

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.



Town Hall Meeting

April 30, 2007

Tonight's Discussion:

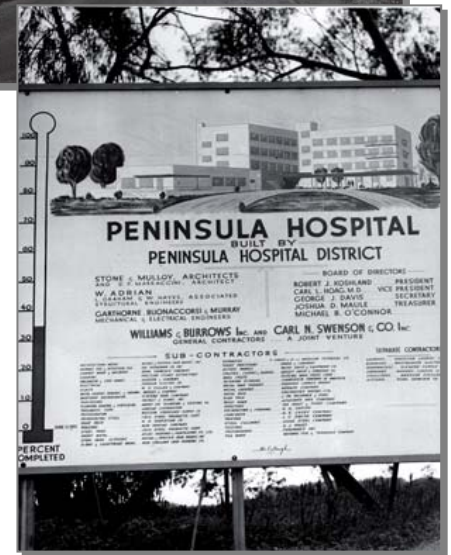
- A Brief History of the District
- A New Community Hospital
- Update on the District's Strategic Planning Process
 - > Mission & Vision
 - > Community's Health Care Needs
 - > Strategic Goals
 - > Roles & Initiatives: Your Input
- Town Hall Discussion on Strategic Initiatives



Peninsula Health Care District: **A Brief History**

Peninsula Health Care District: A Brief History

- In 1945, the California Legislature enacted the Local Hospital District Law to address a critical shortage of hospital beds
- The Peninsula Health Care District was founded in 1947 by voters and in 1954, Peninsula Hospital was built using public tax funds and private donations
- In 1985 Peninsula and Mills hospitals were merged
- In 1996, MPHS joined Sutter Health, a non-profit health system of 27 hospitals in Northern and Central California



Peninsula Health Care District: Measure V

Peninsula Health Care District : Measure V

- In 1994, following the Northridge Earthquake, the State Legislature mandated strict new seismic safety standards to be met by 2013
- In 2004, an agreement was reached between the District and MPHS to build a new hospital with no new taxes to District residents
- This agreement also:
 - > Provided the District with lease revenue of \$1.5 million per year, adjusted every three years
 - > Settled a lawsuit between the District and MPHS regarding the original lease terms



Peninsula Health Care District : Measure V

- The lease agreement between the District and MPHS was approved by more than 92 percent of those voting in a special mail-in ballot last summer
- The agreement gives the District oversight to ensure that vital services such as surgery and obstetrics continue to be provided within the District
- At the conclusion of the 50-year lease term, the District has the option to buy back the hospital from MPHS



**New Hospital
for the New Century:
Facility Features**

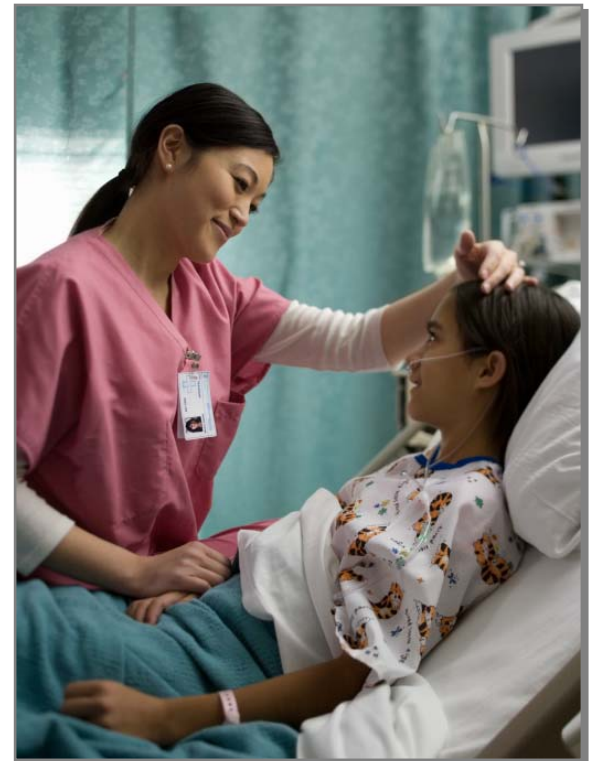
New Hospital for the New Century: Facility Features

- A six-story, 450,000 square foot general care hospital, including an unfinished floor for future expansion
- Advanced engineering technology, which will provide the highest level of seismic safety in the new facility
- 243 beds with single patients rooms to facilitate the new standard of family-centered care
- Family sleeping accommodations in all medical/surgical, skilled nursing, obstetric, intensive care and neonatal intensive care patient rooms



