



*Sutter Medical Center
of Santa Rosa*

A Sutter Health Affiliate

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September 9, 2009

Rita Scardaci, MPH
Director of Health Services
County of Sonoma
475 Aviation Blvd.
Santa Rosa, CA

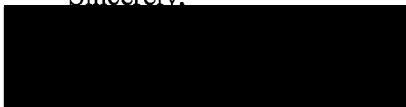
Dear Rita:

This is a formal request that the County waive Article 10.7 of the Health Care Access Agreement dated March 26, 1996 (HCAA) so that Sutter Medical Center of Santa Rosa (SMCSR) can merge into the Sutter Health West Bay Region in order for SMCSR to participate in the Sutter Health governance restructuring, which is more fully discussed in the enclosed document entitled Overview of Sutter Health Governance Restructuring. Article 10.7 provides, "During the term of this Agreement, Sutter shall maintain a governing body which consists predominately of residents of Sonoma County." As a result of the merger, by operation of law the Sutter Health West Bay Region will become responsible for complying with the HCAA. The merger will have no impact on the Sutter Health HCAA guaranty that will remain in full force and effect.

The advantages of SMCSR participating in the governance restructuring is fully discussed in the enclosure. If the County does not waive Article 10.7, SMCSR will not be able to participate in the governance restructuring because the board of the Sutter Health West Bay Region will not have a board consisting predominately of residents of Sonoma County. Absent a waiver of Article 10.7, SMCSR will be without a formal voice at the board meetings of Sutter Health West Bay Region. If Article 10.7 is waived, the board of Sutter Health West Bay Region will include residents of Sonoma County. Absent waiver, there is no assurance any Sonoma County residents will be on the Sutter Health West Bay Region board. SMCSR would not be part of a merger or governance restructuring. In this case, SMCSR would remain an affiliate of Sutter Health, but it could as a practical matter end up "on the outside looking in". Because it would not organically be a part of any Region and would have no board representation at any Region, I do not believe this is a direction we would want to pursue.

Please contact me if you have any questions.

Sincerely,



Michael J. Cohill
Senior Vice President, Sutter Health

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DHS - ADMIN SERVICES

OVERVIEW OF SUTTER HEALTH GOVERNANCE RESTRUCTURING

In March of 2007, the Board of Directors of Sutter Health requested a systematic analysis of governance within the organization. The key consideration was:

“Our organization has grown to a point that our complexity will hinder our ability to efficiently execute our strategy in the future. While our current structures have served us well in the past, we must step back proactively and review what changes from our existing structures and processes, if any, should be made to increase the likelihood of our strategic success. Governance is a key enabler to strategic alignment and thus must be one of the many areas that we address to ensure that we are ready for the future”

To address this issue, the Sutter Health board chartered a Governance Assessment Steering Committee made up of a cross-section of affiliates from across the system to study this question and bring forth its recommendations.

After approximately a year of work, the Committee reached the following conclusions:

Looking to the future, Sutter Health can serve our patients and communities much more effectively if we act in a more unified manner, identifying and implementing best practices across the system, consolidating parts of our operations where we can most effectively deliver them, maximizing our internal referral patterns and leveraging our strengths across the system.

The circumstances that existed when Sutter came together as a system have changed. Sutter Health came together as a voluntary alliance of health care organizations, many of which were focused on serving a single community. Today, we act as one entity in accessing capital and in selected other activities. However, we still carry out the preponderance of our activities – including strategy, services planning, and physician planning – at the local level.

In the Committee’s judgment, Sutter needs to change again. Looking ahead:

- We need to position ourselves to take advantage of opportunities to consolidate activities in several functional areas (such as billing and collections and supply chain management).
- We need to take a more regional approach to services planning and delivery. We need to anticipate and meet the needs of our patients who travel from one of our local service areas to another to receive care. And, we need to take advantage of opportunities to achieve higher quality and lower cost by consolidating some services in regions.
- We need to coordinate with one another more effectively and efficiently on an ongoing basis.

