SAN MATEO
LAFCo
LOCAL AGENCY FORMATION COMMISSION
455 COUNTY CENTER, 2ND FLOOR • REDWOOD CITY, CA 94063-1663 • PHONE (650) 363-4224 • FAX (650) 363-4849

May 4, 2007

To: Members, Formation Commission

From: Martha Poyatos, Executive Officer

Subject: Report & Recommended Determinations—Municipal Service Review and Sphere of Influence Review Sequoia & Peninsula Health Care Districts

At the April 18, 2007 meeting, the Commission received the health care municipal service and sphere of influence report, written comments, presentations from the Sequoia and Peninsula Health Care Districts and public comment. Following discussion, the Commission continued consideration to the May 16 LAFCo meeting to allow for preparation of recommended service review and sphere determinations. Since that time, Peninsula Health Care District held a strategic planning community meeting and the Sequoia Health Care District provided a copy of the Memorandum of Understanding with Sequoia Health Services (attached).

The Municipal Service Review includes the April 2, 2007 Report and April 16, 2007 Addendum Report. The reports provide background on formation of the Districts with the purpose of construction and operation of hospitals and transformation of the districts through amended enabling legislation and voter approved agreements by the Districts for transfer of hospital operation and construction. As detailed in the report, while the Districts' relationships with the hospitals are different, existing arrangements provide for private funding of construction to meet seismic safety standards and private operation of the hospitals. Both agreements have provisions for potential reversion of the hospitals back to the Districts and the Districts accumulate a reserve for this possibility. Both Districts receive property tax revenue that combined with rental/lease and other revenues are appropriated to district administration, community health programs and reserve. District budgets and programs are summarized in the April 2, 2007 report and District Financial Statements for the previous three fiscal years are found on the LAFCo website at www.sanmateolafco.org.

Discussion of the nine areas of determination as they apply to the Districts calls attention to:

1) While the boundaries of the districts combined include over half of the county population, District boundaries do not reflect current community boundaries and many areas of the County are excluded;

2) The Districts' amended enabling legislation, purpose and mission, the complex relationships between the Districts and hospital operators and property tax distribution formulas put the Districts in a unique position to make significant contributions to health care within their boundaries and likewise complicate governance alternatives for the districts;

3) The broader ongoing debate about health care reform and the changing landscape of health care financing underscore the need for flexibility and collaboration as all health care providers address future health care needs of county residents.

4) Given the evolution of the Districts and the potential for further change in how health care is delivered and financed, the service review process is an opportunity for LAFCo to adopt service review and sphere determinations that identify and facilitate (rather than limit) opportunities for the Districts to collaborate and adapt to best meet health care needs.

Recommended Service Review Determinations:

Infrastructure needs or deficiencies

- Both districts have executed voter-approved agreements that provide for reconstruction of the respective hospitals to meet State seismic safety standards with all or majority private funding.
- Both Districts accumulate and maintain restricted reserve funds in anticipation of the future potential that the hospitals revert back to the Districts.

Growth and population projections for the affected area

- Based on Census 2000, the two health care districts combined population is 416,443 residents or 59% of the County's population of 707,163.
- The population group 65 and over currently represents 14.5% of the county population and is expected to grow.
- Projected population growth in the County ranges from 15% to 21% in areas within and outside District boundaries
- These projections indicate increased need for hospital and health care services within District and County boundaries.

Financing constraints and opportunities

- Peninsula and Sequoia Health Care District revenues include a share of the 1% property tax, lease and rental revenues, interest and other sources.
- Peninsula and Sequoia Health Care Districts expend resources, making contributions to a variety of county and community health care programs and to reserves in the event the hospitals revert back to the Districts or there is a default or failure to provide services.
- Accumulation and maintenance of reserves in the event that hospitals revert to the Districts in the future limits revenues available for other purposes.
- As construction of the hospitals is completed, given that other privately operated hospitals in the County operate without local public oversight and related tax funded accumulated reserves, the Districts and voters could periodically revisit the reserve policy and accumulation of reserves weighed against the benefit of using tax revenues for other purposes.

Cost avoidance opportunities and management efficiencies

- Cost avoidance practices by both Districts include action to transfer hospital operation and construction
- The practice of funding health care related programs through grants to existing, local entities eliminates duplication of services and overhead that would be associated with directly providing such services.

Opportunities for rate restructuring and shared facilities

- The Districts as they exist are non-enterprise districts in that they do not currently operate hospitals, do not provide a service for which fees can be charge and do not have control over rates charged at facilities in district boundaries
- Opportunities may exist through the Hospital Consortium or other activities for continued discussion of facility and resource sharing that may result in savings and/or solutions to delays for District and County residents for certain procedures or services.

Government structure options, including advantages and disadvantages of consolidation or reorganization of service providers

- Government structure options with a focus on health care include: status quo, dissolution, consolidation and inclusion of excluded areas or variations of these options to include all areas of the County.
- Dissolution of the districts would not result in reduction of property tax paid by the taxpayer because Proposition 13 sets property tax at 1% of assessed value.
- While the two different contractual arrangements between the Districts and the hospital operators do not preclude reorganization, reorganization is complicated by the contracts
- Reorganization is further complicated by laws governing property tax distribution and required voter approval of dissolution and/or taxation to raise additional revenues.

Evaluation of management efficiencies

- Each District is governed by a five-member locally elected board of directors and is served by a General Manager, contract legal counsel, limited administrative staff and contract services.
- District business activities are primarily organized around managing the revenues and assets of the District including grant administration.
- The Districts fund services through grant funding rather than directly providing health services or programs.
- While the grant programs allow the Districts to supplement rather than duplicate existing community programs, opportunities for further efficiencies may exist in pooling grant resources and administration through a joint effort between the Districts and the County.

Local accountability and governance

- Each district is governed by a five-member board of directors elected by district voters. PHCD Board meets monthly and SHCD Board meets every other month with agendas posted and distributed. Boards are subject to the Brown Act governing public meetings.

- Both Boards appoint members to hospital oversight boards. Peninsula Health Care District representatives appointed to Mills Peninsula Health Services report hospital oversight activities to the full PHCD board at the District meeting. The agenda of the Sequoia Healthcare District Board (SHCD) meetings does not reflect this practice. SHCD taxpayers and residents could be kept informed of hospital oversight activities through reports by SHCD representatives on Sequoia Health Services at regular SHCD board meetings.
- Both Districts maintain website which provide information on the relationship of the Districts with the private operators and information on grant funding to community health care programs including how to apply for grants. Information on the websites on how residents can receive services funded by the Districts, including but not limited to community clinics, could be included to keep residents informed of how they can benefit from District funded programs.

Recommended Sphere of Influence Determinations and Designation:

Section 56425 requires that in order to carry out its purposes and responsibilities for planning and shaping the logical and orderly development and coordination of local governmental agencies so as to advantageously provide for the present and future needs of the county and its communities, the Commission shall determine and periodically update the sphere of influence of each local governmental agency. The existing sphere of influence designations for both Peninsula and Sequoia Health Care Districts is "status quo". Based on the information contained in the municipal service reviews including changes in health care district enabling legislation and district purpose, boundaries that do not reflect current demographics, voter approved agreements for transfer/lease of hospitals, property tax distribution and changes in health care delivery and financing, staff recommends that the spheres of influence for the Districts be amended from "status quo" to "transitional sphere of influence" as outlined below. Update and amendment of the spheres also requires that the Commission adopt recommended sphere of influence determinations regarding land use, open space and agriculture; need and adequacy of services; capacity of facilities and services; and social and economic communities of interest.

Recommended sphere determinations are as follows:

The present and planned land uses in the area, including agricultural and open-space lands

Lands uses within Health Care Districts' boundaries including various residential, commercial, and open space land use designations are under the jurisdiction of the County of San Mateo and several cities. Viability of open space or agricultural lands is not affected by inclusion in the District spheres of influence or boundaries.

The present and probable need for public facilities and services in the area

The present and future needs for public health care facilities and services in the area are expected to increase as the county population grows and ages.

The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide

The Health Care Districts have evolved from hospital districts to health care districts, have transferred direct responsibility of hospital construction and operation to other entities and while the Districts contribute funding to community health programs, they do not directly provide these services.

The existence of any social or economic communities of interest if the Commission determines that they are relevant

Sequoia Healthcare District includes the cities of Portola Valley, Woodside, Atherton, Woodside, San Carlos, Belmont and portions of Foster City and San Mateo as well as surrounding unincorporated areas. The Peninsula Health Care District includes the Cities of Hillsborough, Burlingame, Millbrae, and portions of San Bruno, South San Francisco and surrounding unincorporated areas. The Districts share a common boundary and collectively include 58% of the County population. The communities of East Palo Alto, eastern Menlo Park, portions of South San Francisco and San Bruno, the Cities of Brisbane, Daly City, Colma, Pacifica, Half Moon Bay and surrounding unincorporated areas are excluded from District boundaries. These irregular boundaries and excluded areas do not reflect unique communities of interest in regard to health care or hospital services.

