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The budget cut catastrophe

Local health care organizations take drastic measures to deliver services, survive amid \$2.7B in cuts to health care

By Laura Scholes

You don't have to look very far to see the effects of our economic crisis. Foreclosure signs on the next block. A smaller-than-usual balance on your ATM receipt. Fewer dinners out. And in California, there's an even more ominous indicator: signs on health facilities and programs around the region reading, "Sorry, we're closed."

Though everyone knew budget cuts were coming, many facilities were thrown for a loop when all the wrangling in Sacramento came to an end. And while the largest of the cuts came from education (\$9 billion), health care cuts came in second: \$2.7 billion. To add insult to injury, a fair percentage of these cuts mean state health care programs are losing federal \$2 to \$1 matching dollars as well.

"It's devastating," said Barbara McCullough, Ph.D., executive director of Brighter Beginnings, a nonprofit that provides health care, education and job assistance to teenage parents and families in Alameda and Contra Costa counties. "We are struggling right

now. We've had to cut case managers while at the same time dealing with more clients than ever coming to us for help. We're trying to serve twice as many as we're funded to serve."

And that's the catch-22 the state finds itself in: it is during bad economic times that health care services are needed the most.

"It's the most vulnerable getting hit by these cuts, and because of the economic problems at large, the wiggle room to tough it out is not there," says Stephen Shortell, Ph.D., dean of the School of Public Health and professor of health policy and management at University of California, Berkeley. "Also, these cuts create a multiplier effect. It's not just one leg of your chair being punched out; it's all four of the legs being punched out at once and you're sitting on the floor."

The line-item veto melee

What makes the state budget cuts to health care even more frustrating for some involved at the patient

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Debunking the reform myths

Passions have run high and tempers flared in the health care reform debate. Unfortunately, misinformation rules the airwaves. We set the record straight.

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Full investigation of Sutter Health

'Questionable business practices' cited in letter to state attorney general

By Rebekah Stone

The controversies surrounding Sutter Health have reached a boiling point, with 13 state legislators sending a letter to state Attorney General Jerry Brown, requesting an immediate investigation of all of Sutter's business practices.

Assemblyman Jared Huffman (D-San Rafael), Ellen Corbett (D-San Leandro and chairwoman of the California Senate Judiciary Committee) and Mark Leno (D-San Francisco) were among those to sign the letter, which alleged a litany of abuses across the region, including "...misrepresentation of hospital finances, economic and medical redlining, abuse of nonprofit status, anti-trust violations, questionable allocation of public assets, and execution of contracts that may be in conflict with existing law."

The letter goes on to state that, "In almost every community in which Sutter Health operates, a legal and public battle over their broken promises and questionable actions

ensues ... we ask that you take immediate steps to intervene to determine whether Sutter acted improperly."

The letter came in response to a growing laundry list of complaints against Sacramento-based Sutter, which operates 26 hospitals in the state.

First, there was St. Luke's in San Francisco, which brought an action for antitrust violations after Sutter brokered an exclusive contract with the Bay Area's largest network of doctors, allegedly in an effort to redirect wealthier patients away from St. Luke's.

Then came Santa Rosa, where Sutter attempted to close the county hospital, in violation of its 20-year contract with Sonoma County. While Sutter agreed to maintain acute care in Santa Rosa, it proposed limiting services and transferring the profitable ones to a for-profit subsidiary that will not be subject to a contract with the county.

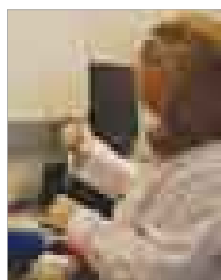
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Santa Clara County Medical Association absorbs smaller Monterey society

By Troy May

In May Santa Clara County Medical Association absorbed the administrative functions of the Monterey County Medical Society to help sustain the waning and financially struggling society. But the move could cause a ripple effect stretching beyond Silicon Valley; it could act as a model organization for other small physician associations struggling to stay afloat.