Based on these conclusions the Committee developed a comprehensive set of recommendations to implement a new regional approach to governance across Sutter Health, which was subsequently approved by the Sutter Health Board of Directors

The governance model that is recommended preserves a strong local and regional voice for our physician organizations and hospitals, while also recognizing that we deliver the highest quality and greatest value to our patients when we collaborate and work together.

The recommendations are summarized as follows:

1. Looking to the future, Sutter Health can serve our patients and communities much more effectively if we act as a unified system.
2. The majority of our current affiliate organizations should be merged into five regions governed by a regional board.
3. Philanthropic activities should continue as local functions.
4. Community benefit and onsite quality assurance functions should continue as local functions.
5. Regional board members should be the single point of responsibility for medical foundations, hospitals and other facilities and services within a given geographic region.

Within this new structure, Sutter Medical Center, Santa Rosa will become part of the West Bay region. Other Sutter Health affiliates that would be part of that region include:

- California Pacific Medical Center
- Sutter Marin dba Novato Community Hospital
- Sutter Lakeside Hospital
- Sutter Medical Foundation, North Bay
- Physicians Foundation at CPMC

The region would include one hospital corporation and one medical foundation corporation. As such, the assets of the three hospitals noted above would be merged into a single corporation. Each hospital will continue to operate within their communities with their existing names, medical staffs and community relationships.

A regional governance structure with fiduciary responsibility would be created to oversee all of the assets within the newly formed West Bay region and would be responsible for:

- Supporting the overall success from both a regional, system and local perspective
- Overseeing:
 - quality
 - compliance
 - charity care and community benefit
 - operating & capital budgets
 - medical staff performance
 - nomination of new board members
 - regional President performance
 - review of its own performance

- achievement of key regional and system strategic objectives
- that services are necessary, affordable & cost-effective
- regional strategic planning and resource allocation
- Just as exists today with Sutter Medical Center, Santa Rosa's relationship with Sutter Health, the new regional hospital corporation would be solely responsible for the operations and activities of the regional affiliates, except for those actions that are subject to previously existing Sutter Health reserve powers.

The new regional structure is based on the premise that, while certain key functions should be standardized across the system, there are significant areas for regional flexibility:

Areas for Standardization

- Regional governance model with single point of accountability and integrated regional oversight
- Agreement to new bylaws, roles and functions
- Use of competency based boards (skills, experience, knowledge)
- Importance of physician participation on the regional board

Areas for Regional Flexibility

- Varying corporate relationships (two sister corporations –hospitals corporation and medical foundation corporation - with mirror boards or vertical corporations)
- Board size
- Committee structures

The following approach will be taken to ensure the initial composition of trustees overseeing the region reflects broad community perspectives:

- At least one trustee will be appointed from each affiliate.
- The governing board will be balanced and appropriately reflect the community served by the region.