Recommended Sphere of Influence Designation

Based on the foregoing, staff recommends the Commission adopt the following sphere of influence designation for both health care districts:

The spheres of the Peninsula Health Care District and the Sequoia Healthcare District shall be "transitional sphere of influence" recognizing that:

- The Peninsula and Sequoia Health Care Districts have evolved from hospital districts to health care districts with significant areas of San Mateo County excluded from district boundaries and programs
- The demand for and economics of health care delivery and hospital operation is subject to change
- The health care needs of all county residents may benefit from alternative organizational structures, boundaries and funding mechanisms including but not limited to dissolution, consolidation, expanded service areas and joint power agreements to include all of San Mateo County

Recommended Action, by Resolution:

a) Consider the municipal service review report, addendum and public comment and adopt the recommended municipal service review determinations contained in this report.
b) Consider the sphere of influence report and determinations and public comment and adopt the recommended determinations and sphere of influence contained in this report.

Respectfully submitted,

Martha Poyatos
Executive Officer

Attachments: Municipal Service Review Report and Addendum
PHCD Strategic Planning Presentation, 4/30/07
SHCD Memorandum of Understanding

April 16, 2007

To: Members, Formation Commission

From: Martha Poyatos
Executive Officer

Subject: Addendum Report: Municipal Service Review for Sequoia Healthcare District and Peninsula Health Care District

Summary:

The attached municipal service review provides background on the two health care districts in the county and examines the nine areas of determination set forth in Government Code Section 56430. Since the report was circulated, LAFCo received additional information and corrections as well as formal comments from both Districts[1]. This addendum report includes updated profiles of the Districts and responds to key concerns expressed by the Districts in comments received today. Staff recommends that the Commission open the public hearing, receive the staff report, presentations from the Districts and public comment and provide direction to staff on additional information and in order prepare an updated municipal service and sphere of influence review report and recommended determinations for consideration at a future meeting.

The circulation draft, in the context of areas of determination for LAFCo municipal service reviews, acknowledges the transition of California hospital districts to health care districts in response to the changing economics of hospital operation and delivery of health care, discusses what this transition has meant for Sequoia Healthcare and Peninsula Health Care Districts including their relationship with the hospitals and funding of health care programs. The two Districts under study are exceptions to the typical example of special districts in California in the context of "service provision" in that they do not directly provide a service in the traditional sense. Rather, the Districts fund services and programs through partnerships with other agencies and have two distinct arrangements/agreements for construction and operation of the hospitals. The municipal service review acknowledges the significant contribution the Districts make to health care programs and the budgets included in the report reflect expenditures in these areas. District comment letters attached detail these programs.

[1] Peninsula Health Care District's comments include extensive background material provided in a binder. Comment letters of both districts are attached to this report.

Comments received today from the Districts identify areas of concern primarily in the regard to governance alternatives. Key points are discussed below.

District Missions and Programs

Both Districts emphasize their continued role in maintaining a seismically safe community hospital in respective District boundaries and their participation in the planning of construction of the hospitals. Both Districts cite voter approval of transfer of hospital operation (Measures V & H attached). In addition, the Districts emphasize that through planning and program funding the Districts identify and meet health care needs of district residents. Peninsula Health Care District has provided extensive materials on their strategic planning process. Both Districts cite their collaboration with the County and other agencies including Nursing Education, Children's Health Initiative, community clinics for the medically underserved, other grants and the participation on the County's Blue Ribbon Task Force on Adult Health Care Coverage Expansion.

Health Care District Charter differs from County Health Care Charter

Both Districts emphasize that while the County is required by Section 17000 of Health & Safety Code to provide health care for the indigent, health care district enabling legislation specifically prohibits health districts from providing indigent care and directs districts to provide health care so that facilities operate on a self-supporting basis. This distinction is cited on page 6 of the municipal service review. Discussion in the service review of opportunities through consolidation and expansion of boundaries or consolidation and a joint powers agreement to fund countywide programs do not identify indigent care, rather services other than indigent care that the County, health care districts and community providers share in common.

Health Care District Oversight of Hospitals:

As reported by Sequoia Healthcare District, day-to-day operations of Sequoia Hospital are carried out by Catholic Health Care West pursuant to the management agreement between Catholic Healthcare West and Sequoia Health Services (SHS). Sequoia Health Care District can appoint five members to SHS with a minimum of two being Healthcare District Board Members. Catholic Healthcare West provides monthly reports to SHS and because currently three members of SHS are Sequoia Healthcare District board members, the District notes that SHS meetings are subject to Brown Act and open to public attendance and input. LAFCo staff notes that Sequoia Healthcare District Board meeting minutes and website to not indicate that the Sequoia Health Care District receives

reports from SHS regarding the management agreement or hospital construction. In that regard, while the District appoints members to SHS, the District does not receive updates or reports on the activities of the SHS Board, of which the District has joint control. Periodic reporting by SHS board members to the Sequoia Healthcare District Board regarding SHS oversight of the agreement with Catholic Health Care West might more directly inform District residents and voters of the District's role as joint partner in oversight of the hospital.

The Peninsula Health Care District's agreement with MPHS includes District oversight over the new hospital operations including oversight of proposals to terminate core services. Two members of the Peninsula Health Care District Board serve on the MPHS Hospital Building Committee and District Board minutes reflect updates from MPHS on hospital revenues and operations.

Governance Alternatives

First, this section is not presented as recommendation for the disposition of the districts, rather identification of various alternatives. Also important is that this discussion does not assume that LAFCo would initiate proceedings and LAFCo policies support applications from affected agencies and community. In any event, District comments are helpful in identifying any advantages or disadvantages of alternatives.

Dissolution:

Peninsula Health Care District states that the dissolution alternative cited in the service review conflicts with State law and cites Contra Costa County legal opinion concerning the Los Medanos Health Care District. In the case of Los Medanos Health Care District, the District closed the hospital and ceased to provide services in which case, the services of the District were no longer provided and a successor was appointed to wind down the affairs of the dissolved district. If a determination is made that the services of a district will not be transferred to a successor and will no longer be provided, Section 57450 provides the framework for disposition of assets of the dissolved district and responsibility of the successor in winding down the affairs of the dissolved district. (The corrected citations for the dissolution alternative cited in the municipal service review are Sections 56886 [m] regarding designation of successor for succeeding to all rights, duties, bonds, contracts and 56886 [r] service continuation as conditions of approval if a proposal for dissolution is submitted to LAFCo. The municipal service review did not identify the dissolution scenario in which services are terminated because both districts have existing obligations and agreements with hospital operators and both allocate resources to health care programs.

In regard to property tax of a dissolved district in which services are not transferred to a successor, once obligations of the dissolved district have been paid, property tax would be reallocated proportionally among agencies receiving property tax in the tax rate areas of the dissolved district. As noted in the municipal service review and by the Districts, obstacles to dissolution also include requirement for voter approval, which is specific to health care dissolutions, the different relationships/agreements the two districts have with the hospital operators and as pointed out by the Districts, the cost of the dissolution itself. Also of note is that after reviewing the Peninsula Health Care District master agreement with Mills Peninsula Health Services included with District comments, the agreement cites "filing for dissolution by the District, except upon any merger or consolidation of the District with another entity" as a material default of the agreement (page 32).

Status Quo

As noted above and in the Municipal Service Review, both Districts participate in District focused and County health initiatives and the Districts are currently participating on the Blue Ribbon on Adult Health Care Coverage. In the combined 2006-2007 budgets of both Districts, approximately $9.7 million is allocated for community health programs and contributions. (See profiles attached). Continued operation of the Districts as they exist would allow the districts to continue to carry out their strategic plans, collaborate with other agencies in community health care initiatives and avoid reorganization/transition costs.

Conclusion:

As noted above, the health care districts are unique in that they have evolved with changes in health care funding and delivery. The Districts maintain reserves for the potential of hospital operation reverting back to the districts in the future, fund health care programs rather than provide them directly and participate at varying levels in hospital oversight. The municipal service review report examines existing practices and potential opportunities for cost saving and resource sharing and governance alternatives to the two independent special districts and advantages and disadvantages of the alternatives. Staff will present the specific areas of determination at your April 18 meeting and respond to requests for additional information in order to prepare an updated report and recommended determinations at a subsequent meeting.

SEQUOIA HEALTHCARE DISTRICT

170 Alameda de las Pulgas
Redwood City, CA 94062

Contact Person: Stephani F. Scott, C.E.O.
367-5925 FAX 482-6506

Date of Formation: December 17, 1946 www.sequoiahealthcaredistrict.com

Enabling Legislation: Section 32000 et seq. State Health and Safety Code

Governing Board: Five-member board of directors elected to four-year terms

a. Membership and Term Expiration Date: Arthur Faro (11/2010), Jack Hickey (11/2010), Don Horsley (11/2010), Kathleen Kane (11/2008), Malcolm Mac Naughton (11/2008)

b. Compensation: Health Insurance Benefits

c. Public Meetings: First Wednesday of even-numbered months at 4:30 pm
Sequoia Room, Sequoia Hospital,
Whipple and Alameda, Redwood City

Services Provided: The district, maintains a reserve to contribute to funding of the new Sequoia Hospital to be constructed by Sequoia Health Services. The District administers the HeartSafe Program (Public Access Defibrillation) with a full-time Program Coordinator dedicated to that service, who is a staff person at Sequoia Healthcare District. The District funds programs and activities designed to achieve health, wellness and disease prevention in southern San Mateo County including Nursing Education, Community Grants, Medical Clinics, and Children's Health Insurance.

