

Appendixes

A. Company Profiles

What follows are short descriptions of some of the larger for-profit and nonprofit hospital systems, which have tended to be the suitors in the transactions described in this report.

Table 1. Acute-Care Hospitals by Ownership/Management

Company	California	Outside California	Total
Tenet Healthcare Corporation (FP)	42	88	130
Catholic Healthcare West (NP)	38	0	38
Kaiser, Northern and Southern CA Region (NP)	24	2	26
Sutter/Health (NP)	23	0	23
Columbia/HCA (FP)	17	330	347
Universal Health Services, Inc. (FP)	1	19	20
Adventist Health (NP)	– [†]	–	21
Community Health Systems (FP)	4 [*]	36	40

– = Insufficient data

* Fallbrook District Hospital lease, Watsonville Community Hospital, Barstow Community Hospital, Victor Valley Community Hospital, Letter of Intent signed Oct. 1998, deal pending submission to Attorney General for approval.

† Adventist owns or operates at least one hospital in California, Central Valley Community Hospital, formerly Sacred Heart.

OrNda/Tenet

For-profit Tenet Healthcare Corporation (“Tenet”) has grown dramatically in recent years. Tenet was formerly called National Medical Enterprises (“NME”).¹ It currently owns or operates 120 hospitals in 17 states. Forty-three of those hospitals are in California. Its growth is due in large part to its acquisition of for-profit OrNda HealthCorp (“OrNda”) of Nashville, Tennessee. In 1996, OrNda was the third-largest for-profit hospital chain in the country.² On October 17, 1996, Tenet and OrNda announced their planned merger. The transaction valued OrNda at more than \$3.1 billion. On January 29, 1997, the Federal Trade Commission approved the merger. The resulting company has revenues of approximately \$8.5 billion. Tenet is headquartered in Santa Barbara, California, and is publicly held and traded on the New York and Pacific Stock Exchanges. Based on the number of hospitals it owns or manages, it is the largest hospital company in the state.

In a July 18, 1997, speech before Tenet senior executives and senior managers, Jeffrey C. Barbakow, Chair and CEO, said: “[I]t’s so important to grow... [H]ealth care remains America’s largest and arguably last great cottage industry.... Consolidation will continue to be the most visible hallmark of our industry.... Clearly we will continue to focus on acquisitions.... We are now big enough and strong enough to

positively shape the future of U.S. healthcare. And with your help, that is precisely what I propose to do.” True to his word, this is what Tenet has done in California. Of the ten nonprofit/for-profit hospital conversions studied in this report, five involved Tenet.

Columbia/HCA

Today, Columbia/HCA Healthcare Corporation (“Columbia/HCA”) of Tennessee is the largest and, until recently, the most aggressive of the for-profit hospital chains. Columbia owns over 300 hospitals in 36 states, 17 in California. It controls nearly half of the for-profit hospital beds in the country and is also the tenth-largest employer in America, with 285,000 employees. In the wake of a massive federal probe of its billing practices, Columbia announced plans to restructure its holdings.³ On May 20, 1998, Columbia announced it had agreed to sell 22 of the 45 hospitals in its Atlantic group to a consortium of eight nonprofit hospital systems.⁴ Columbia was the first large for-profit hospital chain to enter the California market. Despite its recent problems, however, it is not out, as evidenced by its acquisition this winter of Alexian Brothers hospital in San Jose.

Catholic Healthcare West

As of this writing, Catholic Healthcare West (“CHW”) is the second-largest health care provider in California, based on the number of acute-care hospitals (38) it owns or manages. CHW also operates nine medical groups of the CHW Medical Foundation throughout California, Arizona, and Nevada. CHW is a health care system sponsored by the Sisters of Mercy, Auburn and Burlingame Regional Communities; the Sisters of St. Dominic of Adrian, Michigan; the Daughters of Charity, Province of the West; the Sisters of Charity of the Incarnate Word of Houston, Texas; the Dominican Sisters of San Rafael, California; the Sisters of St. Catherine of Sienna of Kenosha, Wisconsin; the Franciscan Sisters of the Sacred Heart of Frankfort, Illinois; and the Sisters of St. Francis of Penance and Charity of Redwood City, California. The controversy surrounding its acquisition strategy usually centers on the subject of reproductive rights, because it is a Catholic hospital system. A number of groups have expressed concern whether the hospital will continue to provide reproductive services post-acquisition.⁵ A bill now pending in the Legislature would seek to protect these rights.⁶

Sutter Health

Sutter Health is a nonprofit integrated health-care system. It owns 25 acute-care hospitals and more than a dozen regional home health-care programs. It has a majority interest in Omni Healthcare, an HMO with \$2.5 billion in assets and more than 31,000 employees. Sutter Health was created through the January 1996 merger of Sacramento-based Sutter Health and Bay Area-based California Healthcare System.⁷ In 1997, it changed its name to Sutter Health from Sutter/CHS.⁸

The growth of Sutter Health has not been without controversy. The Service Employees International Union (“SEIU”), Local 250 of Northern California, has observed that while Sutter Health is regulated as a nonprofit corporation, the Sutter Health system is more accurately described as a mixed-status health system because of its numerous for-profit subsidiaries. Based on this concern, SEIU wrote the California Health Facilities Financing Authority (“CHFFA”) on July 17, 1997, urging it to defer consideration of a \$40 million bond application filed by Sutter Health until it came into compliance with the CHFFA Act.⁹

One of SEIU's concerns was that bond debt may have benefited the for-profit subsidiaries. In one instance Sutter may have used its bond debt to secure a loan for one of its for-profit subsidiaries. Sutter currently owns almost half a billion dollars in bond debt issued through CHFFA. SEIU also alleged that Sutter failed to disclose information to the public about physicians who practice at its hospitals, such as whether they accepted MediCal and Medicare patients. On July 23, 1997, CHFFA approved Sutter's application but attached as a condition that Sutter come back into compliance with the act's disclosure requirements before the bond deal closed.¹⁰ In a written response to SEIU's letter, Sutter said that nonprofits are permitted to invest in for-profit corporations as long as such investments are prudent and in accordance with regulatory guidelines.¹¹

Sutter has also been criticized for providing low levels of charity-care at its facilities. According to San Francisco's S.F. Weekly newspaper, "[I]n 1996, [Sutter] spent \$14.4 million for 'traditional charity-care' – care for people with no ability to pay.... This level of 'charity' care is less than 1 percent of Sutter's total operating expenses."¹² This has been an issue in the proposed acquisition of Summit Medical Center in Oakland and Alta Bates Medical Center in Berkeley by Sutter, which is currently awaiting regulatory approval by the Attorney General.¹³

Kaiser Permanente

Founded in 1945, Kaiser Permanente is the nation's largest HMO. It is also a working partnership of two organizations: the nonprofit Kaiser Foundation Health Plan and Hospitals, and the nonprofit Permanente Medical Groups. There is one of each in every region Kaiser serves. Its headquarters are located in Oakland, California, and it has members in 18 states and the District of Columbia. Kaiser owns or operates 26 acute-care hospitals nationally, 24 of which are in California. It employs 9,277 physicians and more than 90,000 non-physician employees.¹⁴

Universal Health Services

Universal Health Services ("UHS") is headquartered in King of Prussia, Pennsylvania. It owns and operates acute-care hospitals, behavioral health centers, ambulatory surgery centers, and radiation oncology centers. It owns or operates 20 acute-care hospitals nationally, one in California.¹⁵ In describing UHS, its CFO has said that not all for-profit hospitals are alike, and not "all have Columbia's penchant for arrogance and heavy-handedness."¹⁶ With respect to charity-care, in a lease agreement between the Amarillo Hospital District in Texas and UHS, UHS agreed to provide all medically necessary health-care services to indigent patients for 25 years, the entire term of the lease. UHS was one of three bidders that submitted proposals to buy or operate Sharp Healthcare System's Murrieta Hospital.¹⁷

Community Health Systems

Community Health Systems, Inc. ("CHS") is a privately held, for-profit hospital chain incorporated in Delaware, and based in Brentwood, Tennessee. CHS specializes in taking over rural hospitals. Currently, CHS owns, leases, or manages approximately 40 hospitals in 17 states, three in California.¹⁸ CHS, in turn, is owned by Forstmann Little & Co., a large New York investment firm that specializes in buying and selling businesses at a profit. When it acquired CHS in 1996, Forstmann Little set aside \$500 million to increase CHS's level of acquisitions. Forstmann Little's compounded return on its equity investments has been 61% per year.¹⁹

The firm's largest holdings until recently were Ziff-Davis Publishing and Gulf Stream Aerospace.²⁰ According to *Folio*, a trade magazine specializing in magazine management, Forstmann Little, typically holds companies for five to seven years and then spins them off into the public markets, all at once or in stages, or sells them to other buyers.²¹

On September 1, 1998, the California Attorney General approved the proposed sale of Watsonville Community Hospital to CHS.²² In October 1998 CHS announced it had signed a Letter of Intent to purchase 121-bed nonprofit Victor Valley Community Hospital in Victorville California.²³ This transaction is currently pending approval by the Attorney General.

