\$4,317,609
Cost to Charges Ratio	53.57%	69.00%	85.16%	N/A
Cost of Providing Care (Cost Ratio X Actual Uncompensated Total)	\$323,065	\$678,166	\$19,182	\$2,294,750
Contributions to Exempt Organizations and Community	(Note 2) \$0	(Note 2) \$0	(Note 2) \$0	\$1,407,181
Actual Expenditures to Meet Agreement (Cost of Providing Care + Contributions)	\$323,065	\$678,166	\$19,182	\$3,701,931
Commitment Excess (Deficit)	(\$308,190)	\$18,602	(\$400,351)	-\$1,350,425

Note 1 - This was reported as \$475,211 but "uncompensated care" is not allowed under the 5.5% alternative.

Note 2 - This was reported as \$631,704 in 1996, \$613,507 in 1997, and \$544,738 in 1998 but "Unpaid Costs of Government Programs" are not allowed.

Dominican Hospital

Dominican Hospital 1996 to 2002 Performance Summary	
Total Agreed Upon Uncompensated Care 1996 - 2002	\$24,179,454
Actual Expenditures to Meet Agreement 1996 - 2002	\$29,408,253
Percentage Attained 1996 - 2002	121.62%



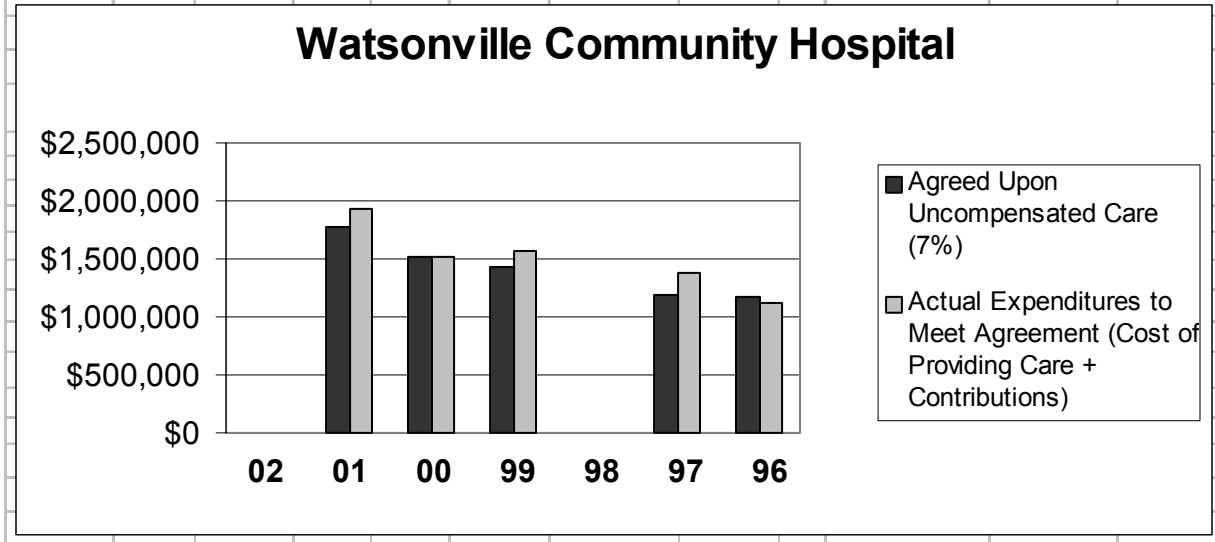
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Dominican Hospital Yearly Performance 2002 through 1999				
Fiscal Year (Ending June 30)	2002	2001	2000	1999
Gross Revenue	\$456,841,306	\$330,472,517	\$289,437,497	\$272,662,515
Net Operating Expense	\$64,239,883	\$46,725,331	\$55,309,811	\$51,081,651
Agreed Upon Uncompensated Care (7%)	\$4,496,792	\$3,270,773	\$3,871,687	\$3,575,716
Actual Uncompensated Charity	\$4,804,515	\$2,523,092	\$2,611,204	\$2,374,819
Actual Uncompensated Bad Debt	\$9,268,252	\$7,212,450	\$4,327,984	\$3,739,328
Actual Uncompensated Total (Bad Debt + Charity)	\$14,072,767	\$9,735,542	\$6,939,188	\$6,114,147
Cost to Charges Ratio	29.62%	36.46%	40.41%	40.44%
Cost of Providing Care (Cost Ratio X Actual Uncompensated Total)	\$4,168,354	\$3,549,579	\$2,804,126	\$2,472,561
Contributions to Exempt Organizations and Community	\$2,055,000	\$415,600	\$1,641,000	\$1,357,000
Actual Expenditures to Meet Agreement (Cost of Providing Care + Contributions)	\$6,223,354	\$3,965,179	\$4,445,126	\$3,829,561
Commitment Excess (Deficit)	\$1,726,562	\$694,405	\$573,439	\$253,845

Dominican Hospital Yearly Performance 1998 through 1996 & Total				
Fiscal Year (Ending June 30)	1998	1997	1996	2002 to 1996 Totals
Gross Revenue	\$250,938,722	\$244,016,884	\$235,816,649	\$2,080,186,090
Net Operating Expense	\$42,522,518	\$44,104,443	\$41,437,136	\$345,420,773
Agreed Upon Uncompensated Care (7%)	\$2,976,576	\$3,087,311	\$2,900,600	\$24,179,454
Actual Uncompensated Charity	\$1,891,319	\$3,046,679	\$1,631,459	\$18,883,087
Actual Uncompensated Bad Debt	\$2,804,999	\$2,955,040	\$4,539,076	\$34,847,129
Actual Uncompensated Total (Bad Debt + Charity)	\$4,696,318	\$6,001,719	\$6,170,535	\$53,730,216
Cost to Charges Ratio	42.22%	43.88%	43.80%	N/A
Cost of Providing Care (Cost Ratio X Actual Uncompensated Total)	\$1,982,785	\$2,633,554	\$2,702,694	\$20,313,653
Contributions to Exempt Organizations and Community	\$1,006,000	\$1,081,000	\$1,539,000	\$9,094,600
Actual Expenditures to Meet Agreement (Cost of Providing Care + Contributions)	\$2,988,785	\$3,714,554	\$4,241,694	\$29,408,253
Commitment Excess (Deficit)	\$12,209	\$627,243	\$696,977	\$4,584,681

Watsonville Hospital

Watsonville Hospital 1996 to 2002 Performance Summary	
Total Agreed Upon Uncompensated Care 1996 - 2002	\$7,089,917
Actual Expenditures to Meet Agreement 1996 - 2002	\$7,527,237
Percentage Attained 1996 - 2002	106.17%



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Watsonville Hospital Yearly Performance 2002 through 1999				
Fiscal Year (Ending Dec 31)	2002	2001	2000	1999
Gross Revenue	\$0	\$254,350,140	\$195,929,361	\$141,120,162
Net Operating Expense	\$0	\$25,488,782	\$21,596,081	\$20,361,845
Agreed Upon Uncompensated Care (7%)	\$0	\$1,784,215	\$1,511,726	\$1,425,329
Actual Uncompensated Charity	\$0	\$1,634,719	\$1,057,600	\$653,169
Actual Uncompensated Bad Debt	\$0	\$4,967,008	\$3,519,779	\$3,165,288
Actual Uncompensated Total (Bad Debt + Charity)	\$0	\$6,601,727	\$4,577,379	\$3,818,457
Cost to Charges Ratio	0.00%	29.27%	33.26%	41.16%
Cost of Providing Care (Cost Ratio X Actual Uncompensated Total)	\$0	\$1,932,325	\$1,522,436	\$1,571,677
Contributions to Exempt Organizations and Community	\$0	\$0	\$0	\$0
Actual Expenditures to Meet Agreement (Cost of Providing Care + Contributions)	\$0	\$1,932,325	\$1,522,436	\$1,571,677
Commitment Excess (Deficit)	\$0	\$148,111	\$10,711	\$146,348

Watsonville Hospital Yearly Performance 1998 through 1996 & Total				
Fiscal Year (Ending Dec 31)	1998	1997	1996	2002 to 1996 Totals
Gross Revenue	\$0	\$108,060,744	\$103,336,619	\$802,797,026
Net Operating Expense	\$0	\$17,046,592	\$16,791,222	\$101,284,522
Agreed Upon Uncompensated Care (7%)	\$0	\$1,193,261	\$1,175,386	\$7,089,917
Actual Uncompensated Charity	\$0	\$753,698	\$1,270,791	\$5,369,977
Actual Uncompensated Bad Debt	\$0	\$2,016,985	\$978,089	\$14,647,149
Actual Uncompensated Total (Bad Debt + Charity)	\$0	\$2,770,683	\$2,248,880	\$20,017,126
Cost to Charges Ratio	0.00%	49.83%	49.81%	N/A
Cost of Providing Care (Cost Ratio X Actual Uncompensated Total)	\$0	\$1,380,631	\$1,120,167	\$7,527,237
Contributions to Exempt Organizations and Community	\$0	\$0	\$0	\$0
Actual Expenditures to Meet Agreement (Cost of Providing Care + Contributions)	\$0	\$1,380,631	\$1,120,167	\$7,527,237
Commitment Excess (Deficit)	\$0	\$187,370	(\$55,218)	\$437,321

Response: Santa County Board of Supervisors PARTIALLY AGREES.

