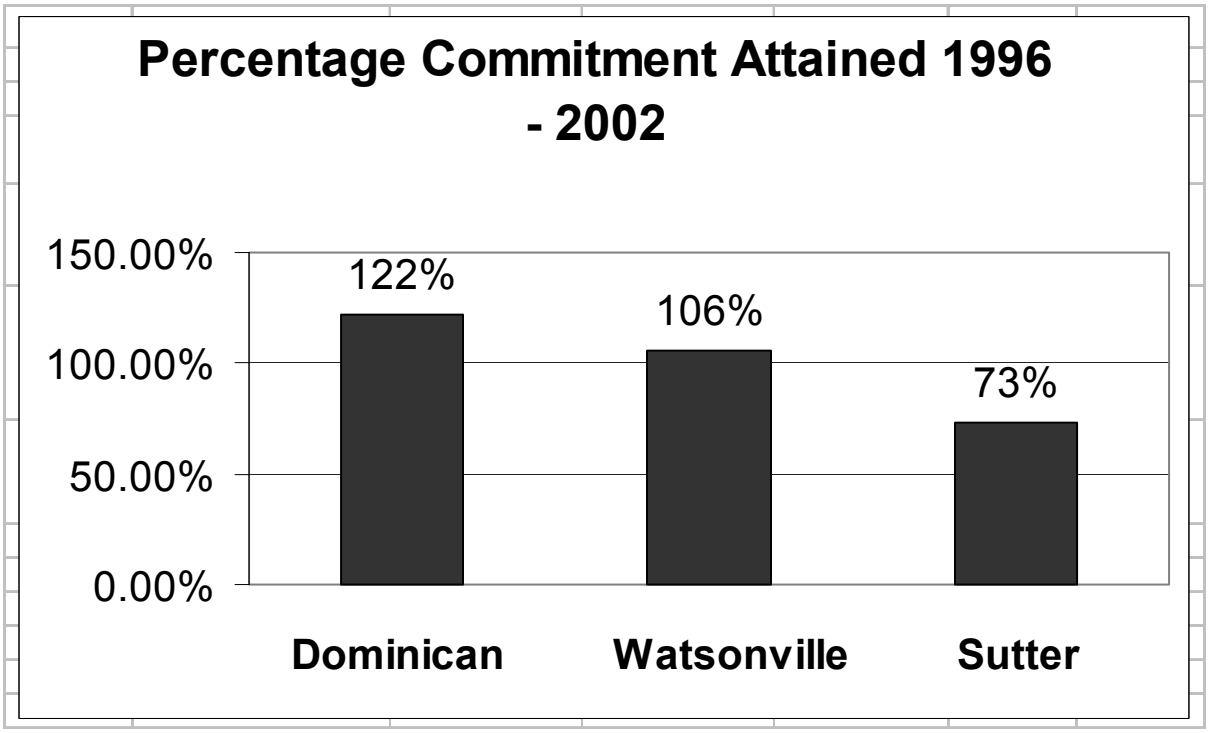
Hospitals and Charity Care in Santa Cruz County

Synopsis

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



Definitions[1]

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

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

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

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

Background

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

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

As the costs of the state- and federally-funded Medicaid program escalated, federal and state governments cut Medicaid reimbursement rates and no longer paid the full cost of services provided by the hospitals. In the 1980s the federally-funded Medicare hospital program followed with similar cuts. In 1982 California increased the requirements for Medi-Cal eligibility and only those persons on welfare could qualify for Medi-Cal. Thus, the state transferred to the counties the responsibility for the healthcare of the uninsured working poor who had been classified as medically indigent. In exchange the state promised to help fund 70% of the program for the medically indigent.

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

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

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

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

Since 1971 the California Office of Statewide Health Planning and Development (OSHPD) has required non-profit hospitals to submit a variety of reports. The California Association of Hospitals and the California Association of Catholic Hospitals sponsored Senate Bill 697 (1994) to clarify the charitable requirement that non-profit hospitals were expected to provide. Non-profit hospitals also convinced the state to use the broader category of community benefit, instead of charity, to help fulfill their tax-exempt status. Community benefit included: charity (free care to those unable to pay), bad debt (those able to pay, but refusing), and other programs (such as healthcare education programs and free healthcare screenings). As a result of the bill's passage, OSHPD requires all private non-profit acute care hospitals, including psychiatric hospitals, to submit yearly reports to document their community benefit and uncompensated care (bad debt and their "losses" from the government insurance programs). However, problems persist because of a lack of consensus on how charity care is measured.[3]

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

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

than its share of paying patients and burden Dominican Hospital and Watsonville Hospital with more charity patients.[4] Representatives of Dominican Hospital, Watsonville Hospital, and Sutter Health and the Board of Directors of Sutter Hospital each signed an agreement in 1993. The Santa Cruz County Board of Supervisors approved the plans for Sutter Hospital in 1994.

Terms of the AMCA

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

1. They could spend at least 5.5% of their net operating expenses as charity care, exclusive of the governmental supported insurance "losses."