B. *Other Consolidations*

Also of concern has been the increasing number of nonprofit stand-alone hospitals merging with larger nonprofit hospital systems. The potential impact of these types of transactions on the affordability and accessibility of health care in the community can be as significant as the impact of hospital conversions from for-profit status. Insufficient public information, however, to properly analyze these transaction is available. Accordingly, this is only a limited summary of these deals, and why we support passage of AB 254.

Nonprofit/Nonprofit Mergers

Corona Community Hospital/Versacare: In April 1995 Corona Community Hospital ("CCH") and Versacare, Inc. ("Versacare"), entered into a proposed merger agreement and sent the Attorney General's Office the necessary documentation.²⁴

Incorporated in May 1981, CCH is a California nonprofit public benefit corporation whose main activity is the operation of an acute-care hospital. In October 1983 the Corona Community Care Center, Inc. ("CCCC"), was also incorporated as a nonprofit public benefit corporation to own and operate an extended-care facility. In 1987 the companies merged and CCH became the surviving entity. Owing to financial difficulties faced by the hospital in 1992, CCH chose to sell its acute-care hospital to Vista Hospital Systems, Inc., a nonprofit corporation.²⁵

Versacare is a Florida nonprofit foundation pursuant to sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code. It is a charitable organization whose mission is to advance health-care through several subsidiary health care facilities that are also tax-exempt. In 1994 an IRS ruling affirmed that the proposed merger between CCH and Versacare would not violate Versacare's tax-exempt status. The California State Attorney General did not oppose the merger.²⁶

Holy Cross Medical Center/Sisters of Providence: Holy Cross Medical Center ("HCMC") and the Sisters of Providence ("Providence") proposed a deal in which HCMC would transfer all of its assets to Providence. HCMC is a California nonprofit public benefit corporation, and Providence is an Indiana nonprofit corporation.²⁷ On March 28, 1996, the California Attorney General made no objection and approved the transaction.²⁸

NorthBay Healthcare/NorthBay Hospital Group: In 1995, NorthBay Healthcare proposed to merge two of its subsidiaries, NorthBay Healthcare Services and NorthBay Hospital Group.²⁹ NorthBay Hospital Group was to be the surviving corporation. Although the Attorney General's office raised some issues concerning the operating losses of NorthBay Healthcare Services, the office found no basis to disapprove the merger.³⁰

Seton Medical Center/St. Mary's Medical Center: On June 10, 1996, Seton Medical Center ("Seton") and St. Mary's Medical Center ("St. Mary's") announced merger plans. Both are nonprofit public benefit corporations that own hospitals in the San Francisco Bay Area. St. Mary's owns and operates a general acute-care hospital in San Francisco, and Seton owns and operates two general acute-care hospitals in San Mateo County. The sole corporate member of both hospitals is Catholic Healthcare West ("CHW").³¹ According to the terms of the merger agreement, Seton was the sole surviving corporation following the merger. The new corporation is named CHW West Bay, and continues to operate the general acute-care hospitals.³²

Citrus Valley Health Partners/Foothill Hospital-Morris L. Johnson Memorial: Citrus Valley Health Partners ("CVHP") and Foothill Hospital-Morris L. Johnson Memorial ("Foothill") entered into an affiliation agreement in which CVHP became the sole corporate member of Foothill (which remained a tax-exempt, nonprofit public benefit corporation). Both CVHP and Foothill were nonprofit public benefit corporations incorporated in California. As part of the agreement, Foothill was not required to transfer any of its assets to CVHP. As part of their filing with the Attorney General, both entities submitted their restated articles and bylaws and various financial statements.³³ On April 21, 1995, the Attorney General approved the deal.³⁴

Sutter Health/California Healthcare System: In 1981, Sutter Community Hospitals, the governing organization of Sacramento's Sutter General and Sutter Memorial Hospital, formed Sutter Health, an integrated nonprofit health-care system. In 1986, California Healthcare System was formed. Founding members included Pacific Presbyterian Medical Center in San Francisco, Mills-Peninsula Hospital in San Mateo and Marin General Hospital in Greenbrae. Alta Bates Hospital in Berkeley joined the system in 1992, the same year Pacific Presbyterian and Children's Sutter Hospital merged to form the California Pacific Medical Center. In January 1996 Sutter/CHS was created through the merger of Sacramento-based Sutter Health and Bay Area-based California Healthcare System. In 1997 Sutter/CHS changed its name to Sutter Health.³⁵

Sutter Community Hospitals: In May 1996 Sutter Community Hospitals of Sacramento ("SCHS"), Sutter Roseville Medical Center, Sutter Davis Hospital, Sutter Continuing Care, and Sutter Auburn Faith Hospital (all California nonprofit public benefit corporations) announced plans to merge. SCHS was the surviving entity and changed its name to Sutter/CHS Central.³⁶

Catholic Healthcare West/St. Joseph/St. Bernardine/St. Francis: On June 3, 1996 Catholic Healthcare West ("CHW") announced it had completed mergers with seven acute-care hospitals in Northern and Southern California. In Northern California, CHW merged with the St. Joseph Regional

Health System of Stockton, which brought three acute-care hospitals into the CHW system. The hospitals were St. Joseph's Medical Center in Stockton, St. Dominic's Hospital in Manteca, and Mark Twain St. Joseph's Hospital in San Andreas. Also joining CHW were Mercy Hospital and Health Services in Merced. In Southern California, St. Bernardine Medical Center in San Bernardino, St. Mary's Medical Center in Long Beach, and Robert F. Kennedy Medical Center in Hawthorne joined CHW.

On April 25, 1997, CHW announced the completion of merger agreements with two nonprofit Catholic hospitals – St. Francis Medical Center in Santa Barbara and Marian Medical Center in Santa Maria. The two new hospitals joined CHW's Central Region, which currently includes St. John's Regional Medical Center in Oxnard and St. John's Pleasant Valley Hospital in Camarillo.

Davies Medical Center: Also in November 1996, Davies Medical Center of San Francisco announced it was interested in a merger partner. Davies is a 341-bed, independent, nonprofit community hospital. Founded in 1858 by the German Benevolent Society, it is one of the oldest hospitals in San Francisco. Davies runs a census of 90 to 100. It runs a 1% loss on operation but had a net profit of \$2.7 million on revenues of \$57 million in 1995.³⁷ In a November 25, 1996, interview with *Modern Healthcare*, Dave McGrew, CFO of Davies, was quoted as saying, "We feel we need to align ourselves, either in a full merger with a local institution or one of the for-profit organizations, such as Tenet or Columbia."

In an August 7, 1997, interview with Consumers Union, McGrew said Davies was still looking for a partner and that it had conducted preliminary discussions with Sutter/CHS and the City and County of San Francisco. No formal request for proposals had been made. When asked if the Davies Board had made a decision on not to pursue a for-profit affiliation, he said no. In April 1998, however, officials at Davies Medical Center and nonprofit Sutter Health announced that the two entities would indeed merge.³⁸ The deal closed in the summer of 1998.³⁹ Davies Medical Center became a part of Sutter Health's subsidiary, California Pacific Medical Center. In January 1999, St. Luke's Hospital sued California Pacific Medical Center on antitrust grounds. The suit is still pending.