The charts presented by the Grand Jury have been moved to Attachment A of this response.

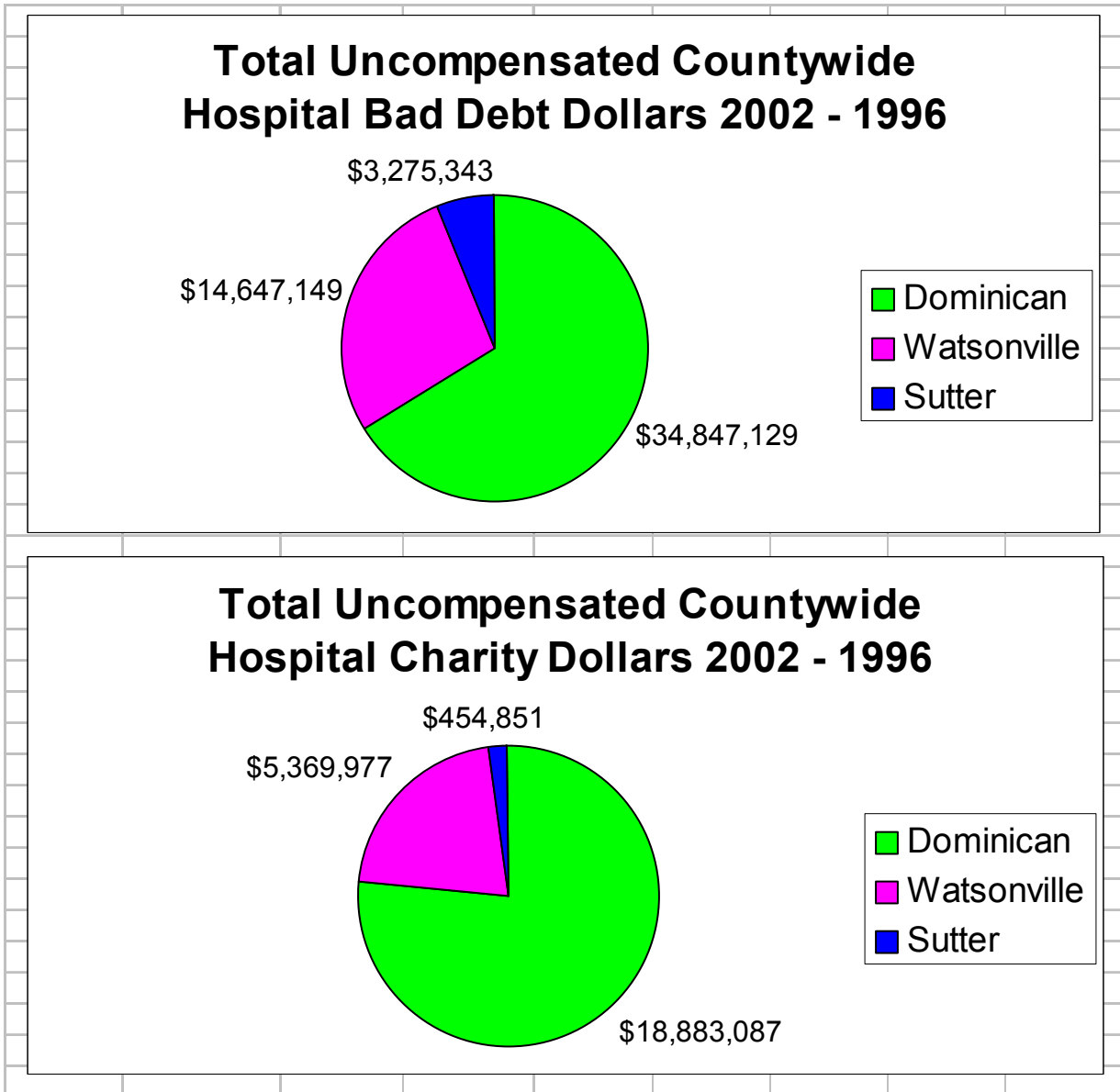
Many of the “computational errors” the Grand Jury noted were essentially rounding errors. Depending on the number of decimal places used in recalculating the charity care reports, the end results will vary. The Grand Jury used two decimal places to recalculate reports while the hospitals used five decimal places (or more) when they prepared the reports. When multiplying numbers in the millions of dollars by percentages, rounding differences can total several hundred dollars or more.

The Grand Jury’s charts apparently do not include Sutter contributions for uncompensated care in 1997 and 1998 or the unpaid costs of government programs for applicable years (the difference between the actual cost of providing care and the reimbursement from MediCal, Medicare, and Medicruz). These costs were approved and certified by the independent auditors overseeing hospital reports on compliance and accepted by the prior Health Director through 2000.

Watsonville Hospital’s initial report in 1996 failed to place brackets around the final computation indicating that the hospital was in surplus rather than deficit. The auditor’s letter accompanying the reports attested to the accuracy of the computations. HSA should have required the hospital to correct the error.

Because these agreements were unique, some of the categories of expenditures assisting the uninsured provided by the hospitals were not addressed in the original agreement or forms. These types of expenditures were put in various categories or new lines were added to the reports. HSA has worked with and will continue to work with the hospitals on these issues for possible revision in updated agreements.

2. Uncompensated Care Incurred by the Hospitals in Santa Cruz County



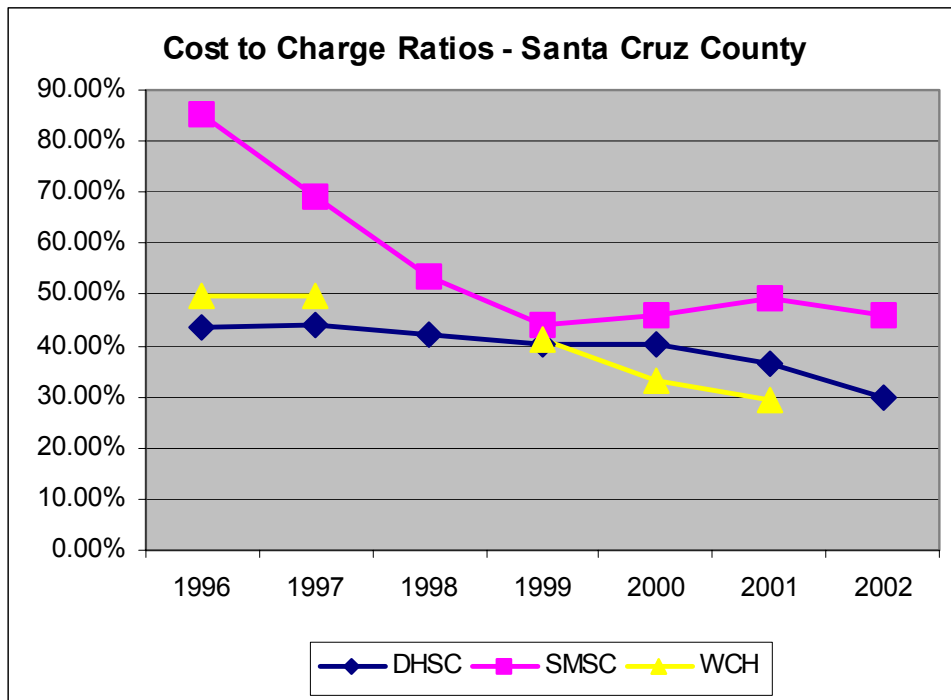
Response: Santa Cruz County Board of Supervisors PARTIALLY DISAGREES.

