

California Supreme Court Holds Public Health Service Plans Not Immune from Reimbursement Actions

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In a recent opinion, the California Supreme Court held that medical providers are entitled to receive reimbursement for emergency medical services at rates based on the reasonable and customary value for such services, even where a contract does not exist between the provider and the operator of a public health care service plan.

The public entity in this case argued that immunities against “tort damages” afforded to the entity under California law protected it against a lawsuit brought by a medical provider unhappy with the amount the public entity was willing to pay for emergency medical services. The court found the mandatory duty under State law to reimburse providers for such services was not the same as tort damages in a lawsuit for which certain immunities might otherwise apply. In the end, the court found that because medical providers are mandated under State and federal laws to provide emergency medical services regardless of a patient’s insurance status or ability to pay, the survival of these providers, and the framework within which they serve patients in medical emergency situations, depends on the providers’ access to adequate and consistent financial reimbursement, and the need to keep this vital system operating and sustainable overrides the public entities’ protections from certain lawsuits for damages.

Case Background and Holding

In *County of Santa Clara v. Superior Court of Santa Clara* (July 10, 2023, No. S274927) ___ Cal. ___, Doctors Medical Center of Modesto, Inc. and Doctors Hospital of Manteca, Inc. (collectively, the Hospitals) provided emergency medical services to three patients who were covered by a health care service plan operated by the County of Santa Clara (the County). Medical service providers are obligated to treat patients pursuant to federal and State law, and in particular under the Knox-Keene Health Care Service Plan Act of 1975 (now, part of the California Health & Safety Code). Where the medical provider does not have an existing contract with the health care service plan, the medical provider is entitled to be compensated based upon the “reasonable and customary value” for such services in the community. Here, the Hospitals sued the County, arguing that the County failed to adequately reimburse them for the emergency medical services provided to the covered patients. The County filed a Demurrer, arguing that the California Government Claims Act immunizes it from such a claim. The trial court sided with the Hospitals, allowing the case to proceed on the merits.

The County sought review of the trial court's decision to the Court of Appeal, which took the opposite view, finding that the County enjoyed general immunity under section 815 of the Government Code. The appellate court also found that Government Code section 815.6's "mandatory duty" exception to the general rule of immunity did not apply because of the system for compensation in place which grants the public entity discretion in its reimbursement rates. In short, the appellate court concluded that the Legislature's broad immunization of public entities for common law damages overrode the Hospitals' entitlement to a higher value for such medical services through a lawsuit for damages.

The Hospitals appealed the decision to the California Supreme Court. The Supreme Court drew a distinction between traditional common law tort damages, which are often precluded in lawsuits against public entities unless based upon a particular statute, and monetary reimbursement for emergency services rendered. The latter, per the Court, are recoverable under a contract theory, whether or not there is an actual contract between the provider and the health care plan. And because the cited general immunity does not apply to contract or quasi-contract claims, the County was not immune here. The Court also stressed the inequity and unfairness of a system that allows suits for reimbursement from private health care plans, but not from public health care plans.

Takeaways

Actions against public health care plans for reimbursement for emergency medical services provided to covered patients can be characterized as contract-based, rather than tort-based, and thus are not subject to immunity provisions of the Government Code. For those public entities that operate their own health care service plans, it is best to factor into the costs of operating the plan that you will not be able to take advantage of the broad statutory immunities provided to public entities against typical common law tort damages in considering the reasonable and customary value for reimbursement amounts to medical providers for the services rendered to patients covered by your plan.

Public entities have at least two options to limit the impacts of this decision. First, the entity can be more "reasonable" or generous in the amount of the reimbursement made to a medical provider when its billing office presents its invoice. Second, the entity can negotiate agreements with larger local emergency medical providers, setting out reimbursement rates for most medical services that are typically provided in emergency medical settings. This approach may help to establish the "reasonable and customary value" for such services in a community when medical providers not under contract with the entity come calling.

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