St. Luke's Hospital: St. Luke's Hospital is located at Cesar Chavez and Valencia Streets in the heart of San Francisco's Mission District. It is a private nonprofit hospital sponsored by the Episcopal Church. It has 252 beds and runs a census of 130 to 150. In 1995, it lost \$1 million on \$70 million in revenues. In November 1996 St. Luke's announced it was looking for a strategic partner. Among those to be considered were the City and County of San Francisco (which owns San Francisco General Hospital), Catholic Healthcare West, Sutter Health, Columbia, and Tenet.⁴⁰

In a stand against the conversion tide, however, the St. Luke's Hospital board announced in May 1997 that it had voted unanimously to terminate its search for a strategic partner. In a May 2, 1997, press release, the board said, "After discussions with many different hospitals and hospital systems, we have decided that remaining independent is the best way for us to ensure that our mission of providing care with dignity for all can be continued."⁴¹ This left St. Luke's as the only independent nonprofit hospital in the city.

After Sutter Health's acquisition of Davies Medical Center through its subsidiary California Pacific Medical Center, concern grew at St. Luke's about maintaining its patient base. In January 1999 St. Luke's sued California Pacific Medical Center for trying to monopolize the hospital admissions market.⁴² St. Luke's alleged that California Pacific Medical Center skimmed its best patients and threatened to put it out of business by requiring its physicians to sign an exclusive contract with Brown & Toland Medical Group, the city's largest physician group. St. Luke's alleges that California Pacific's contract with Brown & Toland requires Brown & Toland doctors to admit all their patients to California Pacific. At stake in the suit are the 24% of St. Luke's patients who are covered by private insurers. The suit is still pending.

University of California Transactions

Transactions involving the University of California Hospital System, although treated as nonprofits by the Internal Revenue Service, are not subject to the California charitable trust and preservation provisions. Therefore, we provide only a summary of some of these transactions here.

Santa Monica Hospital Medical Center/Regents of the University of California: The Santa Monica Hospital Medical Center ("SMHMC"), a California nonprofit public benefit corporation, was the sole corporate member of the Santa Monica Hospital Medical Center Foundation, also a nonprofit public benefit corporation. The foundation's function is to fulfill the charitable activities of SMHMC.⁴³

In 1995, SMHMC announced its proposal to transfer its assets to the Regents of the University of California ("Regents"). As part of the deal, the UCLA Foundation became the sole corporate member of the foundation. The foundation would continue to support the SMHMC.⁴⁴

University of California at San Francisco/Stanford Health Services: On November 15, 1996, the University of California at San Francisco ("UCSF") Board of Regents and Stanford University Trustees voted to approve a merger between their two respective medical centers.⁴⁵ The merger involved several facilities of both institutions, including UCSF and Mount Zion Medical Centers, Stanford University Hospital, and Lucille Salter Packard Children's Hospital.⁴⁶ Both institutions said they believed that the merger would be the best way to remain competitive in a health-care arena dominated by managed-care organizations.⁴⁷

Under the deal, the combined medical center is owned and operated by a new nonprofit entity called UCSF Stanford Health Care. The new entity is governed by a 17-member board that includes only three UC Regents. Six board members are Stanford University affiliates, three are UC-related, three are members of the public, and two are executives of the new entity. UCSF Stanford Health Care plans to continue providing services to the indigent population once the merger is completed.

A third-party review performed by Warren Hellman recommended that the Regents vote in favor of the proposed merger. However, several sections of the Hellman report were not made available to the public. Concern was also expressed that Hellman stood to benefit if the proposed merger was completed. On January 7, 1997, Hellman was appointed to the new board of directors of the entity UCSF Stanford Health Services.⁴⁸

Despite the Hellman report's recommendation in favor of the merger, controversy remains. Many community groups questioned whether the merger was financially necessary. Others believed jobs could be lost and they opposed what they called a "giving away" of public assets. In addition, the California Nurses Association and several other labor unions, including the American Federation of State, County and Municipal Employees, the University Interns and Residents Association, the Communication Workers of America, and the University of Professional and Technical Employees, formed the Coalition to Stop the Sale of the UC Med Centers (the "Coalition") filed suit to stop the merger.⁴⁹

In September 1996 the Public Employment Relations Board ruled in the Coalition's favor when it decided that the University of California Regents violated state law by withholding certain information from the public.⁵⁰ In another legal skirmish, the San Francisco Superior Court ruled that Stanford and UCSF must turn over proprietary documents so it could determine whether those documents should be made public.⁵¹ UC Regent Frank Clark (of Los Angeles) questioned the constitutionality of the proposed merger. In a letter to Senator John Burton (D-San Francisco), Clark wrote that the merger was "an outright violation of the Constitution of the State of California."⁵² Clark argued that the Constitution established the University of California system as a public trust, and as such it cannot transfer public funds to help establish a new private institution.

The constitutionality of the proposed merger remains unclear. Although the Constitution does give the Regents the broad authority to manage and convey the assets of the University system, there is no precedent for transferring millions of dollars of public funds to a private entity and its board.⁵³ Echoing this concern, then-Lieutenant Governor Gray Davis (who was also a Regent) questioned if the Regents had the power to complete the merger: "I doubt we can do this . . . I don't see how we have the legal power to transfer the assets of the public to a Board that is majority privately controlled."⁵⁴

Another important issue that arose was the public accountability of the new private institution that resulted from the merger. As a public institution, UCSF must abide by the open meeting laws and the California Public Records Act. Pursuant to these laws, the UCSF Board of Trustees can hold a closed session only when discussing personnel matters. As a result, members of the public and the news media have access to most of the internal documents associated with the UC system, including financial information. However, UCSF Stanford Health Care (a private nonprofit institution) is not subject to these sunshine laws. Finally, many were concerned that only three Regents would sit on the 17-member board of the new institution. Many questioned the Regents' ability to oversee the new institution and the public funds being used to drive the merger.

In response to this growing controversy, the Senate Judiciary Committee sponsored an informational hearing on March 14, 1997, in San Francisco. Senator Burton and Assemblymember Migden, both vocal critics of the merger, presided over the hearing. After the hearing, in order to help solve these issues, they introduced several bills in the Legislature that attempted to ensure that the new entity remain accountable to the public.⁵⁵ One bill, AB 1602, authored by Carol Migden of San Francisco, passed the Legislature but was vetoed by the Governor, who claimed that such oversight would hamper the universities' ability to compete.⁵⁶ The California Attorney General and State Auditor approved the

merger, and on November 1, 1997, the deal was complete.⁵⁷ Two years later, however, UCSF Stanford Health Care has reported a \$10.7 million loss and that it will seek a 10-15% reduction in staff.⁵⁸ These developments have re-opened the debate about whether the two teaching hospitals should have merged.

University of California Irvine Medical Center/Tenet/Columbia: On November 13, 1996, at a meeting of University of California Board of Regents, the University of California Irvine Medical Center (“UCI”) announced that a Letter of Intent would be signed with Tenet or Columbia by April 1, 1997. A UCI spokesman said that the affiliation would be in the form of a lease or management agreement for the troubled 462-bed hospital. At a March 14, 1997, State Assembly hearing on the UCSF/Stanford deal, former Assemblymember Phil Isenberg testified that UCI had received two bids, one from Columbia and one from Tenet. The transaction would have to be approved by the Regents.

The largest provider of indigent care in Orange County, UCI reportedly wants guarantees that 95% of its employees would keep their jobs under new management, that there would be an “appropriate commitment” to indigent care, and that conditions aimed at preserving Irvine’s medical education mission would be maintained. In the fiscal year ending June 30, 1996, UCI lost \$7.9 million; however layoffs and other forms of cost cutting were expected to generate a \$1 million surplus in 1996-97. Nevertheless, UCI believes an association with a for-profit hospital is needed to further improve its bottom line.⁵⁹

Speaking before a December 5, 1996, meeting of the California Association of Public Hospitals, UC’s Vice-President for Clinical Services Development said the talks on Irvine were “part of a larger debate within the University system over what to do with a number of money-losing health care facilities, three of which – UC Davis, UC San Diego, and UC Irvine – were taken over by UC only after guarantees of financial support from the state.”⁶⁰ The future of these three university hospital systems remains in limbo.

District Hospital Transactions

Transactions involving California hospital districts although treated as nonprofits by the Internal Revenue Service, also are not subject to the California charitable trust and preservation provisions. Therefore, we provide only a summary of some of these transactions here.