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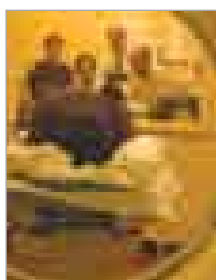


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Detecting diabetes

Emeryville lab launches pre-diabetes test that shows five-year risk of developing the disease.



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Mummification of NorCal

Mummy fever hits S.F., Stanford, and beyond.

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UCSF Medical Group affiliates with Hill Physicians, ends relationship with Brown & Toland

By Tony Edwards

Ending a long relationship with Brown & Toland Medical Group, the UCSF Medical Group has affiliated with San Ramon-based Hill Physicians Medical Group for San Francisco patients. The new agreement is effective January 1, 2010. The agreement also applies to physicians at UCSF Children's Hospital.

According to the agreement, all physicians who are members of the UCSF Medical Group (i.e., faculty members of the clinical departments of the School of Medicine who also practice at UCSF) will become participating physicians of Hill Physicians.

On the patient side, those who belong

to an HMO through Aetna, Anthem Blue Cross, Blue Shield, CIGNA, HealthNet or United/Pacificare will be affected.

Sam Hawgood, MB, BS, the president of the UCSF Medical Group, and interim dean of the UCSF School of Medicine said that UCSF physicians played a key role in the decision to affiliate with Hill Physicians.

"A cross-functional team that included UCSF physicians from multiple specialties were highly involved in the decision to affiliate with Hill Physicians," Hawgood said. "This task force met for many months and thoughtfully evaluated UCSF's long-term managed care strategy."

Hawgood said the agreement gives

UCSF more flexibility to meet patient and physician needs in the changing landscape of health care.

UCSF and Hill have launched Web sites and devoted sections of presently existing Web sites to what changes patients will face and what questions they may have. Hawgood said that outreach efforts have also been developed for physicians.

"Communications have been developed for UCSF faculty and community physicians to explain the new relationships with Hill Physicians and Brown & Toland," he said. "We also are inviting all community physicians in San Francisco to join UCSF physicians in this new network."

UCSF and Brown & Toland are discussing a new contractual arrangement to enable HMO patients with a Brown & Toland primary care doctors to still use UCSF services. There is no guarantee the discussion will lead to an agreement.

In a statement, Hill Physicians CEO Steve McDermott said the affiliation would help patients.

"This is an ideal combination for San Franciscans," said McDermott, "one of the nation's largest physician associations is combining with one of the nation's best medical centers."

For more, visit www.accessUCSF.org or www.HillPhysicians.com/UCSF.



CDPH issues new H1N1 recommendations to physicians

By Tony Edwards

With the fall flu season approaching, the California Department of Public Health has issued new recommendations to physicians for treating patients who may have the H1N1 flu.

In May, the CDPH recommended that physicians use "enhanced precautions" for those patients with a fever higher than 37.8°C or 100°F plus one or more of rhinorrhea, sore throat or cough.

For infection control purposes, the CDPH has revised these recommendations. The department has dropped the symptoms of rhinorrhea, nasal congestion, and sore throat, and added an age criterion for patients less than 60 years old.

According to the CDPH, epidemiologic data for hospitalized patients for June and July 2009 show a "significant relationship" between rates of H1N1 2009 influenza and age. In reports, 92 percent of patients who have been admitted to a hospital with H1N1 are younger than 60.

To reassure physicians and other health care providers, the department noted that any cases of H1N1 flu among providers have been "limited and not significant."

The department's definition of a confirmed case of H1N1 flu is a person with an acute febrile respiratory illness with laboratory confirmed pandemic (H1N1) influenza by one or more of the following tests: real-time RT-PCR Swine Influenza rRT-PCR Detection Panel (rRT-PCR Swine Flu Panel); or viral culture.

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Brighter Beginnings Executive Director Barbara McCullough (center) meets with staffers Candy Anderson and Natalie Berbick.