2. They could spend 7.0% of the hospital's net operating expenses as uncompensated care, which included charity care and bad debts, exclusive of the governmentally supported insurance "losses."

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

1. They could make "a direct cash and/or in-kind contribution to a charitable, health related organization and/or medical services benefiting indigent and/or low-income county residents."

2. They could document that "it has incurred direct costs associated with an on-going, non-charge charitable health or hospital service (American Institute of Certified Public Accountants defined), such as operating a 'Free Clinic.'"

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

The hospitals' AMCA report "shall be accompanied by a report from the hospital's auditors."

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

A Historical Summary of the Hospitals in Santa Cruz County

1. **Sutter Hospital:**

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

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

2. **Dominican Hospital:**

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

3. **Watsonville Hospital:**

   Watsonville Community Hospital (WH) is currently licensed for 106 beds. The original non-profit Watsonville Hospital signed the AMCA in 1993. In 1998 the for-profit Community Health Systems (CHS) bought Watsonville Hospital. They agreed to comply with the AMCA as part of their purchase agreement.[7] CHS is

[5] Sutter Health, Santa Cruz Medical Foundation, Palo Alto Medical Foundation Web sites.
[6] Marin General Hospital Web site.
[7] The Grand Jury asked for a copy of the purchase agreement, but was not able to obtain it.

headquartered in Tennessee and currently owns 73 hospitals in 22 states. Their hospitals are primarily in rural areas, such as Watsonville.

Scope

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

Fieldwork

Sources

Interviewed:

Local healthcare administrators.
Local hospital administrators.

Reviewed:

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

Web sites:

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

Dominican Hospital.
Watsonville Community Hospital.

LexisNexis Search: Medical Foundations.

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

Findings

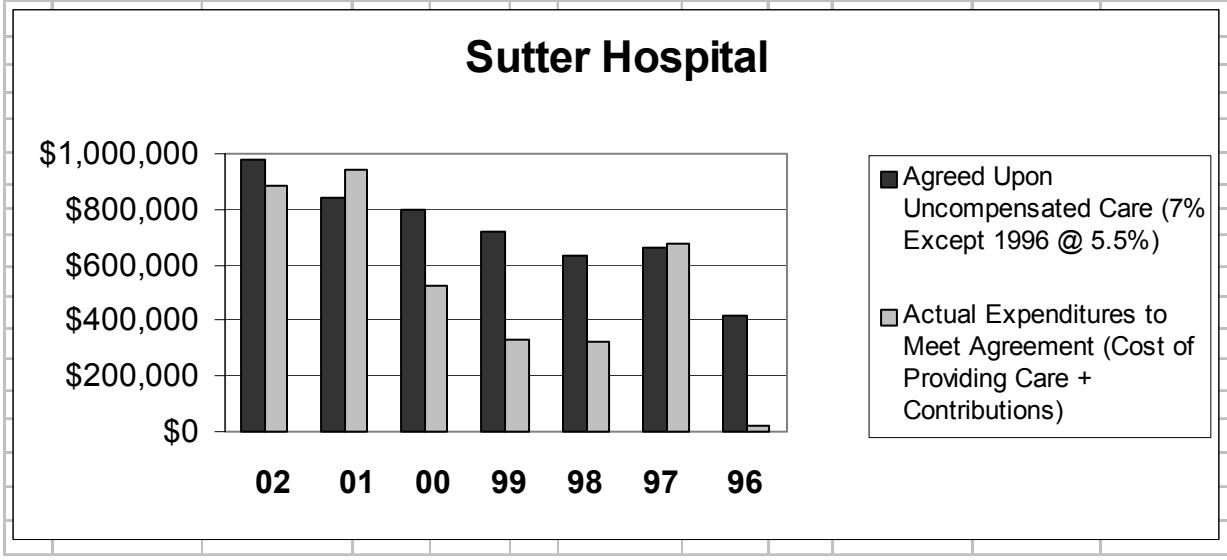
1. **A Summary of the Access to Medical Care Reports:**

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

[8] See the Appendix.