As in the case of nonprofit hospitals, the number of transfer agreements between local health-care districts and nonprofit and for-profit corporations have seen a recent upsurge. Under these agreements the corporations operate and maintain the assets of the health-care district. In summer 1996, two district hospitals in the Bay Area (Sequoia Hospital in Redwood City and Brookside Hospital in San Pablo) announced deals with Catholic Healthcare West and Tenet Healthcare Corporation. In November 1997 Mount Diablo Medical Center in Concord completed a merger with John Muir Medical Center in Walnut Creek. An Eden Hospital lease also received voter approval in 1997. Three other district systems, including Desert Hospital in Palm Springs and Palomar-Pomerado in the San Diego area, also sought partners in 1997.

Hospital districts are creatures of statute.⁶¹ Created in 1947, they are unlike private hospitals, in that they serve a distinct geographic area. With voter approval they are able to levy taxes for capital improvements and other special expenditures. The public also elects their boards of directors. Some

have said that the passage of Proposition 13 in 1978, which slashed property taxes, undercut the ability of hospital districts to raise revenues through new taxes.⁶² The usual reasons put forth for district hospital/for-profit affiliations are the same as those offered for nonprofit conversions: economies of scale, better geographic coverage to obtain large HMO contracts, and access to capital. Some have predicted that more than 75% of the district hospitals in the state will merge or form strategic alliances by the end of the decade.⁶³

State law provides that local health-care district boards have the power to perform various functions relating to the establishment, maintenance, and operation of hospitals, clinics, and other health-care services. The primary purpose of a health-care district, under the health-care district law, is to protect the public health and welfare by furnishing hospital services in areas where hospital facilities are for some reason inadequate, especially in those rural districts where hospitals cannot be maintained without extraordinary governmental support.⁶⁴

Section 32121 of the Health and Safety Code provides:

(D) Before [a] district transfers . . . 50 percent or more of the district's assets to one or more nonprofit corporations, in sum or by increment, the elected board shall, by resolution, submit to the voters of the district a measure proposing the transfer. The measure shall be placed on the ballot of a special election held upon the request of the district or the ballot of the next regularly scheduled election occurring at least 88 days after the resolution of the board. If a majority of the voters voting on the measure vote in its favor, the transfer shall be approved.

This statute, however, is silent on whether voter approval is required for a proposed transfer to a for-profit corporation. Many believed such transfers should receive at least the same level of scrutiny and proposed that the ballot requirement be extended to for-profit transfers. In April 1998 the Governor signed SB 460 as an urgency measure, making it effective immediately.⁶⁵ The bill, authored by David G. Kelly, a Republican from Idyllwild, and Liz Figueroa, a Democrat from Fremont, now requires voter approval of any proposed transfer involving 50% or more of a district's assets to a for-profit corporation. Consumers Union strongly supported this bill.

Brookside Hospital/Tenet: In early 1996, Brookside Hospital, a 246-bed district hospital in San Pablo, announced it was struggling to meet payroll and had been pressured by Cal Mortgage (the state agency that insures nearly \$19 million in revenue bonds) to merge with a larger organization.⁶⁶ Brookside lost \$4 million through 11 months of its fiscal year ending June 30, 1996, and was projected to lose an additional \$7 million by the end of 1996. At a June 1996 meeting of the Brookside Hospital board of trustees, all agreed that only a merger would save Brookside.

At its June meeting, the Brookside board announced it hoped to get proposals from one or more suitors by July 1, 1996. In other action, it also voted to approve goals that had to be met under an affiliation. Among them were guarantees that the new partner not cut any services or programs (such as the emergency room), and that the hospital continue to provide medical care to anyone needing it regardless of ability to pay. The board also wished to ensure that citizens continued to have a voice in the

hospital's operation. Hospital Chief Executive Mike Lawson, however, said he did not want Brookside "forced into a corner" and obliged to accept a proposal simply because it had run out of money.

By the end of June, however, Sutter Health, Columbia/HCA, and CHW had all looked and passed. Tenet Healthcare Corporation, which owned nearby Doctors Hospital in Pinole, was the only company to make a formal proposal. Tenet Healthcare Corporation, the second-largest for-profit hospital chain after Columbia/HCA, proposed a 30-year lease agreement with Brookside wherein Tenet would retire most of Brookside's existing debt by prepaying \$18 million for the lease of the hospital.

On January 24, 1997, Brookside Hospital officially affiliated with Tenet. Tenet's plan was to consolidate services at Brookside and Doctors. The plan also contained a promise that indigent-care services would be maintained, provided for the establishment of a hospital advisory board with six physician members and five community members (subject to Brown Act compliance), and included a commitment to assume existing union labor contracts. In the end, the West Contra Costa Health-care District got \$18 million to pay off most of its debt, but it was still stuck with \$2 million in liabilities, which it will pay off with the \$1.5 million it receives annually in property taxes. Tenet would also complete an \$8 million remodeling of Brookside and keep it open as its key acute-care hospital, and turn Doctors Hospital, the competitor that caused Brookside so many problems, into an outpatient center.

The Brookside board's acceptance of the Tenet proposal and the absence of any other offers from the nonprofit sector obviated the need for a public vote on the transfer of the assets to for-profit Tenet. But Tenet's plan to consolidate services was temporarily placed on hold at the request of the Contra County Board of Supervisors, which was responding to a shortage of emergency and intensive-care beds that had been linked to the deaths of several Kaiser Permanente patients in the West Contra Costa County area. The delay was good news for workers whose jobs were in jeopardy as a result of the consolidation. In San Diego, Tenet had laid off 290 workers at Harbor View Medical Center after acquiring it in the OrNda merger. The planned consolidation, however, remains on hold because of high emergency room demand.⁶⁷

Eden Medical Center/Eden Township Hospital District/Sutter Health: In 1996, Eden Medical Center/Eden Hospital District considered affiliation with Catholic Healthcare West, Columbia Healthcare Corporation of America, and Sutter/CHS. In December 1996 Eden's board chose Sutter Health. This vote came shortly after the Attorney General's rejection of the proposed Sharp/Columbia deal and is thought to have had an impact on the outcome of this vote. The board held a district-wide ballot-by-mail election on April 22, 1997, and secured voter approval for the deal. The vote was 55% in favor and 45% opposed.⁶⁸

Tri-City Medical Center: On February 13, 1997, the board of Tri-City Medical Center, a 397-bed hospital (one of four district hospitals in San Diego County), voted to pursue legally binding Letters of Intent with Columbia/HCA and Tenet. Both companies offered 30-year leases valued at as much as \$75 million. In a lease deal Tri-City would retain ownership of the physical structure but yield operations and revenue to the for-profit company. Tri-City's bond debt would be paid off with money from the lease,

and another portion would be used to set up a charitable foundation. Tri-City said that without affiliation, it would be stripped of services and employees to offset continuing yearly losses. Opponents of the deal maintained a private corporation would gut the hospital in the name of profit.⁶⁹

On the expiration of the Columbia and Tenet letters of intent, Tri-City approached other possible partners, including nonprofit ScrippsHealth, nonprofit Sharp Healthcare, nonprofit Adventist Health, and the Palomar-Pomerado Hospital District.⁷⁰ Recently, the Tri-City board expanded its membership to include more consumer representatives. The last chapter on this district has yet to be written.⁷¹

Fallbrook Hospital District/Columbia/CHS: On April 18, 1997, the Fallbrook Hospital District board voted 3-2 to let Columbia/HCA take over the small hospital. Columbia was chosen over Palomar-Pomerado Health District, which operates hospitals in Escondido and Poway. Two of the directors on the losing side resigned immediately after the vote. Closure of the deal was expected in November 1997. Under the proposal, Columbia proposed to pay Fallbrook up to \$4.4 million for a 30-year lease; Fallbrook would have used the money to repay most of its debt. Columbia would have also loaned Fallbrook up to \$1.5 million to pay off the rest of its debt.⁷²

News reports indicate, however, that after apparently clinching the deal, Columbia appeared reluctant to pursue the lease because the hospital no longer fit its plans.⁷³ According to a restructuring plan Columbia announced in November 1997, it proposed to sell a third of its hospitals.⁷⁴ Other factors included the continuing federal probe of Columbia, significant community opposition to the deal⁷⁵ and the Legislature's passage of SB 460, which the Governor signed as an urgency measure. This raised the question of whether the Columbia lease would have to be ratified by a public vote. On April 10, 1998, the district backed out of the transaction and announced it would enter into negotiations with Community Health Systems ("CHS") of Brentwood, Tennessee.⁷⁶