Area Served: Atherton, Belmont, Menlo Park, Portola Valley, Woodside, Foster City (portion), Redwood City, San Carlos, San Mateo (portion) and unincorporated areas

Estimated Population: 222,067 (as of 2000)

Number of Personnel: 2 Sphere of Influence: Status quo (boundaries of 1983)

Sequoia Health Care District	2005-2006 Actual	2006-2007 Adopted
Revenue		
Rental Income	1,624,705	1,540,786
Tax Revenue	5,938,741	6,057,516
Investment Income	163,405	2,777,139
Interest Income	221,022	46,210
Pension Income	3,026,000	2,556,000
Total Revenue	**$10,973,873**	**$12,977,651**
Expenses		
Total Administrative Expenses	$3,619,936	$3,645,385
Property Expenses		
Maintenance	152,828	231,160
Utilities	177,410	200,000
Property Insurance	13,080	15,150
Depreciation	758,761	754,848
Total Property Expenses	**$1,102,080**	**$1,193,158**
Total Grant Expenses	$4,673,667	$7,685,000
TOTAL EXPENSES	**$9,395,683**	**$12,873,063**

PENINSULA HEALTH CARE DISTRICT

1801 Trousdale
Burlingame, CA 94010

Contact Person:
650-696-5450

www.peninsulahealthcaredistrict.org

Date of Formation: December 2, 1947

Enabling Legislation: Section 32000 et seq. State Health and Safety Code

Governing Board: Five-member board of directors elected to four-year terms

a. Membership and Term Expiration Date: Helen Galligan (11/2010), Donald E. Newman (11/2010), Rick Navarro (11/2008) Susan Smith (11/2010), Dan Ullyot (11/2008)

b. Compensation: None

c. Public Meetings: Fourth Thursday of each month at 5:45 pm, Sierra Room, Peninsula Medical Center 1801 Trousdale

Services Provided: Lessor of hospital/health care facilities to Mills-Peninsula Health Services, a non-profit public benefit corporation in which the District has oversight of hospital to ensure preservation of acute care services for residents of the District during the term of the 50 year lease, and allocation of resources in the form of grants to community health programs.

Area Served: Burlingame, Hillsborough, Millbrae, San Bruno, San Mateo, parts of Foster City and South San Francisco, the Highlands, northern Skyline and other unincorporated areas

Estimated Population: 194,376 (as of Census 2000)

Contractual Arrangements: Ground Lease, Development and oversight Agreements of 2006 with Mills Peninsula Health Care Corporation and Sutter health regarding the construction and operation of the new Peninsula Hospital.

Number of Personnel: 2 Sphere of Influence: Status Quo (boundaries of 1983)

PHCD Budget(Source: Adopted budget 6/06)	2005-2006 Estimated	2006-2007 (adopted)
Revenues		
Property Tax	3,656,122	3,400,000
Rental Income	1,250,000	1,500,000
Investment Income	699,698	1,000,000
Other	17,352	0
Total Revenues	**$5,623,172**	**$5,900,000**
Expenditures		
Grants & Contributions*	1,525,811	2,000,000
Services & Fees (Misc)	164,253	328,000
EMF Study	0	0
Legal (Restructuring/Settlement)	52,865	25,000
Legal (General)	47,781	50,000
Consulting (Property	3,143	0
Communications/Adv/Outreach	78,360	110,000
Newsletter/Website (Singer)	65,226	156,000
Public Info Campaign (Singer)		100,000
Total Expenditures	**$1,937,439**	**$2,769,000**

ARGUMENTS IN SUPPORT OF OR IN OPPOSITION TO THE PROPOSED LAWS ARE THE OPINIONS OF THE AUTHORS

PENINSULA HEALTH CARE DISTRICT

MEASURE V

"Shall the Peninsula Healthcare District ("District") authorize construction by Mills-Peninsula Health Services ("MPHS") of a new earthquake safe state-of-the-art acute care hospital on District land and a new long-term lease of District land with MPHS for the annual rent of $1,500,000 (adjusted for cost of living increases), in accordance with the District's Master Agreement with MPHS dated October 17, 2005, and Resolution 2005-2, adopted August 30, 2005?"

IMPARTIAL ANALYSIS OF MEASURE V

Peninsula Healthcare District is a local hospital district created pursuant to the Health and Safety Code. Section 32121(p) of the Health and Safety Code allows the hospital district to transfer any part of its assets to one or more nonprofit corporations. However, the voters must first approve the transfer by a majority vote.

According to the resolution calling for this election, the Peninsula Healthcare District entered into a "Master Agreement" dated October 17, 2005 with Mills-Peninsula Health Services. Pursuant to that agreement, the Peninsula Healthcare District proposes to transfer 21 acres of District land to Mills-Peninsula Health Services by a lease with an initial term of 50 years and a possible additional 25 years. It further authorizes construction by Mills-Peninsula Health Services of a new acute care hospital, parking lot and facility, medical official building, helipad, and other related improvements and landscaping. Mills-Peninsula Health Services would pay annual rent to Peninsula Healthcare District in the amount of $1.5 million a year with adjustments for cost of living increases.

A "yes" vote on this measure would authorize the Peninsula Healthcare District to transfer certain district land for a 50 year lease to Mills-Peninsula Health Services with annual rent of $1.5 million, adjusted by cost of living increases and authorizes construction by Mills-Peninsula Health Services of a new acute care hospital, parking lot and facility, medical official building, helipad, and other related improvements and landscaping on the transferred land.

A "no" vote would prevent the Peninsula Healthcare District from transferring the district land by lease to Mills-Peninsula Health Services and would prevent the new construction.

This measure passes if a majority of those voting on the measure vote "yes".

ARGUMENT IN FAVOR OF MEASURE V

The Peninsula Health Care District (the District) Board, the body charged with protecting the health care needs of District residents, has come to an agreement with Mills-Peninsula Health Services (MPHS), the current operator of Peninsula Medical Center, to build a new community hospital on District land at no tax payer expense.

A YES vote on Measure V will ratify the agreement between the District and MPHS to:

- **Build a new, privately funded, $488 million modern hospital that meets seismic safety standards at the existing site of the hospital—*at no taxpayer expense.***
- **Secure the District $1.5 million a year in rent (adjusted using COLA) for the use of its land to host the new hospital.**
- **Improve the quality of health care for our community through the introduction of a state-of-the-art facility that will host the most modern medical equipment and technology.**
- **Increase District oversight over the new hospital—ensuring that vital core services are offered within the District, not somewhere else.**
- **Return acres of land to the District that were transferred in a previous agreement, settling a long-standing legal dispute.**
- **Transfer the hospital back to the District at the end of the 50-year lease (subject to book value reimbursement).**

This agreement is the result of over six years of negotiations between the District and MPHS, and has been modified after an extensive public approval process (including over 100 public meetings) to ensure the best terms for the community.

This is a fair deal that builds a new public hospital with private funding and also yields vital revenue to the District to ensure the hospital's future.

VOTE YES on MEASURE V

/s/ Daniel J. Ullyot, M.D. June 8, 2006
Vice-Chair, Peninsula Health Care District Board

NO ARGUMENT AGAINST MEASURE V SUBMITTED

SEQUOIA HOSPITAL DISTRICT

MEASURE H

"In order to maintain Sequoia Hospital and continue local emergency services, acute medical/surgical care, and specialized healthcare services like the Sequoia Hospital cardiovascular program, shall the action of the Sequoia Hospital District governing board to transfer certain district assets to a new non-profit corporation, in accordance with the Memorandum of Understanding of May 8, 1996, and pursuant to Resolution 96-4, adopted May 8, 1996, be approved?"

IMPARTIAL ANALYSIS OF MEASURE H

Sequoia Hospital District is a local hospital district created pursuant to the Health and Safety Code. Section 32121(p)(1) of the Health and Safety Code allows the hospital district to transfer at fair market value, any part of its assets to one or more nonprofit corporations. However, the voters must first approve the transfer by a majority vote.

The Sequoia Hospital District distributed a request for proposal to parties interested in affiliating with the District. The Board selected Catholic Healthcare West and entered into a Memorandum of Understanding (MOU) with Catholic Healthcare West. Pursuant to the MOU, the District will transfer specified assets to a nonprofit corporation called Hospital Acquisition Corporation. This measure would authorize the Sequoia Hospital District to transfer the assets specified in the MOU to Hospital Acquisition Corporation. The Board of Directors of Hospital Acquisition Corporation will be composed of ten directors, five of whom shall be appointed by the District and five of whom shall be appointed by Catholic Healthcare West. Catholic Healthcare West will undertake the management of the hospital and the assets to be transfered. The Board of Directors has determined that the transfer is necessary to provide for the continued maintenance and operation of Sequoia Hospital and would ensure availability to the community of local emergency and hospital services.

A "yes" vote on this measure would authorize the Sequoia Hospital District to transfer hospital assets specified in the MOU to the nonprofit corporation Hospital Acquisition Corporation.

A "no" vote would prevent the Sequoia Hospital District from transferring hospital assets specified in the MOU to the nonprofit corporation Hospital Acquisition Corporation.

This measure passes if a majority of those voting on the measure vote "yes".

