

Friday, July 24, 2009

Sutter Health faces heat over fund transfers

Questions about \$88 million it received from Marin hospital

San Francisco Business Times - by [Chris Rauber](#)

Sutter Health and the Marin General Hospital Board of Directors are coming under intense pressure to explain how and why nearly \$88 million in cash was transferred from the hospital's coffers to Sutter's over the last two years.

The massive cash transfers stand in marked contrast to the situation at other Bay Area hospitals affiliated with Sacramento-based Sutter, which have built up cash reserves that dwarf those at Marin General, according to numbers submitted to state and federal regulators. Marin General plans to disaffiliate from Sutter next summer, when a long-term lease expires, ending a troubled relationship that many compare to a failed marriage.

Assemblyman Jared Huffman (D-San Rafael) informed the hospital's board of directors July 17 that he wants answers about the transfers, which cost Marin General \$38.7 million in "excess" cash in 2007 and an additional \$49 million last year.

Huffman said if he isn't convinced the transfers were in Marin General's best interests, "I will be calling for a full investigation by the state attorney general's office."

The long-simmering Marin controversy blazed into life in recent weeks, as the size and scope of the transfers became apparent.

Sutter Health spokesman Bill Gleeson told the Business Times he couldn't comment on Huffman's statements because he hasn't seen them. Nor would he comment further on the cash-transfer issue, except to reiterate Sutter's earlier statements that it transferred \$5.3 million back to Marin General in recent years, and paid off \$23 million in hospital bonds in 2005 and 2006. Officials of the Marin Healthcare District, which owns the hospital and leases it to Sutter, argue that most of the bond payoff funds came from the hospital's reserves, not Sutter's.

The cash transfers to Sutter were approved by the 13-member hospital board which supervises Marin General's day-to-day operations. That board nominates its own members, who are approved by Sutter's board of directors, Gleeson said. A spokesman for the board referred questions about the transfers to Gleeson. The hospital board is separate from the health district's publicly elected board, which has frequently warred with Sutter.

Previously, Sutter officials said there was nothing improper about the transfers, which included \$24 million last year to bolster Sutter's pension fund, which was devastated by Wall Street's

plunge last fall. Sutter has run Marin General since the mid-1980s (including the tenure of the predecessor California Healthcare System, which included also California Pacific, Alta Bates and Mills-Peninsula).

Given Marin General's need for a major seismic rebuild, in theory by January 2013, "it is hard to imagine that there could be any 'excess' funds" at the hospital, Huffman wrote to the hospital board. Huffman demanded that the board, which has operated largely out of public view for many years, explain and stop the transfers "until the situation has been fully investigated, and it is clear that such transfers are both lawful and in the best interests of MGH and its patients."

Once Sutter's lease ends, control of the hospital will revert to the public health-care district. Marin General needs an estimated \$350 million to \$500 million or more to rebuild and expand its Greenbrae facility to meet state seismic safety standards and modernize the aging hospital.

And if the transfers turn out not to have been in the hospital's best interests, Huffman said in the July 17 letter to the board, "please be assured that I — and I suspect many others — will expect you to do everything within your power to secure the return of the transferred funds."

Huffman told the Business Times July 21 that there are "a lot of red flags" about Sutter's treatment of Marin General, especially considering that it will compete with the hospital after its lease ends.

Sutter operates hospitals in Novato and San Francisco that already compete to some extent with the Greenbrae facility. And other nearby Sutter hospitals have far more cash and funded depreciation built up than Marin General, according to 2007 financial data, which Huffman said is one of the "red flags" he's concerned about (see accompanying chart).

Sources say boards and management at other Sutter hospitals in the Bay Area, notably San Francisco's California Pacific Medical Center, have been far more resistant than Marin General's board to transferring cash to Sutter. For example, several sources say then-CPMC CEO Martin Brotman, M.D., now a senior Sutter executive, threatened to pull CPMC out of the system last September, in part over how much cash it should be transferring to Sutter. Kevin McCormack, a CPMC spokesman, confirmed that its board of directors discussed last September "whether or not to remain in Sutter Health." It is still part of Sutter.

Huffman said Sutter has made \$118 million in transfers from Marin General since 1995, which "gives the impression that (Sutter is) draining funds in anticipation of leaving." Huffman said funds already transferred to Sutter could have paid as much as one-third of the cost of a rebuild.

Copies of Huffman's July 17 letter to Marin General's board were sent to Attorney General Jerry Brown and top leaders of the Legislature, including the chairs of the Senate and Assembly health committees.

Larry Bedard, M.D., chairman of the publicly elected district board, said physician members of the private hospital board told other doctors that the district had made a deal to lease the hospital with Sutter and "if you don't like it, that's tough."