The Grand Jury reports above are a summary of their revised reports deducting uncompensated care and unpaid costs of government programs and with their slightly different calculation basis. The most serious error in the Grand Jury charts, however, is the implication that all the hospitals are the same and should

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have equal contributions when in fact they are very different in numbers of beds and gross budgets. In addition, the Grand Jury's charts include the following errors:

- The charts above do not adjust for the fact that Watsonville had submitted only 5 years of data instead of 7. This a significant issue when displaying a chart that says 1996-2002. Adjustments for relative size are critical to fairly compare contributions, and the Grand Jury's chart misrepresents the relative contribution of each institution.*
- The Grand Jury's charts did not include the uncompensated care and unpaid government program costs from Sutter 1996-2000 and thus do not reflect the independent auditors' reports certified and submitted to the County.*
- Cost to chart ratios are significant in determining actual costs, and all direct services, billed or not, should have cost to chart ratios applied to them. Cost to chart ratios do not appear to have been considered in the charts or calculations of the Grand Jury. The following chart presents the cost to charge ratios of the three hospitals. The higher the percentage, the closer the charges are to actual costs of service delivery.*



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- *To accurately reflect the relative contribution of each hospital, it is necessary to take into account their different sizes and budgets, which the Grand Jury did not do.*
- *Watsonville reports have not been audited since the new administration purchased the hospital.*
- *The Grand Jury charts do not include the independent auditors certified expenditures for Sutter as discussed above, but do include Dominican’s certified expenditures including categories called “other contributions to the poor and broader community”.*

In summary, there are significant problems with the summary charts of the Grand Jury which are continued in findings 3 and 4. Below are the certified expenditures for the hospitals as submitted by the independent auditors.

<u>Hospital</u>	<u>FY END</u>	<u>Method</u>	Required	Provided	<u>Community Benefit</u>	<u>Final Auditor Certified Ex/(Def)</u>
DSCH	6/95	CC&BD	\$2,425,772	\$3,122,749	N/A	\$696,977
	6/96	CC&BD	\$2,900,600	\$2,702,896	\$1,539,000	\$1,341,296
	6/97	CC&BD	\$3,087,311	\$2,633,802	\$1,081,000	\$627,491
	6/98	CC&BD	\$2,976,576	\$1,982,899	\$1,133,000	\$139,323
	6/99	CC&BD	\$3,575,716	\$2,472,713	\$1,357,000	\$253,997
	6/00	CC&BD	\$3,871,687	\$2,803,860	\$1,641,000	\$573,173
	6/01	CC&BD	\$3,270,773	\$3,549,867	N/A	\$279,904
	6/02	CC&BD	\$4,496,792	\$4,168,392	\$2,055,000	\$1,726,600
SMSC*	12/96	CC	\$419,534	\$1,051,328	N/A	\$631,704
	12/97	CC&BD	\$659,564	\$1,291,673	N/A	\$632,109
	12/98	CC&BD	\$631,254	\$867,803	N/A	\$236,548
	12/99	CC&BD	\$717,858	\$169,148	\$740,856	\$192,246
	12/00	CC&BD	\$801,579	\$167,660	\$661,700	\$27,780
	12/01	CC&BD	\$844,919	\$525,385	\$415,600	\$96,066
	12/02	CC&BD	\$977,647	\$412,132	\$469,528	(\$95,987)**
WCH	6/95	CC&BD	\$1,070,287	\$1,347,785	N/A	\$277,498
	6/96	CC&BD	\$1,175,386	\$1,120,101	N/A	See 6/97
	6/97	CC&BD	\$1,193,261	\$1,380,548	2 YR. AVG.	\$132,002
	6/98***	N/A				
	12/99	CC&BD	\$1,425,329	\$1,571,609	N/A	\$146,280
	12/00	CC&BD	\$1,511,726	\$1,522,620	N/A	\$10,894
	12/01	CC&BD	\$1,784,215	\$1,932,221	N/A	\$148,006
	12/02	CC&BD	\$1,888,754	\$1,942,092	N/A	\$53,338

CC&BD = Charity care and bad debt option selected

**The methodology and interpretations used by Sutter Maternity and Surgery Center (SMSC) in the preparation of their reports submitted through December 2000 was*

questioned in 2001. The methodology was settled and the outcome approved by the Board of Supervisors on October 18, 2001.

***SMSC brought forward the 12/01 excess contribution to the 12/02 period to offset the remaining deficit after community benefit activities were credited.*

****Watsonville Community Hospital changed ownership in September 1998. The new ownership changed the hospital's fiscal year to end on December 31. Under the hospital's new contract with the county, the charity care reporting obligation began with the fiscal year ending 12/99. Because of the change in ownership, no report was available for the fiscal year ending June 1998.*

The preceding table summarizes the reports submitted by the three local contract hospitals since the inception of their obligations to provide specified levels of care, bad debt, and community benefit activities. All hospitals have reported being in compliance with their obligations although both Dominican Hospital and Sutter Maternity and Surgery have had to rely on community benefits activities as well as charity care and bad debt.

As can be seen from the above data, with the exception of Dominican Hospital in the 6/01 reporting period, the hospitals have demonstrated increasing inability to meet their obligations through the provision of charity care and bad debt alone. In fact, satisfying the obligation by using the option to provide 5.5% of net operating costs in charity care has never been effectively used by any of the hospitals.

3. In 1996 Sutter Hospital selected the 5.5% option, which allowed only charity care to be deducted under the terms of the AMCA. It reported exceeding the agreed-upon charity care requirement by \$631,704. However, it achieved this excess by means of two violations of the terms of the AMCA. First, Sutter Hospital wrote off \$613,507 for the unpaid costs of government programs (Medicare, Medi-Cal, Medi-Cruz), which was not allowed. Second, it deducted \$475,211 for "uncompensated care write-offs," which was not allowed under the 5.5% option. If these deductions were factored out, the final calculation resulted in a non-compliance deficit of (\$400,353).

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES.

The independent auditor's certified report for 1996 accepted by the Health Administrator included uncompensated care and unpaid costs of government programs. Later clarification by Sutter indicated that the uncompensated care services were bad debt. The Health Administrator also accepted \$1,786,000 in unbilled services for Dominican based on the certified auditor report. It is unclear whether these charges were adjusted based on the cost to charge ratio and whether these would be more accurately characterized as charity care, bad debt or

community benefit. Given the unique nature of these agreements, some of the hospital activities provided by all three hospitals to the community did not fit neatly into the format and categories in the agreement. HSA worked with the hospitals to understand their differing expenses related to community activities to find the best fit within the agreement.

HSA acknowledges there were several issues in dispute until the Board approved the revised services plan in 2001. The most significant issue concerned counting the unpaid cost of government programs. In 2001, the County Health Department under new leadership began working with the new Sutter administrator to increase direct services and access to services for the uninsured. The systems are now in place and are reviewed quarterly. Since the new services were approved by the Board in 2001, unpaid costs for government payors was not included in any reports. In addition, each specific item under community benefit is reviewed by HSA.

4. In 1997 and 1998 Sutter Hospital chose the 7% AMCA option, which allowed deductions of both charity and bad debt. The hospital deducted amounts for charity and bad debt, but again deducted “uncompensated care write-offs” with no clarification. In 1997 and 1998 these unexplained “uncompensated care write-offs” amounted to \$537,955 and \$49,460 respectively. In 1997 and 1998, Sutter Hospital again did not adhere to the terms of the AMCA by deducting the unpaid costs of government programs. In 1997 and 1998 these deductions totaled \$613,507 and \$867,738 respectively. By deducting the unexplained “uncompensated care write-offs” and the unpaid costs of government programs, the hospital reported exceeding the agreed-upon uncompensated care requirement in 1997 by \$632,109 and in 1998 by \$659,564. When the unpaid costs of government programs are factored out for 1997, it exceeded the requirement by a much smaller amount of \$18,603. Using the same type of deductions for 1998, rather than exceeding the AMCA requirement, Sutter Hospital was non-compliant with a deficit of (\$308,189). Additionally, when the unexplained “uncompensated write-offs” are factored out for 1997 and 1998, Sutter Hospital was non-compliant with deficits of (\$519,352) and (\$357,649) respectively.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES.