Gov's line item vetoes cut additional \$489M from health care budgets

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care level is that they got dinged once by the legislature and then again by Schwarzenegger's line-item vetoes after the fact; the vetoes took away another \$489 million.

Charlene Clemens of the Family Service Agency of San Francisco was one who was especially taken by surprise. She had presented data to the legislature to prove the effectiveness of their programs — a 5 percent repeat birth rate for their teenage mothers compared to a national average of 20 percent — and the legislature funded their program at 90 percent of their previous budget.

"Everyone in our organization was beside themselves with delight because we see these kids every day and see what our programs accomplish for both the teen mothers and their babies," Clemens said. "Then with one stroke of the pen, the governor took it all away. I've been here over 20 years and this is the absolute worst I've ever seen."

With the loss of matching federal funds, their organization lost approximately 60 percent of their budget, and now 2.5 case managers are doing the work of five.

Other facilities that don't have particularly large overall budget cuts are feeling the effects in targeted ways due to Schwarzenegger's elimination of adult services that are optional under Medi-Cal: dental, podiatry and optometry.

Open Door Community Health Centers, which operates 10 clinics in rural northern California, is one of those facilities. It's the largest primary care provider north of Santa Rosa; 40 percent of the area's population looks to Open Door for their health needs. Their budget was cut \$5 million

(about \$1 million of that from the line-item veto), which has meant they've had to cut staff (mostly through attrition), reduced salaries (20 percent at the top, but no pay cuts to hourly employees) and have eliminated all overtime. They've been trying to deal with the cuts by staying as true to their mission as possible.

"Our philosophical roots are giving access to people who have difficulty getting access to good care, so we decided to quit accepting insured patients," said Open Door's Executive Director Hermann Spetzler. "If someone has to drive six or seven hours round trip to get health care, we don't want that to be the person who can't afford to take time off from their job."

Open Door's dental clinics have been hit particularly hard. They've had to close their first and oldest dental site in Arcata after 30 years and are looking at closing another dental program in October.

"This is all because of the elimination of what the governor called 'optional benefits,' which I think most reasonable people would not consider optional," said Spetzler. "We have never been a dental provider that does fancy bridgework; we do basic restorative dentistry to provide our older patients with dentures so they can keep eating. Now we are not able to provide dentures to anyone at this point."

"I know we all have to live within our means, but the wholesale elimination of programs like dental services is extremely difficult to understand. Health care is a continuum, and what's happening with these cuts is that the state is making bad economic decisions as well as bad medical decisions."

Aside from the optional benefits cuts, services for the elderly and disabled are another area where the cuts were deep. California Caregiver Resource Centers (CCRC), which operates 11 centers throughout the state, helps families who are caring for adults with chronic, disabling health conditions. Their budget last year was \$10.9 million; after the budget wrangling, the legislature funded them at \$7 million, but the governor's line-item veto slashed their budget again to \$2.9 million, or a 72 percent cut.

"We've cut half our staff," said Donna



Due to the state budget cuts, Barbara McCullough and her staff at Brighter Beginnings had to find ways to shave more than \$1 million from their operating budget, even as more families seek their services.

Schempp, program director. "And those who are left come in everyday and say, 'What do you know? What does it look like today?' We haven't been told what we can do with the money they have authorized for us, so it makes it very hard to plan. Luckily, we still have our federal dollars so the remaining members of our staff are working very hard to give people the best service that we can while we're in limbo."

One of CCRC's social workers, Lois Escobar, put a face on the problem. She has a client who is in her 40s, working full time, and trying to care for her father with dementia and an adult brother with developmental disabilities. After the budget cuts, her father's day care center was cut from five days to three, and her brother's care was cut to 10 hours a week. "She's overwhelmed," said Escobar. "She can't give up work, and she can't afford to private pay for the care that was lost due to the cuts."

