

**Stanislaus County Health Services Agency  
Grand Jury Case No. 03-23AD  
2002-2003**

**REASON FOR INVESTIGATION**

To perform a mini post audit of the H.S.A. financial results since the hospital closed on November 30, 1997.

**BACKGROUND**

A nine-member Negotiating Committee was formed in 1996 to make recommendations to satisfy the complex issues evolving within the health care industry and to thus satisfy the County's legal obligations to provide care to indigent persons who do not qualify for any form of state or federal health problems.

**PROCEDURES FOLLOWED**

People Interviewed

- Managing Director, H.S.A
- Assoc, Director, Health Coverage
- Chief Financial Officer

Documents & Financial Records

Board of Supervisors Action Agenda Summary Dated 1/28/97

Auth. Exclusive negotiations with Tenet Health

H.S.A. enterprise fund results from 6/94 through 6/03 & financial estimates of '04, '05, '06  
Negotiating Committee Recommendations of 1/27/97

**FACTS/FINDINGS**

**Facts:**

The Negotiating Committee had recommended that Stanislaus County pursue exclusive negotiations with St. Joseph's Regional Health System to conclude a definitive agreement based upon the terms in a 12/31/96 draft Memorandum of Understanding as clarified by the Committee. Paraphrasing from the Summary of Recommendations: "The Committee believes that St. Joseph's exposes the County to significantly less risk in the event of major changes in the health care environment through their assumption of any losses from operations for 12 years."

Four factors dominated their St. Joseph's decision.

1. The first was the financial factor dominated by the assumption of losses.
2. Other factors were: St. Joseph's commitment for enhancement of the clinic system; a significantly easier and less costly transition from an acute to

ambulatory system; retention of 450 employees in the short term; and the culture of St. Joseph's as expressed in their presentations."

### **Findings:**

On 1/28/97, County Board of Supervisors on a motion by Supervisor Simon and seconded by Supervisor Blom voted 3 to 2 to authorize exclusive negotiations with Tenet Health Systems.

All of the nine Negotiating Committee members had voted for St. Joseph's instead of Tenet.

Health Services enterprise fund losses from 1998 through 2002 totaled \$26,100,000. A loss of \$3,700,000 is forecasted for 02/03. Therefore, since signing a 20-year contract with Tenet, the County Health Services Agency will have absorbed \$29,800,000 of losses through June 30,2003. Tenet did make a one-time payment of \$12,000,000 for clinic operation that has not been used to reduce the \$29,800,000 loss.

H.S.A. expects to breakeven for the '03-'04 year and return to \$7-\$9 million dollar losses in the next two years.

### **CONCLUSIONS**

Following the Negotiating Committee's recommendations of 1/27/97 could have significantly reduced the \$29,800,000 loss as St. Joseph's agreement would have covered any losses from operations for 12 years.

### **RECOMMENDATIONS**

H.S.A should continue to hold account receivable follow-up meetings as it has done for the last seven years. Those meetings, attended by key H.S.A. staff, are used to maximize revenues.

The losses being sustained beg for something more to be done, and we recommend the Board of Supervisors readdress this issue and then put together a team of the best and brightest doctors, CPA's, administrators, and Federal and State Health professionals charged with developing various alternatives to meet the County's legal obligations for indigent care while dramatically lowering the losses to do so.

The 20-year contract with the Tenet goes until 2017 and this will be a factor in addressing and lowering the anticipated annual losses.