With the 7% methodology, the issues remain essentially the same as the previous response to item 3. Uncompensated care and unpaid costs of government programs were the hospital costs approved by the independent auditor and certified to HSA as appropriate and which were consistent with industry standards for health care financial reporting in California. All the hospitals used respected independent auditing firms to review their compliance and certify expenditures to the Health Services Agency Administrator, including Seghetti & Waxler, Ernst & Young LLP, Arthur Anderson and Deloitte & Touche LLP. All of these firms have extensive

health finance expertise. Also, it should be mentioned that all the auditing firms increased both costs and level of detailed analysis and consultation with the County related to contract interpretation after the Arthur Anderson accounting scandal related to ENRON. These firms audit hospital cost reports for Medicare and other requirements and are quite familiar with health finance requirements.

5. In 2001 the HSA and Sutter Hospital met to discuss the hospital's non-compliance with the AMCA. On October 15, 2001, the hospital wrote a letter to the HSA to change the terms of the original agreement. The letter stated, "If accepted this letter would settle all differences between the County and the Hospital for all years prior to 2001, and would provide an agreed-upon interpretation" between them over certain provisions of the Agreement for 2001 and all years thereafter. "This letter would not constitute an amendment of the Agreement in any way." The Sutter Hospital and Santa Cruz Medical Clinic (SCMC) physicians offered the following services:
 - A. High-risk pregnancy services worth \$4,000 x 17 patients, even if 17 patients were not treated. SCMC pediatricians will provide post-natal care until 18 years of age, but if not reimbursed, would refer these children back to the county clinic.
 - B. The county will approve Sutter Hospital's requests for prior approval of specific community benefit activities.
 - C. The community clinics in North County could sign up patients for education programs and patient education supplies for credit under charity.
 - D. The hospital will provide up to \$10,000 a year of laboratory services for hepatitis C.
 - E. The county and the hospital will determine what kind of physician specialists, "including but not limited to urologists and orthopedists" are needed and the hospital's relocation program will be credited to community benefit for a maximum of \$100,000 plus moving costs for each 4 year recruiting agreement. These physicians will agree to see Medi-Cal and Medi-Cruz patients.
 - F. The hospital will donate at least \$25,000 to the Youth Resource Bank on a restricted use basis to pay insurance premiums for Healthy Families eligible clients.
 - G. Medi-Cruz patients will obtain \$50,000 in free care at the Hospital. The hospital will receive a credit for uncompensated care of 200% of what

Medi-Cruz would have paid for these services. SMC physicians will see pre-screened Medi-Cruz patients for non-hospital services as an obligation under the Access to Medical Care Agreement.

- H. The county will not hold the hospital liable for its deficits in earlier AMCA reports.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES.

The new services and contributions to indigent care and the safety net programs were designed to provide a clear mechanisms for compliance without relying on an emergency department for patient referrals. The County worked extensively with the new CEO of Sutter to identify the best ways for the hospital to meet the needs of the safety net clinics, the uninsured, and also provide required levels of services and expenditures under the agreement. The list of services was developed collaboratively. Hospital services are provided to uninsured patients who did not meet MediCruz qualifications or needed a service not covered by MediCruz. MediCruz is the County program for individuals who are uninsured and is limited in coverage to individuals up to 100% of federal poverty with some share of cost clients up to 200%. Sutter covers individuals up to 300% with no cost and up to 400% with a share of cost. The community benefit services proposed by SMC leadership were needed by the County and Safety Net Clinics for indigent patients. This proposal was not a contract amendment, but was an addendum to improve compliance to the original goals of the agreement. The teamwork with the Sutter and SMC leadership in proposing this addendum to the agreement was a significant turning point in developing a partnership to serve the uninsured patients of the County and the Safety Net clinics. One of the most significant features is access to specialists who dedicate part of their practice to safety net patients for their first four years in the community. This has been a very valuable asset for access to needed specialist talent to complement the primary care of the safety net clinics.

The County believes that the Grand Jury has not recognized the significance of this improved set of services and believes that litigation would be a costly and uncertain course of action. Instead, services have been improved and partnerships strengthened. Notwithstanding the disappointment with the initial interpretation related to the unpaid costs of government programs, the current system for insuring the agreement is met has exceeded County expectations and met the initial goals for the agreement.

6. Eight days later, the HSA and the Board of Supervisors accepted the terms of the letter.

Response: Santa Cruz County Board of Supervisors AGREES.

In addition, other hospitals were notified that these types of services would be accepted as part of the community benefit component of the agreement. In addition, the County clarified that it would not count duplicative services or services not of value to overall community health.

7. In 2001 as a condition of accepting Sutter Hospital's lack of adherence to the terms of the AMCA, the Board of Supervisors stipulated that indigent patient healthcare services should be given priority. The HSA required Sutter Hospital to submit a list of community benefits for approval. Sutter Hospital submitted lists of activities to gain approval with the following non-healthcare activities:
 - A. Collected trash for Adopt a Highway: \$10,494.
 - B. Cleaning up the San Lorenzo River: \$312.
 - C. Donated surgical supplies/equipment to a local veterinary hospital: \$232.
 - D. Provided a meeting room for Kol Tefillah support group: \$8,000.

The HSA did not approve the above items because they were "not related to healthcare for low-income, uninsured or community health at large." Examples of what the HSA approved include the following:

- A. Cash donation to the Santa Cruz County Women's Commission: \$35.
- B. Donated used linen to local crisis support and shelters: \$1,087.
- C. Collected toys for Loaves and Fishes Toy Drive: \$810.
- D. Encouraged staff to donate to United Way Campaign: \$243
- E. United Way Golf Tourney: \$200.
- F. Welfare to Work Program: \$2,187.

The HSA approved the above activities, despite the fact they were "not related to healthcare for low-income, uninsured or community health at large."

In 2001 the HSA approved Sutter Hospital's provision of a meeting space for a variety of groups, which also were not related to healthcare.

- A. Seniors Commission: \$2,150.
- B. Mothers of Twins Club: \$2,500.
- C. Stepfamily Association/Foster Parents: \$2,900.

In 2002, Sutter Hospital included meeting spaces for:

- A. "Temple Beth El" for study and meditation: \$4,800.
- B. California Association for Marriage and Family therapists: \$4,050.

In 2003 Sutter Hospital submitted items, which also had no relationship to healthcare, but the HSA approved them. Examples included the following:

- A. Participated in fundraising efforts of United Way: \$1,307.
- B. Provided meeting space for senior groups: \$300.

Response: Santa Cruz County Board of Supervisors DISAGREES.

The County has clarified the basis for approval and submission of activities.

When Sutter began submitting activities to the County for Access to Care consideration, they included all the activities approved as allowable under community benefit reporting by the California Office of Statewide Health Planning and Development (OSHPD). The State does not require community benefit activities to be healthcare only, and all the hospitals count and track these types of items for OSHPD reporting. As the quarterly process of review has progressed, Sutter's reports for the County agreement eliminated those items from the County reports.

The County approved United Way donations because United Way is doing a significant community assessment project which includes health care. It is a large and expensive project which creates an annual community report card on health and other issues. This activity has led to many positive improvements in health and should be supported.

The County approved support activities and donations for foster parents due to the number of disabled and traumatized children they serve that are of great concern to the HSA and Social Services. Without support, these children often end up in expensive hospitals and group homes for mental health issues.

The Women's Commission has been focusing on mental health issues for women and therefore the \$35 donation was approved.

Crisis support for women and victims of domestic violence is a mental health service and therefore this donation was approved.

Loaves and Fishes provides needed food and nutrition support for the poor which directly relates to general health and therefore the \$810 was approved.

Welfare to Work programs are core County programs assisting low income parents in mental health, substance abuse, and other health needs as well as helping with jobs and therefore this donation was approved.

Twins support group was approved due to needs of this population particularly for post delivery depression and stress.

Senior programs were also approved because of the many needs of frail and at risk seniors of concern to the County Health Department and their desire to strengthen the safety net for this group. Sutter presents an excellent annual senior health fair which provides exams and consultation on numerous health issues and also provides visiting nursing services through their visiting nurse program.

County records indicate that the request for space used by Temple Beth El was denied. If this use was approved by the County, it was done so in error.

8. Despite the free testing of hepatitis C patients offered by Sutter Hospital and the free medication available,⁹ the HSA refuses to treat Hepatitis C patients. The Grand Jury heard testimony from the HSA that the “difficulty is the high cost of the work up, the number of appointments, the lab tests are very, very expensive.” Furthermore, the people seen in the clinic with the diagnosis of hepatitis C “are current substance abusers.”

Response: Santa Cruz County Board of Supervisors DISAGREES.