Sutter Hospital

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



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

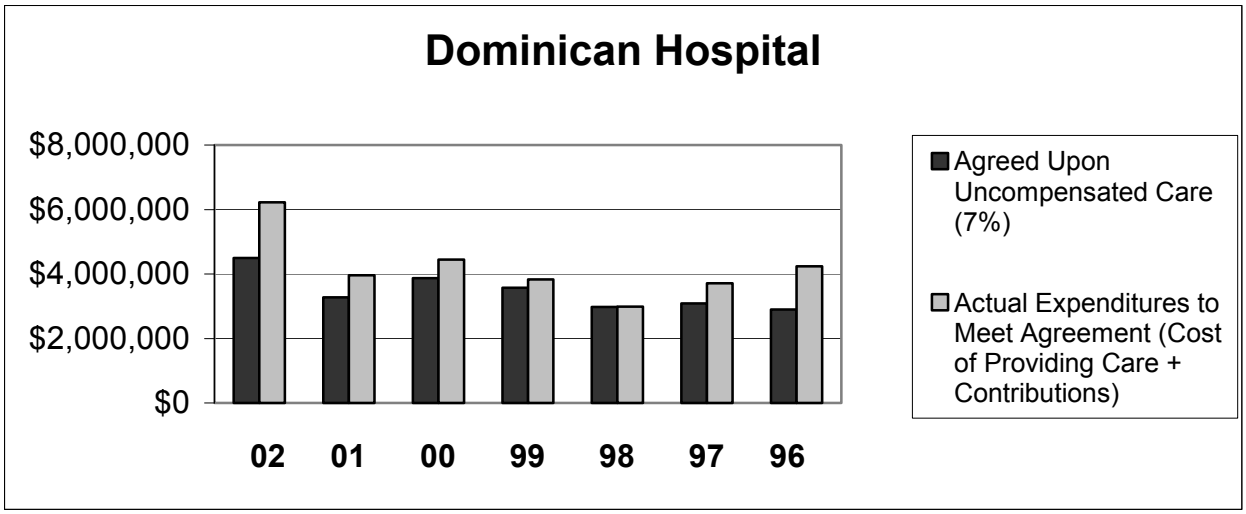
Sutter Hospital Yearly Performance 1998 through 1996 & Total				
Fiscal Year (Ending Dec 31)	**1998**	**1997**	**1996**	**2002 to 1996 Totals**
Gross Revenue	$22,705,186	$18,005,934	$11,165,252	$185,889,755
Net Operating Expense	$9,017,921	$9,422,345	$7,627,871	$73,811,050
Agreed Upon Uncompensated Care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

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

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

Dominican Hospital

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

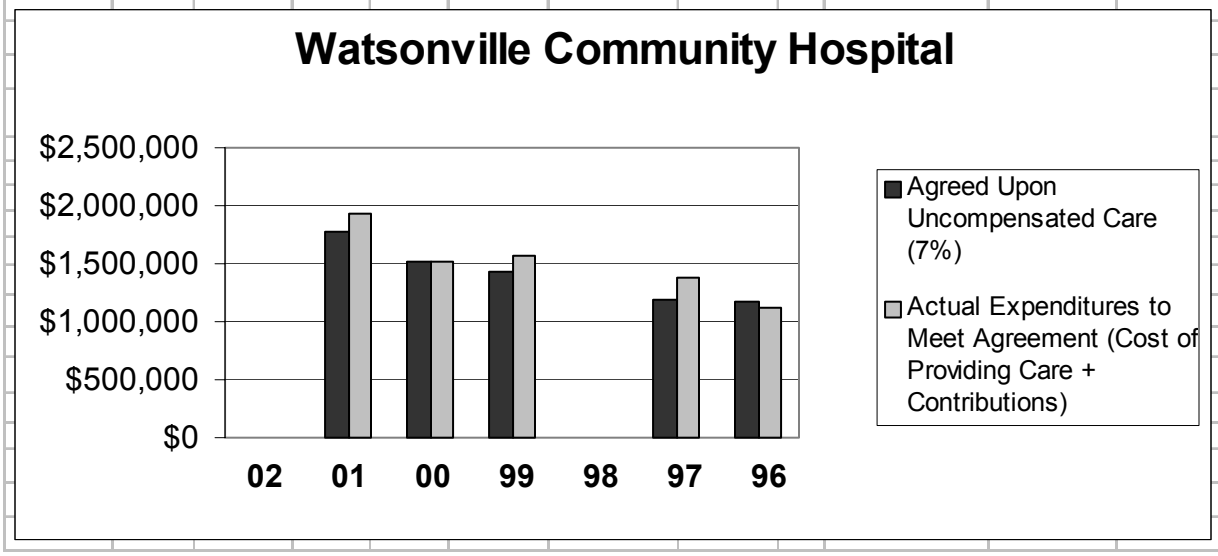


Dominican Hospital Yearly Performance 2002 through 1999				
Fiscal Year (Ending June 30)	2002	2001	2000	1999
Gross Revenue	$456,841,306	$330,472,517	$289,437,497	$272,662,515
Net Operating Expense	$64,239,883	$46,725,331	$55,309,811	$51,081,651
Agreed Upon Uncompensated Care (7%)	$4,496,792	$3,270,773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