According to news accounts, CHS was compared to a "white knight" riding in to save the hospital, because it was willing to match Columbia's \$4.4 million offer and improved upon it by offering an additional \$900,000 for the hospital's working capital. CHS also agreed not to eliminate clinical services for at least ten years; Columbia's commitment was for only three years.⁷⁷ In September 1998, and under the requirements of SB 460, Fallbrook residents voted 95% in favor of a 30-year lease with CHS.⁷⁸ Whether CHS turns out to be a white knight or Trojan horse in Fallbrook remains to be seen. In the Watsonville transaction, reported in this study, CHS promised in August 1998 that "there would be no job cuts."⁷⁹ On December 4, 1998, the *Register Pajaronian* reported layoffs of 35 workers at Watsonville Community Hospital.⁸⁰

Grossmont Hospital District: On April 22, 1996, the Grossmont Hospital District board voted 5-0 to lease the La Mesa hospital for 30 years to the then-contemplated Sharp/Columbia partnership.⁸¹ Under the proposed agreement, Columbia would have paid \$53 million for the new lease, thereby retiring the hospital's debt, and leaving \$38 million for future health-care projects in the East County Hospital District. The new agreement would have replaced the existing Sharp/Grossmont agreement signed in 1991. On February 21, 1997, when the Sharp board announced it would abandon its merger

plans with Columbia, Grossmont announced it was considering breaking its arrangement with Sharp and joining Columbia/HCA or some other for-profit instead. Under a Letter of Agreement signed the year before, Grossmont took the position that it was permitted to void the lease with Sharp if the Columbia deal was not completed by December 31, 1996, and it went to court to do so. In March 1998 the San Diego Superior Court ruled that too much time had elapsed since the lease was signed and declined to nullify the deal.⁸²

Palomar-Pomerado Hospital District: In October 1996 the Palomar-Pomerado Hospital District voted 4-0 to sign a Letter of Intent to join two of its hospitals in Escondido and Poway, California, with nonprofit ScrippsHealth of San Diego. Three board members abstained from the vote. An earlier effort to form a North County District hospital alliance with Fallbrook and Tri-City fell apart because of concerns about Tri-City's financial stability.⁸³ Negotiations between Palomar and Scripps dragged on for two years as public concerns were raised about the proposed union and public hearings were held.⁸⁴ In August 1998 nonprofit Sharp Healthcare also made an affiliation bid.⁸⁵ In December 1998 the Palomar district announced it would no longer pursue an exclusive affiliation with ScrippsHealth or any other hospital group, preferring to negotiate a variety of agreements with a number of doctors' groups and hospitals to maximize its patients' options.⁸⁶

El Camino Hospital District: In a reversal of recent trends, El Camino Hospital has returned to its status as a district hospital. In 1992 the El Camino Hospital board of directors voted 4-1 to turn over the hospital's management and \$100 million in cash and assets to a still-to-be-created private, nonprofit organization.⁸⁷ Camino Healthcare was formed in 1994. Its purpose was to provide an integrated delivery system that would provide a wide range of inpatient and outpatient hospital care. The reorganization included the merger and buyout of the Shoreline Medical Group and Sunnyvale Medical Clinic. In 1995 the El Camino Hospital District brought suit against Camino Healthcare, alleging financial conflicts of interests on the part of hospital administrators in the creation of the nonprofit organization. The lawsuit sought to void the 1992 agreements, which in effect "de-districted" this district hospital. Those who supported the return of the hospital to the district pointed out that the new organization did not solve the hospital's problems. Camino Healthcare reported a \$17.7 million operating loss in 1994-95, and an overall loss of \$8.4 million. In 1996 the district agreed to drop its suit in exchange for resuming control of the hospital. As part of the settlement, the district paid \$4.7 million in cash to the Camino Medical Group and arranged a \$9 million line of credit for the group.⁸⁸

Sequoia Hospital District, Redwood City: In March 1996 the Sequoia Hospital District board considered whether to affiliate with for-profit Columbia/HCA or the nonprofit California Healthcare West ("CHW").⁸⁹ Concerns about Columbia focused on its commitment to charity-care and fears that it would close the hospital. At the time, Columbia only committed to provide charity-care at prior levels for a three-year period. Reports indicated that Columbia had been in discussions with Stanford Medical Center in Palo Alto about a possible affiliation. There was concern that if the affiliation went forward, Sequoia would close, forcing Redwood City and San Carlos residents to travel to Palo Alto or San Mateo for medical care. Opposition to CHW centered on the extent to which a CHW-affiliated hospital would continue to provide abortion services.⁹⁰ On March 21, 1996, the *San Jose Mercury News* reported that

Sequoia had decided to ally itself with CHW. The hospital district board unanimously agreed that CHW share Sequoia's commitment to community health-care and that CHW could also provide the funding and large patient networks essential to surviving in today's marketplace. District President Brent Britschgi said, "I like the social values of CHW . . . they fit the compassion and social values of this hospital."⁹¹

C. *Report Methodology*

The fundamental purpose of this report is to provide a methodology to assess the impact nonprofit to for-profit hospital conversions have on the communities they serve, and the impact legislation can have on this process. In addition, this report begins the process of data gathering to provide guidance to policy makers to meet the challenge of re-structuring in the hospital sector. Accordingly, in this report we analyze 10 conversion transactions involving the transfer of nonprofit acute care hospitals, which we believe include all the hospital conversions known to have occurred in California between 1993 and 1998.

The hospitals included in this study are: Sacred Heart, Hanford; Centinela Hospital, Inglewood; Good Samaritan, San Jose; United Western Medical Center, Santa Ana; United Western Medical Center, Anaheim; Pacific Hospital of Long Beach; Riverside Community Hospital, Riverside; Queen of Angels, Los Angeles; Watsonville Community Hospital, Watsonville; and Sharp Healthcare, Murrieta, Murrieta. Other recent transactions addressed, but for which there is not as complete information available, include Alexian Brothers, San Jose and Summit Hospital in Oakland. In this report we attempt to assess whether these transactions have been a net gain or a net loss to the communities involved. We also attempt to assess the impact of California's new hospital conversion law by looking at a number of transactions before and after the enactment of AB 3101. We have identified a number of deficiencies in AB 3101, but again, it is too early to tell whether our suggested changes to the law would change the outcomes in these transactions.

Through the lens of AB 3101, the use of case studies, and data available from California's Office of Statewide Health Planning and Development ("OSHPD"), we looked at a number of variables. These variables included charity care, bad debt, sale price, public process, deal terms, sale proceeds, foundation structures, and community benefits before and after each conversion. We also looked at the degree to which the Attorney General has exercised his new regulatory role and been willing and able to minimize the adverse health impact of these transactions by the imposition of contractual obligations. This data and our case studies form the factual basis for the findings and recommendations appear in this report.

In the interest of fairness and accuracy, Consumers Union made numerous attempts to obtain full and complete information not otherwise publicly available from new for-profit owners. We were and remain particularly interested in obtaining the following information from new for-profit owners:

- Data on the dollar amount of charity, and uncompensated care provided by the institution for all years following the hospital's change in tax status;⁹²
- The level of community benefits, other than indigent or charity-care, provided by the institution for all years after the hospital's change in tax status;⁹³

- A list of services that are currently provided by the hospital now that it has become for-profit and that were not available to the community when it operated as a nonprofit;
- A list of those services that were provided by the facility when it was a nonprofit institution and that were either reduced or discontinued upon the change in ownership because they either operated at a loss or were not in some way linked to the hospital's financial or operational viability;
- Information illustrating any changes in the composition, number, or level of pay in the facility's workforce as a result of new efficiencies imposed by new management; and
- The respective amounts paid annually in state, local, and federal taxes for all years following the hospital's change in tax status.

Some for-profit owners were more cooperative than others in providing this information. For example, Riverside Community Hospital (a facility 75% owned by Columbia/HCA) and Central Valley General Hospital provided some of the information we requested. Generally, however, all for-profit hospitals were not cooperative. Tenet Healthcare, the largest for-profit hospital chain in California and owner of five of the ten hospitals that have converted in California since 1993, was the least cooperative of all the institutions approached for this study.⁹⁴ Tenet did offer to confirm whether publicly available data about its hospitals (such as that available from OSHPD) was in their view accurate, but we declined to take them up on their offer since this would not have been fair to other respondents.