Hope on the horizon

If there's any glimmer of hope, it comes in the form of a couple of lawsuits that have been filed to fight the line-item veto cuts. Senate President Pro Tempore Darrell Steinberg (D-Sacramento) filed a suit on July 29 alleging that Gov. Arnold Schwarzenegger overstepped his authority when he used line-item vetoes; a second suit was filed by health clinics and other advocates for the disabled to restore funds eliminated

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Hospitals face “the big one”

Deep economic recession, looming seismic deadlines send area hospitals into a tailspin

By Laura Scholes

Though the economic crisis has beaten down almost every sector, perhaps none is feeling the pain quite as deeply as health care. In fact, according to a March 2009 survey by the American Hospital Association, nine in 10 hospitals have made cuts to address economic concerns, and 80 percent of hospitals report cutting capital spending for facilities upgrades.

In California, the situation is even worse. State hospitals find themselves caught facing a nasty one-two punch: in the midst of the deep recession, they're having to go out and get money for massive construction projects to meet the deadlines for state law SB1953, requiring that all acute-care hospitals comply with new and stringent seismic guidelines.

Estimates project that between 40 and 70 million square feet — or about half of the existing acute-care building space in the state — will have to be rebuilt, retrofitted or closed to meet the 2013 deadline.

What makes this even more challenging is that hospitals are often made up of two or more buildings, constructed in different decades and interwoven in complicated ways. That means that if the at-risk building is boxed in by one or more newer, compliant buildings, retrofit project costs can skyrocket because of the accommodations needed to not disrupt patient care.

And costs are *the* big issue here: A RAND report commissioned by the California Healthcare Foundation (CHCF) estimates costs could go as high as \$110 billion statewide.

“Because the credit markets are frozen, hospitals cannot access capital, so they have no ability to go out and get the money they need for seismic retrofitting,” said Jan Emerson, spokesperson for the California Hospital Association. “A survey we did in January 2009 showed that 38 percent of our hospitals would not be able to comply with the deadline because of the economic crisis.”

The economic crisis is just part of the problem, according to Wanda Jones, a hospital consultant and founder of the New Century Healthcare Institute in San Francisco.

“The law was passed in 1994 when there was no worry that Medicare might be imploding just as hospitals have to book new debt to pay for the construction,” she said. “And that’s exactly what’s happening now.”

Luckily, there has been a bit of a reprieve for some institutions. The Office of Statewide Health Planning and Development (OSHPD) is reevaluating any SPC-1 building — those deemed most at-risk — at the owner’s request using a technologically enhanced earthquake engineering method called HAZUS. If approved, these buildings get off the 2013 list and instead can delay their seismic work to meet the final scheduled deadline of 2030.

“We receive requests every day,” said OSHPD spokesperson Pat Sullivan.

To date, 414 SPC-1 buildings (of the approximate 1,000) have applied for reassessment, and of those, only 148 have been released from the 2013 deadline.

HAZUS has helped, but most hospitals still have some, if not a lot, of work to do to get ready for 2013.

“HAZUS reframed the magnitude of the problem to some extent, but I think there are many hospitals that still face very significant challenges [in meeting the deadlines],” said David O’Neill, senior program officer for CHCF.

And because the compliance date is standard for everyone, many hospitals went out to bid with their seismic projects at about the same time, creating a classic supply-and-demand problem, which was compounded by events across the country — and across the globe.

“A lot of people held off as long as they could, so when all of this hit the market, it created a shortage of labor and a shortage of material,” explained William Roger, director of health care for HOK Architects, which is working on seismic projects around the state. “It was also happening when the Chinese had their own big deadline with the 2008 Beijing Olympics, which had a huge impact on the cost of construction.”

Added to these forces was a building boom in Las Vegas where projects were of the ‘get in, get out’ variety, an appealing



draw for contractors who had the luxury of choosing them over more complicated and lower-return projects in health care.

Though the economy has tempered the situation — construction in other sectors is way down and the cost of materials including concrete and steel has dropped 20 percent — many area hospitals who were racing to meet 2013 deadlines got caught up in the frenzy. One of them is the UC Davis Health System.

“We couldn’t have picked a worse time to solicit bids,” said Mike Boyd, executive director of their facilities planning, design and construction department. “What was originally a \$281 million project grew to \$425 million.”