New Hospital for the New Century: Facility Features

- Nine meditation and healing gardens with walking trails for patients, visitors, employees and neighbors
- No recycled air for improved patient safety
- Technologically-advanced facility with electronic patient charting and Internet-based capabilities
- An emergency department enlarged by 42 percent to accommodate 50,000 visits per year (up from 35,000 visits) with the capability of providing trauma care



Peninsula Health Care District: Current Programs

Peninsula Health Care District: Current Programs



The District provides more than \$1.5 million to community health programs 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)
- General health improvement efforts dedicated to at-risk youth and young adults (Tracey's Place of Hope, Youth and Family Enrichment Services (YFES))

Peninsula Health Care District: Strategic Planning Process

Strategic Planning Process: The Steps

- Updated the District's mission and vision statement
- Reviewed District oversight & financial obligations
- Considered financial policies for District resources
- Assessed community needs in the District, and identified areas where the District can play a unique role
- Participated in BRTF and LAFCo processes
- Developed draft strategic goals for the next 3 to 5 years
- Developed initial strategic initiatives for public comment



Peninsula Health Care District: New Mission & Vision Statement

- 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.
- The District Board will carry out this mission through:
 - > Preserving our hospital by overseeing and fulfilling the responsibilities and obligations enumerated in the Peninsula Hospital lease, and
 - > Providing and supporting services that improve health awareness and meet identified needs.

Peninsula Health Care District: Preserving our Hospital

District oversight roles under the lease:



- Monitor progress on rebuilding project
- Monitor “core services” at the hospital and how they meet community needs
- Monitor the risk of “Paramount Default” by MPHS
- Review and approve capital spending requests

Peninsula Health Care District: Preserving our Hospital

- **Current District Resources:**
 - About \$30 million in reserves
 - About \$6 million in total annual revenue
- **Future Needs (in today's dollars) that suggest the District needs to build reserves:**
 - Fair Market Value of the new hospital: \$540 million
 - Estimated Book Value at lease end: \$74 million¹

¹Includes working capital

Peninsula Health Care District: Preserving our Hospital

- **If reserves are too low, the District may:**
 - Not be able to continue a “core service”
 - Be unable to preserve the hospital without an operating partner
 - End up with excessive debt
 - Have difficulty supporting grants and other direct services when the hospital is returned
- **If reserves are too high, the District may:**
 - Not be as successful in achieving its mission of improving health awareness and health status

PHCD's Strategic Plan: Identified Community Needs

Criteria for Problem Identification

- Particularly prominent or acute in (areas of) the District
- Would improve with short-term investment of available resources
- Needs leadership or better coordination or collaboration across resources
- Aligned with the District's mission
- Opportunity for visible District role
- Provides leveraging and partnering opportunities

Identified Needs and Health Problems

- Clusters of unmet need for primary medical and dental care
- Health care provider supply
- Specific health problems, e.g.
 - Obesity
 - Alcohol/substance abuse
 - Uneven access to prenatal care
 - Lack of dental care
 - Needs of elderly population
- Lack of economic access/need for services and/or coverage

Community Needs:

On many measures, San Mateo compares favorably

- Cancer, heart disease mortality
- Smoking
- Adolescent birth rates
- Numbers and percentage of population lacking insurance
- 2004 San Mateo Community Assessment: “affirms that San Mateo County compares favorably to our state and the nation on many health and quality of life measures.”

The District includes “Primary” Zips that are completely within PHCD and “Secondary” Zips partially in it



PHCD Area	Zip	City	Population	% Low Inc Insurance
Primary	94010	Burlingame/ Hillsborough	40,328	3%
	94030	Milbrae	20,334	5%
	94066	San Bruno	39,546	8%
	94128	San Francisco International Airport	0	0%
	94401	San Mateo	32,484	13%
	94402	San Mateo	23,373	5%
	94403	San Mateo	37,919	7%
	94404	San Mateo	31,866	3%
	Secondary	94002	Belmont	25,548
94080		South San Francisco	60,592	9%