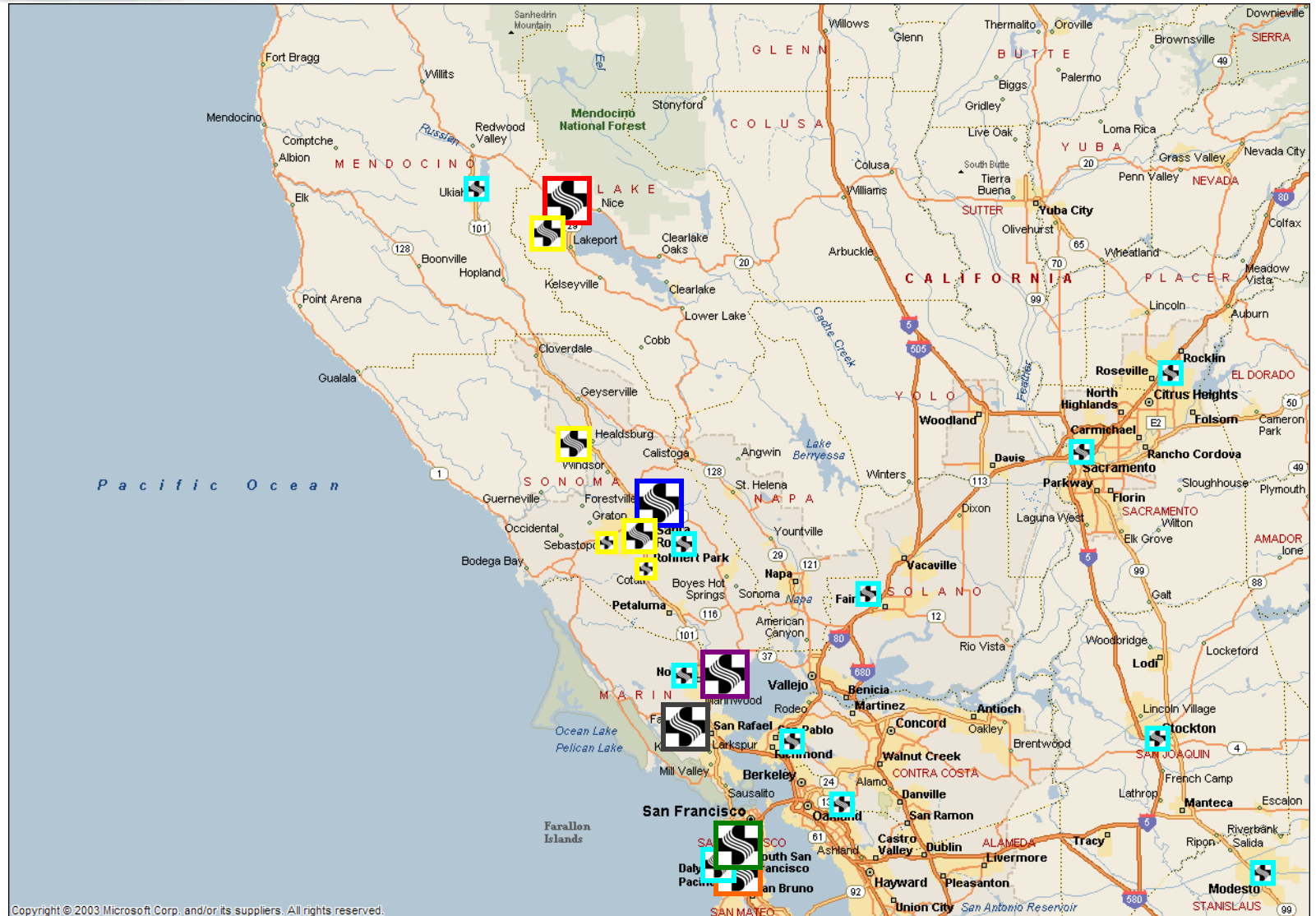
It is the responsibility of each region to refine the criteria to be used for trustee selection in the region and finalize a slate of board members and officers for Sutter Health Board approval.

In addition to Regional governance, local community-based committees would still exist in Santa Rosa responsible for areas such as quality, community benefit and philanthropy.

In the new regional structure, the Sutter Health Board will continue to look to local trustee leaders for input and recommendations. For example, the Sutter Health Governance Forum (affiliate board chairs) meets at least quarterly and provides an important opportunity for discussion and input on key system and regional issues. In addition, the Sutter Health board has added one trustee representative from each region as a member of the Sutter Health Finance and Planning committee. As all major strategic and resource allocation decisions are reviewed by this committee, this is a significant opportunity for two way communication and input.

West Bay Region

-  **Sutter Lakeside Community Hospital**
-  **Sutter Medical Center of Santa Rosa**
-  **Sutter Medical Foundation North Bay**
-  **Novato Community Hospital**
-  **California Pacific Medical Center**
-  **St. Luke's Hospital**
-  **Physician Foundation at CPMC**
-  **Marin General Hospital**



Sutter Health Regions