Regrettably, we and others (including the Congressional General Accounting Office) have generally been frustrated in our efforts to collect this type of information.⁹⁵ It is our belief that until such information in the form requested is *required* to be reported to OSHPD or other appropriate state agencies and is readily available to the public, the jury is out on the full impact of these transactions.

For the conversion foundations we approached, we requested the following information:

- 1) A copy of the most recent Charitable Uses Plan submitted to the Attorney General, whether or not yet approved by a Superior Court;
- 2) Copies of any subsequent Modifications to the Charitable Uses Plan as approved by the Attorney General or a Superior Court;
- 3) Copies of the most recent Articles of Incorporation and By-laws for the foundation;
- 4) A copy of the Annual Report or any other documents for each year of the foundation's operation, which provide the following information:
 - a) a description of all program areas funded, or proposed to be funded, and total expected or actual annual payouts for each;
 - b) a list of all annual grant allocations, purpose of grant, and amount; and
 - c) the dollar value of the total endowment created on the establishment of foundation and its present estimated value. If any portion of the initial endowment was contributed or furnished by a pre-existing hospital foundation or supporting organization, we also asked them to indicate percentage and amount.

The Riverside Community Health Foundation and Health Trust (Good Samaritan Charitable Trust) were among the most helpful and cooperative in providing the data we requested. We particularly also want to thank Mark Williams of the Riverside Community Health Foundation for his assistance in obtaining foundation and hospital data. Among foundations, the least cooperative were the Health Care Foundation of Orange County (the Western Medical Center Trust), QueensCare, and Pacific Hospital Foundation.

Lastly, as a check on and to supplement the data we received from respondents, we also relied on information from OSHPD (California's Office of Statewide Health Planning and Development). Since 1975 OSHPD has required all California licensed hospitals to report revenues, expenses, payor mix, assets, liabilities, charity-care, bad debt, and other patient and financial data on an annual-to-quarterly basis. The information provided by hospitals in the form of "Hospital Annual Disclosure Reports" to OSHPD must conform to OSHPD's "Accounting and Reporting Manual for California Hospitals." While California law does not specifically require that hospitals submit independently audited reports, OSHPD itself audits each submitted report for accuracy, consistency, and reasonableness, and data is corrected, where necessary after communication with the reporting hospital. In addition, OSHPD contracts with the State Department of Health Services to perform on-site reviews of selected hospitals to validate reported data. OSHPD makes this information public. We therefore believe that the data upon which this report relies, except when anecdotal, is based on the most reliable information available. This report for its charity-care and bad debt analysis does not rely on voluntary and unaudited survey instruments, or a limited sampling of hospitals. All available "charity-care/bad debt" data as reported to OSHPD is provided for all California hospitals known to have converted between 1993 and 1998.

D. *Data Source Tables*

Table 2: Charity Care Before Conversion

Hospital	Year /OSHPD*	Year /OSHPD*
Centinela, Inglewood	Not reported (1994)	Not reported (1995)
Good Samaritan, San Jose	FY 93-94 \$ 1,177,543	FY 94-95 \$ 1,351,476
Western Medical Center, Anaheim	FY 94-95 \$695,601	FY 95-96 \$870,642
Western Medical Center, Santa Ana	FY 94-95 \$5,073,699	FY 95-96 \$5,478,310
Sacred Heart, Hanford	1991 \$0	1992 \$0
Queen of Angels, North Hollywood	1996 \$16,426,854	1997 \$14,424,872
Pacific Hospital, Long Beach	FY 94-95 \$87,508	FY 95-96 \$105,215
Watsonville Community Hospital, Watsonville	1996 \$973,045	1997 \$1,111,759
Sharp Healthcare, Murrieta	1996 \$207,997	1997 \$217,249
Riverside Community Hospital, Riverside	1995 \$351,173	1996 \$405,130
Alexian Brothers	1996 \$1,634,618	1997 \$1,826,751

* Information as reported to OSHPD through quarterly and annual financial reports. FY indicates OSHPD data was given in Fiscal Year. For data reported by OSHPD in calendar year, year alone is given.

Table 3: Charity Care After Conversion*

Hospital	First Year (19__)	Second Year (19__)
Centinela, Inglewood[†]	1997 No data available	1998 No data available
Good Samaritan, San Jose	1996 \$166,488	1997** \$369,882
Western Medical Center, Anaheim	1997 \$136,272	1st quarter 1998 \$1181 1998 projected \$4,724 [¥]
Western Medical Center, Santa Ana	1997 \$351,798	1st quarter 1998 \$195,940 1998 projected \$783,760 [¥]
Sacred Heart, Hanford[†]	1994 No data available	1995 No data available
Queen of Angels, North Hollywood[‡]	—	—
Pacific Hospital, Long Beach[‡]	1st quarter 1998 \$45,007 1998 projected \$180,028	—
Watsonville Community Hospital[‡]	—	—
Sharp Healthcare, Murrieta[‡]	—	—
Riverside Community Hospital, Riverside[‡]	7/1/97 to 3/31/98 \$208,533 FY 1998 projected \$278,037 [§]	—
Alexian Brothers[‡]	—	—

* As reported to OSHPD in quarterly and annual financial reports.

[†] Centinela and Sacred Heart did not report charity care to OSHPD in their financial reports.

[‡] For those hospitals with a dash (—), there is no data available because their conversion to for-profit status occurred too recently for them to submit data to OSHPD.

[¥] Projected data is computed by multiplying 1st quarter data by four.

[§] Projected data is computed by multiplying by 1.33.

** No data for 1998 available.

Table 4: Bad Debt Before and After Conversion*

Hospital	Two Years Before	Year Before	Year After	Two Years After
Centinela, Inglewood	FY 93-94 \$13,597,261	FY 94-95 \$10,863,050	1997 \$4,379,194	1 st Qtr. 1998 2,912,667 1998 projected \$11,650,668 [†]
Good Samaritan, San Jose	FY 93-94 \$0	FY 94-95 \$3,725,541	1996 \$5,980,371 1997 \$8,802,238	1 st Qtr. 1998 \$742,696 1998 projected \$2,970,784 [†]
Western Medical Center, Anaheim	FY 93-94 \$3,736,468	FY 94-95 \$4,569,774	1997 \$2,841,686	1 st Qtr. 1998 \$1,168,637 1998 projected \$4,674,548 [†]
Western Medical Center, Santa Ana	FY 93-94 \$7,034,257	FY 94-95 \$6,685,523	1997 \$10,579,973	1 st Qtr. 1998 \$3,905,953 1998 projected \$15,623,812 [†]
Sacred Heart, Hanford	1991 \$1,265,028	1992 \$2,746,899	1994 \$776,958	—
Queen of Angels, North Hollywood	1996 \$4,415,760	1997 \$2,063,449	—	—
Pacific Hospital, Long Beach	1995 \$1,841,732	1996 \$734,814	1 st Qtr. 1998 \$1,885,000 1998 projected \$7,540,000 [†]	—
Watsonville Community Hospital, Watsonville	1996 \$1,189,345	1997 \$2,107,870	—	—
Sharp Healthcare, Murrieta	1996 \$1,508,141	1997 \$2,047,987	—	—
Riverside Community Hospital, Riverside	1995 \$3,576,736	1996 \$3,027,063	7/1/97 to 3/31/98 \$2,629,831 FY 1998 projected \$3,506,353 [§]	—
Alexian Brothers	1996 \$6,365,293	1997 \$7,719,234	—	—

* All Data downloaded from OSHPD database of hospital quarterly and annual financial reports. FY indicates OSHPD data was given for Fiscal Year. For data reported by OSHPD in Calendar Years, year alone is given.

[†] Projected data is computed by multiplying 1st quarter data by four.

[§] Projected data is computed by multiplying by 1.33.

E. *Coalition Statement of Principles*

For a copy of this section, please contact the West Coast Regional Office at (415) 431-6747.