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

Watsonville Hospital

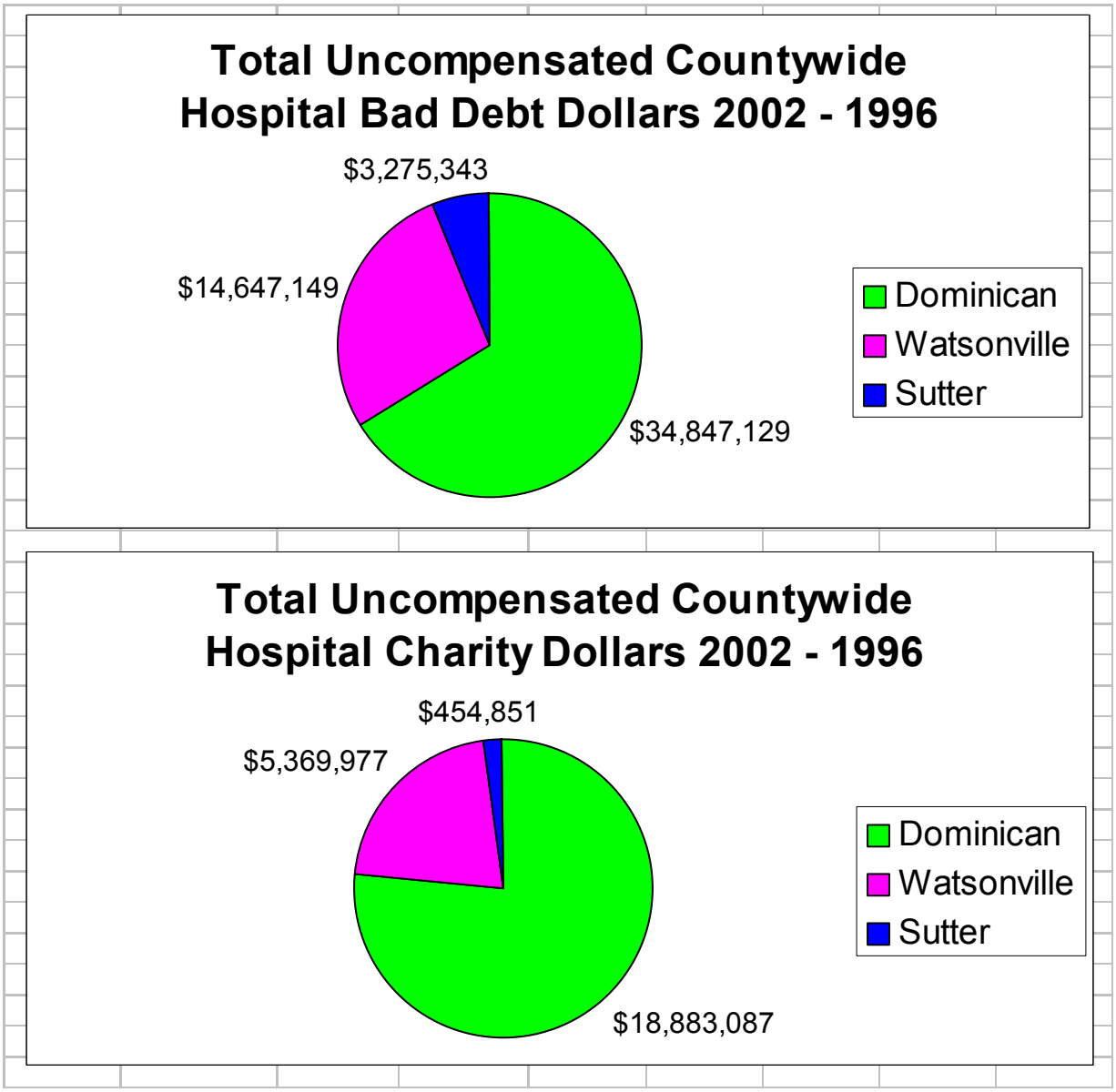
Watsonville Hospital 1996 to 2002 Performance Summary	
Total Agreed Upon Uncompensated Care 1996 - 2002	$7,089,917
Actual Expenditures to Meet Agreement 1996 - 2002	$7,527,237
Percentage Attained 1996 - 2002	106.17%



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

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

2. Uncompensated Care Incurred by the Hospitals in SCC



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

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

5. In 2001 the HSA and Sutter Hospital met to discuss the hospital’s non-compliance with the AMCA. On October 15, 2001, the hospital wrote a letter to the HSA to change the terms of the original agreement. The letter stated, “If accepted this letter would settle all differences between the County and the Hospital for all years prior to 2001, and would provide an agreed-upon interpretation” between them over certain provisions of the Agreement for 2001 and all years thereafter. “This letter would not constitute an amendment of the Agreement in any way.” The Sutter Hospital and Santa Cruz Medical Clinic (SCMC) physicians offered the following services:

    A. High-risk pregnancy services worth $4,000 x 17 patients, even if 17 patients were not treated. SCMC pediatricians will provide post-natal care until 18 years of age, but if not reimbursed, would refer these children back to the county clinic.

    B. The county will approve Sutter Hospital’s requests for prior approval of specific community benefit activities.

    C. The community clinics in North County could sign up patients for education programs and patient education supplies for credit under charity.

    D. The hospital will provide up to $10,000 a year of laboratory services for hepatitis C.

    E. The county and the hospital will determine what kind of physician specialists, “including but not limited to urologists and orthopedists” are needed and the hospital’s relocation program will be credited to community benefit for a maximum of $100,000 plus moving costs for each 4 year recruiting agreement. These physicians will agree to see Medi-Cal and Medi-Cruz patients.