Total PHCD Population

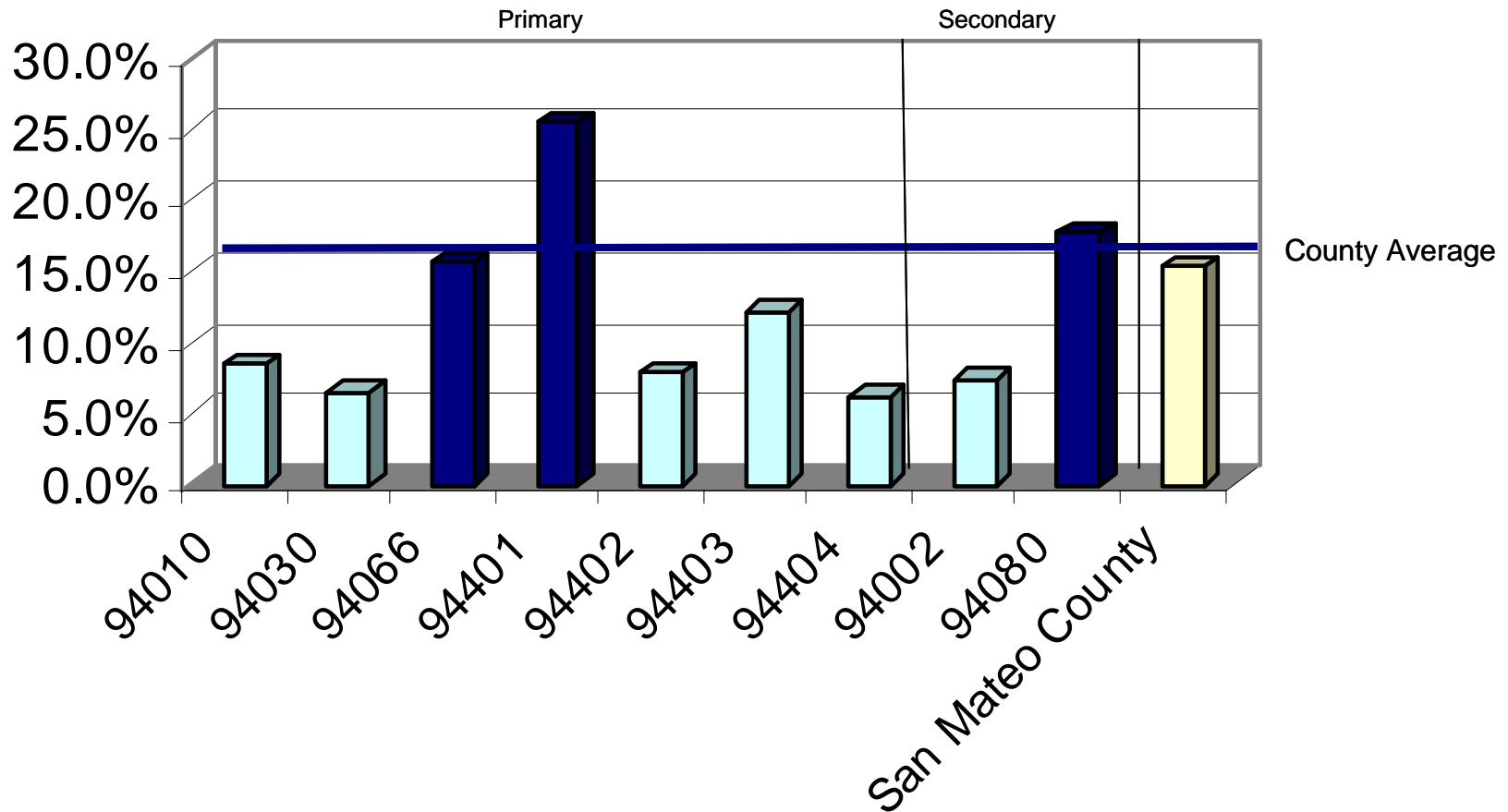
Primary Zips: 225,850

Secondary Zips: 86,140

Total: 311,990

San Bruno and northeast San Mateo residents are more likely to be covered by “low-income payers”

Percent of Self Pay, Medi-Cal, and Indigent Care Discharges by Zip Code¹



¹ Analysis of California discharge data.

Draft Strategic Plan: Goals in Six Areas

- 1. Health improvement**
- 2. Access to services**
- 3. Financial stewardship**
- 4. PHCD real estate**
- 5. Board renewal**
- 6. PHCD infrastructure**



Peninsula Health Care District's Strategic Plan: Envisioned District Roles

- Health forums & connections: health summit, website, electronic health records



- Health education: schools, fairs, community
- Health (medical and dental) services: partnering, provision
- Health workforce: training, recruitment
- Health access: Children's Health Initiative and other coverage expansions, transportation

Peninsula Health Care District: Next Steps

Next Steps: Upcoming Meetings

- Regular Board Meeting Tonight Following the Town Hall
- Next Board Meeting: May 24, 2007 at 5:45 pm
Sierra Room (Ground Floor), Peninsula Medical Center, Burlingame
- For a complete schedule of Board Meetings, please visit the District's website at:
www.peninsulahealthcaredistrict.org