F. Undervaluation of HMOs*

HMO	Amount to Charity at Time of Conversions	Later Value	Current Value
Family Health Plan (FHP)	\$38,456,000 (1984)	\$135,628,000 (1986)	\$1,711,000,000
Foundation Health	\$78,000,000 (1984)	\$302,500,000 (1985)	\$1,873,000,000
Pacificare Health	\$360,000 (1984)	\$45,300,505 (1985)	\$2,193,000,000
Inland Health Care	\$663,000 (1985)	\$37,500,000 (1986)	Not Available
Anaclothe Psychiatric Center, Tarpon Springs, FL	\$6,300,000 (1983)	\$29,600,000 (1985)	Not Available
Greater Bridgeport Foundation, Trumbull, CT	\$4,419,376 (1986)	\$4,419,376 (1986)	\$150,680,000 (1993)
Greater Delaware Valley Health Care/Del Val HMO, Concordville, PA	\$100,000 (1984)	\$20,000,000 (1986)	Not Available
Group Health Association, Washington, D.C.	\$5-10,000,000 (1993)	\$50,670,000 (1993)	Not Available
Group Health Plan of Greater, St. Louis, MO	\$4,000,000 (1985)	\$40,000,000 (1986)	\$46,170,680
Herrick Alta Bates Study (HEALS), Pueblo, CO	\$2,100,000 (1987)	\$24,500,000 (1990)	Not Available
Wesley Medical Center, Wichita, KS	\$200,000,000 (1985)	\$265,000,000 (1985)	Not Available
Presbyterian/St. Luke's Healthcare Corporation, Denver, CO	\$123,000,000 (1985)	\$180,000,000 (1985)	Not Available

* Anne Lowry Bailey, "Charities Win, Lose in Health Shuffle," *The Chronicle of Philanthropy*, June 14, 1994, p. 12

Endnotes

¹ In 1994, NME paid about \$380 million to the federal government and several states to settle numerous criminal charges. NME was accused of health care fraud and pled guilty to paying kickbacks to doctors for referrals of Medicare patients and conspiring to make illegal payments. Patients were reportedly hospitalized until their insurance was used up. After settling the criminal case, NME changed its name to Tenet and launched an ambitious expansion plan that continues to this day.

² “Tenet Healthcare: To acquire OrNda HealthCorp,” *Health Line* (Oct. 17, 1996), Inside the Industry Section.

³ In March 1998 federal agents executed search warrants at several of Columbia’s facilities in El Paso, Texas. The Attorneys General of Texas, Florida, and Alabama announced their own investigations into Medicaid billing practices at Columbia’s facilities in those states. In June, federal agents executed 35 search warrants at current and former Columbia facilities and businesses associated with the health care giant in six states. In July 1997 the Associated Press reported that three executives of Columbia/HCA Healthcare Corporation had been indicted by a Florida federal grand jury on charges of Medicare fraud and conspiracy. Columbia/HCA to Pare Hospitals, Operations in Restructuring,” *Medical Industry Today* (Nov. 18, 1997), Payer Provider News Section.

⁴ Julie Bell, “Columbia to Sell 22 Hospitals,” *The Tennessean* (May 20, 1998), p. E1.

⁵ Deanna Bellandi, “What Hospitals Won’t Do for a Merger: Deals Involving Catholic Facilities Often Mean a Loss of Reproductive Services,” *Modern Healthcare* (Sept. 28, 1998), p. 28.

⁶ AB 525, introduced by Assembly Members Kuehl and Thomson.

⁷ See page Appendix B.

⁸ Sutter/CHS Web site (www.Sutter-chs.org), accessed Aug. 13, 1997, now: (www.sutterhealth.org).

⁹ CA Gov’t Code §15430, *et seq.* CHFFA is the state agency that issues tax-exempt financing to nonprofit health facilities.

¹⁰ Service Employees International Union (SEIU) letter to CHFFA, Jan. 16, 1997; SEIU press alert, July 29, 1997.

¹¹ Sutter Health response to SEIU to CHAFFA (undated), submitted to CHFFA board on July 23, 1997.

¹² Lisa Davis, “Sutter’s Giant Sucking Sound,” *SF Weekly* (Jan.21-27, 1998), pp. 11- 22.

¹³ Rachel Kagan, “Merger plans may face tough court challenge,” *Oakland Tribune* (Dec. 16, 1998), p. 1.

¹⁴ Kaiser Web site (www.Ca.Kaiserpermanente.org); Confirming letter from Consumers Union to Kaiser’s National Media Relations Office, Aug. 15, 1997.

¹⁵ Universal Health Services Inc., Annual Report, 1997, p. 56.

¹⁶ Letter to Consumers Union, June 27, 1997.

¹⁷ For a discussion of this transaction, please see Post AB3101 Hospital Transactions Approved by the Attorney General Section of this report.

¹⁸ Comments by Robert E. Hardison, Jr., Vice President of CHS, at Attorney General’s Aug. 1, 1998, public meeting on the proposed sale of nonprofit Watsonville Community Hospital to for-profit CHS. CHS hospitals in California include Barstow Community Hospital, Fallbrook District Hospital, and Watsonville Community Hospital. In October 1998 CHS announced it had signed a Letter of Intent to purchase 121-bed nonprofit Victor Valley Community Hospital in Victorville, California. This transaction is still subject to approval by the Attorney General.

¹⁹ Watsonville Community Hospital Notice Letter to Attorney General, May 29, 1998, p. 36.

²⁰ *Ibid.*

²¹ Lorne Manly, “Ziff re-boots,” *Folio* (Apr. 15, 1995), p.36.

²² For a fuller discussion of this transaction, please see the Post AB3101Hospital Transactions Approved by the Attorney General Section of this report.

²³ CHS press release, Oct. 29, 1998.

²⁴ Information letter from Epstein, Becker & Green to Attorney General, May 25, 1995.

²⁵ *Ibid.*

²⁶ Attorney General Letter of No Opposition to Epstein Becker & Green, June 8, 1995.

²⁷ Weissburg and Aronson, Inc., Notice Letter to Attorney General, Feb. 6, 1996.

²⁸ Attorney General Letter of No Opposition to Weissburg and Aronson, Inc., Mar. 28, 1996.

²⁹ Latham & Watkins Notice Letter to Attorney General, Sept. 23, 1995.

³⁰ Attorney General Letter of No Opposition to Latham & Watkins, Nov. 2, 1995.