F. The hospital will donate at least $25,000 to the Youth Resource Bank on a restricted use basis to pay insurance premiums for Healthy Families eligible clients.

G. Medi-Cruz patients will obtain $50,000 in free care at the Hospital. The hospital will receive a credit for uncompensated care of 200% of what Medi-Cruz would have paid for these services. SCMC physicians will see pre-screened Medi-Cruz patients for non-Hospital services as an obligation under the Access to Medical Care Agreement.

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

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

7. In 2001 as a condition of accepting Sutter Hospital's lack of adherence to the terms of the AMCA, the Board of Supervisors stipulated that indigent patient healthcare services should be given priority. The HSA required Sutter Hospital to submit a list of community benefits for approval. Sutter Hospital submitted lists of activities to gain approval with the following non-healthcare activities:

   A. Collected trash for Adopt a Highway: $10,494.
   B. Cleaning up the San Lorenzo River: $312.
   C. Donated surgical supplies/equipment to a local veterinary hospital: $232.
   D. Provided a meeting room for Kol Tefillah support group: $8,000.

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

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

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

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

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

In 2002, Sutter Hospital included meeting spaces for:

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

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

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

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

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

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

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

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

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

[9] The Santa Cruz County Health Services Agency Physicians Association reported the lack of treatment for hepatitis C patients to the Board of Supervisors on November 18, 2003. It also reported that free medication was available.
[10] This list is a sample of the many community services Dominican Hospital provides.

F. Dominican RotaCare: Joint venture with the Santa Cruz Rotary Club.

13. Dominican Hospital and Watsonville Hospital did not deduct the unpaid costs of public programs, as Sutter Hospital did for many years. Neither Dominican Hospital nor Watsonville Hospital carried forward the excess in one year to remove a deficit in the following year as Sutter Hospital did in 2002.[11] Dominican Hospital and Watsonville Hospital also never deducted "uncompensated care write-offs" as Sutter Hospital did from 1996 through 1998.

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

15. Sutter Hospital's relationship to the Santa Cruz Medical Foundation and the Santa Cruz Medical Clinic cannot be fully understood without explaining the financial benefits of a medical foundation. Starting in 1978 the concept of the Medical Clinic Foundation model developed primarily in California. The medical foundation was "a technique for complying with the California corporate practice of medicine laws while at the same time establishing hospital ownership of medical practice assets. Typically, the Foundation is established as a tax-exempt organization and used by tax-exempt hospital systems."[12] "Their tax- exempt status presents definite advantages relative to income, financing, and contributions."[13] The medical foundations are also exempt from licensure by the state Department of Health Services. The Santa Cruz Medical Clinic falls under the following regulation. Clinics and facilities exempt from licensure include:

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

16. Although Santa Cruz Medical Foundation charges patients and has a tax-exempt status, it recently sent out a letter stating that "Today, through our affiliation with the Palo Alto Medical Foundation, Sutter Santa Cruz serves as a true community-based, not-for-profit health care provider. Each year, we give back to our community. Now, we are asking our community to give back to us. Your gift in

[11] The Health Services Agency allowed Sutter Hospital's carry forward.
[12] "Avoiding the Legal Minefields of Integrated Systems," Medical Clinic Foundation, LexisNexis search.
[13] Gregory Georges, "Nonprofit Medical Foundations-A Corporate Practice of Medicine Problem?" LexisNexis search.
[14] Deering's California Health & Safety Codes Annotated (section 1206, Matthew Bender & Company, Inc., 2003) LexisNexis search.

any amount will help us to uphold the high standards of medical care that so many people in our community depend upon."[15]

Conclusions

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

2. If the HSA had checked the figures submitted by the hospitals, the sizable error in Watsonville Hospital's 1996 report would have been caught.[17]

3. Sutter Hospital submitted auditor's letters that accompanied its reports, but the letters are questionable because of the many errors.

4. Dominican Hospital and Watsonville Hospital greatly exceed Sutter Hospital in the amount of uncompensated care.

5. The Access to Medical Care Agreement's intent to equalize uncompensated care among the three hospitals has failed because of Sutter Hospital's repeated noncompliance with the terms of the AMCA.

6. In 1996 Sutter Hospital's deductions of "uncompensated care write-offs" violated the terms of the AMCA. The hospital selected the 5.5% option, which only allowed charity care to be deducted. Sutter Hospital's final figures for 1997 and 1998 are suspect because it deducted a third category of "uncompensated care write-offs" with no clarification. Sutter Hospital's violations and questionable deductions in 1996 and 1997 resulted in the appearance of compliance with the terms of the AMCA, when it was clearly non-compliant.

7. In 2001 the Board of Supervisors and the HSA allowed Sutter Hospital to escape the penalties of the AMCA agreement. The HSA has attempted to put healthcare community benefits first, but has been inconsistent in its approvals and denials of Sutter Hospital's community benefit activities.

