

APPENDIX O

POTENTIAL INDIRECT ENVIRONMENTAL AFFECTS TECHNICAL REPORTS

**Analysis of Potential Indirect Environmental Effects
of the Proposed Sutter Medical Center of Santa Rosa on Other
Area Hospitals**

*Prepared by Sutter Medical Center of Santa Rosa
For Submission to Sonoma County*

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During the time Sonoma County has been preparing the EIR evaluating the proposed Sutter Medical Center of Santa Rosa, questions have been raised in public forums regarding the health care impact of the proposed project, and in particular the impact of the project on other hospitals in Sonoma County. On July 20, 2009, the Board of Supervisors reviewed a preliminary staff analysis of SMCSR's 2008 Revised Business Plan and determined that the plan could comply with the Health Care Access Agreement. The Board directed County staff to finalize its report and return to the Board for further consideration of this issue. Sutter understands that this further consideration of the business plan and health care issues will be conducted by the Board following certification of this EIR.

The purpose of the County's EIR is to evaluate environmental impacts. The environmental issue that is suggested by these comments is the question of whether claimed or potential impacts on health care could lead to potentially significant adverse impacts on the environment. For the reasons stated below, no foreseeable, potentially significant adverse environmental impacts are anticipated as a result of any potential impact the proposed project may have on other hospitals or on the overall delivery of health services in the County.

The CEQA Guidelines provide that "economic and social effects of a project shall not be treated as significant effects on the environment." (CEQA Guidelines § 15131.) Instead, CEQA is concerned only with a project's economic impacts where there is the potential for such impacts to result in an indirect physical impact to the environment. Accordingly, CEQA Guideline section 15131 provides that "intermediate economic or social changes need not be analyzed in any detail greater than necessary to trace the chain of cause and effects. The focus of the analysis shall be on the physical changes." Further, "economic or social effects of a project may be used to determine the significance of physical changes caused by a project."

During consideration of SMCSR's Revised Business Plan, the County received comments expressing concern that the proposed size of the new SMCSR, and its proposed allocation of beds, could result in the redistribution of an increased number of patients, including charity care or low-income government funded patients, to other hospitals in the County, potentially creating economic pressures on other hospitals. Any such increase or redistribution that might occur would be a potential *economic* effect of the proposed project, rather than an environmental impact. The following discussion evaluates whether such a potential economic impact may result in reasonably foreseeable physical impacts that would be indirect or secondary environmental impacts of the proposed project.

¹ This analysis was prepared by Bridget L. Brown, Strategy & Business Development Manager, Sutter Health, and Michael Zischke and Sarah Owsowitz, Cox Castle & Nicholson, LLP, with substantive input and review from Robin Hagenstad, RN, MS, MSN, Chief Nursing Officer, Sutter Medical Center of Santa Rosa, Nadin Sponamore, Sponamore & Associates, and Tom Minard, Senior Project Manager, Sutter Medical Center of Sutter Rosa.

As explained below, Sutter’s analysis shows that the proposed project is not likely to result in the distribution of a significant number of new patients to other hospitals in the County, nor is it expect to alter the so called “payer mix” of patients at those hospitals – the mix of patients covered by commercial insurance and Medicare as compared to those patients who are charity care or low-income government funded. The potential economic impact of the proposed project on other hospitals consists of the possible redistribution of a few patients per day to other hospitals in the County, and the payer mix is anticipated to be similar to the current payer mix at other hospitals. This is an insubstantial economic impact, and is not anticipated to result in any potentially significant environmental impacts.

A. Capacity of the Proposed Sutter Medical Center Santa Rosa

The Sonoma County Department of Health Services prepared a Preliminary Analysis of SMCSR’s 2008 Revised Business Plan (the “Preliminary County Analysis”), which was presented to the Board of Supervisors on July 20, 2009². The Preliminary County Analysis included an assessment of future hospital services demands prepared by Deloitte Financial Advisory Services. The Preliminary County Analysis concludes that: “If Sutter builds a 70-bed hospital, 29-bed expansion and 28-bed [Physicians Medical Center (“PMC”)], Sutter will likely have adequate capacity to provide services to its 2007 market share (trended forward) including uninsured patients and those in government funded projects.” (Preliminary County Analysis at p. 5.)

Even conservatively making a worst case assumption that SMCSR determined not to build the 29-bed expansion to the 70-bed SMCSR or the PMC, and only built the 70-bed hospital, the proposed project is still not likely to result in the distribution of a significant number of new patients, including charity care or low-income government funded patients, to other hospitals in the County. Under a 70-bed scenario, the new SMCSR would consist of 20 medical/surgical (med/surg) beds, 8 intensive care unit (ICU) beds, 30 perinatal beds, and 12 neonatal intensive care unit (NICU) beds. The Preliminary County Analysis concludes there will be sufficient perinatal beds and NICU beds, but that “the size of the facility and the division of the beds by services will likely require some of SMCSR’s existing med-surg and ICU patient share to be redistributed to other area hospitals.” (Preliminary County Analysis at p. 5.)