- ³¹ Foley, Lardner, Weissburg & Aronson Notice Letter to Attorney General, June 10, 1996.
- ³² *Ibid.*
- ³³ Musick, Peeler & Garrett Notice to Attorney General, July 13, 1995.
- ³⁴ Attorney General Letter of No Opposition to Musick, Peeler & Garrett, Aug. 21, 1995.
- ³⁵ See Footnote 8.
- ³⁶ McDonough, Holland & Allen Notice Letter to Attorney General, May 10, 1996.
- ³⁷ Davies Medical Center Web site (www.daviesmed.org), Jan. 14, 1997.
- ³⁸ Health Care Workers Local 250, SEIU, *Sutter Scam Sheet*, 36 (Apr. 2, 1998); Kristen Bole, "Cal Pac, Davies coupling close to bearing fruit," *San Francisco Business Times* (June 26, 1998), p. 7.
- ³⁹ Kristen Bole, "Cal Pac, Davies Coupling Close to Bearing Fruit," *San Francisco Business Times* (June 26, 1998), p. 7.
- ⁴⁰ J. Duncan Moore, Jr., "San Francisco may partner with two private hospitals," *Modern Healthcare* (Nov. 25, 1996), p. 4
- ⁴¹ St. Luke's press release, May 2, 1997.
- ⁴² Tom Abate, "2 SF Hospitals Battle Over Antitrust Lawsuit," *San Francisco Chronicle* (Jan. 15, 1999), p. C2.
- ⁴³ Allen, Matkins, Leck, Gamble & Mallory Notice to Attorney General, June 28, 1995.
- ⁴⁴ *Ibid.*
- ⁴⁵ Ron Shinkman, "CNA's Next Fight," *Modern Healthcare* (Dec. 2, 1996), p. 36; Lisa Davis, "Pinstriped Medicine," *San Francisco Guardian* (Jan. 29 - Feb. 4, 1997), p. 12.
- ⁴⁶ *Ibid.*
- ⁴⁷ *Ibid.*
- ⁴⁸ Lisa Davis, "Pinstriped Medicine," *SF Weekly* (Jan. 29-Feb. 4, 1997), pp. 15 - 16.
- ⁴⁹ Shinkman, "CNA's Next Fight," *Modern Healthcare* (Dec. 2, 1996), p. 36.
- ⁵⁰ Sabin Russell, "Unions Win Round in Hospital Merger," *San Francisco Chronicle* (Sept. 21, 1996), p. A13.
- ⁵¹ Shinkman, "CNA's Next Fight," *Modern Healthcare* (Dec. 2, 1996), p. 36.
- ⁵² Letter from Regent Clark to Senator Burton, Mar. 3, 1997.
- ⁵³ Davis "Pinstriped Medicine," pp. 15 - 16.
- ⁵⁴ *Ibid.*
- ⁵⁵ Senator John Burton authored SB 1350; Senator Quentin Kopp, SB 1351; Assembly Member Carole Migden, AB 1602; and Assembly Member Kevin Shelley, AB 1601.
- ⁵⁶ Hooper, Lundy & Bookman, "Regents, Trustees Approve UCSF-Stanford Medical Center Merger," *California Health Law Monitor* vol. 5, no. 21 (Oct. 27, 1997), p. 1.
- ⁵⁷ *Ibid.*; Mary Jane Foster, "UCSF Stanford Merger Complete," *Medical Industry News* (Dec. 12, 1997), p. 1.
- ⁵⁸ Tom Abate, "UCSF, Stanford Hospitals brace for cuts," *San Francisco Chronicle* (Mar. 5, 1999), p. 1.
- ⁵⁹ Ron Shinkman, "Calif. Irvine to pick Columbia or Tenet," *Modern Healthcare* (Nov. 25, 1996). p. 10.
- ⁶⁰ "California UC In Talks To Turn Over Irvine Hospital To Columbia Or Tenet," *BNA Health Care Daily* (Dec. 9, 1996), p. 1.
- ⁶¹ Cal. Health & Saf. Code, § 32000 et. seq.
- ⁶² Ron Shinkman, "Hospital Districts Become Dealmakers," *Modern Healthcare* (Oct. 14, 1996), p. 36.
- ⁶³ *Id.*
- ⁶⁴ See *Talley v. Northern San Diego Hospital District*, 41 Cal. 2d. 33, 40.
- ⁶⁵ "Wilson Signs Hospital Affiliation Bill," *North County Times* (Apr. 15, 1998).
- ⁶⁶ Chris Rauber, "Tenet scrubs Brookside before operating on hospital staff," *San Francisco Business Times* (June 2, 1997), p.1; Chris Rauber, "Sale gives hospital a new lease on life," *San Francisco Business Times* (April 14, 1997), p. 1; Chuck Squatriglia, "Brookside Hospital board to cut salaries in fiscal crisis," *West County Times* (June 22, 1996), p. 1A; Chris Rauber, "Hospital hopes merger suitors will get in line," *San Francisco Business Times* (June 21-27, 1996), p. 6; Chris Rauber, "Hospital's chance of survival diminished by complications," *San Francisco Business Times* (July 29, 1996), p. 1; Letter of Intent by Tenet to Brookside Hospital, July 25, 1996.

- ⁶⁷ J. Duncan Moore, "Short Supply: In California, Consolidation Threatens Emergency Care," *Modern Healthcare* (July 20, 1998), p. 36.
- ⁶⁸ Catherine Bowman and Rick Del Vecchio, "East Bay Voters OK Hospital Merger," *San Francisco Chronicle* (Apr. 23, 1997), p. A-15.
- ⁶⁹ Craig Delaval, "Tri-City Forges Ahead on Pact," *North County Times* (Feb. 14, 1997), p. A9.
- ⁷⁰ Ron Shinkman, "San Diego Market Is Steady as a Rock: Not-for-Profits, Stability Dominate," *Modern Healthcare* (Dec. 7, 1998), p. 48.
- ⁷¹ Cheryl Clark, "Tri-City Hospital Board Expands to 7 Members, Pleasing League of Women Voters," *San Diego Union Tribune* (Nov. 5, 1998), p. B-3.
- ⁷² Cheryl Clark, "Giant Chain To Take Over Fallbrook Hospital," *San Diego Union Tribune* (Apr. 19, 1997), p. B1.
- ⁷³ Ron Shinkman, "Fallbrook Deal Falls Apart," p. 18.
- ⁷⁴ *Ibid.*
- ⁷⁵ Janet Lavell, "Citizens Weigh Options for Fighting Columbia Merger," *North County Times* (June 1, 1997), p. A1, Leigh Ann Dewy, "PACT [People Against Columbia Takeover] Pushes to Stop Merger," *North County Times* (Aug. 20, 1997), p. A1.
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- ⁷⁷ "Mysterious Stranger Saves San Diego Hospital," *Medical Industry Today* (Apr. 17, 1998), Managed care news perspectives section, p. 1.
- ⁷⁸ Cheryl Clark, "Fallbrook Voters Adopt Hospital Plan," *San Diego Union Tribune* (Sept. 2, 1998), p. B-8.
- ⁷⁹ Victoria Manley, "Hospital Lays Off 35 Workers," *Register-Pajaronian* (Dec. 4, 1998), p. 1.
- ⁸⁰ *Ibid.*
- ⁸¹ Rex Dalton, "Grossmont Hospital board to vote on 30-year leasing deal," *San Diego Union Tribune* (June 6, 1996), p. B6; Around the Region, "Grossmont Hospital Lease Deal Set," *San Diego Union Tribune* (June 25, 1996), p. B2; Rex Dalton, "Sharp may drop merger plan," *San Diego Union Tribune* (Feb. 20, 1997), p. B1.
- ⁸² Cheryl Clark, "Grossmont Cannot Leave Sharp System," *San Diego Union Tribune* (Mar. 25, 1998), p. B3.
- ⁸³ Cheryl Clark, "Palomar-Pomerado Acts to Affiliate with ScrippsHealth," *San Diego Union Tribune* (Oct. 22, 1996), p. B2.
- ⁸⁴ *Id.*; Ron Shinkman, "Calif. District Gets Alternative," *Modern Healthcare* (Aug. 3, 1998), p. 19.
- ⁸⁵ Ron Shinkman, "Calif. District Gets Alternative," *Modern Healthcare* (Aug. 3, 1998), p. 19.
- ⁸⁶ Cheryl Clark, "Palomar Won't Tie Up With Scripps," *San Diego Union Tribune* (Dec. 12, 1998), p. B1.
- ⁸⁷ Tini Tran, "Public hospital in legal limbo," *San Jose Mercury News* (Jan. 29, 1996), p. 1B.
- ⁸⁸ Ron Shinkman, "Back in publish hands," *Modern Healthcare* (Jan. 13, 1997), p. 20.
- ⁸⁹ Inside The Industry, "Hospitals Merger and Consolidation Trend Continues," *Health Line* (Mar. 12, 1996), p. 1.
- ⁹⁰ AFCSME Council 57 flyer "Sequoia Hospital Alert", Feb. 27, 1996; *See, generally*, Deanna Bellandi, "What Hospitals Won't," p. 28.
- ⁹¹ Benjamin Pimentel, "Sequoia OKs Healthcare West Merger," *San Francisco Chronicle* (Mar. 21, 1996), p. A-13.
- ⁹² We requested that when reporting this information, the hospital if at all possible indicate whether this care is defined as services that are given with no expectation of payment, or whether it includes both bad debt and charity-care. We also requested that the hospital calculate or at least indicate whether the level of indigent care provided was based upon either costs or charges, especially if its accounting system tracked both bad debt and charity-care.
- ⁹³ This figure may include nonbilled services, research, community education, health fairs, and cash or in-kind donations to community organizations and taxes paid.
- ⁹⁴ In one telephone conversation, Tenet asked; "[W]hy should we help you when you have been one of our most vociferous critics?" In a letter confirming this conversation, we replied: "It is regrettable, that Tenet has chosen to respond in this way . . . The focus of our concerns (especially in the Queen of Angels transaction) was on fiduciary obligations of nonprofit board members and the role of the Attorney General in protecting nonprofit charitable assets, not just Tenet [’s track record] . . . We call these transactions as we see them, and let the chips fall where they may . . . Our report will be unbiased – a goal to which we always strive – and address nonprofit consolidations as well as nonprofit-to-for-profit conversions." Consumers Union’s Letter to Tenet, Oct. 8, 1998.
- ⁹⁵ U. S. General Accounting Office, "Not-for-profit Hospital Conversion Issues Prompt Increased State Oversight" (Report to Congress, Dec. 1997) GAO-HES-98-24, p. 2.