The County routinely provided Hepatitis C treatment to patients with MediCal and other coverage. The inclusion of Hepatitis C treatment to MediCruz patients required significant evaluation by the department. The County HSA has continued to work with community groups to develop two programs for individuals with Hepatitis C. One program for community clinic patients and uncomplicated patients identified by the County is a special lab and treatment access program through Dr. William Morris at the Hepatitis C Center. This is now in place and the County is providing free lab services to those patients. In addition, the County has initiated a pilot program through MediCruz for 20 patients with complex illnesses and Hepatitis C.

9. Despite the specific mention of recruitment of an orthopedist in Sutter Hospital’s letter, nothing has been done. The county clinic patients have to travel to Santa Clara County to receive orthopedic care because the Santa Cruz Medical Clinic orthopedists refuse to see them.

Response: Santa Cruz County Board of Supervisors DISAGREES.

⁹ The Santa Cruz County Health Services Agency Physicians Association reported the lack of treatment for hepatitis C patients to the Board of Supervisors on November 18, 2003. It also reported that free medication was available.

Sutter has been working with the County to expand local orthopedic capacity by trying to recruit new specialists in this field of medicine. While many Sutter recruitments of specialists desired by the County have been successful, this has not. Competition among communities for orthopedic surgeons is very difficult, in part since orthopedists are increasingly sub-specializing, e.g., hand, shoulder, hip, knee, thereby requiring a larger population base to sustain their practices. Consultation with local hospitals and other counties has shown this to be a highly competitive specialist market.

Most orthopedic specialists in Santa Cruz County have a full caseload of patients, and most of them - not just those associated with Santa Cruz Medical Clinic - have limited their acceptance of new patients. All of those with hospital privileges are obligated to and do care for uninsured patients as part of the hospital emergency on-call system. The difficulty with hospital access is primarily with elective orthopedic surgical services and, in recent months, an increasing volume of outpatients with urgent problems. The County Clinics have expanded their outpatient orthopedic services from a half-day a week three years ago to two full days a week at present, and the demand continues to increase. Currently the County has two part-time orthopedic specialists doing outpatient procedures. For hospital procedures, the County's contract orthopedists are able to refer patients to Santa Clara Valley Medical Center for elective surgery. However, even that tertiary care center with a full-scope orthopedic residency training program is nearing capacity. There are long waits for access for elective procedures. Because of the many new procedures and the aging population coupled with a local shortage of orthopedists, this specialty is overwhelmed with referrals.

While the County will continue to work with Sutter and other health leaders to expand access in this area of medicine, the most helpful thing would be to resolve the locality 99 Medicare issue because it impacts so many of the patients referred to orthopedics. Physicians completing their residency training in orthopedics and other specialties carefully consider these rates when deciding where to locate their practices. Notwithstanding a Rand Corporation report in 1998 of an impending national surplus of orthopedists, the situation is quite different in smaller communities like ours with a rural reimbursement formula. Santa Cruz County's current Medicare Geographic Adjustment Factor lags behind Santa Clara County's reimbursement levels by 18%. This will increase to 25% in 2005. Santa Cruz County cannot effectively compete with our neighboring counties for specialists in high demand.

10. As anticipated, Sutter Hospital's amount of bad debt and charity are much smaller than Dominican or Watsonville Hospitals' because of Sutter Hospital's lack of an emergency room.

Response: Santa Cruz County Board of Supervisors AGREES.

Sutter is a much smaller hospital with only 30 licensed beds and no emergency department so it would be anticipated that it would have less bad debt and charity care. It is less than one-third (28%) the size of Watsonville hospital (106 licensed beds). Sutter also cannot take acute and unstable patients, which limits the number of patients who can be admitted.

11. The AMCA required an auditor's report to accompany all the hospitals' reports to the HSA. The reports given to the Grand Jury by the HSA had only two auditor's reports, which were submitted by Dominican Hospital in 1995 and 1996. However, the auditors' letters, which accompanied Sutter Hospital's reports, allowed the unpaid cost of government costs to be deducted. They also stated that the reports were not audited.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES.

All of Sutter's and Dominican's reports have been audited by reputable audit firms. Watsonville has had problems producing independent audits since the new owners assumed responsibility for the hospital. Since the Arthur Anderson scandal related to ENRON, all of the auditors have increased rates to the hospitals and have been consulting with the County on details of contract compliance. While the new attention to detail and consultation has been good, another solution for all three hospitals would be to have the County Auditor Controller conduct the audits. They would be done consistently and at reasonable rates. This will be discussed with the hospitals as an option for compliance in future years.

12. Although Dominican Hospital also reported AMCA deficits, it complied with the terms of the AMCA by providing additional healthcare services to the poor. Dominican Hospital has a variety of free clinics for the poor as listed below.¹⁰

- A. Dominican Pediatric Program.
- B. Dominican Prenatal Program.
- C. Tattoo Removal Service for Former Gang Members.
- D. Kidsmart in Schools Program.
- E. Dominican Pediatric Subspecialty Clinics: A joint venture with the Lucile Salter Packard Children's Hospital at Stanford.
- F. Dominican RotaCare: Joint venture with the Santa Cruz Rotary Club.

Response: Santa Cruz County Board of Supervisors AGREES.

¹⁰ This list is a sample of the many community services Dominican Hospital provides.

Dominican has done some very innovative and positive activities to support the health of the community, and the staff and leadership deserve positive recognition for these efforts.

13. Dominican Hospital and Watsonville Hospital did not deduct the unpaid costs of public programs, as Sutter Hospital did for many years. Neither Dominican Hospital nor Watsonville Hospital carried forward the excess in one year to remove a deficit in the following year as Sutter Hospital did in 2002.¹¹ Dominican Hospital and Watsonville Hospital also never deducted “uncompensated care write-offs” as Sutter Hospital did from 1996 through 1998.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES.

Dominican and Watsonville did not deduct the unpaid cost of government programs in their reports. Averaging is permissible in the agreement and available to all hospitals. It is not a contract violation as implied by the Grand Jury. Watsonville did average (carry over a deficit) from 1996 to 1997. All of the hospitals provide services which do not neatly fit into the categories on the County form, but these activities are still positive community health services which meet the intent of the agreement.

14. Watsonville Hospital has not had a deficit, except in 1996 when it appeared compliant because the hospital and the HSA did not find the computational error. According to the HSA, Watsonville Hospital’s late 2002 report will have a deficit and the hospital has asked whether the taxes that it pays could be used in exchange for its charity obligation.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES.

Watsonville is working on its reports, but audited reports have not arrived. The County will enter into discussions with Watsonville Hospital upon receipt of the 2002 and 2003 reports if there are shortfalls to be addressed. Ongoing audit problems will be addressed.

15. Sutter Hospital’s relationship to the Santa Cruz Medical Foundation and the Santa Cruz Medical Clinic cannot be fully understood without explaining the financial benefits of a medical foundation. Starting in 1978 the concept of the Medical Clinic Foundation model developed primarily in California. The medical foundation was “a technique for complying with the California corporate practice of medicine laws while at the same time establishing hospital ownership of medical practice assets. Typically, the Foundation is established as a tax-exempt organization and used by

¹¹ The Health Services Agency allowed Sutter Hospital’s carry forward.

tax-exempt hospital systems.”¹² “Their tax- exempt status presents definite advantages relative to income, financing, and contributions.”¹³ The medical foundations are also exempt from licensure by the state Department of Health Services. The Santa Cruz Medical Clinic falls under the following regulation. Clinics and facilities exempt from licensure include:

- A. A clinic operated by a non-profit corporation is exempt from federal income taxation under paragraph (3) of subsection C of Section 501 of the Internal Revenue Code of 1954, as amended, or
- B. A statutory successor thereof, that conducts medical research and health education and provides health care to its patients through a group of 40 or more physicians and surgeons, who are independent contractors representing not less than 10 board-certified specialties, and not less than two thirds of whom practice on a full-time basis at the clinic.”¹⁴

Response: Santa Cruz County Board of Supervisors AGREES.

Regulation of medical group practices is not within the scope or authority of the County. Many medical groups have gone bankrupt in the last decade and are trying to find ways to stay solvent with rapidly changing health financing pressures. The Santa Cruz Medical Clinic physicians were not party to the Access to Care Agreement. Sutter hospital is the party with which the County contracts. The physicians with Sutter hospital privileges are both SCMC and non-SCMC doctors. Sutter has developed incentives to assist with physician-linked access to hospital services. Under the current leadership, a smooth system has been developed which shares the responsibility over many physicians and also includes new specialists requested by the County with dedicated time for indigent patients.