Accordingly, the Preliminary County Analysis projects that a 70-bed only SMCSR may result in a shortfall of 21 beds in 2014 and 33 beds in 2021. (*Id.*) The Preliminary County Analysis concludes that there would be sufficient capacity to serve SMCSR’s 2007 market share of government and charity patients in the future, if those patients could be admitted on a priority basis. (Preliminary County Analysis at p. 28.) However, because it is not possible to predict by payer which patients will be hospitalized at SMCSR, the Preliminary County Analysis concludes that it is possible that some med/surg and ICU patients will have to be seen at other facilities. (*Id.*)

² Although Sutter disagrees with the bed demand figures in the Preliminary County Analysis, Sutter used these figures in reparing this analysis of potential indirect environmental effects in order to provide a conservative analysis.

B. Potential Redistribution of Patients

In 2014, the 21 bed shortfall set forth in the Preliminary County Analysis (33 bed Med Surg and 4 bed ICU shortfalls and a 16 bed perinatal surplus) represents 4.1 patients per day based upon an average length of stay of 5.1 (based upon 2008 OSHPD Acute Care Patient Level Discharge Set for SMCSR excluding NICU and OB days).

In 2021, the 33 bed shortfall set forth in the Preliminary County Analysis (41 bed Med Surg and 6 bed ICU shortfalls and a 14 bed perinatal surplus) represents 6.5 patients per day based upon an average length of stay of 5.1 (based upon 2008 OSHPD Acute Care Patient Level Discharge Set for SMCSR excluding NICU and OB days). The County's five other hospitals (Healdsburg District Hospital, Palm Drive Hospital, Petaluma Valley Hospital, Sonoma Valley Hospital (collectively the "Sonoma District Hospitals") and Santa Rosa Memorial Hospital), each are projected, through 2021, to have med/surg bed occupancy rates under 85%.³ (Preliminary County Analysis at p. 24.) Based on this analysis, the potential redistribution of between 4.1 and 6.5 patients a day among those five hospitals is not considered significant because the County's other hospitals are projected to have ample capacity to absorb such a potential redistribution if it were to occur.

C. Payer Mix of Redistributed Patients

The Preliminary County Analysis determined that, in 2007, 70% of Sutter's inpatient days for med/surg beds and ICU (excluding invasive cardiology) were covered by commercial insurance and Medicare, while only 30% of inpatient days were charity care or low-income government funded. (Preliminary County Analysis at p. 28) Assuming that any redistributed patients will have the same payer mix as those currently served in SMCSR's med/surg and ICU beds, 70% of those patients would be covered by commercial insurance or Medicare. This is similar to the Sonoma District and Santa Rosa Memorial Hospitals' current payer mix, which is 77% commercial and Medicare reimbursed. (*Id.*). However, the Preliminary County Analysis notes that "patients are admitted according to medical need, and it is not possible to predict by payer which patients will be hospitalized at Sutter and which will have to be seen at other facilities."

The Preliminary County Analysis also notes that two-thirds of the currently operating SMCSR's government funded and charity days are Medi-Cal days. (Preliminary County Analysis at p. 29.) A Medi-Cal reimbursed day may be preferable to a hospital than having an empty bed. (*Id.*) The value of Medi-Cal reimbursement could improve under the new Partnership HealthPlan of California managed care program which is coming to Sonoma County. (*Id.*) Medi-Cal managed care is expected to reduce Medi-Cal inpatient days by a minimum of 15% based on improved access to primary care and a reduction in preventable hospitalizations. (*Id.*) Thus, Medi-Cal managed care has the potential to decrease Medi-Cal days, increase Medi-Cal revenue and generally lessen the impact of any redistribution of a 70-bed SMCSR's med/surg and ICU days. (*Id.*)

³ The Kaiser Foundation Hospital in Santa Rosa is a membership system, and may not accept any patients from SMCSR.

The Preliminary County Analysis states that Sutter's new maternity and NICU services will be more than adequate to handle projected demand, so that the potential for redistribution exists mainly for med/surg and ICU patients. (Preliminary County Analysis at p. 28). The Preliminary County Analysis concludes "in summary, it appears that any future redistribution from SMCSR would not be in the maternal and child services days which are disproportionately government funded and charity care cases, but of med/surg and ICU days which are 70% commercially and Medicare insured and 20% Medi-Cal covered."

Accordingly, Sutter concludes that the payer mix of any redistributed patients will not differ substantially from the current payer mix at the Sonoma District and Santa Rosa Memorial Hospitals. Based on this, the potential redistribution of between 4.1 and 6.5 patients a day among those hospitals is not expected to impose significant new costs or result in substantial economic or health care services impacts. In the context of the overall health care delivery system in Sonoma County, the economic impact of the proposed project on other hospitals is anticipated to be minimal.

D. Environmental Impacts

The potential redistribution of up to 4.1 and 6.5 patients per day to other Sonoma County hospitals is an insubstantial potential change. Accordingly, there is not anticipated to be any potentially significant environmental impact resulting from the potential impact of the proposed project on other hospitals in Sonoma County.

E. References

Sonoma County Department of Health Services, Preliminary Analysis of Sutter's 2008 Revised Business Plan, July 14, 2009.

Sutter Medical Center of Santa Rosa, Health Care Access Agreement Background and Business Plan, November 20, 2008.