ARGUMENT IN FAVOR OF MEASURE H

Sequoia Hospital needs your help. The changing healthcare industry is threatening our local hospital and the valuable services it provides. Sequoia can only compete in the healthcare market by teaming with a comprehensive healthcare system. Voting YES on Measure H protects our healthcare and allows Sequoia to continue to provide first rate services.

Voting YES on Measure H costs taxpayers nothing and offers so much. Here's what Measure H means to you:

- Emergency Services – Measure H guarantees access to emergency services from neighborhoods in Atherton, Belmont, Menlo Park, North Fair Oaks, Portola Valley, Redwood City, San Carlos, Woodside and unincorporated areas.
- Heart Care Programs – Measure H maintains Sequoia's world class cardiovascular heart care program.
- Acute/Surgical Care – Measure H protects Sequoia's emergency room, acute care and surgical care facilities.
- Prenatal/Maternity Care – Measure H maintains Sequoia's vital prenatal and maternity care services.

Measure H protects all of these services and keeps jobs in our community.

Measure H helps Sequoia Hospital by allowing the hospital to team with a regional healthcare provider. A YES vote establishes a new non-profit organization to be jointly controlled by the Sequoia Hospital District Board and the non-profit company CHW. As California's largest healthcare provider and a non-profit company, CHW is recognized for a number of reasons:

- CHW provides free healthcare for poor and uninsured patients, contributing $129 million in uncompensated community benefits last year.

- In 1995, CHW gave $57 million in grants and gifts to the communities where its facilities are located.
- CHW reinvests all profits from its hospitals back to the community, not to corporate investors.

Measure H means our families will continue to enjoy nationally recognized healthcare. Join community leaders, businesspeople and healthcare experts.

Vote YES on Measure H.

/s/ Anna Eshoo,
Congresswoman,
Fourteenth District

/s/ Peter Uccelli,
Businessman,
Owner, Pete's Harbor

/s/ Judith A. Sullivan,
Registered Nurse

/s/ Jack Anthony,
Past Chair,
Redwood City
Senior Affairs Commission

/s/ Brenton Britschgi,
President,
Sequoia Hospital District
Board of Directors

(FULL TEXT)
RESOLUTION 96-4
RESOLUTION TO APPROVE THE MEMORANDUM OF UNDERSTANDING FOR TRANSFER OF CERTAIN HOSPITAL ASSETS TO A NONPROFIT CORPORATION

WHEREAS, on October 11, 1995, this Board approved a strategic plan that clearly articulated a need for the District to affiliate with a larger healthcare delivery system that would satisfy the following objectives:

- Enhance the provision of quality health care to the communities served by the District;
- Promote the development of new managed care contracts, with a particular emphasis on further developing a regional health care system that utilizes the size and geographic scope arising from the affiliation in order better to serve the general public residing in the communities served by the District;
- Achieve general efficiencies and economies of scale;
- Provide capital and/or improve access to capital markets and enable the District to borrow at lower interest rates;
- Eliminate unnecessary duplication of major capital equipment;
- Continue the development of the District as a comprehensive integrated health care system to better serve District residents and the communities served by the District;
- Spread new technology risks among a broader provider base;
- Preserve and protect, for the benefit of District residents, the District's assets and ensure the ability to service all present and future District financial obligations, including, but not limited to, the District's outstanding tax-exempt bond obligations;
- Retain essential patient services for the communities served by the District; and

WHEREAS, this Board approved and authorized the preparation and distribution of a request for proposals on October 25, 1995, from parties interested in affiliating with the District (the "RFP"); and

WHEREAS, the RFP was distributed widely in connection with local, regional and national advertising thereof, on October 26, 1995; and

WHEREAS, in response to the RFP, proposals were received from Adventist Health System-West, Catholic Healthcare West and Columbia/HCA on or before December 4, 1995; and

WHEREAS, this Board on January 3, 1996, authorized concurrent negotiations with, and investigation of, Catholic Healthcare West and Columbia/HCA for the purpose of selecting one party with whom to seek to enter into a Letter of Intent; and

WHEREAS, this Board actively solicited and received comments from the public at community forums held throughout the District and during numerous meetings of the Board; and

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WHEREAS, the opinions voiced by residents of the District were found to be supportive of an affiliation with Catholic Healthcare West and were duly considered by the Directors in making their decision; and

WHEREAS, this Board on March 20, 1996, authorized and directed the Chief Executive Officer to execute a Letter of Intent with Catholic Healthcare West under which the District and Catholic Healthcare West would pursue negotiations concerning a transaction to organize a new nonprofit public benefit corporation for the purpose of operating Sequoia Hospital and to pursue negotiations with Catholic Healthcare West to reach a definitive agreement; and

WHEREAS, since March 20, 1996, representatives of the District and Catholic Healthcare West have negotiated the terms of a Memorandum of Understanding, dated as of May 8, 1996, in the form presented to the Board (the "MOU") whereby the District will transfer specified assets to a nonprofit public benefit corporation to operate and maintain Sequoia Hospital; and

WHEREAS, the Board finds the transactions contemplated by the MOU are necessary to provide for the continued maintenance and operation of Sequoia Hospital, thereby ensuring availability to the community of local emergency and hospital services, including the cardiovascular program, and has determined it to be in the public interest, in the best interests of the District and the communities served by the District, and in furtherance of the purposes of the District, that the District enter into the MOU and consummate the transactions contemplated by the MOU;

NOW, THEREFORE, BE IT RESOLVED:

1. That the actions and findings of the Board described above are hereby severally ratified, confirmed, approved and adopted in all respects.
2. That the form, terms and provisions of the MOU are hereby approved in all respects.
3. That the execution of the MOU by the President and Secretary of the Board is hereby authorized and approved.
4. That the President and Secretary of the Board and any person or persons designated and authorized to act by the President and Secretary are hereby authorized and directed to: (a) prepare, or cause to be prepared, and/or approve and execute, in accordance with, as contemplated by or as consistent with the terms of the MOU, all exhibits, schedules, certificates, letters, agreements, papers and instruments and other documents, and amendments and restatements thereof (collectively, with the MOU, the "Transaction Documents"), (b) to make such representations in writing, and (c) to take such other steps and to do such acts and things, all as in their respective individual judgments may be necessary, appropriate or desirable on behalf of and in the name of the District to carry out, observe and perform, and enforce the performance by others of, and comply with the terms and provisions of the Transaction Documents, and to consummate the transactions contemplated by the Transaction Documents.
5. That any acts of the President and Secretary of the District, and any person or persons designated and authorized by them to act, which acts would have been authorized by this Resolution except that such actions were taken prior to the adoption of this Resolution, are hereby severally ratified, confirmed, approved and adopted as acts in the name and on behalf of the District.

PASSED AND ADOPTED by the Board of Directors of SEQUOIA HOSPITAL DISTRICT this 8th day of May, 1996, by the following vote:

AYES:	Directors Bachman, Britschgi, Kane, Krakower, Smith
NOES:	None
ABSENT:	None

/s/ Brenton C. Britschgi
President, Board of Directors

ATTEST:

/s/ Jeffrey M. Krakower, M.D.
Secretary, Board of Directors

Sequoia
Healthcare
District
170 Alameda de las Pulgas
Redwood City, CA 94062

650-367-5708 Phone
650-482-6056 Fax

April 16, 2007

Mr. Howard Jones
Chair, San Mateo County Local Agency Formation Commission
455 County Center
Redwood City, CA 94063

Re: Municipal Service Review for Sequoia Healthcare District and Peninsula Health Care District

Dear Commissioner Jones:

On behalf of Sequoia Healthcare District ("SHD"), I want to offer some comments on the circulation draft of the Municipal Service Review ("MSR") for SHD and Peninsula Health Care District ("PHD"). Unfortunately, the draft was released too late for our Board to consider at its April 4 meeting. However, I expect that individual Board members will attend the April 18 meeting and share their individual perspectives.

For my part, I have been on the SHD Board since 1992. During that time, I have been part of tremendous changes in the healthcare delivery system in our County and at Sequoia Hospital in particular. Indeed, it seems that change is the only constant in our setting, and we face new challenges today. We are actively participating in the planning for a new hospital on Sequoia Hospital's site while Palo Alto Medical Foundation and Sutter Health move forward with their plan for an additional hospital facility in San Carlos. We must provide for the needs of the aging "Baby Boomer" generation and the needs of an increasingly diverse population. Every part of the healthcare delivery system – public, private, and nonprofit – must be ready to adapt. I am proud to say that SHD has continued to serve its residents in exemplary fashion through this entire period and we look forward to continuing our work.

From this historical perspective, I would offer the following to the Commission:

District Mission and Programs

While we understand the need for an MSR to be concise, we would like to ensure the Commission has a complete understanding of the mission of SHD and the programs we develop and sponsor to fulfill it.

Until 1996, SHD operated Sequoia Hospital. Due to the inherent disadvantages of a stand-alone public hospital, SHD entered into a partnering relationship with Catholic Healthcare West ("CHW"). Under this arrangement, ownership of the hospital was transferred to a new nonprofit company, Sequoia Health Services ("SHS"). CHW manages the Hospital on a day-to-day basis and appoints five members of the SHS board of directors. SHD participates in strategic decisions by appointing the other five members of the SHS board, who preserve community input on the direction of the Hospital. Voters approved this arrangement in 1996.