UC has the size and depth of resources to handle this type of cost overrun — and size plays a big role in the broader issues surrounding these projects.

Kaiser Permanente has about a dozen seismic projects on the books, five of which are already complete, and though the economy slowed down some of their work, “our projects are moving along nicely,” according to Christine Malcolm, Kaiser’s senior vice president of hospital strategy and national facilities. “We are spending more money on hospitals than we would have otherwise because of the SB1953 deadline, but we’re taking this opportunity to transform our buildings to facilitate digital care, which was part of our capital plan.”

Smaller facilities, like St. Mary’s Medical Center in San Francisco, which is awaiting the results of their HAZUS reassessment, are having a harder time.

“The structural deadlines associated with the unfunded SB1953 mandate will require significant financial resources in an environment where obtaining the necessary funds is difficult,” said St. Mary’s spokesperson Christina Chandler. “Like the vast majority of hospitals throughout the state, St. Mary’s is dealing with the very real impacts of the national economic crisis and we are concerned about our ability to access the capital necessary to proceed with the retrofitting.”

Which brings the saga full circle to the original quandary: in this economic climate, how are hospitals — especially those without deep pockets — going to fare come 2013?

“They won’t make the deadlines,” Jones said bluntly. “So I would like to see the state take a deep breath and say, ‘Come back to us and tell us what you think you can do.’ In the meantime, let’s all cooperate and modernize this stupid law because otherwise this seismic safety bolus will mean we’ll see increases in hospital prices, increases in cost shift to the private sector and increases in private insurance premiums.”

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Just under the wire: Sutter Health grabs bond funds before state coffers run dry

In early 2007, as the Dow Jones was still cheerfully climbing and California was feeling generous, Sutter Health snagged \$958 million in tax-exempt financing to pay for some of its retrofit work, along with other new building projects.

Issued by the California Health Facilities Financing Authority (CHFFA), it was one of the largest hospital bond issuances in the authority’s history.

Because hospitals are among the most expensive types of buildings to construct, bond financing is the standard route to raise money to fund these type of projects. Many use the private capital market (Wall Street) and the interest rate they pay is contingent on their credit rating.

But tax-exempt bonds of the kind Sutter

received are available only to state and local governments or their subdivisions, so an exception had to be made for Sutter.

This exception saved Sutter a ton of money. David Dowall, director of UC Berkeley’s Institute of Urban and Regional Development, estimated that Sutter is saving approximately \$4.5 million a year (or about \$67 million over the course of the 30-year term) by getting access to tax-exempt funds instead of having to go out onto the open market.

“The state’s position is that if we’re going to give you something that’s worth a lot of money — access to tax-exempt bond financing when you’re not a state agency — we expect you to reciprocate and provide something for the public good of California,” Dowall said.

After much wrangling, Sutter did agree to give back some of their savings to fund public-oriented projects: a paltry \$8.5 million. To date, Sutter officials said they have donated some of that money to community-based clinics, with another \$1 million going to the California Regional Health Information Organization (CalRHIO) to create electronic records systems. According to Sutter officials, a decision has not been made about where the remaining \$3.5 in earmarked funds will go.

With so much money on the table, it seems Sacramento might have pushed harder to get Sutter to put more of their savings back into the system.

“I think the amount that they’re borrowing is exceptional,” said Dowall. “And

even if you got them to commit \$20 million over the life of the loan, they’d still be coming out way ahead.”

And as for the actual bond money, Sutter has used it for seismic work at the Davis campus at California Pacific Medical Center, as well as other construction projects in Burlingame, Sacramento, Stockton, Modesto, and Roseville, all part of an estimated \$6.6 billion that Sutter plans to spend on seismic and other building projects.

And what about others who’d like to get in on the same type of tax-exempt funding for their seismic projects? Hospital consultant Wanda Jones said of the Sutter bond: that was then, this is now.

“The state of California can’t afford to buy a Happy Meal right now.”