8. Sutter Hospital, which serves as a hospital for the Santa Cruz Medical Clinic physicians' group, demonstrated the leverage it has over the physicians' group by adding its services to fulfill the hospital's compliance with the AMCA. The HSA and the Board of Supervisors missed a perfect opportunity in 2001 to arrange the necessary specialist care for the county clinic patients. It is unreasonable for Santa

[15] Sutter letter to the community in December 2003.
[16] At first the Health Services Agency submitted the Access to Medical Care Agreement reports without Sutter Hospital's accompanying auditor's letter. The Health Services Agency subsequently submitted copies of the auditor's letters. For this reason, the Grand Jury is not 100% sure that Dominican and Watsonville Hospitals also had auditor's reports.
[17] See the Appendix.

Cruz Medical Clinic physicians to expect another county's physicians to provide medical care for Santa Cruz County's indigent patients.

9. The HSA and the Board of Supervisors did not force Sutter Hospital to live up to the terms of the Access to Medical Care Agreement. They allowed Sutter Hospital to:

    A. Ignore its deficits until 2001;
    B. Write off its deficits with no penalties prior to 2001;
    C. Write off its "uncompensated write-offs" without clarification;
    D. Change a deficit to an excess by carrying forward an excess from one year to the next.

Recommendations

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

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

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

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

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

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

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

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

Responses Required

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

Appendix

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

Sutter Hospital

Calendar Year Ended 12/31/2002

Gross Revenues: $39,850,799
Net Operating Expense (Operating Expense minus Cost of Government Programs: $18,315,510 – $4,349,119) = $13,966,391
Agreed Upon Uncompensated Care (7% of Net Operating Expense) = $977,647
- Charity: $54,208
- Bad Debt: $842,506

Total: $896,714
Cost of Provided Care: 45.96% (cost to charges ratio) x $896,714 =$412,130
Deficit: ($977,647 - $412,130 = $565,517)
Gained compliance with Contributions to Exempt Organizations:
Cash Contributions:
- The Billy Foundation: $1,000
- United Way of Santa Cruz County: $2,000
- Santa Cruz County Youth Resource Bank (Healthy Families): $25,000
- Community Foundation of Santa Cruz: $1,000
- Subtotal: $29,000

In-Kind Contributions:
- O.B. services (high risk patients referred by the County): $68,000
- Community Benefit Programs: $236,922
- Physician Re-Location: $0
- Medi-Cruz Credits: $50,000
- Ancillary and Professional Services: $39,759
- Charity Services by SCMC: $48,847
- Subtotal: $440,528

Total: $469,528

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

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

Calendar Year Ended 12/31/2001

Gross Revenues: $31,564,372
Net Operating Expense: $15,557,532 - $3,487,254 = $12,070,278
Agreed Upon Uncompensated Care: 7% x $12,070,278 = $844,919
- Charity: $66,996
- Bad Debt: $998,947

Total: $1,065,943
Cost of Provided Care: 49.29% (cost to charges ratio) x $1,065,943 = $525,403
Deficit: **($525,403 - $844,919 = $319,516)**
Gained Compliance With:
Cash Contributions;
Cabrillo College Nursing Department: $1,000
United Way of Santa Cruz County: $2,000
Santa Cruz Youth Resource Bank (Healthy Families): $25,000
Subtotal: $28,000
In-Kind Contributions:
O.B. Services (high risk patients referred by the County): $11,333
Community Benefit Programs: $216,577
Physician Re-Location: $103,535
Medi-Cruz Credits: $0
Ancillary and Professional Services: $56,155
Charity Services by SCMC: $0
Subtotal: $387,600
Total: $415,600
Final Excess: $415,600 - $319,516 = $96,084

Calendar Year Ended 12/31/2000

Gross Revenues: $31,818,412
Net Operating Expense: ($14,689,276 - $3,238,143) = $11,451,133 Agreed Upon
Uncompensated Care: 7% x $11,451,133 = $801,579
Charity: $122,582
Bad Debt: $240,585
Total: $363,167
Cost of Provided Care: 46.17% (cost to charges ratio) x $363,167 = $167,674
(Sutter Hospital's calculated an incorrect figure of $167,660)
Deficit: ($801,579 - $167,674 = $633,905)
Gained Compliance With:
Cash Contributions:
Cabrillo College Nursing Department: $25
United Way of Santa Cruz County: $2,350
WomenCare: $300
Subtotal: $2,675
In-Kind Contributions:
Community Benefit Programs, 2000: $317,429
Non-Billed Services: $38,650
Unpaid Cost of Public Programs (Medicare and Medi-Cal): $302,946
True Subtotal (without the illegal deductions): $356,079
Total: $358,754
Final Deficit: ($633,905 - $358,754 = $275,141)