Since it is no longer involved in the daily operations of the Hospital, SHD considers other healthcare needs of District residents. In particular, our mission emphasizes wellness and prevention programs and access to services for our residents. Currently, SHD offers the following programs and services for the benefit of the community:

- **Nursing Education**. Our community faces an acute shortage of nurses to provide care. We have collaborated on a regional basis and created a nursing education program in partnership with San Francisco State University, Cañada College, and Sequoia Hospital. Through this program, we expect to graduate 300-400 nurses with a Bachelors of Science in Nursing degree (BSN) over the next 10 years who will return to work in our community.

- **Medical Clinics.** We provide substantial funding for medical clinics in Redwood City (Samaritan House Free Medical Clinic of Redwood City) and East Menlo Park (San Mateo Medical Center's Fair Oaks Clinic). These clinics create a safety net for medically underserved persons living in our County who would otherwise not have access to primary care.

- **Children's Health Insurance.** Along with PHD, we provide substantial funding for the Children's Health Initiative sponsored by the County. This plan ensures that children within the District will receive the health care they need, regardless of the economic status of their families. We see this as an investment in the community's future.

- **Community Grants Program.** In conjunction with our Community Advisory Panel and utilizing other national and local indicators of prevailing health needs, our Community Grants Program provides funding to help organizations maximize improvements in community health, which would not be able to provide services without our support. For the 2006-2007 funding cycle, three themes are emphasized: Senior Access to Health Services, Youth Access to Fitness and Nutrition, and Disaster Preparedness. We will fund 20 programs this year.

- **Sequoia Hospital.** Funding by Sequoia Healthcare District to Sequoia Hospital since 1996 has predominantly been for capital projects, equipment and Health and Wellness Services. Health and Wellness Services are open to everyone and offer on a low-cost or free basis services in maternity and family, lactation, health screenings, support groups, weight management, senior services and fall prevention, among others. An example of a capital project for which funding from the District was utilized is the

updating of the cardiac catheterization lab ("cath lab"). Sequoia Hospital is known for its exemplary cardiac care. When a member of the community is experiencing a vascular emergency, such as a heart attack, most often the cath lab is one of the first places the patient will be diagnosed and treated. For the best outcomes, the cath lab should have the most up-to-date technology available to them. Given that heart disease is the #1 killer of Americans today, it was important that the cath lab be the best it can be to serve the members of the local community who arrive with such emergencies and for procedures once diagnosed with heart rhythm or other vascular obstruction problems.

- **HeartSafe Program.** Responding to an unmet need, we have created what is known as a Public Access Defibrillation (PAD) program. HeartSafe provides automated external defibrillators (AEDs) free of charge to public and nonprofit agencies and at cost to other entities, and we coordinate training and maintenance of the units. Sudden Cardiac Arrest happens most often outside the hospital setting and early defibrillation is the only effective treatment. In communities where PAD programs have been put into practice the survival rate has been increased from the national average of 5% (San Mateo County's survival rate is consistent with this national average) to over 50%. We have collaborated with the County's EMS, Sheriff's Department, local fire and police departments, medical direction and community volunteers to implement the HeartSafe Program.

These programs fill gaps in the healthcare network within our District. We believe that our residents are very satisfied with the way we are fulfilling our mission, at all income levels and for all ages. The San Mateo County Civil Grand Jury has reviewed our performance and, for two consecutive reporting years, we have received positive commentary from the Civil Grand Jury reports.

It has been suggested that the tax revenues of SHD and PHD ought to be redirected to pay for the County's indigent care programs and/or for the operating shortfalls at SMMC. Of course, we already contribute significantly to indigent care through the Children's Health Initiative, the medical clinics, and many of the community grants. Any discussion of relinquishing district tax revenues would have to begin with an analysis of the impact of terminating the programs and services currently and potentially provided for or funded by SHD. The MSR does not include this complicated cost-benefit analysis.

Use of District Reserves

The District currently holds reserves of approximately $65 million. As the MSR notes $25 million is committed to rebuilding of Sequoia Hospital, which is required by State law to be upgraded to new seismic standards or rebuilt. Since that commitment was made, construction costs have substantially increased and we believe it prudent to conserve those reserves to assure that funds are available for the rebuilding of Sequoia Hospital so it may continue to be a viable and integral provider of health care for District residents.

Differences Between County and District Charters

All counties in California have a legal obligation to provide care to the indigent pursuant to Welfare & Institutions Code §17000. A county may meet this obligation through contracts with providers or it may operate its own facility and programs. Counties do not have a general statutory obligation to provide health services to all residents.

Healthcare districts have a different statutory obligation. SHD and PHD were formed in the 1940's under the Local Hospital District Law[1], Health & Safety Code §32000 et seq. Under this law, the residents came together and voluntarily taxed themselves in order to have better access to healthcare, which, at that time in history meant a hospital facility.

Under the Local Healthcare District Law, revenues must be spent on facilities and services within the district boundary or that benefit district residents. More, healthcare districts are not chartered to provide indigent care. With that said, Sequoia Healthcare District recognizes that safety nets for those who would otherwise not have access to care are an element of the spectrum of efforts required to keep a community healthy. Sequoia Healthcare District contributes to the endeavor of caring for our most vulnerable residents by providing substantial financial assistance to Samaritan House Free Medical Clinic in Redwood City ($500,000 per year), Children's Health Initiative ($1.35 million per year) and San Mateo Medical Center's Fair Oaks Medical Clinic ($1.6 million each year for two years).

Consequently, the Legislature has set up a specific statutory scheme: counties are to provide indigent care while districts are to provide general healthcare for residents, on a break-even basis if possible. A county cannot substitute a district to meet its statutory obligation to provide indigent care under §17000.

Some of the organizational changes outlined in the MSR are inconsistent with this statutory scheme for counties and districts and would be subject to legal challenge. We are not aware of any instance in California where a county has shifted its §17000 obligation to a district or joint powers authority, or where a county has taken district revenues to meet its indigent care obligations.

Organizational Changes

The MSR outlines several potential organizational changes that might be considered for SHD and PHD. These suggestions warrant comment.

1. **Consolidation of SHD and PHD.** There is very little to be gained from consolidation of the two districts. Each district operates with a small staff and minimal office space. Administrative expenses (excluding pass-through of pension funds) are a relatively small percentage of revenues. There could be some savings by having only one board, but the amount would be minimal.

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[1] This act is now known as the "Local Health Care District Law" in recognition of the fact that district provide general healthcare, not just hospitals.

That small savings would have to be balanced against the loss of local responsiveness. SHD works closely with its community to identify areas of health needs. We know our neighborhoods and those that provide services to our residents. PHD serves its specific communities, with different needs and providers, and it has a much different relationship with its affiliate hospital, Sutter.

The idea of merging the two districts raises several questions because if the two districts were merged, the consolidated district would find itself in a partnering relationship with two competitors (Sutter and CHW). How would a single board treat confidential information? How would the single board decide how to allocate funding between the two facilities? If the San Carlos hospital is built, the new district would be partnered with Sutter in the north and in direct competition with Sutter in the south. The conflicts of interest created by this anomalous situation would be difficult to reconcile. From this perspective, consolidation could be quite a conundrum.

2. **Dissolution.** As the MSR noted, dissolution would not result in the return of tax revenues to district residents (they would either be transferred to a successor entity or split among other public entities that operate within district boundaries). And, as noted, any recommendation to dissolve a healthcare district must be submitted to the voters for approval per Government Code §57103. We do not believe that the residents of our district would approve dissolution of their district.

The only reason offered in the MSR to dissolve SHD and PHD is to accomplish the transfer of their tax revenues and assets to the County, to fund indigent care and/or to cover the operating shortfalls at SMMC. Voters would be called on to weigh the cost of losing the benefits they receive from existing district programs against the benefits of paying for County programs. More, voters in the districts would need to understand that, through dissolution, they would be paying twice for the County's indigent care program: once through the share of property taxes that goes to the County and again for the increment of property taxes that had been going to the districts. In contrast, residents in areas not within the boundaries of SHD or PHD would pay once (through their share of the property taxes currently going to the county). When these factors are understood, it is questionable how dissolution will be very attractive to voters.

3. **Expansion of Districts.** The MSR offers the interesting option of extending the existing districts to areas not currently within a district through annexation. That would create more opportunities for regional or sub-regional planning. However, for this to work, the annexed areas would have to come up with a fair share of revenues to match the existing funding from district residents. Funding could come from a new parcel tax or by having the cities and special districts within the annexed area cede a portion of the existing property tax revenues to the healthcare districts. Either option would be challenging to pass in the current political climate.

The Need for Collaboration

We recognize that the County is devoting millions of dollars annually to satisfy its indigent care obligations and to keep SMMC open. Unfortunately, the MSR does not

provide any analysis of why the County's healthcare services and facility are so expensive, or what options may be available to control costs[2], with or without district participation. The organizational changes outlined in the MSR would merely shift the payment sources for County services without reducing costs.

We would respectfully suggest that the community would be better served by a more comprehensive study of how public agencies are delivering services and where true efficiencies can be obtained. Then, it would be possible to have a fruitful discussion of how public agencies can work with each other and with the other service providers to reduce costs and improve services. Trying to shift existing tax revenues from districts to the County through the rubric of a LAFCo service review is probably the worst way to begin this collaboration.