16. Although Santa Cruz Medical Foundation charges patients and has a tax-exempt status, it recently sent out a letter stating that “Today, through our affiliation with the Palo Alto Medical Foundation, Sutter Santa Cruz serves as a true community-based, not-for-profit health care provider. Each year, we give back to our community. Now, we are asking our community to give back to us. Your gift in any amount will help us to uphold the high standards of medical care that so many people in our community depend upon.”¹⁵

Response: Santa Cruz County Board of Supervisors CANNOT RESPOND.

¹² “Avoiding the Legal Minefields of Integrated Systems,” Medical Clinic Foundation, LexisNexis search.

¹³ Gregory Georges, “Nonprofit Medical Foundations-A Corporate Practice of Medicine Problem?” LexisNexis search.

¹⁴ Deering’s California Health & Safety Codes Annotated (section 1206, Matthew Bender & Company, Inc., 2003) LexisNexis search.

¹⁵ Sutter letter to the community in December 2003.

The County did not receive this letter and cannot comment on this finding.

Conclusions

1. Dominican Hospital complied with the terms of the Access to Medical Care Agreement, except for the lack of auditor's reports from 1997 through 2002. Watsonville Hospital complied with the terms of the AMCA, except it never submitted auditor's reports.¹⁶

Response: Dominican Hospital of Santa Cruz DISAGREES.

The statement "except for the lack of auditor's reports from 1997 through 2002" is incorrect. All audit reports have been obtained and have been filed with Robert Varty, MediCruz Administrator for the County of Santa Cruz.

2. If the HSA had checked the figures submitted by the hospitals, the sizable error in Watsonville Hospital's 1996 report would have been caught.¹⁷
3. Sutter Hospital submitted auditor's letters that accompanied its reports, but the letters are questionable because of the many errors.
4. Dominican Hospital and Watsonville Hospital greatly exceed Sutter Hospital in the amount of uncompensated care.
5. The Access to Medical Care Agreement's intent to equalize uncompensated care among the three hospitals has failed because of Sutter Hospital's repeated noncompliance with the terms of the AMCA.
6. In 1996 Sutter Hospital's deductions of "uncompensated care write-offs" violated the terms of the AMCA. The hospital selected the 5.5% option, which only allowed charity care to be deducted. Sutter Hospital's final figures for 1997 and 1998 are suspect because it deducted a third category of "uncompensated care write-offs" with no clarification. Sutter Hospital's violations and questionable deductions in 1996 and 1997 resulted in the appearance of compliance with the terms of the AMCA, when it was clearly non-compliant.
7. In 2001 the Board of Supervisors and the HSA allowed Sutter Hospital to escape the penalties of the AMCA agreement. The HSA has attempted to put healthcare

¹⁶ At first the Health Services Agency submitted the Access to Medical Care Agreement reports without Sutter Hospital's accompanying auditor's letter. The Health Services Agency subsequently submitted copies of the auditor's letters. For this reason, the Grand Jury is not 100% sure that Dominican and Watsonville Hospitals also had auditor's reports.

¹⁷ See the Appendix.

community benefits first, but has been inconsistent in its approvals and denials of Sutter Hospital's community benefit activities.

8. Sutter Hospital, which serves as a hospital for the Santa Cruz Medical Clinic physicians' group, demonstrated the leverage it has over the physicians' group by adding its services to fulfill the hospital's compliance with the AMCA. The HSA and the Board of Supervisors missed a perfect opportunity in 2001 to arrange the necessary specialist care for the county clinic patients. It is unreasonable for Santa Cruz Medical Clinic physicians to expect another county's physicians to provide medical care for Santa Cruz County's indigent patients.
9. The HSA and the Board of Supervisors did not force Sutter Hospital to live up to the terms of the Access to Medical Care Agreement. They allowed Sutter Hospital to:
 - A. Ignore its deficits until 2001;
 - B. Write off its deficits with no penalties prior to 2001;
 - C. Write off its "uncompensated write-offs" without clarification;
 - D. Change a deficit to an excess by carrying forward an excess from one year to the next.

Recommendations

1. The Board of Supervisors should not allow changes to terms of the Access to Medical Care Agreement, unless the changes directly benefit the indigent.

Response: Santa Cruz County Board of Supervisors AGREES.

The public health mission of the County is to improve the health of the whole community including the special needs of the indigent. The County can clarify provisions of the agreement which meet the intent to improve services not only to the indigent, but to the health of the community as a whole.

2. The Board of Supervisors should look at what is being approved by the HSA to guarantee that indigent patient care needs are fulfilled first.

Response: Santa Cruz County Board of Supervisors AGREES.

HSA utilizes the activities approved by the Board in managing the contract. The Board reviews and approves periodic reports on Access to Care services from HSA. The Board can direct HSA to consider improvements to the original agreement. Improvements to the contract could be made to address omissions in the original

agreement in the area of late reports, lack of audited reports, and a process for resolving conflicts on interpretation.

3. If a hospital does report an AMCA deficit, indigent patient healthcare services needs should be fulfilled before any community benefit activities are approved.

Response: Santa Cruz County Board of Supervisors DISAGREES.

The distinction made by the Grand Jury between indigent care and the services currently reported under community benefit is not a black and white one. Community benefit activities provided by Sutter include contributions to MediCruz which provides indigent healthcare. Sutter also provides Healthy Families premium payments, high risk obstetric and pediatric care, and specialist services, which all provide direct care or access to direct care for indigents, but these also are in the community benefits category in Sutter reports. Preventive health activities, like the senior health fair which reaches over 300 seniors and does screening and exams, are also important. (If the Grand Jury means community benefit activities provided by Sutter, like health education classes and materials, provision of space and donations to non-profits, these are indeed less important to the mission of the agreement.) This recommendation would require a contract amendment. The County does not believe an amendment as proposed would be helpful at this time.

4. The Santa Cruz Medical Clinic physicians should see the county clinic patients who need specialty care.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES.

As stated previously, the physicians are not party to this agreement, but the Sutter hospital and leadership have worked on incentives for access to most specialty areas through the Santa Cruz Medical Clinic Physicians. Orthopedic access is currently overwhelmed and the County and Sutter have been working together to try to address this through recruiting new physicians in this area of medicine with dedicated hours for access to care patients.

5. The HSA should not allow non-compliance to go uncorrected beyond the amount of time stipulated (60 days after the hospitals' submission of their reports) in the AMCA. Legal action should be taken if the hospitals don't adhere to requirements of the AMCA and the county should enforce the appropriate penalties.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES.

The County does work with contractors to fix deficits in contract compliance. In most cases this is voluntary and works very well. Legal action should be a last resort based on profound differences in interpretation and intent. There are no

defined penalties in the original agreement for late or unaudited reports. Having a clearer process for dispute resolution and conflicts would enhance the agreement as would clear penalties for late, unaudited, or non-compliant performance. The County and the three hospitals will be considering possible changes in the contract in this area.

6. The HSA should ensure that the required Auditor’s Reports be submitted by all hospitals and carefully reviewed.

Response: Santa Cruz County Board of Supervisors AGREES.

7. Dominican Hospital is to be commended for not only providing more than its fair share of charity care, but also for the wide range of healthcare clinics it provides.

Response: Santa Cruz County Board of Supervisors AGREES.

Dominican is to be commended for its fine work. It is important to note as well that both Sutter and Watsonville Hospitals also provide absolutely critical services which enhance the health of the community. We are a community with many assets in health leadership, and they should be valued and supported in finding ways to stay viable and serve the community in this turbulent time in healthcare.

8. Watsonville Hospital is to be commended for providing more than its fair share of charity care despite its status as a for-profit hospital.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES.

As stated above, all of the hospitals should be recognized for their contributions. Watsonville may be found in compliance when its reports are audited and finalized. The reports since the change in leadership are just provisional.

Responses Required

Entity	Findings	Recommendations	Respond Within
Santa Cruz County Board of Supervisors	1 - 16	1 - 8	90 Days (September 30, 2004)
Santa Cruz County Health Services Agency	1 - 16	1 - 8	60 Days (August 30, 2004)

Appendix

Note: Sutter Hospital's reports are based on a calendar year, whereas Dominican Hospital's and Watsonville Hospital's reports are based on a fiscal year.