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

Calendar Year Ended: 12/31/1999

Gross Revenues: $30,779,800
Net Operating Expense: $13,581,498 - $3,326,387 = $10,255,111
Agreed Upon Uncompensated Care: 7% x $10,255,111 = $717,858
    Charity: $75,195
    Bad Debt: $308,146
Total: $383,341
    Cost of Provided Care: 44.12% (cost to charges ratio) x $383,341 = $169,130 (Sutter Hospital calculated an incorrect figure of $169,148)
Deficit: ($717,858 - $169,130 = $548,728)
Gained Compliance With:
Cash Contributions:
    Hospice: $480
    United Way: $2,000
    Subtotal: $2,480
In-Kind Contributions:
    Community Benefit Programs: $160,819
    Unpaid Costs of Medicare, Medi-Cal, Medi-Cruz: 198,694
True Subtotal without the Illegal Deduction: $160,819
Total: $163,299
Final Deficit: ($548,728 - $163,299 = $385,429)

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

Gross Revenues: $22,705,186
Net Operating Expense: $12,162,899 - $3,144,978 = $9,017,921
Agreed Upon Uncompensated Care: 7% x $9,017,921 = $631,254
    Charity: $75,031
    Bad Debt: $478,579
Uncompensated Care Write-Off: $49,460 (no clarification)
Total: $603,070
Cost of Provided Care: 53.57% (cost to charges ratio) x $603,070 = $323,065
Reported Excess: $236,548 (Wrote-Off Unpaid Costs of Government Programs: Medicare, Medi-Cal, Medi-Cruz=$867,738)
Final Deficit: (**$308,189)**

Calendar Year Ended 12/31/1997

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

Wrote-Off Unpaid Costs of Government Programs = $613,507
Final Excess: $659,564 – $613,507 = $18,603

Calendar Year Ended 12/31/1996

Gross Revenues: $11,165,252
Net Operating Expense: $9,508,779 - $1,880,908 = $7,627,871
Agreed Upon Uncompensated Care: 5.5% x $7,627,871 = $419,533
(Sutter Hospital incorrect calculation of $419,534)
Charity: $22,525
Uncompensated Care Write-Off: $475,211 (no clarification)
Total: $497,736
Cost of Provided Care: 85.16% (cost to charges ratio) x $497,736 = $423,872
Reported Excess: $631,704 (Wrote off Unpaid Costs of Government Programs = $627,366)
If Sutter Hospital's figures exclude the unpaid costs of public programs, that would give an excess of $4,338. However, this figure is questionable because only charity is allowed under the 5.5% option.
Final Deficit: ($419,533 - $19,182 = $400,351)

Dominican Hospital

Fiscal Year Ended 6/30/2002:

Gross Revenues: $456,841,306
Net Operating Expense: $64,239,883
Agreed-Upon Uncompensated Care: 7% x $64,239,883 = $4,496,792
Charity: $4,804,515
Bad Debt: $9,268,252
Total: $14,072,767
Cost of Care Provided: (29.62% x $14,072,767) = $4,168,354
Initial Deficit: ($4,168,354 -$4,496,792 = $328,438)
Gained Compliance with contributions to exempt organizations and community:
Benefits for the Poor:
Non-Billed services: $152,000
Cash and in-kind donations: $143,000
Other: $606,000
Subtotal: $901,000
Benefits for the broader community:
Non-billed services: $314,000
Cash and in-kind donations: $462,000
Education and Research: $351,000
Other: $462,000
Subtotal: $1,154,000
Total: $2,055,000
Final Excess: $2,055,000 - $328,438 = $1,726,562

Fiscal Year Ended 6/30/2001

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

Fiscal Year Ended 6/30/2000

Gross Revenues: $289,473,497
Net Operating Expense: $55,309,811
Agreed-Upon Uncompensated Care: 7% = $3,871,687
    Charity: $2,611,204
    Bad Debt: $4,327,984
Total: $6,939,188
Cost of Care Provided (40.41% x $6,939,188) = $2,804,126
Initial Deficit: **($2,804,126 - $3,871,687 = $1,067,561)**
Gained Compliance with Contributions to Exempt Organizations and Community:
Benefits for the Poor:
    Non-Billed Services: $131,000
    Cash and In-Kind Donations: $57,000
    Other: $34,000
Sub-total: $528,000
Benefits for the Broader Community:
    Non-billed Services: $176,000
    Education and Research: $115,000
    Cash and in-kind donations: $403,000
    Other: $419,000
Sub-total: $1,113,000
Total: $1,641,000
Final Excess: $1,641,000 - $1,067,561 = $573,439

Fiscal Year Ended 6/30/1999

Gross Revenues: $272,662,515
Net Operating Expenses: $51,081,651
Agreed-Upon Uncompensated Care: 7% x $51,081,651 = $3,575,716
    Charity: $2,374,819
    Bad Debt: $3,739,328
Total: $6,114,147
Cost of Care: (40.44% x $6,114,147) = $2,472,561
Initial Deficit: ($2,472,561 - $3,575,716 = $1,103,155)
Gained Compliance with Contributions to Exempt Organizations and Community:

Benefits for the Poor:
Non-Billed Services: $50,000
Cash and In-Kind Donations: $76,000
Other: $253,000
Sub-total: $379,000
Benefits for the Broader Community:
Non-Billed Services: $177,000
Education and Research: $87,000
Cash and In-Kind Donations: $369,000
Other: $345,000
Sub-Total: $978,000
Total: $1,484,000
Final Excess: $253,845

Fiscal Year Ended 6/30/1998

Gross Revenues: $250,938,722
Net Operating Expense: $42,522,518
Agreed-Upon Uncompensated Care: 7% x $42,522,518 = $2,976,576
Charity: $1,891,319
Bad Debt: $2,804,999
Total: $4,696,318
Cost of Care: (42.22% x $4,696,318) = $1,982,785
(Dominican Hospital's incorrect calculation of $1,982,899)
Initial Deficit: ($1,982,785 - $2,976,576 = $993,791)
Gained Compliance with Exempt Organizations and Community:
Benefits for the Poor:
Non-Billed Services: $38,000
Cash and In-Kind Donations: $89,000
Other: $230,000
Subtotal: $357,000
Benefits for the Broader Community:
Non-Billed Services: $162,000
Education and Research: $101,000
Cash and In-Kind Donations: $386,000
Subtotal: $649,000
Total: $1,133,000
Final Excess: $1,133,000 - $993,791 = $12,209

Fiscal Year Ended 6/30/1997

Gross Revenue: $244,016,884
Net Operating expense: $44,104,448
Agreed-Upon Uncompensated Care: 7% x $44,104,448 = $3,087,311
Charity: $3,046,679
Bad Debt: $2,955,040
Total: $6,001,719
Cost of Care Provided: 43.88% (ratio of cost to charges) x $6,001,719 = $2,633,554

Initial Deficit: ($2,633,554 - $3,087,311 = $453,757)
Gained Compliance with Exempt Organizations and Community:
Benefits for the Poor:
Non-Billed Services: $45,000
Cash and In-Kind Donations: $112,000
Sub-total: $157,000
Benefits for the Broader Community:
Non-Billed Services: $151,000
Education and Research: $127,000
Cash and In-Kind Donations: $128,000
Other: $518,000
Sub-total: $924,000
Total: $1,081,000
Final Excess: $1,081,000 - $453,757 = $627,243

Fiscal Year Ended in 1996

Gross Revenue: $235,816,649
Net Operating Expenses: $41,437,136
Agreed-Upon Uncompensated Care: 7% x. $41,437,136 = $2,900,600
Uncompensated Care Provided:
Charity: $1,631,459
Bad Debt: $4,539,076
Total: $6,170,535
Cost of Care: (43.8% x $6,170,535) = $2,702,694
(Dominican Hospital's incorrect calculation of $2,702,896)
Initial Deficit: ($2,702,694 - $2,900,600 = $197,906)
Gained Compliance with:
Benefits to the Poor:
Non-Billed Services: $182,000
Cash and In-Kind Donations: $92,000
Subtotal: $274,000
Benefits for the broader community:
Non-Billed Services: $208,000
Education and Research: $162,000
Cash and In-Kind Donations: $191,000
Other: $704,000
Subtotal: $1,265,000
Total: $1,539,000
Final Excess: $1,539,000 - $197,906 = $696,977

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

Watsonville Community Hospital

Fiscal Year Ended 2002

Has Not Been Submitted As of 12/03

Fiscal Year Ended 2001

Gross Revenue: $254,350,140
Net Operating Expense: $25,488,782
Agreed Upon Uncompensated Care: 7% = $1,784,215
    Charity: $1,634,719
    Bad Debt: $4,967,008
Total: $6,601,727
Cost of Care Provided (Ratio of Cost to Charges x Total = 29.27% x $6,601,727) =
    $1,932,325 (Watsonville Hospital's incorrect calculation of $1,932,221)
Excess: $1,932,325 - $1,784,215 = $148,110

Fiscal Year Ended 2000

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

Fiscal Year Ended 1999

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

Fiscal Year Ended 1998

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

Fiscal Year Ended 6/30/1997

Gross Revenue: $108,060,744
Net Operating Expense: $17,046,592
Charity Threshold Factor: 7.0% = $1,193,261

Uncompensated Care:
Charity: $753,698
Bad Debt: $2,016,985
Total: $2,770,683
Cost of Care Provided: (49.83% x $2,770,683) = $1,380,631
(Watsonville Hospital's incorrect calculation of $1,380,548)
Excess: $1,380,631 - $1,193,261 = $187,370

Fiscal Year Ended 6/13/1996

Gross Revenue: $103,336,619
Net Operating Expense: $16,791,222
Charity Threshold Factor: 7.0% = $1,175,386
Uncompensated Care:
Charity: $1,270,791
Bad Debt: $978,089
Total: $2,248,880
Cost of Care Provided: (49.81% x $2,248,880) = $1,120,167
(Watsonville Hospital's incorrect calculation of $1,120,101)
Deficit: ($1,120,167 - $1,175,386 = $55,219)
Watsonville Hospital reported an excess of $55,285, which was not caught by the HSA as an error.