A far better model is found in the effort that led to the Children's Health Initiative. The community identified the need and cooperated in funding an efficient program to meet it. SHD, PHD and the County share in the cost, among other funders. Legislated "structural changes" were not necessary – the districts evaluated the costs and benefits to their residents, within the context of existing programs, and they made choices that everyone could support.

As the County continues to struggle with cost containment for indigent care and the operation of SMMC, the districts should be part of the process on a collaborative basis, including the development of an adult health insurance program if that is the best choice. Funding for this initiative can be evaluated once we are convinced that the program is viable and that the delivery system will be more efficient. We also believe that a key to cost containment – and a healthier community in general – is wellness and prevention programs, which we provide. SHD and PHD are well positioned to weigh funding priorities for both approaches.

I hope that you will find these comments helpful as you consider the difficult issues facing public healthcare providers in our County. I look forward to continuing the discussion with you on April 18.

Sincerely,

Kathleen Kane
Board President
Sequoia Healthcare District

cc: Board of Directors, Sequoia Healthcare District
LAFCO Commissioners
Stephani Scott, CEO, Sequoia Healthcare District
Martha Poyatos, San Mateo LAFCo, Executive Officer

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[2] Since an MSR is required to comprehensively review all agencies that provide services within the geographical area under consideration, Government Code §56430(b), it is difficult to understand why there is no analysis of the County, as it is the principal public service provider.

PHCD Peninsula Health Care District

Ms. Martha M. Poyatos
Executive Officer, San Mateo County Local Agency Formation Commission
455 County Center, 2nd Floor
Redwood City, CA 94063-1663

April 16, 2007

Dear Ms. Poyatos:

The Peninsula Health Care District ("the District") wants to thank the Local Agency Formation Commission ("LAFCo") for your efforts to address issues impacting health care in our community through the Municipal Service Review process. We appreciate the opportunity to examine what a modern health care district does and to discuss whether our mission can be better carried out through different means.

This review is being conducted at an opportune moment. We just recently completed a review of the District's mission statement as part of our strategic planning process. Our strategic planning effort was initiated after the passage of Measure V, approved by 92 percent of District voters in 2006, which has secured the construction of a new hospital on our land by Mills-Peninsula Health Services (MPHS). That achievement will make our District one of the first affected hospitals to comply with new state seismic standards, and is the result of more than a decade of work by the District and its hospital operator.

Through our strategic planning process we have defined the health care needs in our District and our role in meeting those needs using a needs-assessment methodology that has included intensive data analysis and interviews. Simultaneously, we have established mechanisms to satisfy our oversight responsibilities and to build the reserves necessary to protect our hospital in any circumstance so that our residents will continue to have a community hospital to serve their needs located within the District's borders.

In the following sections of this binder, we have provided you with the following:

- An overview of our strategic planning process along with the supporting data we collected and studied over the past year that has contributed to the definition of our role and will help shed light on our thoughts for the future of health care in our District;
- A brief response to your work conducted in the Municipal Service Review; and,
- Supporting material in an appendix that we consider relevant to any discussion of the future of this District.

We feel it necessary to raise several concerns about some of the Municipal Service Review alternatives raised in the Review. As discussed in more detail in our response, we are concerned that several options are poorly defined, potentially detrimental to our efforts to serve our District residents, and have either no identified benefits or questionable benefits compared with the existing structures that are working well.

Underscoring our concerns, it must be noted that that Peninsula Health Care District was established by the community to ensure a local hospital remains available and to assist in improving the health of our residents. To further those objectives we currently participate in many programs, including those that: provide health insurance to uninsured children (San Mateo County's Children's Health Initiative); improve access to health care for uninsured adults (Samaritan House); recruit quality health care professionals to our District (the District's Nursing and Doctor recruitment programs and support for nursing education); administer programs to improve services and information for our growing graying population (Senior Focus, Wise and Well and Alzheimer's Day Resource Center); and other general health improvement efforts dedicated to at-risk youth and young adults (Tracey's Place of Hope, Youth and Family Enrichment Services (YFES)).

As we continue our strategic planning process, one that will seek the community's feedback to create additional community-driven solutions and priorities to advance our mission, we will have a keen focus on the uninsured in our District in responding to health care needs in our community. We must work within our means and the mandate from our voters, and must ensure that our community hospital's future is protected and that we can continue addressing critical health care needs in the District.

We thank you for your efforts and want you to know that we remain open to all suggestions on how to improve and protect the Peninsula Medical Center's future while also improving the overall health of the residents of our District. We would also like to invite you to join us at a special town hall meeting being hosted by the District on April 30th to discuss our community's health care needs. The meeting will be held at San Mateo City Hall in the Council Chambers from 6:30-8:00 pm. We hope to see you there.

Sincerely,

Donald Newman, M.D.
Chairman,
Peninsula Health Care District Board

CC: San Mateo County Board of Supervisors
Enclosures.

Comments on April 2, 2007 Municipal Service Review and Sphere of Influence Review, Sequoia & Peninsula Health Care Districts, Prepared by San Mateo Local Agency Formation Commission (LAFCo)

Thank you for the opportunity to comment on the MSR Report (April 2, 2007 "Circulation Draft"). The Peninsula Health Care District ("the District") appreciates the opportunity to supplement the comments and suggestions we provided to LAFCo on March 30, 2007.

The District's response to the LAFCo Circulation Draft is organized around the following points:

1. The comments submitted by the District on March 30, 2007 were designed to help improve the accuracy of the LAFCo Report.

2. The District has additional comments to address the accuracy of the new Circulation Draft.

3. The District has been engaged in a comprehensive strategic planning process which has resulted in a new statement of mission and vision, and addresses high-priority health needs within the District.

4. In our assessment, the "Dissolution Option" described in the Circulation Draft is unlawful.

5. There are many questions not answered by the Circulation Draft that are vital to address before implementing or approving any of the proposed options.

The District looks forward to participating in the upcoming public discourse regarding how best to meet health care needs in our community.

1. The comments submitted by the District on March 30, 2007 were designed to help improve the accuracy of the LAFCo Report.

The comments we submitted hopefully were helpful in clarifying certain information regarding the District. We were pleased that the Circulation Draft incorporates most of our points and clarifications.

For reference, the comments we made included:

- Communicating findings from the San Mateo Blue Ribbon Task Force on Adult Health Care Coverage Expansion (the "BRTF") regarding the number and characteristics of uninsured residents of San Mateo County;

- Pointing out the substantial differences that exist between the health service mandates and missions of San Mateo County and the Health Districts, with County services provided pursuant to mandates in Section 17000 of the California Welfare & Institutions Code (and elsewhere, e.g., to operate mental health and public health programs), and District services governed by District law and by clearly separate and distinct legislative mandates;

- Indicating that (in addition to supporting clinics, children's health insurance, nursing education, and other services) the Districts have other long-term legal and contractual obligations and already support County-sponsored health care services, so not all of the current District revenue should be considered "new money" for other purposes;

- Correcting and updating our financial information and clarifying our current and planned administrative resources;

- Clarifying certain aspects of the lease arrangement between the District and Mills Peninsula Health Services ("MPHS") and how the lease affects the District's need to build reserves and support services at our hospital;

- Communicating information about the District's current strategic planning process;

- Indicating that under several of the options, current District liabilities and responsibilities would be transferred to another entity – and that the successor entity would incur additional costs and responsibilities to satisfy those requirements;

- Stating that the proposals principally would result in a reallocation of existing resources (and carry the risk that dollars now devoted to health services could be allocated to other purposes), rather than the creation of net new dollars from the community.

We appreciated the opportunity to comment on the first draft of the MSR Report.

2. **The District has additional comments to address the accuracy of the new Circulation Draft.**

The April 2, 2007 Circulation Draft responded to many (but not all) of the comments submitted by the District. We believe the Circulation Draft would benefit from the following additional clarifications:

- On page 3, indicate that at 14.5 percent, the proportion of the population aged 65 years and older in San Mateo County is well above the California average, and that projections suggest this proportion will increase over the next 20 years;

- At the end of page 6 (top of page 7), indicate that the "State mandate" that makes the County responsible for health care for the indigent is Section 17000 of the Welfare & Institutions Code, that this mandate is not required of health care districts, and further, that the legislation that enables districts specifically bars them from providing services to offset Counties' indigent care obligations at less than their cost;

- On pages 8 and 9, to highlight the differences in the lease terms and governance structures that are present between the Sequoia Health Care District (with CHW) and the Peninsula Health Care District (with MPHS);

- On page 13, paragraph that begins "On August 29, 2006, District voters ..." to include the actual voting results, which show that District voters overwhelmingly approved Measure V;

- On page 16, last paragraph, to clarify or provide the basis for the statement regarding San Mateo County's support provided to SMMC, that the amount "is $35 to $40 million more than it is required to provide to meet its Section 17000 mandate";

- On page 17, to indicate that the District currently "has" oversight over the new hospital operations including proposals to terminate core services, and thus replace "will have";

- On page 24, to indicate that, while the District boundaries are based on boundaries determined when the Districts were formed, the geographic area comprising the Peninsula Health Care District currently is essentially the same as the "Primary Service Area" for Peninsula Hospital: in 2005, roughly two-thirds of inpatient discharges originated from residents of zip codes that are entirely or partially included within the PHCD;

- Also on page 24 to indicate that health care services are provided to area residents on a regional basis, for example trauma care is provided to area residents by hospitals outside of the County (San Francisco General Hospital and Stanford);

- On page 26, to indicate at the bottom (and at the top of 27) that "the potential benefit to this model is that it would provide for a designated, long-term regional health care funding and planning structure" only if District-generated resources are restricted/designated on a perpetual basis to health services.