Sutter Hospital

Calendar Year Ended 12/31/2002

Gross Revenues: \$39,850,799

Net Operating Expense (Operating Expense minus Cost of Government
Programs: \$18,315,510 – \$4,349,119) = \$13,966,391

Agreed Upon Uncompensated Care (7% of Net Operating Expense) = \$977,647

Charity: \$54,208

Bad Debt: \$842,506

Total: \$896,714

Cost of Provided Care: 45.96% (cost to charges ratio) x \$896,714 = \$412,130

Deficit: (\$977,647 - \$412,130 = \$565,517)

Gained compliance with Contributions to Exempt Organizations:

Cash Contributions:

The Billy Foundation: \$1,000

United Way of Santa Cruz County: \$2,000

Santa Cruz County Youth Resource Bank (Healthy Families): \$25,000

Community Foundation of Santa Cruz: \$1,000

Subtotal: \$29,000

In-Kind Contributions:

O.B. services (high risk patients referred by the County): \$68,000

Community Benefit Programs: \$236,922

Physician Re-Location: \$0

Medi-Cruz Credits: \$50,000

Ancillary and Professional Services: \$39,759

Charity Services by SCMC: \$48,847

Subtotal: \$440,528

Total: \$469,528

Sutter Hospital carried forward the excess from 2001 of \$96,066 to eliminate the 2002 deficit. Thus, Sutter's final calculation resulted in an excess of \$96,066.

Final Deficit: \$565,517 - \$469,528 = (\$95,989)

Calendar Year Ended 12/31/2001

Gross Revenues: \$31,564,372

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Net Operating Expense: \$15,557,532 - \$3,487,254 = \$12,070,278
Agreed Upon Uncompensated Care: 7% x \$12,070,278 = \$844,919
Charity: \$66,996
Bad Debt: \$998,947

Total: \$1,065,943

Cost of Provided Care: 49.29% (cost to charges ratio) x \$1,065,943 = \$525,403

Deficit: (\$525,403 - \$844,919 = \$319,516)

Gained Compliance With:

Cash Contributions;

Cabrillo College Nursing Department: \$1,000

United Way of Santa Cruz County: \$2,000

Santa Cruz Youth Resource Bank (Healthy Families): \$25,000

Subtotal: \$28,000

In-Kind Contributions:

O.B. Services (high risk patients referred by the County): \$11,333

Community Benefit Programs: \$216,577

Physician Re-Location: \$103,535

Medi-Cruz Credits: \$0

Ancillary and Professional Services: \$56,155

Charity Services by SCMC: \$0

Subtotal: \$387,600

Total: \$415,600

Final Excess: \$415,600 - \$319,516 = \$96,084

Calendar Year Ended 12/31/2000

Gross Revenues: \$31,818,412

Net Operating Expense: (\$14,689,276 - \$3,238,143) = \$11,451,133 Agreed Upon

Uncompensated Care: 7% x \$11,451,133 = \$801,579

Charity: \$122,582

Bad Debt: \$240,585

Total: \$363,167

Cost of Provided Care: 46.17% (cost to charges ratio) x \$363,167 = \$167,674

(Sutter Hospital's calculated an incorrect figure of \$167,660)

Deficit: (\$801,579 - \$167,674 = \$633,905)

Gained Compliance With:

Cash Contributions:

Cabrillo College Nursing Department: \$25

United Way of Santa Cruz County: \$2,350

WomenCare: \$300

Subtotal: \$2,675

In-Kind Contributions:

Community Benefit Programs, 2000: \$317,429

Non-Billed Services: \$38,650

Unpaid Cost of Public Programs (Medicare and Medi-Cal): \$302,946

True Subtotal (without the illegal deductions): \$356,079

Total: \$358,754

Final Deficit: (\$633,905 - \$358,754 = \$275,141)

The HSA provided only the **5/2/01 Second Revised Data for 1999**.

Calendar Year Ended: 12/31/1999

Gross Revenues: \$30,779,800

Net Operating Expense: \$13,581,498 - \$3,326,387 = \$10,255,111

Agreed Upon Uncompensated Care: 7% x \$10,255,111 = \$717,858

Charity: \$75,195

Bad Debt: \$308,146

Total: \$383,341

Cost of Provided Care: 44.12% (cost to charges ratio) x \$383,341 = \$169,130 (Sutter Hospital calculated an incorrect figure of \$169,148)

Deficit: (\$717,858 - \$169,130 = \$548,728)

Gained Compliance With:

Cash Contributions:

Hospice: \$480

United Way: \$2,000

Subtotal: \$2,480

In-Kind Contributions:

Community Benefit Programs: \$160,819

Unpaid Costs of Medicare, Medi-Cal, Medi-Cruz: 198,694

True Subtotal without the Illegal Deduction: \$160,819

Total: \$163,299

Final Deficit: (\$548,728 - \$163,299 = \$385,429)

Calendar Year Ended 12/31/1998 (Revised on 5/2/01)

Gross Revenues: \$22,705,186

Net Operating Expense: \$12,162,899 - \$3,144,978 = \$9,017,921

Agreed Upon Uncompensated Care: 7% x \$9,017,921 = \$631,254

Charity: \$75,031

Bad Debt: \$478,579

Uncompensated Care Write-Off: \$49,460 (no clarification)

Total: \$603,070

Cost of Provided Care: 53.57% (cost to charges ratio) x \$603,070 = \$323,065

**Reported Excess: \$236,548 (Wrote-Off Unpaid Costs of Government Programs:
Medicare, Medi-Cal, Medi-Cruz=\$867,738)
Final Deficit: (\$308,189)**

Calendar Year Ended 12/31/1997

Gross Revenues: \$18,005,934
Net Operating Expense: \$12,423,314 - \$3,000,969 = \$9,422,345
Agreed Upon Uncompensated Care: 7% x \$9,422,345 = \$659,564 (Sutter Hospital's
incorrect calculation of \$689,584)
Charity: \$38,314
Bad Debt: \$406,580
Uncompensated Care write-Off: \$537,955 (no clarification)
Total: \$982,849
Cost of Provided Care: 69% (cost to charges ratio) x \$982,849 = \$678,167
Wrote-Off Unpaid Costs of Government Programs = \$613,507
Final Excess: \$659,564 – \$613,507 = \$18,603

Calendar Year Ended 12/31/1996

Gross Revenues: \$11,165,252
Net Operating Expense: \$9,508,779 - \$1,880,908 = \$7,627,871
Agreed Upon Uncompensated Care: 5.5% x \$7,627,871 = \$419,533
(Sutter Hospital incorrect calculation of \$419,534)
Charity: \$22,525
Uncompensated Care Write-Off: \$475,211 (no clarification)
Total: \$497,736
Cost of Provided Care: 85.16% (cost to charges ratio) x \$497,736 = \$423,872
**Reported Excess: \$631,704 (Wrote off Unpaid Costs of Government Programs =
\$627,366)**

If Sutter Hospital's figures exclude the unpaid costs of public programs, that would give an excess of \$4,338. However, this figure is questionable because only charity is allowed under the 5.5% option.

Final Deficit: (\$419,533 - \$19,182 = \$400,351)

Dominican Hospital

Fiscal Year Ended 6/30/2002:

Gross Revenues: \$456,841,306
Net Operating Expense: \$64,239,883
Agreed-Upon Uncompensated Care: 7% x \$64,239,883 = \$4,496,792
Charity: \$4,804,515

Bad Debt: \$9,268,252
Total: \$14,072,767
Cost of Care Provided: $(29.62\% \times \$14,072,767) = \$4,168,354$
Initial Deficit: (\$4,168,354 - \$4,496,792 = \$328,438)
Gained Compliance with contributions to exempt organizations and community:
Benefits for the Poor:
 Non-Billed services: \$152,000
 Cash and in-kind donations: \$143,000
 Other: \$606,000
Subtotal: \$901,000
Benefits for the broader community:
 Non-billed services: \$314,000
 Cash and in-kind donations: \$462,000
 Education and Research: \$351,000
 Other: \$462,000
Subtotal: \$1,154,000
Total: \$2,055,000
Final Excess: \$2,055,000 - \$328,438 = \$1,726,562