- On page 28, restate "artificial boundaries" to "boundaries that were established around the areas to be served by the hospitals developed by the Districts";

- On page 28, under "status quo" to indicate that the status quo would allow the Districts to carry out their strategic plans and also would avoid transition costs and competitive issues cited elsewhere in the report.

- On page 29, second paragraph, "month" should be changed to "monthly".

We hope the above comments are helpful as the Report continues to be developed.

3. **The District has been engaged in a comprehensive strategic planning process that has resulted in a new statement of mission and vision, and addresses high priority health needs within the District.**

We believe that LAFCo and the community at large would benefit from an update regarding the District's strategic planning process.

The District was created in 1947 with the goal of building a new state-of-the-art community hospital in Burlingame for the residents of the District. The District has a mission of assuring the availability of health care services for the community and advancing the health of District residents.

In 1994, a strict new seismic-safety law again made the building of a new state-of-the-art hospital the primary focus in the District's efforts to preserve and provide access to quality health care for District residents.

Over the past several years, the District's focus has been to ensure that our aging community hospital will be replaced with a new, seismically-safe facility. The District Board has developed a lease arrangement with Mills-Peninsula Health Services. The lease received overwhelming approval of Measure V by the District voters last Fall. This ensures the long-term future of our hospital with no new taxes placed upon the District residents. Now that the lease has been signed, the District is at an "inflection point" that will define its ongoing role for years to come.

The Strategic Planning Process

For the past several months, with the assistance of Verité Healthcare Consulting, the District has been engaged in developing a strategic plan. Through this planning process, the District has refined its mission statement and identified health care needs in the community. Our progress is described below.

Identifying Community Needs

The District has reviewed and analyzed San Mateo County's 2004 Community Needs Assessment and has supplemented available studies with new data and insights. We have obtained input from community leaders, providers and community health advocates, and have participated in the workgroups of the San Mateo Blue Ribbon Task Force on Adult Health Care Coverage Expansion. As a result of this work, the District Board has identified four areas of community need to guide program development:

- Clusters of unmet need for primary medical and dental care in low-income neighborhoods in the District in northeast San Mateo, San Bruno and South San Francisco;
- Shortages of health care providers including primary care physicians, nurses, dentists and specialist physicians;
- Specific health problems present in neighborhoods throughout the District:
  - Obesity,
  - Alcohol/substance abuse,
  - Disparities in access to pre-natal care,
  - Access to dental care,
  - Needs of growing elderly population, especially elders living alone; and,
- Lack of economic access to health care services due to lack of insurance or coverage.

Preserving Our Hospital

Planning and operating hospital facilities are complex and risky undertakings. In recent years, large hospital systems have constructed and then not opened hospital facilities. HCA and Tenet have closed facilities or abruptly left hospitals they were leasing. In this environment, the District's historical role of marshaling public tax moneys and other funds to assure the availability of hospital resources in the community remains vitally important. While the lease requires Mills Peninsula Health Services to rebuild Peninsula Hospital using its own funds, the District retains responsibility for providing oversight to assure that MPHS does complete the hospital rebuilding project and then continues to operate a full list of designated community services for 50 years. Under the lease, the District must develop and maintain reserves that will allow it to complete the rebuilding

project or resume operation of the rebuilt facility in the case of a "paramount default" by MPHS at any point during the lease. It also provides for the District to buy back the hospital at several points during the lease under defined financial terms.

The financial resources available to the District include its share of the annual property taxes paid by residents and businesses in the District, annual rent paid by MPHS and other tenants in buildings owned by the District, and earnings on its reserve funds invested by the District. The "first call" on these annual revenues - as endorsed by District voters in their overwhelming approval of Measure V - must continue to be accumulation of reserves to assure that the District can step in to preserve our hospital if needed.

Improving the Health of Residents of the District

The presence of health problems affecting persons in all income strata within the District, shortages of health professionals to address those problems, and the particularly acute health care needs of low income and uninsured residents within the District also reinforce the importance of a District role beyond its focus on hospital services. Through the planning process, the District Board has recognized the importance of health education, health promotion, prevention, and primary care services for meeting defined health care problems and advancing the community's health. The District plans to devote additional resources to providing services directly or in partnership with others to help meet these needs. Projections suggest that the District should have increasing revenues available for these purposes, while also building needed reserves.

The District's Mission, Vision and Goals

The planning process has clarified that the District has two clear and necessary roles in this community: Our first priority is to ensure the existence of our community hospital and its continued provision of the entire range of core services enumerated in the agreements between the District and MPHS; our second priority is to improve our community's access to quality health care and health education and preventive services. These priorities have been incorporated in the District's new Mission and Vision Statement and the goals we have set for the next three to five years:

Mission

The mission of the Peninsula Health Care District is to provide leadership in creating a culture of health awareness in which healthy living choices, disease prevention, health education, and access to necessary health care services are optimal for the people of the District.

Vision

The Peninsula Health Care District Board will carry out this mission through:

- preserving our hospital by overseeing and fulfilling the responsibilities and obligations enumerated in the lease through which Peninsula Hospital is rebuilt and operated by Mills-Peninsula Health Services, and
- providing and supporting services that improve health awareness and meet identified needs.

Peninsula Health Care District's Goals, 2007-2012

- Health improvement: Achieve ongoing, measurable improvements in identified lifestyle-related health problems in the District's communities
- Access to services: Improve availability and access to services for residents in areas in need in PHCD
- Financial Stewardship: Assure reserves needed to meet the District's future responsibilities and preserve hospital services in the District as fiduciary of the District's publicly funded health resources
- Real Estate: Manage the District's real estate assets in the community's interest
- Board Renewal: Develop a culture, Board policies and Director development pathways to assure Board renewal and effective District operations in the public interest
- Infrastructure: Maintain appropriate staff, systems and contracts to achieve PHCD's other goals cost-effectively

Exactly how and where the District will employ its resources to secure real results for the community in accord with the District's Mission, Vision and Goals has yet to be determined. This will occur as the strategic planning process continues over the coming months in order to allow the public and other community health professionals the opportunity to give input on the District's proposed funding priorities and how best to accomplish its goals.

The Mission and Vision statements reflect the two major areas for our District Board's actions on behalf of the people we serve: identifying a broad range of health care needs in the District and providing services accordingly, and preserving our hospital by maintaining our oversight responsibilities for the lease between the District and MPHS. Both of these areas will require a balanced commitment of dedicated resources for the District effectively to carry out its mission.

- The lease between the District and MPHS (an affiliate of Sutter Health) provides that in the event of default, the only way the District can acquire the new Peninsula Hospital buildings is by paying the Fair Market Value of these assets. The District must build reserves to meet this obligation.

The new hospital will cost more than $500 million to build. If the District does not have the resources to purchase the hospital (in the event of a default), then the residents of the District could lose control of our hospital or, in the worst case, the hospital could close.

- There are several important health care needs in the District. Our strategic planning process has identified several that merit attention, including:

    - Assuring an adequate supply of physicians for the District.
    - Assuring an adequate supply of nurses for the District including support for local nursing education and training programs.
    - Providing clinics within the District to supply needed services and referrals to other District resources able to provide such services.

- In addition to focusing our resources on provider capacity, we also see a District role in improving health awareness - in an effort to prevent health care problems before they emerge. We are studying the obesity problem in our District, disparities in access to pre-natal care and the needs of our growing elderly population, many of whom live alone. We will be considering ways to apply District resources to help address these concerns.

In considering specific initiatives, an important concern is how we can make the best use of the District's resources - through effective partnering with others in some situations and, in appropriate instances, by providing services directly. For example:

- In partnership: We provide funds for the Samaritan House Free Clinic in San Mateo, and for the Children's Health Initiative. In both cases, our resources are pooled with those of families and the County to make health care services available to persons of limited means.

- Direct role: We are reviewing our options for recruiting physicians and other health professionals to our community; accelerating adoption of electronic medical record technology in physician offices; and providing "first-dollar" investment in school-based health and service programs.

4. In our assessment, the "Dissolution Option" described in the Circulation Draft is unlawful.

The Cortese-Knox-Hertzberg Reorganization Act (Government Code Sections 56000, *et.seq.*, "the Act") simply does not authorize the dissolution of a fully functioning local government agency, operating consistently with its legislative mission and mandates, for the mere purpose of transferring its revenues to another "successor" agency that had not usurped its operations. The dissolution authority granted LAFCo by the Act contemplates the extinguishment of either non-functioning agencies or agencies whose functions have been overtaken by the incorporation or annexation of its territory into a city or county. This "option" as presented in the Circulation Draft is unprecedented in California, where dissolution of special districts has been limited to non-functioning agencies or common annexation scenarios (e.g., park districts or mosquito districts in which a City has fully incorporated their territories and taken on their functions).