Fiscal Year Ended 6/30/2001

Gross Revenues: \$330,472,517
Net Operating Expense: \$46,725,331
Agreed-Upon Uncompensated Care: $7\% \times \$46,725,331 = \$3,270,773$
 Charity: \$2,523,092
 Bad Debt: \$7,212,450
Total: \$9,735,542
Cost of Care Provided $(36.46\% \times \$9,735,542) = \$3,549,579$
(Dominican Hospital incorrect calculation of \$3,549,867)
Final Excess: \$3,549,579 - \$3,270,773 = \$278,806

Fiscal Year Ended 6/30/2000

Gross Revenues: \$289,473,497
Net Operating Expense: \$55,309,811
Agreed-Upon Uncompensated Care: $7\% = \$3,871,687$
 Charity: \$2,611,204
 Bad Debt: \$4,327,984
Total: \$6,939,188
Cost of Care Provided $(40.41\% \times \$6,939,188) = \$2,804,126$
Initial Deficit: (\$2,804,126 - \$3,871,687 = \$1,067,561)
Gained Compliance with Contributions to Exempt Organizations and Community:
Benefits for the Poor:

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Non-Billed Services: \$131,000
Cash and In-Kind Donations: \$57,000
Other: \$34,000
Sub-total: \$528,000
Benefits for the Broader Community:
Non-billed Services: \$176,000
Education and Research: \$115,000
Cash and in-kind donations: \$403,000
Other: \$419,000
Sub-total: \$1,113,000
Total: \$1,641,000
Final Excess: \$1,641,000 - \$1,067,561 = \$573,439

Fiscal Year Ended 6/30/1999

Gross Revenues: \$272,662,515
Net Operating Expenses: \$51,081,651
Agreed-Upon Uncompensated Care: 7% x \$51,081,651 = \$3,575,716
Charity: \$2,374,819
Bad Debt: \$3,739,328
Total: \$6,114,147
Cost of Care: (40.44% x \$6,114,147) = \$2,472,561
Initial Deficit: (\$2,472,561 - \$3,575,716 = \$1,103,155)
Gained Compliance with Contributions to Exempt Organizations and Community:
Benefits for the Poor:
Non-Billed Services: \$50,000
Cash and In-Kind Donations: \$76,000
Other: \$253,000
Sub-total: \$379,000
Benefits for the Broader Community:
Non-Billed Services: \$177,000
Education and Research: \$87,000
Cash and In-Kind Donations: \$369,000
Other: \$345,000
Sub-Total: \$978,000
Total: \$1,484,000
Final Excess: \$253,845

Fiscal Year Ended 6/30/1998

Gross Revenues: \$250,938,722
Net Operating Expense: \$42,522,518
Agreed-Upon Uncompensated Care: 7% x \$42,522,518 = \$2,976,576

Charity: \$1,891,319
Bad Debt: \$2,804,999
Total: \$4,696,318
Cost of Care: $(42.22\% \times \$4,696,318) = \$1,982,785$
(Dominican Hospital's incorrect calculation of \$1,982,899)
Initial Deficit: (\$1,982,785 - \$2,976,576 = \$993,791)
Gained Compliance with Exempt Organizations and Community:
Benefits for the Poor:
 Non-Billed Services: \$38,000
 Cash and In-Kind Donations: \$89,000
 Other: \$230,000
Subtotal: \$357,000
Benefits for the Broader Community:
 Non-Billed Services: \$162,000
 Education and Research: \$101,000
 Cash and In-Kind Donations: \$386,000
Subtotal: \$649,000
Total: \$1,133,000
Final Excess: \$1,133,000 - \$993,791 = \$12,209

Fiscal Year Ended 6/30/1997

Gross Revenue: \$244,016,884
Net Operating expense: \$44,104,448
Agreed-Upon Uncompensated Care: $7\% \times \$44,104,448 = \$3,087,311$
 Charity: \$3,046,679
 Bad Debt: \$2,955,040
Total: \$6,001,719
Cost of Care Provided: 43.88% (ratio of cost to charges) $\times \$6,001,719 = \$2,633,554$
Initial Deficit: (\$2,633,554 - \$3,087,311 = \$453,757)
Gained Compliance with Exempt Organizations and Community:
Benefits for the Poor:
 Non-Billed Services: \$45,000
 Cash and In-Kind Donations: \$112,000
Sub-total: \$157,000
Benefits for the Broader Community:
 Non-Billed Services: \$151,000
 Education and Research: \$127,000
 Cash and In-Kind Donations: \$128,000
 Other: \$518,000
Sub-total: \$924,000

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Total: \$1,081,000

Final Excess: \$1,081,000 - \$453,757 = \$627,243

Fiscal Year Ended in 1996

Gross Revenue: \$235,816,649

Net Operating Expenses: \$41,437,136

Agreed-Upon Uncompensated Care: 7% x. \$41,437,136 = \$2,900,600

Uncompensated Care Provided:

Charity: \$1,631,459

Bad Debt: \$4,539,076

Total: \$6,170,535

Cost of Care: (43.8% x \$6,170,535) = \$2,702,694

(Dominican Hospital's incorrect calculation of \$2,702,896)

Initial Deficit: (\$2,702,694 - \$2,900,600 = \$197,906)

Gained Compliance with:

Benefits to the Poor:

Non-Billed Services: \$182,000

Cash and In-Kind Donations: \$92,000

Subtotal: \$274,000

Benefits for the broader community:

Non-Billed Services: \$208,000

Education and Research: \$162,000

Cash and In-Kind Donations: \$191,000

Other: \$704,000

Subtotal: \$1,265,000

Total: \$1,539,000

Final Excess: \$1,539,000 - \$197,906 = \$696,977

Only the 1996 report came as an auditor's report.

Watsonville Community Hospital

Fiscal Year Ended 2002

Has Not Been Submitted As of 12/03

Fiscal Year Ended 2001

Gross Revenue: \$254,350,140

Net Operating Expense: \$25,488,782

Agreed Upon Uncompensated Care: 7% = \$1,784,215

Charity: \$1,634,719

Bad Debt: \$4,967,008

Total: \$6,601,727
Cost of Care Provided (Ratio of Cost to Charges x Total = 29.27% x \$6,601,727) =
\$1,932,325 (Watsonville Hospital's incorrect calculation of \$1,932,221)
Excess: \$1,932,325 - \$1,784,215 = \$148,110

Fiscal Year Ended 2000

Gross Revenue: \$195,929,361
Net operating Expense: \$21,596,081
Agreed Upon Uncompensated Care: 7% = \$1,511,726
Uncompensated Care:
 Charity: \$1,057,600
 Bad Debt: \$3,519,779
Total: \$4,577,379
Cost of Care Provided (33.26% x \$4,577,379) = \$1,522,436
(Watsonville Hospital's incorrect calculation of \$1,522,620)
Excess: \$1,522,436 - \$1,511,726 = \$10,710

Fiscal Year Ended 1999

Gross Revenue: \$141,120,162
Net Operating Expense: \$20,361,845
Agreed Upon Uncompensated Care: 7% = \$1,425,329
Uncompensated Care:
 Charity: \$653,169
 Bad Debt: \$3,165,288
Total: \$3,818,457
Cost of Care Provided: (41.16% x \$3,818,457) = \$1,571,676
(Watsonville Hospital's incorrect calculation of \$1,571,609)
Excess: \$1,571,676 - \$1,425,329 = \$146,347

Fiscal Year Ended 1998

No Report (changed from non-profit to for-profit hospital in 1998)

Fiscal Year Ended 6/30/1997

Gross Revenue: \$108,060,744
Net Operating Expense: \$17,046,592
Charity Threshold Factor: 7.0% = \$1,193,261
Uncompensated Care:
 Charity: \$753,698
 Bad Debt: \$2,016,985

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Total: \$2,770,683

Cost of Care Provided: $(49.83\% \times \$2,770,683) = \$1,380,631$
(Watsonville Hospital's incorrect calculation of \$1,380,548)

Excess: \$1,380,631 - \$1,193,261 = \$187,370

Fiscal Year Ended 6/13/1996

Gross Revenue: \$103,336,619

Net Operating Expense: \$16,791,222

Charity Threshold Factor: 7.0% = \$1,175,386

Uncompensated Care:

Charity: \$1,270,791

Bad Debt: \$978,089

Total: \$2,248,880

Cost of Care Provided: $(49.81\% \times \$2,248,880) = \$1,120,167$
(Watsonville Hospital's incorrect calculation of \$1,120,101)

Deficit: (\$1,120,167 - \$1,175,386 = \$55,219)

Watsonville Hospital reported an excess of \$55,285, which was not caught by the HSA as an error.