The Staff's option presented suggests:

> *"Dissolution of the Districts with transfer of service responsibility and associated property tax revenues and assets to the County of San Mateo would result in a single entity allocating resources for health care services and successor to existing agreements regarding disposition of assets."*
> (MSR Circulation Draft, pg. 25.)

Yet the Act does not provide LAFCo with the authority to dissolve an active local government and designate a successor agency for the purpose of affecting a transfer of revenue and assets to the successor because it might have allegedly better uses for the resources. There are two competing statutory schemes within the Act for determining potential successor agencies. One scheme addresses dissolution and wind up of an agency where LAFCo has no successor designation authority, and the other grants LAFCo authority to designate a successor for the limited purpose of carrying on a dissolved entity's long term obligations.

For purposes of "wind up" of a dissolved agency, the "default" scheme is found at Sections 57450 *et.seq.* of the Government Code. These provisions of the Act contain a formula based on assessed value of property within a dissolved district that would assign successor status to the City within a dissolved district containing the majority of the district's assessed property value. These provisions are deemed "fallback" or "default" provisions because the Act at Section 57302 specifically makes them applicable only if LAFCo fails to exercise its discretion to assign a successor for the limited purposes set forth at Section 56886 (m), discussed below. Upon wind up, the successor city in turn is responsible for allocation of the dissolved agency's assets among remaining cities and the county encompassing the dissolved agency's territory.

Alternatively, discretion to assign a successor contingent on a proposed dissolution is found at Government Code Section 56886 generally, and at subsection "m" specifically. This provision allows LAFCo to designate a successor for the limited purpose of succeeding to the rights or obligations of the dissolved agency "with respect to enforcement, performance, or payment of any outstanding bonds...or other contracts and obligations of the extinguished local agency." Section 56886 (v) then gives LAFCo the ability to grant a successor all "incidental" authority associated with its status as successor to those contractual obligations.

Under either statutory scheme, there is no LAFCO discretion to designate a successor agency for the purpose of assuming all the assets, taxes, and general revenues of the dissolved agency for uses other than assuming the long term contractual obligations of the dissolved agency. Ultimately, tax revenues of the dissolved agency not used for wind up purposes or the assumption of long term obligations "fall back" into the general post-Proposition 13 property tax "pie" generated within the geographic territory of the dissolved agency. These funds are thereafter allocated on a pro rata basis among all the agencies receiving property taxes generated within the territory of the dissolved district, based on post-Prop 13 formulas (Revenue and Taxation Code Section 96 *et.seq.*) The net effect of district dissolution is to reallocate the district's property taxes among all agencies operating within (and often outside) the dissolved district for any purpose associated with the other agencies.

Where a district is dissolved because of the usurpation of its purposes and activities based on incorporation of its territory into a municipal agency carrying out its functions, outside of LAFCo's purview to designate successors, Revenue and Taxation Code Section 99 provides a scheme for the negotiation of property tax transfers among agencies based on a formula assessing the costs of clearly identifiable on-going municipal services. The Section 99 scheme does not fit dissolution of a health care district, with its broad policy and advocacy roles under State law, because a health care district's activities are often unassociated with assignable municipal functions or tax expenditures. For instance, the substantial role of the Peninsula Health Care District in oversight and enforcement of the recently concluded MPHS/Sutter Hospital development agreements and Ground Lease does not lend itself to a Section 99 negotiated exchange among potential successors or other impacted agencies.

There is therefore no clearly identifiable means for effecting a permanent assignment of the District's tax revenues. The result of any dissolution will therefore be tax distributions by default to numerous agencies that do not necessarily provide health services or serve all the District's taxpayers.

Beyond the unauthorized nature of the "dissolution" and succession option as presented by Staff, there is a transcending legal infirmity with the option insofar as it suggests transferring the Peninsula Health Care District's resources to San Mateo County. To effect the proposed reorganization, pursuant to Section 56881(b), LAFCo must make both of the following determinations:

1) Public service costs of the proposal that LAFCo is authorizing are likely to be less than or substantially similar to the costs of alternative means of providing the service; and

2) A change or organization or reorganization authorized by LAFCo must promote public access and accountability for community services needs and financial resources.

The Report concedes that no financial or analytical basis for the option has been made yet; nevertheless, the Peninsula Health Care District submits that there is little likelihood that the County, with its processes and bureaucracy, could mimic the District's activities at lesser or similar costs. The District has little doubt that financial experts will so opine. And it is patently obvious that dissolution of the District and the transfer of its tax revenues, reserves, and oversight responsibilities derived from Measure V, to San Mateo County and the Board of Supervisors and the County bureaucracy will have a harmful impact on access and accountability to the taxpayers and residents of the District. Taking these resources and responsibilities from the locally elected Board, and from an agency dedicated solely to the health care needs of the residents of the District, and placing them in the hands of a large regional agency responsible for a panoply of public services ranging from animal control to filling potholes, with a governing body far removed from the parochial health needs of the District residents and taxpayers, undermines, rather than promotes, access and accountability for District residents and taxpayers.

The end result of pursuit by LAFCo of the "dissolution" option will be to subject its proceedings to profound legal problems resulting from the inability to "pigeon-hole" dissolution of a fully functioning health care district into the ordinary criteria and process for dissolving special districts that the law was designed for: districts that have ceased functioning on their own or by reason of the incorporation of a city or other agency.

A similar effort involving a much less vibrant health care district in Contra Costa County seven years ago was ultimately abandoned because of these legal infirmities. The District has provided a copy of Contra Costa LAFCo legal counsel's analysis of the successorship problem encountered then under the same statutory provisions existing today. Although the San Mateo LAFCo Staff's dissolution option, if pursued, would likely never reach the final stage of the

process—an election requiring the approval of District voters—the Board of Directors of the Peninsula Health Care District have no doubt that its well-informed residents would not choose to undermine the access and accountability represented by its own health care district, and would not place at risk the safeguards over its new health care campus achieved by Measure V.

5. **There are many questions not answered by the Circulation Draft that are vital to address before implementing or approving any of the proposed options.**

The District believes strongly that LAFCo and District voters need comprehensive analysis of options before informed decisions can be made. We suggest that any further analysis of options consider private medical providers (which have been excluded from the MSR), fiscal analysis of implementation, and questions such as the following:

- Under the various options presented, how can our District residents and the community at large be assured that District revenues will remain committed and available to funding and sponsoring health services?

- Are health care services in the area best addressed by having a County-wide perspective? Are county boundaries how health care markets and services actually operate in the area? Is a focus on smaller regions more appropriate? A focus on patient migration patterns across County and District boundaries?

- What would be the impact of the options on existing District programs and grantees?

- How much actual net, new funding would be available for health services under the options (rather than amounts that might be reallocated) net of implementation costs?

- What specific steps would be required to implement the options? What would be the costs associated with these steps under scenarios when the restructuring is (a) uncontested or (b) subject to legal challenge?

- What amount of administrative savings might actually be available if the Districts were consolidated and if current District responsibilities (e.g., lease management and oversight, need to purchase hospital assets at lease end) are transferred to another entity? What administrative structures, authorities and contracts would need to be re-negotiated and be in place, and how long and what costs would it take to develop them?

- How would District public oversight responsibilities be maintained?
- What is the probability that residents living outside of the two Districts would vote to approve new taxes dedicated to health services?
- How would a consolidated District manage and resolve (without conflicts) issues associated with competition between Catholic Healthcare West (which operates Sequoia Hospital) and Mills-Peninsula Health Services (which operates Peninsula Hospital) and between the former district hospitals and SMMC?
- How would possible health reforms (insurance expansions) developed by the State of California and/or the federal government affect the BRTF efforts?
- What does the future hold for SMMC if an insurance expansion occurs? If it does not? What impact will this have on our hospital and its core services?
- Is the District's analysis that there is a current and upcoming shortage of health care professionals in our community accurate? How will a shortage affect the success of insurance expansion initiatives (and their associated impacts on demand for health services)?
- Are there additional opportunities for the County, the District, cities, and private providers to collaborate? Is consolidation preferable to enhanced collaboration?

The District looks forward to participating in the upcoming public discourse and study regarding how best to meet health care needs in our community.

Notice of Availability and
Request for Comment on Municipal Service Review

April 2, 2007

TO: Sequoia Health Care District
Peninsula Health Care District
County of San Mateo
Affected Agencies
Interested individuals

Subject: Municipal Service Review for Sequoia Health Care District and Peninsula Health Care District

LAFCo is required by State law to complete municipal service and sphere of influence reviews for all cities and special districts in the County. Affected agencies, residents, property owners and interested parties are encouraged to submit comments on the report. San Mateo LAFCo will be considering the attached report and comments at the San Mateo LAFCo meeting on April 18, 2007 which is scheduled to begin 2:30 p.m. in the Board of Supervisor Chambers, 400 County Center, Redwood City. LAFCo is an independent commission consisting of two county supervisors, two city council members, two special district members and a public member. LAFCo has jurisdiction over the cities and special districts in the County.

The attached municipal service review includes information provided by the Health Care Districts and the County of San Mateo as well as information contained in a variety of previous studies and reports. This document is also available at www.sanmateolafco.org along with District financial statements and budget information.

For questions or comments please contact:

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